EAST-WEST

Journal of **Economics and Business**

Vol. IX – 2006, No 2 (33-52)

THE POST-SOCIALIST RUSSIAN FIRM AND THE EXPLICATIVE POWER OF THE ECONOMIC THEORIES OF ORGANIZATION

Yorgos Rizopoulos[*] and Leonidas Maroudas[**]

Abstract

Economic research on privatization, restructuring and corporate governance of the post-socialist Russian firm, has usually been based on the hypothesis of isolated maximising agents, the principal-agent model assuming inadequacy of incentives or, to a lesser extent, transaction costs theory. The interesting insights of such approaches do not always seem appropriate to explain_some major internal and external features (barter and demonetization of exchanges, networking and labour hoarding) of the post-socialist Russian firm. Therefore, the aim of this paper is to examine the explicative power of economic theories of organization concerning the specific features of_Russian firm and the process of its transformation into a capitalist firm. The adoption of an approach focusing on the negotiation process between groups of participants, power

[*] Associate Professor, CRIISEA, University of Picardie, e-mail: yorgos.rizopoulos@u-picardie.fr

[**] Associate Professor, University of the Aegean, Business Administration Department, e-mail: lmarouda@aegean.gr

structure and control, core competencies, abilities, accumulated knowledge and the ambivalent conflict/collaboration nature of the organizational games at both the internal and external level, shed some light on the Russian enterprise's evolving organizational equilibrium during the first years of systemic transformation.

KEYWORDS: Economic theories of organization, managerial strategies, organizational change, transition, Russia

JEL classification: D21, J53, L21, L60, M10, P31

1. Introduction

The failure of initial predictions concerning a supposed short and conflict-free transitional period from the former socialist regime to a market economy has raised many questions concerning organizational dynamics and the appropriate concepts and theories enabling a better understanding of the empirically observed facts. It is now widely accepted that organizational transformation during transition does not constitute a passive adaptation to changing conditions and to formal rules introduced from above. The switch to market economy behaviours revealed to be a complex learning process likely to be influenced by a multiplicity of interdependent strategic decisions and actions in reference to new regulatory norms and mechanisms (Murrell, 1996; Grabher & Stark, 1997; Rizopoulos, 1997 and 1999; Moers, 2000).

The aim of this paper is to examine the explicative power of economic theories of organization in relation with the specific features of the post-soviet Russian firm and the process of its transformation into a capitalist firm along two major axes:

- Its organizational properties and attributes, the principal interacting of internal and external groups and the acquired resources and competencies, which play a crucial role during the transition period,

- The way in which its resources and competencies are mobilized in order to manage uncertainty and to perform organizational change under the pressure of institutional and economic constraints, especially through the political negotiation process at the internal and external level.

We are interested more specifically in the post-socialist privatized manufacturing enterprises, producing not exclusively but essentially intermediary goods and playing a relatively important economic role at a local level. Theorizing the enterprises of services, financial, energy or other primary materials sectors may require to take into account different elements.

Economic research concerning organizations during transition focuses particularly on privatization, labor relations and restructuring as well as corporate governance issues. It has usually been based on property rights and the principal-agent models assuming maximizing agents and focusing on the inadequacy of incentives and the distribution of residual control rights (Schleifer, 1998; Buck *et al.*, 1998; Filatotchev *et al.*, 1999) or, to a lesser extent, on the transaction costs theory (Joskow & Schmalensee, 1997).

Meanwhile, the aim of theories of the firm to understand the *raisons d'être* of a typical capitalist enterprise (and often to justify its superior efficiency) do not always seem appropriate to make the major internal and external features of the post-socialist Russian firm intelligible. Indeed, the systemic rupture in Russia has destroyed much of the productive capacities generating the deepest and longest recession recorded during peacetime. Russian firms have experienced radical changes in institutional framework, social and labor relations, property rights, macroeconomic policies, supplier/customer transactions, relative prices, structure of production and financial constraints. In this extremely uncertain context, organizational survival and adaptation became the major priorities involving an apparently contradictory mixture of innovative practices and soviet-type regulations and interactions: privatization followed by dissociation between control and property rights, increased managerial power founded on alliances with employees and local authorities, normative price policies, separation of performance and financial profitability, market constraints but demonetized transactions, competition through intense networking, cost-cutting combined with labor hoarding, etc…Despite a great deal of contributions, economic theories of organization have some difficulty to propose a theoretical framework facilitating the understanding of the post-soviet Russian firms' behaviors, structures, internal and external relations as a whole. How to comprehend on the base of these analytical devices a situation in which performance and financial profitability are often unrelated issues in a context of generalized demonetization of transactions before 1998? How relevant are theories assuming optimization strategies pursued by the owners of the physical assets, when the Russian capital owners do not seem to conform to this paradigm? What is the appropriate interpretative framework for both extensive networking and soft hierarchical relations? Is the "lack of knowledge" or rather the nature of accumulated specific competencies and capabilities on which actors have built new (and unstable) organizational equilibria, as well as the initial conditions and constraints that have influenced the changing process?

The present paper formulates some propositions concerning these questions and is composed of three sections. In the first section we underline briefly the inadequacy of some major theories of the firm in providing satisfactory interpretations for the post-soviet Russian enterprise's behavior. Next, we lay out our conceptual framework considering the firm as a political system of connected actors. In the third section we briefly present the major internal and external features (barter and demonetization of exchanges, networking and labor hoarding) of the Russian manufacturing firm during the first period of the post-socialist transformation (1991-1998), and then we discuss the contributions facilitating the understanding of its organizational change process taking into account the main objectives and strategies of the various groups of participants and their interactive games.

The contribution of economic theories of organization

As we are well aware, in the traditional microeconomics framework, the firm is a "black box" assimilated to a mathematical relation between inputs and outputs. Production process is determinist and reversible, knowledge is without limits, preference order unambiguous and substantive rationality leads to optimization (maximizing) behavior. There is no structure, information asymmetries, organizational problems or time constraints. “The 'firm' as an organization is thought to be irrelevant", and "a 'firm' is not a firm” (Penrose, 1995). This framework is inappropriate to analyze not only the post-socialist Russian firm, but the “firm” in general.

Managerial theories, without refuting the basic hypothesis of standard microeconomic models (substantive rationality and maximization), innovate by considering managers as a homogeneous group with its own objective function, which they try to optimize in opposition_to the interests of shareholders. Maximization of turnover (Baumol, 1959), of discretionary expenses (Williamson, 1963), or of the rate of growth with diversification strategies (Marris, 1963), are the main versions of this approach. Such a theoretical framework could be useful in the Russian context, given the insiders' (managers and employees) power following the privatization process. Meanwhile, and beyond the very restrictive maximization hypothesis of these models, Russian insiders are often owners as well and the managerial theories do not offer any explanation for their preference for managerial preferably shareholder status. Furthermore, their objective function appears to incorporate multiple variables, for instance, “social responsibility” (Vlachoutsikos & Lawrence, 1996; Maroudas 2001).

Extensive networking, mutual commitment, internal alliances and labor hoarding seem to question also the opportunism hypothesis of modern contractual organizational approaches, according to which only authority (in the framework of the transaction costs theory) or appropriate incentive mechanisms (agency theory) could manage post-contractual free-riding. However, employment relation, and the hierarchical intra-organizational power underlined by the transaction costs theoretical framework seems to be soft and negotiated in the Russian context. Both price co-ordination and organizational authority seem relatively less important factors for the Russian manufacturing enterprise compared to co-ordination by implicit or explicit negotiation. It is interesting to notice that while Williamson predicts, in a paper published at the beginning of the transformation process (Williamson, 1991), that hierarchies and markets will prevail though "hybrids" will disappear because of the high uncertainty in the new context, it is exactly the opposite that took place during Russian transition (Grabher & Stark, 1997; Sedaitis, 1997; Hendley, 1998; Hendley *et al.,* 2000; Moers, 2000; Maroudas & Rizopoulos, 2002).

The principal-agent paradigm (Alchian & Demsetz, 1972; Jensen & Meckling, 1976; Holmström & Tirole, 1989) considers the firm as an efficient solution given the costs imposed by the imperfect assessment of the contributions of each input and the risk of free-riding in the case of market contracts. Nevertheless – notwithstanding the importance of incentive structures in the unveiling of information concerning the intrinsic quality of products exchanged and the non-observable actions of agents aiming at achieving goal alignment, and despite its valuable insights into specific contract provisions – the agency theory ignores the importance of widespread implicit contracts and it carries no implications for normative behavior (both issues are very important in the Russian context, see Vlachoutsikos & Lawrence, 1996; Taylor *et al.*, 1997; Hendley *et al.,* 2000), neither for power relations implied, for instance, by ownership, although privatization of assets is a crucial process for the post-socialist Russian firm.

In the incomplete contracts theoretical framework (Grossman & Hart, 1986; Hart, 1990), pattern of property rights (more precisely, distribution of residual control rights) is supposed to represent a solution when contingencies make *ex ante* efficient contracting impossible. According to Hart (1990), even though parties cannot write a contract avoiding hold-up problems, they have perfect foresight about the consequences of their inability to do this and bounded rationality in the Simon's sense is not essential for organisations. The owner ought to be the party whose possession of the residual rights minimizes rentseeking costs (that means the party whose contribution to the quasi-rents of cooperation is greater) and the ownership of assets should equates with the boundaries of the firm. This proposition could have a normative value but it cannot explain why in the post-soviet enterprises there is a significant divergence between formal distribution of shares and real control. Widespread influence of both internal and external stakeholders is a dominant feature of Russian transition and the links between ownership and control are quite complex. For instance, even if a substantial part of shares is distributed among employees it happens that they do not exercise their rights as shareholders and confine themselves to the role of employees, often without salary (Clarke, 1998; Earle & Sabirianova, 1999)!

Furthermore, it seems difficult to build an interpretative framework for the post-socialist firm, without taking into account its initial state (it is not a typical capitalist firm) and the constraints imposed by the genuine uncertainty implied by the change of the rules of the game and the collapse of the formal, internal and external, co-ordination mechanisms and relations (see also, Suhomlinova, 1999). For all these reasons we stand away from the contractual, opportunism-based organisational approaches, considering that the appropriate theoretical framework could not be efficient-oriented but rather adaptation-oriented.

Indeed, evolutionary, resource-based and competence approaches (Nelson & Winter, 1982; Nonaka, 1994; Penrose, 1995; Conner & Prahalad, 1996; Loasby, 1998 and 2001) seem more appropriate and offer useful concepts to understand organizational change such as path dependence due to accumulated resources and knowledge, or operational routines. We can consider that “knowledge” and “competence” are not limited to specific technological skills but rather evoke the ability to solve organizational problems. However, beyond the fact that such concepts are difficult to fix into an analytical framework (Potts, 2000), they have to be interpreted in the context of a radical systemic change where strong conflicting interests may invalidate the idea of a relatively stabilized organizational environment (that means the "truce" hypothesis proposed by Nelson and Winter). Furthermore, this theoretical framework tends to explain organizational performance and diversity in competitive environments where the specificity of assets and privately held knowledge are sources of advantages. Meanwhile, it is the relative stability of the institutional framework that could indicate opportunities facilitating the organizational action and elucidating what could be an advantage (for example, obtain higher profits through innovation). In the context of post-socialist transformation, economic organizations have to face a high uncertainty not only in their specific activity, but also as regards the rules of the game as a whole, the nature and the real constraints of their "quasi-markets" and, consequently, the nature of the relevant advantages.[1]

The firm as a political system of connected actors

In this perspective, and following the behavioral paradigm, we can consider the post-soviet Russian firm as a coalition on “imperfectly specified terms”. Its internal and external participants – employees (directors, staff and workers), shareholders, suppliers (upstream enterprises and creditors), customers (downstream enterprises, users and distributors), and authorities (national or local) – have diverse interests and motivations. The confrontation of the aspiration levels of participants (March and Simon, 1958, analyze especially the internal participants but they do not under-estimate the other categories, see also Mintzberg, 1983), materializes in an organized system of links, in which objectives are imperfectly rationalized and interdependence is based on resources held by each group, bargaining and side payments. This approach holds in our case an extra advantage, namely its ability to apply its premises in a context, which is not specific to a typical capitalist firm in a competitive environment.

Survival is the main organizational priority, followed by performance (the capacity to attain the objectives). Survival and performance imply organizational equilibrium, meaning the participants’ willingness to maintain their contribution to the organization in exchange for subjectively evaluated inducements (depending on the perception of both choice possibilities and opportunity costs) they receive from the organization (March & Simon, 1958).

Organizational equilibrium is a process of dynamic interaction between interconnected actors. It reflects collective learning processes and power asymmetries of participants which are temporally crystallized into rules (standards which regulate the interactions between groups of participants), routines (“initiating signals or choices and functioning as a recognizable unit in a relatively automatic fashion” – Winter, 1986: 165) group problem solving and decision making procedures that constitute the organizational memory (Cyert & March, 1963; Nelson & Winter, 1982). It represents the conscious acceptance on the part of participants of the necessity to coexist – in order to more successfully approach their own particular objectives – that lies at the core of

[1] Moreover, our objective here is not to explain performance differentials between Russian firms, but to pinpoint common elements and characteristics, in order to reach a more generalized assessment grid.

the coalition's preservation. For this they would willingly sacrifice some measures of effectiveness. The organizational equilibrium is continually renegotiated because of the endogenous organizational search for improved performance, the redefinition of relations between participants or external (environmental) changes, especially in the cases of organizational failure or economic and institutional crisis, according to the "exploration / exploitation" paradigm (March, 1991). Meanwhile, the organizational rules, structures, routines and procedures are not neutral and embody power relations by granting privileges to certain participants while downgrading others. This crystallization of power may be relatively durable – and even institutionalized, through property rights – and consequently coalitions are often quite permanent. The firm, as a specific type of organisation, demonstrates also certain other features such as value creation and repartition procedures under a budget constraint (financial inflows must cover costs).

Another important element is underlined in the resource-based approaches, according to which organizations "know how to do things" and they are "repositories of knowledge" (Winter, 1988). Organizations store knowledge in their procedures, norms, rules and forms (March, 1991). Competencies and resources (including knowledge) lead to a set of capabilities that enhance the chances for growth and survival (Kogut & Zander, 1992). The available resources, capabilities, competencies, representations and the way they are connected constitute one of the main issues, it is their assembling which manage uncertainty and perform organizational change. Past experience conditions the feasible alternatives likely to be perceived and existing organizational operational mechanisms influence the way in which presently acquired knowledge is utilized as well as future knowledge acquisition and response to new developments (Conner & Prahalad, 1996; Teece *et al.*, 1997).

In view of the above propositions, we consider that the firm's organizational equilibrium has human, material, financial, relational and cognitive (codified or tacit knowledge) dimensions, based on and inter-linked by collective tangible or intangible assets: fixed capital, social capital, qualifications and competencies, productive and innovative capacity, technologies, market power, trademarks, goodwill, distribution and supply networks, etc.

The social, material and financial dimensions of the organizational equilibrium are inter-connected. What the firms do "is to develop and use connections, of all sorts… [Resources]…are valuable because of their specific complementarity (or connections) to certain other elements" (Loasby, 2001: 400, 407). Acceptable compromises are those, which – at the minimum – secure the balance of monetary and material flows, as well as the preservation and reproduction of crucial knowledge and relations inside and outside the organization. Market and network relations must be viewed as complementary to the internal operational mechanisms, as they are essential factors in the tentative to obtain this balance, the legal frontiers of the organization determining the internal or external nature of the participants. Indeed, organizations have access to some resources indirectly, through the exchange and bargaining with external actors, linked by durable, explicit or implicit relations.

The emergence of alternative relations between the participants and the transformation of the existing operational mechanisms – in other words, organizational change – imply mobilization of internal and external competencies, resources and relations. Indeed, the implementation of organizational innovations is dependent on the existing organizational equilibrium and some kind of stability as a necessary prerequisite for change. In this sense, disrupting transformations and great uncertainty can have a very contradictory impact. Actors establish new interaction patterns and information channels but, in the absence of a relatively stable institutional and economic framework, they will also try to create local stable micro-environments in, at least, some fields of their action. In this way, organizations built private institutional forms, with reference to the already known common rules (which can be largely informal), behavioral norms and conventions, using elements of the old action system in order to diminish uncertainty and to obtain the necessary resources for organizational transformation. In general, organizational change is not a mechanistic process of passive adaptation to changing conditions; it is rather best approached as a complex learning process consisting in a multiplicity of interdependent strategic decisions and actions of the participants.

The post-socialist manufacturing firm as the outcome of internal and external participants' political negotiation process

In the context of genuine uncertainty created by the systemic transformation (institutional instability, economic crisis, rupture of all the previous formal allocation and exchange relations), the internal participants of the Russian manufacturing firms – directors and employees – were unable (or naturally avoided) to undertake entrepreneurial risks and the achievement_of long-term productive investments. Meanwhile, despite claims concerning their inefficiency, resistance to change, market aversion, conservative mentality, incapability to understand the opportunities of future gains, and finally the lack of competencies, skills and experience of their managers[2], Russian post-socialist firms underwent important changes. The preservation of existing structures is combined with rushed adaptation policies, search for new opportunities and organizational innovation. Their strategies aim at achieving an organizational equilibrium, which, while not always affected by profit seeking objectives, may nevertheless allow the continuation of their economic activities.

Concerning internal relations, the directors focused initially on securing their enterprise's autonomy and survival, securing and strengthening the control they already exerted over their enterprises, as well as satisfying their own personal interests by keeping their position. Employees, especially the core of production workers, tended to extend their own discretionary power to interpret prescribed rules and allowing the application of informal regulations on the real production process. Meanwhile, the fall in production, the underplaying of the role of this section of the workforce in the enterprise's activities as the productive process tends to be overcome by the commercial process, the degeneration of communal sociability and the widespread feeling of insecurity provoked by the threat of unemployment and the widespread use of wage arrears changing radically the organizational context. On the one hand, they function as negative incentive mechanisms, and on the other they imply a significant weakening of the core of production workers' bargaining power and an increasing strengthening of managerial control (Ashwin, 1999; Maroudas, 2000).

Throughout the privatization process, the internal coalition's cohesion result mainly from the objective unity of interests of major participants' groups facing external institutional and economic constraints. This mutual dependence on the one hand prevents the transfer of control outside the enterprise, a potential threat for all the traditional participants, while on the other it contributes to the materialization of a consensus process at the workplace. As a result, labour relations are qualitatively different from the classical employee-employer relationship and the post-soviet Russian manufacturing enterprise is characterized by a *negotiated* hierarchy resembling that depicted by agency theorists: "[T]he employer continually is involved in renegotiation of contracts

---

[2] The *virtual economy* theoretical corpus for which the production of soft (informal) goods, the development of barter trade and the absence of restructuring were due to the tendency of Russian managers to avoid the risk involved in the pursuit of formal profits (linked to investments in physical capital) and invest more on relational capital (Gaddy & Ickes, 1998) was a tentative to interpret this managerial behaviour. Meanwhile, this approach has been criticized with special focus on its abusive distinction between production of hard and soft goods, choice to restructure or not, and investment in relational or physical capital (Maroudas & Rizopoulos, 2002).

on terms that must be acceptable to both parties" (Alchian & Demsetz 1972: 777). As Jensen and Meckling underline (1976: 311), "[t]here is in a very real sense only a multitude of complex relationships (i.e. contracts) between the legal fiction (the firm) and the owners of labour, material and capital inputs and the consumers of output".

Regarding external relations, internal participants adopt a principle of exclusivity in selecting exchange partners. Exchanges governed by common values, behavioural norms, personal commitment and solidarity allow, on the one hand, the stabilisation of the operative environment and, on the other, the creation of a social capital stock necessary for the effective access to emerging markets and scarce resources. In particular, the existence of relational networks constitutes the necessary condition for the extensive use of money substitutes, such as barter, inter-firm arrears (or offsets) and promissory notes or bills of exchange ("vekselya"), which enables managers to resolve the problems related to the shortage of working capital and so maintain production and employment under conditions of restrictive monetary policy and high uncertainty (Aukutsionek 1998, Linz & Krueger, 1998; Moers, 2000; Yakovlev, 2000). In other words, the inter-organizational relations constitute a necessary condition for the organizations' survival and development, reproducing, at the same time, a specific power and interest structure (as well as conflicts). They aimed at the stabilisation of their environment and the increase of their exchanges' flexibility. This recourse to non-monetary transactions reflects the spontaneous but relatively homogenous reproduction of a defensive organizational behaviour facing radical institutional changes and economic crisis, having a tremendous influence on the relations formed among the various organizational participants.

The participants' accumulated knowledge, relational and bargaining capabilities led them thereafter to reinstate the bonds and cultivate some patterns of collective action which had ensured them a satisfactory organizational equilibrium in the past. This objective was achieved mainly through relational strategies inside and outside the organization - which were already crucial performance factors during the Soviet period and proved to be the principal, and sometimes the only, means of valorising their assets. It is important to highlight our disagreement with the widely held opinion arguing that the tangible or intangible assets of the Russian firm (fixed capital, qualifications and competencies, productive capabilities, technologies, market power, goodwill, etc.) were as a whole of no value and, therefore, not exploitable under the new (presumably competitive) conditions.[3] We just

[3] The above view lacks plausibility, as Russian enterprises on the one hand had an established "clientele" base, even in view of the usually low quality of their products, and there is no reason to

believe that relational and bargaining capabilities become the main factors allowing the valorisation of the other tangible and intangible assets, because of the extreme uncertainty of the transformation context.

The renegotiation process, between the various participants, of internal and external organisational equilibrium's terms resulted in the emergence of the self-reproductory organisational triad: the tendency to bolster inter-organisational networks, the high percentage of inter-enterprise (and to a smaller extent intra-enterprise) transactions represented by barter exchange and the relative maintenance of the worker collective's size (Maroudas & Rizopoulos, 2002). This organisational triad, accompanied by heavy interactions and bargaining with local authorities, is a crucial survival factor especially for large manufacturing enterprises, located in distant regions (and even more in one-company towns). Obviously, labour hoarding, relational networks and barter do not aim at preventing hazardous material shortages and imbalance between labour demand and supply, nor to use the peripheral workers in "complementary support jobs" (harvesting, house construction, etc.), as it was the case during the soviet era. The main objectives are to preserve the level of production activities, to avoid severe conflicts at the workplace[4], to prevent the deepening of social disruption and to enhance the enterprise's external bargaining power. These features weakened after the 1998 financial crisis, but for about ten years constituted the main characteristics of the post-socialist manufacturing enterprise.

Milgrom and Roberts (1990) insist heavily on the necessity of an unambiguous relation between asset ownership and centralised authority. In the post-socialist Russian manufacturing enterprise, as long as it does not seem possible to affirm such an unambiguous relation, the informal (negotiated) control of physical

---

assume that all of a sudden they lost all of their market share and the value of their tangible and intangible assets was directly and radically degraded immediately following the systemic rupture (this would come down to saying that all enterprises in capitalist economies survive because they produce high quality products which is obviously false), and on the other they were not exposed to some fierce competition, for example from foreign firms (most observers agree that monopolistic, or at least protected, positions are far from having disappeared).

[4] Managers-employees coalition and managerial paternalism (Maroudas & Rizopoulos, 2002) imply that, at the last moment, employees are dependant on the director's ability and willingness to protect them from the negative consequences of the systemic reform. Meanwhile, it does not necessarily imply that employees do not have independent strategies, real bargaining power or means of interest representation. Indeed, the general deterioration of the living standards and the extended wage arrears were at the origin of significant labor conflicts during the first transition period. According to the Goskomstat data, the number of enterprises where strikes were registered increased from 264, in 1993, to 8,278, in 1996, and up to 18,675, in 1997. The number of employees involved in strikes also increased: 1,202,000, in 1993, 6,639,000, in 1996, and 8,369,000, in 1997.

assets from the part of the managerial team seems to be a central risk of the organizational games. Indeed, the significant divergence between the formal distribution of shares and the real control exerted by shareholders is especially prejudicial for the employees, as their property rights proved to be of limited scope. They are not by_themselves capable of reversing the deterioration of their bargaining position, which, gradually, trigger significant changes in the sphere of the internal coalition's relations.[5] Indeed, the managerial team began to reassert exclusive control over the organization (Ashwin, 1999; Dolgopiatova, 2002) as a prerequisite for the appropriation of a significant share of proprietary titles controlled by employees. In this sense, the Russian firm becomes more "williamsonist" but managerial authority is the outcome of participants' relative power and interactions not of economizing transaction costs.

Organizational control facilitates economic control followed by capital accumulation strategies. In this sense, we observe a partial inversion of the classical process of capitalist development.

Instead of the sequence,

Private property ➔ *Assets control* ➔ *Accumulation*

We have,

Assets control ➔ *Private property* ➔ *Accumulation*

This phenomenon is parallel to the formation of alliances between the directors and certain groups of outsiders. In fact, two major (and heterogeneous) groups of external participants have been created_especially after the financial crisis of 1998 (see also Mésnard, 1999):

- The actors wishing to exert tighter control on the enterprise, especially if it is in profitable or monopoly sectors via the redistribution of property rights and the marginalization of the insiders (namely financial agents, foreign investors, etc.).

- The actors considering that their interests are linked to the conservation of the existing asymmetric organizational equilibrium inside the internal coalition and the perpetuation of the formal and informal economic transactions within the established relational networks (some suppliers and customers, but also local authorities in order to do not disrupt the already fragile social balance).

---

[5] According to Ashwin (1999: 249) "…the leader remains, for good or ill, the embodiment of the collective. It is the chief who is responsible for the good or bad fortune of the collective, and the immediate solution to bad fortune is not to give more reality to the collectivism of the labor collective, but always to elect a new chief".

By the end of the nineties, the gravity center of the organizational coalition moved toward a more important role of the external participants and the share of insiders over corporate property sharply dropped. Existing empirical surveys do not provide clear evidence of relations of affiliation and coalition between shareholders, but suggest that part of “friendly” outside shareholders become affiliated with enterprise management and, frequently, reinforcement of outsiders dissimulates informal control by managers through share acquisition and/or transfer of shares to affiliates (Radugin & Arkhipov, 2001; Dolgopiatova, 2002 and 2003). According to Dolgopiatova (2003: 21), “The attempts to gain control over enterprises resulted in a growing concentration of stock ownership”. Consequently, the changes in stock ownership structure after the 1998 crisis, indicated a clear shift from a dispersed and insider-oriented ownership structure to a stronger concentration of ownership in the hands of enterprise managers and large outside shareholders (represented by non-financial enterprises).

Conclusions

Despite a great deal of contributions on privatization, restructuring and corporate governance of the post-socialist Russian enterprise, very few of them are oriented towards the construction of a theoretical framework facilitating the understanding of its behaviors, structures, internal and external relations as a whole. Our analysis demonstrates that the interesting insights of economic theories of organization are not always appropriate to the explanation of some major internal and external features of the Russian manufacturing firm during the first period of the post-socialist transformation. Indeed, it seems difficult to build an interpretative framework for the post-socialist Russian firm, without taking into account its initial state, the importance of the labor collective and the constraints imposed by the genuine uncertainty implied by the change of the rules of the game and the collapse of the formal, internal and external, co-ordination mechanisms and relations. Taking into account the features of institutional and economic environment which largely influences the firms’ decisions, actions, behavior and structural characteristics is a necessary condition to understand such complex phenomena. Institutional isomorphism (Tsoukas, 1994) is a major state in the life of organizations. At the same time, the complexity of social relations, the multiplicity and generality of institutional rules, the differential impact of the economic context because of the own history, assets and competence of specific organizations, enable the latter to maintain an important autonomy, choose options, select and interpret rules. Thus environments are not absolutely constraining. Firms are neither passive rule-takers, nor react in a standard way to the external stimuli. In this sense, isomorphism and convergence can lead to heterogeneity and vice versa.

In this paper we have offered an analytical framework facilitating the understanding of the behaviors, structures, internal and external relations of the post-socialist Russian firms, which under a high economic and institutional uncertainty, adopted survival strategies that, while not always affected by profit seeking objectives, nevertheless allowed the carrying on of their economic activities and the preservation of the interests of the main groups of participants. In such a context, some intangible assets – namely, relational networks and bargaining capabilities, which were already crucial performance factors under the Soviet regime – proved to be valuable resources, which helped valorize certain existing tangible assets. Used by all organizational actors, they are at the origin of a variety of internal and external asymmetric relations. Meanwhile, the organizational and institutional changes that took place altered the balance of power of various groups. The initial rise of the directors' bargaining power at a lateral / horizontal level through the consolidation of inter-enterprise networks was an enabling factor to secure control over the internal coalition and, as *de facto* owners, to create new forms of alliance with some of the external coalition's influence groups.

As a final point, we can state that most economic theories designed to understand capitalist organizations are not necessarily suitable for deciphering post-Soviet ones. Consequently, the adoption of an organizational approach focusing on the negotiation process between groups of participants, power structure and control, core competencies, capabilities, accumulated knowledge and the ambivalent conflict / cooperation nature of the organizational games at both internal and external level, seem of great interest so as to understand the Russian firms' nature during the first years of systemic transformation. Undoubtedly, future research has to validate the ability of such an approach to provide an appropriate framework for the analysis of emerging new organizational forms. Indeed, as mentioned above, certain characteristics of the post-soviet firms (relational networks, barter and labour hoarding) weakened after the 1998 financial crisis (see also Clarke, 2004). Meanwhile, it does not validate the proposals made by neo-liberal or rational choice scholars who have too often dismissed such part of the Russian firms' experience, underestimating its magnitude during the first period of the post-socialist transformation (1991-1998).[6] What is more, these features, parallel to inter-enterprise debts and permanent insolvency without bankruptcy, will not necessarily disappear in the conditions of "free market capitalism" in Russia (see also Burawoy, 2001). The

---

[6]For a critical survey of these views, see Murrell, 1996; Grabher & Stark, 1997; Sapir, 1998; Maroudas & Rizopoulos, 2002.

theoretical framework offered here enables us to continue the study of recent institutional and organizational changes taking into account the new objectives and strategies of the various groups of participants and their interactive games.

References

Alchian, A., Demsetz, H., 1972, Production, information costs and economic organization, *American Economic Review*, 62: 777-795.

Ashwin, S., 1999, Redefining the Collective: Russian Mineworkers in Transition, In M. Burawoy, K. Verdery (Eds.), *Uncertain transition,* New York-Oxford: Rowman & Littlefield Publishers, pp. 245-271.

Aukoutsionek, S., 1998, Industrial barter in Russia, *Communist Economies and Economic Transformation*, 10 (2): 179-188.

Baumol, W., 1959, *Business behavior, value and growth,* New York: Macmillan.

Buck, T., Filatotchev, I., Wright, M., 1998, Agents, stakeholders and corporate governance in Russian firms, *Journal of Management Studies,* 35 (1): 81-104.

Burawoy, M., 2001, Transition without Transformation: Russia's Involutionary Road to Capitalism, *East European Politics and Societies,* 15 (2): 269-290.

Clarke, S., 1998, Structural adjustement without mass unemployment? Lessons from Russia, in S. Clarke (ed.), *Structural adjustement without mass unemployment? Lessons from Russia*, Cheltenham: Edward Elgar, pp. 9-86.

Clarke, S., 2004, A Very Soviet Form of Capitalism? The Management of Holding Companies in Russia, *Post-Communist Economies*, 16 (4): 405-422.

Conner, K., Prahalad, K. C., 1996, A resource-based theory of the firm: Knowledge versus opportunism, *Organization Science*, 7 (5): 477-501.

Cyert, R., March, J., 1963, *A behavioural theory of the firm,* Englewood Cliffs, New York: Prentice Hall.

Dolgopiatova, T., 2002, Corporate control in the Russian industry: Actors and mechanisms, *East-West Journal of Economics and Business,* 5(2): 197-215.

Dolgopiatova, T., (Ed.), 2003, *Russian Industry: Institutional Development*, State University, Higher School of Economics, Moscow.

Earle, J., Sabirianova, K., 1999, Understanding wage arrears in Russia, *Site Working Paper,* n° 139, Stockholm.

Filatotchev, I., Bleaney, M., Wright, M., 1999, Insider-controlled firms in Russia, *Economics of Planning*, 32 (2): 129-151.

Gaddy, C., Ickes, B., 1998, To restructure or not to restructure: Informal activities and enterprise behavior in transition, *Working Paper*, n° 134, The William Davidson Institute.

Grabher, G., Stark, D. (Eds.), (1997), *Restructuring networks in post-socialism*, New York: Oxford University Press.

Grossman, S., Hart, O., 1986, The costs and benefits of ownership: A theory of vertical and lateral integration, *Journal of Political Economy*, 94 (4): 691-719.

Hart, O., 1990, Is “Bounded rationality” an important element of a theory of institutions?, *Journal of Institutional and Theoretical Economics*, 146: 696-702.

Hendley, K., 1998, Struggling to survive: A case study of adjustment at a Russian enterprise, *Europe-Asia Studies*, 50 (1): 91-119.

Hendley K., Murrel, P., Ryterman, R., 2000, Law, relationships and private enforcement: Transactional strategies of Russian enterprises, *Europe-Asia Studies*, 52 (4): 627-656.

Holmström, B., Tirole, J., 1989, The theory of the firm, in R. Schmalensee, R. Willig (Eds.), *Handbook of industrial organization*, Vol. 1, North Holland, pp. 61-133.

Jensen, M., Meckling, W., 1976, Theory of the firm: Managerial behavior, agency costs and ownership structure, *Journal of Financial Economics*, 3: 305-360.

Joskow, P., Schmalensee, R., 1997, Privatization in Russia: what should be a firm?, in C. Ménard (Ed.), *Transaction cost economics. Recent developments*, Cheltenham: Edward Elgar, pp. 86-126.

Kogut, B., Zander, U., 1992, Knowledge of the firm, combinative capabilities and the replication of technology, *Organization Science*, 3: 383-397.

Linz, S., Krueger, G., 1998, Enterprise restructuring in Russia's transition economy: Formal and informal mechanisms, *Comparative Economic Studies*, 40 (2): 5-52.

Loasby, B., 1998, The organization of capabilities, *Journal of Economic Behaviour and Organization*, 35: 139-160.

Loasby, B., 2001, Time, knowledge and evolutionary dynamics: why connections matter, *Journal of Evolutionary Economics*, 11 (4): 393-412.

March, J., 1991, Exploration and exploitation in organizational learning, *Organization Science*, 2: 71-87.

March, J., Simon, H., 1958, *Organizations*, New York: John Wiley and Sons.

Maroudas, L., 2000, Stratégies managériales et relations de travail pendant la période de transition en Russie, *Revue d’Etudes Comparatives Est-Ouest*, 31 (1) : 169-191.

Maroudas, L., 2001, Organizational changes and human resource management in post-Soviet industrial enterprises, (1990–1995), *East-West Journal of Economics and Business*, 4 (1): 51-70.

Maroudas, L., Rizopoulos, Y., 2002, The Russian firm's organizational links and behavior. *East-West Journal of Economics and Business,* 5 (2): 123-137.

Marris, R., 1963, A model of 'managerial' enterprise, *Quarterly Journal of Economics*, 2: 185-209.

Mésnard, M., 1999, Emergence des groupes et corporate governance en Russie, *Economie Internationale*, 77 : 131-160.

Milgrom, P., Roberts, J., 1990, Bargaining costs, influence costs and the organization of economic activity, in J. Alt, K. Shepsle (Eds.), *Perspectives on positive political economy,* Cambridge: Cambridge University Press, pp. 57-89.

Mintzberg, H., 1983, *Power in and around organizations*, Englewood Cliffs, New Jersey: Prentice–Hall.

Moers, L., 2000, Determinants of enterprise restructuring in transition: Description of a survey in Russian industry, *Communist Economies and Economic Transformation*, 12 (3): 307-336.

Murrell, P., 1996, How far has the transition progressed?, J*ournal of Economic Perspectives,* 10(2): 25-44.

Nelson, R., Winter, S., 1982, *An evolutionary theory of economic change,* Cambridge, Massachusetts: Harvard University Press.

Nonaka, I., 1994, A dynamic theory of organizational knowledge creation, *Organization Science*, 5 (1): 14-36.

Penrose, E., 1995, *The theory of the growth of the firm*, Oxford: Oxford University Press, (3e edition).

Potts, J., 2000, *The new evolutionary microeconomics,* Cheltenham: Edward Elgar.

Radygin, A., Arkhipov, S., 2001, Ownership structure and financial position of firms in Russia; empirical analysis, *Russian Economic Trends,* 10(2): 18-26.

Rizopoulos, Y., 1997, Socio-economic networks and economic transformation. The Russian case, *Economic Systems*, 21 (4): 365-369.

Rizopoulos, Y., 1999, Stratégies organisationnelles et réseaux post-socialistes en Russie, *Revue d'Etudes Comparatives Est–Ouest,* 30 (2): 283-302.

Sapir, J., 1998, *Le krach russe*, La Découverte, Paris.

Sedaitis, J., 1997, Networks in market transitions: Managerial constraints in post-Soviet commodity markets, *International Studies of Management and Organization*, 27 (1): 61-84.

Shleifer, A., State versus private ownership, *Journal of Economic Perspectives,* 12 (4): 133-150.

Suhomlinova, O., 1999, Constructive destruction: Transformation of Russian State-owned construction enterprises during market transition,

Organization Studies, 20 (3): 451-483.
Taylor, T., Kazakov, A., Thompson, M., 1997, Business ethics and civil society in Russia, *International Studies of Management and Organization*, 27 (1): 5-18.
Teece, D., Pisano, G., Shuen, A., 1997, Dynamic capabilities and strategic management, *Strategic Management Journal*, 18: 509-533.
Tsoukas, H., 1994, Socio-economic Systems and Organizational Management: An Institutional Perspective on the Socialist Firm, *Organization Studies*, 15 (1): 21-45.
Vlachoutsikos, C., Lawrence P., 1996, How Managerial Learning Can Assist Economic Transformation in Russia, *Organization Studies*, 17 (2): 311-325.
Williamson, O., 1963, Managerial discretion and business behaviour, *American Economic Review*, 53: 1032-1057.
Williamson, O., 1991, Comparative economic organization: The analysis of discrete structural alternatives, *Administrative Science Quarterly*, 36: 269-296.
Winter, S., 1986, The research program of the behavioral theory of the firm: Orthodox critique and evolutionary perspective, in Gilad B., S. Kaish (Eds.), *Handbook of Behavioral Economics,* Vol. 1, Greenwich, CT: JAI Press, pp. 151-188.
Winter, S., 1988, On Coase, competence and the corporation, *Journal of Law, Economics and Organization*, 4: 163-180.
Yakovlev, A., 2000, Barter in the Russian economy: Classifications and implications (Evidence from case study analyses), *Post-Communist Economies,* 12 (3): 279-291.