6-1999

The Great Transition: The Dynamics of Market Transitions and the Case of Russia, 1991-1995

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Recommended Citation
Hass, Jeffrey K. "The Great Transition: The Dynamics of Market Transitions and the Case of Russia, 1991-1995." *Theory and Society* 28, no. 3 (June 1999): 383-424.

The great transition: The dynamics of market transitions and the case of Russia, 1991–1995

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> [T]he precipitous inauguration of a new economic system will certainly entail significant costs.... Chief among these would be the necessary process of learning how to organize and function in a new system of production. But we know ... that the development of the skills, attitudes, and values consistent with a novel economic system is not a matter of years, but of decades and even generations.[1]

Multidimensionality and economic change

The market transition in Eastern Europe and the former Soviet Union brings us back to essential issues that Marx and Weber addressed: the genesis of capitalism and the process of economic change.[2] What is the transition and what does it involve – restructuring incentives, creating new laws, learning new culture, or creating new power structures? The answer partially depends on the particular transition (initial conditions, targets, actors' perceptions); but necessary general frameworks remain elusive, and current economic policies and analyses reveal that we understand little more about economic change than a century ago. Recent works on market transitions have furthered our understanding, but also tend to focus on narrow issues: the "success" or "failure" of transitions, elite circulation, financial institutions, networks, and privatization and property changes.[3] These timely and useful contributions still do not orient us to a broader dynamic – that is, *just what the transition is* is left out.[4] Is it path dependent policies? Reorganization of financial systems or property control? The rise or collapse of political alliances and a power elite?[5] It is these and more, together in one complex. If we are to understand the process of constructing capitalism, I suggest we look beyond policies and finance to the process of

Theory and Society **28**: 383–424, 1999.

how actors try to understand their worlds, create meaning, and enforce this meaning.

Three crucial aspects need to be brought into focus. The first is a sense of dynamic. As Schumpeter and historians have noted, capitalism is a process ("creative destruction") overthrowing previous economic practices and institutions;[6] given the pace and extremity of change, contemporary transitions should be no less destructive and confusing. New economies do not arise mechanically from initial conditions or macro-level incentives[7] but instead involve the interaction of smaller tactics and strategies as much as laws and elite actions – a complex of destruction and reformation with numerous twists and turns and unexpected outcomes shaping economic change and capitalism-building.[8]

The second aspect is the role of power and culture.[9] The transition is often analyzed in terms of static factors (inflation and money supply, exchange rates) or structures (relations of ownership),[10] and actors are assumed to respond automatically to exogenous incentives. But this is too simplistic; people are not automatons reacting viscerally to exogenous stimuli, but instead actively interpret and construct their worlds. Thus, economic change has two deeper sources.[11] The first is culture – tool kits of strategies, understandings, and assumptions. The transition may be (a la Douglass North) a change in "mental states" (culture) as well as laws; actors' subjective conceptions and understandings might not automatically shift to new economic rules.[12] However, culture cannot lead directly to change unless understandings, models, categories, and practices are reified and imposed on the larger social body; power must enter the picture.[13] To understand market transitions, we must follow how categories and models change and are imposed.[14] I suggest that economy-building is culture-building (changes in models) and authority-building (enforcing these models) – a power-culture link of *definition, reification*, and *selection*.[15] Put simply, principles of activity are used to judge behavior; nonconformism is punished (market exit), and conformists reproduce "correct" practices.[16]

This leads to a third crucial point: economic change is not uniform across the economic board but instead is multidimensional. The degree and speed of the shift in principles and practices will depend on the organization of authority amd enforcement *and* on changes in rules. But *both* cultural models *and* bases for authority and power may be changing simultaneously. Further, the link between power and culture and the process of change in principles need not look the same in different arenas of activity (production, exchange, finance): depending on the change in enforcement mechanisms and on the delegitimation of original ground rules (and the distance between old and new rules), the speed, direction, and overall process of readjustment and change may differ across arenas and sets of rules. Change in financial rules may be more rapid (and successful) than changes in production rules; changes in financial rules may be more rapid (and successful) for banks than for industrial firms. The idea of multidimensionality is simple: we must focus on change in and operation of enforcement mechanisms and on the mesh of old and new cultural constructs to be enforced.

In this article I use the Russian case[17] to make sense of this contemporary "Great Transformation" by examining how cultural constructs become ground rules and fundamental principles structuring economic life. I use data from interviews of directors and entrepreneurs (1994–1995, 1997), observation of small firms (1994–1996), enterprise newspapers (1988–1995), and business media; all but the last were from St. Petersburg. I hope to reorient analysis from efficiency, incentives, and risk (important but not all) to power, culture, and process and to draw attention to the difficulty of switching between economic logics (sets of taken-for-granted principles and categories).[18] I also want to show the importance of multidimensional change: *that market-building is not smooth and uniform across arenas and sectors (finance, sales, production), and that change will lead to confusion and conflict within and between arenas,* making the transition not as straightforward as imagined earlier.

Economic change and transitions

David Stark noted that the initial stages of transition would be marked by heterogeneity of forms, practices, and strategies, and this would provide the basis for innovation.[19] Stark's insight is valid but misses the flip side of heterogeneity: confusion and conflict. It is one thing to have multiple organizational forms; it is another when there also are multiple economic rules of economic action and multiple strategies and understandings driving decisions. Stark appears to assume that actors already have certain ground rules and basic frameworks in which heterogeneity drives innovation, or that the lack of these ground rules is not important.[20] We should avoid this assumption; transition can mean changes in ground rules of economic activity, making heterogeneity a curse as well as a blessing.

These ground rules or economic principles are similar to what Fligstein called "conceptions of control,"[21] except that they structure more than organizational fields but also the strategies, tactics, and logics used to address perceived incentives. Economic principles and ground rules include the organization of firms, and the rules of exchange, debt payment, financial operations, and interpreting demand and production. That economies involve not just organizations and incentive structures but also ground rules embedded in institutional procedures and shared cognitive frameworks and understandings has been demonstrated by scholars of economic change and history.[22] Thus, we expect that a radical transition (such as in Russia) involves not simply liberalization of prices and privatization, but also radically transforming or creating fundamental economic principles and criteria for interpreting, evaluating, and structuring behavior, process, and results. Such principles provide orientations to strategy and practice, and criteria provide a way for actors to evaluate whether action is correct and whether it will result in sanctions or support. For example, in the Soviet economy, evaluation criteria were a combination of overall gross output (regardless of use), new technologies,[23] and maintaining an enterprise-centered paternalist system of social care. Debt payment and efficient production were less important than maintaining over-employment (a way to get increased funding), deriving new technologies (rewarding R&D for the sake of R&D), and producing for the sake of producing once an order was put in (in order to fulfill the Plan). What are the measuring rods of the developing capitalism system? This was and is not so clear in Russia. Are they enterprise paternalism and support, as many directors (young and old, of large and small firms) continue to believe? Are they maintaining production regardless of debt or producing efficiently for the sake of profit margins?

Yet culture is only part of the story, for new principles and criteria are meaningless unless they spread and are adopted. This may happen through isomorphic mechanisms,[24] such as generational shifts as new experts with new models and sets of strategies rise through the ranks.[25] However, this process takes many years; over a prolonged period the risk of "backsliding" or returning to previous forms increases.[26] Second, isomorphism works best when there is already a stable foundation on which new conceptions can be built. Transitions, on the other hand, involve a rupture of previous shared expectations. In a situation of heterogeneity, younger experts may receive both homogeneous formal training and heterogeneous real experience and socialization at the workplace.

Another method by which ground rules spread and eventually become embedded in social processes is more direct enforcement. Some isomorphic mechanisms involve more direct enforcement, such as competitive isomorphism (competitive pressures to adapt or go under) or coercive isomorphism (pressure from resource dependency). Power comes into the picture: economic principles are imposed. The next issue is *mechanisms* of imposition – what are these, how do they operate (if at all), and are they themselves changing in the transition? Shared expectations and social capital may help isomorphism in a stable economy undergoing marginal changes; but what about when those expectations are shattered or machanisms of authority are unstable? Debt payment may be important in monetized capitalism, but if there is no mechanism enforcing debt payment (liens, bankruptcy) or no actors able or willing to collect on debt, arrears might rise to incredible levels (as they did in Russia).[27] Thus, the transition is not simply creating new principles and understandings but also creating and activating mechanisms of imposition and reification, spreading categories and understandings into natural and society-wide forms through learning and force. This means creating a new form of discipline and mechanisms to support it. Unlike Soviet discipline (production-centered and involving "storming"[28]), capitalist discipline involved hard budget constraints (taking account of investment sources and debt for strategy), categorizing labor as an input, and reducing activity to a fiscal bottom line.[29]

This portends one particular problem of the transition: not only are economic principles changing, but the mechanisms of power and disciplining (selection mechanisms) are in flux as well. We notice this if we return to forms of isomorphism that can transmit new principles. Competitive isomorphism involves market pressures, but this assumes such structures as a stock market or power of experts who can recommend for or against a particular firm that does not play by the accepted rules. Needless to say, the rise of a homogenous group with such power has yet to be seen in Russia. Coercive isomorphism requires a body with coherence, power, and the will to use it; yet the state has been a problematic policeman in many cases, and the rising banking empires do not yet have the resources to turn their own vision into a new hegemony. Mimetic isomorphism requires social networks and a formal media for transmitting new ideas. This Russia has; but mimetic isomorphism is the weakest form. Normative isomorphism (transmission through cohort socialization) was addressed above. With the collapse of the Soviet state and state system, the rise of competing elites

(Soviet-era "Red Directors" versus younger "New Russians"), and a general breakdown in norms, power mechanisms have also shifted, making the spread of new principles more problematic.[30]

Thus, the power-culture link needs to be the focus of an analysis of transitions and economic change. Principles and disciplining mechanisms do not usually go unnoticed, but they seldom receive the stress deserved. Neoclassical economics (e.g., as by shock therapy artists Lipton and Sachs),[31] while helpful in illustrating individual rationality and calculation in business, assumes that ground rules are everywhere the same (economic utility maximization) and that the invisible hand of the market (efficient allocation and exit) will automatically act as the disciplining mechanism. When disciplining institutions are mentioned (e.g., bankruptcy), the problems of creating this mechanism are relegated to issues of legislation and legislators.[32] Political economy[33] and New Institutional Economics,[34] expressed forthrightly by Peter Murrell (amongst others), focus on how structures affect the costs of action.[35] Macro-level relations and power bases are the key focus of explanation. For example, Burawoy and Krotov, whose work falls in this tradition, claim that the transition is the collapse of structure between and within firms, leading to "mercantilism."[36] David Stark has suggested that economic organization is a direct descendent of privatization policies.[37] Blasi et al. suggest that institution-building is primarily about elite competition over the economic pie, played out in state policy and informal maneuvering.[38] Hendley et al. stress legislation, although how effectively that legislation is enforced is not addressed.[39] These schools point out the importance of state-society relations, state policies, and power, but miss the source of institutional change or assume that change is derivative of power conflicts and incentives alone. Further, social friction remains only an expression of conflict between competing interests; the actual confusion inherent in everyday economic life (that one sees in a cursory glance of sources) is missing. A second problem is inattention to process – *how* the transition actually occurs. What happens when firms exist previous to the new rules that govern them?[40]

Sociology, in its economic but especially political subfields, provides some firmer ground for addressing process, power, and culture. Economic sociology, in particular the neo-institutional school of organizational analysis, turns our attention away from efficiency and incentives to perceptions, tool kits of strategies, and legitimacy.[41] Unfortunately, economic sociology remains incomplete: little work directly addresses economic change or capitalism-building,[42] and mechanisms and process of change tend either to be assumed or finessed.[43] Political sociology makes up for this by addressing process and change through the interaction of culture and authority. For example, studies of politics demonstrate that political decisions and actions are shaped not only by interests and calculation (as rational actor theory would suggest), but also by repertoires of action, rhetoric, ideology, and cultural constructs.[44] A logical extension is that if political decisions and action are shaped by institutions, culture, and repertoires of action, why should this not be true for economic action?[45] While institutions shape costs of action through legitimate and legal procedure (NIE's point), cultural constructs – from tool kits of strategies to categories and assumptions – shape the perceptions of opportunity and available reactions.[46] We do not have at hand an infinite number of strategies. Finally, political sociology suggests that it is one thing to propose and legislate, but quite another to implement, as studies of political change and revolution point out. Why should the same not be true for economics – should the transition involve not only legislating new structures (e.g., through privatization or liberalization) but also changes in tool kits (and the confrontation between tool kits and institutional bounds) and the process of creating new bases and mechanisms of authority. This is raised by Douglas North, who separates institutions ("rules") and culture ("mental states") and adds that the two come into synch only if selection mechanisms (e.g., bankruptcy or other exit) operate. (Unfortunately, North does not problematize the origins, operation, and variance of power.)

Drawing on insights from existing schools and on the empirical narrative to which I shortly turn, I suggest that economic change and transitions follow this general dynamic:

- In the first moments of change old institutional frameworks weaken or are disposed, providing windows of opportunity. Actors interpret and respond to incentives (opportunity for freedom or increased gain) through categories, understandings, and strategies from their histories.
- These reactions may be blocked, however. Negative results or experience (such as rising debts and losses rather than gains from production) or an outside force (such as an external power punishing particular behavior) may act as a shock, forcing a rethinking of models. A central organization, or a larger number of actors with less institutional power but power in numbers (such as the aggre-

gate of consumers), may demand behavior according to different principles.

- Once previous practices and models have been delegitimated (partially or completely), actors search for new models and understandings. These may come from a new interpretation of past experience or from outside sources, such as the state, experts (foreign or domestic), the business media, or ideas from competitors or allies in the same or other economic sectors. Actors copy.
- But actors may not copy well. The degree of change depends on a) the amount of force exerted and its effectiveness, and b) the degree of difference between old and new ground rules. The greater the leap in logic, the greater the difficulty, and hence the greater amount of force needed. For example, it is one thing for firms to have marketing divisions; it is another to understand the principles of marketing and to fit them into processes of sales and production. Such major changes may require that actors who do not have the skills or understandings must exit the market; in theory this exit is forced through mechanisms like bankruptcy or the stock market (where "unskilled" actors lose investment or are marginalized). The degree to which new models are adopted depends on enforcement, attention to problems of changing models, the qualitative difference between old and new practices ("fit"), and the degree to which the knowledge of new practices is tacit (the more tacit such knowledge is, the more difficult such behavioral change will be and the greater the possibility that change will be superficial and interrupted by decoupling).[47] This means that economic change is *both* the creation and resolution of new models of organization and action *and* the creation of authority to make them work. Such a process is difficult, given the distance between old and new models,[48] the variety of strategic models that may arise, and the competing interests in the period of social reconstruction. Confusion and conflict are the natural handmaidens to the process of socially reconstructing the economy.
- Finally, the creation of new institutions, involving this whole process above, hinges on the power-culture link of selection. This is where neoclassical economics and sociology complement each other. Neoclassical theory assumes selection based on universal models and criteria: unprofitable or inefficient actors are punished (market exit), while profitable, efficient actors are rewarded. As economic and political sociology suggest, selection mechanisms should not be assumed; in fact, their change and creation should be the very focus of study. Friction (confusion and conflict) become central to the

> story of sorting out and reifying models and performance criteria. These criteria also require enforcement mechanisms for selection (punishment and reward) that fit the logic of those selection criteria. When selection mechanisms are working, they can reify models and procedures into hegemonies. This creates expectations among others that certain rules are fundamental; and if these new rules do not lead to crises or are not vigorously opposed, they can become taken-for-granted.

As I suggested earlier, these processes of imposition, selection, and reification differ across economic arenas and fields, injecting a sense of multidimensionality into the transition process. The crucial differences are the distance of change, the clarity of target ground rules and principles, and the mechanisms of power to enforce them. If rules are vague, the distance is large, or there is no operative coherent enforcement structure, change in ground rules will be difficult, contentious, and confused; if new rules are clear or enforced by a coherent power structure, the transition in that particular arena should be more smooth (although not entirely free of confusion, conflict, and politics). To draw out the nature of process, the relation of culture and power, and the sense of multidimensionality, I turn to three brief illustrations of rule-building. First I look at principles of finance, the most straightforward transition owing to the power of the Central Bank to formulate and impose new principles of financial activity. Then I turn to principles of exchange and production, in particular interpretation of and reaction to market demand; this illustrates how a more vague enforcement mechanism – monetization and interaction between actors – can enforce, albeit slowly and imperfectly. Here the principles of demand were adopted outwardly after initial shocks; but the problem of decoupling made further adaptation difficult. Finally I turn to principles of organization and enterprise restructuring. Here we see that what was initially the most straightforward shift in principles became the most difficult, owing to competition among models, confusion over all models, and the lack of a mechanism that could enforce. For these three areas, a rough schema of power, culture, and change would look like this:

Area	Source of new principles	Power field	Outcome
Finance	1. Central Bank 2. Isomorphism	1. Control over deposit policy 2. Interactions with foreigners, information	1. Slow, stronger for small banks 2. Slow, unsteady
Production/ sales	1. Isomorphism and media 2. Demand and solvency (need for money)	1. Unstructured influence at best 2. Incoherent; problems of interpretation, imposition through aggregated individual actions	1. Suggestions for change, but no real push 2. Slow change, incomplete
Organization	Managers' and workers' conceptions (from experience, media)	Managers have formal power, but in reality conflict ensues	Initial change takes place, then stalls

Principles of finance: The example of banking

In the banking sector the Central Bank emerged as a policeman able (to an extent) to provide and enforce new principles and select for banks accordingly. Further, the shift in principles – from banks as speculators or deep pockets for firms to strict guardians of economic order – while difficult and muddled by politics, is not as large a shift as in other fields explored later. Hence, the banking field should (and does) show the most relative success in shifting to new principles and practices: cadres were often less socialized in Soviet mentalities, the shift in principles was not enormous, and there was a central organization with the will and power to enforce new principles, the Central Bank.

The Central Bank's emergence in this capacity was not inevitable: its early weakness (lack of autonomy) helped contribute to hyperinflation in 1992. However, the 1993 constitution (reinforced later by an April 1995 law) provided the Central Bank with increased autonomy – decisions were under less pressure and control from the legislature than before.[49] The Central Bank gained tools of power, such as refinancing and oversight mechanisms (the right to audit or to revoke a bank's license). Central Bank heads staffed the organization with younger trained experts (usually) capable of doing their jobs. Finally, after the ruble's shocking collapse in October 1994, Tatiana Paramonova took over for Viktor Gerashchenko and proved herself a capable financial technocrat. While the Bank had a reversal in fortune in 1998 (political intrigues and economic breakdown brought Gerashchenko back), there is reason to believe it will retain its position as financial policeman and enforcer.

Paramonova hoped to create new financial ground rules and force the banks to follow them. Before 1995 banking practices had contributed to financial instability. Loan practices were based less on evaluating business plans than on trust or personal connections, leading to increasing numbers of bad loan portfolios. Bank branches were under weak control from the center, often following dubious loan procedures. One example of this problem should provide a good picture, especially as this appears to have happened more than once with new Russian banks. Dmitrii Gorshkov, financial director of a new firm, went into a famous bank and asked for hard cash for an agricultural purchase; one bank worker obliged and handed over 15 million rubles. The Department for the Struggle with Economic Crime discovered that the money was earmarked to buy cars as barter for Ukrainian sugar; however, the money never went to the earmarked person or firm, and instead went to an Israeli citizen who had left St. Petersburg.[50] To offset the drawbacks of these problematic practices, banks practiced currency speculation, profit from which offset bad loans and masked other banking practices. The bottom line may have been profit, but actual practice encompassed other means as well.[51]

To Paramonova, banks' practices were making money but endangering the economy; speculation was contributing to macroeconomic (currency) instability.[52] Paramonova was determined to change banking practice and principles through Central Bank power; banks that could adapt to new principles would survive; and those that could not would go, through bankruptcy, license revocation by the Central Bank, or mergers.[53] Her projects to bring Russia's banks into line included introducing a ruble corridor, limiting credit emissions to banks, increasing required deposits with the Central Bank, increasing bank audits, and revoking licenses for banks with dangerous balances or questionable practices.[54] The Central Bank sponsored seminars on financial and banking practice to foster new understandings and skills. While this did not win over many allies – elite bankers pressured the Duma to reject her permanent appointment three times – she did begin the process of weeding out banks not playing by the new ground rules. The ruble corridor and increased deposits deprived banks of the ability to speculate on a large scale. Banks would have to be more disciplined, making money through more conservative, risk-averse policies and through loans and ownership operations.[55] With their security blanket gone, many banks experienced problems. In St. Petersburg, for example, the Northern Trade Bank, which had made loans on the basis of personal ties rather than prospects for repayment of principle and interest, could no longer balance its bad loans with speculation, and went into a financial crisis in the fall of 1995. A consortium of stronger Petersburg banks stepped in and began to do what Northern Trade should have done: attempting to get back what they could from bad loans.[56]

Other isomorphic mechanisms have been at work disciplining banks into new behavior and principles besides the scrutiny of the Central Bank. Working with foreign banks and foreign companies has forced bank directors to realize the need for a professional staff ("professional" in the sense of training and behavior) and for more refined procedures, such as the use of business plans and operations for risk evaluation.[57] Seminars run by the Central Bank or by Russian and foreign business schools are frequently filled with bank workers learning, at times for the first time, the art of financial management or the concept of depreciation.[58] The fact that banks are staffed by younger professionals trained and socialized in the post-communist era helps with behavioral change of banks: these younger professionals do not carry the baggage of Soviet-era accounting practices or financial assumptions.

Not that behavior has changed completely. Some bankers (especially elite bankers) have been loathe to give in to the Central Bank's rules and have fought back – witness efforts to deny Paramonova confirmation beyond her status as temporary head of the Bank, and efforts by bankers in 1998 to topple Sergei Kirienko's cabinet (because of his stricter reforms and willingness to let weak banks die).[59] Many banks continue to survive on Russian T-bills and other forms of speculation; weeding out weaker banks has been slow. However, change has occurred, and the most important factor in financial change is that the Central Bank came to be a powerful and strong-willed player, in part through political actions of reforms (e.g., Yeltsin pushing through a new constitution in 1993 granting the Central Bank power and autonomy) and through the will and actions of its chiefs (especially Paramonova but even her successor Sergei Dubinin). There is some evidence that the Central Bank was successful with small banks, which did not have the political or social capital to ward off the Bank's punishments. Hence, smaller banks have held steady during the recent economic crisis.[60] Further, occasional bank crises (in the autumn of 1995 and 1998) have led to more scrutiny of banks' operations. After the most recent problems, when banks could not honor debts after the collapse of the state's T-bill pyramid, the Central Bank and independent auditors are investigating more closely how banks operate.[61] Even the Central Bank itself has come under scrunity by the Federal Audit Chamber and the Prosecutor General for certain actions (illegal or unprofessional use of interbank loans, ruble emissions, and the like).[62] The strong hand of the Bank brought about change; it is probable that the bank will bring more changes, especially if its own house it put in order.

In contrast, principles of finance have not changed as rapidly for industrial firms. Problems with bankruptcy law deprived Russia of one enforcement mechanism; weakness of other routes (liens or tracing debt by "piercing the corporate veil") deprived actors of means to force debt payments or focus on profit. Further, understandings of finance and debt derive from the Soviet era, when budgets were soft. Managers did not code finance as a key signal of performance;[63] maintaining employment or cash-flow (to pay wages) was more crucial.[64] Money was obtained through "pocket banks" (opened and controlled by firms) channeling funds to enterprises. With no strong central accounting mechanism, financial principles in industry changed slowly – although changes were afoot.

Principles of production and exchange: Coping with demand

The financial sector has shown the (relatively) biggest shift to new economic principles and practices, in no small part because the shift in new principles was (relatively) smaller than elsewhere, and because the Central Bank emerged as a mechanism able and willing to enforce new principles and contribute to their reification (e.g., through sponsored seminars).[65] For other activities and arenas, such as production and sales, the change in principles has been more difficult. Previous practices are more deeply embedded – for example, production was a greater everyday concern in the Soviet era. Industrial firms and small firms are more decentralized, with no single policeman hovering over them to introduce new principles and to discipline firms that do not follow them. Even as privatization allowed a few elites or organizations (Boris Berezovskii, Menatep) to build empires, most Russian firms remain within loose associations or on their own; and even the empires have problems of coordination and control. Here, in the world of large and small industrial and trading firms, the transition has been problematic because of the institutional nature of power – it is dispersed. This section examines change in principles of production and sales, and because of its complexity requires more detail.

One could expect the state to enforce the new rules, but here legislation and cadres' capabilities have not been up to par. Bankruptcy law has an incentive against restructuring: management gets replaced by a new team. For political reasons (unemployment) the state has been loath to use bankruptcy, and a political culture expecting some paternalism has made application of bankruptcy tenuous. Small firms can close and reopen quickly, and the legal basis allowing creditors to "pierce the corporate veil" and follow the paper trail is weak. When legislation is not so problematic, state cadres may be. Interviewed entrepeneurs and managers express disillusionment over the inability of the state to enforce laws, such as protection, as a consequence enhancing the reputation of the *mafiia* for fulfilling this need. Cadres' understandings of market-based laws and logics prevent competent enforcement; often respondents told me of incompetent or corrupt police, legal loopholes for evading bankruptcy, or wildly differing answers from different tax inspectors to the same question. Given institutional collapse and confusion over rules, other mechanisms enforcing change must be created.[66]

In developed capitalism, the state's efforts are complemented by those of actors themselves, from cultural isomorphism to market demand. Demand is a crucial component shaping behavior, for it acts to correct behavior (although to a lesser extent than in economic theory) and its interpretation sets strategies. Lowered demands leads to less income and acts as a warning that something might be wrong with goods or strategies. Further, while demand is assumed (a "natural" part of a market economy), it is far from taken for granted; beyond the small-time street-corner merchants, economic actors partake in active study of demand – potential target markets, what they want, how much are they willing to pay. Contemporary capitalism involves deducing existing supply-demand equilibrium before actually engaging in production and sales.[67] Nowhere else is Weber's equation of capitalism and rationalization stronger than in marketing: the rationalized process of study (obtaining and analyzing data) to optimize exchange and production, the eyes of the firm out onto the market.[68] Principles of production and sales are grounded to an extent in accounting for viable demand.

For Russian managers, the principles of production and sales were far different. The Soviet system rewarded managers for fulfilling Plan quotas. Demand was already guaranteed by Moscow artificially and thus assumed to be. Further, production for its own sake was the driving force in economic activity – again no surprise, given the Plan-centered Soviet system. The experience and legacies of the Soviet-era economy and its tool kit offered a production-centered prism – production based on assumed demand, new products thought up because sales meant flooding the market with new goods (regardless of demand). In a sense, demand was taken for granted but not taken seriously.

We notice this incongruence between socialist and capitalist principles in one example from my observations of small firms, in this case of an economics institute and publishing house. Demand was assumed but also ignored in production calculations; while the managers (economists by training) adopted the capitalist dictum of profit maximization, conflicting understandings and models confounded this goal – for example, focusing on production costs while assuming demand or failing to understand that demand must be taken into account. The director of the publishing house decided to publish a (high-quality) economics dictionary. Rather than first figure out how many units to make, at what price, and for what market segment, the book was drafted and 100,000 units printed at once, not because of expected market demand, but because the publisher offered a discount on unit cost. Only later, when weak demand foiled initial naïve expectations, did the director consider the actual process of selling the dictionary. A "marketing" position was created – a graduate student able to use computer spread-sheets and who phoned various businesses and schools in search of potential buyers. Alas, too late – copies of the dictionary gathered dust in storage (until confiscated in lieu of unpaid debts).

Part of the problem was the distance between socialist and capitalist principles of demand and production – a distance that, contrary to the expectations of neoclassical economics, could not be covered quickly. Certainly Western and new Russian experts helped the shift, as they had better understanding of what demand and marketing meant in theory and practice (formal and tacit knowledge). However, this did not guarantee such principles would be adopted and followed en masse:

> When directors of enterprises understand the impossibility of continuing the output of old products and try to begin production of new goods, they run into the problem of studying the needs of consumers, but they have neither the needed number of specialists at the firm, nor independent marketing services for the solution of such a problem. Russian industry still has not acclimated to the rule "produce that which will be bought, not sell that which you make."[69]

Part of the problem – crucial to adjustment – was the absence of a powerful mechanism to select for actors who understood and followed new principles. Neoclassical economics suggests that actors who (somehow) do not follow rules of profit and efficiency be forced to exit the market. However, in the West, bankruptcy, investment procedures (and experts who analyze and interpret behavior and advise on investment), and training enforce certain types of sales and production models; these models are consistently activated, as a multitude of actors play by the same rules and expect that others will as well. Such ground rules and expectations were not immediately produced in Russia; indeed, their creation was at the heart of the transition. As a result, previous conceptions, interpretations, and models of behavior carried over from socialism into the new capitalist era untouched at first.

Given the dearth of experts and selection mechanisms to enforce behavior and punish those who did not exhibit it, Soviet-era principles remained in force in the first years of the transition, after price and trade liberalization; this can be seen in enterprise behavior in 1992, and when the Gaidar regime took a hard-budget stand (lowering the money supply and cutting or not delivering subsidies). Rather than react to market signals and incentives, many managers continued business as usual of buying inputs and producing outputs.[70] Whether an input was needed or an output wanted, managers continued to order and produce. Stockpiles mushroomed; managers had misjudged (or never investigated) potential solvent demand. Firms replaced "bureaucratic money" (subsidies) with inter-enterprise credit.

The result of such a strategy was this: when one firm could not unload its goods for money (because the buyer was insolvent), it could not pay its debts, and this debt followed the links back up the production chain. Thus the "inter-enterprise arrears crisis" (*krizis neplatezhei*) threatened Russian industry and acted as the first major shock needed to push change in principles of demand and production.[71] Russian managers spun their wheels but did start to get out of the cognitive mud. New principles did come into being and did start to spread and change behavior. Experience and shocks provoked change through negative results from following particular principles or applying particular measuring rods (e.g., output rather than profit). Outside experts, Russian or foreign, lent their knowledge to Russian managers. Their help ranged from just suggestions, such as creating a marketing department, to complex audits and business plans and in some cases outright control of the firm.[72] This last method introduced direct power and change. In the case of a tour firm I observed, an American woman ("Denise") was made co-director and given strong backing by the informal charismatic head of the firm. She patiently introduced and forced changes: rationalized organization (file-keeping, office management, procedure for filing documents), impersonal methods of dealing with clients (position to position rather than friend to friend), viewing the firm not as a source of rents (e.g., money for food and vodka) but as something to be nurtured for its own sake. Denise had the power to introduce and follow through with her changes in behavior at the firm; her partner, the Russian Ivan, resisted her changes, but was outnumbered by other workers (who went along with Denise) and the informal head of the group who wielded charismatic influence and controlled the firm's money supply. Denise won.

Thus we see the Soviet and capitalist tool kits, the sources of change, and potential mechanisms. What were the source of power that enforced the switch from one method of coding, interpreting, and formulating responses to the other? The case of Denise and the tour firm shows one method: a combination of direct dictation and teaching. Usually the story is less straightforward; enforcing new principles was more complicated. Before the collapse of the Soviet Union, the state could discipline and enforce principles (imperfectly) through its direct ownership of enterprises, and the Communist Party through its control of *nomenklatura* appointments could act as a disciplining body as well.[73] However, the collapse of centralized economic control (through privatization, liberalization, or Yegor Gaidar's hands-off policy ideology) deprived the state of enforcement mechanisms for quicker change – for example, a Communist Party truly dedicated to capitalist reform might have been able to use its *nomenklatura* appointment function to appoint younger managers (less socialized in socialist principles and perhaps able to undergo Western business training).[74] While the state could not select for and enforce industrial behavior, another means was surfacing. With liberalization, money became one basis for the economy. To purchase inputs (labor, energy, materials), a firm needed either money or barter, and after 1992 these were no longer automatically forthcoming from the state. Hence, firms needed to obtain income from sales – meaning that firms had to orient production to existing demand. If a firm received no income (money or barter), it would have to live on debt, which became problematic when most industrial firms did this, resulting in enormous inter-enterprise debt. At heart, monetization of the Russian economy,[75] when actors needed money to maintain operation, acted as the power mechanism enforcing changes in principles of production.[76] As state funding dried up, banks became financial wellsprings until 1994, when banks became more concerned about bad loan portfolios and less inclined simply to lend money to just any client.[77]

Unfortunately, monetization was not as efficient an enforcer as the Central Bank for finance. The diffuse nature of an enforcement mechanism grounded in money and in aggregated exchange interactions between buyers and sellers (the classical economic mechanism of supply and demand) made such change slow. Adding to enforcement problems and confounding the switch to new capitalist principles was the tenacity of previous economic understandings. In 1992 firms had freedom but soon found that production and sales, and hence profit, would not come automatically. "So far the [sale] of … products occurs to a large degree blindly"; the market had to be studied, but how and by whom?[78] At the end of 1992, general director Gennadyi Shchukin of the electronics firm Svetlana complained that "not everyone understands that you need to work in a new way" and that changes in activity were occurring "very slowly", because "there still lives the old approach to the formation of plans: make a report and then put the good on the shelf."[79] This perception is reinforced by the attitudes of those like an older shopfloor worker who stated, "I am against the market. I am not ready. The majority [of employees here] are old, patriotic…. We have lived that way for seventy years. We were brought up that way, and we are not able to reconstruct our psychology immediately."[80] The director of the personnel department claimed that subdivision and shopfloor chiefs had a weak understanding of "economic freedom" – "only among a few has the desire arisen to sit down with a pencil in hand to count how much [an activity] will cost and will give…."[81] In another example, the Kirov factory had invested in a 35-horsepower K-20 mini-tractor for the rising class of individual farmers. Kirov managers felt they needed to produce up to 60,000 K-20 tractors per year. In hindsight, when the number of individual farmers barely cracked 100,000 early on, this seems a bit nonsensical;[82] yet the general manager assumed there would be a *fermerstvo* and demand for the K-20.[83] In general, that the old psychology changed with difficulty is best put by one scholar of Russian enterprises and managers:

> The psychological factor has great meaning for older generation directors, who are oriented in their activity to fulfillling tasks issued from above. The main task for them is to obtain from their labor collective the realization of proposed tasks; the problem of sales of produced goods is not of the highest importance for them. Therefore, the necessity of creating new goods with demand is put aside by these directors into second place. The primary strategy is walking around the offices in Moscow with the goal to convincing the government to buy products that are obsolete or even not needed in previous quantities. The main argument in such visits is, "I have a labor collective of several thousand. I need to feed them."[84]

The initial problem of sales and distribution was perceived and framed in terms of unfulfilled promise: a firm's goods were of high quality (even when not), had demand (buyers were placing orders, even if they could not pay for them), and problems of sales resulted from inflation and buyers' lack of funds. The key problem, as envisioned in 1992 (and persisting somewhat to 1995), was the macroeconomic environment and state policies that had created the transitional mess.[85] In 1992 and into 1993, the problem of sales was thus interpreted as lack of money in the system. Still managers hoped to increase revenues by assaulting the market with their products, complementing "traditional" goods with new "unique" goods that buyers would naturally want.[86] Managers assumed that, because there were orders (regardless of insolvency), demand existed. One furniture entrepeneur in Tula remarked that his firm had focused on the production process; little thought was given to how they would sell their furniture ("We did not know how to sell").[87] Only when sales problems continued did he recognize the need to search for clients – to use advertisements, to promote active word-of-mouth diffusion of his reputation, to link up with clients who would make repeated purchases.[88]

The split between emerging rules of monetization (need for payment resources) and "business as usual" led to shocks that prodded changes in perceptions and cognitive frameworks. As Dolgopiatova and Evseeva noted, managers began to distinguish between "demand" (*spros*) and "solvent demand" (*platezhesposobnyi spros*).[89] While this categorization was problematic – "many managers highlighted that their products were very much needed by consumers, but buyers 'simply did not have the money' to pay for them"[90] – at least managers were aware that payment for demand was important. By 1993 and 1994 most firms realized that waiting for government subsidies or solvent buyers to come to them, patience and muddling through, producing for whomever ordered goods, and assuming that goods were of high quality and naturally would have demand were not generating income and lifting enterprises out of financial distress.

A further shift occurred with the appearance of the word "marketing" in the Russian lexicon. Even in late 1992, with rising financial problems, managers began to realize that marketing, study of the market, was crucial: "To experiment with the output of products without relying on study of the consumer market is very dangerous."[91] "Marketing" was understood in a broad sense as turning active attention to demand and market conditions in order to increase sales – for example, advertising, such as that used by pyramid investment schemes. Marketing, however, is more than flashy advertisements and appeals to the naïve; the capitalist conception of marketing is a systematic study of market composition to gain information on potential demand and to rationalize the enterprise's economic surroundings so as to predict and plan accordingly. Over time some Russians with this understanding of "marketing" did emerge. Yet if marketing was understood in principle by some, it was not necessarily understood in practice by many – experts able to collect and use data for marketing strategies were few. If such experts were present, often the directors did not listen to them; this was sometimes the case even in banks, where young graduate students of economics practiced their trade, only to find that higher-ups preferred to give loans based on their own contacts, politics, or feelings.[92]

One reason for such slow adoption and incorporation of new understandings and practices was that decoupling hindered the rise of marketing and new understandings and strategies of demand and production. Sociological neo-institutionalists note that firms often copy policies or structures seen as solutions to common problems or signals of legitimacy. Yet copying does not mean implementing as originally designed. Adopted forms and strategies may appear in superficial form only, making little impact on actual practice; form and practice are *decoupled*.[93] That is, managers adopt new strategies but do not have the tacit knowledge to bring them to fruition or incorporate them into larger strategies and practices.[94] We should expect that in the transition firms will copy new forms and strategies touted as market-logic solutions and practices in form; but because of continuity of previous logics and the difficulty of cultural change, actors will exercise previous practices within those new forms.

Russian enterprises inherited planning departments from the Soviet period, which were converted into marketing departments. Sometimes the department was staffed with young experts who knew marketing techniques, and so they could use information from previous sales and work out production and distribution plans. Other times marketing was cruder; let me illustrate from the example of an electronics firm. In 1993 Baker and MacKenzie recommended they create a marketing division. The assistant director for quality was told to create a marketing division. In early 1995 the division consisted of the assistant director and a few graduate students who knew how to work with computer programs. The students would read the electronics trade journals and visit other stores selling electronic goods, in order to figure out what the competitors' prices were so that the firm could set their own prices accordingly. Yet this was the extent of marketing. (When I asked the assistant director if anything else was done, such as integrating marketing backward into production so the firm would know what to produce, he responded negatively.) The shipbuilder Almaz (Petersburg), according to one study of the firm, had no clear goals and strategies for orienting production and sales; the firm was still "product-oriented" – "production is the core function at Almaz, and it is strictly rules by the Production Department which co-ordinates [sic] the material flow, the production and the quality control in the different workshops in the company."[95] While institutions were changing, personnel were changing more slowly, resulting in a "lack of market thinking" due to the "lack of qualified business economists and marketing personnel." The pressure to increase sales forced machine-maker Sverdlov to adopt marketing strategies, but these were slow in being realized, since the power mechanism (monetization and demand) did not work rapidly. While "marketing" had been discussed at the Sverdlov machine-making enterprise in 1992 and 1993,[96] serious discussion and action were taken only by 1994, after an assistant director had been to the United States and managers had met with representatives of the International Executive Services Corps,[97] when establishing a "distribution network" and servicing department was proposed.

The diffuse nature of enforcing new principles and the distance between old and new economic principles made change difficult. Monetization and the importance of income acted as a shock, but without bankruptcy they acted more as a hindrance than as a true disciplining device. The opinion of traders on the stock market might have been another disciplining mechanism, except that stocks were equated not with money but with control, and so Russian firms tended to rely more on their own finances, on debts, and on bank loans (from pocket banks, those founded by an enterprise and under its control). In spite of these problems, however, change was forthcoming. Managers placed more emphasis on close study of markets and making strategic alliances with important buyers – for example, producing for firms such as Gazprom or General Electric.

If lack of enforcement made initial change difficult, new factors arose that could impede change further, because by 1995 certain principles of production and exchange were becoming embedded in organizational practices and fields, providing a power field that could reproduce and enforce both new and old principles. This is the financial-industrial group (*finansovo-promyshlennaia gruppa*, FPG), a group of enterprises organized together into a larger coherent whole, with an umbrella organization in the center owning shares in the participating firms. FPGs come in two types, reflecting different economic principles and understandings of risk: the Financial FPG (Rosprom, Interros), centered around banks and financial organizations, and the Defensive FPG (FinProm, Progressinvest), centered around industrial organizations. For Financial FPGs, the drive was to lower investment risk through diversification[98] and to increase control over investment and returns.

The Defensive FPG is crucial to our story. This type is created voluntarily by the participating enterprises, often with the help of local governments and based on Soviet-era ties between managers and ministries (such as Konsensus, formed on the base of the Soviet Ministry of Light Industry, or PAKT, created "as a replacement for the regional Communist Party network that had performed important coordinating functions prior to 1990").[99] Unlike their Financial cousins, Defensive FPG managers organized ties of exchange more tightly and recreated a security blanket resembling that of Soviet-era Ministries. Directors saw Defensive FPGs as a way to maintain links of production and sales and to pool sources, allowing them to *resist* the demand mechanism of market disciplining. Such groups are able to increase political capital and obtain money from the government or hold off bankruptcy and tax collection; they can pool resources and create "pocket banks" as cash pools for FPG members. In short, the Defensive FPG acts to short-circuit the one existing power mechanism for enforcing new principles of production and sales, and as a way of reproducing older principles.

The dynamics of adaptation by *individual* managers or firms is best left for elsewhere. What is clear is that some firms managed to adapt more quickly than others; firm size and industrial sector do not appear to be as good at predicting adaptation as managers' own personal traits – for example, "planning horizons" (how long managers feel they will stay in power), perception of the firm (as parts or a unified whole), learning style (through incentives or experience), networks, expectations about when the economic crisis will end (with optimists more likely to introduce innovations), and degree of paternalism (sense of duty to maintaining a social safety net).[100] However, if we look at the general process, we notice several stages in behavior. Socialist principles carried over after liberalization until confronted by shocks arising from monetization, which neoclassical economics might expect. However, unlike neoclassical expectations, adjustment and change were not automatic. Given weaknesses of bankruptcy, the relative unimportance of the bourse for management's decisions (as enterprise income is more likely to come from sales than from the stock and bond market), lack of direct mechanisms of control or punishment of managers, changes in principles of production and sales were slower and less straightforward. For banks, Tatiana Paramonova could issue directives and force banks to reshape their behavior along new lines. Beyond the monetized economy, there was no mechanism to force quick changes or to weed out managers who did not immediately understand solvent demand and the need for seriously linking marketing to production. This was compounded by the fact that the shift from socialist to capitalist principles of sales and production was greater than for banks (which still had difficulties shifting from speculation to reliance on sound practices). The distance of shift, coupled with the lack of a coherent enforcement mechanism, meant a tortured path for industry. However, at least one mechanism, the need for money, was at work. More problematic was the situation *within* firms, where authority crumbled and new principles were not readily apparent.

Principles of organization: Enterprise restructuring

The story of enterprise reorganization is paradoxical. On the one hand, this should be a straightforward story. Models of restructuring were fairly simple – giving enterprise subdivisions autonomy in order to increase efficiency. Authority also *appeared* simple – management retained its commanding position. However, in reality restructuring opened the floodgates for confusion and contention, as restructuring broke bonds of power and competing understandings of natural and moral order within the firm emerged. While one imagines enterprises as rationalized hierarchy and operative systems of discipline, we cannot assume perfect authority within the firm: not only is authority contested, but often the rational schema does not work as it should. Here I do not argue with Clarke, Burawoy, and Krotov, and others that relations within the Soviet and Russian firms were chaotic or conflict-ridden.[101] I want to show the implication of these relations: conflicting models and broken authority made restructuring a nightmare. Initial reforms changed firm structure, but under the surface former practices (e.g., Soviet-era paternalism) hindered reform; imposing new organizational frameworks (such as a new hierarchy of command and discipline) was difficult. The Russian firm outwardly looked modern, but remained at heart a more chaotic version of its former Soviet self.

Enterprise restructuring was intended to increase responsiveness and efficiency. Shopfloors were made financially autonomous and responsible small firms (MP, *maloe predpriiatie*) and leased firms (AP, *arendnoe predpriiatie*). The promise of higher profits and wages and the bankruptcy threat were supposed to encourage efficiency. Employees were working "under the table" (*nalevo*) for their own gain; thus the manager of one firm argued, "The idea of any reorganization arises from the necessity to restructure … so that [the new system] brings together the goals of the enterprise and the goal of each worker, to arouse the interests of each person in the attainment of the end goals of the entire enterprise."[102] Thus managers hoped to tap into the income stream of the shadow economy.

Restructuring, however, had unexpected outcomes, rupturing relations between subdivisions and opening the door to different models of organizational reconstruction. The new autonomy involved negotiating contracts with other subdivisions within the same firm, rather than going through a bureaucratic hierarchy. This broke old constraints and, in a sense, old rituals of interaction; but the new basis and rituals of interaction had not yet been perfected. As a result, contradictions and tensions between individual subdivisions or MPs arose: problems of coordinating, facilitating, and enforcing exchange and payment. Each MP had its own interests and problems; setting up transfers of goods and payments was more problematic than setting up prices, negotiated by the MPs themselves. The ground rules of exchange and organization (hierarchy of authority) within the firm remained confused, because the models were confused, because different models were promoted by different groups, and because no one group had the power to enforce its claims. For example, restructuring at the machine-maker Sverdlov revealed problems: "…in the activity of [newly-created MPs] … there are many problems, the most important of which is to organize relations with other shopfloors and subdivisions, to adjust accounts and price-setting."[103] With no previous experience or models, how were individual subdivisions, now with their own responsibilities, to organize and enforce contractual relations between themselves? Even through 1994 the problem of contractual relations between MPs continued and had "frozen work" and led to "friction" between the various units.[104] The situation at the Kirov tractor works also reveals problems of exchange between subdivisions during the course of restructuring. The reorganization of Kirov from one large factory with subdivisions into a group of "mini-factories" had, in the words of one shopfloor boss, "complicated … the general production situation at Kirov [and] the relations between shopfloors of different productions," at times because of production problems and flaws in supplies from other shopfloors or mini-factories.[105] Another shopfloor boss complained that the transition to autonomy was one thing in word, but another in deed; getting his subordinates to economize and to understand their new responsibilities was difficult enough, and when others in the enterprise changed their titles and duties, coordinating activity was even more difficult.[106]

Within the firm, managers did not have sweeping authority. First, commercialization and privatization, as well as AP creation, required majority vote by employees and allowed them to hold shopfloor meetings, where workers discussed both the policies at hand and, inevitably, their grievances and goals. This in itself led to conflicts – for example, at the Sverdlov enterprise workers in one shopfloor voted against becoming an AP because they suspected the administration would use this plan to increase their own privileges at the workers' expense.[107] With privatization workers became part owners of the firm; management could only rule with some concord with employees. At times workers received the final vote over whether a firm would remain a single unity. This was the case at Petersburg's electronics firm Positron, where the various factories and shopfloors had the right to privatize together or as independent units. Positron's general director, Iurii Blokhin, preferred Positron to privatize as an entity; however, factory and shopfloor chiefs (and line employees) distrusted Blokhin, and often each other. The result: 1992 was a year of heated debates and conflict, at heart over who had the right to control or do what. Conflict ended when half of Positron privatized independently, leaving the enterprise and going it alone in the cruel market.[108] Managers' hands were tied as restructuring was beginning. When the bureaucratic, hierarchical firm was broken into individual units, power faded, but so did the conception of what the firm should look like.

Restructuring was hindered from another direction as well. Managers introduced reforms to increase performance; subdivisions were threatened with bankruptcy and rewarded with profit. Yet managers could not bring themselves to shut down loss-making subdivisions because of a paternalist legacy. In the Soviet era, managers were not simply glorified accountants but were also "fathers" of the factory, charged both with fulfilling Plan quotas and with caring for their workers' livelihood. Paternalism survived into the present, partly because it was not criticized (as state ownership had been) and retained legitimacy: employees and managers expected paternalism. Bankruptcy, downsizing, or discontinuing social services ran into problems both from law[109] and from the paternalistic creed.[110] Thus, structural changes could be introduced, but without the power to punish, managers' market threats remained empty. While laws and employee shareholding bound managers' hands, managers themselves could not bring themselves to enforce a new discipline.

Given problems of interaction and the need to create some sense of order of what the new Russian firm should look like, solutions were put forward from different corners. But given that different solutions reflected the interests and ideas of their holders, conflict and confusion resulted. One solution adopted by most firms was the creation of the holding company (*kholding*), putting all MPs, and APs under one administrative roof, to create some semblance of authority. Two factors drove reintegration in 1992 and 1993. The first factor was the perceived need, shared by directors and MP bosses, to create some kind of safety net. This was a central point in managers' and shopfloor chiefs' thinking and a holdover from Soviet cultural tool kits: the enterprise not just as a business entity but as a welfare state. By maintaining an overall structure, the MPs that were having difficulties could retain traditional purchasers within the conglomerate. For example, research institutes that could not survive on their own could still work for more successful subdivisions within the *kholding*. At Sverdlov, for example, some subdivisions came on hard times after 1992 and 1993; while they still cherished some degree of independence, they also realized that, with more than half of their orders coming from the mother firm and its MPs, staying within the overall *kholding* structure was a way of keeping afloat.[111] Further, the *kholding* was a familiar cousin to Soviet-era conglomerates, and the moral of multinational corporations was that their strength derived precisely from their size and capacity. And all this was legitimated by the presence, and success, of these organizational structures in the West: "You remember the oft-repeated phrase of an American teacher: 'In order to compete on the market globally, the enterprise should be large.' Such a principle we are trying to provide."[112] Oddly, the large Soviet-era "monsters," vilified as inefficient and unnatural, were reconstituted as *kholding* and praised as the necessary way to retain production ties (and thus reduce risk) and productive capacity (to compete with foreign firms). Also, the *kholding*, from administration's point of view, would strengthen control and cut down on confusion by creating a system of authority.

Yet in spite of recentralizing authority through the holding company, enterprise structure and authority remained problematic; creating a *kholding* did not automatically create order. Problems of authority persisted between subunits and between employees and central management. Relations between subdivisions were exacerbated by changing structure and authority within the firm. Earlier they were production-oriented subdivisions of the same unit; now they were separate, held together by the overarching central holding company. At heart was the problem not only of coordination, but of lack of any enforcement between subdivisions. With restructuring came new and not entirely worked out rules of the game; in particular, enforcement of exchange between subdivisions became a sore spot. For example, one MP chief noted that the rights and duties of different subunits within the Svetlana joint-stock company (soon to be a *kholding*) had yet to be resolved.[113] The Svetlana and Sverdlov enterprises, after years of restructuring into independent entities and then back into unified *kholding*, continued grappling with the question of what the firm should look like *internally*. The search for a viable organizational form and its rules of command remained problematic even in July 1997.[114]

In short, enterprise restructuring, undertaken to promote efficiency, in the end undermined authority. Restructuring, in theory, called on the market to reward and penalize in order to entice shopfloor bosses and workers to be more efficient in production and market search.

However, general directors were loathe to let their subdivisions be penalized; paternalism and perceptions that the Russian economy was not a market but instead chaos intertwined in directors' minds, and as a result, while they were content to let market penalties threaten (and thus stimulate) shopfloor activity, they feared that these market penalties would go too far and swallow up the subdivisions, and then the firm. Further, self-enforcement was not the norm among shopfloor bosses. While they approved the idea of more autonomy, the data seem to show that they took no steps of their own to increase productivity and efficiency. On the contrary, shopfloor bosses complained that they could not enforce responsibility among their workers: the constant complaints about wasting water or light, about theft and underground production, attest in part to the inability of shopfloor bosses to take matters fully into their own hands. Second, placing subdivisions on contractual relations with each other created chaos. as no mechanism of enforcement was available. General directors, loathe to lose important shopfloor bosses, could do little more than pound their shoes on the podium and exhort their comrades to work harder and to cooperate in the name of the enterprise's greater good.

Conclusion: Notes on a framework of transition and economic change

Neoclassical theories, applied in the guise of shock therapy, assume an invisible hand (competitive and investment pressures, bankruptcy, the profit imperative) and efficiency-centered Darwinian selection imposing market structure and practice. In reality, the market's complex rules, categories, and structures are created and imposed through power structures; invisible hands and selection mechanisms do not just rise out of theories and textbooks but must be created. This is easier said than done, however, given that authority mechanisms may also be in flux.

What lessons for economic change have been learned from Russia's Great Transformation?

- The transition is a *process* – more exactly, a *set* of processes with their own dynamics. These processes are path dependent, but not totally.[115] Changes arise from imposition of models worked out bit by bit, as different understandings collide. Enforcement mechanisms must be created, through trial-and-error of law and private action. This process of social learning and imposition involves in-

teraction between old and new principles of understanding and behavior, leading to potential confusion, and between different actors' models and understandings, leading to conflict. Further, processes of change differ across arenas, leading to a multidimensional (and problematic) transition process.
- The transition is about power and culture. Culture forms the basis and understandings for new practices and organization. But if new models of rules are legislated, there is no guarantee they will become embedded in procedures and practices making up the foundation of a new economic order. Power is crucial for reifying models and understandings into relations of control, procedures, and practices. Cultural models and structures of power will have different degrees of coherence and different rates of change across different fields of economic activity, depending on preexisting structures and models and historical accident (e.g., that the state and Central Bank focused more on finance rather than bankruptcy or managerial training). In finance, new principles were carried by younger experts, but they were also enforced by the Central Bank, with the authority and the will to impose new rules.

Principles of production and organization, on the other hand, were introduced and embedded with more difficulty. Certainly isomorphic pressures were at work, e.g., new experts with new ideas (in the case of marketing), or shocks from failed strategies of sales and organization (resulting in loss or in confusion within the firm). However, implementing these new principles has been far from easy, as these enforcement mechanisms – waiting for one buyer down the production chain to lack the money or will to buy a good, or awaiting experts to work their way up the ladder – do not lead to automatic shifts in principles. In the absence of mechanisms that judge and then reward or punish – bankruptcy and stock markets as two potential examples, or investment and command by state technocrats (e.g., as in South Korea) – change will be slower and confused, leading to a complicated landscape of a transition requiring decades rather than years. Creating a market is a long gestation and painful labor.

Not that no change has occurred. As we saw with demand and production, managers learned through experience that demand was more complex than assumed. Concepts of marketing had been worked out in other capitalist nations and transported to Russian soil by foreign or Russian experts or by the business media (pace Gerschenkron, an advantage of backwardness). But more time is needed for capitalist principles and practices to take hold; returning to old principles cannot be ruled out (e.g., calling on the state for coddling of investment and protection). Given the lack of strong authority and enforcement, we should expect that a shift in principles requires a change in generational cohort – not unfamiliar in the West, where generational shifts are one mechanism behind changing conceptions of control.[116] Change in models depends on how they are embedded in social practices and organizations. Defensive FPGs, run by older "Red Directors" (Communist-era managers), appear to follow Soviet models: uniting enterprises in related sectors and production links to support familiar practices. This makes sense: Red Directors are Soviet creatures, for whom success came from fulfilling output quotas and economic categories were of output rather than financial value. Defensive FPGs reproduce Soviet-era practices and models. Financial FPGs are children of new private banks run by younger managers trained in finance or having little experience in Soviet-era manufacturing. This FPG socially embeds newer capitalist practices; if there is a market future in Russia, it is linked to these new empires and their ability to influence (directly or indirectly) the Russian economy.[117]

The crucial lesson of the transition is that the crux of social change is the nexus of culture and power. Culture provides interpretations and models of action; power provides enforcement for imposing shared culture – corresponding roughly to legislation and implementation.[118] A transition is a social reconstruction of reality and the creation of a new hegemony. When power is gained by those with the will to use it, resulting reifications will favor those wielding power, an outcome predicted by political economy. However, power may not be concentrated; in this case the new system will be a mesh of old and new, and the process of winnowing, central to selection, will be based both on obeying rules and on simple luck. Decoupling can hinder the transformation of ground rules. Change in orientations to demand or enterprise organization will take years (a generation?) before ground rules stabilize. Unfortunately, neo-orthodox reforms deprived the state of economic levers and left a power vacuum. Market-building requires culture-building, which in turn requires power-building; alas, the invisible hand of power was assumed.[119] Had they read more Weber and less Friedman, reformers and their Western advisors could have understood these difficulties.

This leads to a bitter irony in Russia's case: to construct their market, Russians may not need an iron fist, but they do need coherence and authority – an elite with coherent vision and the ability and will to create economic order. Russians may need those from whose legacy they flee, the Bolsheviks. This does not mean that we should hope for market Bolsheviks; there is no guarantee they would create an efficient and just economy. If anything, Weberians and dependency theorists should be happy that their models are being vindicated, as reformist Russia gives birth to a new power elite concerned more with what Weber called "piracy."[120] One can only feel a sense of pathos – a quick leap into the market may have required a complete revolution with Stalinist methods of reconstruction, while gradualist policies would founder on the rocks of confusion and conflict, forcing average Russians to suffer years of pain. Had Weberian tools been used, perhaps we could have anticipated these problems; but the disturbing fact remains that the pathway to the promised land is crowded with thorns, beasts of prey, and human error. It is not a pretty picture – but the landscape after a revolution seldom is.

Acknowledgments

The author would like to thank the following for their help: The American Council for Teachers of Russia (ACTR), and the Council on Regional Studies and the Center for International Studies at Princeton University for funding; to the members and staff at the Center for Russian and East European Studies at the University of Pittsburgh for providing institutional support during the write-up period; Miguel Centeno, Paul DiMaggio, Bill and Natasha Dinello, Bob Donnorummo, Valerii Golofast, Artur Gozhko, Doug Harper, Jon Harris, Nikita Lomagin, David Novack, Sergei Podbolotov, Tatiana Protosenko, Maksim Storchevoi, and of course Irina for help, comments, and timely distractions.

Notes

1. Herbert Bowles and Samuel Gintis, *Democracy and Capitalism* (New York: Basic Books, 1986), 89.
2. While economic change and transitions need not lead to capitalism, the specific transition examined here involves creating a "capitalist market." Thus, just what is capitalism? Do we understand capitalism in institutional-structural terms (e.g., as private property controlled by non-state actors) or in institutional-cultural terms (e.g., as a rationalized economic system with no cultural barriers to exchange)? While I do not attempt to provide a definitive answer here, I accept that capitalism

has both a structural and a cultural component. Different variants of capitalism, e.g., state-centered (Japan or South Korea) or enterprise-centered (United States), appear to share certain *cultural or strategic* characteristics that Weber noted (e.g., rationalized practices, rationalized study of surroundings in order to control them, and formalized roles and positions).

3. Peter Murrell, "Can Neoclassical Economics Underpin the Reform of Centrally Planned Economies?" *Journal of Economic Perspectives* 4 (1991): 59–76, and "What is Shock Therapy? What Did it Do in Poland and Russia?" *Post-Soviet Affairs* 9/2 (1993): 111–140; Joseph Brada, "The Transformation from Communism to Capitalism: How Far? How Fast?" *Post-Soviet Affairs* 2 (1993): 87–110; Ivan Szelenyi and Szonja Szelenyi, "Circulation or Reproduction of Elites During the Postcommunist Transformation of Eastern Europe," *Theory and Society* 24/5 (1995): 615–638; Gil Eyal, Ivan Szelenyi, and Eleanor Townsley, "The Theory of Post-Communist Managerialism," *New Left Review* 222 (March/April 1997), 60–92; John Campbell, "An Institutional Analysis of Fiscal Reform in Postcommunist Europe," *Theory and Society* 25/1 (1996): 45–84; Juliet Johnson, "Fistful of Rubles," Ph.D. dissertation, Princeton University, 1997; the contributions to Gernot Garber and David Stark, editors, *Restructuring Networks in Post-Socialism* (New York: Oxford University Press, 1997); David Stark, "Path Dependence and Privatization Strategies in East Central Europe," *East European Politics and Societies* 6 (1992): 17–51; Joseph Blasi, Maya Kroumova, and Douglas Kruse, *Kremlin Capitalism* (Ithaca: Cornell University Press, 1997).
4. This is not the place for a full (or even partial) review of the work on market transitions. For an overview of the logic and conclusions of much of this and related work, see the following: Miguel Centeno, "Between Rocky Markets and Hard Democracies," *Annual Review of Sociology* 20 (1994): 125–147; Andrew Walder, "Markets and Inequality in Transitional Economics: Toward Testable Theories," *American Journal of Sociology* 101/1 (1996): 1060–1073; Alice H. Amsden, Jacek Kochanowicz, and Lance Taylor, *The Market Meets its Match: Restructuring the Economies of Eastern Europe* (Cambridge: Harvard University Press, 1994).
5. I do not deny the role of elites and power politics, and the events of autumn 1998 demonstrate their importance: elite rebellion against Sergei Kirienko's stricter tax policies and reforms, and Yeltsin's subsequent surrender to them and his replacement of Kirienko with consummate insiders Viktor Chernomyrdin and Yevgenii Primakov. However, elite politics do not automatically shape *all* actions and strategies by the remaining 99 percent of economic actors. We must be aware of elite politics and structural outcomes, but we cannot leave the picture at that alone – we must look at how the vast majority of Russian businessmen take part in reconstructing and reproducing a new economic system.
6. Joseph Schumpeter, *Capitalism, Socialism, and Democracy* (New York: Harper and Row, 1976); E. P. Thompson, *The Making of the English Working Class* (New York: Pantheon, 1964); Karl Polanyi, *The Great Transformation* (Boston: Beacon Hill, 1944); Emile Durkheim, *The Division of Labor in Society* (Glencoe, IL: Free Press, 1933), trans. George Simpson; Samuel Huntington, *Political Order in Changing Societies* (New Haven: Yale University Press, 1968); Barrington Moore, *The Social Origins of Dictatorship and Democracy* (Boston: Beacon Press, 1966).
7. This is the theoretical strategy often employed by macroscopical approaches, such as that of Barrington Moore, *Social Origins*, and Theda Skocpol, *States and Social Revolutions* (New York: Cambridge University Press, 1979).

8. See for example the frameworks used by Charles Tilly, *Popular Contention in Great Britain* (Cambridge: Harvard University Press, 1995) and John Markoff, *The Abolition of Feudalism* (University Park: Penn State Press, 1997). See also Mustafa Emirbayer, "Manifesto for a Relational Sociology," *American Journal of Sociology* 103/2 (September 1997): 281–317. For an interesting empirical (as opposed to theoretical) argument for focusing on process – especially on the importance of contingency and tactics – see James McPherson, *Battle Cry of Freedom* (New York: Oxford University Press, 1988), Conclusion.
9. I draw here on Max Weber, especially *General Economic History*, and contemporary neo-Weberian works, e.g., Gary Hamilton and Nicole Woolsey Biggart, "Market, Culture, and Authority: A Comparative Analysis of Management and Organization in the Far East," *American Journal of Sociology* 94 (Supplement, 1988): S52–S94.
10. See, for example, the chapters collected in Christopher Clague and C. Gordon Rausser, *Emerging Market Economies in Eastern Europe* (Cambridge: Basil Blackwell, 1992).
11. Neil Fligstein, *The Transformation of Corporate Control* (Cambridge: Harvard University Press, 1990); Robert Wuthnow, *Communities of Discourse* (Cambridge: Harvard University Press, 1989).
12. In this way, incentives are embedded in cultural understandings. However, we must avoid oversimplistic models where culture is a magic wand explaining residual variance; but simply to brush aside any cultural explanation, as Burawoy appears to do, also oversimplifies the transitional process. Michael Burawoy, "Review Essay: The Soviet Descent into Capitalism," *American Journal of Sociology* 102/5 (March 1997): 1430–1444 (esp. 1438).
13. Peter Berger and Thomas Luckmann, *The Social Construction of Reality* (New York: Doubleday, 1966); Neil Fligstein, *The Transformation of Corporate Control*; Robert Wuthnow, *Communities of Discourse.* Neoinstitutionalists (e.g., Paul DiMaggio and Walter Powell) include power – isomorphism derives from power sources (e.g., state coercion, professional pressure) – but must develop power further. For example, Frank Dobbin shows the importance of cultural constructions without asking how power fits into the picture – an extremely detracting weakness when one asks how *change* occurs. See Dobbin, *Forging Industrial Policy* (New York: Cambridge University Press, 1994).
14. I do not deny the importance of social capital and social embeddedness; however, they act as conduits for transmitting and reinforcing ultimate cultural concepts. Further, the creation and reification of economic institutions requires a move away from social ties to formal rules. Finally, social capital also has cultural roots – what networks and ties mean in terms of relations, what a strong or weak tie is, what can be expected or demanded, etc. For concern over space I do not address social capital and economic change here and it has been explored elsewhere: see the contributions to Gernot Garber and David Stark, editors, *Restructuring Networks in Post-Socialism* (New York: Oxford University Press, 1997).
15. See Miguel Centeno, *Democracy Within Reason* (University Park: Penn State Press, 1994).
16. This does *not* mean that selection necessarily is complete; and this especially does *not* mean that the outcome will be an economically efficient set of practices. New principles may be economically inefficient but politically efficient (or expedient); or they may simply conform to the whims of those with power in that economic field.

17. I have chosen the Russian case for several reasons: 1) I am familiar with the language, culture, and history, and so when embarking on a study of transitions it made sense to focus there; 2) The Russian case is more problematic than most because communism was strongest in Russia, not only because it was home-grown (and hence more legitimate than elsewhere) but also because Russia and former Soviet republics exhibited the longest history, giving the communist economic practices the strongest roots there.
18. Economic sociology has tried to reorient analysis with some success. Social embeddedness (social capital, networks) appears to dominate discourse. Some economic sociology has focused on power or culture: for example, William Roy, *Socializing Capital* (Princeton: Princeton University Press, 1997); Fligstein, *The Transformation of Corporate Control*; Frank Dobbin, *Forging Industrial Policy*; Viviana Zelizer, *Pricing the Priceless Child* (New York: Basic Books, 1985). The best source of ideas and inspiration may come less from economic sociology than from political sociology, which has focused more on process, power, and culture (in no small part because it has not been distracted by the same interdisciplinary tug-of-war in which economic sociology finds itself with economics). The most relevant political sociology literature concerns revolutions – the political relative to transitions (especially in Eastern Europe) and economic change. Those works most influential on this article are John Markoff's *The End of Feudalism*, Charles Tilly's *Popular Contention in Great Britain*, Lynn Hunt's *Politics, Culture, and Class in the French Revolution* (Berkeley: University of California Press, 1984), and Liah Greenfeld's *Nationalism: Five Roads to Modernity* (Cambridge: Harvard University Press, 1992).
19. David Stark and Laszlo Bruszt, *Postsocialist Pathways* (New York: Cambridge University Press, 1998). Gernot Garber and David Stark, editors, *Restructuring Networks in Post-Socialism* (New York: Oxford University Press, 1997).
20. This problem may be less significant for Eastern Europe than the former U.S.S.R. because institutional legacies of legal, formal pseudo-market structures were more prominent in Hungary or Poland than in the U.S.S.R.
21. Neil Fligstein, *The Transformation of Corporate Control*, and "Markets as Politics: A Political-Cultural Approach to Market Institutions," *American Sociological Review* 61 (1996): 656–673.
22. For example, Max Weber, *General Economic History* (Glencoe, IL: Free Press, 1950), trans. Frank Knight; see also Randall Collins, "Weber's Last Theory of Capitalism," in Mark Granovetter and Richard Swedberg, editors, *The Sociology of Economic Life* (Boulder: Westview, 1991). For another account of the rise of economic ground rules, see William Reddy, *The Rise of Market Culture* (New York: Cambridge University Press, 1984).
23. Alec Nove, *The Soviet Economic System* (Boston: Allen and Unwin, 1980); Joseph Berliner, *The Innovation Decision in Soviet Industry* (Cambridge: MIT Press, 1976).
24. Paul DiMaggio and Walter Powell, "The Iron Cage Revisited," in Walter Powell and Paul DiMaggio, editors, *The New Institutionalism in Organizational Analysis* (Chicago: University of Chicago Press, 1991).
25. Fligstein suggests this as one means by which new conceptions of control spread – for example, the rise of professionally-trained MBAs led to the rise of the financial conception of control.
26. See Huntington, *Political Order in Changing Societies*.
27. One reason for debt arrears is that payment of past debts is often ignored (while

payment up front for the present purchase may be demanded). Because bankruptcy is problematic and actors often are loathe to use it (for fear that others would use it on them) the only other factor affecting payment is *resource dependency.* Firms need money or goods for purchase, and so they become more concerned with present income. This need for income – imposed by monetization of the economy and the imperative to have something on hand in order to make a purchase – did impose a change in principles of production and sales. However, because bankruptcy has not been used widely, debt remains coded as secondary to other issues, such as maintaining the factory social safety net and employment.

28. See Lewis Siegelbaum, *Stakhanovism and the Politics of Productivity* (New York: Cambridge University Press, 1988).
29. This is the basic logic of neo-classical economics: bankruptcy, free movement of inputs (e.g., financial investment), cost-accounting, and free movement of labor (involving unemployment) all contribute to maintaining discipline. Firms must act efficiently if they are to make profit and survive in competition, and firms must produce profit if they are to continue existence and obtain investment down the line. Weber noted the importance of discipline for capitalism, especially a rationalizing form of discipline. Max Weber, *The Protestant Ethic and the Spirit of Capitalism* (New York: Scribner's, 1976), and *General Economic History.*
30. I leave out one dimension of power fields: central versus regional governments. There is an obvious difference in political activity across regional governments, although its degree of importance is not entirely clear. However, I omit discussion of regional political variation for the following reasons: 1) I am trying to discuss actual economic activity rather than policies; 2) I am trying to show the creation of new economic principles, and regional governments tend to influence *incentives* more than perceptions; 3) To include this discussion would make this article longer and more cumbersome than it need be. Inclusion of regional governmental variation is best left for elsewhere.
31. See David Lipton and Jeffrey Sachs, "Creating a Market Economy in Eastern Europe: The Case of Poland," *Brookings Papers on Economic Activity* 1 (1990): 75–147; Christopher Clague and C. Gordon Rausser, *Emerging Market Economies in Eastern Europe*.
32. For a similar criticism see Peter Evans, *Embedded Autonomy* (Princeton: Princeton University Press, 1995), chapter 1.
33. Alice Amsden, *Asia's Next Giant* (New York: Oxford University Press, 1989) and "Taiwan's Economic History: A Case of *Etatisme* and a Challenge to Dependency Theory," in Robert Bates, editor, *Toward a Political Economy of Development* (Berkeley: University of California Press, 1998); Miguel Centeno, *Democracy Within Reason* (University Park: Penn State Press, 1994); Peter Evans, *Embedded Autonomy* (Princeton: Princeton University Press, 1995). A classic formulation is Barrington Moore, *Social Origins of Dictatorship and Democracy* (Boston: Beacon Press, 1966).
34. Douglass North and Robert Paul Thomas, *The Rise of the Western World* (New York: Cambridge University Press, 1973); John Zysman, *Governments, Markets, and Growth* (Ithaca: Cornell University Press, 1983); Ronald Coase "The Nature of the Firm," *Economica N.S.* 4 (1937): 386–405, and "The Problem of Social Cost," *Journal of Law and Economics* 3 (1960): 1–44; Janos Kornai, *The Socialist System* (Princeton: Princeton University Press, 1992); John Campbell, "An Institutional Analysis of Fiscal Reform in Postcommunist Europe," *Theory and Society* 25 (1996): 45–84.

35. Peter Murrell, "Can Neoclassical Economics Underpin the Reform of Centrally Planned Economies?" *Journal of Economic Perspectives* 5 (1991): 59–76; "Evolution in Economics and in the Economic Reform of the Centrally Planned Economies," in Christopher Clague and Gordon Rausser, editors, *Emerging Market Economies in Eastern Europe*; Peter Murrell and Yijang Wang, "When Privatization Should Be Delayed: The Effect of Communist Legacies on Organizational and Institutional Reforms," *Journal of Comparative Economics* 17 (1993): 385–406.
36. Michael Burawoy and Pavel Krotov, "The Soviet Transition from Socialism to Capitalism: Worker Control and Economic Bargaining in the Wood Industry," *American Sociological Review* 57 (1992): 16–38.
37. David Stark, "Recombinant Property in East European Capitalism," *American Sociological Review* 101/4 (1996).
38. Blasi et al., *Kremlin Capitalism*. In all fairness, these authors do point out the problem of changing economic rules and managers' perceptions; unfortunately, they do not make them a central issue for analysis.
39. Kathryn Hendley, "Legal Development and Privatization in Russia: A Case Study," *Soviet Economy* 8/2 (1992): 130–157; Michael Burawoy and Kathryn Hendley, "Between Perestroika and Privatization: Divided Strategies and Political Crisis in a Soviet Enterprise," *Soviet Studies* 44/3 (1992): 371–402.
40. My thanks to one reviewer from *Theory and Society* for posing the question this way. David Stark does make some observations about this point, but leaves the overall lesson vague: David Stark, "Recombinant Property in East European Capitalism." For a similar point on process and social change, see John Markoff, *The Abolition of Feudalism* (University Park: Penn State Press, 1997).
41. Paul DiMaggio and Walter Powell, "Introduction" and "The Iron Cage Revisited," in Walter Powell and Paul DiMaggio, editors, *The New Institutionalism in Organizational Analysis*; Frank Dobbin, *Forging Industrial Policy*; Neil Fligstein, *The Transformation of Corporate Control*, and "Markets as Politics: A Political-Cultural Approach to Market Institutions."
42. There are some exceptions: for example, Neil Fligstein, *The Transformation of Corporate Control*, and "Markets as Politics"; Randall Collins, "Weber's Last Theory of Capitalism."
43. This is particularly problematic for the "new institutionalism in organizational analysis." Neoinstitutionalist hypotheses generally are confirmed not by direct study of process or mechanisms, but rather of after-effects (e.g., watching how many firms adopt a policy, rather than studying *how* such policies get adopted). The problem of information access excuses much of this oversight, although not all. Until economic sociology gives birth to its own Alfred Chandler – a scholar with a sense of process, detail, and narrative – this problem will persist.
44. Perhaps the best examples in political sociology are: Charles Tilly, *Popular Contention in Great Britain*; William Sewell, *Work and Revolution in France* (New York: Cambridge University Press, 1980); Lynn Hunt, *Politics, Culture, and Class in the French Revolution*; Liah Greenfield, *Nationalism. Five Roads to Modernity.*
45. This in part accounts for "economic imperialism" and the spread of rational choice: a realization of theoretical inconsistency by assigning different theories and assumptions to different social spheres.
46. This is inspired by Ann Swidler, "Culture in Action: Symbols and Strategies," *American Sociological Review* 51/2 (April 1986): 273–286.
47. See Richard Nelson and and Sidney Winter, *An Evolutionary Theory of Economic Change* (Cambridge: Harvard University Press, 1982).

48. This is akin to Weber's idea that "civilizational" factors will shape the import of new notions and institutions. See Gary Hamilton, "Civilizations and the Organization of Economies," in Neil J. Smelser and Richard Swedberg, editors, *The Handbook of Economic Sociology* (Princeton University Press, 1994), 183–205.
49. *Kommersant Daily*, 6/13/96, p. 5; see the law (*zakon*) "O Tsentral'nom banke Rossiiskoi Federatsii (Banke Rossii)," at http://black.inforis.nnov.su/infobase (database on legal acts and legislation out of Nizhny Novgorod).
50. *Smena*, 6/25/92, p. 3. The bank worker was fired – one small step toward banking professionalism.
51. This may suggest that objective rational action – utility or profit maximization – was at work, not any cultural tool kits. I do not deny that actors calculate their own benefits; however, what is crucial is just *how* they code what their utility is. Is it simply making money any way or in an honorable way? Is it running a bank into the ground to get rich, or is it running a healthy bank and slowly accumulating both profit and prestige? It is here that a "hard" version of rational choice, relying solely on exogenous objective measurements of utility, runs into trouble.
52. See, for example: "Erlan," *Kommersant* (on-line) #10, 3/21/95; "Aktual'naia tema: valiutnyi koridor," *Kommersant* (on-line) #25, 7/11/95; "Staraia politika v novykh usloviiakh: ne skoro poliany travoi zarastut," *Ekspert* #0, 7/11/95.
53. "Malye banki tozhe imeiut pravo na zhizn," *Finansovye* (on-line), 9/29/95.
54. "Valiutnyi koridor i bankovskii krizis: proiavlenie negativa," *Ekspert* #4, 9/5/95; "Uroki avgusta obeshchaiut ukhod s rynka nekonkurentnykh bankovskikh struktur," *Finansovye izvestiia* (on-line), 9/12/95.
55. Not that this has been *entirely* successful: banks did switch to using Treasury bills for speculative purposes (although T-bills were used as a simple store of value and short-term investment as well). This is one reason behind the collapse of the financial system in 1998: banks invested too much money in T-bills without having enough reserve capital to weather storms. The result might be more bankruptcies and revocations of bank licenses, which one official at the Central Bank claimed was going to happen anyway: "Prichiny padeniia rublia – chisto psikhologicheskie," *Ekspert* #34, 9/14/98. However, banks cannot shoulder all the blame for September 1998: the state and political elite deserve blame, too.
56. One firm I observed, a small economics publishing house, obtained loans from Northern Trade through personal ties rather than through submitting a worked-out business plan and strategies for realizing it. While this firm lived on the brink of bankruptcy through 1995 and early 1996, they were under little pressure to pay off their loans (and hence change behavior) because Northern Trade did not pursue the issue. However, in the middle of 1996 new bank management *did* pursue loan repayment, forcing the firm to turn over its books and journals in lieu of the loan and interest.
57. Such isomorphic pressures and resulting "professionalization" were described to me by interviewees working as consultants (inside and outside banks) and some members of banking management staffs in St. Petersburg.
58. At one seminar I was able to observe, an example of depreciation came up, where machinery costing 200,000 rubles had depreciated to 170,000, with a figure of "30,000" placed in the debit column. The room erupted: why 30,000, why in the debit column, where did depreciation come from? Only a few individuals shook their heads and snickered at their colleagues.
59. *New York Times*, 8/27/98, 1.

60. “Banky: kto vyzhivet?” *Argumenty i fakty* #37 (1998): 6. For a slightly different take on small banks, see Iurii Shor, “Malye banky orientiruiutsia na korporativnykh klientov,” *Finansovye izvestiia*, 9/22/98; Jeanne Whalen, “Smaller Banks Replace Giants in Ratings,’ *Moscow Times* (on-line), 12/11/98; *Kommersant Dengi*, 12/9/98 (entire issue).
61. “Smaller Banks Leap in New Ratings List,” *Moscow Times* (on-line), 10/13/98.
62. “Prosecutor: Crisis May Spur Arrests of Banker,” *Moscow Times* (on-line), 10/14/98. Investigations in January 1999 discovered the Central Bank held money in offshore accounts, although as of this writing the exact details (how the Central Bank did so, the exact amount, etc.) are not clear. This had led to some speculation that the Bank could come under increased scrutiny from the outside and lose some autonomy. On the other hand, the problems (and failures) of Russian banks may give the Central Bank opportunity to *expand* its power. The organization “ARKO” has been created to deal with restructuring larger banks and handle problems of depositors’ accounts and liquidity. ARKO could serve as an additional institutional tool for Central Bank power. The future of Central Bank power – continuity, weakening, or strengthening – is not clear, although I suspect little will change in the short term.
63. Andrei Kuznetsov and Olga Kuznetsova, “Privatisation, Shareholding and the Efficiency Argument: Russian Experience,” *Europe-Asia Studies* 48 (1996): 1179.
64. E. Belianova, “Motivatsiia i povedenie rossiiskikh predpriiatii,” *Voprosy ekonomiki* #6 (1995): 19.
65. Even here the transition has not been smooth. Banks continue to face problems during the process of “weeding out” weaker banks (e.g., those that do not play by the Central Bank’s rules, which “healthy” banks are assumed to play by). Bank headquarters still have problems overseeing and controlling their branches, resulting in continuing problems for banks. However, because the Central Bank’s control over licenses – the equivalent to bankruptcy in the industrial world – is operative, the transformational process has been under way more quickly and smoothly than elsewhere.
66. See the interview with Igor Lipsits of the Russian Union of Manufacturers and Entrepreneurs, “Ekonomike nuzhny tselevye gosudarstvennye orientiry,” *Ekonomist* #4 (1994): 40–48. Lipsits describes the problems firms have had finding outlets for selling their own goods. In one memorable case, a perfume maker could not sell his goods through independent wholesalers and the retailers; the drop in demand for his goods threatened the maker of the perfume bottles, who took it upon himself to set up a network for distributing the perfume to Russian stores. In another case, a clothing manufacturer had to send some workers in a truck to drive around Russia in search of stores that would buy the clothes. See also I. Gurkov and Ie. Avraamova, “Strategii vyzhivaniia promyshlennykh predpriiatii v novykh usloviiakh,” *Voprosy ekonomiki* #6 (1995): 24.
67. Although this is actually more complex: see Alan Blinder et al., *Asking About Prices: A New Approach to Understanding Price Stickiness* (New York: Russell Sage, 1998).
68. Max Weber, *General Economic History*; see also Fligstein, *The Transformation of Corporate Control*, chapter 4. This is also central to Alfred Chandler’s interpretation of business history: see his *The Visible Hand* (Cambridge: Harvard University Press, 1977) and *Scale and Scope* (Cambridge: Harvard University Press, 1990). The rationalization thesis does have its critics, such as Fernand Braudel, *Civilization and Capitalism, 15th–18th Century, Vol. 2: The Wheels of Commerce* (Berkeley:

University of California Press, 1992), 400–402, 566–568. However, if the rationalization thesis is thought of in terms of formalization, control, and discipline, then Weber receives support from Michele Foucault. My thanks to Miguel Centeno for pointing out the links between capitalism and discipline (and thus rationalization) and Weber and Foucault. For a contrary empirical view on rationalization, see Melville Dalton, *Men who Manage* (New York: John Wiley and Sons, 1959).

69. S. Tsukhlo, "Formirovanie obemov i struktury vypuska rossiiskikh promyshlennykh predpriiatii," *Voprosy ekonomiki* #6 (1995): 36.
70. See E. Belianova, "Motivatsiia i povedenie rossiiskikh predpriiatii," *Voprosy ekonomiki* #6 (1995): 15–21; T. Dolgopiatova and I. Evseeva, "Ekonomicheskoe povedenie promyshlennykh predpriiatii v perkhodnoi ekonomike," *Voprosy ekonomiki* #8 (1994): 40–50; Bary Ickes and Randi Ryterman, "The Interenterprise Arrears Crisis in Russia," *Post-Soviet Affairs* 8 (1992): 331–361.
71. This shock has been mitigated by the widespread use of *barter*. While the percentage of transactions conducted in barter will probably never be precisely known, it is large – up to 70 percent of transactions for some companies. The result of barter has been that perceptions of solvency and demand (discussed later) have been affected: a firm may not have cash, but it has goods, and hence can pay for orders. In a sense, the use of barter has watered down the impulse of monetization to enforce new principles of production and sales.
72. Examples of these include a Petersburg electronics firm where the author conducted interviews, the Sverdlov machine-making plant, and the Baltika beer enterprise in St. Petersburg.
73. Not that these mechanisms (state and CPSU) were perfect; especially in the Brezhnev era, disciplining became less of a priority. Further, state and Party cadres had difficulty enforcing quasi-market practices and principles before 1991 because 1) these cadres themselves either did not understand the principles or had interests tied to previous practices, and 2) actual policies under Gorbachev were often incoherent.
74. Note, as a contrast to Russia, the way Mexican technocrats were able to use the state and PRI to attain power and then push through reforms; see Centeno, *Democracy Within Reason*.
75. This was not an impossible shift, given that the Soviet economy was partially monetized. Money was the medium of exchange; the *supply* of money was controlled from Moscow, resulting in canceled debts, for example, and soft budgets.
76. As I noted earlier, barter mitigated the impact of monetization, although far from entirely.
77. For example, some pocket banks – banks created by groups of industrial firms primarily as a cheap and easy source of loans – became stingier lending to their parents. *Leningradskii stankostroitel'*, 7/13/93, 1.
78. *Svetlana*, 6/24/92, 2.
79. *Svetlana*, 1/13/93, 1.
80. *Svetlana*, 6/3/93, 4.
81. *Svetlana*, 11/3/93, 2.
82. *Kirovets* #8, 1/16/92, 1.
83. *Kirovets* #60, 3/31/92, 3.
84. S. Tsukhlo, "Formirovanie obemov i struktury vypuska rossiiskikh promyshlennykh predpriiatii," *Voprosy ekonomiki* #6 (1995): 36.
85. *Elektrosila* #40, 12/8/92, 2; interview, assistant director for production, lathe-making firm, March 1995, St. Petersburg.

86. *Svetlana* #21, 6/19/91, 5; #19, 6/3/92, 2; #2, 1/22/92, 2; *Elektrosila* #10, 3/10/92, 3.
87. Interview (furniture manufacturer), Tula, November 1995.
88. Is this so different from behavior among Western firms? The answer is both yes and no. On the one hand, certainly one finds in the West entrepreneurs who do not understand market search and who think solely in terms of production. In fact, Fligstein has argued that this was a problem for *large* industrial firms until the Great Depression, when the "manufacturing conception of control" was widespread and managers thought in terms of product and not in terms of product markets. However, the importance of such a "cultural incongruity" is less important in capitalist nations, where several factors mitigate this: the existence of a large number of experts, consultants, and courses for the entrepreneur; and the existence of rules that demand certain behavior with penalty for lack of conformity (e.g., bankruptcy, inability to receive a loan without a business plan, etc.). Further, in capitalist countries certain overall principles exist and are, to a degree, shared in theory; capitalism has been achieved in these countries (although, as Fligstein points out, economic conceptions are always changing); in Russia, on the other hand, the transition is in part the creation of such baseline understandings.
89. T. Dolgopiatova and I. Evseeva, "Ekonomicheskoe povedenie promyshlennykh predpriiatii v perekhodnoi ekonomike," *Voprosy ekonomiki* #8 (1994): 42.
90. Dolgopiatova and Evseeva, "Ekonomicheskoe povedenie promyshlennykh predpriiatii," 42.
91. *Elektrosila* #40, 12/8/92, 2.
92. Interview (expert and economist), St. Petersburg, December 1995.
93. See John Meyer and Brian Rowan, "Institutionalized Organizations: Formal Structure as Myth and Ceremony," in Walter Powell and Paul DiMaggio, editors, *The New Institutionalism in Organizational Analysis*, 41–62.
94. Richard Nelson and Sidney Winter, *An Evolutionary Theory of Economic Change* (Cambridge: Harvard University Press, 1982).
95. Niklas Pettersson and Stefan Nordström, *Western Perspectives on the Russian Shipbuilding Company Almaz* (Linköping: Linköping Institute of Technology, 1994), 67, 104.
96. *Leningradskii stankostroitel'*, 7/13/93, 1.
97. IESC is an American organization that brings retired American managers to Russia to give talks and free consultations on restructuring, market study, and overall market behavior and decision-making. The success of IESC's mission is difficult to assess.
98. "Concerning intersectoral diversification of manufacturing, world experience testifies thus: it [the FPG] is the best way to guarantee financial stability of producers and to guarantee the flow of capital from stagnating sectors to promising sectors." Sergei Batchikov and Iurii Petrov, "Formirovanie finansovo-promyshlennykh grupp i gosudarstvo," *Rossiiskii ekonomicheskii zhurnal* #2 (1995), 4.
99. Irina Starodubrovskaia, "Financial-industrial Groups: Illusions and Reality," *Communist Economies and Economic Transformation* 7/1 (1995): 5–19; Larisa Gorbatova, "Formation of Connections between Finance and Industry in Russia: Basic Stages and Forms," *Communist Economies and Economic Transformation* 7/1 (1995): 21–34; Jane E. Prokop, "Industrial Conglomerates, Risk Spreading and the Transition in Russia,' *Communist Economies and Economic Transformation* 7/1 (1995): 35–50; Lev Frankel, "Financial-industrial Groups in Russia:

Emergence of Large Diversified Private Companies," *Communist Economies and Economic Transformation* 7/1 (1995): 51–66; S. Batchikov and Iu. Petrov, "Formirovanie finansovo-promyshlennykh grupp i gosudarstvo," *Rossiiskii ekonomicheskii zhurnal* #2 (1995): 3–10; E. Batizi, Upolnomochennye banki i finansovo-promyshlennaia integratsiia," *Rossiiskii ekonomicheskii zhurnal* #10 (1994): 42–46; Kh. Mingazov, "Stanovlenie novykh organizatsionno-khoziaistvennykh struktur v rossiiskoi industrii," *Rossiiskii ekonomicheskii zhurnal* #9 (1993): 25–34, and #10 (1993): 50–60; *Kommersant* #35, 9/26/95; #47, 12/19/95.

100. See Yevgeny Kuznetsov, "Learning to Learn: Emerging Patterns of Enterprise Behavior in the Russian Defense Sector, 1992–1995," in Bartlomiej Kaminskii, editors, *Eonomic Transition in Russia and the New States of Eurasia* (Armonk, N.Y.: M. E. Sharpe, 1996); E. Belianova, "Motivatsiia i povedenie rossiiskikh predpriiatii," *Voprosy ekonomiki* #6 (1995): 20–21; I. Alimova, V. Buev, V. Golikova, and T. Dolgopiatova, "Problemy malogo biznesa glazami predprinimatelei," *Voprosy ekonomiki* #11 (1994), 119–120. My thanks also to Olga Patokina for sharing her research and insights; interview with the author, September 1997, University of Pittsburgh.
101. Simon Clarke, "The Enterprise in the Era of Transition," in Simon Clarke, editor, *The Russian Enterprise in Transition* (Cheltenham, U.K.: Edward Elgar, 1996); Michael Burawoy and Pavel Krotov, "The Soviet Transition from Socialism to Capitalism."
102. *Leningradskii stankostroitel'* #14, 4/16/91, 3.
103. *Leningradskii stankostroitel'* #36, 9/26/90, 3.
104. *Leningradskii stankostroitel'* #23, 11/4/94, 1.
105. *Kirovets* #9, 1/29/93, 1. This boss also complained that shopfloor bosses should *not* be responsible for searching for buyers: "I consider that the transfer of the search for orders to the shoulders of shopfloor bosses is bringing at the present time certain negative results, but it would be significantly more advantageous for the enterprise if this work were taken up on a professional basis by corresponding factory [i.e., central] services."
106. *Kirovets* #18, 2/19/93, 2.
107. *Leningradskii stankostroitel'* #9, 3/5/92, 2.
108. Positron was not alone in playing host to conflict between employers and employees. See Simon Clarke, editor, *Conflict and Change in the Russian Industrial Enterprise* (Cheltenham, U.K.: Edward Elgar, 1996).
109. In my interviews with managers, legal hindrances were cited as reasons for avoiding downsizing or shutting down subdivisions only once; the vast majority of responses involved perceived duties towards "their" workers, the inability simply to throw them out onto the street.
110. Certainly, paternalism also brought power to managers as well. See Simon Clarke, "The Enterprise in the Era of Transition."
111. Interview (enterprise subdivision, assistant director for production), St. Petersburg (Russia), March 1995.
112. Ministry of Finance of the Russian Federation, *Predpriiatii na puti reform (polozhitel'nyi opyt raboty). Materialy soveschaniia rukovoditelei promyshlennykh predpriiatii*. (Moscow: Ministry of Finance, 1993), p. 19.
113. *Svetlana* #34, 10/28/92, 6.
114. Interviews by the author with various assistant directors (anonymous), St. Petersburg (Russia), July 1997.
115. The crucial issue should be *how* path dependency works – and this depends on

perception of what needs to change and the available tools for changing. For example, the Central Bank was a legacy of history; but it need not have been the autonomous center of the Russian financial world. One can imagine that, had reformers been tied to an East Asian rather than a Western economic model, the Ministry of Finance and State Property Committee would have organized Russian industry into financial-industrial groups influenced by the state (and in fact this was proposed); the banking sphere would have been the handmaiden of the state-industry alliance. Russia could have come to resemble South Korea – also a potentially path dependent result (given centralization in the Soviet system).

116. Fligstein, *Transformation of Corporate Control.*
117. This need not mean that the Defensive FPGs will disappear as the older generation dies off. If Defensive FPGs remain stable, they will reproduce the manufacturing conception of control. We should expect the following in the future: 1) Defensive FPGs that have emerged may remain, but their organizing principle will be less relevant over time as a new generation comes to power. In the future the Defensive FPG will not spread beyond existing Defensive FPGs. 2) Existing Defensive FPGs will be in tension with Financial FPGs over legitimacy of organizing principles. The role of state policy and resource ownership will be crucial in determining whether the Defensive FPG remains a viable form. (I suspect that Defensive FPGs, after the passing of the older generation, will follow the strategies of Financial FPGs, assuming that the latter remain the dominant conception of control. Fligstein suggests that the financial conception of control may be replaced by the emerging "shareholder value conception of control." See Fligstein, "Markets as Politics," 670.)
118. This is close to William Roy's and Neil Fligstein's interpretations o the rise of the corporate form and modern American capitalism. See William Roy, *Socializing Capital* (Princeton: Princeton University Press, 1997), and Neil Fligstein, *The Transformation of Corporate Control.*
119. I address creating the invisible hand of authority elsewhere; paper available from the author on request.
120. *New York Times*, 8/26/98, 1 and 6, and 8/27/98, 1 and 10.