

St. Petersburg State University  
Graduate School of Management

**WORKING PAPER**

**T. Andreeva, Y. Bezginova, T. Garanina, A. Sergeeva**

**CUSTOMER VALUE CREATION PROCESS  
IN RUSSIAN COMPANIES:  
THE ROLE OF INTELLECTUAL CAPITAL  
AND KNOWLEDGE MANAGEMENT PRACTICES**

**# 4 (E)–2014**

Saint Petersburg

2014

*T. Andreeva, Y. Bezginova, T. Garanina, A. Sergeeva.* Customer value creation process in Russian companies: the role of Intellectual Capital and Knowledge Management Practices. Working Paper # 4 (E)–2014. Graduate School of Management, St. Petersburg State University: SPb, 2014.

**Keywords and phrases:** intellectual capital, knowledge-management practices, customer value creation

**Abstract:** Our paper has an aim to define how intellectual capital elements and knowledge management practices lead to customer value creation. With the use of a questionnaire the unique data from top-management of 76 Russian companies is obtained.

According to the main results of the research none of the knowledge-management practices influences the customer value of Russian companies directly. These practices play a mediating role through intellectual capital elements, which on their turn create the customer value. Within the paper we develop a model that reflects how knowledge management practices influence different elements of intellectual capital. The model also shows which elements of Intellectual capital create the customer value of Russian companies.

These are preliminary results from an international research project on intellectual capital and knowledge management practices led by Lappeenranta University of Technology (Finland).

**Research has been conducted with financial support as part of the project “Support of Research Projects of Graduate School of Management SPbU Academic Staff” (Project No. 16.23.1704.2014)**

*Tatiana Andreeva* — Associate Professor, Graduate School of Management, St. Petersburg State University  
*e-mail:* [andreeva@gsom.pu.ru](mailto:andreeva@gsom.pu.ru)

*Yulia Bezginova* — Graduate of MITIM program, Graduate School of Management, St. Petersburg State University  
*e-mail:* [bezginova.mitim2014@ledu.gsom.pu.ru](mailto:bezginova.mitim2014@ledu.gsom.pu.ru)

*Tatiana Garanina* — Associate Professor, Graduate School of Management, St. Petersburg State University  
*e-mail:* [garanina@gsom.pu.ru](mailto:garanina@gsom.pu.ru)

*Anastasia Sergeeva* — PhD student, Graduate School of Management, St. Petersburg State University  
*e-mail:* [sergeevan2000@gmail.com](mailto:sergeevan2000@gmail.com)

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## Introduction

As soon as the knowledge economy era has come, intangible issues have become the key basis for gaining a competitive advantage through organizational competitiveness, market performance, financial performance, organizational performance, or customer value creation (Poenaru, 2011; Woodruff, 1997).

In spite of the fact that there are many researches about intellectual capital and knowledge assets in terms of their influences on firm's performance on developed markets, knowledge management practices are still in an infancy stage, especially in Russia. At the same time in spite of many political, economic and cultural peculiarities, according to the World bank report (2011) Russian economy is still one of the strongest emerging economies. According to the Russian Government, Russian economy has been announced as the one which needs a shift to economy of knowledge.

So, it seems that Russia has a potential for IC application and development, meaning that IC flows turn to important strategic resources in strategy planning. However, Russian companies seem to lack the capacity to leverage this potential for creating value for customer.

The questions concerning the importance of intellectual capital, the elements of intellectual capital and knowledge practices that influence more the value of Russian companies are not solved. The previous results obtained on the Russian market show that intangible assets have a less explanatory power in companies' value in comparison to tangible assets (Garanina, 2011). There is also a worrying shortage of empirical studies demonstrating an actual connection between knowledge management practices and organizational outcomes (Andreeva, Kianto, 2012). It is not enough just to know which elements are more important – it is crucial to know how to manage these elements [Kianto, 2007; Dumay, Garanina, 2013].

Theories of intellectual capital and knowledge management have been developing for many years independently from each other, but it is clear that the synergy of these two theories will help to answer the above-mentioned questions. So the interrelation of intellectual capital and knowledge management theories has a high value in the field of development of management science.

In order to help Russian companies to improve their capabilities in this context, this research takes a goal to determine specific IC factors in Russian companies, which play the most important role in value creation, as well as KM practices, which facilitate intellectual capital development and mediate customer value creation. In this paper managerial practices are explored from KM perspective, which keep in focus to identify specific managerial mechanisms suitable for Russian companies. The authors are pursuing the goal to identify which IC components are involved in customer value creation in Russian business, and which KM activities influence those components either positively or negatively. The investigation outcomes might be very helpful for making investments decisions in the companies in terms of IC development.

As a final part of data analysis, the authors will examine subjective performance measures (customer value creation), which are supposed to give the causal relationship with intellectual capital components and value creation. Such relationship has been hardly explored before, therefore, the expected outcomes are supposed to be valuable insights for business enterprises in Russia.

We start with literature review and the main hypotheses, then cover the methodology part with description of the sample and research methods and present the main results and outcomes at the last part of the paper.

## Literature review

In a new era of economy coming from the knowledge-based theory of the firm companies perceive their value creation process not through tangible assets, but intangibles and knowledge, where intellectual capital and knowledge management processes gradually replace change the nature of value creation for customers. In knowledge economy knowledge is treated as a strategic asset, which is supposed to be effectively managed in order to build a sustainable competitive advantage (Alavi, Leidner, 2001) While traditional approach relies upon the usage of physical resources, equipment and capital to create value for customers, contemporary enterprises rather focus on knowledge creation and application through delivering a higher value overall.

Despite the lack of definitions of customer value creation, a number of authors considered this issue and say that customer value creation is a prerequisite for sustainable competitive advantage (Poenaru, 2011; Woodruff, 1997). Thus, there is a need to improve customer value creation for both service- and product-oriented companies in Russia.

Intellectual capital issue has been extensively explored from many different perspectives. Based on researches' findings several ways to determine value have created. All of them lead to the point that intellectual capital in general stands for creating a competitive advantage for a company. This means that intellectual capital might be a factor of creating a sustainable competitive advantage through customer value creation by Russian organizations. Moreover, there are a number of different intellectual capital models applicable in different countries and businesses, but none of them was applicable and developed specifically for Russian organizations. Talking about the influence of intellectual capital resources as intangible assets, it can be concluded that an issue of effective management of intellectual capital wasn't explored before in Russia.

Based on previous papers devoted to intellectual capital and intangible assets, e. g. by Andreeva, Kianto (2012), the authors of this research consider the following intellectual capital components – organizational (structural) capital, human capital, relational capital, renewal capital, trust and entrepreneurship capital as measures for intellectual capital components.

As for knowledge management, the issue has been explored since 1990s by many researches in different countries, mostly in developed ones and very few ones – in developing countries (Andreeva, Kianto, 2011). In a new era of economy knowledge becomes a key thing for building a competitive advantage (Nonaka, Takeuchi, 1995) for organizations all over the world, including the countries in transition such as Russia, for example. Further to say, knowledge management practices were explored in terms of their effect on innovativeness of (Andreeva, Kianto, 2011), managerial learning in institutional changes in Eastern Europe (Child, Czeglédy, 1996), and operational performance of venture capitalists in Hungary (Lyles, Salk, 1996). Moreover, some authors suggest focusing on intellectual capital and human resources while managing knowledge as stimulus for innovativeness and fruitful creativity (Beveren, 2002). It is a fact that knowledge management activities were admitted as applicable universal management practices (Andreeva, Kianto, 2011).

To sum up, most of the existing research on IC has concentrated on identifying the key intangible resources (in terms of human, structural and relational capital) and then measuring their level in various contexts. However the extent to which IC in fact is being managed and the mechanisms used for its management have been relatively neglect issues (Kianto et al., 2013). We build on a conceptualization developed in previous studies (Garanina, 2011; Dumay, Garanina, 2013; Kianto, Andreeva 2012; Andreeva, Kianto 2011) based on an extensive review of the literature, and divide the key mechanisms for the management of knowledge into six key types: strategic KM practices; facilitating organizational culture; human resource management practices; organizational structure; learning mechanisms; and information and communication technological practices. Further the question of interrelation

between IC and KM has been poorly researched, that is why this is a hot topic that will be studied in this paper.

However, it is a fact that not only knowledge management is to be in the focus, but other activities as well, because only managerial activities in total are to build an appropriate capital for customer value creation. Therefore, the research covers the issues of benchmark of Russian companies in the market, attitudes of all stakeholders, and managerial activities in organization. For these reasons the following hypotheses have been set:

Hypothesis 1. Intellectual capital involving human, organizational (structural), relational, renewal, trust, and entrepreneurship, is positively related to customer value creation.

Hypothesis 1a. Internal relational capital is positively related to customer value creation.

Hypothesis 1b. External relational capital is positively related to customer value creation.

Hypothesis 1c. Organizational (structural) capital is positively related to customer value creation.

Hypothesis 1d. Human capital is positively related to customer value creation.

Hypothesis 1e. Renewal capital is positively related to customer value creation.

Hypothesis 1f. Trust capital is positively related to customer value creation.

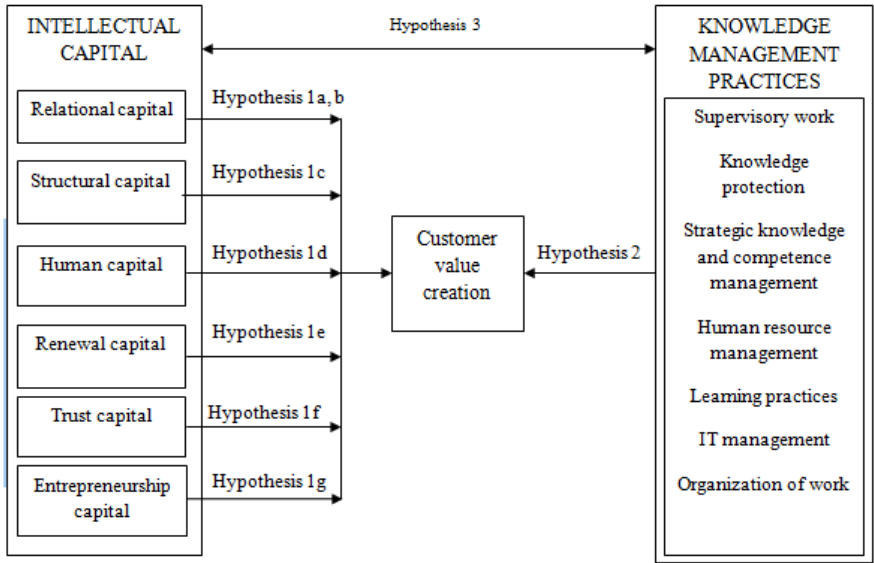
Hypothesis 1g. Entrepreneurship capital is positively related to customer value creation.

Hypothesis 2. The more organization utilizes knowledge management practices involving supervisory work, knowledge protection, strategic knowledge and competence management, human resource management, learning practices, IT management, organization of work, the more value it creates for customers.

Hypothesis 3. Knowledge management practices are related to intellectual capital.

Consequently, this paper explores the applicability of intellectual capital model, proposed by Kianto (2011), to Russian organizations aiming 1) to identify the most important intangible assets in Russian companies and demonstrate the need for further development; 2) to assess the effect of knowledge management practices on intellectual capital resources; 3) to explore the effect of intellectual capital resources on customer value creation. In other words, the purpose of the research is to establish the link between knowledge management initiatives and customer satisfaction through intellectual capital resources (human, structural, relational, renewal, trust, and entrepreneurial).

Having said all this, the following set of hypothesis is visualized (see the Figure 1).



**Figure 1:** A set of hypotheses

## Research Design

In order to reach all research questions a primary research is to be conducted with a cross-sectional field survey. The survey is based on exploratory empirical research, which involves a questionnaire. The quantitative questionnaire was chosen as the most effective way to collect data about all components of intellectual capital and knowledge management processes in a structured way. The questionnaire was developed by the leading research group from Lappeenranta University of Technology. All of the measures were based on a five-point Likert scale. The performance variables are the same that are used by all research groups from different universities involved in the research project.

In order to measure the company's overall performance 7 items were included in the survey to assess the customer value creation.

**Table 1:** Performance Variables

CUSTVAL1	Solving actual customer needs
CUSTVAL2	Producing benefits related to perceptions and emotions for customers in addition to solving actual customer needs
CUSTVAL3	Customer trust in the company's products, services and operations in general
CUSTVAL4	Responsiveness to enquiries and problems as experienced by customers
CUSTVAL5	Employees' professionalism and businesslike conduct as experienced by customers
CUSTVAL6	Care and individual attention to as experienced by customers
CUSTVAL7	Value related to the display, tidiness and functionality of the company's products and services as experienced by customers

The questionnaire employed for the survey included 28 items intended to measure different aspects of intellectual capital according to the elements outlined before: internal relational capital, external relational capital, structural capital, human capital, renewal capital, trust capital, and entrepreneurship capital. To be more precise intellectual capital items are (Roos, Roos, 1997; Kianto, 2011):

- 3 items were used to assess external relational capital and 3 items – for internal relational capital;

- 4 items were used to assess structural capital;

- 3 items were used to assess human capital;

- 4 items were used to assess renewal capital;

- 5 items were used to assess trust capital;

- 6 items were used to assess entrepreneurship capital;

The questionnaire employed for the survey included 43 items intended to measure different managerial practices and activities:

- 7 items were used to assess supervisory work;

- 3 items were used to assess knowledge protection;

- 5 items were used to assess strategic knowledge and competence management;

- 13 items were used to assess human resources management: 3 – for recruitment processes assessment; 4 – for personnel development; 3 – for knowledge sharing processes assessment; 3 – benefits & rewards practices;

- 3 items for learning processes;

- 6 items for IT management practices;

- 6 items for organization of work in organizations.

### **Data collection and sample**

In order to obtain a reliable sample for analysis, it was decided to approach Russian organizations with more than 100 employees from different industries, representing manufactur-



ing and service enterprises. The survey was answered preferably by CEO. If CEO could not be realistically reached, the other top-level managers were feasible respondents (Chief operating officer, HR / KM Director, Development director). After defining the companies that fit the criteria 858 emails were sent. Acknowledging a typical consideration of online emails with any proposals in business world as junk mails, only 40 responses (4,7 percent) have been received in the end. Taking into account a negative attitude to survey as well as the length of the questionnaire and a novelty of the topic of knowledge management and even intellectual capital this response rate can be considered as good. In order to enlarge the sample, personal contacts (response rate of 73,1 percent) have been used as well. As a result of data collection, the answers from 76 Russian companies that represent 20 industries have been collected.

## Research process and findings

### Factor analysis

In order to identify, which factor among 28 components of intellectual capital and 43 of knowledge management practices work the best, and to remove the components, which explain the least of variance factor analysis has been conducted. It is an important step, because there is a probability of existence of some non-typical components for Russia because the questionnaire for the research has been used for the survey in Finland as well as within the joint empirical investigation in partner Universities.

As a result of dimension reduction 21 items of intellectual capital have been identified as suitable for further analysis in Russian organizations. Moreover, renewal capital, which is widely distributed in a rotated matrix, has been totally removed from the analysis. The results of a factor analysis of IC items lead to a total removal of external relational capital from the considered items because the scale cannot be considered as reliable.

In analogy, factor analysis for dimensions reduction has been run for knowledge management practices. As a result, 26 items have been left for further analysis.

Some interesting facts in loading of KM practices factors have been noticed during the analysis. For example, such HR practices as compensation for knowledge sharing and personnel performance assessment were aggregated into one item for further analysis. Personnel development and recruitment techniques were also combined into one separate item.

After the factor analysis for IC and KM practices the analogical analysis for customer value creation items has been run. The value of Cronbach's alpha is 0,882 which is more than 0,7, in addition to the values of an every single item of customer value creation dimension, which is less than 0,882, meaning the reliable scale.

### Mean comparison of intellectual capital components

Before the regression analysis the mean comparison of IC components has been conducted in order to identify whether the engaged in customer value creation process IC components are developed enough nowadays. Comparison of each IC component, suitable for further analysis (internal relational capital, structural, human, trust, entrepreneurship capitals) shows a clear differences in existence of IC components in Russian organizations. In the Table 2 it is shown that trust capital is the most present in Russian organization, while internal relational capital – the least (but this component creates the most value for customers).

**Table 2:** Mean comparison of IC components in Russian companies

		IN-TREL_IC	STRUCAP_IC	HUM-CAP_IC	TRUS-CAP_IC	ENTCAP_IC
N	Valid	73	73	73	73	73
	Missing	0	0	0	0	0
<b>Mean</b>		<b>3,3493</b>	<b>3,6849</b>	<b>3,8767</b>	<b>4,1096</b>	<b>3,4110</b>
Median		3,5000	3,7500	4,0000	4,2500	3,5000
Mode		3,50	4,00	4,00	5,00	4,00

<b>Std. Deviation</b>	<b>0,90786</b>	<b>0,90717</b>	<b>0,83242</b>	<b>0,80038</b>	<b>0,91670</b>
Variance	0,824	0,823	0,693	0,641	0,840

### Regression analysis

As the next step of the analysis it was intended to see the influence of IC components and KM practices on customer value creation. To test the hypotheses 1a – 1g, 2 and 3, the multiple regression has been run in SPSS.

First regression analysis has been conducted for IC. The outcome of a correlation analysis between IC components and customer value creation are presented in the Table 3.

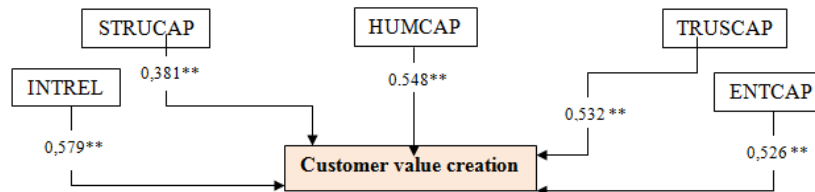
**Table 3:** Correlation between IC components and customer value creation item

	CUSTVAL_agg	IN-TREL_IC	STRUCAP_IC	HUM-CAP_IC	TRUS-CAP_IC	ENTCAP_IC
Pearson Correlation	1	0,579**	0,381**	0,548**	0,532**	0,526**
Sig. (2-tailed)		0,000	0,001	0,000	0,000	0,000
N	73	73	73	73	73	73

\*\* Correlation is significant at the 0.01 level (2-tailed)

The regression analysis shows that 42,8% of the data is explained by this regression model. As for constants and correlation coefficients, only internal relational capital and human capital are significant in the model.

To be more precise the following results about every intellectual capital component and every group of knowledge management practices are presented in the Figure 7.



**Figure 2:** Relationship between customer value creation and intellectual capital components

Therefore, hypothesis 1a and hypothesis 1d are supported, while hypotheses 1b, 1c, 1e, 1f, 1g are rejected.

In analogy the regression analysis has been applied for KM practices. The results of the analysis are presented in the Table 4.

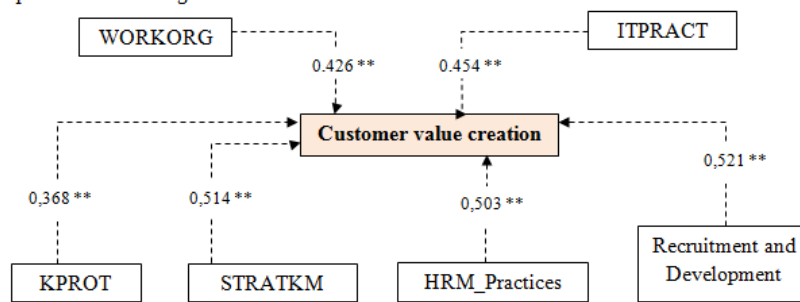
**Table 4:** Correlation between KM practices and customer value creation item

	CUSTVAL_agg	HRM_Practices	WORKORG_KM	DEV_RE C_KM	IT-PRACT_KM	STRATKM_KM	KPROT_KM
Pearson Correlation	1	0,503**	0,426**	0,521**	0,454*	0,514**	0,368**
Sig. (2-tailed)		0	0	0	0	0	0,001
N	73	72	72	73	73	73	72

\*\* Correlation is significant at the 0.01 level (2-tailed)

The regression analysis shows that the model of KM practices explains only 29,9% of variance, however, the significance is not valid.

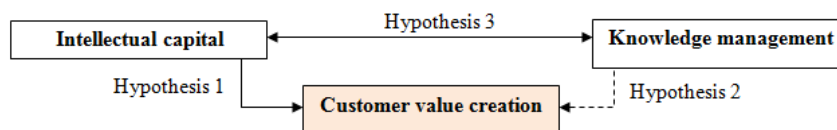
Influence of every group of knowledge management to customer value creation process is presented in the Figure 3.



**Figure 3:** Relationship between customer value creation and knowledge management practices

To conclude, KM practices do not impact customer value creation process directly, therefore, hypothesis 2 is rejected.

Figure 4 demonstrates the structural equation model as a result of testing hypotheses: IC positively impacts customer value creation process, while knowledge management practices do not. So, while Hypothesis 1 and 3 are supported, Hypothesis 2 is rejected.



**Figure 4:** The structural equation model

Since two components of IC positively impact customer value creation process, the regression analysis has been run to test which KM practices are related to human capital and internal relational capital.

As a result, it can be concluded that internal relational capital is positively influenced by strategic knowledge management with  $\beta = 0,442$  and negatively with  $\beta = -0,266$ , having the significance value below that 0,05 (see the Table 5).

**Table 5:** Relationship between internal relational capital and KM practices

	Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2,022	0,485		4,168	0,000
	STRATKM_KM	0,338	0,100	<b>0,442</b>	3,391	0,001
	KPROT_KM	-0,234	0,097	<b>-0,266</b>	-2,409	0,019

a. Dependent Variable: INTREL\_IC

b. All requested variables entered

As for KM practices' influence on human capital, it can be concluded that development and recruitment techniques positively impacts ( $\beta = 0,433$ ) the component of human capital in Russian organizations, having the significance value below that 0,05 (see the Table 6).

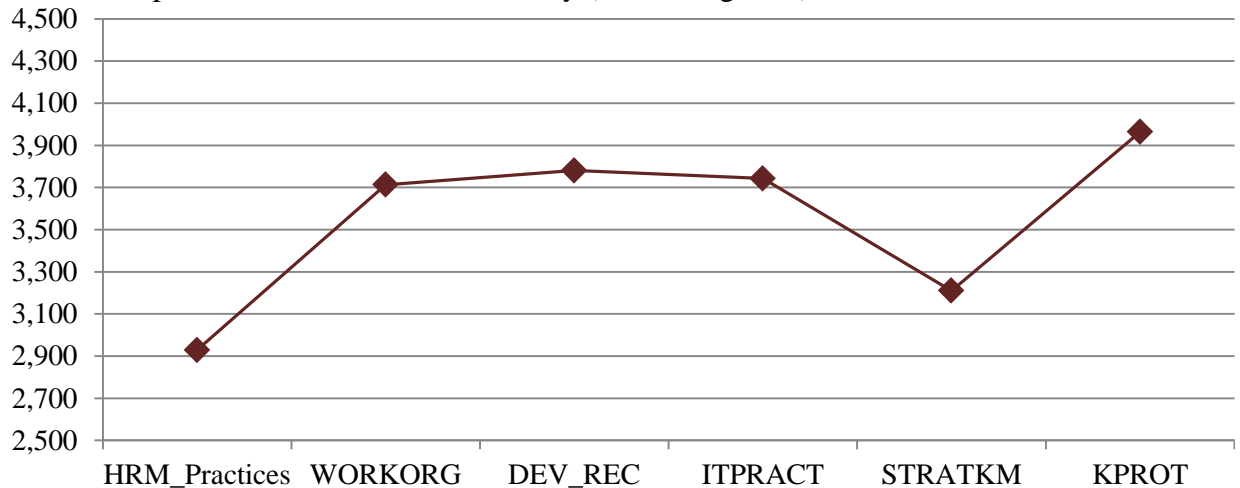
**Table 6:** Relationship between human capital and KM practices

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
1	(Constant)	2,186	0,488		4,482	0,000
	DEV_REC_KM	0,356	0,137	<b>0,433</b>	2,606	0,011

a. Dependent Variable: HUMCAP\_IC

b. All requested variables entered

The analysis of KM practices employed in Russian companies nowadays it can be concluded that those practices are executed differently (see the Figure 5).

**Figure 5:** Value of KM practices implementation

However, if organization of work is strongly presented, at least it is not damages the customer value creation, knowledge protection definitely does ( $\beta = - 0,266$  from the Table 12). Therefore, this finding can be a useful managerial insight for the future strategic development.

### Modeling of customer value creation

In order to propose Russian companies measuring the effect of intellectual capital on customer value creation it was decided to conduct modeling at SPSS for measuring customer value creation. The dependant variable was chosen customer value creation and 2 independent variables of IC components such as internal relational capital and human capital (Table 7, Table 8).

$$\widehat{CUSTVAL} = \gamma_0 + \gamma_1 \times INTREL + \gamma_2 \times HUMCAP + \varepsilon_1 \quad (1)$$

Table 7: Model of customer value creation

#	Variable	Sample	t value	$\beta$ -weight
Model of customer value creation*				
1	Constant regression coefficient	0,621	1,455	
2	Coefficient before the 1 <sup>st</sup> explaining variable	0,422	3,915	0,407
3	Coefficient before the 2 <sup>nd</sup> explaining variable	0,391	3,326	0,346
4	t-critical	1,994		
5	Coefficient of determination:			
	- R <sup>2</sup>	0,426		
	- adjusted R <sup>2</sup>	0,410		

\*Model and coefficient testing was conducted on 5% level of significance

Table 8: ANOVA results of Model

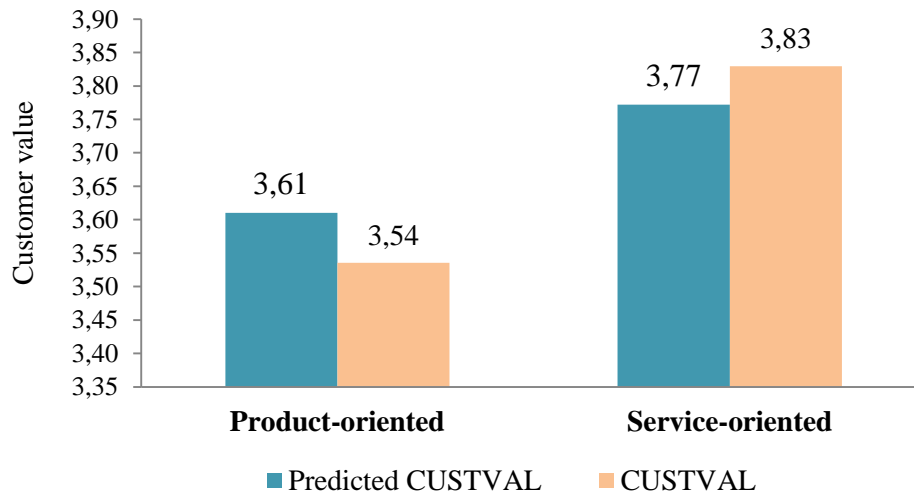
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	27,025	2	4,747	10,747	,000 <sup>b</sup>
	Residual	36,417	70	0,442		
	Total	63,442	72			

Therefore, the final model equation is the following:

$$\widehat{CUSTVAL} = 0,621 + 0,422 \times INTREL + 0,391 \times HUMCAP + \varepsilon_1 \quad (2)$$

This equation can be applied by Russian organizations to calculate the return on investment for customer value creation in Russian organizations.

According to the Model of customer value creation, it can be concluded that service-oriented companies in Russia are supposed to develop intellectual capital resources in order to create value for customers more effectively (see the Figure 6).



**Figure 6:** Customer value creation comparison in product- and service-oriented companies

According to the results presented on the Figure 6, service-oriented companies should definitely improve utilization of intellectual capital resources in order to create customer value in long-term.

Based on the results of prediction of customer value creation with IC resources utilizations as it is today, the predicted value for customer doesn't grow in long-term. This means that Russian organizations should invest in IC and develop internal relational capital and human capital.

## Conclusions

The paper examined the current state of IC resources in Russian organizations as well as provides recommendations of KM practices devoted to customer value creation in the future.

One of the key findings of the research for this paper is that IC components are not equally distributed in Russian organizations. It has been identified from mean comparison of IC in Russian organizations that internal and human capitals strongly participate in customer value creation, but are not presented enough in modern companies in Russia; while trust capital takes the largest weight, but is not involved in customer value creation process. This all means that Russian companies are investing in the wrong types of resources, which are not engaged in customer value creation process. This issue can be considered as an investment decision, which should certainly be reviewed in Russian companies.

In the data analysis it was identified that two IC components indeed positively impact customer value creation – internal relational capital and human capital (hypotheses 1a and 1d are supported). These components are not presented in Russian companies yet on top, therefore, it could be considered for future investment.

Moreover, these IC components are influenced by certain KM practices. For example, development and recruitment practices employed by Russian organizations improve human capital, which participates in customer value creation process. Therefore, personnel development area can be considered as a worth investing one. As for recruitment practices, which imply seeking for candidates with a strong ability to learn, collaborate, see new opportunities, be open to new things rather than, for instance, requiring to obtain a relevant level of expertise or various work experience, is a very useful subject for Russian HR departments to learn and implement. The thing is that nowadays there is still a cliché that a good candidate is an expert with at least 3 years of experience, and such as thing is truly influences a final decision to hire a new comer. However, as the research results show, in today business environment it is more important for a personnel to employ other assets such as developmental ability and ability to work in various networks rather than having a string level of expertise. So, this finding could provide an evidence for top management in terms of employment.

On the other hand, strategic and competence management is also a good attribute for building a strong internal relational capital in a company. This means that formulating the strategic updates and delivering the vision to employees on different levels clearly and comprehensively allows improving IC in organization.

In contrast, strategic knowledge protection such as issuing patents, agreements, etc. clearly damages internal relationship within an organization.

Another finding is connected to the influence between KM practices and customer value creation. Initially, it was hypothesized that every group of knowledge management practices positively influences customer value creation. The research results do not support this statement, because KM practices do not influence directly customer value creation (hypothesis 2 is not supported). However, KM practices might play a mediating role in the customer value creation process through IC resources. But this issue can be considered in the further research on this topic.

In spite of the fact that trust capital is presented the most in Russian companies, the empirical investigation does not show any positive relationship between KM practices and this IC component. On the one hand, it can be explained by the cultural aspects of the country, including business culture and set of stereotypes. However, it also can be possible that the trust should be reconsidered as intangible types of resources and thus redirected towards more effective customer value creation.

Furthermore, the prediction analysis according to customer value creation model shows that Russian companies definitely need to improve their IC resources utilization. While some companies from the sample are on the right track according to the model and able to produce

more value for customer in long-term, there is still a quite significant set of organizations which are supposed to reconsider their attitude towards intangible resources utilization.

Overall, the research findings demonstrate that Russian companies have enough intangible resources to create value for customer. Being further developed those resources can deliver more value and improve overall business performance. And this paper might be the first step in the empirical investigations towards better understanding of customer value creation process with IC resources and KM practices execution in Russia.

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