

# BASTIONS OF IRRATIONAL CONSERVATISM? SHOP-FLOOR ACCOUNTS AND THE CO-EVOLUTION OF ORGANIZATIONAL AND INSTITUTIONAL CHANGE IN RUSSIA

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**Abstract.** *On the whole, the co-evolutionary literature on state-business relationships in Russia conveys the idea that significant changes have occurred in property and corporate governance while less change is noticed in management structures, and workplaces are the places less touched by the systemic transformation. This paper critically assesses the idea that organizational changes only proceed from top to down and from the outside to the inside: those who interact in the workplace are not just the receiving end of change. Yet, the cognitive lenses through which this area of empirical reality is seen have often led to the superposition on shop-floor accounts of overarching frameworks such as that of surplus value extraction and the class antagonism it is bound to breed. I argue that better ways to bridge the micro-macro gap may be found within an institutional research that highlights the links between the microlevel of firm capacities for change and the meso level of organizational fields and local socio-institutional environments. Therefore, the paper reviews some major contributions of the co-evolutionary framework with a focus on the bridging issue of emerging entrepreneurship. Then it addresses the methodological challenge of devising explanatory mechanisms that might improve our understanding of that issue. Two examples are proposed here for a comparative look at the Russian case: the attention for the “strategies of independence” of working people in classic works of industrial sociology as well as for the “social construction of markets” as aggregate outcome of such strategies in the Italian industrial districts. The paper concludes with some remarks on whether a rational model of purposive action is or is not compatible with thick descriptions and high-context explanations of the micro-meso link.*

**Key words:** *Organizational imprinting, entrepreneurial firms, local institutions, Russia*

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## Introduction

The most complete set of case studies on post-soviet factory regime is probably that carried out by Simon Clarke and his group on Russian enterprises in the early stage of transition (Clarke, 1996) and the period 2003-2005 (Clarke, 2007). In his essay on “The Soviet descent into capitalism”, Michael Burawoy (1997) reviews the first wave of such

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studies and poses the following question. What are the specificities of all those informal structures that persist today and reproduce many features of the previous factory regime? These shop-floor accounts, he aptly notes, are akin to the classic studies of American industrial sociology of the 1950s of which Gouldner's *Patterns of Industrial Bureaucracy* (1954, <1970>) was one of the best examples. And similar also are their shortcomings for "they tend to isolate the shop floor and downplay the very external forces that produce its distinctiveness". In short, they neglect the fact that all those informal relations (Gouldner's *mock bureaucracy*) are a reply and a compensation of sorts to "the unintended consequences of a rationality imposed from above" (Burawoy, 1997, p. 1437).

The end result of all those "improvisations" on the soviet shop floor, and of management-labour collusion in front of higher authorities, was a strong collectivism which lingers on the post-Soviet labour process (Burawoy & Krotov, 1992; Clarke, 1996a, 1996b, 2004, 2007). The point then is: how can we explain both the persistence of factory paternalism and organizational changes in the face of "an ascendant market economy" whereby the hollowing out of enterprise welfare is going along with radical changes in the spheres of distribution and consumption? Burawoy concludes that an alternative explanation to Clarke's cultural continuity is needed which, strangely enough, resonates with the neoliberal vision of Russian factories as "bastions of irrational conservatism" (Burawoy, 1997, p. 1438).

The case studies carried out by Burawoy, Clarke and their associates have yielded an in-depth knowledge of production management and the social structure of enterprises. Yet, their attempts to link the microlevel of shop-floor accounts to the macrolevel of capitalist development in Russia leave the micro-macro gap wide open. The idea that prompted this paper is that better ways do exist to bridging the gap than that of linking shop-floor accounts to law-like statements on the extraction of surplus value and the class antagonism it is bound to breed. The argument put forward here shares the view that the cognitive lenses through which we look at the co-evolution of organizations and institutions in Russia may be sharpened by rereading the classic works of American industrial sociology. And also shares the view that Russian factories are not necessarily bastions of conservatism. What is not shared is the overarching Marxist framework that has been superimposed on all those shop floor accounts. Then, the qualitative hypothesis is that the research issues quoted above call for the application of mid-level explanatory mechanisms to the spatial-temporal variability of the links between organizational capacities for change, corporate management and institutional pressures.

The paper is structured as follows. In section one, an old lesson from the study on work and authority in soviet industry by Reinhard Bendix is being recalled to exemplify the kind of useful explanatory mechanisms we can retrieve from the classics of industrial sociology. The lesson is that organizational change may be brought about not only by collective action: individual "strategies of independence" can also have a 'subversive' impact within and among organizations.

Section two refers to some central contributions of the literature to state-business relationships which investigate continuities and inflection points in the coevolution of

organizational and institutional change in transition economies. Here the focus is on how organizations reject old rules, develop new capabilities and make strategic choices to cope with the uncertainty of markets brought about by the regulative pillar of the *dirigiste* state.

Section three brings in the local dimension into the co-evolutionary framework, and takes an unusual comparator such as the Italian case to rethink how the bridging issue is dealt with in the co-evolutionary framework. Section four discusses implications for further research on the reciprocal influences of microlevel organizational processes and mesolevel changes in the organizational field and the local environment. Section five concludes with some thoughts on an issue in need of further elaboration: the alleged contradiction between high-context explanations of the micro-meso link and the rational model of purposive action.

### **1. A reminder on soviet management: back to Reinhard Bendix**

The picture of soviet management and labour relations that emerge from the case studies of Clarke and his associates may be summarized as follows. Soviet enterprises always tried to negotiate higher amounts of inputs to produce not only for the plan, but also for their own needs: machinery in short supply, goods for local consumption, housing in the company town, welfare provisions and cultural facilities. This tendency to the maximization of production costs was not economic irrationality. Rather, it was “a drain on the surplus to the benefit of the needs of the direct producers, a subversion of the system of surplus appropriation” (Clarke, 2007, p. 22).

All this was framed in a conception of the labour collective as both a unit of production and the basic cell of the soviet society responsible for the social and cultural reproduction of the labour force. Clarke defines the soviet variant of corporate culture as a blend of “authoritarian paternalism” and “alienated collectivism”. The first term is used to denote the concern of management for its subordinates expressed in cultural events, welfare provisions, but also a concern for the subordinates’ personal problems expressed in informal relations. The second term refers to a collectivism which was merely ideological in that the *kollektiv* was seen by its members “not as a means of their self-expression, but as an overarching force to which they were subordinate” (Clarke, 2007, p. 47).

Finally, Clarke sees the changes before the transition crisis again in terms of contradictions in the system of surplus appropriation brought about by the partial opening of the soviet economy to the world markets. At the macro level, the reforms should have encouraged the development of the force of production, but once under way, they acquired a dynamic of their own. Why, he asks, should enterprises keep going with the delivering of state orders when they could sell more profitable at market prices? And at the micro level, why the money in the pockets of workers should not lubricate the black market and foster the production of their family plots? The attempts of economic reforms were not a sign of basic change in the system, but rather the means by which change was constantly postponed (Clarke, 2007, pp. 13-15).

In his review essay, Burawoy provided a good insight when he pointed to the missed opportunity for Clarke to make a link between his analysis and that of “Communist Neotraditionalism” on the historical roots of workers’ organized dependency from the factory welfare (Walder, 1986). Yet, neither he nor Clarke asked themselves what individual workers might decide when they came up to realize that such dependence was not so rewarding. The only options for workers they both consider were: looking for a better workplace, becoming members of the core group of ‘activists’ to improve their lot with the ‘social salary’ or using their capacity of improvisation on the job to bargaining for higher compensation with foremen and shop chiefs (Clarke et al., 1996; Burawoy, 1997; Clarke, 2007).

There really was more than that in soviet factories, and there also was more in their company towns than *subbotniki* or tilling in private plots (Grancelli, 1988). To understand this, a version of Communist Neotraditionalism neglected by Burawoy is more suitable to understand workers’ options. But before referring to it, we would better recall the methodological tool that Reinhard Bendix (1956 <1970>) used in his classic comparative look into the ideology and practices of soviet management.

Bendix pointed to the stretching of command chains in big Western corporations as the cause of some delegation of authority to the intermediate levels of management. The intent of the Human Relations School was precisely that of ensuring the right use of discretion at these levels thus running the risk of attaching excessive importance to work in groups to the detriment of individual autonomy. However, exchanges of ideas, patterns of leadership, and consensus on the performance criteria also foster individual “strategies of independence” in the organizations they belong to, with or without support from the work team. Bendix warned against the risk of “managerial collectivism” which may stem from an excess of emphasis on working in groups and on work as symbol of loyalty toward the enterprises. In democratic societies, that form of collectivism is thwarted by other loyalties (the unions, for instance), and various patterns of informal relations on the shop floor. However, the risk has become real in the soviet form of subordination. A form aimed at the elimination of all strategies of independence by two basic mechanisms: double hierarchy within the industrial bureaucracy (party and factory administration), and separation of “activists” from the rest of work collectives. (Bendix, 1970, p. 425).

Work ethics, in the Soviet context, was not the outcome of an evolving discourse on the authority of managers and entrepreneurs as it was in the West. Rather, it was the result of “material” and “moral” incentives allocated by the factory administration in cooperation with the union committee. It also was the outcome of vertical and horizontal controls in a framework of “institutionalized suspicion”. All this in substantial continuity with the paternalistic practices of the last years of the autocratic government which was revealed, for instance, in the role of trade union as ideological educator of working people and political “transmission belt” of central authorities (Bendix, 1970, p. 427).

Continuities in the factory paternalism bring about the reproduction of strategies based on personal convenience, given the persisting impossibility of collective action

in defence of labour's interests. Bendix does not see such strategies as unintended consequences of a rationality imposed from above, as Buravoy does. Rather he sees them as ways to somewhat coping with the *irrational requests* put down on working people by a factory regime whereby economic rationality was eclipsed by the quantitative principle of production.

That lesson has been learned by scholars who explained the organized dependence of workers through the factory welfare (Walder, 1986). But it was also learned by scholars who traced back the development of the shadow economy to the corruption of a Leninist regime whereby many cadres turned into local bosses that gave an interested protection to the motley crew engaged in the sub-institutional reconstruction of markets under the socialist facade (Jowitt, 1983; Mars & Altman, 1983). And finally, the lesson has also been learned by scholars who focused on the opportunities for individual strategies of independence that opened up whenever the directive bureaucracy turned into a Gouldnerian "mock bureaucracy", especially in the organizational environment of low priority enterprises (Stark, 1989; Grancelli, 1988, 1995).

## **2. Business-state relationships: continuities and inflection points**

The co-evolution of firm strategies and state policies in the transition economy is not a linear process for it is characterized by the coexistence of path dependency and path generation both in a changing institutional environment and in the management of production (Schwartz & McCann, 2007). A detailed review of the co-evolutionary perspective is beyond the scope of this article whose aim is just to provide further insights on the bridging issues at the micro-meso level of the organization and its local environment. What is important, then, is to recall the basics of Russian business and its evolution as they emerge in some central contributions on the external constraints arising in the process of transition and the internal forces promoting or inhibiting organizational change.

The outline of organization-environment co-evolution presented here follows the format proposed by Sheila Puffer and Daniel McCarthy (2011) who organized their review around three issues. First, the "environment question" which they refer to culture, institutions and state policies. Second, the "bridging question" which involves corporate governance and the strategic choices of different type of enterprises. Third, the "organizational question" related to firms' capacities for change with a focus on leadership and knowledge management. In this scheme I include just a few of the issues Puffer and McCarthy gather under the three headings. However, I include something they chose not to review, namely, the issue of emerging entrepreneurship with a specific reference to the Russian case.

### *2.1. On the environmental (macro-) issue.*

The environmental question is summarized by Puffer and McCarthy in terms of a persisting scant legitimacy of formal institutions that brings about a vicious circle of cultural path dependency. Economic actors tend to resort to familiar patterns in organizational

processes such leadership and knowledge management; these models reproduce continuities in the bridging mechanisms between organization and the environment that result in low transparency in corporate government and limited competitive capacity of strategies. The end result is the perpetuation of an “institutional void” along with the dependency from cultural-cognitive informal institutions (*blat*+networks+corruption) by the management of enterprises. In short, the void of market-supporting institutions is still filled with a networking based on cultural traditions of the country by a collectivist-paternalist leadership usually unable to develop resources for innovation and competition (Puffer et al., 2009; Puffer & McCarthy, 2011).

The macro approach known as a “variety of capitalism” also yields significant results on the state-business relationship that can be summarized as follows. First, business actors tend to adapt to the systemic transformation through the use of skills, templates and existing networks insofar as the insertion into the world market has come about only for the strategic sectors and the big holdings while the isolation of the rest of the economy has hindered the modernization of production processes. Second, significant changes are going on in property and business strategies; some changes are also occurring in management structures and systems of control. Little change may instead be noticed in the shop-floor and work organization (Schwartz & McCann, 2007; Martin, 2007).

## ***2.2. On the organizational issue.***

According to Klaus Meyer and Mike Peng (2005), the study of organizational transactions with institutions, in the volatile environment of transition economies, must have backdrop approaches, such as resource dependence or dynamic capabilities, that can drive institutionalism into a “*back-to-roots movement*” of sorts to regain its concentration on intra-organizational issues. Following this clue, we present here a review of case studies (carried out in Russia in the first decade of the 2000s) that try to explain the lingering of soviet-type managerial practices in incumbent firms.

Simon Clarke draws two main conclusions from the second wave of case studies he had coordinated. The first is that subordination to capital through the rule of money did not bring about a significant impact on organizational practices and procedures. What happened in the first stage of transformation was indeed that firms were merely engaged in survival while the opportunities of integration into global markets were seized by commercial intermediaries. The second conclusion is that not even the recovery from the financial collapse of 1998 brought about marked improvement in corporate governance, accounting and legal practices. The adoption of international practices, he claims, is little more than window dressing, and the scarce development of appropriate management practices proves that capital has found various barriers to its penetration into production (Clarke, 2007, pp. 19-20).

These conclusions stem from a set of shop-floor accounts in firms incorporated in holdings, independent firms and new private enterprises. As for personnel management, the main actors still appear to be middle line managers and foremen that are seldom integrated into the managerial hierarchy. The pay systems keep being based on

low official salaries plus additional payments in cash. That should provide incentives for workers to overcome the limitations of technology and the disorganization of production management, in the belief that will power can overcome objective constraints (Clarke, 2007, p. 188).

In his conclusions, Clarke highlights three points. First, independent enterprises must still follow the imperative of survival; they may have harnessed soviet practices in the new environment, but they do so with a wearing human and material base. Second, the new private sector does not provide a sustainable base for and alternative variety of capitalism either: these firms have found market niches created by the inflexibility of trading firms, and have recruited those who left old soviet factories, but this by no means guarantees a lower level of tensions (even if latent) between workers and managers. Third, enterprises that belong to a holding present no synthesis between old and new: process and product innovation are at an early stage, financial centralization goes along with decentralization of managerial responsibility in organizations in which changes proceed from the outside inwards, and from top to down. Finally, small and medium enterprises are working on the margin of legality, which seems to be the reason why they can sometimes be competitive within the new private sector (Clarke, 2007, p. 226).

The use of inherited resources in management practices is also apparent in enterprises that recovered the high priority status as is demonstrated by an extensive longitudinal survey carried out by Kosals and Izyumov (2011) in 50 Russian regions on a sample of firms in the defence sector. This investigation drew from the neoinstitutionalist model that links the restructuring to both pre-existing social structures and norms, and the national-level institutional changes to highlight the path dependence and path generation in management and labour relations.

The high degree of path dependency in the defence industry is traced back to centralization and administrative rigidity, geographical isolation, secrecy and, most of all, the priority support granted again by the federal government. The weakness of unions is less than a problem for workers since the safety nets provided by secondary income have never disappeared, labour market conditions are favourable, especially for qualified workers and, last but not least, something akin to the Soviet factory welfare could get back again after the hard ups of the 1990s (Kosals & Izyumov, 2011, p. 752).

Here we have spotted something like the bastions of conservatism, even if such conservatism looks not so irrational from the point of view of individual workers and the *kollektiv*. Actually, factory paternalism, and the attendant organized dependency, may be seen as good value by workers of defence industries, especially so if individual strategies of getting secondary income keep being feasible. Nonetheless, a lingering Soviet management may also be observed in what once were the low priority sectors (textile, for example) that today are those in which the presence of financial-industrial groups is quite massive.

The entry of holdings into industrial production has been examined by Claudio Morrison (2007) in a case study in the textile sector of Ivanovo. Here the relationships between outside ownership and factory management have been addressed within the

framework of principal-agent. The similarity of post-soviet practices to those of the 'red directors' is traced back not so much to the incapacity of a conservative management to catch market opportunities. Rather, they are ascribed to the policies of import substitutions, and the choice of new owners to pursue an extensive growth based on low cost and low quality production associated with a policy of acquisitions and tax avoidance. Finally, the reproduction of old practices is put down to a rigid planning in organizational contexts in which the uncertainty to cope with is still largely on the input side, and production is usually far from the technological frontier. In this kind of *kollektiv*, traditional workers' abilities keep being of much value and the opposition to any restructuring is well entrenched (Morrison, 2007).

Other studies in former SOEs highlight that forms of incremental innovation and search of new markets go along with a high degree of continuity in management and employment relations. As Vera Trappmann (2007) concludes in her case study in the steel giant of Magnitogorsk, the threat of unemployment fosters the acceptance of low wages in exchange for a relative security of employment which stems from the market success of the firm. Workers remain highly dependent on their job positions "... as long as labour mobility is not regulated by external markets, but relies on informal good relations with companies." Yet, in such politicized organizational settings the dependency of workers is not without returns insofar as their support has a weight in deciding who controls the firm (Trappmann, 2007, p. 146). And it may also be that the recentralization of government means (for those who control the firm) the new *blat* and the corrupt dealings associated with it turn again into "the competitive weapon number one." If the *know who* becomes more important than the managerial know how, low competitiveness and the freezing of strategic plans may be among the likely outcomes (May & Ledgerwood, p. 2007).

### 2.3. On the bridging issue

Inherited resources of incumbents are still important in the transition. However, in a context in which institutions are more than background conditions, the success or survival of enterprises more and more depends on their capacity to combine new and inherited resources. The available evidence on the bridging issue shows that strategies are put into use to cope as much as with the lack of market-supporting institutions as with the imperfection of a domestic market in which competition is thwarted by a high degree of monopolization, entry barriers, regional segmentation and the specificities of the vertical integration (Peng, 2003; Meyer & Peng, 2005; Avdasheva et al., 2007; Kuznetsov, 2011).

The persistence of network strategies as functional substitutes of market-supporting institutions is understandable if we bear in mind that the prevailing reaction to competition has taken the form of holdings, acquisition of wider shares of regional markets, and manipulation of the value chain even if the main obstacle to competition remains the insufficient legal definition of property rights (Avdasheva, 2007; Gurkov, 2011). But not all is bad news for a certain increase in competition is emerging in Russia which



brings with it more incentives to process and product innovation (Kuznetsov et al., 2011). These signs of change, however weak, should not be neglected.

Networking with institutional actors is the prevailing strategy not only in former SOEs. And yet, this form of relational contracting presents growing costs and potential risks such as, for instance, political pressure for the distribution of higher dividends or the request to take on social responsibilities toward the local community (Gelman & Lankina, 2008). But something really frightening may also materialize, namely, the risk of a combined action by local corrupt authorities and a non-independent judiciary that could lead to an expropriation of the enterprise. It is such Russian variant of hostile takeover that may help understanding recent trends in the 'westernization' of corporate governance (Markus, 2008).

In big Russian firms substantial changes begin to spread in statutory norms, the composition of boards, and the protection of minority shareholders' rights. What seems to emerge is that managers and shareholders have increased their alertness to state attitude towards the definition of property rights. If that attitude turns too activist or predatory, insiders tend to concede part of the control to outside shareholders in order to create alliances to counteract possible threats of expropriation. The typical allies in this "anti-state insurance" (Markus, 2008, p. 74) are western financial agencies whose investments risk turning into sunk costs along with all public actors that can transform the new legitimacy of firms that have adopted international standards into lobbying pressures.

Here a paradoxical aspect of the change process becomes apparent: the shift towards a *dirigiste* state has positively influenced, even if inadvertently, the development of corporate government in Russia (Markus, 2008, p. 86). On this, three conclusions Markus draws from his investigation are crucial for understanding the pushes and pulls in the co-evolution process. First, economic elites are more likely to reveal their institution building capacity when the external allies possess a big political capital and decide to use it. Second, the implementation of this capacity, may not be the first choice, but may be displayed only after other strategies (social and unsocial) have proven fruitless. Finally, what also counts is the perception potential expropriators have of costs and benefits of the operation. In fact, the first big operation of this kind has demonstrated that, if the firm is strategic and the oligarch has got high political ambitions, the expropriation is carried out without hesitation.

Today high priority sectors also include high tech firms, which, in their turn, have to cope with the grip of the administrative regime, which is clearly shown in an investigation on the organization-institution interplay in the microelectronic industry in Zelenograd in the period 1999-2004 (Ahlström & Bruton, 2010). The results have been presented by the authors with reference to the classic distinction between the three institutional pillars - regulative, normative and cognitive. Within the regulative pillar, the tax system has become less "unstable and merciless", fiscal regulations have become less complex, and the government has designed more supportive policies for start-ups. Nonetheless, the normative practice and cognitive acceptance of entrepreneurial firms

is far from being clearly established in society. Thus the movement into a grey area between legality and illegality continues, as an example related to the normative practice can demonstrate.

Today the search for government funds has become very important for these firms, and so has the networking with the state administration and big business. But an unpleasant outcome of these relations (*sviazy*) may materialize in the form of *otkat* (kick-back), that is, the money that has been won in the tender has to get back to the official who arranged the deal (Ahlström & Bruton, 2010, p. 543). No wonder that a widespread reaction to this state of affairs is that of ‘concealment’, which works like this. The firm tries to associate with a well legitimized organization, such as a non-profit or state-linked enterprise. When the deal is made, the firm gets out of sight, but is not in the shadow economy: it is in a grey market insofar as it is not registered, does not have to pay taxes, and conducts transactions in cash, those with the hosting organization included. This is a rational choice, but only in the short-term, for it places limits to the firm’s growth (Ahlström & Bruton, 2010, p. 541). This research, however, points to a significant change in the normative pillar: these entrepreneurs succeeded in introducing changes that influence the legitimacy of business, and in obtaining more support from the government (Ahlstrom & Bruton, 2010, p. 546).

The practice of concealment seems quite widespread for the whole population of small independent firms with less than thirty employees whose life seems to be quite tormented. Counting all kind of bureaucratic controls, these firms may well receive up to an inspection a day. Police may materialize once every three days (Safavian et al., 2001; Byung-Yeon Kim & Youngho Kang, 2009). But playing hide and seek brings about a paradox. An intrusive and corrupt bureaucracy pushes many small businessmen to multiply activities and try hard to make them more productive in order to increase earnings. Yet, a good deal of those earnings must be shared with the rent-seekers in local institutions. This is something that recalls the plight of Italian sharecroppers in the 1950s that had to sharpen their enterprising spirit, conceal part of the crop and find auxiliary works to make ends meet with a pie half of which was earmarked for the landowners in town. That also reminds the quasi-enterprises of the soviet shadow economy that used to pay a “hush money” to party-cadres turned into local bosses (Jowitt, 1983; Mars & Altman, 1983; Grancelli, 1988).

To sum up, the research on the environment question shows all the strength of path dependency in its cultural and macrostructural features which have been traced back to a persistent void of market-supporting institutions and an economy which is not beyond the stage of catch up. The organizational question also points to a set of striking continuities, especially at the microlevel of shop-floor whereby soviet-type labour relations seem to have been re-enacted especially in former SOEs. Finally, the bridging question points to a paradoxical intertwining of both continuities and changes, which, including Russia, seems to mark an inflection point in the co-evolution of institutional pressures and organizational practices.

### 3. The co-evolutionary framework: further developments on the bridging issue

Possible advances on the issue depend on a better theoretical footing of the co-evolutionary perspective whose makings may however be found in the recent literature (Hoskisson, 2000; Lewin & Koza, 2001; Uhlenbruck et al., 2003; Wright et al., 2005; Meyer & Peng 2006; Suhomlimova, 2006; Soulsby & Clark, 2007; Gelbuda et al., 2008; Bruton et al., 2010; Dixon et al., 2010; Puffer & McCarthy, 2011; Xu & Meyer, 2012).

A good question to start with concerns the ways economic actors standing at the cross-roads of institutions absorb and handle complex sets of contradictory institutional pressures (Gelbuda et al., 2008). Investigations on how organizations and institutions co-evolve depict a set of relationships that are combined effects of institution building process and the cultural-institutional legacies of a collectivistic society. More precisely, they point to the socio-institutional filters the new market-supporting institutions must get through before they can impinge on organizational strategies and structures. Yet, such filters do not work the same way all over the country.

The co-evolutionary process is not so linear in Russia: a better understanding of the twists and turns in the coupling between organizational process and institutional pressures may start from two hypotheses. First, a sub-national reproduction of the authoritarian model has certainly taken place in the last decade, but a perfect institutional isomorphism is not the outcome: we need to know better who is going to fill the institutional void, and how, at the meso-level of organizational fields and local communities. Second, there also is a need to better clarify what is rarely dealt with in the study of business-state relations, namely, the redefining of organizational borders and the strategies of organizational actors involved in such a process.

*On the organizational issue.* An approach still seldom applied in transition economies is that focused on leadership and organizational learning as microfoundations of enterprise dynamic capabilities (Teece, 2007; Helfat et al., 2007). A recent, elaborated proposal for the application of a dynamic capabilities approach (DCA) to conditions of rapid institutional change has been put forward by Dixon, Meyer and May (2010) with the aim of filling the gap remaining in the literature on the interdependencies among different aspects of organizational transformation in transition economies. Other scholars, pointing to the limits of top-down transformations, have tried to integrate resource-based and organizational learning literature to get to an approach that may account both for the firm history, and address the process of adaptation to an environment in which competitive advantage has become increasingly important (Uhlenbruck et al., 2003). In this respect, there are two advances brought about by the DCA according to their proponents. First, it presents an elaboration on the stages of organizational change which is absent in previous approaches. Second, it tries to spell out the interrelationships among a more complex set of factors at different levels than those dealt with in other co-evolutionary frameworks such as, for instance, that of Peng (2003).

Actually, the DCA may help better understand different stages of organizational change by looking into a dynamism that may go beyond the zero level of “how we earn a living now” capabilities to the level in which a process of co-evolution of past-experience and knowledge articulation sets in (Dixon, 2010, p. 418). In the first stage, organizational change is heavily constrained by the “socialist organizational imprinting” (Kriauciunas & Kale, 2006). But in a successive stage a break with a sticky historical endowment begins to emerge, and the problem of decoupling members from their old routines meets with some success. The final stage is that of changes from the traditional patterns of ‘transactional’ leadership to forms of ‘transformational’ leadership and organizational learning that generate research and innovation functions for a competitive advantage in an unstable institutional context (Dixon et al., 2010, pp. 422-28).

Dixon, Meyer and May claim they have highlighted the microfoundations of dynamic capabilities, and in so doing they have opened the black box of organizational change. This claim is justified in the following terms. “(...) in the advanced stage of organizational transformation, the top management team can no longer be the main interface of an organization with the environment or the sole arbiter of creativity and innovation” (Dixon et al., 2010, p. 438). Yet, what they seem to have in mind is an evolving transactional leadership within an empowered organization which fosters forms of ‘intrapreneurship’. This is perhaps an idea a bit ahead of times in Russia.

The point here is that opening up the organizational black box is only partial if we overlook two phenomena which occur on both the institutional and organizational sides of the coupling mechanism. The first has to do with the changing boundaries of enterprises in different organizational fields and socio-territorial environments, which are scantily investigated and undertheorized (Suhomlimova, 2006). And the second, with the ways the regulative pillar impact on organization is filtered in a “dual state” whereby the principles of constitutional democracy coexist with an administrative regime largely made of informal relations among rent-seekers, factional fighting and para-constitutional practices (Sawka, 2010). In Russia (but not just there), the legislation frequently has a ‘declaratory’ character (Martin, 2007). Yet, the regulative pillar may work differently at sub-national level.

*On the environmental question.* The shortcomings of current research have been traced to a conception of path dependency as a set of macrovariables which constrain or facilitate the strategic adaptation of enterprises. But enterprises are seen as embedded solely into an organizational field (Lewin & Koza, 2001) and not in different socio-institutional environments.

According to Soulsby and Clark (2007), further advances on the macro-level of analysis are related to the capacity to incorporate the state and its agencies as integral stakeholders in what has been labelled a “politicized managerial capitalism”. (Martin, 2002). However, what emerges from the empirical insights presented above is that state agencies and policies count, but what also counts is the individual agency of actors in the administrative regime along with the often ‘malignant’ social capital brought about by the concerted action therein. And, finally, what counts is the impact at sub-national

level of outside institutional actors along with that of the gatekeepers that straddle the divide between insider and outsider.

The most significant steps ahead have been made *on the bridging question*. Here the best ways to tackle the micro-macro gap have been detected in historically oriented comparisons that may prove of higher heuristic value than agency theory or the resource-based view (Bruton et al., 2010) for further refining the analysis of strategy and corporate governance or of the capacity economic actors have to act as institutional entrepreneurs that make changes to match their environment (Child, 2005; Ahlström & Bruton, 2010; Cantwell et al., 2010).

In these comments on implications for future research, I just briefly refer to the co-evolution of entrepreneurial firms by proposing some comparative remarks on the reciprocal influences of micro processes occurring within organizations and meso level process in a local environment made of organizational fields and local communities. This approach is proposed by Olga Suhomlimova that rightly claims its applicability to transition economies that display great dynamism in the redefinition of organizational boundaries and the aggregation between organizations such as spin-offs and divestures (Suhomlimova, 1999, 2006). The meso-level analysis is, in this case, focused on organizational fields and shows the process of (de-) institutionalization of models of social interaction such as structures of control, product strategies, and rules of exchange in a given organizational field. The significant step ahead here is that investigating the fields reveals not just an institutional void as a set of institutions at different stages of construction or demolition (Suhomlimova, 2006, p. 1553).

The other way to tackle the micro-meso link has been merely hinted to by Suhomlimova, and implies a shift in focus on the relations between the enterprise and the local community (or company town). A classic example may be found in Gouldner's *Patterns of industrial bureaucracy*, which has been recently revisited by Hallet and Ventresca (2006), who make a couple of points of interest for a comparative look into the Russian case. First, *Patterns* took as its focus industrial bureaucracy when it was a *new institutional form* which was going to frame the "scientific management of production" after the "foreman empire" went to an end in American industry. The second is that "oftentimes, these classic works speak to contemporary debates (if only we would listen)" (Hallet & Ventresca, 2006, p. 912).

Actually, the "indulgency pattern" at the General Gypsum Company (informality, laxness with the rules, direct interaction between management and the workers, second chances, and some tolerance for the little larceny) might be taken, by and large, as a blueprint for a model quite common in soviet low-priority enterprises. Second, the foreman empire is partly reproducing itself in post-soviet factories, especially in former SOEs. Third, it is within the foreman empire that, paradoxically, a social construction of markets may unfold and may also be investigated if our radars are able to spot how individual agency and agency relationships unfold in workplaces, communities and company towns.

In the gypsum mine, the rule-centred bureaucracy the new director tried to impose was met by tacit resistance and latent conflicts that turned it in a new variant of 'mock'

bureaucracy. The shop-floor accounts on post-soviet factories show that at least part of the previous pattern of indulgency is now dressed in new bureaucratic clothing. In the post-soviet factory regime, external pressures for a tighter coupling between new patterns of authority and everyday work practices is, with some exceptions, far from being established. The reaction of workers to this tightening of coupling has been described by Clarke in terms quite similar to those described by Gouldner. But the evidence on the co-evolution model in transition economy also reveals another similarity with what happened in the gypsum mine: some aspects of the work organization may be more or less tightly coupled according to the degree of convergence between the interests of management and the workers.

However, what the research streams referred to above tend to overlook is that a new representative bureaucracy can be re-established in another organizational context created by managers and workers who founded a new smaller enterprise in the local community or company town. Future research should elaborate further on the meso-level approaches that highlight the changing of organizational borders and the new aggregation between enterprises especially in context whereby local/regional institutions create favourable conditions for the development of SMEs and something like a “free entrepreneurship” (Yakovlev, 2011). The Third Italy of industrial clusters, non ‘malignant’ social capital and (relatively) good local governments, may indeed be a comparator that highlights the potential for development of meso-level approaches to the co-evolution processes.

#### **4. Emerging entrepreneurship and local processes: more on bridging the micro-macro gap**

In concluding their attempt to probe theoretically in Eastern Europe, Meyer and Peng (2006) note that most institutional comparative analysis involves the USA or China, and asked “Why not Italy and France?” since these are countries in which both SOEs and personal networks are important. Having gained a certain amount of local knowledge, I shall put forward some thoughts on Italy as a possible comparator for the Russian case.

Italy has been labelled as a “particular system of corporatism” which, contrary to what happens in the liberal/individualistic system of the USA, is not dominated by the idea of the autonomy of local actors, but by a logic in which corporatist associations make their requests to politics without any concerns about a possible socialisation of the interests they defend (Jepperson & Meyer, 2000).

The Italian case (along with that of Japan) in the period between the late 1940s and the early 1990s was used by Hanson & Teague (2005) for comparison between Italy then and Russia in the early 2000s. In fact, the two authors depict the case as one of corrupt cronyism, single ‘party of power’, extended economic role of the state, and economic success. Like Russia, Italy is ranked as a ‘low-trust society’, whereby strong family ties are coupled with an equally strong distrust of unrelated members of the wider

community and, in particular, of the state and its laws. The concept of “amoral familism” used to depict the society in southern Italy is very similar to that of ‘small-group solidarity’ used to describe Russian social networks. Also typical of the case in point are weak intermediate institutions that in high-trust societies mediate between individuals and the state.

According to Hanson and Teague, all this has obvious implications for business-state relations: in Italy private sector firms tend to be relatively small and family controlled, while large-scale enterprises need the support of the state to be viable. In short, for most of the period, there was a pervasive network of patron-client relationships, spanning government, parties and business. However, the private sector’s interest in a small state and deregulation developed over time, and seems to have had much to do with the growing internationalisation of the economy. Thus, much of the vigour that distinguished the economy in its boom periods came from small and medium firms that were outside the networks in question.

Hanson and Teague do not explore this “Third Italy” of SMEs, industrial clusters and proactive local governments, and so they miss something of growing importance, namely, the relationship at sub-national level between institutions and new economic actors. A stylized account of this sub-national economic take-off (Bagnasco, 1977, 1988) is then in order for a historically oriented comparison in which new entrepreneurial firms are contextualized in their socio-territorial context, and not only in their organizational field.

- Transformation of an extended peasant family that can easily turn into a small business unit because its members often had former experiences of small farms tenancy as owners or sharecroppers, but also experiences of auxiliary works outside agriculture or of factory work acquired through emigration abroad or into the Italian “Industrial triangle” (Milan-Turin-Genoa);
- Entrepreneurship with historical roots in towns with a cosmopolitan tradition which became again a resource when the expansion of market demand made crucial anew both the earlier capacities of handicraft and small industry along with the habit of doing with international markets and finance;
- Lack of state intervention accompanied by a de facto lenient fiscal policy made of scarce administrative control;
- Widespread patterns of good local governments with positive outcomes on social integration and economic growth;
- Traditions of civicness, generalized trust, and homogeneous political cultures (red in the centre and white in the north-east);
- Increasing labour costs and rigidity of work organization in medium-sized and big factories brought about by widespread labour unrests that prompt a reaction by industrialists in terms of subcontracting part of the production cycle to new efficient microenterprises started up by former skilled workers and foremen.

In short, local governments in the Third Italy “seem to have extended and modernized a set of family and community functions for a *social construction of the market* (em-

phasis added), that is, a set of institutional arrangements that put cultural heritage and political action to use for patterns of economic development regulated by the market but also socially underpinned, and consistent with a collective identity” (Bagnasco, 1988, p. 64). Taking this generalization as the starting point, I try to sketch a look into the Russian case through Italian lens for I surmise that despite all the differences some potential for a social construction of markets does exist within and outside the” bastions of conservatism”.

In their paper on strategy in emerging economies, Xu and Meyer (2012) include the “bottom of the pyramid” among the phenomena to be subject to further investigation, that is to say, the antecedents of development even in the less developed regions in transitional societies. Actually, the antecedents of organizational capacities for change may be found even in the less developed and peripheral regions of Russia. For instance, one may see that the initial privatization without marketization of a kolkhoz may later on generate spin offs of the more productive components promoted by part of the managers in agreement with the most skilled workers and technical cadres. And one may also see a shift from the old state of affairs in which “a little larceny can do a lot to improve employees’ moral” to a new one in which some enterprising spirit begins to spread in family farming (Grancelli, 2011).

Then, there is the case of Novgorod city and region, which highlights a transformation process partially similar to those which started out two decades earlier in the Third Italy. First, an industrial policy which prioritised the closing down or restructuring of uncompetitive enterprises, accompanied by a set of measures to attract FDIs. Second, a local society characterized by forms of civiness and social capital useful to economic development that, along with the institutional endorsement to civic initiatives, brought about greater efficiency in the distribution of resource, and a greater community ‘ownership’ of welfare programs. Finally, an increased level of generalized trust that encouraged cooperation among local elites thus reducing, “the rapaciousness of groups that might otherwise engage in destructive in-fighting or take advantage of their position to enrich themselves at the expenses of the community” (Petro, 2001, p. 237). It seems that the policies summarized above keep being part, by and large, of the local political agenda in Nizhny Novgorod. That kind of changeover does not seem to be the typical one though. As it emerges from some recent regional studies, the most widespread model may be defined as “sub-national authoritarianism” (Gelman & Ryzhenkov, 2011). But why not trying to spot, with a “bias for hope” (Hirschman, 1971), the latent resources that may be put into effect for societal modernization and development?

This comparative look into the Russian case provides support to the rightness of two insights for the advancement of co-evolutionary perspective one may find in recent contributions. First, due attention should be paid to cultures, legal systems, incentives, all framed within better historically oriented perspectives (Bruton, Ahlström & Obloj, 2008; Ahlström & Bruton, 2010; Bruton, Ahlström & Han-Lin, 2010). Change in strategic choices and organizational forms can be better understood by introducing relevant time scales more than through elaborations of cross-sectional data that do



not allow comparing the inflection points that emerge in a given temporal bracketing (Peng, 2003). Second, incumbent firms and new entrepreneurial ventures should be framed both within organizational fields *and* socio-territorial contexts with the peculiarities of their economic history and their transformation paths (Suhomlimova, 2006; Welter, 2010).

In the next section, I put forward some preliminary remarks that emerge from the comparative look into the social construction of markets sketched above, and may be included in the general issue of “embeddedness and beyond” (Brinton & Nee, 1998, Ch. 2).

### **On high-context approaches and the rationality of economic actors: concluding remarks**

The issues that need to be tackled to bridge the micro-macro gap require thick descriptions, high-context approaches and historically oriented comparisons. Does this imply that the micro-meso link is to be addressed solely by focusing on organizational fields whereby only collective action seems to unfold?

Thick descriptions of societal systems of capitalism have been carried out with two aims: to highlight the sources of the “national comparative advantage” (Hall & Soskice, 2001) and to explain the reasons of convergence/divergence of national socio-institutional systems that are categorized in terms of “social system of production” (Hollingsworth & Boyer, 1998) or “societal market orders” (Fligstein, 2001). These high-context approaches stand against the low-context economic ones that allegedly have failed to specify, for instance, the ways in which different organizational patterns arise in response to the same competitive pressure or have given scant attention to the variety of goals or risk preferences in dominant coalitions (Redding, 2005, p. 124).

The typical high-context socio-economic approach is often applied to the study of organizations cross-nationally. An example is provided by John Child (2000), who uses the concept of ‘rationale’ as a combination of formal rationality, carried out in the system of material imperatives, and substantive rationality that instead pertains to the ideational systems of culture and social norms. Thus, high-context approach includes cultural and institutional theory while the low-context one is exemplified by psychological or economic universalism, technology-based theory and methodological individualism (Redding, 2005, p. 126).

Thick descriptions and high context approaches tend to make the point that institutional constraints are means for counteracting forms of self-interest seeking that may lead rational individuals to destroy productive resources in the pursuit of short-term gains (Streeck, 1992). Yet, the unresolved issue here appears to be that the endorsement of densely organized capitalism fails to address the organizational dilemma of trust versus predation. In other words, networks, associations and other communitarian institutions do not necessarily generate flexibility and competitive success. They may also bring about predation and rent-seeking practices, monopoly and collective opportunism (Schneiber, 2001, p. 175).

Be that as it may, future advances in understanding rational action in context may certainly start from an enlarged conception of institutionalism such as that proposed by Ronald Jepperson who claims that institutional constraints can also be addressed within a rational choice perspective in relation to opportunity costs (Jepperson, 2000). Probably the time has come to address the coupling mechanisms between organizational practices and institutional pressures as the outcome of “reasonable or understandable actions”, that is, actions that are supposed to be rational given the context within which actors move. And this amounts to saying that any observer who knows that context may say: I could have acted the same way if I had been in the same situation (Boudon, 1987, 58). Actually, from an enlarged institutional platform we might begin to pay some attention to agency and agency relationships that emerge from contributions of the individualistic tradition in sociology.

To conclude, if we have to tackle organizational change in the context of radical institutional shift, we may well realize that rational-reasonable actors act in ways that are all too often overlooked by socio-economic approaches that still have not developed a theory of individual motivations to act within or without a network or a community (Chajewski, 2007, p. 24). And those actors may be found not solely in top management teams. In other words, working people, that usually are rational-reasonable actors, may redefine previous agency relationships with their collective representations, as it happened in Poland in the 1990s (Chajewski, 2007). But they may even go beyond that in retrieving their agentic prerogatives and change status: *id est*, from trade-unionists to small entrepreneurs that started up as subcontractors of incumbent firms. These strategies of independence were a common occurrence in the 1970s all over Italian industrial districts. It was a mushrooming of small entrepreneurial ventures which would go unnoticed for long behind the coverage of industrial unrests and the institutional façade of neocorporatist intermediation.

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