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**Transacting in the absence of trust**  
**Uncertainty and network patterns in post-communism**

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## **Abstract**

The paper critically discusses the widespread literature focusing on informal post-communist “clans,” “networks,” or “fiefdoms.” Often self-described as determinedly empirical, the “clan” paradigm is crucially shaped by its origins in the analysis of East Asia, as well as by its use as an ideal-typical opposite of Western-style hands-off market contracting in the “markets and hierarchies” literature.

To counter such deficiencies, the paper proposes an alternative argument. Although interactions are indeed personalized, interpersonal trust in many post-communist countries has failed to compensate for missing institutional safeguards. Rather, confronted with an environment of low trust and high uncertainty, actors have developed two main coping strategies: on the one hand vertical integration, on the other hand a hedging strategy of purposeful network redundancy. Even though trust and enforcement remain low, actors can minimize the consequences of default by maintaining multiple ties.

The consequences of such organizational strategies are ambiguous. By compensating for defaults, network redundancy has cushioned the impact of economic crisis. At the same time, network redundancy has considerably raised overall transaction costs and may also play a role in impeding democratic consolidation.

## **Keywords**

Transition, networks, social capital, trust, Russia.

# Transacting in the Absence of Trust

## Uncertainty and network patterns in post-communism

### 1 Introduction

*“In Russia, business deals, founding of companies, investment decisions or cooperation are not done within the framework of official and formal institutions or structures; rather, this is done with the help of friends, relatives, or colleagues. In the face of the often unstable norms and principles of the transformation period and of wide-spread corruption, this means that the factor ‘trust’ has a special significance, which can be reduced to the formula: a lack of system trust is compensated by taking recourse to private relationships and networks, i.e., a reliance on traditional forms of (inter)personal trust. ... By now, these networks can even be understood to be a stable and relatively closed system of relationships between business partners.”*

*Hans-Hermann Höhmann and Elena Malieva, 2002*

*“all these various forms of networks involve intricate and durable relations which are based on trust and reciprocal patterns of communication and exchange”*  
*Gernot Grabher, characterising previous studies on networks in transition economies (Grabher 1993, p. xiii).*

*“Headquarters [for Hewlett-Packard] continually kept pushing the idea that we should establish a single distributor and work only with him. They didn’t understand that you can’t do that in Russia ... Periodically a new conqueror flies in from the West, and he is convinced that we have to search for a ‘focused’ distributor, who will sell everything, and HP will develop him. Well, a maximum of two ‘focused’ distributors. And we Russians have to convince them again and again: Gentlemen, this is Russia, you can’t do that here... [Instead, in the beginning] we were recruiting five or six vendors each month. We even had a joke about it: in the Russian office there’s no day without a [new] vendor.”*

*Boris Shcherbakov, former head of PC Division, Hewlett Packard Russia, 1997*

Prevailing accounts of post-socialist networks – as the above quotes show - have overwhelmingly painted a picture of dense, normatively based networks relying on a high degree of interpersonal trust. Yet as the last quote shows, this image may not always correspond to reality. However counterintuitive to many observers aware of the importance of “connections” for getting things done, survey after survey has shown not just low levels of trust in institutions, but equally low levels of interpersonal or reciprocal trust (Radaev 2003, p. 8-9; Gibson 2001). As one scholar of Russian business pointedly summarized, Russian entrepreneurs “can trust only their mothers or daughters, not even their sons,” in his view explaining why the local business press strongly advises not to involve extended family members such as cousins or sons-in-law in management functions (Igor’ Gurkov, Carnegie Mellon lecture at UC Berkeley, November 12, 1998.)

This poses not one, but two puzzles to answer. Given low levels of interpersonal trust, what has led so many experts to argue the opposite? And on the empirical level, how does an economy or society function in a climate of prevailing distrust of both institutions and personal contacts?

This paper attempts to give an answer to both of these puzzles. As it argues, network or “clan” arguments arose as a response to early transition studies which expected a unidirectional development towards convergence with Western patterns, overlooking the highly personalised and informal character of post-communist states and societies. In contrast to this, “clan” and also “feudalism” views of post-communist society took the empiricist high ground, claiming for themselves to be more attuned to the informal realities and legacies of the past. However, timely and important as the network argument was, it actually brought in a cognitive bias of its own. This bias had several sources, stemming on the one hand from the sources of the network and clan literature in the study of East Asian economies and on the other hand, in the ideal-typical contrasting of markets, hierarchies and clans in the context of transaction cost economics and the governance of industries debate.

Recognition of this bias makes it necessary to come to a new interpretation of post-communist reality, taking seriously both the informalization and particularisation of society and the fact that this takes place in an environment of overwhelming distrust.

Under these circumstances, as this article suggests, rather than converging into “clans”, relationship patterns will be dominated by strategies of risk avoidance and risk-spreading. This, I hypothesize, takes two main forms. Particularistic relationships can be hedged through the multiplication, rather than tightening, of such ties. Secondly, actors buffer against their high-risk, low-trust environment by broadening their direct hierarchical control – in other words, achieve a degree of autarchy through vertical integration. This could mean vertical integration in industry, but also the construction of regional political fiefs. Another, alternative way of buffering is to bypass domestic markets as much as possible by transacting only with partners abroad.

The paper is structured in the following way: Section 2 sets out the “clan” paradigm described above and traces its sources. Section 3 looks to the theoretical literature on social and economic networks for alternative ways of conceptualising relationships, while section 4 takes a second look at the socialist past and the role personal networks played in overcoming uncertainty both in relationships between economic actors and on the other hand with regard to citizens’ everyday survival strategies. Section 5 applies these arguments to the reality of transition economies, and asks whether there are any discernible trends for consolidation.

## 2 Transition or Transformation? Universalistic vs. particularistic views of post-communist society

In the immediate aftermath of the Soviet collapse, popular as well as academic expectations were dominated by conventional unidirectional views of westernising transition familiar from early modernisation theory. There were two main types of “transition” scenarios: one of them the classical market transition based on profit-maximizing atomistic actors, an alternative model in contrast stressing group bargaining and the virtues of “civil society,” both of them relying heavily on universalistic institutions. Network, clan and “feudalism” approaches were developed in explicit opposition against such views of transition; they emphasized organisational legacies, institutional particularise and direct interpersonal ties.

**Market Transition Theory.** Soviet-style economies had failed because they had replaced markets with bureaucratic coordination. For market liberals, the **depoliticisation of economic life**, applying equally to ownership, allocation, credit and prices, accordingly became the main yardstick for measuring the progress of post-communist transition (Aslund 1995, p. 3-4; Boycko *et al.* 1995, p. 10-11). In their eyes, depoliticisation was a simple process, largely akin to Western efforts at deregulation. There were two important components to this view of markets. First of all, the market mechanism was seen as intrinsically impersonal and universalistic. Secondly, markets were viewed in a primordial fashion, as based on natural entrepreneurial inclinations that needed only to be unleashed. Neoliberals anticipated little problems with the implementation of laissez-faire policies; ironically given their general distrust of government, administrative fiat was seen as an effective way of achieving deregulation: Thus, Anders Aslund refers to a 1993 Council of Ministers Decree prohibiting subsidized credits as proof positive that “(c)redit and pricing have thus been essentially ... depoliticized” (Aslund 1995, p. 4).

**Group-based transition.** This view of transition focuses on developments within society and its relations with the state. Individual actors in this view do not act in an atomized fashion, as in the market model; rather, political and economic outcomes result from pressure by and/or consensual bargaining between more or less organized corporate or group actors. This process can be evaluated in two very different ways - positively as “civil society” or negatively as “rent-seeking coalitions”. Both versions, though, refer to substantively the same developments.<sup>1</sup>

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<sup>1</sup> While much of the literature focuses exclusively on formal interest groups, others have questioned the importance of formal organization. Function, in their view, supersedes form: after all, looser structures and informal coalitions may also work towards the same collective goals.

The common prerequisite for the interest group and market atomistic model is a **functioning state**. This is because both of them in different ways rely on the existence and universal application of impersonal procedures that create public goods – either for the benefit of all society or of groups within society.

Market transition at a minimum requires the state to fulfil classical night-watchman functions - the definition and enforcement of property rights, accounting standards, basic transparency and the like.<sup>2</sup> Many transition theorists also went far beyond this to advocate, for example, transferring Russian enterprises' welfare functions to governmental organs in order to increase mobility of labour (Layard & Richter 1995, p. 138-141). What this effectively meant was building a Western-style welfare state, based on similar institutions, at any rate not the patriarchal enterprise welfare model characteristic of state socialism. Thus contrary to their own claims, market reformers were not so much trying to roll back the state, but rather to build a different state – one that, ironically, would need more rather than less administrative capacity in order to function properly (Chaudhry 1993; Tompson 1997).

Similarly, the interest group approach was based on a state strong enough to commit to and provide agreed-upon benefits to members of a given class or group regardless of individual characteristics. After all, if automatic, universalistic application of benefits cannot be relied on, political and economic action immediately shifts from the collective arena to an individual one. Actors may still push for collective rules, but they will concentrate on having these rules applied in their own cases, rather than across the board for the group as a whole.

Few transition analysts seriously questioned the ability of the Russian state to provide basic public goods. Its real failings, to be sure, were too massive to overlook completely; however, they were played down and attributed to a lack of political will or the still-ongoing nature of the transition process, rather than to fundamental institutional deficiencies. Since problems were viewed as transitional, they were also expected to disappear over time. The neoliberal reformers expected shock therapy to unleash enough energy to create an independent momentum towards institutional consolidation. Newly created/legalized owners, so they argued, would generate widespread demand for a rules-based system. One of the key architects of the Russian privatization program, Maksim Boycko, triumphantly declared in 1995: “We believe that a genuine demand for [legal] reforms now exists, primarily because privatized and newly private firms need legal protection and commercial laws to

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<sup>2</sup> This true of all but a few extreme libertarians. Vitalii Naishul, for example, in a 1994 article advocates a Hayek-style “free banking” system, coupled with the abolition of compulsory taxation. He does, however, retain the state’s monopoly on violence. (Naishul 1994, p. 180-181)<sup>3</sup> From the 1970s on, scholars began to challenge this view in favor of the input of broader societal and elite groups into political decisions. However, the two approaches mainly differed on how they envisaged the decision-making process; neither of them much concerned itself with the implementation of those decisions.



restructure. We strongly disagree with the critics of privatization, who argue that legal reform had to precede privatization, since a year ago the political demand for legal reform simply did not exist. At this point in the Russian economic reform, in contrast, legal reform is both essential and feasible” (Boycko & Shleifer 1995, p. 105). In consequence of those beliefs, early neoliberal statements devoted little attention to the institutional underpinnings of a market economy. Their attitude to the state was aimed at its roll-back, rather than reconstruction. While Western transition theorists such as Anders Aslund did talk about “state-building”, this was conceptualized as an entirely separate agenda referring solely to the setting up of democratic institutions rather than the unrelated task of market reform (Aslund 1995, p. 7). Legal reform, in turn, for Aslund constituted yet another important but unrelated issue. Neoliberals’ efforts in this area centered on the drafting and approval of key economic legislation, rather than on a reform of legal institutions themselves. Legal reform thus was seen as a software problem rather than a fundamental institutional issue. As to the implementation of newly-passed legislation, this again was seen mainly as a matter of political will.

This confidence was rooted in two factors. There was, for a start, simple ethnocentricity. Based on their own everyday experience, many Western scholars took public goods and the actual implementation of existing laws for granted or else expected them to emerge naturally once private property had been re-established. (Anders Aslund’s assumption that a single Council of Ministers’ decree against subsidized credits would miraculously eliminate soft budget constraints nicely demonstrates this attitude.) And while their post-communist colleagues could have contradicted such views from direct experience, all too often they instead adopted established Western textbook models, no matter how unsuitable.

This natural bias was reinforced because it was so much in accord with the **traditional view of the USSR as a strong state**. Classical totalitarianism theory, of course, painted a picture of absolute political control from above over an atomized population.<sup>3</sup> This corresponded with the early Soviet self-image: an ultra-modernist utopia functioning with machine-like, absolute quality. Ironically, it is exactly such “machine” metaphors that abound in the totalitarianism literature. After the end of Stalinism, this image was not discarded, but merely modified in such images as “bureaucracy writ large”, “USSR Inc.” (see, for example, Meyer 1965). However, as numerous studies have documented, this misinterprets Soviet experience. A strong state in terms of unchallenged political control is very different from a strong state in terms of administrative performance; the two may even be mutually exclusive. In reality, the very logic of totalitarian rule brought with it a trade-off between power and performance. Procedural rationality might enhance performance, but it also sets boundaries to the rulers themselves.

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<sup>3</sup> From the 1970s on, scholars began to challenge this view in favor of the input of broader societal and elite groups into political decisions. However, the two approaches mainly differed on how they envisaged the decision-making process; neither of them much concerned itself with the implementation of those decisions.

The Soviet regime opted for a different solution. Concentration of power at the top was assured by a divide-and-rule strategy that blurred and multiplied lines of authority, while cyclical mobilization campaigns were designed to smash through bureaucratic resistance. The trade-off of this strategy was a weak state – at least as far as performance goes. This was true even of the classical Stalinist period” (Rittersporn 1982; see also Filtzer 1986; Lewin 1973; Remington 1984; Zaleski 1971; Zaleski *et al.* 1980).

With the end of Stalinist coercion and the increasing complexity of Soviet industrial society, such problems multiplied. By the late 1970s, Soviet-style systems were in decay. Individual interests had hijacked the old coercive apparatus and turned it to their own, particularistic purposes (Walder 1986; Jowitt 1992b; Hankiss 1990; DiFrancesco & Gitelman 1984). Marc Garcelon nicely summarizes “the great ironic paradox of sustained Party-state rule: the subordination of particular interests and the individual’s life course to the diktat of ‘total administration’ resulted ... in the pervasiveness of particularistic orientations and the near obliteration of civic orientations. The tangled web of particularism that marked the social world of Soviet-type society was the unintended consequence of the communist ideological project of ‘community without participation,’ of the total subordination of society to ‘the vanguard’ without intermediate, autonomous form of association or mechanisms of social integration beyond formulaic exhortations, coercion, and material incentives” (Garcelon 1997, p. 332).

As seen above, market impersonalism as well as strong-state concepts founder on Russia’s procedural deficits. Evidently the post-Soviet political economy rests largely on sets of particularistic relationships; the challenge, then, is how to conceptualize these relationships. A broad-based literature devoted to particularistic ties in communist regimes from China to Eastern Europe had first emerged in the early 1980s. At the time, this literature was not discussed much beyond a small circle of area specialists and certainly did not play into the design of transition strategies. By the late 1990s, however, growing disillusionment had superseded the initial exalted expectations towards the transition project. Terms such as “crony capitalism” became common parlance – in particular after the 1998 economic crisis. Consequently, studies devoted to particularistic relationships in post-communist countries have become both more prominent and more numerous. Their predominant theme has been that of informal networks, clans, and cliques.

There is, by now, a multitude of studies, many of them with their own idiosyncratic terminology (see for example Kharkhordin 1994; Wedel 1998; Stark & Bruszt 1998; Rigby 1998). Not all of them attempt to formulate an elaborate theoretical framework. But many of the most explicit and thought-through studies do grow out of a common motivation: that of constructing a counter-project to totalitarianism theory. As Andrew Walder argued in his famous study of “communist neotraditionalism,” “instead of the totalitarian image of impersonal mobilization and social atomization, the neo-traditional image stresses a formally organized particularism in the distribution of goods, income, and career opportunities, a network of patron-client relations maintained by the party, and a rich subculture of instrumental-personal ties independent of the party’s control” (Walder 1986, p. 7). Janine Wedel, discussing the impact of the Polish sociologist Stefan Nowak, makes the same

point even more forcefully when she argues that “Nowak’s theory [of the social vacuum] conceives of postwar Poland as an ‘atomized’ society, its mediating institutions destroyed by war and imposed revolution.” However, “the Nowak model overlooks the fact that Polish society has long been organized by a complex system of informal relationships involving such forms as personalized patron-client contacts, lateral networks, and ‘social circles’” (Wedel 1992, p. 9-12); see also Grabher & Stark 1997, p. 10). In this view, thus, the notion of informal, personalistic networks is merged with that of bona fide intermediary institutions.

As to the concrete forms networks take, here again there is basic agreement. Several attempts have been made to synthesize the literature. As Gernot Grabher comments, heterogeneous though previous studies may be, “all these various forms of networks involve intricate and durable relations which are based on trust and reciprocal patterns of communication and exchange” (Grabher 1993, p. xiii). Janine Wedel equally sweepingly argues of existing studies that “all these groups - - Romanian unruly coalitions, Hungarian restructuring networks, Polish social circles, and Russian *suzerainties* and clans – may best be characterized as ‘cliques’”. Following Boissevain, she defines this term to refer to “dense and multiplex networks whose members have a common identity” (Wedel 1998, p. 6-7).

We are thus not talking about networks in general, but about a very specific type of networks. For the sake of brevity, the following discussion will often refer to this particular type as ‘**clans**’. There is no set terminology to characterize different kinds of networks. The term “clan,” in particular, is used in very different meaning by different scholars. My own usage is derived from the way it has been applied by a number of scholars in the field of post-communist studies (– see, in particular, Wedel 1998). The distinction of “clan” and “fief” as, respectively, horizontal and vertical, or “diffuse” and “undiffuse”, is shared by Boisot & Child (1996), esp. p. 622. There are, of course, other usages of the word “clan”, for example in Ouchi (1996).

Clans’ most important characteristics are the following:

- **Density** and **multiplexity**, referring to “the degree to which the members of a person’s network are in touch with each other independently of him” (Boissevain 1974, p. 37) and the extent to which relations within the network encompass several different social roles simultaneously.
- Clans also adhere to a principle of **exclusivity** in selecting partners. This is held to substitute for the hands-off transactions found in more impersonal market structures.
- Clans are **stable** over time. Even in the post-communist context, thus, Soviet-era ties are preserved, either in their entirety or partially through a tightening of networks.<sup>4</sup>

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<sup>4</sup>The former is suggested by Jacques Sapir (1996, p. 67-69). A tightening of networks (without, however, taking in any *new* partners) is suggested by Gerber and Kharkhordin (1994).

- Finally, the enforcement mechanism operates on a **normative basis**, with shared values and interpersonal trust compensating for institutional deficits.

This conception of “networks” is, of course, not restricted to the field of post-communist studies. Clientelism studies focusing on Africa highlight a similar set of attributes. Thus, Christopher Clapham (1982, p. 5-6) counts among the “characteristic features of clientelism”: “regularity and persistence of the exchange relationship”, incorporation “in a set of social networks and values which tend both to reinforce and to disguise the transactional nature of the relationship” and finally multiplexity - “the relationship tends to become more complex and multifunctional...” The same is true of organization theory at large. In a 1989 article, Bradach and Eccles summarize the traditional view by saying that “the norms of obligation and cooperation highlighted in these studies all imply the existence of *some sort of community of shared values*, whether they reside in a network of business relations (Macauley 1963), a country (Dore 1983), a geographically bounded industrial district (Sabel & Zeitlin 1985), or a firm (Ouchi 1980.” (Bradach & Eccles 1989, p. 107); emphasis added). Even studies that do not explicitly define the term “network” often tacitly share the same assumptions.

This near-unanimity is all the more surprising considering that classic accounts of particularized systems explicitly list a large variety of possible network relations, some close, some loose (Boissevain 1974; Landé 1977). Indeed the term “network” itself is often taken to refer to nothing more than social relations in general. In practice, however, very often a close reading will discover a conceptual jump from this general understanding of networks to dense, multiplex, and normatively based “clans”.

Why is this the case, and what makes the “clan” concept so tempting to scholars? There are three distinct reasons for this.

- First of all, “clan” concepts in the social sciences have historically been closely connected with a very specific comparative context. For this reason alone, certain aspects of networks are given prominence over others.
- Secondly, black-and-white dichotomies such as the one described above neatly fit the abstract nature of such concepts as hierarchies and networks: much more neatly, at any rate, than the messy real world of hybrids, fragmentation, and multiple strategies.
- Thirdly, claims about informal enforcement mechanisms are based largely on functionalist considerations. They thus neglect investigating actually existing resources and capacities.

Beginning with the comparative context, it must be noted that conceptual rethinking both in communist studies and within the broader field of organization theory was inspired by a very concrete, regionally-based example: that of East Asia, and within East Asia, both of China and of the capitalist tiger economies. As Almond and Roselle (1990, p. 93-95) argue, much of the discipline’s recent preoccupation with informal relationships such as

clientelism and “clans” was mediated through studies of Communist China. On the other hand, theory-building in organization theory, and in particular in the context of the markets and hierarchies debate, was driven by interest in the Japanese and overseas Chinese business networks. In consequence, both strands of scholarship referred to specific factors held to be characteristic of the East Asian situation, such as the Confucian ethic, the importance of personal reputation and “face”, and also - especially in studies of overseas Chinese networks - strong ethnic ties (see, for example, Redding 1990). This has led to a predominantly normative and cultural, rather than interest-driven view of networks. Trust and cohesiveness, rather than mutual resource dependence came to occupy the centre of attention. The new literature in post-communist political economy builds on both of these research traditions and has inherited their normative focus. Thus, David Stark explicitly uses the term “clan” to refer to “the cohesive networks of trust, cross-ownership, and stable subcontracting that made possible the Japanese miracle” (Stark & Bruszt 1998, p. 69).

While the East Asian comparative context explains much of the normative bias common to post-communist network theories, there are other factors as well. Important among those is the abstract, ideal-typical character of the network concept, which is often derived from other concepts (such as market impersonalism) as their negative residual. If “markets” are defined by one specific set of attributes, “networks” or “clans” in consequence tend to be allocated the opposing set of attributes. Thus, network relations are described in dichotomic fashion as informal, rather than formal, hands-on rather than hands-off, restricted and exclusive, rather than interchangeable and so on down the list.<sup>5</sup> While the East Asia comparison had merely fostered a preoccupation with trust, values, and cohesiveness, the ideal typical approach goes far beyond that by turning “networks” and “trust” into near-synonyms. In a striking example of this approach, Bradach and Eccles assert that “the control mechanisms, price, authority, and trust ... map roughly on to market, hierarchy, and relational contracting.”<sup>6</sup>

The influence of Weber has also fostered thinking in such contrasts. The Weberian, or “neo-traditionalist” version of the network-market dichotomy has been especially influential in post-communist studies (Jowitt 1992a; Walder

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<sup>5</sup>Other dichotomic contrasts that are often included in this kind of argument are atomism vs. embeddedness; modern vs. traditional; universalistic vs. particularistic; hands-off market impersonalism vs. relational contracting. All of these tend to be associated with other traits on the same side of the equation. Thus, multiple network partners are seen in conjunction with hands-off relationships and enforcement through outside, universalistic institutions. In contrast, ties with single partners are associated with a hands-on, value-based character of the relationship. A good example of this approach is Mari Sako’s study on inter-firm relationships in Britain and Japan. (Sako 1992), esp. p.11).

<sup>6</sup> Bradach & Eccles 1989, p. 101. While they also assert that such control mechanisms take on various mixed forms in real life, still the ideal type itself firmly associates networks with the concept of trust - and that generates the kind of interpretations I have described earlier.

1986). Constructed as a conscious antithesis to Western “modernity”, this approach often juxtaposes every ideal-typical component of modernity with its “traditionalist” counterpart. This makes it hard to conceive of different combinations of “traditional” and “modern” elements. As Stinchcombe and Heimer argue about a similar type of contrast, contract and hierarchy, the “common danger of the ideal type method used in this literature is that one of the types, usually the most interesting one, is defined residually, by contrast with an empty ideal type into which very few empirical observations fall. This means not only that intermediate cases are misanalyzed, but that even the poles of contract and hierarchy are poorly defined” (Stinchcombe & Heimer 1985, p. 126-127). The best students of neo-traditionalism have been well aware of these pitfalls, and carefully frame their definitions around them. However, that does not diminish the power of the original images. Especially lesser-rate, derivative studies have found it hard to escape their lure.

Finally, as this article argues, “network” proponents fall victim to a false functionalist logic. Post-communist society, they rightly argue, lacks institutionalized sources of trust. Because of the inadequate legal and bureaucratic structures, impersonal contract enforcement only works to a very limited extent. In response – thus the argument – economic actors compensate by building up direct interpersonal mechanisms of trust.<sup>7</sup>

This implicitly assumes that the level of contract enforcement is constant across societies and across time, and that the only variation is in the respective mechanisms used to achieve compliance. In this way, the existence of strong enforcement mechanisms is inferred as a functional requirement. And since the most obvious such mechanisms in an under-institutionalised society are strong shared values and reputation effects, it is also inferred that the necessary level of trust either already exists, or can be achieved easily and within a limited time frame. This logical jump is further encouraged by the way enterprise surveys are constructed. Studies often instruct respondents to indicate their preferred, legal or extra-legal, enforcement mechanism. To exit relationships (and hence, to forego enforcement) is not a strategy provided for in such questionnaires.<sup>8</sup> But as Carlsson, Lundgren and Olsson (1999:13) found during investigations in Tomsk, especially private “firms often have a straightforward way of dealing with broken agreements; [rather than litigate] they simply do not continue doing business with firms that do not pay.”

The functionalist argument asserts that personal, primordial forms of trust will simply emerge when needed. That is a highly problematic assumption. First of all, even in traditional settings societies may have very different levels of trust to begin with. Edward Banfield’s concept of ‘amoral familism’ is perhaps the best-known example of this (Banfield 1967). But trust becomes

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<sup>7</sup> This argument is not unique to the post-communist context; for other references see Podolny 1994, p. 459; Geertz 1978; Whitley 1996, p. 52.

<sup>8</sup> An exception is the excellent study by Hendley *et al.* (2000). Even here, however, exit is mainly considered as a threat, rather than as a realistic option – possibly because relationships are considered on a dyadic, buyer-to-supplier basis, rather than as a web of relationships in its entirety.

even more complicated as we move from traditional rural to industrial society. Revealingly, many of the “clan” examples described in the literature at large involve “bonding” social capital (Schuller 2007, p. 14) derived from traditional social formations like extended kinship and ethnic groups. As such, the concept is hard to apply to a heavily urbanized society like Russia’s. A few notable exceptions – like the Chechen mafia – merely confirm the rule.

Generally, a majority of scholars sees industrial society as disruptive of primordial (or in the words of Lynne Zucker, “characteristic-based”) social trust. Migration and other disruptions have destroyed traditional social cohesion. Institutionalized forms of trust (the state bureaucracy, professional organizations, and financial intermediaries) come in to fill the vacuum precisely because social trust is so hard to reconstitute once destroyed (Zucker 1986, p. 54). The directionality of this mainstream argument is the opposite of that assumed in the functionalist theory of networks.

### 3 Alternative views of networks

As discussed, many network studies instinctively applies a certain, “clan”-like understanding to the subject. However, there have been exceptions from the start, and as network studies begin to focus more specific topics such as the sharing of information there are signs that the discussion as a whole is turning from dense and bonding forms of network capital to looser and bridging connections. Rethinking has focused on two points in particular: one, the (normative or otherwise) foundations of networks, and secondly, the trade-off between different forms of network characteristics depending on task and environmental characteristics.

The normative foundations of networks are not only being questioned in the post-communist case. Indeed, very similar criticism has been addressed to the even more entrenched view of East Asian countries as uniquely trust-based political economies. As Michael Gerlach (1992, p. 50-51) summarizes scholarship on Japan, “the ubiquity of trust as a cultural characteristic of Japanese society is by no means universally accepted.” In fact, he argues, many observers may simply be confusing an image propagated by protagonists with reality: “Certainly Japanese managers tend to *explain* business behaviour in relational rather than instrumental terms, with words like ‘trust’ and ‘loyalty’ appearing repeatedly in accounts of the Japanese company and inter-company cooperation” – implying that such forms of self-characterisation do not have to be accepted at face value.

As a consequence, newer empirical studies of both business and personal networks have gradually moved towards an alternative view that de-emphasizes qualities such as density and cohesion. As I shall argue, this modified view is much more suitable to post-communist political economies than the static interpretation of classical network theory.

Such a view of networks becomes even more plausible if interests, not values, are seen as the driving force. The “clan” paradigm notwithstanding, such interest-driven definitions of networks have a broad basis in the literature on organizations. Thus, Hakansson and Johanson (1993, p. 45) explicitly define

networks as based on interests and contrast them to the normatively based principles of hierarchy and culture (see table 1).

**TABLE 1**

External force is based on	Internal force is based on	
	<i>Interests</i>	<i>Norms</i>
<i>Specific relations</i>	1. Network	2. Hierarchy
<i>General relations</i>	3. Market	4. Culture, profession

Source: Source: Hakansson and Johanson (1993, p. 45)

Other authors combine both norms and interests in their definition of “networks.” The scheme employed by Campbell, Hollingsworth and Lindberg (1991) includes both norms and mutual dependency as crucial elements of network governance. Building on this idea, later writings of J. Rogers Hollingsworth (2000) actually suggest differentiating between interest-based networks and values-based “communities” and “clans.” Noteboom (2000, p. 63) echoes such arguments when he notes that trust can be composed of many different components. Among the sources he names are “coercion, incentives from self-interest, ethics and norms/values, and habituation and bonds of kinship or friendship. These can be located either in the environment at large or in specific institutional arrangements.”

A rough classification of these different elements would begin by dividing them into interest-based and norm-based mechanisms. Thus, Grandori and Soda (1995, p. 198) distinguish between “social norms and identification in the case of non-calculative trust, or reputation and social control in the case of calculative trust.” Of the two, interest-based mechanisms rely more on repeated interaction, while norm-based mechanisms rely on long-term patterns embedded in the environment. The two of course shade into the other, reputation in the long run can create values as it acquires more of a taken-for-granted quality. Evgenii Kuznetsov (1997) gives a interesting description of how investments in relationships can lead to the establishment of networks and network trust. A similar point is made by Grandori and Soda (1995, p. 194) who contend that the process of information exchange itself over time can become a self-sustaining mechanism.

Besides the normative foundations, network theorists have also devoted increasing attention to the trade-off between different forms of networks depending on task and environmental characteristics, in particular in highly fluid or knowledge-intensive settings. As Gargiulo and Benassi (2000) aptly characterise the discussion, “scholars typically highlight the enhancing effects of social networks on the ability of individuals and organizations to attain their goals. Yet, a cursory inspection of the literature reveals two different views of how social networks produce such benefits. On the one hand, the traditional view of social capital stresses the positive effects of “network closure”—i.e., the presence of cohesive ties—in promoting a normative environment that facilitates trust and cooperation between actors (Coleman 1988, 1990). On the other hand, structural hole theory (Burt 1992, 1997) argues that the benefits



from social capital stem from the brokerage opportunities created by disperse ties—that is, by the lack of network closure.” Such “disperse ties” – focused on range rather than depth - have been attracting increasing research attention over the past decade and are seen to be beneficial in a variety of circumstances: “Instead of getting “locked” or “trapped” into a single relationship, investing in range will allow an individual to adjust his or her network time across more or less rewarding knowledge transfer opportunities (Burt, 2008).” (Tortoriello *et al.* 2011, p. 29; see similarly Reagans & McEvily 2003)

One important effect, thus, has been to redirect attention from traditional close and exclusive ties to looser and more flexible connections – something that can be useful for the analysis of post-communist societies.

#### **4 Alternative views of networks and particularistic relationships in Soviet history**

“Clan” arguments explicitly refer to the communist legacy – sometimes, especially during the first decade of transition, by asserting a direct continuity of specific networks, but with increasing temporal distance focusing more on general relationship patterns. It is therefore worth taking another look at communist-era political economy and its interpretation.

As already outlined in section 2, the predominant image of the strong and authoritarian communist state was focused primarily on its coercive capacities, neglecting the manifold problems in inter-organisational coherence and performance. It is possible to speak of a trade-off: increasing political control and coercion actually contributed to decreased institutional integrity and hence, helped foster informal coping mechanisms. The famous Soviet economic planning mechanism is a case in point. As Moshe Lewin (1973) convincingly laid out in his classical article on “The Disappearance of Planning in the Plan”, overambitious economic development plans brought about their own undoing. Because unrealistic goals set by the Stalinist leadership could not be achieved, economic actors ended up having to make choices between various goals and recipients specified in planning documents – thus unwittingly unravelling the binding character of central planning. Eugene Zaleski’s (1980; 1971) magisterial and detailed study of Stalinist five year plans confirmed these conclusions. As he argues (1980, p. 502), “(t)he upshot of the preceding discussion is that economic policy, as expressed in the plans, is not implemented, The five-year plans are not actually put into operation, and the annual and quarterly plan – poorly coordinated, late, and put into operation piece-meal – represent only one of the elements of a whole network of decisions taken by the government during the year.”. As a result, actual allocation decisions were taken on a case-by-case basis often reflecting political sectoral priorities, such as the precedence of producer goods and freight over agriculture and consumer goods (Zaleski *et al.* 1980, p. 504). The multitude of adjustments meant that “central planning” camouflaged the actual reality of the “centrally managed” economy (Zaleski *et al.* 1980, p. 484); as Michael Ellman (Ellman 1989) memorably put it, five-year plans in particular became essentially a “rationality ritual” designed to aid political mobilisation.

Economic actors did not fail to adjust to the realities of what Janos Kornai (1992) memorably characterised as the “shortage economy”. Early on, Joseph Berliner’s famous 1957 study “Factory and manager in the USSR” (Berliner 1957) laid out the various informal strategies enterprise directors employed in order to cope with the supply uncertainties inbuilt in the system. As he argued here and in previous studies, “(m)any of the important decisions which affect the firm are made not on the basis of ‘arm's length’ negotiation involving more or less objective parameters or universally applied criteria but on the basis of personal influence and cloakroom bargaining. The firm's output plan depends to a large extent upon what the plant officials have been able to bargain out of ‘Moscow,’ the supply plan hinges upon how much can be haggled out of the functionary in the State Planning Commission, and the financial plan is based upon currying the favor of a minor official in the Commissariat of Finance” (Berliner 1952, p. 363). There were also numerous horizontal mechanisms to obtain necessary supplies, such as through the use of personalised directors’ networks and the hiring of professional “pushers” (*tolkachi*).

Berliner’s studies have had tremendous influence on the conception of informal economic networks adopted by contemporary “clan” theorists. Thus, as Natalia Dinello (2002, p. 596) argues, “social networks provided a crucial mechanism through which the first and second economies were integrated... Characterized by inflexible political hierarchies, the communist deficit economies produced a demand for informal intermediaries or “go-getters” to sustain economic activities. Wherever money did not work as an effective medium of exchange, the “go-getters” searched for a deal or a trade through personal connections according to the principle ‘favor for favor, commodity for commodity.’”

There is no doubt of the importance and lasting significance of the phenomena described by Berliner and his successors. However, it is less clear whether either his own view or the underlying Soviet reality ever corresponded to the contemporary interpretation of close and exclusive “clan” type networks. This can be ascertained with a simple logical exercise: The very nature of shortages, after all, was that they could not be anticipated. Problems emerged without warning and in ever new and unexpected locations. This also meant that there were few routinised remedies – even of a networking kind. Friends and acquaintances certainly did assist in mitigating shortages, but only as stations and conduits in an ever-improvised search. This was true on the personal as well as on the enterprise level. Stephen Fortescue has suggested that “the personalist relationships which were struck under the bargained economy ... were based essentially on ‘spot market’ promises of mutual benefit” (Fortescue 1997, p. 10).

Secondly, the centrality of deep interpersonal trust within directors’ circles is undercut by a second phenomenon profoundly characteristic of the Soviet-era economies: hoarding and vertical integration. The use of vertical integration to reduce uncertainty is a common concept in organization theory (Pfeffer & Salancik 1978; Chandler 1977).

Faced with endemic shortages, Soviet economic actors – both enterprises and ministries – similarly strove to reduce their dependence on the outside world by moving as much as possible towards internal transactions. Given an

insensitivity to cost, enterprise managers responded to (real or potential) labour shortages in Stalinist times by hiring over the required level - in effect hoarding labour – and in doing so often assisted potential employees in circumventing the draconian Stalin-era labour legislation (Filtzer 1986). The same was true of raw materials and services. As Janos Kornai (1992, p. 249) described the typical strategy, “(b)uyers make up for the absence of mobilizable producer reserve capacity by themselves producing the inputs they lack, if need be, This occurs even in the household in the form of handyman, do-it-yourself activity, and is thoroughly typical of the producer firms in classical socialism, whose high degree of vertical integration is largely explained by the shortage syndrome. Wherever possible an engineering works makes its own components and has its own foundry, and even its own building department, because it does not believe any outside firm will deliver a part or a casting or provide a construction service on time or in an orderly way.” At the ministerial level, vertical integration translated into empire-building. As the famous Russian sociologist Tatiana Zaslavskaja told a British scholar: “When I was in Novosibirsk, the minister of the Ministry of Medium-Machine Building Slavsky came ... It was interesting just to listen to him. He never mentioned ‘in our ministry’; he just said ‘mine’. The identification was personal. ‘I have 330 state farms, my cows give 6,000 litres of milk, so my milk maids...’ etc. And another interesting thing he said was—‘By volume of production, my ministry is between the Ukraine and Kazakhstan.’ That’s third in the USSR. He’s an emperor. This is an empire. Now suppose we tell him he is supposed to look after scientific and technical policy and he shouldn’t pay the wages of milk maids.” (Whitefield 1993, p. 102).

The alternative and more utilitarian view of networks laid out in this and the preceding section is not only applicable to relations between firm-level actors, but has increasingly been applied to direct interpersonal relationships as well. The alleged value orientation of networks is more and more in the spotlight; thus, anthropological research on Soviet patronage mechanisms – for example Alena Ledeneva’s extensive study of *blat* relationships – remains cautious in assessing value orientation. While the use of *blat*, or connections, for personal benefit may have been ubiquitous, it was nonetheless vaguely frowned upon in public perception. In order to avoid this stigma, as Ledeneva suggests, many respondents may have disguised interest-driven network relationships in the cloak of friendship (Ledeneva 1998).<sup>9</sup>

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<sup>9</sup> This form of bias may also have influenced the literature on post-communist inter-enterprise ties. Surveys - such as the large-scale enterprise study undertaken by Boeva *et al.* in 1992 – did suggest that company directors placed great emphasis on traditions of mutual assistance. This conclusion, however, relied entirely on participants’ self-evaluation. Indeed, as Oleg (Kharkhordin 1994, p. 407))has suggested, interviewers for the Boeva report may themselves have created the phenomenon they purported to analyze: “Interviews conducted by the authors of the Boeva report during the March 1992 Congress of the Russian Union of Industrialists and Entrepreneurs seem to have been instrumental in transforming the hypothesis of the corporate ethic into virtual reality.”

Aside from value orientations, even research on Chinese networks, which often have been described as much more value-driven than their Soviet and post-Soviet counterparts, upon closer examination reveals organisational patterns very different from those envisaged by the “clan” paradigm. Thus, even Mayfair Mei-hui Yang’s (Yang 1994, p. 125-126) well-known study on “Gifts, Favors, and Banquets” argues that since *guanxi* transactions are frequently conducted through long chains of mediators, connections which in principle operate on the basis of familiarity may “also come to rely indirectly on the assistance of strangers.” Yang describes this as “achieved familiarity” under which “the art of *guanxi* [connections] is not restricted to ascribed relationships”. She concludes that “This flexible and enabling aspect of the art of *guanxi* must be recognized in order to avoid conceiving of it as just an exclusionistic, static, and tradition-bound system of exchange.” Other researchers have gone beyond this. Thus Wong Siu-lun (Siu-lun 1996, p. 22). in an article on Chinese entrepreneurs concludes that “since particularistic ties are flexible in nature, the boundary between insider and outsider is rarely clear-cut and the monopoly seldom absolute. Personal networks are constantly breaking up and being regrouped. Thus economic order has to be achieved through the multiple overlaps of shifting personal networks.”

## **5 Hedging and buffering in post-communism**

As I have argued in the theoretical part of this chapter, economic networks do not have to be close, cohesive and clan-like. Informal relationships can just as easily be seen as utilitarian, disjointed, and case-by-case. The higher overall environmental uncertainty is, the higher the likelihood that economic actors will maintain alternative back-up channels.

There is little to suggest that this logic has changed in the post-Soviet context. Overall uncertainty, if anything, had increased dramatically, permeating the political, legal, and economic context all at once. Heightened uncertainty in turn shortened the time horizons of economic and political actors and fostered opportunism. Needless to say, this did not promote cohesion and trust. Even where trust was a given, sheer economic instability made it unwise to rely on a tight, single-partner network without multiple backup systems: After all, even the most powerful patron may fall, and even the most trustworthy network partners may face sudden bankruptcy for a number of unpredictable reasons. Ups and downs also recurred in the political realm, and were enhanced by the traditional Soviet as well as Russian divide-and-rule approach to cabinet politics. Actors, both political and economic, had to adjust their strategies to this unsettling reality. As predicted, they did this by resorting to both vertical integration and hedging network relations.

### **5.1 Vertical integration**

As outlined in section 4, vertical integration within conglomerates and ministries had been an important operating principle of Soviet economic actors. This did not principally change under transition, although both the sources of uncertainty and the legal-institutional context for potential

integration changed dramatically. In the framework of the shortage economy, uncertainty had principally originated from the sphere of supply. This remained a concern even after 1991; however, it was augmented by new concerns and opportunities stemming both from the post-Soviet privatisation drive and the newly monetised nature of economic life (Woodruff 1999).

Nonetheless, due mainly to privatisation, Soviet-era economic integration decreased rather than increased in the first years of transition. This was not due to lessened demand for it; rather it was caused by the legal framework of the privatisation process. In Soviet times, integration had been provided both by branch administrative organs and in industrial conglomerates. After 1991, these groupings were split up. This was not because of practical considerations: in fact, many industry insiders had advocated a preservation of larger units because so many crucial management functions and knowledge operated above the enterprise level (author interview with Igor' Sankin interview, *Rossiiskie lesopromyshlenniki*, October 10, 1996). This, however, was prevented by legal constraints such as the 1987 enterprise law (author interview with Sergei Stepanov, *Soiuz lesoskhorterov*, October 8, 1996).

All the same, given the enduring nature of economic uncertainty, vertical integration remained attractive as an economic strategy. This is perhaps best visible in the fact that it soon became a guiding principle not just for Russian directors, but for foreign investors as well. The probably best-publicized example of this comes from the realm of fast food: famously, the Russian subsidiary of McDonalds does not buy in the open market but raises all its own livestock domestically on specially equipped farms. Not all investors were prepared for this; thus, IKEA founder Ingvar Kamprad in a broadcast interview voiced his dismay at the necessity to provide backup in-house electricity supplies for the company's Russian operations (*Süddeutsche Zeitung*, June 22, 2009). Donors also adopted similar strategies: thus, an EBRD venture capital fund in the Arkhangel'sk region centred its strategy on investment along the entire production chain, all the way down to include transport (author interview with Dall Nygard, EBRD, October 30, 1996).

Large Russian companies likewise soon resumed their attempts to insulate the production chain from uncertainty by bringing as much as possible of it in-house. Thus in examples from the forestry sector, in many Russian regions downstream companies attempted to secure supplies by gaining control of logging operations (*Lesnaia Gazeta*, August 3, 1995), and also integrated simple processing operations: The Arkhangel'sk-based Solombala Pulp and Paper Plant, for instance, in 1999 set up its own saw-milling operations (*Economic News from Regions*, RIA Oreanda, February 18, 2000).

While upstream integration grew out of the industry's traditional operating procedures, new strategies also emerged. First and foremost, this included close links with banks. Thus, the export organization "Vologodskie lesopromyshlenniki", the largest exporter in the region, according to newspaper reports united "nine enterprises, a bank, an insurance and a leasing company" (*Izvestiia*, January 11, 2000). Exporters also have attempted to achieve organizational link-ups in the transport sector, in particular with seaports, in order to control environmental uncertainties caused by weak transport infrastructure. Thus the Roslesprom-owned exporter Roseksportles

in 1995 bought shares in several ports, as well as “of a whole series of other production and transport companies” (*Lesnaia Gazeta*, August 17, 1995). One year later the company even entered into a cooperative arrangement with the Russian customs service that revolved around opening special processing centers for timber shipments (Stepanov interview, October 8, 1996).

Vertical integration was not just driven by economic uncertainty, but also fostered by the peculiarities of the Russian tax system. Loopholes in the classification of “services” actually permitted owners of raw materials to circumvent VAT payments on processing steps (author interview with Dall Nygard, EBRD, October 30, 1996). This was the case, for instance, if a sawmill bought forest on the stump and then hired a local contractor to do the actual logging. In the case of financial-industrial groups such arrangements required the involvement of a bank.

While integration solved many problems for enterprises, it was no panacea. Real hierarchical control, in many cases, remained an elusive goal. This was due both to the concrete circumstances of the privatization process and to the vagaries of Russian corporate governance. As conceptualized in the network literature, the criterion for the existence of a conglomerate (as distinct from overlapping shareholdings and/or directorates) should be an outright majority of shares and hence, direct management control. However, this was hard to achieve in Russia. The prevailing privatization method had resulted in large employee shareholdings. In addition, state property funds to this day remain sizable minority shareholders in many enterprises. Very small shareholdings, on the other hand, leave minority investors powerless. As Russian bank analysts have argued, the crucial threshold for shareholdings lies at 25 percent - the minimum required to formally block decisions at shareholders’ meetings (*New York Times*, August 13, 1999). In practice, however, even outright majority control may not be enough to influence decisions. As the Kotlassk Pulp and Paper plant found to its chagrin in 1998, even its majority control in regional *lespromkhoz*y could not keep their directors from cutting off Kotlassk in order to take advantage of higher prices offered by Russian competitors. In response, the plant decided to build up actual in-house logging operations to cover 60 percent of its raw timber needs (*Pravda Severa*, November 9, 1998).

## 5.2 Multiple network ties

The ever-present possibility of defection meant that enterprises needed to build up reliable alternatives for future transactions. This was illustrated in the very beginning of this paper in a quote from the personal computer business. It was also true of other economic sectors. According to surveys conducted by the International Institute for Applied System Analysis in the late 1990s, regional forest sector enterprises routinely worked with at least three to five suppliers. Suppliers in their turn also had multiple customers (Carlsson, Lundgren and Olsson 1999). This was also a pattern in international trade links. Scandinavian timber companies, as I learned during interviews in Finland, avoid sourcing the maximum possible delivery from one single Russian supplier. As the import manager for Russia at Finnish paper giant UPM Kymmene explained to me, there are clear upper limits on individual

deliveries that serve to keep the level of risk acceptable. Typical deliveries, in this way, usually range between 100,000 and 150,000 m<sup>3</sup> - “with anything larger, you become too dependent” (Kylmänen interview, March 16, 1999). Another Finnish company, Aranna Oy, was even more careful. In the late 1990s, the company regularly worked with between 90 and 100 different Russian suppliers. This enabled it to flexibly switch between suppliers as needed – crucial in a market in which, according to a senior Aranna manager, only 60 percent of business went according to contract. “There are always surprises ... The life cycle of relations is like this [waves his hand up and down], they come and go. The longest relationships last about five years, not more”. On average, Aranna’s business partners came and vanished again within three years, “usually then the partner there disappears or changes his line of business.” (Kirvesniemi interview, March 22, 1999).

Besides mere multiplication of ties, companies also took other precautionary measures, such as for instance the insistence on prepayments. This is all the more astonishing as authors in the “clan” literature had identified network solidarity as a source of **mutual non-payments** (Kharkhordin & Gerber 1994, p. 1077-1079; Stark & Bruszt 1998, p. 154). However, this view has been clearly contradicted by other studies. As Mark E. Shaffer (Schaffer 1998, p. 90) argues on the basis of large-scale firm survey studies of several Eastern and Central European countries including Russia, “Surveys of firms in TEs [transition economies] present clear evidence that suppliers do not continue to ship to customers who have not paid for goods already received, that they will often demand from their customers part cash in advance or on delivery, and so forth...” While there were indeed outstanding payments, their level did not exceed that of trade credit in Western economies. “Firms in TEs, as in Western economies, tolerate late payment by customers and do so simply because they want the business. They do not tolerate nonpayment, and while distressed firms in TEs do tend to accumulate overdue debts to suppliers when they get into difficulties, suppliers do not continue to supply these firms unless they are actually getting paid.” Radaev (2003, p. 13) similarly stresses the importance of prepayments especially with fairly new business partners. Their general conclusions are borne out by regional studies. As Carlsson et al. (1999:12) report from the Tomsk region, enterprises’ ability to pay in advance was “regarded as an essential prerequisite for running the trade.”

Perhaps an even more important factor was the instability of the larger economic and political environment. From one day to the next, formerly loyal partners might cease to operate, or – as Finnish managers pointed out to me – succumb to the more persuasive kind of pressure exerted by Russian organized crime (author interview with Kirvesniemi, UPM-Kymmene, March 22, 1999).

Paradoxically given this quote, not even Russian organised crime itself was immune from this lack of stability and commitment. As one of the best-informed scholars on the subject argues (Galeotti 2000b), “(t)he Russian mafiya ...lacks the discipline and vertical structures of the Sicilian Mafia or Chinese Triads and instead comprises a collection of gangs, crews and individuals that operate largely autonomously, yet are linked within loose networks dominated, but not controlled, by senior [criminals].” “Bonding social capital”, in the form of ethnic ties, was no help in this conundrum: “many of these networks have lost the personal or regional loyalties which held

smaller gangs together... With little holding them together beyond self-interest and fear of reprisals in case of disloyalty, they are prone to division and redefinition, as components choose to move into another network as the balance of opportunities seems to shift. This helps explain the relative instability of the mafiya and its tendency towards internal bloodletting.” (Galeotti 2000a)

Multiple networking strategies were also clearly present in the political realm. As the newspaper “Segodnia” reported in spring 1999, many regional governors were card-carrying members of two or three different political “parties” or coalitions at the same time. This, the paper argued, was a logical consequence of political instability: “In this fashion, the majority of governors is guided by an old principle – not to put all one’s eggs in the same basket” (*Segodnia*, April 27, 1999).

Just as it was not unheard of for regional leaders to be associated with several countrywide political parties at the same time, enterprises also often chose to join overlapping business associations. Elsewhere (Lehmbruch 2003) I have described how two competing associations co-existed for an extended time period even though there was little functional differentiation between them. I had explained this with associations’ role as clientelistic brokers. Seen in this perspective, multiple membership was as a rational hedging strategy from the point of view of members: By multiplying memberships, they were also multiplying their chances of access to decision-makers.

## 6 Conclusions

What do the hedging patterns described above mean for both individual economic actors and post-communist society as a whole? On the plus side such practices have provided actors with considerable reserves of flexibility with which to respond to disruptions of the system. They have thus cushioned the impact of economic and political crisis and prevented further social unrest.

However, such positive effects have to be contrasted with at least as weighty negative ones. On the enterprise level, multiple brokerage does not *reduce* uncertainty, but rather *manages* it; environmental uncertainty may be contained, but since repeated searches substitute for real regularization, it is not lessened in any significant way. This is not to say hedging strategies do not work, on the contrary they are often surprisingly successful in many cases. However, they are cumbersome and involve tremendous losses from transaction costs that could be avoided under more conventional structures such as clans or formal organizations. On a societal level organizational fragmentation of the type severely impedes institution-building as well as governability in general. Thus, “stability” cuts in two different ways and can also be described as “inertia”. Paradoxically, the same coping strategies that helped ward off total economic collapse by insulating actors from the impact of formal institutions also impede the construction of new institutions. As actors multiply their ties to central organizations, this in turn weakens allegiance to all such organizations and hence reduces their ability to enforce compliance.



While democratic governance is impeded, Oleinik (2005, p. 11) claims that the low-trust conditions dominating the Russian political economy are also a constitutive factor fostering the rise of political authoritarianism. As he argues, “(u)ncertainty prevails in the institutional environment with the low level of [institutionalised and general trust] because economic subjects appear unable to plan their actions in a rational way: they cannot be sure of business partners. There exists a pressing need for finding at least minimal assurance that obligations will be fulfilled. Moreover, the mutually alienated individuals are ready to sacrifice a very important part of their freedom in favor of anybody who will give them such guarantees ... A mistrustful society can exist only if it relies on coercion as a key element of its institutional construction...”

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