Stony Brook University

OFFICIAL COPY

The official electronic file of this thesis or dissertation is maintained by the University Libraries on behalf of The Graduate School at Stony Brook University.

© All Rights Reserved by Author.

Geometry of Corporate Control:
The Neoliberal State Approach to Property and Class Power in Russia

A Dissertation Presented

by

Anna Sher

to

The Graduate School

in Partial Fulfillment of the

Requirements

for the Degree of

Doctor of Philosophy

in

Sociology

Stony Brook University

May 2010

Copyright by
Anna Sher
2010

Stony Brook University

The Graduate School

Anna Sher

We, the dissertation committee for the above candidate for the

Doctor of Philosophy Degree, hereby recommend

acceptance of this dissertation.

Michael Schwartz – Dissertation Advisor

Professor, Department of Sociology

Said Arjomand – Chairperson of Defense

Distinguished Service Professor, Department of Sociology

Judith Tanur

Distinguished Teaching Professor Emerita

Department of Sociology

Davita Silfen Glasberg

Professor, Department of Sociology

University of Connecticut - Storrs

This dissertation is accepted by the Graduate School

Lawrence Martin
Dean of the Graduate School

Abstract of the Dissertation

Geometry of Corporate Control:

The Neoliberal State Approach to Property and Class Power in Russia

by

Anna Sher

Doctor of Philosophy

in

Sociology

Stony Brook University

2010

This dissertation examines the impact of the neoliberal reforms and the adoption of the modern principles of corporate governance on the redistribution of economic power in society. The shareholder-centered model of corporate governance has accompanied market reforms across the world on the premise of broadening individual access to economic power. In contrast to this premise, the restructuring of the governance system in the Russian industrial economy in the 1990s led to a concentration of economic power and wealth by domestic elites. This study examines the institutionalization of concentrated corporate control in Russia in the comparative and global contexts, drawing on historical sociological research on the large corporation in the advanced capitalist economies. My empirical analysis is based on data collected from state-issued documents and original corporate reports, and involves a combination of methods including textual analysis and social network analysis.

I demonstrate that mass privatization occurred after the state relinquished control of industrial enterprises through a sequence of changes in the legal framework. The state established the joint-stock corporation as a key institution that excluded the state and labor from the new system of corporate governance and eliminated the mechanisms of public accountability. This framework was utilized throughout the 1990s to pass corporate ownership and leadership into the hands of the elites, enabling them to concentrate control over massive capital assets. I argue that this outcome was not inevitable; it was, instead, a consequence of the state actions that transformed the organization of the Soviet economic governance by imposing key principles of the shareholder-centered corporate governance and the ideology of neoliberal globalization. A multivariate network analysis of the emergent business structure in Russia reveals that by 2001 Russia had a structure distinct enough to constitute a new type of corporate structure, that nevertheless exhibited emergent features consistent with the trends

affecting other industrial economies. I argue that concentrated corporate ownership, taken together with other characteristics symptomatic of the neoliberal globalization, has congealed into a corporate system undergoing a “path generating” process of institutional change, rather than a failure to converge with the dominant models of corporate capitalism.

In memory of my mom,

Valentina Pavlovna Yatsentuk

Table of Contents

List of Tables viii
List of Figures ix

Chapters

I. Introduction 1
The thesis and organization of the study 5

II. The Analytical Terrain: Axioms and Stakes in Studies of Corporate Capitalism 9

Framework 1: The experts who naturalize and normalize 10
Implications: Neoliberal Policies and Authoritarianism 12

Framework 2: East European capitalism?, or a straitjacket of the dominant conception of modernity..21
Implications of comparative studies 32

Framework 3: Global political economy: "All cases are linked"...........36
Implications for the study of corporate governance in the age of neoliberalism.. 45

III. Unthinkable Possibilities under Neoliberalism: Codification of the Shareholder Form and Class Power in Russia 49

Joint-Stock corporation as an institution of concentrated power 53
The role of the state in the corporate revolution 55
Methodology 57
Political feasibility: privatization promoted as "collectivization" 59
Introduction of "joint-stock society" as a legal form of property 64
Corporate forms and relations..68
Introducing corporate governance 72
Limited liability 76
Transformation of the upper tier of the soviet governance system, 1990-1992 79
Conclusion 84

IV. Corporate Power and the Methodology of Interlock Research 88

The debate on corporate control 89
Bourdieu's relational approach 93
Toward an analytical synthesis... 97
Social network analysis 106
Comparative research 110
Conclusion 111

V. No Difference without Similarities: Russia's Corporate Capitalism in Comparative Perspective 115

The structural comparative framework 120

1. An overall structure of intercorporate networks 122
2. Types of directors 124
3. Bank centrality 126
4. Business groups 127
5. The state 129
6. Centralization 130

Data and method of network construction 132
Network analysis 133

Results

1. An overall structure of the full network.....................137
2. Directors and the primary network.............................139
3. A system-wide position of banks 147
4. Business groups embedded in strong-tie networks 149
5. State ownership 158
6. Centralization 161

Discussion 166

VI. A Case-Study of State-Led Neoliberalism: Privatization and Corporate Reform in Tatarstan 171

The institution of the corporation and models of corporate control 174
The post-state-socialist context 176
Tatarstan elites and the challenges of transformation 179
Intercorporate ownership and control......................................184
The rise of a private financial company 190
Conclusion 194

VII. Conclusions 198

References 206
Appendix 1 220

List of Tables

Table 3.1. Introduction of the Legal Framework for the Corporate Form, 1990-1992 65

Table 3.2. Corporate Forms and Intercorporate Relations Defined in Official Legal Documents, 1990 …………………………………………………………70

Table 4.1. Economic Power in a Multi-level Conceptual Framework based on Mintz & Schwartz (1985) and Bourdieu (2005) ...…………………………...….99

Table 5.1. Structure of the full interlock network by industry in Russia, 2001………...137

Table 5.2. Interlocking directors by their principal affiliation and number of directorships ………………………………………………………..140

Table 5.3. Types of interlocks based on the principal affiliation of directors…………143

Table 5.4. Mean Number of Interlocks for Each Corporation Type, 2001 …………….148

Table 5.5. Type of interlocks by strength of ties, 2001…………………………...…149

Table 5.6. Types of interlocks by directors' principal affiliation in the largest business groups ………………………………………………………153

Table 5.7 Measures of centralization and cohesion within groups (based on primary interlocks)……………………………………………………...154-155

Table 5.8. State ownership of the top 150 companies in Russia by industry, 2001……159

Table 5.9. Most Influential Corporations in Russia, 2001 …………………..………162

Table 6.1. Interlocking shareholdings (%) in the largest industrial and financial companies and banks of Tatarstan, 2001 ….………………………………185

Table 6.2. Supervisory Board composition (%) by directors' primary employment, 2001……………………………………………………………………...188

Table 6.3. Sales, profits, and ranking of the largest companies in Tatarstan, in millions of RUR, 2003-2005 ..……………...……………………………..191

Table 6.4. Supervisory Board composition (%) by directors' primary employment, 2005……………………………………………………………………192

Table A1. 100 industrial companies included in the dataset …………………………..220

Table A2. 50 banks included in the dataset ……………………………………………227

List of Figures

Figure 5.1. Density (%) of ties in the primary and full networks by country …………145

Figure 5.2. Difference (%) in density of ties between the full and primary networks by country…..……………………………………………………………146

Figure 5.3. Strong tie networks………………………………………………………151

Figure 5.4. The full network ……….……………………………………………….……163

Figure 6.1. Networks of ownership ties and interlocking directorates created by top managers of Tatarstan's industrial and financial companies, 2001 and 2005 ………………………………………………………………….…….....193

Figure 6.2. Economic indicators of Tatarstan, 1960-2000: bread production (in kg per person), oil production (in hundred million ton), and an annual relative change in consumer price index…………………………………...……..195

Chapter I

Introduction

The collapse of the Soviet Union followed by dismantlement of state socialism in eastern Europe in the late 1980s played a pivotal role in the global spread of a radical form of capitalism – neoliberalism. No longer hindered by any rival approach or a powerful critique, proponents of the neoliberal ideology shaped a new approach to economic development and democratization based on integration of national economies into the global economy. Central to the neoliberal ideology is a belief in the "free market" idea that removal of government from the economic arena unleashes market forces that broaden individual access to economic power and wealth, and generate panaceas for all public and private needs. Governments around the world implemented the neoliberal policies such as financial deregulation, extensive privatization, elimination of trade barriers, and a market-oriented model of corporate governance. Historically found in the USA and UK, the shareholder-value model has achieved a globally dominant status by influencing corporate reforms in western and eastern Europe, Latin America, Asia, and Africa. These developments laid a foundation for a new financial architecture of the global economy to emerge at the end of the 20th century (Soederberg 2004).

Following the adoption of the neoliberal economic policies and corporate reforms, many countries experienced economic downturns, rising inequality, and acute financial crises – in Asia in 1997-1998, in Russia in 1998, and then in Argentina in 2001-02, to

name a few. These crises have been blamed on these countries' "delayed" economic development, political corruption, and cultural backwardness. This prevalent point of view was called into question by the 2008 economic crisis that originated at the heart of the global economy – the financial sectors in the USA and UK.

In my dissertation I take an in-depth look at the corporate system in Russia and its main feature, concentrated corporate control, established by the end of the 1990s. I show that rather than being a simple byproduct of political corruption and failed attempts to reform the soviet state economy, it is an outcome of the neoliberal policies and adoption of the shareholder-centered corporate governance. Structures of corporate governance reveal how economic power is distributed among key social groups such as labor, management, government, domestic bankers, and global financiers. Embedded in national institutional frameworks and the center-periphery inequalities of the world-system, the relations among these groups have historically varied across national contexts. Beginning in the 1980s the shareholder model of corporate governance accompanied market reforms on the premise of broadening individual access to economic power. In contrast to this premise, the restructuring of the governance system in the Russian industrial economy led to a concentration of economic power and wealth by domestic elites. Russia is therefore a particularly illuminating case for a sociological study of the globally dominant form of corporate governance and its impact on the distribution of economic power in society.

Despite the end of the Cold War and a multidisciplinary nature of the academic debate on globalization[1], research on the emergent systems of corporate governance in

---

[1] The multidisciplinary nature of academic research on globalization is evident, for example, in the membership of the Global Studies Association, and in the assortment of articles in volumes such as *The*

eastern Europe and in the global South continued a separate existence from prominent studies of globalization's impact on the established capitalist economies (e.g. Crouch and Streeck 1997; Hall and Soskice 2001).[2] Since the early 1990s' so-called "transitology" studies, expectations of an idealized corporate system resembling the shareholder-value model guided the research on corporate capitalism in Russia. Analytical accounts of change in Russia oscillated from anticipated "complete" convergence on this model in the 1990s to the more recent assessments of "failed" convergence (e.g. King 2002; Lane 2000, 2007). The latter studies have attributed undesired outcomes such as concentration of corporate control to the past, soviet legacies that failed to either disappear or be transformed into an efficient, modern form of capitalism. These studies concluded that until the corporate system in Russia resembled the dominant system its reformers tried to imitate, it would remain an inefficient, outdated and thus "failed" system. This mode of thinking implied that the governance structure in large Russian corporations could not share fundamental and emerging characteristics with the established types of modern corporate organization. Such analyses approached the trajectory of corporate development in Russia as an endogenous process of modernization through a replacement of the failed system with a contemporary governance system. This limitation precluded any considerations of the changes that had taken place in other national corporate systems all subject to the pressure to adjust to the neoliberal global economic regime.

Critical political economy studies (Overbeek et al. 2007; Scott 1997; Soederberg et al. 2005) have taken a different approach to the neoliberal policies' impact on national

---

Globalization Reader (Lechner and Boli 2004), *The Global Transformations Reader* (Held and McGrew 2004), and *Beyond Borders* (Rothenberg 2006).

[2] Western Euro-centrism in policies and academic discourses on eastern Europe was the subject of my work in 2000-01 with Jozsef Böröcz, professor of sociology at Rutgers University (see Sher 2001).

economies. They viewed the corporate transformation across the globe as one fundamentally political process bringing about changes in the historically different national structures of economic power. These changes neither eliminated the national differences nor failed to make an impact. Rather, the wide and forceful application of the neoliberal reforms everywhere – in the established capitalist economies and those undergoing a radical systemic change from state socialism – resulted in "diversity *within* convergence" (Cerny et al. 2005). Instead of focusing on the expected advancement in economic efficiency, innovation, and capital investment as the only measures of the reforms' impact, the political economists examined the changing relations among the key social groups such as labor, management, government, domestic bankers, and global financiers that, taken together, are organized in a system of corporate governance. This sociological approach revealed "functional convergence"[3] evident, on the one hand, in diminishing power of labor and rising concentrated ownership, and, on the other hand, in a seeming continuity of some of the more traditional institutional characteristics and practices. For example, recent changes in the German system show that "conservation of traditional Rhineland institutions is not the same as continued 'divergence'" (Menz 2005:39). Similarly, one should not conclude a priori that the evidence of soviet bureaucratic legacies in the contemporary Russian economy unequivocally means that the neoliberal reforms failed to transform the soviet economic system. This process should be viewed as being structured at the intersection of the global and national contexts (Böröcz 2001) and therefore both diversity and convergence may be found in the emerging corporate arrangements in the former state-socialist bloc.

[3] The term was used by Menz (2005) and is consistent with the global political economy analyses such as Vliegenthart and Overbeek (2007).

Moreover, before concluding that a new, East Central European model of corporate capitalism has emerged (Vliegenthart and Overbeek 2007), we should pose the same questions in every case: how have some national (or regional) features of corporate governance persevered despite the neoliberal reforms' pressure to converge, and how have the underlying power relations between major social groups been transformed? For example, in the Russian case, this line of inquiry suggests that the question should not be about whether the emergent system of corporate governance has developed unique features (this would be reasonable to expect). It should not be about whether it is different from the aforementioned East Central European model (it may not be the same at least because Russia has never been part of the European Union's enlargement, an institutionalized process requiring a systematic change of legal codes and practices). Rather, the following questions arise: how have these context-specific features of the new corporate governance system emerged (or continued) in Russia, what have they meant for the national companies' (and elites') struggle to fit into the global economic relations, and what do the new power relations between the state, capital, and labor tell us about the emergent system's consistency with the neoliberal agenda? To answer these questions in my dissertation I had to leave aside the dominant framework where the historical changes were understood as either success or failure to converge on the American model.

The thesis and organization of the study

In my empirical analysis of the ascendance of corporate capitalism in Russia, I pay attention to the global context and especially the dominant, market-centered approach to corporate governance that guided the corporate reforms and privatization in the 1990s.

Taking into account the legacy of the soviet economic institutions, I bring into focus the power relations constituted by the new economic governance and seek an understanding of change *within* the global context of economic restructuring and *through* a systematic comparison with the core capitalist economies.

My empirical analysis shows that since the late 1980s the corporate governance system in Russia has developed along a new path shaped by the ongoing formation of the global neoliberal regime. The process involved an interaction among the following factors: the institutional reforms introducing the dominant, American model of shareholder-centered corporate governance (e.g. Black and Kraakman 1996; Judge and Naumova 2004; McCarthy et al. 2004); the industrial organization and the structure of ownership and management inherited from the soviet economy (e.g. Clarke 2004; Kagarlitsky 2002; Menshikov 2004); and the neoliberal policies of domestic and global economic development (e.g. Aslund 1995, 2001; Bockman and Eyal 2002; Nesvetailova 2005).[4] I advance a thesis of "path generating" change that concludes that after the decade of reforms in the 1990s (1) the organization of corporate capitalism in Russia shared some characteristics with other empirical variants of modern corporate organization. It also bore an imprint of (2) the soviet economy that had been its foundation, and (3) the neoliberal global regime and the associated paradigm of development which transformed the state-run economy. Moreover, the recent ascendance of corporate capitalism in Russia was a systemic change in the mature, industrialized and bureaucratized economy rather than a developmental transition to the "more advanced" stage of economic development. I conclude that concentration of corporate power in

[4] Cited in parentheses are leading scholars who studied (and some directly participated in) that particular aspect of the transformation in Russia.

Russia is a contemporary phenomenon that resulted from the global dynamics of capital accumulation rather than from a simple failure to erase the soviet legacies and to overcome corruption.

My analytical framework is built on a multi-level conception of corporate change; it includes the global neoliberal regime, the power structure in the domestic economic field, and the state as a key agent in channeling pressure for change between the two levels. In my empirical research I refer to the global neoliberal regime as the background against which I closely examine the dynamics of change driven by an increasingly neoliberal state and the resultant structure of capitalism in Russia.

In the next chapter I review the prominent studies that have shaped directly and indirectly the existing research on the Russian economy. I describe the analytical terrain which presented me with obstacles to overcome and insights to explore when I was conducting my dissertation research. As I explain in Chapter II, the role of the neoliberal ideology in framing academic research on former state-socialist countries has not drawn much critical attention. Yet as Antonio Gramsci (1971) pointed out, every political regime has its "organic intellectuals" – academics who embrace the new dominant ideology. I show that in studies of Russia's corporate capitalism, their presence is central, and their arguments are typical of the modernization discourse fused with the neoliberal ideology. Using Pierre Bourdieu's (1999) insights, I argue that the dominant analysts perpetuated the categories of perception which were carried over from the Cold War and were attuned to the same ideological tenets legitimizing the reforms in the public discourse.

In my dissertation research I develop and employ a mode of analysis distinctly different from the dominant, uncritical view in several aspects. First, I view the axioms of the neoliberal agenda and the empirical outcomes on their own terms. Then I bring together two sociological approaches to corporate power that have been considered incompatible: Beth Mintz and Michael Schwartz's 1985 thesis on financial hegemony, and Pierre Bourdieu's work on the structure of the economy. Chapter IV offers an in-depth analysis through conceptual synthesis and a discussion of empirical implications of these two well-known works.

Second, I examine the empirical evidence of the political-economic change in Russia as part of the global development of capitalism. For my comprehensive empirical analysis, I use a variety of data sources and methodologies. To examine the influence of the dominant model of corporate governance, I conduct a detailed textual analysis of laws and presidential decrees issued in 1989-1992. The result of my analysis is a historical reconstruction of the legal process of change through which the state introduced the joint-stock corporation in Russia *in preparation for* mass privatization of the mid-1990s (see Chapter III).

Third, I present the results of the first structural analysis of corporate business in Russia that emerged during the 1990s, the decade of corporate reforms and privatization. I used a well-established analytical framework based on social network analysis of interlocking directorates. I constructed a unique, comprehensive dataset by collecting data on directors and ownership of the largest 100 industrial and 50 financial corporations in Russia from hundreds of original corporate reports for the year 2001. The innovative and standard measures of social network analysis were applied to map and describe the

emergent system of corporate relations in Russia. I evaluate this evidence in light of the historical and comparative studies of the established types of corporate capitalism (Chapter V).

The last empirical chapter is a case-study that allowed me to test my argument regarding the neoliberal reforms and the dynamics of corporate restructuring leading to concentration of corporate control in one of Russia's regions, Tatarstan (Chapter VI). I utilized a combination of a historical analysis of the regional state-issued decrees, textual analysis of annual corporate reports, and social network analysis of interlocking directorates and ownership patterns. I drew on Karl Polanyi's ideas to explain why a complex developmental route taken by the regional elites as a reaction against the neoliberal radicalism of the Federal government did not challenge the global market expansion.

A concluding chapter summarizes my findings and discusses the dissertation's contribution to understanding of the complex relationship between inequality and social change in the modern era of the neoliberal globalization.

Chapter II

The Analytical Terrain:

Axioms and Stakes in Studies of Corporate Capitalism

Studies of economic transformation and corporate governance in modern Russia have varied in their theoretical origins and disciplinary locations. I begin by describing research that exemplifies two dominant segments in the academic literature. I then discuss a third cluster of studies that stands in an opposition to the first two. My goal here is to sketch the main analytical frameworks and stakes in the debate on capitalism in Russia. I start with the main issue at stake, which is to protect the legitimacy of the economic reforms and the key institutions of the modern paradigm of corporate development (i.e. modern corporate governance, private ownership of large industrial enterprises). In the first two groups of studies these institutions are shielded from any analysis. Couched within the normative functionalism framework, these studies see the process of building a modern market-based economy as being driven by an efficiency-based selection unless it is derailed by political interests. Corollary to the main issue of rationalization of the radical reforms is a claim that any deviations from the expected course – i.e. domestic elites' concentrating corporate control – are seen as empirical problems that are rather "normal" given the history of state socialism and the "early" stage of capitalist development. This dominant analytical position assumes the one-to-one relationship between the institutional framework of an idealized market and social

relations it gives rise to (I refer to the framework's tenets as "the axioms" and resultant social relations as "the outcomes"). Therefore, by default the prescribed institutional framework cannot by itself lead to concentrated corporate control. To make this logical claim, both literatures rely on drawing an analytical barrier between the political and the economic, by bracketing the politics of power and resulting social embeddedness of the constructed market institutions. Interestingly, these two dominant literatures have reached polarized conclusions: one group claims that the reforms in Russia were a success (e.g. Aslund 2007), and another argues that the reformers failed to build a modern capitalist system (Lane and Myant 2007).

The third group of studies of corporate capitalism questions the main issue at stake: the legitimacy and progressiveness of economic development through the neoliberal reforms and the shareholder-centered institutions. The analytical stance here is to view the transformation of the existing corporate institutions as a product of power struggles in the political economic arena. In the third framework, various forms of national capitalism (including Russia's) are viewed as neither success nor failure – they are the outcomes of "internalized" neoliberal transformation that has encompassed many countries around the world (Soederberg et al. 2005). Consequently, the objects of the analysis here are the dominant corporate institutions and the unequal power relations established and sustained by them.

Framework #1. The Experts who naturalize and normalize

The theoretical foundations of neoliberalism are usually attributed to the work of the Austrian political philosopher Friedrich von Hayek and economist Milton Friedman (University of Chicago), who both received the Nobel Prize in economics in the mid 1970s. Economic individualism and rational choice theory have since become paradigmatic in microeconomics and American political science, and have been instrumental in framing popular perception and remaking of the world according to the tenets of neoliberalism. By the time the Soviet Union collapsed in the late 1980s, neoliberalism had already achieved a "normalized and necessitarian" status in Britain (Hay 2004), the US, and Latin American countries. Implemented mostly in the conditions of nation-wide crises, policies included internationalization of production and trade, financial liberalization, privatization of the public sector, and cuts in social welfare provision (Klein 2007). In 1993 political economists Henk Overbeek and Kees van der Pijl (1993:1-2) observed that with the collapse of the socialist bloc and communism as a "living political movement," the neoliberal ideology ceased to be revolutionary and became part of every day life in the West and the rest of the world. They wrote that neoliberal "radical tenets have themselves become the new 'normalcy'": "self-evident [and] near impossible to contradict or even doubt." The economic liberal approach invoked the "natural" primacy and efficacy of market relations over government regulation in ensuring individual freedom of choice and wealth accumulation, as well as laid claims for a system-wide economic efficiency and progressive technological innovation. The hegemony of the global project also rested on the "fusion" with the neo-

conservative values of "strong government, social authoritarianism, disciplined society, hierarchy and subordination, and the nation" (Overbeek and van der Pijl 1993:15).

As sociologist Pierre Bourdieu noted, governments have historically relied on social scientists to provide a scientific basis for and "naturalization" of the new policies. In this regard, social scientists' direct involvement in propagating the neoliberal ideas and policies has been quite remarkable. In the late 1980s - early 1990s, American and West European academic experts played a key role in the adoption of the neoliberal approach in the former state-socialist countries; they helped legitimize and popularize the radical approach to eradicating the state-run economy while viewing Eastern Europe as a large-scale "laboratory" (Bockman and Eyal 2002).

Prominent in US academic circles, Andrei Shleifer, a Harvard economist and Robert W. Vishny of the University of Chicago were American advisers who assisted, on behalf of the US government, Russian policy makers in designing privatization and corporate institutions. They frequently met with Russian top officials during the early 1990s to organize key steps and documents in the privatization of state enterprises (Wedel 1998; McClintick 2006).[1] Shleifer and Vishny have written several books about Russian privatization in collaboration with Maxim Boycko (a Russian economist, member of the Russian privatization agency). In their 1993 paper at the Brookings Institute, they declared that "privatization has become the most successful reform in Russia" (Boycko et al. 1993: 139). They reported a high number of privatized enterprises

[1] Professor Shleifer, who led the Harvard Advisory Program in Russia, is also well-known for using his position for personal enrichment (i.e. purchasing cheap Russian stocks and government bonds). The US government investigated his actions and charged Harvard University with breach of contract. Shleifer and his associate were also charged with conspiracy to defraud the US government. The case was resolved in 2006 via the largest financial settlement in Harvard's history of $26.5 million; Shleifer kept his faculty position (McClintick 2006).

and argued that rapid and extensive privatization of the industry was a popular political strategy at the time. For Shleifer and Vishny, public firms were inherently inefficient in any economy. Politicians' influence on the management could only be detrimental for public enterprise efficiency regardless of whether their interference was motivated by their political survival or concerns for public welfare. Thus Boycko et al. (1993) called for "depolitization of firms" through privatization in order to remove (or make very costly) the mechanisms by which politicians exert influence on managers. In their papers about the reforms in Russia they fully articulated the neoliberal developmental paradigm where economic efficiency assumed an absolute priority over any concerns with full employment, external costs, potential market failures (including monopolization) and other factors directly affecting social welfare and political stability.

The theoretical perspective of neoclassical economics, in its application to Russia and other eastern European countries, gave rise to the so-called "transitology" – a body of literature postulating that the radical, neoliberal reforms were designed to build a market economy by eradicating the state-socialist system (see also Stark and Bruzst's 1998 critique of the "designer capitalism"). The vast majority of writing on the 1990s reforms in Russia fall within this framework, and Shleifer and Treisman's 2000 book is a good example. Shleifer co-authored the book titled *Without a Map: Political Tactics and Economic Reform* with an American political scientist Daniel Treisman (UCLA). The authors' image of the reform process "without a map" describes political maneuvering to push the reforms through as a rather unpredictable affair in the former state-socialist

country.[2] Whereas any reform of such radical nature is likely to have unpredictable dynamics and outcomes, in the case of the neoliberal reforms, however, the experts' prescriptions and expectations of a rapid transition to an idealized market-based economy were clear. Their convictions were justified because "[w]hole libraries of books and decades of history suggested that such changes [large-scale privatization and other market reforms] would yield greater efficiency, faster growth, and more individual freedom" (Shleifer and Treisman 2000:1). In reality, Shleifer and Treisman admitted, this was not as self-evident as they had hoped, and thus the government needed to employ "political tactics" to implement the reforms.

Since the beginning of the reforms in Russia the federal government confronted powerful stakeholders (management, labor, and regional governments, and, later, the oligarchs) and had to devise strategies to either "expropriate" or "co-opt" them. As Shleifer and Treisman argued, only a strong government could do it (and the Russian central government was losing its grasp over regions), and only by "expropriation" of labor and entrenched management could the Russian government make its citizens free. This rhetoric permeated Shleifer and Treisman's discussion of the government's unquestionable need to reduce power of major social groups, and of the forcefulness with which the pro-market policies needed to be implemented. Consistent with Shleifer and his co-authors' earlier publications, this book argued that despite the 1990s reforms, some politicians and social groups, including the oligarchs, remained strong enough to oppose further marketization, which, at the end, interfered with the establishment of an efficient economic regime. From Shleifer and Treisman's (2000:178) concluding remarks we

[2] Economic liberalism is an analytically powerful abstraction for it separates the economic from the social. In this title, for example, "political tactics" are distinct from "economic reforms." A different author may put it as "political tactics of economic reforms."

learned: “That they [the reforms] did not achieve more has more to do with these political constraints than with Russian culture, a lack of resolve on the part of individual reformers, or even the policies of the IMF.” It was important for the authors to claim that the exigencies of the neoliberal reforms in Russia had their roots in political resistance to the otherwise well-designed economic policies.

Despite their uncritical acceptance of the neoliberal economic policies and, perhaps, unintentionally, Shleifer and Treisman’s (2000) account is a striking illustration of incompatibility of the neoliberal economic order with the democratic process. For example, their argument implied that if President Boris Yeltsin were more autocratic and/or if Russian citizens were more pliable and cognizant of their future benefits, the economic reforms in the early 1990s would have been even more radical and therefore “more successful.” Written from a prescriptive stance, their book and other “transitology” literature completely sidestep a critical inquiry about the neoliberal reforms’ impact on restructuring of economic power in Russia. In my dissertation I aim to fill this gap by critically examining the Russian government’s approach to privatization of the leading industrial companies and to corporate reforms. I argue that the reforms achieved full expropriation of the vast majority of the population, and weakened labor as a social group. The resultant political and economic exclusion served as an ideal social environment for the rise of concentrated corporate control.

Anders Aslund, a close associate of Harvard economists Andrei Schleifer and Jeffrey Sachs, was another politically well-connected expert directly involved in the Russian large-scale privatization (Wedel 1998: 223, 141). One of the most prolific writers

for Western academic and policy circles, he has consistently defended a view that in Russia "the building of capitalism was successful" (Aslund 2007:9). [3] In particular, he argued that concentrated corporate control was an inevitable, "normal" outcome. Corporate control becomes concentrated under some historical circumstances, namely, a combination of five structural factors: "large economies of scale, vast economies, fast structural change, the prevalence of rents, and poor legal systems" (ibid.: 261). According to him, these factors led to the rise of the robber barons in the US of the 1860s, and the same factors were present in Russia in the 1990s – hence the rise of the oligarchs. In his view there was nothing particular about the reforms themselves and the institutions they introduced; it was the context and, perhaps the rapid application of the reforms, which made concentrated corporate control inevitable. In the hindsight, he wrote, "It is difficult to see how a market economy could be introduced under these conditions without generating super-rich businesspeople, and the emergence of oligarchs seems nothing but a natural consequence of the development of capitalism under the prevailing conditions" (ibid.: 261).

Aslund's approach is an application par excellence of the modernization theory: the ascendance of concentrated corporate control in Russia places it at the early stage of capitalist development. It is also a manifestation of the "transitology" framework built on the vision of an efficiency-driven economic take-off once the radical economic reforms demolished the remnants of state socialism. The linear, generalized conception of historical development enables Aslund and others to view concentration of economic

[3] Aslund is a former Swedish diplomat, who was involved in securing the financial aid from the Swedish and US governments for the Russian privatization process. The bibliography in his 2007 book titled *How Capitalism was Built* contains 25 entries of books and articles on Russia and other former state socialist countries he has published since 1985 as a single or first author.

power in Russia as a transitional form that did not in the past jeopardize economic advancement. The modernization / transitology approach effectively normalizes the phenomenon of concentrated corporate control in Russia. The all-powerful, generic concept of "a normal market economy" (ibid.: 29) severs the causal link to a specific, neoliberal form of capitalism and the national economy's integration into a historically specific formation of the global economy.

To Aslund, robber barons and oligarchs were the "ultimate *homos oeconomicus*" (ibid.: 265) who would employ their economic rationality to support the rule of law (meaning, property rights) and a growing competition, and thus build market institutions.[4] His historical references aside, he was, however, well aware of the shortcomings of corporate regulation. He noted, in passing, "Many Western countries adopted insider legislation only in the last two decades. As multiple corporate accounting scandals, from Enron to WorldCom, illustrate, corporate governance remains poor in the West even today." Yet in his view corporate greed and corruption could be taken under control by the all-powerful rule of law if only Russia's people would shed their socialist beliefs and accept a few wealthy people and striking inequality. In other words, any critical review of the reform process (especially privatization) would be detrimental to building the rule of law, and any attempts – by the government or members of the parliament – to do so is, in Aslund's view, populism that undermines the establishment of the property rights regime.

Concentrated corporate control and inequality are common around the world, he observed, but people in the former state-socialist countries, especially in Russia, failed to accept the sudden amassment of personal wealth. Threats of re-nationalization already undermined the establishment of secure property rights: "The economic problem of

[4] Campbell (2004:10) classifies this argument as the rational choice variety of institutionalism.

postcommunism is not oligarchy but society's ideological inability to accept large fortunes and ultimately private property rights" (ibid.: 270). Securing property rights for the rich "marks the crossing of the threshold to mature capitalism" (ibid.: 275). Thus the core of his argument rests on political (or ideological as he frames it) opposition to concentration of wealth as an obstacle to otherwise successful economic reforms and further modernization of Russia's economy.

Implications: Neoliberal Policies and Authoritarianism

This short overview intended to demonstrate that the leading Western scholars involved in the reforms articulated their expert view on the Russian transformation within the neoclassical economic framework. Not only did the reformers in Russia follow Friedrich von Hayek's approach but so did their advisers, prominent Western academics, who established an analytic canon to evaluate the building of the market economy according to the tenets of the neoliberal paradigm. Conceptually, they separated the economic from the social aspects of the process to argue that the neoliberal approach to reforms in Russia was correct and necessary and would have led to a great result were it not for political resistance (Shleifer and Treisman). Since eastern European countries had already industrialized economies and educated populace, some structural factors such as large-scale industries, a poor legal system, and government populism (Aslund) also derailed the desired course. This view holds that political influence of interest groups is detrimental to the establishment of the property rights system geared towards economic efficiency (North 1990). Consequently, in this analytical framework, the model of

corporate governance, privatization of the largest industrial enterprises, and financial deregulation are entirely shielded from any critical inquiry.

Nevertheless, these authors' work is valuable for a critical sociological analysis because it reveals the crucial role of political power. The establishment of a market-based economy is foremost a political process which, by definition, involves the state and struggles between different stakeholders over policies. First, these authors (Shleifer, Aslund, and others) pointed out that to build a market society, the government had to suppress labor's opposition; otherwise, the reforms in Russia remained incomplete despite privatization and weakened labor unions. Second, according to the neoliberal model prioritizing foreign investment, insider control of corporations was also inefficient, and the government's task was to limit the power of management to act in its interests and/or on behalf of labor since neither could be expected to increase efficiency. Third, the political system functions best with a strong executive who is able to enforce a hierarchical political order where the central government can impose its policies on regional governments (another oppositional stakeholder) at the expense of the latter's autonomy. (President Vladimir Putin employed these political tactics but in Aslund's view, he was too prone to populism).

In sum, for a new society and an efficient economic system to flourish, the neoliberal reforms called for the state to shed its responsibility for representing labor's interests (the largest social group by any measure) and to suppress any so-called populist policies (about spreading wealth rather than concentrating it). Labor's stakes in the industrial complex had to be delegitimized through legislation (this is what Shleifer and Treisman meant by expropriation) and concentrated private control of property had to be

protected (legally and physically) (Aslund's argument). In other words, this systematic transformation demanded the drastic reduction of the state's use of public power to protect labor's and general population's interests. It was not a difficult political position to take given the widespread perception of the state's failure to create an efficient economic system in the Soviet Union. The radical reformers in the early 1990s used the state's power in crucial ways to redefine the political relations among the major stakeholders in order to expropriate and privatize the national wealth, especially through the legal reform establishing the new institutions such as the large corporation.

Framework #2.

East European capitalism?, or a straitjacket of the dominant conception of modernity

In the 1990s analyses of the reforms in Russia and eastern Europe made references to "a normal market economy" – an elusive end-point of the post-soviet[5] transformation, thereby invoking a monolithic construct of advanced (Western) capitalism devoid of any empirical details. Meanwhile, empirical research in the 1980s and 1990s revealed historical variations in corporate organization of the leading capitalist economies. Moreover, as Peck and Theodore (2005:3) pointed out, at the turn of the 1990s western European scholars still debated which model was superior:

> With the collapse of communism, it is as if a veil had been suddenly lifted from our eyes. Capitalism, we can now see, has two faces, two personalities. The neo-American model is based on individual success and short-term financial gain; the Rhine model, of German pedigree but with strong Japanese connections, emphasizes collective success, consensus and long-term concerns.

[5] I use a low case "soviet" interchangeably with "state-socialist" to refer to the economic, political, and social aspects of life in the Soviet Union and other eastern European countries.

> In the last decade or so, it is this Rhine model—unheralded, unsung and lacking even nominal identity papers—that has shown itself to be the more efficient of the two, as well as the more equitable (Albert 1993: 18; cited in Peck and Theodore 2005:3).

The issue at stake at the time was to challenge the supremacy of one economic rationality (underlying short-term, market-based relations in the American model) by establishing that there was another, equally viable, modality of economic rationality operating in Germany and other countries of continental Europe (Peck and Theodore 2005: 4). This claim soon lost potency as the American shareholder-centered model of corporate governance and neoliberal reforms gained prominence around the world, including west European countries. This in turn sparked a debate about convergence and divergence among the leading national models of corporate organization. This debate engendered a great deal of scholarship under a rubric of "the varieties of capitalism."[6] Scholars using this framework shared a common interest in economic institutions, efficiency, and the rational choice approach of microeconomics. Another particularity of the varieties of capitalism research is that it has consistently and exclusively focused on the advanced economies. That this has remained unchanged with the spread of globalization is not surprising given the underlying concern to find the most competitive economic system(s). Peter A. Hall and David Soskice, who have been credited as the founders of the New Institutionalism in Comparative Political Economy, noted that the varieties of capitalism perspective was not intended to capture an empirical diversity of capitalist formations outside the global core.

---

[6] Peck and Theodore (2005:2) traced "heterogeneous roots" of this scholarship to studies "in comparative institutionalism and historical sociology, in regulation theory and institutional economics, in heterodox political economic and new economic sociology, in business history/systems analysis, and in economic-cum-political science."

This literature continued to invoke an old monolithic construct, that of state socialism, when it needed an example of failed economic governance in all aspects.[7] The use of a contrast between the two systems, a government-run vs. a market-based economy, had underlied academic and popular understanding of capitalism during the Cold War, and was carried into the 1990s as the market-oriented discourse gained force. In the introduction to the 2001 volume of papers Hall and Soskice articulated the main tenets of the variety of capitalism approach. Their framework set out several conceptual devices, which, I argue, restrict and impoverish analysis of any really existing capitalism.

First, the agenda for comparative institutional analysis was defined along a distinction between two "ideal types," namely, "coordinated market economies" (CME) and "liberal market economies" (LME). Drawing on the work of two economists, Oliver E. Williamson's (1985) work on transaction costs and Douglass North's new institutionalism, Hall and Soskice (2001) associated the first (CME) ideal type with strategic coordination via non-market relations among firms and other actors. The second (LME) type was market-based coordination depicted in neoclassical economics. In the empirical terms, they wanted to use this continuum to highlight the distinctions between Germany and other West European countries and Japan on the one hand, and the US, UK, Canada, and Ireland on the other hand.

Second, they placed the firm at the center of the analysis and focused on those institutions that affected strategic interaction among firms in the private sector. By using a game-theoretical approach they sought to bridge microeconomics and macro analyses.

---

[7] In discussing the major arguments for market as the best means to generate competition and technical innovation, Boyer (1997:58) turns to the Soviet Union's "socialist" model as the rhetorically concise example. In his view capitalist systems are much more complex and cannot be reduced to sets of markets, whereas the soviet system's failure can be understood as being due to the rigidity of government planning.

Building on Williamson (1985), they identified five specific spheres where coordination was thought to enhance efficiency: (1) industrial relations (relations with labor), (2) vocational training and education, (3) corporate governance (limited to coordination of financing), (4) inter-firm relations (with suppliers), and (5) relations with employees (in view of firms' efficiency).

Third, their approach followed North's definition of institutions as formal and informal rules guiding individual behavior, while organizations were viewed as concrete firms whose rules also contributed to functioning of the economy. Hall and Soskice's take on how these various rules and spheres of coordination coalesced to generate a national system-wide efficiency was resolved in the form of "institutional complementarities" among institutions (a concept illustrated by a value of a sandwich achieved as a result of combining bread and butter) (ibid.: 17). This is another important, conceptually restricting point: it implies that the dominant institutional principle (for example, market-based coordination) characterizes all spheres within a nation's economy. It assumes an underlying process of convergence within the national economy to one institutional logic.

Thus, this framework has directed researchers to identify one or the other institutional logic in a given aspect of national economy and/or to evaluate the differences in the economic performance between these two, said to be ideal, but assumed to be real and distinct modalities of economic governance. Hall and Soskice (2001:21) noted, "Although each type of capitalism has its partisans, we are not arguing here that one is superior to another. Despite some variation over specific periods, both liberal and coordinated market economies seem capable of providing satisfactory levels

of long-run economic performance." Regardless of whether or not people took sides, the growing popularity of this research approach further idealized the "liberal market economy" where so-called non-market relations, the role of government in the economy, and relations of power were viewed of a secondary concern or irrelevant to the analysis (see Fred Block's 2007 critique of this approach).

Having a bi-polar classification at the heart of the research paradigm is not only restricting but also leads to classificatory struggles, which, as Bourdieu argued, are inevitably very political, even though the scholars engaged in them may see their work as devoid of an ideological stance. This point is well illustrated by a recent attempt to apply this framework to study economies of the former state-socialist bloc. Two British scholars David Lane and Martin Myant organized conferences in 2004-05 and edited a 2007 volume of twelve papers titled *Varieties of Capitalism in Post-Communist Countries*. In this book, they declared outright that their efforts to apply the "varieties of capitalism" approach convinced them to agree with Hall and Soskice's original note that their framework was designed only for the advanced economies. Conceptually, it may not be suitable for studying the former state socialist economies, Lane and Myant argued, because these countries were in a different category to begin with and whether they "moved to a modern capitalist system [was] open to question" (Lane 2007:33).

The main obstacle here was the soviet past: Lane emphasized that the state socialist economy/society was based on very different economic, psychological, and cultural foundations than those that had given rise to advanced capitalism.[8] As Lane

---

[8] It is interesting that throughout the collection, which is about the neoliberal transformation, the terms "economy" and "society" are used interchangeably: e.g., liberal societies, coordinated economies. Yet the whole premise of the LME vs CME continuum is that in the modern neoliberal capitalism the economic and the social are separate domains.

(2007:21) argued, “In post-communist economies, as well as other developing ones, many components of capitalism are compromised by alien features – non-market economic relationships, the absence of a complementary ideology, of classes of entrepreneurs and capitalists. They are ‘transiting,’ as it were, to capitalism.” From this vantage view of historical modernization towards the advanced stage of capitalism, the diversity in this region was found not only in the “*type* of capitalism, but the *extent* to which capitalism has been constructed” (emphasis original). This conceptualization was based on the “transitology” premise that the soviet legacies were not simply regressive but also pre-modern, incompatible with capitalism, and immune to forces of the neoliberal globalization. Established capitalism in the core countries, however, was taken to imply complete and unequivocal marketization of all spheres of life.

Given Lane’s conceptual focus on the “extent” of the “transition,” he evaluated the former state-socialist economies based on levels of foreign direct investment (FDI), stock market capitalization, and domestic credit formation. Lane acknowledged and accepted as analytically sound that his selection of these measurements agreed with the neoliberal reforms’ agenda, leaving unquestioned whether or not high values on these measures reflected modern capitalist advancement. In other words, that governments and local elites may have resisted the neoliberal globalization could only debilitate capitalist development by default. Thus the countries were divided into three groups: the successful cases of transition – e.g. Hungary and Poland – were, by no means accidentally, “all new members of, and having had borders with, the European Union” (Lane 2007:35). In Lane’s words, “Tutored by the conditionality requirements of the EU and the IMF, they have developed not only the economic preconditions of capitalism, but also the political

and societal: an appropriate type of government, a civil society and an emerging bourgeois class structure” (ibid.). Lane contrasted them with failed “students” of the IMF, who could only dream about EU membership. The unsuccessful cases were found in Russia, the Ukraine, Kazakhstan, Georgia, Turkmenistan, and Moldova. The analytical value of this grouping was supposed to be captured in their “type”: “a hybrid state/market uncoordinated capitalism.” The author attempted to emphasize that in these cases the state remained a powerful actor whose attempts to establish markets resulted in some sort of disorganization of the economy (or, perhaps, in “organized chaos” as the chapter on the republic of Georgia claimed). The third group of countries continued to have the government playing a prominent role in the economy, and basically fallen behind others in the capitalist transformation (examples included Belarus and Uzbekistan).

Knell and Srholec’s (2007) chapter in this volume grappled with the distinction between the liberal market (LME) and coordinated market economies (CME). In a cross-national multivariate analysis they examined 51 advanced and recently converted capitalist economies by placing them along the LME-CME continuum (Hall and Soskice 2001). They found that in a cumulative assessment of labor protection, business regulation, and income inequality Russia ranked as the extreme case of the liberal type while countries in western and eastern Europe tended to cluster at the center of the LME-CME continuum.

Another paper in this volume, a qualitative assessment by Hanson and Teague (2007) focused specifically on the role of the state in Russia. In contrast to the “extreme liberal” factors, they emphasized the judiciary’s lack of independence from the executive branch. They argued that it was one of the key factors that distinguished Russia from *both*

the liberal market and coordinated market economies. Having taken the two ideal types as literally opposite and, most importantly, exhaustive descriptions of modern capitalism, Hanson and Teague considered the contradictory features of Russian economy (extreme liberalism in labor policies and consolidation of state control) as evidence of the incomplete transition to modern capitalism.

Prominent scholars of eastern Europe, David Stark (Columbia University) and Laszlo Bruszt (Central European University) also employed a comparative approach to examine contingent politics of the neoliberal reforms in Hungary, Poland, the Czech Republic, and East Germany. Their 1998 book titled *Postsocialist Pathways: Transforming Politics and Property in Eastern Europe* began with a critique of the "transitology" or "designer capitalism" studies for being teleological versions of the path dependency or, as they called it, "future dependency" approach. They also disagreed with Michael Burawoy's (1996) assertion that the soviet past precluded the emergence of new capitalist formations. In Burawoy's view, the transformation in Russia was not leading to capitalism but instead, it caused economic regression in the form of "industrial involution." Even though they disagreed with this assertion, Stark and Bruszt did not challenge his assessment of Russia because they did not include it among the empirical cases they studied.

In response to these two analytical positions (transitology and Burawoy's), Stark and Bruzst (1998:3) aimed to "describe and account for the emergence of a distinctively East European capitalism." Taking the existence of this type of capitalism as an

established fact, they selected only former state-socialist countries to compare in their study. They explained,

> The economic transformations currently attempted in East Central Europe will be marked by path dependency. This hypothesis is unlikely from the vantage of the drafting board where the designer sketches new institutions on a tabula rasa. […] The strength of the concept of path dependence, however, is precisely its analytical power in explaining outcomes where strategic actors are deliberately searching for departures from long-established routines and attempting to restructure the rules of the game (ibid.: 82-83).

Because all countries in the region were under pressure to carry out the neoliberal reforms, Stark and Bruzst focused on *how* the soviet system was destroyed, that is, on the national politics of "extrication from state socialism." Based on a path dependence analysis, their approach eliminated any conceptual need for a critical evaluation of the reforms and corporate institutions being adopted. As a result, this approach was aligned with the neoliberal reformers' stance towards complete destruction of the soviet institutions. By design, Stark and Bruszt's comparative study fell within the path dependence paradigm that focused on the past organization (namely, state socialism) as the dominant factor and consequently disconnected the processes of social change in East Central Europe from the concurrent transformations in West Europe and elsewhere. As Jozsef Böröcz (2001:1157) noted, setting such limits in the selection of cases was a conceptual move, which led, unequivocally, to another teleology reifying uniqueness of East European capitalism.

Yet a wide geographical scope in a comparative study (i.e. including the so-called advanced and other economies) does not guarantee that the national processes and institutional arrangements are viewed in the context of the modern global economic

regime. A prime example is the ongoing debate on corporate governance that has suffered from a different sort of an analytical limitation: it has mainly focused on the structure of corporate ownership as the determinate feature of corporate governance. As I discuss later, the focus on ownership is not accidental given a political emphasis on extensive privatization as part of the neoliberal reforms. In their 2005 book, *Political Power & Corporate Control: The New Global Politics of Corporate Governance*, Peter A. Gourevitch and James Shinn considered variations in national corporate governance systems across the world. They assessed their dependent variable – the national system of corporate governance – based on shareholder ownership, namely, its two forms, diffused and concentrated in blockholding.[9] They offered a causal model, in which the type of ownership concentration was explained by the politics of coalition building between different social groups.

Historically, ownership of large corporations has varied along a continuum between dispersed shareholding on the one hand and concentrated ownership on the other. Not only that this classification is not without its ambiguities when it comes to understanding corporate control, but also the current debate has taken them to indicate two opposing ("ideal") types of corporate governance systems: dispersed ownership is associated with the Anglo-American type, and concentrated ownership is referred as the European (continental) type. As Gourevitch and Shinn's work illustrated well, this classification also conveniently overlapped with Hall and Soskice's (2001) bi-polar framework of "liberal market economies" (LME) and "coordinated market economies"

[9] A blockholder is an individual, family, or an institution that owns a significantly larger amount of shares than other shareholders and whose voting rights exceed those of others. The precise percentage that constitutes a blockholder varies relative to the overall concentration of ownership. It is usually considered to be at least 10 per cent and as much as 40 per cent or more to speak of a blockholding structure of governance.

(CME). Consequently, it borrowed this framework's assumption of homogeneity and consistency of all elements within any given corporate system (referred as "complementarity"). Because of the defining role of the type of ownership and all complementary elements that come with it, Gourevitch and Shinn classified the Russian case simply as the system of concentrated ownership, namely, the "oligarchic model."

In the debate on corporate governance, the oligarchs have indeed become the central most visible feature of Russia's system of governance. This oversimplification was cemented by the experts' opinion that the corporate reforms led to the formation of the concentrated ownership system *instead* of the market-based arrangements, which in turn stalled the inward penetration of foreign capital. This is another example of the neoliberal ideology's influence on the analysis of the reforms' outcomes: a prevalent way to examine the impact of economic globalization has been to rely on measures of foreign capital penetration in the national economies.[10] Relatively low levels of FDI in Russia have frequently served as one of the prime indicators of the "failed" neoliberal transformation.

Using the bi-polar terms of the convergence-divergence debate, Gourevitch and Shinn (2005) found no evidence of convergence to the ideal, market-based American system of corporate ownership, and subsequently, there was little analytical interest for these and other authors to pursue in-depth understanding of the outcome in Russia or the question of *how* the modern corporate reforms could lead to it. It was once again classified as "failed" and certainly different from the "successful" systems and attributed to Russia's elites' internal politics and corruption. Despite a promising title of their book,

[10] American sociologist Laurence King (2002), for example, argued that low FDI in Russia was an indicator of the failed attempt to integrate the Russian economy in the global circuits of capital. He did not examine the impact of capital flight or outward investment on the Russian industry as pertinent to his argument.

Political Power & Corporate Control: The New Global Politics of Corporate Governance, Gourevitch and Shinn did not offer an account of how power relations between major social groups were transformed by the sweeping neoliberal reforms in Russia nor were they interested in explaining the impact (or lack thereof) of the dominant corporate governance model on the emergent system in Russia.

Implications of comparative studies

The high stakes to protect legitimacy of the neoliberal reforms and the dominant model of corporate institutions have shaped the debate on capitalism in eastern Europe in terms of success and failure of transition(s) towards an idealized vision of self-regulating markets. The dominant participants in this debate, the experts and the modernization scholars alike, approached capitalist development in the former state-socialist countries as a process unique to this region, and as a generic transition to capitalism rather than structural changes embedded in the specific, neoliberal transformation of the global economy at the time.

Frameworks developed for comparative studies of advanced economies, most prominently the "varieties of capitalism" approach (Hall and Soskice 2001) and corporate governance (e.g. Gourevitch and Shinn 2005), tended to impose a bi-polar conception of modernity on the empirical analysis of modern capitalism. This research has been criticized for creating the typology that misrepresented the state – big business relationship in both American and West European types of capitalism (e.g. Block 2007). The framework's application to the former state-socialist economies resulted in even more analytical oversimplifications. Lane and Myant's (2007) edited volume was an

explicit attempt to use the varieties of capitalism framework to understand East European capitalism(s). First, the stylized understanding of the state's role in the economy in the "government regulated economy vs. markets" typology fit too well into the Cold War distinction between state socialism and capitalism that predisposed the analysts to focus on eastern Europe and the former Soviet Union as a distinct arena. Lane and Myant (2007) – as well as Stark and Bruzst (1998) before them – have reaffirmed the existence of the East European type(s) of capitalism without an analysis of the concurrent changes happening in the rest of the world (Böröcz 2001).

Second, the analyses in Lane and Myant's 2007 volume suffered from an underlying search for similarities with one of the two idealized models of capitalism which led to an analytical impasse of discovering a new type of "hybrid state/market uncoordinated capitalism." This term signaled that the emergent capitalist system in Russia, for example, failed to make progress toward modern forms of capitalism. In order to avoid making such conclusion within the varieties of capitalism framework, however, one would have to call for reevaluation of the categories of the analysis itself. An analytical straitjacket of the bi-polar vision of modernity (underlying the framework) left no room for a critical examination of the neoliberal reforms as transforming (not eliminating) the state's involvement in big business in all types of the established and the new capitalist formations in Europe, Asia and the Americas. Yet if the establishment of strong executive power in Russia is viewed in a wider comparative context (irrespective of the state socialist legacies), we find that an association between the neoliberal reforms *and* concentration of executive power and corporate control in the 1990s was not unique to Russia or limited to the former state-socialist countries.

Third, contributors to Lane and Myant's (2007) volume on eastern Europe adopted the modernization/ transition view to the varieties of capitalism framework. This framing defined the "liberal market economy" as the normative goal for building efficient capitalism and instructed analysts to look for the signs of the diminished role of the state in the former state-run economies. This inevitably led to the analytical distinction between a 'good' outcome of neoliberalism (countries that had joined the European Union) and a 'bad' outcome of neoliberalism (Russia, the Ukraine). The resultant classification followed the new political divisions within Europe, completely sidestepped any critical analysis of the neoliberal reforms themselves, and allocated the blame for failing to "transit" to deeply-seated sovietism in those places, which are geographically farther removed from the West (the EU's) modernizing influence.[11]

Fourth, this bi-polar classification imposed unnecessary homogeneity in a comparative analysis of vastly different cases. For example, the verdict of the "failed transition" completely ignored the differences in the level of industrialization, the size of the economy and thus capital concentration between industrialized economies of Russia, the Ukraine, and Kazakhstan on the one hand, and small, under-industrialized, former satellite republics in the former Soviet Union on the other. Finally, and most importantly, it is clear that the modernization framework combined with the bi-polar construction of idealized unfettered markets vs. socially coordinated markets creates accounts of

[11] For a comprehensive discussion of the European Union's modernizing role, see Böröcz (2001) and other papers in the 2001 volume titled *Unveiling the EU's Eastern Enlargement.*

substantial political weight but yields little analytical purchase for understanding concentrated corporate power in modern capitalism.[12]

Placing the national development in the global context is a key analytical decision that depends neither on the time frame nor the national case in question. One does not have to be a world-systems scholar to recognize that geo-political relations and global economic regimes have directly affected the historical trajectories of the American and other established business systems. For example, after the Second World War, the American model was introduced to restructure corporate relations in western European (including German) and Japanese economies. This process resulted in the co-existence of two trends – persistent differentiation and increasing convergence among these, now established business systems (Djelic 1998). In her study of the post-World War II western European business, Marie-Laure Djelic (1998) showed that cross-national diversity persisted due to a process of "translation" and "adaptation" of the dominant model to the local institutional conditions, the industrial organization, and social relations. The institutional change in post-war Europe, thus, was found to be a contingent political process involving the interaction between the local and the global context. A similar analytical view of the historical changes in the post-state-socialist context is yet to take hold in the academic discourse.

[12] Peck and Theodore (2005) criticized the institutional analysis for assuming a certain degree of homogeneity in the "mature" economic field and paying little attention to power differentials between really existing firms. As an alternative, Peck and Theodore advocated an approach they called "variegated," uneven capitalism. Moreover, the scholars of the established, relatively stable business systems have struggled with much needed understanding of change due to globalization (see Jackson and Deeg 2006).

Framework #3. Global Political Economy: "All cases are linked"

Böröcz has argued that because "all cases are linked" (2001: 1162), comparative historical sociology needs to develop a conceptual framework to examine the national economies in relation to the global and regional power structures. One implication of his proposition is for comparative analysts to cross the East-West divide, that is, to consider the changes in the former state-socialist countries on par and as being interconnected with the transformations in other parts of the industrialized world. It is within the field of critical political economy studies concerned with the global neoliberal project that we find attempts to construct a conceptual framework for comparative scholarship of this scope.

Collaboration among prominent global political economy scholars including Susanne Soederberg, Georg Menz, and Philip G. Cerny (2005) has advanced an argument that at the current stage of globalization, convergence and divergence are happening simultaneously. In contrast to the heavy emphasis on continuities in national development, characteristic of the "path dependency" approach (e.g. Stark and Bruszt 1998), these scholars offered a more nuanced view that this has been a "process of diversity *within* convergence" (Cerny et al. 2005:2, emphasis original). In their view, the varieties of capitalism framework is too narrowly focused on economic efficiency to address the complexity of globalization's impact on national economies. The integration of the national economies into a single global market has depended on the implementation of the neoliberal approach to economic governance at the regional, national and sub-national levels, thus engendering a certain degree of convergence in the

political sphere. At the same time, the structural differences among the national economies imposed constraints as well as provided opportunities

> for political actors to pursue different roads to globalization […] but those different roads still constitute roads to globalization. Although there may be room for maneuver, there is nevertheless no going back to insulated, autonomous, abstractly sovereign nation-states able to craft their own national models according to wholly domestic conceptions of social justice, natural hierarchies, corporatists social pacts, eternal values, or whatever (ibid.:3).

Governments have played a key role in development of advanced economies: they founded the institution of the joint-stock corporation, established stock markets, and developed and enforced legal codes – in sum, created the institutional framework referred to as a model or a system of corporate governance (Roy 1997; Scott 1997). During the 20th century corporate governance systems acquired national features as they shaped and were shaped by the national politics, the industrial structure, and social relations between the main stakeholders (capital, labor, and the state). Since the late 1980s governments around the world felt both political and economic pressures to reform their domestic corporate institutions according to the emerging imperatives of global competition. In this context, a process of change in a given nation's economic institutions became one of the "different roads to globalization."

Similarly to Cerny et al.'s (2005) approach, Overbeek et al. (2007) proposed to study changes in different corporate governance systems within the timeframe and conditions of the neoliberal globalization. They advocated "a transnational and multilevel perspective emphasizing the common elements of structural changes – as they emanate from common origins at different levels of governance – taking place across national varieties, even when recognizing *the nationally diverse ways in which this process of*

transnational transformation manifests itself" (van Apeldoorn et al. 2007:3; emphasis mine). In this framework, the neoliberal agenda with its focus on promoting market mechanisms and financial deregulation lies at the heart of changes in both the content and the form of current corporate governance regulation in different national contexts.

The global political economy approaches emphasize that the neoliberal agenda has instigated a certain degree of convergence in the political sphere, including the push towards emulating the Anglo-American model of corporate governance. Yet the actual implementation of the reforms have been shaped by the domestic political process and other nation-specific structural features which in turn preserved a certain degree of variability in the organization, if not in function, of national corporate institutions. This view contrasts with conventional expectations of global convergence on the Anglo-American model and the corollary diagnoses of inability to properly implement and/or respond to the neoliberal reforms.

Every corporate system has various stakeholders such as capital, labor, and the state, yet historically stakeholders' interests have been represented in different ways. A more balanced way is found in the so-called stakeholder model, the German system being the most known example. The Anglo-American model is organized to protect shareholders' interests above all considerations of stakeholders. The differences in stakeholders' representation have arisen due to a century-long, complex interaction of political, legal, social and economic conditions. For example, Germany's stakeholder system is famous for its principle of "co-determination," when labor representatives occupy one half of the seats on large companies' boards whereas large shareholders hold

the second half of the board seats (Streeck 1997; Vitols 2001; Menz 2005). The other two pillars of the stakeholder system are the works' council and regional wage-setting institutions. After World War II, both German and American political elites embraced corporatist arrangements between capital and labor in Germany to deal with the legacies of fascism. To prevent its recurrence as a consequence of class struggle under capitalism (Menz 2005:36), they built on strong national traditions of workers' participation in governance and networking (Streeck 1997). In terms of the geo-political situation and the ideological confrontation of the time, a "systemic" rivalry with state-socialist East Germany affected West German national politics ensuring a greater participation of labor in corporate governance and high standards of social welfare (Menz 2005). Moreover, after the World-War II in west European countries with traditions of civil law and a stronger state role in the economy (like France and Germany), banks and governments became large shareholders in major industrial companies (Scott 1997).[13] So historically, concentrated blockholding ownership often – but not always – accompanied a stakeholder model of corporate governance.

Business groups in post-war Japan were another prominent example of concentrated blockholding ownership where companies mutually held blocks of shares in other companies within their group (Gerlach 1992). In this system, concentrated stockownership provided another form of stakeholders' protection by being associated with long-term investment, a low incidence of hostile takeovers, and life-long employment. These corporate governance arrangements contrast sharply with the Anglo-American model associated with volatile environment of short-term credit, hostile

[13] John Scott in his 1997 study of corporate capitalism found that the country's legal heritage (e.g. the common law tradition) played a distinguishing formative role in the Anglo-American corporate organization as compared to systems influenced by German and French civil law traditions.

takeovers, and low employment protection. Despite a competitive edge, economic growth, and social stability achieved by German and Japanese corporations, by the late 1980s blockholding models lost their ideological credence to the Anglo-American model.

A shareholder-centered model emerged in the UK, US, and other countries with the common-law tradition (Scott 1997). Political opposition to both state and bank ownership of large corporations contributed to the formation of dispersed shareholding in publicly traded companies, where shares are spread among many stockholders, institutions as well as individuals (Campbell and Lindberg 1990; Domhoff 1996; Fligstein 1990; Mintz and Schwartz 1985; Perrow 2002; Prechel 2001; Roy 1997; Useem 1984; Zeitlin 1989). Under these conditions stock markets developed full force while labor unionization was systematically suppressed.

It was not accidental that proponents of the neoliberal globalization saw the Anglo-American model of corporate governance as conducive to growth of capital markets and meeting the requirements of unregulated, cross-border capital flows (Soederberg 2004). They claimed that the shareholder-value system was the best available model since it was, after all, central to the most efficient and prosperous US economy. Conversely, concentrated corporate stock, an underdeveloped stock-exchange system, and extensive unionization were seen as the evidence of economically inefficient and antagonistic conditions for foreign direct investment and global capital accumulation. This characterization had tremendous implications for the global corporate agenda of the 1980s-90s and the unraveling of the neoliberal globalization in various parts of the global economy.

The neoliberal reformers and business leaders around the world insisted on adopting market-oriented standards in corporate governance regardless of the existing differences in geo-political, legal, economic, and socio-cultural history among the English-speaking, western and eastern European, South American, and Asian countries. The principles of the shareholder-centered model and extensive privatization programs were widely imposed in the states seeking assistance from the World Bank and the IMF since the late 1980s. Alongside Western banks and transnational corporations, governments everywhere – in the core capitalist, former state-socialist, and peripheral countries – were the primary actors in the neoliberal restructuring of national corporate systems and as such, contributed to the emergence of a finance-based global regime of capital accumulation. On the supra-national level, the European Union has ensured the propagation of the shareholder-centered principles in corporate governance in western and eastern European countries. Yet on even more global scale, the New International Financial Architecture (NIFA) has included the Group of Twenty (G20), the Financial Stability Forum, as well as the enforcement policy for international standards and codes known as the Reports on the Observances of Standards and Codes (ROSCs). In an attempt to avoid financial volatility of the 1997-1998 Asian crises, the G7 governments pursued a new, consolidated effort to reform an existing patchwork of institutional actors, practices, and intergovernmental structures into the NIFA (see Soederberg 2004). The sphere of the NIFA's influence encompasses North American governments and the largest "emerging markets" in Latin America, Asia, and Europe, including Russia and, as part of the European Union, other former state-socialist countries. Soederberg (2004:2), who closely studied Mexico, Chile, and Malaysia, argued that "the NIFA is a class-based

strategy targeted at re-creating existing power relations in the global political economy – most notably transnational financial capitals and the United States – by ensuring that both public and private sectors in the South comply with the neoliberal rules of free capital mobility." The result of an ideological victory and global and cross-national mechanisms for its enforcement, the shareholder-centered model became a globally dominant standard of corporate governance in the 1990s and 2000s (Soederberg 2004).

It is instructive to look at how the German model has been affected by the neoliberal globalization. Menz (2005) challenged an argument that seeming institutional stability in the now unified Germany implied the (West) German corporate system's resilience to the neoliberal changes (and, by extension, continuing divergence in models of corporate capitalism). He argued that "a process of *functional convergence* has occurred, meaning that despite institutional stability in certain aspects of the [German] model, the functional output is very different" (Menz 2005:33, emphasis mine). Menz examined the system's foundations such as labor-capital relations based on the co-determination principle and consensual wage bargaining to argue that they were never based on "power parity between business and labor" (ibid.: 37). They existed due to a "commitment by both [capital and labor] to the ideology and institutions … of mutually binding collective bargaining" (ibid.). With the ascendance of the neoliberal ideology and the European unification, the neoliberal policies were implemented through these traditional institutions. "Functional convergence" with the Anglo-American system where labor has very limited institutional power is evident in the following changes in contemporary Germany: declining rates of worker participation in labor unions, growing

incidents of wages paid below the legal standard, and shrinking memberships in employer associations that require companies to pay standard wages.

A long-term approach to finance was another area that traditionally distinguished the German corporate governance model. Large-scale industrial production was built around three national banks which served as both lenders and large stakeholders and offered stability similar to Japanese *keiretsu*. Now these close relations between domestic financial and industrial sectors are "disintegrating" (Menz 2005: 36). The state policies stimulated this change by relieving banks from taxes on sales of their cross-share holdings (ibid: 37). The banks, on the other hand, found investment banking more profitable than long-term loans to the industry. Industrial companies sought foreign institutional investors and adopted the American style of quarterly corporate reporting in order to be listed on foreign stock exchanges. This example shows that seeming persistence of national features of corporate governance should not be simply taken as the evidence of failure to adopt the shareholder-centered principles of corporate governance. An understanding of how the dominant corporate model influences different national corporate arrangements requires a careful consideration of both the organization and functions of the corporate governance system as it is being transformed by the neoliberal reforms.

The end of the Cold War permitted eastern European, former state-socialist countries to pursue institutionalization of corporate arrangements as part of the neoliberal transformation of their economies. Vliegenthart and Overbeek (2007) examined the trajectories of corporate transformation in this region's four countries: Hungary, Poland, the Czech Republic, and Slovakia. They found that extensive corporate reforms in East

Central Europe did not lead to the formation of a model similar to one of the established systems – Anglo-American, German, or Japanese. Despite initial differences in the privatization programs in the early 1990s, they argued, the more recent changes indicated a process of convergence among these countries' emergent systems. The legal transformation of these countries' codes and practices required for the European Union's membership and a substantial presence of foreign capital, especially German banks, played a rather unique role in changing these countries' corporate systems along the dominant neoliberal principles. As a result, the process of corporate reforms in East Central Europe fused together some prime features of the shareholder-centered model with highly concentrated private ownership.

Attempts to understand the key outcome of the modern corporate reforms in Russia – namely, concentrated corporate control – have produced very narrow explanations, focusing on the most visible and politically controversial figures of the oligarchs. Burgeoning literature on corporate governance in Russia has shown no interest in the impact of the dominant corporate governance model on the features of the emergent system. Rather, studies critical of corporate governance in Russia focused on proposing ways to improve economic efficiency and transparency supposedly rooted in securing the minority shareholders' rights (e.g., McCarthy et al. 2004). In my view, this line of argument has served as another ideological vehicle justifying and reifying the existing, concentrated control established in large corporations.[14] It is not surprising

[14] Improving protection of minority shareholders' rights and introducing mechanisms to raise social responsibility of corporations are undoubtedly important steps to correct the imbalance of power. However, the public discussion has been limited to either the interests of large minority shareholders or to a selection of "worthy" social projects. What has been omitted from the public discussion is that the number of shares an average citizen has in large corporations is minuscule or none. While tiny, geographically dispersed shareholders would be looking for a way to organize collectively, a holder of 700 000 shares and a member of the board already has had the power to define the limits of social responsibility of corporations.

given that the literature on corporate governance in general, and not only in Russia, has tended to ignore the relevance of globalization or, in some instances, to take the recent changes for granted. As Overbeek et al. (2007:2) noted, neither highly prescriptive studies (deriving from the field of legal studies and economics) nor accounts narrowly focused on the firm could offer the necessary analytical tools to grasp the multilevel political nature of corporate governance and its relation to the changes in a broader politico-economic and ideological context. Placing the recent changes in the content and mode of corporate governance in the broader context means, first and foremost, moving beyond ahistorical theorizing of the firm as well as beyond the question of convergence versus divergence among the national regimes of corporate governance.

Implications for the Study of Corporate Governance in the Age of Neoliberalism

The global political economy analysts offer a distinct approach to the historical changes in the economic power structures under the neoliberal globalization. Their approach revealed a shift towards disempowering labor and government across various, historically different corporate systems. In contrast to the expectations of economic freedom and efficiency underlying the neoliberal transformation, privatization of the Russian industrial economy and adoption of a new system of corporate governance led to a concentration of economic power and wealth by domestic elites. Russia is one of many cases revealing modern, global dynamics of capitalism.

The critical political economy scholars distinguished their approach to understanding globalization's impact on national economies from the two analytical frameworks I have already described. First of all, they rejected the teleological

(essentialist) view of progress toward a completely globalized world, a revised view of modernization that informs the transitology thesis in studies of Russia (the first framework). Second, they criticized the tendency to narrow down the impact of globalization to specific economic processes such as global capital flows, and questioned whether the standard economic statistics collected by the international institutions (such as the World Bank) were reliable indicators of success. The standard data of this kind (e.g. foreign direct investment) have been frequently used to support assessments of Russia's insufficient or failed integration into the global economy. In this regard, Cerny et al. (2005:6) made a crucial observation that "globalization is not a process that can be logically or empirically derived from particular economic data or trends; indeed, political decisions (and non-decisions: Strange 1986) are themselves the source of these trends." In sum, the critical political economists have challenged the normative (neoliberal) view of globalization as a "natural," coherent economic process of continuous expansion of global markets. Instead, the current phase of globalization is argued to be a hegemonic process involving "the complex interaction of a range of uneven – sometimes even incompatible – trends … that together constitute … *a political process*" (Cerny et al. 2005:6, emphasis original). This analytical framework takes account of the intertwining global and national political processes as integral to economic development rather than viewing politics as constraining or sidetracking marketization. Focusing on political power and economic capital accumulation, this approach critically examines the spread of market-centered policies and restructuring of the existing corporate institutions.

The critical political economy is specifically geared towards understanding the issues of regulation/deregulation under the neoliberal global regime, one of the key points

of contention in the academic debates. According to market fundamentalism as voiced by the neoliberal experts, the economy has to be deregulated through the withdrawal of the state from participating in economic processes. But the critical political economists have found that the implementation of the neoliberal framework through mass privatization, financial and trade deregulation has not led to the expected "retreat" of the state (e.g. Strange 1996). In the context of growing economic interdependence among countries, "the state is continuing to develop and extend its authority" (Cerny et al. 2005:4). The priorities of the state in a capitalist country have changed: the welfare state, characteristic of the post-world-war II western Europe, is being replaced with a new mode of authority. Cerny et al. (2005) suggested the term a "competition state" to underscore the shift in state governance to optimization of the capital investment process domestically and globally while circumventing other, historically important social goals. David Harvey (2005:7) argued that the transformation of the state is best captured by the notion of the "neoliberal state" whose "fundamental mission… [has become] to facilitate conditions for profitable capital accumulation on the part of both domestic and foreign capital."

Government policies of privatization used to transform the ownership structure of large industrial and financial capital have been studied rather closely in Russia and elsewhere. Another key role of the neoliberal states, namely, instituting (or transforming) the legal framework to create the new conditions for capital accumulation has been the focus of the normative discussions; it has not, however, received systematic critical analytical attention it requires. A sustained focus on the content of the newly established corporate governance and its institutionalization would allow us to ascertain the emergent power relations between the state, capital, and labor and, consequently, the government

policies' consistency with the neoliberal agenda. Ultimately, this knowledge is needed not only for social scientists to construct historical accounts and further develop theoretical approaches to modern corporate capitalism. It is also vital for informing the public about the underlying mechanisms of domination and resulting severe imbalances in social power that have undermined the democratic principles and endangered social welfare on national and global scales.

Chapter III

Unthinkable Possibilities under Neoliberalism: Codification of the Shareholder Form and Class Power in Russia

> **One could offer countless … instances in which the effects of choices made by the state have so completely impressed themselves in reality and in minds that possibilities initially discarded have become totally unthinkable.**
>
> P. Bourdieu. *Practical Reason.*[1]

The most historically significant meaning of privatization in Russia was the system-wide transfer of control[2] over the largest industrial conglomerates from the state to a limited number of private owners. Privatization of these enterprises in itself was a remarkable historical event because metallurgical giants such as "Magnitka" or "Norilsk Nickel" always had a special place in the nation's history.[3] The giant enterprises now comprising the list of the largest 100 joint stock corporations in Russia (see Appendix), had once been the jewels of the soviet economy. Built as state-owned and strategically vital enterprises, most of these companies have occupied a monopolist position in the country or in the region. Many have been among the largest producers in the world. Besides their macroeconomic significance, some of these largest enterprises trace their history to the 19th century and most have been publicly recognized as the national

---

[1] Bourdieu (1998:37).

[2] In my analysis I focus on control of the strategic and operational decision-making in corporations established via two mechanisms: boards of directors and ownership.

[3] See, for example, notable historical accounts by Stephen Kotkin: *Steeltown USSR: Soviet Society in the Gorbachev Era* (1991) and *Magnetic Mountain: Stalinism as a Civilization* (1995).

achievement of the soviet people. Their construction involved a large commitment of national resources and physical labor of thousands of people, often in the harsh Siberian and other northern conditions. Moreover, lives of millions of people were organized by these industrial conglomerates. They provided not only secure employment but the entire social infrastructure of factory-towns and regions – housing, hospitals, child care, and trade schools – for workers and their families. In sum, there could be no doubt that at the onset of privatization in 1992, the largest enterprises played a systemic, foundational role in the political economy of the soviet state as well as occupied a significant social and cultural place in Russian society.[4] How was it possible that these enterprises did not become broadly controlled[5] and collective sources of economic welfare? How did they become the sources of private wealth and power without any broad public contestation?

David Harvey (2005:7) has persuasively argued that in the era of neoliberal globalization the state's role has been transformed: its "fundamental mission… [has become] to facilitate conditions for profitable capital accumulation on the part of both domestic and foreign capital." Privatization of the industry and deregulation of the financial sector are the prime examples of the state creating favorable conditions for private capital accumulation. Existing research on Russia has documented how rapid privatization enabled some members of political and industrial soviet elite to transform their political and social capital in economic capital while the standard of living

[4] Boris Kagarlitsky (2002:29) noted, "Soviet productive enterprises not only belonged to the state, but were themselves part of the state, and to a degree were among the lower links in the organization of society, carrying out the same role as communes and municipalities in Europe. Privatizing the VAZ [Volga Automobile Manufacturer] or KamAZ [Kama Automobile Manufacturer] factories is like trying to privatize Bristol or Frankfurt."

[5] By "broadly controlled" I imply, for instance, the co-determination principle of German corporate governance system where the representatives of the work collective occupy half of the seats on supervisory board of directors. For descriptions of German system see Vitols (2001), Jackson (2002), and Menz (2005).

plummeted among all remaining strata of the population.[6] Harvey called this new state formation a "neoliberal state" and the aforementioned mechanisms by which such state redistributes, rather than produces wealth, – "accumulation by dispossession" (ibid: 159). In the era of neoliberal globalization the state has become the prime agent of redistributive policies such as privatization, and as such, has been directly responsible for the ensuing inequalities and deprivation (see also Evans 1995: 6). Yet the state's role in institutionalization and spread of the corporate form[7] that enabled the establishment of the new economic regime in Russia has not received the necessary theoretical and analytical attention in the analyses of privatization of the largest industrial companies.[8]

This chapter describes how the state introduced the corporate form during the critical period, from 1989 to 1993, when privatization of the largest Russian enterprises was being planned and about to be implemented. The legal framework was gradually changed to institute a new system of decision-making and property relations among the three major social groups in the Russian society: the state, labor, and management as well as to create a new group of shareholders. I reconstruct the codification of the globally dominant, shareholder-centered model of corporate governance in Russia based on the original textual analysis of laws and presidential decrees.

---

[6] For a superb cohort analysis of changes in the political and business elites in Russia, see Olga Kryshtanovskaya's various publications and especially her 2005 book *The Anatomy of Russia's Elite* (in Russian).

[7] Both terms, the "corporate form" and "corporation" refer to a large joint stock company with subsidiaries and/or divisions including holding companies established to hold stock in and/or manage operating enterprises.

[8] Hilary Appel (2004) examined the ideological underpinnings of privatization in Russia (and in the Czech Republic). She focused on the measures introduced through the program of privatization and only briefly reviewed the legal changes preceding mass privatization (ibid:71-75).

My analysis supports the following argument about how it was possible to change the state-controlled system built on the anti-capitalist ideology to a fundamentally different system of economic governance based on concentrated private ownership. First, I note an ideological context of the time when capitalism's triumph was widely celebrated in the wake of its rival system's collapse. On the one hand, as a dominant institution of modern capitalism, the large corporation was seen in the post-state-socialist countries as a "natural," inevitable, most efficient form of organization of industrial production. On the other hand, the anti-soviet sentiment and disillusionment with state bureaucracy were also strong among all groups of society. I show that in this context, state leaders – conservative and radical alike – recognized that privatization of the largest enterprises was a distinctly political issue with a potential to unravel the existing social structure. In response to publicly voiced concerns, they exercised what Bourdieu (1998:47) called symbolic power of the state to impose new categories of perception to deal with impending changes. Invoking the existing perceptions of social power and domination, state leaders' initial tactic was to advocate a vision of a joint-stock corporation not as a private but collective form of ownership, and speak of privatization as limited to medium and small enterprises. Thereby political elites in Russia encouraged the public's "misrecognition" of the large corporation as a medium institutionalizing power (Roy 1997).

In this regard, I make a second point that the governance of large corporation, especially in its shareholder-centered version, carries in itself a great potential for concentrating private power. As the state establishes a system of corporate governance, it shapes how economic power is distributed among key social groups such as labor,

management, government, and domestic (and foreign) capital. To understand the institutionalization of corporate power, I also draw on Bourdieu's general approach to social institutions as objectified domination. He noted that in modern industrial societies the elites' domination has been established and sustained through institutions rather than through interpersonal relations (see also Thompson 1999). Applying Bourdieu's (1998:33) insight about the state's monopoly to exercise symbolic violence, I show in my analysis of legal documents how state and industry leaders in Russia institutionalized a type of governance consistent with the neoliberal ideology by playing on the blurring of the boundaries between public and private inherent in the history of the large American corporation (Harvey 2005; Roy 1997).

I uncover the already forgotten "turning moments" when the political and industry elites made crucial choices regarding the form of corporate governance they envisioned resulting from the privatization. As I demonstrate in this chapter, in each of these moments, via a new series of legal rulings, the state gradually adopted the key mechanisms of corporate control in a way that excluded labor from participation in corporate governance and curtailed the public's supervision of the new institution of corporate capitalism. In this way, the outcome of corporate transformation in Russia – namely, concentrated ownership and control of vast industrial and financial capital, was the direct consequence of the state's embracing the neoliberal ideology and the key principles of the shareholder-centered corporate governance.

Joint-stock corporation as an institution of concentrated power

The legal introduction of the corporate form in Russia prepared the ground for the process of mass privatization of the largest industrial enterprises that began in late 1992.

This was not only because the newly introduced law (discussed in this chapter) consistently prohibited conversion of these enterprises to any other forms (such as partnerships) but also, and most importantly, because the corporate form allowed to transfer ownership and control to private actors without an explosion of public protest. It is impossible to imagine the outcome of privatization – the concentration of privately-held control of the largest industrial-financial groupings – if it were not for the ways in which the large corporation was institutionalized in Russia.

The core countries' economic prosperity and the global dominance of corporations have lent almost undisputable support to universality and superiority of corporation as a form of economic organization. The corporate form has become firmly wedded to the progressive form of economic development. In the case of developing countries, it has been promoted as essential to national companies' ability to participate and grow in the global market. The anti-state rhetoric of the neoliberal ideologues was particularly instrumental in imposing privatization and transforming how state-owned large productive enterprises are regulated and governed around the world. Being seen as the most efficient form of modern capitalist organization masked the absence of mechanisms that would enable a large portion of the population to partake in the governance of this new institution of the economy. Equally, it masked the potential of the American style of corporate governance to facilitate concentration of control and further expansion of corporate empires.

Furthermore, it is important to note that the Russian public's disillusionment with the soviet bureaucracy's ability to run the economy transcended class differences and enhanced the public's "misrecognition" of the corporation as a progressive vehicle of

efficient organization as opposed to a new institution of domination that affected major social groups. This misrecognition was an especially powerful tool for the elites and the media who popularized privatization of the industry as the one and truly effective way to stimulate individual innovation and national prosperity, both presumably stifled by state ownership. The media's focus on corruption of bureaucrats helped the public to overlook the private power concentration capabilities inherent in the corporation as an organizational form. That these capabilities have varied across national contexts and time periods, and that they have been defined and regulated by the state through legal rights and obligations placed on corporate entities were not seen in Russia as pertinent to potential concentration of corporate power as such.

The role of the state in the corporate revolution

In their analyses economic sociologists Charles Perrow (2002), William G. Roy (1997), and Harland Prechel (2000) demonstrated that the largest corporations reached their apogee of power concentration not simply due to their intrinsic efficiency or the effectiveness of the surrounding market institutions. Rather, it was a result of the social historical construction and political struggle accompanying the reproduction of this institution. Over time and under different economic circumstances (such as market crush and depression) the specific corporate forms and their special rights, restrictions, and obligations have historically varied. For example, Roy (1997:76) convincingly showed how "the most private of our economic structures, the large business corporation, arose as quasi-government agency." Whereas Russian "wild capitalists" have been often compared to American robber barons, the fact that the large American corporation

developed as a public institution and that American states played a fundamental role in its development has never been explored as relevant to our understanding of Russia's corporate revolution.

The historical sociological research showed that an institutional capacity of the large American corporation to concentrate capital and power has developed over time through a series of political changes removing the state's and public's oversight. The general, legally documented features of corporate governance include rules and regulations governing election and functioning of boards of directors, specifying ownership structure, and the principle of limited liability (e.g., Mintz and Schwartz 1985; Stokman et al. 1985; Scott 1997; Roy 1997; Prechel 2000; Fligstein 2002; Perrow 2002). Also common across national legal frameworks has been for the state to recognize the large corporation as a legal person with various rights. Historically, different states have regulated what large corporations could do: some imposed restrictions, most notably, on intercorporate ownership while others devised policies to stimulate cross-ownership and formation of business groups. Moreover, in continental European countries in particular, state owned industrial corporations have always existed alongside the publicly-traded companies.[9] Given these variations in legal frameworks and state policies over time, it is important that at the end of the 1980s the neoliberal economic policies were gaining

[9] I believe that useful insights can be drawn from historical comparisons of privatization of large corporations. For example, Roy pointed out that a stumbling performance of large public enterprises combined with economic depression produced two opposite reactions in the 19th century U.S. and France. Depending on the interpretation, the situation prompted privatization of large public corporations in the USA but justified an increase of government control of them in France. This insight underscores the historically varied understandings of the relationship between the state and large-scale industrial projects conditioned by the prevalence of antistatist ideology (Roy 1997: 71-75). By the way, there was no shortage of that among the economists drafting and implementing the reforms in Russia; the hatred of the soviet regime easily assumed a form of strong antistatist ideology well suited for implementation of a radical neoliberal reform.

momentum as the requirements for international loans and extensive privatization campaigns around the world urged state officials in Russia (and elsewhere) to prepare for transfer of state companies to private hands through various forms of sale. Nevertheless, I hypothesized that alternative choices of policies were available during the corporate revolution in Russia, and that these alternatives were eliminated through the changes in the legal framework.

Methodology

In my analysis, I draw extensively on the analytical tools and theoretical arguments developed in the fundamental historical analyses of corporate development and economic domination in the USA by William G. Roy (1997) and Charles Perrow (2002). My extensive reliance on the tools employed in the analysis of concrete corporate structures of advanced economies is based on my belief in common structural processes involved in the historically contingent corporate development. This analytical position is different from an approach that compares the post-state-socialist development with that of an 'advanced economy' where the latter serves as a universal model against which the "deviations" and "failures" of Russia's type of corporate capitalism are identified.[10]

Historical comparative studies (most notably, Scott 1997) have shown that the structure of the corporate form and corporate relations in a given national context are affected by the areas of law that define the structure of control: the regulations of intercorporate relations, governance, and liability. Among the most crucial factors contributing to the growth of corporations and restructuring of intercorporate relations in

[10] For more details, see Chapter II.

the American context, Roy (1997) identified intercorporate stock ownership, the powers of boards of directors, and the extent and limitations of owners' liability. In my analysis I trace how these aspects of corporate relations were introduced and affected the subsequent development of the corporate concentration of control over the large industrial assets. To do that, I apply an interpretive approach to the legal texts without implying, however, that a law coherently and comprehensively represents an articulation of a single intent and not a compromise, or that it has produced an intended outcome. Rather, I am concerned with a relation between legal and economic orders that needs to be empirically examined rather than normatively asserted (Roy 1997: 146-8). Analogously to his approach of joining the reading of statutory texts with an examination of social and economic consequences observed in the economy, in the dissertation I combine an examination of the legal framework with the analysis of corporate forms and intercorporate relations which emerged during and after privatization.

In the post-state-socialist societies, the reform process and introduction of the new legal forms certainly did not take place in the institutional vacuum (e.g., Stark 1996: 112) nor did they proceed in the conditions of political consensus. I begin the analysis with brief but telling citations of two prominent figures in the Russian government who oversaw the introduction of the corporate form in the late 1980s when the state made first steps towards restructuring of the largest enterprises and hierarchically organized structures of state control. Against this background, I examine the legal framework that introduced the corporate form in Russia to reveal the enactment of the symbolic power of the state (Bourdieu 1998: 47) instantiated here in the articulation of the new forms of economic organization and the property relations. I trace the *institutionalizing* steps

directly related to the conversion of the largest industrial complexes into corporations back to the legal acts of 1989. The steps developing the legal framework resulted in the following: (1) the new property rights were granted to the individual and to the collectives of individuals for the largest means of industrial production (factories, industrial concerns etc.) and (2) the new types of economic organizations (joint-stock companies) were also granted rights but with some restrictions. These steps shaped the emergent forms of intra- and interorganizational relationships of ownership and control further developed through privatization measures.

Political Feasibility: privatization promoted as "collectivization"

The notion of joint-stock company[11] first appeared in the institutional context of the soviet political economic agenda intended to redefine yet preserve some elements of the socialist political system. Several years prior to disintegration of the Soviet Union, Mikhail Gorbachev pursued privatization without rejecting a socialist system. It was only after the dissolution of the Soviet Union and establishment of Russia as an independent state, Russia's President Boris Yeltsin began to pursue a course on a *systemic* change to capitalism.[12]

President Yeltsin's politically radical decision to establish a capitalist economy does not preclude a question of whether privatization of largest companies was politically

[11] Throughout the text, I prefer to use the term joint-stock "society" when discussing legal texts and a joint-stock "company" when referring to an institution. The former is a more precise translation of the Russian legal term "акционерное общество" as argued by a prominent legal scholar and translator of Russian legal texts, W.E. Butler (2003: xvi).

[12] This point about the systemic change underscores the difference between a simultaneous privatization of a majority of companies in Russia and privatization of a select few companies in the context of the already established capitalist economy as it had previously happened in the advanced capitalist countries such as the UK or Canada.

feasible, even though it was a political action partly built on Yeltsin's strong command of presidential powers.[13] Their privatization was not an immediately available option; it was a gradual process that started, rather counterintuitively, with the state's attempts to retain control of them first within the state socialist system (when Gorbachev was still in power) and later within a new framework of building a market economy (when Yeltsin took over). Thus, on the whole, privatization of the giant industrial companies was not only a much more organizationally complex process than privatization of small and medium size enterprises, but also a distinct political issue.

In the late 1980s the government began to reshuffle the forms of property rights. My analysis shows that a joint-stock company was initially envisioned as an institutionalization of a collective form of ownership distinct from both the state and private ownership and promoted as such.[14] To address the question of political feasibility of privatization of the largest industrial enterprises and provide a context for the analysis of the legal framework that follows, I begin with a short exposition of two influential political leaders' conceptions of the relationships between privatization of largest national enterprises, the notion of private property, and social justice.[15] Their public statements demonstrated that it was clearly recognized at the government level by conservatives and

[13] In his analysis of the institute of presidency under Yeltsin, M. Steven Fish (2001: 18) observed, "In all major realms of politics – in state-society relations, sociopolitical life, state-building, and the performance of state agencies – the overweening presidency has exerted pernicious effects." Jerry F. Hough (2001) in his account of the "logic of economic reform" in Russia attributed main outcomes, including the concentration of industrial and financial power in the hands of the few, to Yeltsin's ability to exert substantial power during the economic reform.

[14] I have to note that the term "collective form of ownership" carries a direct reference to "kolkhoz" or "a collective farm" seen as the property of the agricultural workers who work on the farm as opposed to an abstract notion of state property.

[15] The trajectory and structure of the discourse promoting privatization, and especially privatization of the largest enterprises, is a serious object of research in its own right. I limit my efforts here to providing two illuminating statements by two officials who served as heads of government.

radical politicians alike that privatization of such sort was ultimately linked with the regulation of social and economic inequality within a national context. I think both leaders at the time still believed that the state would remain in control of the largest enterprises despite broad measures of privatization.

In 1989 when *perestroika* or restructuring of the state socialist system was already underway in the Soviet Union, Yegor Gaidar, then a prominent economist, ardently wrote that in the course of Russian history, the state had been unable to regulate social conflicts arising out of capitalist development. He therefore observed that "utopian ideas" were gaining currency in Russia such as that it would be possible "to sustain national unity during the transfer of the means of production into the hands of nouveau riche of the shadow economy, the wiliest bosses, and transnational corporations" (Gaidar 1989).[16] He then concluded that "The program of reforms, which does not aim to sustain such values as equality of life chances regardless of income, state regulation of income differentiation, active participation of workers in management, is simply *not viable*" (ibid., emphasis and translation mine).

A year later, Yegor Gaidar was preparing and then, as a Prime Minister, leading the implementation of the program of reforms that were as faithful to the neoliberal ideals as possible. In the crucial years of 1990-1991 he supported immediate and broad privatization as the necessary means en route to the market economy despite his thorough understanding of the impact of the state's distributive power on the social structure of the society (evident in his aforementioned statement). As the head of the government, he signed legal enactments intended to keep the government in control of the largest

[16] Gaidar (1989)'s article appeared in newspaper *Moscow News* and was reprinted in a biographical encyclopedia "Russia-2000: Contemporary Political History (1985-1999)", Vol. 2 , p.194.

enterprises. However, this approach was short-lived, and what he envisioned in his 1989 article to be dangerously utopian turned out to match fairly closely the outcomes of his government's reforms in social, political, and economic realms.

In the summer of 1990, several laws were passed articulating the notion of a joint-stock company. The first giant state-owned enterprise, a commercial truck manufacturer KamAZ adopted this new, collective form of ownership and control (it was privatized by the management and workers of the company). Meanwhile in the public sphere, the question of how privatization would affect control of the industrial assets of the country was dismissed by the Prime Minister as people's fear of the institutions of private property. In December of 1990, Nikolai Ryzhkov, a communist and a moderate reformer, who served as Prime Minister during Mikhail Gorbachev's presidency, was still advocating a "multiplicity of forms of socialist ownership and methods of economic management [that would lead] to a genuinely democratic and more advanced model of socialism" (1990: 6). When this interview with Ryzhkov was published on December 29th, 1990, he could not have envisioned that in August 1991 there would be a coup d'état followed by President Yeltsin's outlawing of the Communist Party in Russia and the dissolution of the Soviet Union in December 1991. Another quote from the same interview shows the confidence of Prime Minister that legalization of private property would not jeopardize control of the largest companies nor would it make the economy non-socialist.

> *Question*: Some people wrote to *Pravda*[17] and a number of deputies said at the Congress that after the adoption of the law on

[17] *Pravda* was a widely circulated newspaper of the Communist Party.

> property,[18] black market dealers would buy up factories and plants and become masters in this country. What do you think?
>
> *Answer* [Ryzhkov]: I think this is an overstatement resulting from an emotional reaction to media reports about a revival of private property in this country rather than to the publication of the law on property.
>
> Let's suppose this law has become effective as has been put up for nation-wide debate. Will major state-run enterprises fall into private hands in that case? No, they won't. The law does not provide for private property based on exploitation.
>
> Moreover, major state-run enterprises, on which the stability of the entire economy depends, will not be made collective property either. They won't be leased, for instance. I think this will apply to the enterprises in the fuel and energy sector, communications, sea and railroad transport, the defense sector and some other industries of national importance.
>
> (Ryzhkov 1990:16)

In this statement Prime Minister explained that joint-stock companies were to be understood as a collective type of property, not "private property based on exploitation," and would only be available for the conversion of "factories and plants," that is, the lower, operating level of the industrial hierarchical management. (The soviet industries were organized in a hierarchical manner with a ministry at the top, regional associations and industrial concerns in the middle tier, and operating enterprises at the low level). As a supporter of the "gradual" adoption of market economy, Ryzhkov advocated increasing independence of the enterprises from the state yet preserving a strong role of the state in the management of the economy by reorganizing ministries as state-owned industrial concerns. It was a populist vision that helped to gain a broad consent for the government to go ahead with the legal and structural changes but it did not reflect the depth of the reforms of 1990-1992 (that is, prior to privatization).

---

[18] He referred to the Law on Property signed by President Mikhail Gorbachev on March 6th, 1990.

Introduction of Joint-Stock Society as a legal form of property

A joint-stock society as a legal form of economic organization was first introduced in the soviet legal framework during Gorbachev's reforms. The 1989 USSR Law "On Leasing" allowed workers' collectives to buy their leased enterprise from the state and form a joint-stock society (Article 10).[19] Conceived as a means to transfer ownership rights on commercial and manufacturing property from the state to company's employees, a joint-stock society was a novel "collective" or "public" form of property. This "collective" dimension was rooted in the specifics of the ongoing privatization of individual enterprises by their employees (e.g., buy-outs following leasing).

By 1990 decentralization of the state political power was already underway. Moving towards greater independence within the USSR, the Parliament of the Russian Federation (hereafter RF) chaired by Boris Yeltsin issued legal decisions and laws which were intended to override those created at the level of the USSR and approved by Mikhail Gorbachev. During 1990 and 1991 both parliaments produced several legal documents targeting the same issues of privatization of enterprises and creation of joint-stock companies: the Law on Property, the Law on Enterprises, and the Statute on Joint-Stock Society (see Table 3.1 below). By January 1991 the Russian Federation's laws took precedence in Russia even though the USSR officially ceased to exist only in December of 1991.[20]

---

[19] The original texts of laws, Presidential decrees, and parliament's decisions were retrieved from several online sources.

[20] For example, RF "Law on Enterprises and Entrepreneurship" became active on January 1, 1991, and, by RF government decision, prevented the application of the "Law on Enterprises in the USSR" scheduled to begin on the same date.

Table 3.1. The Introduction of the Legal Framework for the Corporate Form, 1990-1992

Mid 1990	End of 1990	Mid 1991	End of 1991	Mid 1992	End of 1992
USSR	RF	RF	RF	RF Parliament:	RF
Law on Property;	Law on Property;	Law on Privatization;	Pres. Decree on Main Principles of the 1992 Program of Privatization (#341)	The State Program on Privatizatio n	Pres.Decree #1392 Temporary Statute on Holding Companies
Law on Enterprises;	Law on Enterprises & Entrepreneur-ship;	Law on Personal Privatization Accounts			
Statute on Joint-Stock Society	Statute on Joint-Stock Society				

The transition between the two types of property (from the state to the collective) as well as their differentiation were driven by the reforms' emphasis on giving greater independence to the individual enterprises. The USSR Law on Property allowed collective ownership of industrial assets in the form of the joint-stock society (Article 10). The entire text of the Law did not use the word *chastnaya* (private) property at all. Referred to as "a citizen's property," it was defined as the individual citizen's ownership of an apartment, car, etc., including stock in the place of employment (Article 7). The same distinction between the individual, collective, and state property was articulated in the 1990 USSR "Law on Enterprises" which identified three types of an enterprise, each based on:

(1) "a soviet citizen's property – individual and familial,"

(2) "the collective property – a collective enterprise; a manufacturing cooperative; an enterprise founded in the form of joint-stock society or other type of society, or owned by such societies," and

(3) "the state property" of various levels of authority (Article 2).[21]

Thus the approach articulated in these two Laws determined that the industrial property could only be in collective or state hands, distinct from the form of private ownership. This view quite adequately reflected the position of Prime Minister Nikolai Ryzhkov expressed in his 1990 interview about the private property and privatization of the industrial assets (cited above).

In contrast to the USSR version, the Law on Property issued by the Russian Federation six months later added to the list of objects that could be owned by an individual citizen: enterprises, their equipment, transport, and other "means of production" (Article 10). Interestingly enough, this article also stated that there was no limit on the amount and value of property owned by an individual if it was acquired in accordance with the law or a written agreement. The RF Law established that the property could be "in private, state, municipal ownership, as well as in the ownership of the public unions (organizations)" (Article 2.3). Another RF Law, "On Enterprises and Entrepreneurship," introduced a previously absent context of entrepreneurship (as evident in the title and contents of this Law). The Law named three types of subjects that could pursue an entrepreneurial activity in the Russian Federation: "citizens of the Russian and other republics of the USSR, foreign citizens, and a collective of citizens – collective entrepreneurs (partners)" (Article 1). In this statement, the importance of a private

[21] Direct quotations from legal documents are enclosed in quotation marks. Translation is mine.

entrepreneurial initiative (either individual or collective) was emphasized, yet a company (a juridical entity) was not conceived as an economic actor. The later articles of the Law, however, recognized enterprises as economic actors in their own right, able to participate for example, in operations with securities. Neither was the state mentioned among the subjects that could engage in an entrepreneurial activity; it could be an owner of enterprises but not an entrepreneurial/commercial agent (see Article 2.3 of the RF Law on Property cited above). In sum, the Russian Federation's legislative acts of 1990 put forward a strategically novel set of property rights allowing individuals to own industrial property (arguably, of an unlimited size and value).

However, while introducing entrepreneurial activity as a legitimate pursuit by the individuals in the opening article of the Law, the legislators either did not recognize or were not keen on stating the obvious: that in the remaining text of the Law and the following Statute on Joint Stock Society, individuals and organizations were indeed granted the same rights related to forming joint-stock companies and purchasing stock in other companies. As it happened in the history of the joint-stock company's rise to dominance in the advanced economies, granting corporations the same rights as the individuals elevated this form of economic organization to a privileged position in the economic field and facilitated its growth through accumulation of power over industrial and financial resources. So was the case in Russia; large state enterprises transformed into joint-stock companies could control amounts of capital and property substantial to obtain credit and/or issue additional stock in order to participate in the charter capitals of banks and acquisitions of shares – ways to accumulate large amounts of capital not available to an individual entrepreneur. In the conditions of impending privatization of

state industrial assets, this turned out to be an important factor leading to concentration of control over large amounts of industrial property in corporate groups.

Whereas the Laws were passed by the Supreme Soviets of the USSR and RF, the Statutes on Joint-Stock Society were approved by the executive branches of the respective governments. The significance of this difference in the approving authority (executive versus representative legislative) lies in the degree to which these documents introduced and regulated novel forms of ownership and entrepreneurship: the Statutes approved by the governments were more radical relative to the Laws since governments were reform-oriented (whether gradual or radical) whereas parliaments always contained a more conservative membership. This confrontation between executive and legislative branches would become much more apparent in the years of the first term of Yeltsin's presidency. The legal enactment of how privatization was to be conducted and regulation of the new relations of property following privatization would be carried out through the top executive's orders.

Corporate Forms and Relations

The first legal document *specifically* devoted to the joint-stock society in the USSR appeared in the form of the USSR "Statute on Joint-Stock Society" (in Russian: "*Polozhenie*") signed by Prime Minister Nikolai Ryzhkov on June 19, 1990. The Government of the Russian Federation also signed a statute with the identical title but a vastly different content on December 25, 1990 (Decree #601). The two Statutes specified in different ways what a joint-stock company should be and what it could do. Conceptually, the two documents were representative of their time: whereas the word

"*kapital*" was absent in the USSR's version of the Statute on Joint-Stock society, in the later Statute of the Russian Federation introduced the word "*kapital*," which has since designated the charter capital of the joint stock company. The RF version of the Statute was noticeably different: in technically sophisticated terms it described many features of modern joint-stock type of company entirely absent from the USSR version; this was one of the first documents adopted from the western legal statutes. The structure of the document reflected its time and purpose: the first chapter was titled "The notion of the joint-stock society" and contained ten articles. When the subsequent law was passed in 1995, the need to introduce the concept of the joint stock company faded away. The 1995 Law on Joint-Stock Societies began with defining the "sphere of the Law's application" (Article 1) prior to the "basic provisions" article (Article 2).

Although the terms "corporate" and "corporation" did not appear in the legal texts analyzed above (both Laws and Statutes), the two legal frameworks, that of the USSR and RF, began to specify some forms of corporate relations as early as in 1990 (see Table 3.2). The USSR Law "On Enterprises" simply restated the relations of a centralized authority over operating enterprises united in such forms as "unions, associations, and concerns" already existing since mid 1970s. The right to purchase stock in another company, articulated in the USSR Statute on Joint-Stock Society, revealed a conception of the joint-stock company as employee-owned (see Table 3.2, second row, highlighted). However, the USSR Law "On Enterprises" and the USSR Statute on Joint-Stock Society did not offer norms that were necessarily contradictory. Employee-owned enterprises could, and most were, part of unions/associations of enterprises.

Table 3.2. Corporate Forms and Intercorporate Relations Defined in Official Legal Documents, 1990

Date	Title of Laws and Statutes	Excerpts from legal texts
Mid 1990	USSR Law on Enterprises	Firms can form unions, associations, concerns (regional, inter-industry) on voluntary basis. Centralization of management is allowed. These forms become a juridical person.
	USSR Statute on Joint-Stock Society	A joint-stock society can be formed by juridical persons and individuals (foreign participation is regulated separately). It can purchase stock of other companies after paying state taxes. The remaining profit can be used to purchase stock based on the **employees' decision.**
End of 1990	RF Law on Enterprises & Entrepreneurship	Firms can form unions, associations, concerns (regional, inter-industry) on the basis of agreement. The management of the union/association does not have executive power over member enterprises and fulfills its functions in accordance with the initial agreement with enterprises.
	RF Statute on Joint-Stock Society	A joint-stock society can be formed by juridical persons and individuals (including foreign). It can participate in the charter capital of other societies and can purchase stock of other companies.

In contrast, in the RF version of the Law on Enterprises, a form of associations of enterprises was based on agreement, regulating the relations of authority. This provision in the Law intended to introduce contractual relations and potentially limit the centralized top-down management. It underscored that the membership in such associations was *strictly* voluntary and agreement-based, thus ruling out property rights as the basis for interorganizational relations. Also, this provision in the Law did not allow the state to

establish state-owned concerns in the form of a holding company, which nevertheless was done by the government of the Russian Federation despite protests by the Parliament (I discuss it in the last section of this chapter).

There was a disjunction between the norms regulating intercorporate relations articulated in the RF Law on Enterprises and the RF Statute on Joint-Stock Societies (the latter was *not* a Law approved by the Parliament). The RF Statute presented a framework for intercorporate relations initiated at the level of companies, not in a top-down approach from the ministry. The Statute articulated the idea that as a juridical entity, "a society can participate in the charter capital of other societies"; i.e., joint-stock companies can be among the proprietors of stock in other companies (Article 6). Chapters XX and XXI of the RF Statute on Joint-Stock Societies contained numerous provisions regulating operations with stock and restructuring of corporate entities. It is important to note, however, that this legal enactment expressed the state's intention to control large transactions with stock (without any general restrictions on such transactions). This Statute required Finance Ministry's approval for the purchase by any juridical or individual person (excluding the company's founders) of the amount exceeding 15 per cent of the company's stock. It was also becoming possible to buy more than 50 per cent of the company's stock, provided an approval of both the Antimonopoly Ministry and Finance Ministry was obtained. Despite these provisions, privatization unleashed a stock acquisition "gold rush" among the large economic organizations; the larger they were the more successfully they pursued an acquisition of stock in companies undergoing privatization. Whereas the form of facilitating coordination between enterprises through voluntary contracts would make its way into the first conception of financial-industrial

groups, the real winner would be the corporate form of hierarchical coordination based on property rights.

In sum, although they were not long in operation if at all, the laws prepared and passed by the Supreme Soviet of the USSR undoubtedly influenced the later, Russian Federation's, versions. A comparison of their texts reveals a gradual move away from the notion of joint-stock company as employee-owned to the one that was based on a more generalized collective form of ownership.

Introducing Corporate Governance

Comparative studies of intercorporate relations have shown that the composition of boards of directors of large corporations have always played an important role in the structures of control within and between large companies and banks (Stokman et al. 1985; Scott 1997). As Roy (1997:154) pointed out, "the existence of board of directors is itself a distinctive feature of the corporation." Indeed, introduced in conjunction with the form of the joint-stock company in Russia, the electoral principle of directors' appointment and a two-board system were completely different from how the soviet top management was appointed and held accountable by the state. The two-board system implied an establishment of the supervisory and executive (managerial) bodies each performing a separate function. The supervisory board was named "*sovet directorov*" (literally: "a board of directors"). It was to be elected at an annual shareholders' meeting; its members were responsible for all major, strategically important decisions (including restructuring), and were empowered to appoint the top executive. The executive board in Russia retained the name "*pravlenie*" (which literally means "administration") and

structural composition from the soviet period. It is headed by a chief executive or a managing director of the company. These key differences in composition and functions between the two governing bodies were novel in the Russian context; they were slow to emerge but central to the consolidation of control within and between the largest companies.

The legal enactments issued in 1990 contained the general principles of the election of directors at an annual shareholders' meeting and provided very basic information about the sphere of the board of directors' control. However, the USSR Statute on Joint-Stock Society explicitly stated that the goal of the supervisory board of directors was to exercise control over the executive board. The supervisory and executive boards were conceived as two distinct entities: their membership could not overlap. Consistent with the USSR Statute's overall conception of a joint-stock company as employee-owned, the Supervisory Board "could have representatives of the employees, unions and other public organizations" (Article 54). These provisions were absent in the corresponding RF text of the 1990 Statute on Joint- Stock Society, the version that went into effect as privatization ensued. This was an important "turning point": the absence of these provisions led to the capture of supervisory boards by companies' top management and exclusion of the employees' representatives from direct participation in the decision-making apparatus.

The path to consolidation of control by top executive officers (on both boards) was also paved by some regulations applied to the executive board. The provisions of the RF Statute implied that the two boards would overlap because the members of the executive board (managers) could serve on the supervisory board as well. The statute

specified that the top executive officer ("general director") was to become the supervisory board's member and to acquire a position of substantial power. According to Article 120, the annual shareholders' meeting selected a general (executive) director of the company among the people elected to serve on the supervisory board. The company's general director then also assumed the position of the president and proposed the candidates for the executive board. Because the president was expected to serve as a chair of the executive board, he thus took part in both, the supervisory and executive bodies of governance. In sum, because the provisions related to the boards were few and very general, when privatization took place, managers began to occupy seats on both boards.

When the privatization of the largest enterprises began, the issue of "manager-dominated boards" consistently attracted attention. The Russian President even issued a special decree in 1994 to specify that no more than one-third of the members of the board of directors could be the company's employees (Blasi and Shleifer 1996:84). The domination of the Supervisory board by managers was again addressed in the 1995 Law on the Joint-Stock Company limiting their presence to a fourth of the total membership of the Supervisory Board (Article 66.2).[22] At the same time, there would be no regulation prohibiting membership on more than one company's board in any of the legal enactments of 1990 until the 1995 Law on Joint-Stock Company would require an executive director to get a Supervisory board's permission to serve on another company's board of directors (Article 69.3).

The RF Statute specifically determined that in order to serve on the Board of Directors, a person "could only be a stockholder or a representative of a stockholder who

[22] In my analysis of board membership of the 100 largest industrial corporations, I also found that at least one person (usually the Company's President) was a member of both boards in the majority (89 percent) of companies.

owns a certain amount of stock specified in the company's charter" (Article 107).[23] Given that most enterprises after privatization made available some amount of shares to their employees and management, this provision did not restrict the workers' representation on the supervisory board per se yet in practice, it provided no real basis for the presence of union representatives there.[24] Unlike the reformers' and their foreign advisers' visible concern with the managers' presence on the supervisory board that made its way into the 1995 Law, there was never a legal provision made to address an absence of mechanisms to insure the employees' representation in the new structures of governance. The State Committee in charge of privatization (GKI) initially mandated that one member of the supervisory board should represent the company's employees, but as two American observers noted, "… after the enterprises privatized, there was very little evidence of any rank-and-file worker board representation in [medium and large] firms. The rank-and-file board member was dropped from most boards by management" (Blasi and Shleifer 1996: 80).

Thus, even though the government adopted a two-board system characteristic of the German system of governance (as opposed to the American, one-board system), the subsequent legal enactments approved in Russia eliminated a possible trajectory leading to a system of governance resembling the co-determination system in Germany where employees' representatives occupy half of the supervisory board. While labor as one of the major stakeholders was excluded from the new corporate governance through the

[23] This provision was changed in the 1995 Law on the Joint-Stock Companies to the one stating that the member of the Supervisory Board may not be a shareholder (Article 66.2). But it had no impact on improving employee's representation on the supervisory boards.

[24] My analysis of the composition of boards of directors of the 100 largest industrial companies in Russia showed that by 2001 only a small minority of these firms still had a union representative on their supervisory board.

adoption of the legal framework, the state also removed itself from participation even in the largest, strategically important enterprises by fully privatizing most of them. Moreover, the state gave unprecedented freedom to the new large shareholders – select members of the state and industry elites – to gain control over unlimited amounts of capital without any enforceable mechanisms of public accountability. The principle of limited liability, discussed below, never attracted any public attention whereas it was indispensable in facilitating the rise of concentrated ownership in Russia.

Limited Liability

The notion of limited liability has played an important role in the growth of corporations based on a joint-stock company form (Roy 1997: 158; Perrow 2002: 207). A modern conception of an open joint-stock company limits the responsibility of its stockholders to the amount of stock they own as well as excludes the organization from being liable for the financial obligations of its stockholders. The principle of limited liability was adopted with the introduction of the joint-stock company in 1990: it was first mentioned in the Law on Enterprises signed by President of the USSR Mikhail Gorbachev. [25] Also, both USSR and RF Statutes on Joint-Stock Society contained this provision. However, it is important to note that the RF Statute contained another provision that allowed the court to hold directors and members of the executive board accountable for their actions if they brought damage or debts leading to the organization's bankruptcy (Article 10). This was an attempt to assign responsibility in recognition of the decision-making power allocated to the directors of the company yet, to my knowledge, this article was never enforced in the court of law.

[25] See Article 3 about associations of enterprises (in Russian: "*ob'edineniya*").

Even if there were any reservations regarding the effects of limited liability on delegation of authority to shareholders, they were not considered detrimental, perhaps due to the original conception of the state's control of the largest industrial companies as well as preservation of the top level of the industrial hierarchy in the form of concerns. Russian scholars discussed limited liability as an innate feature of the corporate form and did not mention any parliamentary and public concerns with its impact on the development of corporate governance mechanisms in Russia (Radygin and Shmeleva 2003). This lack of attention is strikingly different from the reaction in the USA when the principle of limited liability was first applied to large public corporations (Roy 1997: 158-64).

The question is, however, what was limited liability's impact on the formation of the structure of intra- and intercorporate ownership and control in the context of a high demand for investment in the industrial sector in Russia? To place this issue in the context, let me quote prominent American law professors who have contributed their expertise to drafting of the corporate law in Russia in 1995 (Black et al. 1996). In their view, "The principal goal of corporate law should be similar in developed and emerging economies - … corporate law should maximize the value of corporate enterprises to investors, thus reducing the cost of capital. But the differences in institutions between developed and emerging economies require different means for achieving this goal" (ibid.: 246). In light of this view, we can suppose that the principle of limited liability was introduced in Russia as a universal attribute of the corporate form to facilitate investment. However, in the context where the minority shareholders' rights were unenforceable and a stock market did not function to exert pressure on directors'

dealings, the limited liability principle, on the one hand, left the directors uncontrollable and, on the other hand, contributed to the government's explicit policy to create large shareholders.

Where would investors come from during and after privatization? First of all, small, dispersed shareholders who acquired their shares in exchange for their one voucher or bought them at the reduced for employees' cost were never really viewed as investors nor were their rights enforceable. The mass participation of the population in acquisition of stock in large industrial enterprises ended together with the initial corporatization and voucher privatization (1992-1994). Price liberalization followed by skyrocketing inflation wiped out the population's savings in the early 1990s. Second, by 1994 the shares of the large industrial companies were offered at an emerging stock market. However, despite an injection of foreign investment (estimated at 3 billion US dollars in 1994 by Kokh (1998: 57)), the Russian securities market remained less attractive than it could have been, especially to banks. Following financial deregulation, a burgeoning army of banks was not interested in these companies because it had a larger and incredibly profitable market for government treasury bonds and state securities. To correct the situation, the government pursued a policy to create large shareholders by selling stock in large blocks (controlling stakes) on the investment auctions in order to tie the low cost ownership with guaranteed investment. But by doing that, it did not resolve the issue of the assets of the industrial companies remaining grossly undervalued during privatization.

The limited liability principle did not make large industrial companies more attractive to investors, and even undermined the security of investment in Russian corporations unless the investor was the largest shareholder. There was no real juridical

responsibility attached to the use/misuse of these assets of industrial companies, state-owned or fully privatized. It is no wonder that asset stripping was rampant in the 1990s since it was not necessarily illegal given that the law allowed for the creation of subsidiaries anywhere. Following privatization, freedom to reorganize often incited the "sale" (i.e. redistribution) of the most valuable parts to various subsidiaries, fully controlled by a few people as closed joint-stock companies. In this sense, it is ironic that the limited liability part was not difficult to adopt in comparison with a protection of minority shareholders' rights.

Thus the introduction of the corporate form with limited liability did not fulfill the role articulated by the American law professors who said, "in many emerging markets, corporate law must serve a second goal: to foster public confidence in capitalism and in private ownership of large firms" (Black et al. 1996: 246). Long-term financing remained a serious problem across all sectors throughout the 1990s, and the limited liability feature could be partially responsible for that. In sum, the principle of limited liability associated with the corporate form was an important factor that influenced the government's need to create large shareholders.

Transformation of the upper tier of the soviet governance system, 1990-1992

While the key aspects of the joint-stock company were being institutionalized in the legal enactments of 1990-91, there were also a number of state actions that transformed the top tier of the hierarchical system of control that existed in the soviet economy. In the soviet legal framework, the notion of *corporation* was only used to

identify foreign companies, which could form a joint-venture with the soviet enterprises. With the introduction of the joint-stock company as a new form of economic organization, the upper structure of the industrial management became subject to change as well. The institutional framework of the Soviet Union (i.e. the ministries coordinating the economy) encompassed all 15 republics, including the Russian Federation. When the USSR ceased to exist, so did 88 state ministries, whose functions had to be taken up by 40 ministries existing at the time in Russia (Barsenkov 2003: 277, 282). The new state formation, the Russian Federation undertook all USSR's financial obligations to foreign creditors. The Russian state replaced the USSR, and thereby created a structural crisis for the state apparatus in Russia. This historical junction was used by the neoliberal reformers as a window of opportunity to push for a complete destruction of the state management as well as the evidence they presented later that there was no alternative to a full withdrawal of the state from the economy. In this context, the transformation of the ministries into industrial concerns and joint-stock companies was seen as a historical necessity and continued full speed.

The process of restructuring control within industries began when the USSR was still in existence. It proceeded in various ways depending on the existing structure of the industry. The first state-owned concern Gazprom was established on the basis of the ministry supervising the gas industry, a natural monopoly. Gazprom became an organization legally independent from any formal state authority (for example, a ministry). Despite its state-owned status, Gazprom's upper management had the authority to make all decisions regarding the formally independent state-owned enterprises included in the gas concern apart from selling them. Russian scholar of business groups,

Yakov Pappe (2000:77) described the formation of Gazprom in August 1989 as the "largest since 1965 … organizational innovation in the soviet economy."

The coal industry was organized differently in that it always included a number of large regional associations of enterprises whose management controlled coal mines and processing facilities in a region. The ministry itself had an overseeing, supervisory role and did not directly intervene in the management of associations and operating enterprises they contained. Also, coal miners were one of the most active and organized workers which in the late 1980s demanded an increase in wages and improvement of their living conditions.[26] While in response to these demands some of the mines were leased out to the employees[27], one of the first concerns in the coal industry was established in the Kuzbass basin (in Russian: KuzbassRazrezUgol) in January 1990 on the basis of the existing regional union of the industrial enterprises. That, I argue, was significant because besides the change of the title, it gave more autonomy to the regional association's management and preserved the managerial organizational hierarchy that existed there. This industrial concern (and others followed) was an intermediary stage paving the way for its corporatization and formation of a holding company.

On January 9, 1991 the USSR Cabinet of Ministers, headed by Nikolai Ryzhkov, signed a Decision describing the program of restructuring of the heavy machinery industry. This industry consisted of the large industrial complexes, which were to be converted into joint-stock companies. Not more than 50 percent of the stock was to

[26] For a detailed account of the coal miners' initial political support of Yeltsin and the following disillusionment in Kuzbass, see Ashwin (1999).

[27] Mikhail Gorbachev's reforms gave workers the right to determine their wages collectively, and the financial crisis ensued. This event was highly publicized because (1) coal miners' strikes were seen as a sign of the "people's" demand for economic freedom, and (2) they completely discredited the idea of employee-owned joint-stock companies.

remain in state ownership. This industry was part of the military-industrial complex; it contained so-called "closed" enterprises that developed military technology. The nature of their products required, on the one hand, conversion and thus investment to carry it out, and, on the other hand, made them problematic as their privatization directly impacted national security. In order to enable the state to be in a position to monitor and exercise control now as a shareholder, the Ministry itself was transformed into a 100 percent state-owned concern, which would hold the blocks of shares in these joint-stock societies.

In the oil industry the formation of concerns did not strictly follow the existing regional unions; rather, the ministry distributed oil fields and refineries between several large companies. The first concern in the oil industry, the International Oil Concern "LUKoil" was founded on February 1st, 1991, later followed by the formation of two large oil concerns, Yukos and Surgutneftegaz (November 17th, 1992).

This was how the process of construction of large corporations began: first, the Supreme Soviet of the USSR approved the Law on April 1, 1991, according to which during 1991-1992 the industrial ministries were to be reorganized as corporations.[28] Later in the fall of that year, the Russian Parliament led by the Speaker, Ruslan Hasbulatov issued a Decision in which it argued that the creation of concerns and corporations in place of the ministries constituted alienation of state property and was against the law.[29] Nevertheless, the Russian Federation government proceeded to ensure a broader

[28] The Law is titled "On Listing of Ministries and other central bodies of state management of the USSR."

[29]This document was titled "On regulating the creation and activity of associations, concerns, corporations, and other unions of enterprises on the territory of the RF" and signed on October 11, 1991.

application and a legal status of this idea of passing on the control of the ministries to industrial concerns.

During the years of 1990-1991 only some major state-run enterprises were privatized by employees (for example, the truck-manufacturing giant KamAZ), yet all operating enterprises were affected by restructuring of control at the top of the hierarchy: some ministries were turning themselves into state-owned concerns while others were dividing the industry between the existing and newly formed regional associations. At the beginning of 1992, there were numerous different structures of unified governance: 3100 associations, 227 concerns, 189 unions and 123 consortia (Radygin and Shmeleva 2003: 491, fn 14). As I mentioned earlier, the Parliament of the RF initially protested against the industrial concerns being founded to manage state-owned enterprises in view of the fact that the right to manage state property could not be given to any organizations according to the law. By 1992 this conflict was formally settled by the decision to involve the recently formed State Antimonopoly Committee in making decisions regarding the formation of concerns and associations.

Restructuring of the industries prior to 1992 gave a substantial degree of autonomy to the government elite in charge of the ministries and discarded the employee-owned model as detrimental to both enterprises and the economy (see footnote 28 on the pay increase in the coal industry). The formation of concerns and associations as economic organizations targeted the established system of property relations which was grounded in the centralized state control, and was politically feasible within the framework of "collectivization" (as opposed to a transfer to "private owners") of state property. I would argue that the term "spontaneous privatization," which is usually

invoked to underscore the irreversible loss of state control in the phase of emergence of the employee-managed enterprises in the later 1980s, is rather a serious misnomer. What was spontaneous if anything and even illegal was the decision to create industrial concerns, which diminished the centralized control of the industry as state property. This was an important step towards construction of the large corporate entities where the administrative power and concentrated ownership of capital coalesced.[30]

Conclusion

In this chapter I reconstructed the steps establishing a new system of corporate governance in Russia in the early 1990s. I began with the introduction of the joint-stock society in the body of USSR law as a collective property, then drew attention to the uncontested acceptance of the limited liability principle, and finally described the quasi-legal formation of industrial concerns to replace state ministries. I aimed to uncover the turning points when certain alternative paths toward a more broadly controlled and publicly accountable system of governance became closed. What has often been missing from the public and scholarly discussion is that the system of corporate governance is central not only to the functioning of the economy but it also includes rules and regulations that empower some collectives in a society while disempowering others. It is the state that has the symbolic power and the legislative means to shape relations between social groups by using modern institutions of governance to establish and reproduce class domination.

[30] Researcher of Russia's elites, Olga Kryshtanovskaya (2005:307) also pointed out the significance of changes in the system of upper management of state-owned industrial property in 1989-1992. She called this period the "latent stage of privatization" or "privatization of the state by the state."

My analysis has several implications. On the one hand, there was a radical change in the trajectory of state policies away from an employee-owned joint-stock corporation to a shareholder-oriented form. This change was not, in itself, inevitable nor was it prudent for managing valuable public resources. After all, it did not solve the problem of shortage of investment in the Russian industry nor did it minimize management control of privatized companies. But what the state's embrace of the shareholder-centered model accomplished was the exclusion of two major stakeholders – labor and the state – from participating in the new governance of industrial companies. The absence of labor's representatives on the largest companies' boards has been often explained as a self-evident continuation of the soviet system under which workers also had little power relative to that of management (e.g. Blasi and Shleifer 1996: 80). This line of the argument implies that workers turned shareholders did not assert their right to send representatives to the boards since they lacked experience of such active participation in governance. Yet, as numerous strikes by mining workers suggested, at least in some industries the labor collectives had an organizational capacity to articulate their interests and fight for them. The key point in my argument is that the formal representation of labor interests has been institutionalized in other national contexts where labor unrest has been of a historical concern (as in Germany and the same could be said for Russia) and thus it was, first and foremost, a prerogative of the state elites to pursue the neoliberal state approach to corporate governance by prioritizing the interests of potential investors and large shareholders over that of employees, their families, and the public in general.

On the other hand, the analysis shows that the entire process of establishing the legal framework and preparing for privatization of the largest industrial conglomerates

appears to have rested on the ambiguous ways in which the notion of private property relates to the institution of the joint stock corporation. As the critical scholars of corporate capitalism have argued, the modern corporate form is neither collective nor private property strictly speaking (Zeitlin 1976; McDermott 1991; Roy 1997; Perrow 2002). Given its origins as the public agency set up to achieve large-scale projects in public interest, it contains a promise, a potential for a large number of people to participate in the process of governance but in practice, the globally dominant, shareholder-centered model lacks democratic mechanisms for a meaningful, systematic, direct or indirect (through representatives) participation for stakeholders other than large capital-owners. With the adoption of the joint-stock corporation in Russia, the state has been successful in socializing the costs and the risks of modern industry and finance in the volatile conditions of the system-wide crisis and economic decline; it was also active in using the sacred notion of private property to institutionalize the mechanisms protecting private accumulation of capital by the elites.

In the case of the industrialized Russian economy, we can see very clearly the state-led process of "accumulation by dispossession" (Harvey 2005) whose legitimacy and success was directly derived from the modern institution of the large corporation. Therefore, this analysis offers a critique of the globally dominant principles of corporate governance widely presented as a foundation of a democratic society with an efficient economy based on private property. These principles, first and foremost, have been instrumental in establishing the corporate form of property as the medium institutionalizing a narrow, class-based appropriation of capital while socializing the

costs and the risks involved in the adjustment of the national economy to the global neoliberal regime.

Chapter IV

Corporate Power and the Methodology of Interlock Research

The concept of corporate power occupies a central place in my research on the systemic transformation of the soviet economy and the emergent business structure in Russia. Existing research on corporate governance in Russia and other former state-socialist economies has been heavily dominated by the firm-centered analysis which, as I noted in Chapter II, suffered from a narrow, normative view of corporate control (i.e. what should be done to replicate an idealized western model of corporate governance). Likewise, studies of Russia's "transition to capitalism" lacked a clear conceptualization of a system-wide corporate power evident in their focus on the rise of oligarchs and their abuse of political power. Thus for a much-needed system-wide analysis of the emergent structure of inter-corporate relations in modern Russia, I adopted a structural approach to corporate power and utilized the methodology of interlock research (see Chapter V).

This chapter describes the structural approach to corporate power and the methodology of interlock research based on an influential study of American business structure by Beth Mintz and Michael Schwartz (1985). I begin with Adolph Berle and Gardiner C. Means' (1932) managerialist thesis that has played a crucial role in public and academic discussions of corporate governance (and remains pertinent to this day). Then I turn to the sociological studies of inter-organizational relations based on interlocking directorates. Next I discuss approaches to corporate power developed in Mintz and Schwartz's and Pierre Bourdieu's works. These two major bodies of work in

economic sociology have not been previously viewed as complementary; rather, some social networks analysts argued that they were not compatible (see Emirbayer and Johnson 2008). I identify conceptual points shared by Mintz and Schwartz and Bourdieu and, based on a synthesis of their approaches, construct a general framework that explicates corporate power as a multi-level structure of inter-corporate relations as opposed to the traditional focus on corporate control within a firm. Finally, I discuss the advantages of using interlock research methodology for a study of corporate power set in a comparative perspective.

The debate on corporate control

The growth of corporate organizations and their role in economic, political, and social life have fueled a century-long debate about corporate control and power (see Perrow 2002). The year 2010 marked a centennial anniversary of the publication of Rudolf Hilferding's ([1910] 1981) monograph in which he described an advanced stage of capitalism as characterized by concentration of corporate power through merging of financial and industrial capital (he termed this merging "finance capital"). More than ninety years ago in his 1914 book *Other People's Money* Louis Brandeis examined the issue of concentration of corporate power in America by mapping networks of interlocking directorates between the largest industrial and financial corporations. In 1932 Berle and Means published *The Modern Corporation and Private Property* that shaped the debate about corporate control with a thesis that there was a historical trend toward dispersion of shareholdings, leading in turn to concentration of decision making power in the hands of insiders, namely, top management (DiDonato et al. 1988). This thesis has been very influential in the fields of management studies and economics for

decades, and continues to direct current studies of corporate governance to focus on inside control of the corporation and the role of the managerial stratum in capitalist society.

Berle and Means' managerialist thesis linked the notions of economic power and property to legal ownership of shares by making a two-fold claim. On the one hand, growth of joint-stock corporations led to a diminishing ability of an individual to use one's property rights (allocated proportionally to shareholdings) to influence the company's decisions. On the other hand, the top managerial stratum became increasingly independent and powerful to make such decisions. The discovered dissonance between private property rights and corporate control was seen as separation of ownership from control and analyzed as the "principal-agent" dilemma in management studies and economics. In particular, Berle and Means' approach gave rise to the narrow notion of property equated with legal private ownership and limited the discussion of corporate control to stockholders' control over top managers' decision making (see Pels 1998). Studies of corporate governance in joint-stock corporations assumed that firms were autonomous units where decision-making was confined to an individual's discretion.

The growth of managerialist studies in the 1960s through the 1980s provoked a critical response from sociologists who developed alternative theoretical perspectives on corporate power in modern capitalist economy such as resource dependency, class cohesion, bank control, and a theory of financial hegemony (Glasberg and Schwartz 1983). They questioned the managerial control thesis that top managers of large firms made decisions independently from outside actors (stockholders and lenders) and from structural constraints. Working in the political economy tradition of Hilferding and

Lenin, a group of economic sociologists led by Michael Schwartz at SUNY Stony Brook focused on inter-organizational relations to examine the role of financial capital in the modern economy (Bearden et al. 1975; Mizruchi 1982; Palmer 1983; Mintz and Schwartz 1985; Glasberg 1989). Schwartz and his students utilized new-at-the-time computer technology and complex mathematical calculations of social network analysis to construct and analyze corporate power on the economy-wide scale (Scott 2000). Specifically, they used names of directors of several hundred largest non-financial and financial corporations to map inter-organizational networks by tracing "board interlocks" established by directors holding seats on two or more companies' boards (see Mizruchi 1996). The structural characteristics of inter-organizational networks (e.g. extensiveness, cohesiveness, and centralization) served as crucial indicators of how strategic control and coordination of financial industrial capital operated in a given economy.

In 1985 Beth Mintz and Michael Schwartz published *The Power Structure of American Business* – a large scale study of corporate networks that has since become the most widely read interlock study and an essential text in American economic sociology (see Scott 2000: 96).[1] The book was innovative in both theoretical and methodological aspects. The authors presented the theory of financial hegemony and identified the structural conditions under which large banks dominated the American economy. They argued that to play a dominant role, banks did not have to exercise direct control over all and each of the industrial companies. Rather, centralization in the system of intercorporate relations they described was based on the properties of financial capital that put lenders, in this case, US domestic banks in a dominant position. Large banks have grown to become primary lenders to large industrial companies and industry-wide

[1] As of April 2010, the book has been cited in 471 articles according to the Google Scholar search.

projects. While industrial companies have invested their capital surplus, only banks have historically formed lending consortia. The power of a collective action in a combination with the usual "urgency of the lending relationship" (ibid:36) elevated banks to the system-wide dominant position in relation to the largest industrial companies. The position conferred power to large banks to accumulate information about other companies to the degree unattainable for industrial firms. As Mintz and Schwartz argued, large banks that were at the center of the corporate network could make informed strategic decisions that furthered their accumulation of financial capital. They thus asserted their influence by creating a *structural constraint* under which the rest (non-financial companies) had to make their strategic decisions without the need for banks to directly intervene in the discretional decision-making of non-financial firms. Drawing on Gramsci (1971), they viewed the capacity of large financial institutions to manipulate structural constraints as "hegemonic domination."

Also in the 1980s, another research team, led by Frans Stokman, Rolf Ziegler, and John Scott carried out large-scale, cross-national examinations of corporate relations in different industrial economies in western Europe. The national networks of interlocking directorates these studies uncovered revealed structural similarities among all major capitalist economies. For example, the largest banks and other financial institutions established wide and overlapping spheres of influence and contributed to the national networks' integration (Stokman, Ziegler, and Scott 1985). These national networks were shown to be historical outcomes of institutional development and political organization, which accompanied the growth of big business in the USA, UK, Germany, Japan, and

other countries (e.g. Domhoff 1996; Fligstein 1990; Gerlach 1992a; Roy 1997; Scott 1987, 1997; Useem 1984; Zeitlin 1989).

The inter-organizational approach taken in the studies of interlocking directorates led sociologists to broaden the concept of corporate power to encompass the system-wide economic and social relations. Investigations of the structure, quantity, content and durability of ties between financial institutions and large industrial corporations in the advanced capitalist economies served as the evidence of unprecedented concentration of economic power in corporate organizations throughout the 20th century.

Bourdieu's Relational Approach

Economic power and inequality were central to Pierre Bourdieu's sociology. Not only did he become well known for his studies of social stratification and reproduction of inequality in educational, legal, political and artistic fields, but he also wrote on the economy, most notably, in his book *The Social Structures of the Economy*. First published in French in 1988, and only recently in English (2005), this was the book where Bourdieu showed how his theoretical triad – concepts of field, capital, and habitus – could be applied in an empirical study of a housing market. In the second part of this book he described the theory of economic field as well as discussed economic sociologists' (mostly US authors) attempts to capture the social underpinnings of economic action. His primary adversaries, however, were not Berle and Means and their exponents, but the rational choice theorists, whose assumptions he confronted with his theory of economic reasoning: how it is shaped by and in turn contributes to reproduction of social structure – the main subject of his life's research.

A primary strength of Bourdieu's theorizing – and its importance to the research on corporate power – lies in his relational thinking about power, developed from a strong structuralist foundation. His relational theorizing differs from that of the embeddedness approach.[2] He explained, "*the real is the relational*: what exist in the social world are relations – not interactions between individuals, but objective relations which exist [as Marx said,] 'independently of individual consciousness and will," (Bourdieu and Wacquant 1992: 97, emphasis original). With the concept of field Bourdieu approached the idea of structural power being contained in a particular configuration of objective relations between the dominant and dominated positions. He envisioned the modern society as a multitude of professional fields and subfields (i.e. academic, economic, artistic, legal etc.), whose organizational logic was not reducible to one field (such as economic). As fields become institutionalized, they become differentiated and relatively independent from other fields. Various resources or, in Bourdieu's terminology, types of capital and their distribution shape the objective structure of positions and stakes in a given field (ibid).

A recent review of the impact of Bourdieu's writings on the organizational studies in the USA argued that his impact on economic sociology has been rather limited compared to his influence in other fields of sociological inquiry (e.g., culture, education). For example, Emirbayer and Johnson (2008:2) pointed out that DiMaggio and Powell's (1991) popular concept of "organizational field" in fact originated in their reading of Bourdieu and his notion of field.[3] However, in American social research, the

[2] Bourdieu (2005: 198) criticized Mark Granovetter's (1985) embeddedness approach for falling into interactionist reductionism.

[3] As Emirbayer and Johnson (2008:3) noted, the concept first appeared in DiMaggio (1983).

organizational field has been used to describe a collective of organizations or firms that interact and/or compete with one another in a "recognized area of institutional life" (DiMaggio and Powell 1991, quoted in Emirbayer and Johnson 2008:2). As Emirbayer and Johnson (2008) have correctly noted, this conceptual approach to "field" usually demarcates firms operating in one industry, which was not what Bourdieu had in mind. To him, the concept of "field" (economic field in this case) implied *a structure of positions* rather than a grouping of concrete firms. He argued that structural inequalities between positions determine all forms of domination and control in the field. As I show below, this conceptualization is fully consistent with the view of corporate power developed by Mintz and Schwartz in their 1985 book *The Power Structure of American Business*, invalidating Emirbayer and Johnson's (2008:10) contention that studies of interlocking directorates did not rise to the level of Bourdieu's conceptualization.

A fundamental agreement between Bourdieu's (2005) notion of economic field and Mintz and Schwartz's (1985) conceptualization of corporate power is that both parties emphasized that strategic decisions in concrete firms were shaped by a structure, a hierarchical system of relations that transcended one firm's immediate network of contacts and existed independently of management's conscious perception of the economic system's properties. As I discuss in detail below, all three scholars shared a view that although financial resources play a central role in the organization of economic field, they do not fully determine the possibilities for economic action. Put in Bourdieu's terms, Mintz and Schwartz argued that the dominant position in the economic field was characterized by the structural capacity to accumulate high volumes of financial capital as well as social and informational capital.

In the 2005 English translation of his work on economic action, Bourdieu appeared to have criticized studies of interlocking directorates for approaching power as being limited to direct interventions. The reader was even referred to Mintz and Schwartz's (1985) study which presumably took direct interactions – via interlocks – as the only indicators of power (Bourdieu 2005: 195).[4] A close reading of Mintz and Schwartz (1985) original text reveals such conclusion to be inaccurate. Yet Emirbayer and Johnson (2008:10), in their recent review mentioned above, have repeated this incorrect interpretation of the social network analysis in interlock studies. This failure to comprehend conceptual compatibility between Mintz and Schwartz's (1985) and Bourdieu's (2005) approaches to corporate power stems from a particular understanding of board interlocks not as an analytical device but as an inadequate theoretical concept (see, for example, Stinchcombe (1990)).

It is important to underscore that there is a great deal of diversity in theoretical approaches used in conjunction with the methodology of interlocking directorates (Mizruchi 1996). Mintz and Schwartz's comprehensive theoretical approach (the theory of financial hegemony) contains a broad framework for a study of corporate power, a framework not limited by the specifics of the American corporate economy. Bourdieu's structural approach to the economy and inequality is also comprehensive but, unlike Mintz and Schwartz's 1985 study, his conceptual apparatus has never been used in a large scale national study of corporate relations. As I show below, an analytical synthesis of their respective frameworks elucidates a general overview of the structure of corporate

---

[4] The reference appears in Bourdieu's (2005) English publication where endnotes were prepared by Loic Wacquant who cited the most known US study of interlocks, Mintz and Schwartz (1985). I doubt that Bourdieu had actually read Mintz and Schwartz's 1985 book although he was familiar with European studies that utilized the social network approach to interlocking directorates.

power, which can in turn guide empirical research using the method of interlocking directorates.

Toward an Analytical Synthesis

Mintz and Schwartz (1985) specified various forms of economic power amassed by and influencing large corporations. In particular, they identified "operational management" and "strategic control" as the two forms of power that involved discretional decision making by top management.[5] Operational control refers to daily management of the corporation and can, in principle, involve a dominant stockholder if he/she occupies the executive position or acts as the CEO.

Distinguishing strategic control as a broad policy-making authority from the authority exercised in daily operational management was an important development in the debate on the separation of ownership and control initiated by Berle and Means' concern with the inevitable concentration of insider (management) control. Mintz and Schwartz (1985) underscored that outsiders (e.g., lenders, dominant and/or institutional stockholders) as well as insiders could be in the position to exert strategic control via the board of directors. Nevertheless, the top management's compliance is crucial for successful realization of strategic control by outsiders: "Outside policy establishment can be effective only in the context of creative compliance by the actual administrators" (ibid.: 8). Yet Mintz and Schwartz (ibid:9) noted that studies of interorganizational relations often failed to "maintain this distinction between strategic control and

---

[5] Mintz and Schwartz (1985:6) noted that the term "strategic control" was first used by John Scott (1979).

operational management and to focus attention on the conditions under which outside control dissolves in the face of the executive authority exercised by inside management."[6]

Mintz and Schwartz's conceptual schema contained a third type of economic power that required no access to discretionary decision making in the corporation. This type involves "manipulation of structural constraint." Operational and strategic decisions are always made under some structural constraints that inevitably arise as corporations, the state and international institutions act in pursuit of their goals. An outside influence on strategic decisions made by top management without direct intervention entails occasional control imposed at certain moments rather than "ongoing or total control" of the corporation (ibid: xix). Mutual deterrence between firms (e.g. in price competition) and changes in strategy that affect other, usually smaller, firms (especially based on resource dependency) exemplify outside influence by dominant firms modifying a structural constraint.[7] Other approaches to corporate influence – whether the theory of mutual deterrence or resource dependency – have described a dyadic relation between firms and relations within a group of firms that form a coalition to manage dependencies.

Mintz and Schwartz's (1985) distinct approach to economic power was to examine the asymmetric relations between financial and nonfinancial firms on a nation-wide scale. Drawing on Gramsci (1971), they argued that large financial institutions' capacity to alter structural constraints constituted "hegemonic domination." While this form of economic power was neglected by organizational scholars, "financial hegemony"

[6] Gradual assertion of strategic control by outsiders (shareholders) was one of the postulates justifying initial "temporary" concentration of ownership by insider managers during hurried corporate reforms and privatization of industry in Russia.

[7] Baran and Sweezy (1966) discussed "mutual deterrence, or corespective behavior [that] prevents the constant conflict and disruption that could result from the massive interdependencies among giant corporations" (M&S 1985:10).

was, according to Mintz and Schwartz (1985:12), "the main organizing principle of the business world as a whole" evident in a fundamentally unequal distribution of corporate power between large corporations and subgroups of corporations. The three modes of corporate control identified by Mintz and Schwartz are arranged in Table 4.1.

Table 4.1. Economic Power in a Multi-level Conceptual Framework based on Mintz and Schwartz (M&S) and Bourdieu (B)

	Mode of power		
	Alteration of Structural Constraint	**Strategic Control**	**Operational Control**
Scope of impact	Economy-wide	Dyadic relations between firms, or within a group of companies	Within the corporation
Level of relations between dominant and dominated positions	Inter-firm & inter-sector relations (M&S) in economic field (B)	Inter-firm relations (M&S; B)	Within the corporation as economic field (B)
The field's structure is determined by the distribution of resources or capitals	Primarily financial capital (M&S; B), in combination with informational (M&S), technological, cultural, symbolic, and social capitals	Financial, technological, cultural, symbolic, and social capitals (M&S; B)	The distribution of resources among individuals (managers): technical expertise, education, social, political, financial (=stock) capitals (B)
Exercise of power is based on these types of interaction	Indirect	Direct but occasional (may involve interlocking directorates)	Direct, every day
Legal ownership of stock (institutional or individual)	Not required	Not required but influential	Not required but influential

Similarly to Mintz and Schwartz's distinction between inter-organizational relations and control within the corporation, Bourdieu described two economic "fields": one is where positions are differentiated on the inter-organizational level and another – within the corporation's bureaucratic hierarchy. Both fields are constituted by positions occupied by actors, that is, organizations and individuals respectively. The third row in Table 4.1 lists various resources – or types of "capital" in Bourdieu's framework, which are disproportionally accumulated by organizations/individuals in their struggle to maintain a dominant position in each field.

The distribution of resources, or various forms of capital, determines the structure of the field. In the economic field the most influential is financial capital. It was shown in Mintz and Schwartz's study to have a system-wide influence: it was a source of structural constraint that encompassed the entire economy. In his empirical work Bourdieu was more interested in explaining the role of other types of capital (for example, symbolic), but he noted the uniqueness of financial capital in the economic field: it could be exchanged for any other desired type of capital. Mintz and Schwartz (1985:35) wrote, "[financial] capital is a fluid, almost universal commodity. It is useful in all realms of business and can act as a substitute for most resources required by large companies." All three authors agreed that financial capital created inequality evident in asymmetric interdependency within a hierarchical structure of positions. Other theories, such as mutual deterrence theory and resource dependency theory, treated constraints arising of financial capital's shortage as an issue that could be resolved through the creation of intercorporate alliances or other long-term arrangements which may or may not be hierarchical (Mintz and Schwartz 1985: 44).

Financial capital also enables banks to exercise *strategic* control of the large industrial firms. Mintz and Schwartz acknowledged that properties of financial capital "contribute to the recurring pattern of financial intervention into the discretionary decision making of nonfinancial companies. Such intervention occurs in the American economy. Each year a substantial number of major corporations are dictated to by outside financial interests as to broad policy and the recruitment of internal leadership" (ibid.:37). These situations are well described by the bank control theory that states that bank control (a) happens in select firms, and thus was not system-wide; (b) is occasional and usually short-term, during an acute crisis; and (c) is acknowledged and directly observed in the corporate structures of governance.

According to Mintz and Schwartz, banks not only accumulated financial capital but they were uniquely positioned to collect pertinent information about other companies. The American banks' directors sat on numerous companies' boards and thus occupied a central position in the social network of business leaders. An uneven access to informational capital, thus, structured the field in addition to financial capital. In a similar vein, Bourdieu emphasized the importance of considering multiple types of capital and the relations between them in organizing the field. He included symbolic capital (prestige, reputation), cultural capital (education and technical expertise of its managers) and social capital as other relevant forms.[8]

Moreover, what distinguished the dominant from the dominated positions was not just the amount of financial capital at one's immediate disposal but also the ability to obtain it. Mintz and Schwartz (1985:37) argued that banks as such did not have similar

[8] Please note that in his work on economic field, Bourdieu (2005:194-5, note 4; Bourdieu and Wacquant 1992: 119) gave a distinct definition of "social capital" as a summary measure of all types of capital, including financial, to which the firm has access to through networks of relations.

dependency on large industrial firms for capital – even in good times, they could always turn to medium size enterprises to lend their capital to. If banks themselves were to experience capital shortage, they lost their dominant status of a lender and found themselves in the dominated position of a borrower. Even in this situation, however, banks, unlike industrials, could draw on a structural advantage of being part of the banking consortia to avoid default. In terms of Bourdieu's framework, the dominant position provided banks not only with a large amount of financial capital, but more importantly, with a unique access to other firms' financial capital thus rendering their social capital (the summary of all types of capital) the highest in the field.

As shown in Table 4.1, Mintz and Schwartz's concept of *strategic control* referred to direct access to discretionary decision-making of one or a group of firms, and thus would not be considered a system-wide phenomenon. It could involve outsiders (lenders, stockholders) depending on the structure of relations between insiders and outsiders. For Bourdieu (2005: 205), strategic control involved the following:

> If the strategies of firms (most notably with regard to prices) depend on the positions they occupy within the structure of the field, they depend also on the structure of power positions constitutive of the internal governance of the firm or, more exactly, on the (socially constituted) dispositions of the directors … acting under the constraint of the field of power within the firm and of the field of the firm as whole…

Bourdieu underscored that strategic decision-making depended on the structure of relations among firms, on the governance structure within the firm, and on how both structures have shaped and constrained the options for action perceived by the firm's directors. He wrote extensively about the directors' "socially constituted dispositions" or

"habitus" – a concept signifying the practical knowledge about how the economic field operates, conditioned by one's position in the field.

In Bourdieu's theory of economic action, habitus is a third major concept in addition to field and capital. Seeking an alternative approach to the presumably unbounded economic rationality, Bourdieu offered the concept of habitus to provide an important link between social agent's action and reproduction and change in the field's hierarchical structure.[9] Bourdieu (2005: 196) viewed individual strategic action as guided by habitus – one's comprehension of the possible strategies based on one's position within the organization (due one's capital) and in the structure of the economic field. In other words, habitus is another structure expressed in individuals' knowledge and preferences. Analytically, this structure explains how both inter- and intra-organizational fields affect strategic decision-making. This is why Bourdieu (ibid.) argued that strategic action is always based on a structural vision of one's dominance in the field:

> Because it is a particularity of the economic field … one does not have to choose between a purely structural vision and a strategic vision: the most consciously elaborated strategies can be implemented only within the limits and in the directions assigned to them by the structural constraints and by the practical or explicit knowledge – always unequally distributed – of those constraints (the informational capital afforded to the occupants of a dominant position – particularly through presence on company boards or, in the case of banks, through the data provided by those requesting credit) …

Mintz and Schwartz's (1985) study examined successful and failed instances of strategic action aimed to alter constraints of the economic field. One of their key points

[9] For Bourdieu (2005: 211), the social agent has socially constructed and limited rationality because the individual is "social and collective." He/she possesses the habitus that is "socialized subjectivity, a historic transcendental, whose schemes of perception and appreciation (systems of preferences, tastes, etc.) are the product of collective and individual memory."

was that having an adequate, albeit limited, "strategic/structural" vision, attributed by Bourdieu to business leaders in the dominated position, did not mean that they could project in the future the constraints of their structurally weak position. Mintz and Schwartz's (1985: 1-2) discussion of the Leasco Corporation's case underscored unpredictability of *changes* in institutional constraints, which were impossible to anticipate fully and react accordingly. Hence the unpredictability of social or collective action's impact on structural constraints is an important factor in its own right. In this sense, their approach envisioned a more open-ended, dynamic change in the structure of the field where the dominant and the not so powerful firms could pursue a strategy whose structural consequences they could not fully anticipate.

All three authors stated that firms in the dominant position have the advantage of using their resources to grasp current and impending structural constraints and change the field to their benefit. Conversely, business leaders of the dominated companies cannot grasp the extent to which their strategic control is or can be limited by the structure of relations between organizations. Thus they may view their initiatives as having a local (dyadic) impact and not being informed by the structural constraints. This lack of power (to have access to financial capital, to know and mobilize powerful others) does not preclude the dominated from taking the strategic action which ultimately leads them to fail; nevertheless, the response by the dominant actors may provoke a structural change in the field.

The third, operational form of control is exercised within the corporation as a hierarchically structured field as well. Managerial experience, technical expertise, and stockholding capital are different institutionalized forms of capital that affect one's

influence within the corporation. In the modern paradigm of corporate governance, giving top managers stockholding options is expected to improve their performance. This approach was a cornerstone in the Russian privatization program of the early 1990s. At the same time, managers of more powerful corporations not only accumulate technical expertise but also symbolic capital (prestige) as well as social and political capital that enhance their ability to sustain their dominant position in the company.

And finally, there is a correspondence between the dominant and dominated positions in each field; namely, the fields are co-constituted in their effects on strategic decision-making (Bourdieu 2005:205). Large corporate organizations empower its leaders as well as depend on their leaders' ability to utilize their experience and mobilize financial, social and other resources. This dynamic of power vested in relations between individuals and organizations has been fully explored in social network research on interlocking directorates.

In sum, the analytical synthesis of Mintz and Schwartz's and Bourdieu's approaches demonstrates that corporate power is derived from many types of capital in the inter- and intra-organizational fields. Corporate power exists in several modes ranging from the operational, discretionary control to indirect change in the conditions under which firms operate. The operational mode of control is always exercised within the given structural constraints, and, in turn, more powerful firms may alter these constraints. The degree and ways in which these constraints can affect a firm (or a group of firms) depend on the organization's endowment in or access to various types of resources including material assets, financial capital, and social networks. These resources have a socially constructed and historically varied value as a result of a historical differentiation

at the organizational and an industry-wide level, within and across the national boundaries.

Social Network Analysis

While Bourdieu asserted that the structure of the economic field was "the true explanatory principle of economic practices," he did not formalize an exhaustive method to construct the field (2005: 246, note 1). His general approach to constructing a field consisted of discovering sets of properties that differentiate the positions. He described the types of data one could collect given the constraints under which social scientists collect data. For example, he recognized that "one of the main difficulties of relational analysis is that, most of the time, social spaces can be grasped only in the form of distribution of properties among individuals or concrete institutions, since the data available are attached to individuals or institutions" (Bourdieu and Wacquant 1992: 230). So he suggested that in order to construct an economic field in France, one would have to interview the top two hundred French CEOs. In the course of the analysis, one would have to identify properties of individuals and firms and determine what highly abstract, objective relations among various types of capitals they signify. These rich data could then be analyzed using the correspondence analysis – a method he most often used in his work. The research goals outlined above can and have been reached in comprehensive studies of business structure in the USA and UK that analyzed publicly available data on large companies' boards by using social network analysis of interlocking directorates in combination with business press analysis (Mintz and Schwartz 1985), archival work (Glasberg 1989), and interviews with corporate leaders (Useem 1984).

Bourdieu recognized that social networks play an important role in the business world yet "the economic practices of agents and the very potency of their 'networks' … depend, first and foremost, on the position these agents occupy in those structural microcosms that are economic fields" (Bourdieu 2005: 198). In agreement with interlock researchers who explored the meanings of interlocking directorates (Mizruchi 1996), he insisted on understanding what impact social networks have on economic action. Identifying the various ties an individual may have is only a part, albeit essential, of understanding how resources (capitals) are distributed in the field. This is why he defined social capital in a distinct way as "the *sum* of the resources, actual or virtual, that accrue to an individual or a group by virtue of possessing a *durable network of more or less institutionalized relationships* of mutual acquaintance and recognition" (Bourdieu and Wacquant 1992: 119, emphasis mine).

With this definition in mind, we can look at intercorporate networks formed by overlapping boards of directors. Boards of directors provide corporate leaders with formal, institutionalized meetings at which individual and collective power can be exercised. So, networks of interlocking directorates constitute a special, relatively durable, institutionalized kind of social networks. As pointed out before, financial capital takes precedence over all other types of capital in the economic field because it allows individuals and organizations to "accumulate" and "conserve" other forms of capital (Bourdieu 2005:194). Networks formed by the company's directors are crucial for they provide a formal, institutionalized access to other firms' capitals and thus increase, for the dominant firms, the value of all other relevant forms of capital, including financial.

These social networks trace the distribution of corporate power (understood as a sum of all capitals) and thus enable one to estimate the relations of domination in the field.

Thus the structure of the economic field, that is, the distribution of various combinations of capitals between the dominant and dominated positions cannot be constructed without mapping networks of interlocking directorates of the largest corporations. Based on the social network analysis of board interlocks one can then investigate the distribution of other relevant types of capital. The principle by which firms are selected in interlock studies is particularly suitable since it is typically based on the firms' endowment in financial capital (e.g. banks with the largest amount of assets and industrial firms – the largest annual revenue). This principle is consistent with Bourdieu's point about the priority of the financial capital in the economic field.

Social network analysis of director interlocks captures social relations that are formally established and may miss informal connections that exist in the business world. But given the social scientist's limited access to business elites and their activities, the scope of ties captured by interlock analysis is fully compatible with the system-wide scope of Bourdieu's approach to mapping the structure of the inter-organizational field. Moreover, network analyses of corporate board interlocks have been fruitfully combined with policy networks and informal ties of elite club memberships to produce a map of social ties among leaders of a hundred or more corporations (see Domhoff 1996).

It is important to underscore that Mintz and Schwartz's 1985 study was not limited to mapping social network structure as an end in itself as brief references to their work implied (Bourdieu (2005:195), which was in turn cited in Emirbayer and Johnson (2008:10)). Mintz and Schwartz (1985: xiii) particularly emphasized that discovering

patterns in an interlock network's structure is the means to uncover structural relations in the business world. They pointed out the complex dynamics of relationships traced by director interlocks, "Different interlocks symbolize different types of connections among corporations and people, and the same interlocks can migrate from one kind of relationship into another" (ibid.). An integral part of their analysis was to find real examples of influence that would reveal the underlying nature of relationships. It was thus imperative for them to show what actions and consequent changes in the field the ties traced by interlocks periodically as well as systematically enabled.

The methodology of interlock research includes an analysis of power centrality (see Mintz and Schwartz (1985: 261-271) and Phillip Bonacich's work (e.g. 1987). Dominant firms are identified as those that accumulate various forms of capital through their central position in an extensive web of connections to other firms. What types of capitals these dominant companies rely on is then determined in case studies of specific companies and inter-sectoral analysis as in Mintz and Schwartz (1985) discussed here. Therefore, the method of interlocking directorates can be integral to adapting Bourdieu's insights to studying economic fields.

Conversely, I think that Bourdieu's systematic focus on the distribution of various capitals operating in the economic field enhances the interlock method. The interlock analysis tends to focus on understanding the more powerful, well-connected firms, sidestepping firms with fewer ties or not connected in the network. Bourdieu's emphasis on understanding the distribution of capitals in the field requires one to look closely at all agents, that is, less connected firms as well. In other words, to determine the structure of the field, one needs to describe the dominated firms' weaker endowment in capitals. In

sum, the social network analysis of interlocking directorates reveals the structure of the field as it is configured by combinations of various capitals associated with the dominant and dominated positions of economic power.

Comparative Research

The method of mapping and analyzing social networks of interlocking directorates has been shown to have a broad comparative application: it has been applied to corporate systems based on historically different distributions of share ownership, ranging from disperse holdings, more prevalent in the US to concentrated ownership, characteristic of western Europe (Stokman et al. 1985). This notably distinguished the framework elaborated in Mintz and Schwartz (1985) from Berle and Means' approach, which was largely limited to a specific US/UK context due to an underlying premise of the historic linear progression towards dispersion of shareholdings in large corporations.

The cross-national study by Stokman, Ziegler, and Scott (1985) examined ten networks of interlocking directorates formed in 1976 in Austria, Belgium, Switzerland, Germany, France, Britain, Italy, the Netherlands, Finland, and the U.S.A. This research provided the evidential foundation for developing a comprehensive typology of corporate capitalism (Scott 1997). British sociologist John Scott (1987, 1997) identified three major structures of corporate control in the core countries of the world economy: the hegemonic system, the holding system, and the system dominated by groups. Structurally, the hegemonic system of intercorporate networks was organized in the form of (a) "corporate constellations" in the USA[10] or (b) "corporate filiations" in Germany (Scott 1997). Both

---

[10] According to Scott (1997), corporate constellations are found in countries that have adopted the general framework of English law – the U.S., Britain, Canada, Australia, and New Zealand.

cases involved bank centrality in the overall network representing “a loose community of interest among financials with overlapping ties to nonfinancial corporations” (Mintz and Schwartz 1985: 225). The holding system of “corporate webs” formed around investment-holding companies[11] was found in its most pronounced form in Belgium, but also in France, Italy, and some Latin American countries (Scott 1997: 155). And, finally, Japan was a primary example of a capitalist economy dominated by “corporate sets” (in Scott’s terms), groups comprising distinct financial-industrial long-term alliances (Gerlach 1992).

More recent studies of the corporate interlocks were done in Spain (Aguilera 1998), Canada (Ornstein 2003), a comparison of interlock networks in Canada and Australia (Carroll and Alexander 1999), Australia and the U.S. (Robins and Alexander 2004), and a study of the German network (Heinze 2004). In the context of the current field of interlock research, the ten-country study of western European and U.S. economies by Stokman, Ziegler, and Scott (1985) and the analysis of U.S. corporate networks by Mintz and Schwartz (1985) remain the most informative for carrying out a comparative study of the emergent corporate organization in Russia.

Conclusion

In this chapter I described the structural relational vision of corporate power that has guided national and cross-national studies of the core capitalist economies. My discussion centered on two sociological studies of economic power – one by American

[11] The term “investment-holding company” is used in these countries to distinguish the holding company that establishes some degree of corporate control in operating companies in which it holds majority or minority stakes often through the pyramid of stockholdings. This type of holding company is different from specialized industrial, vertically-integrated combines or a parent-industrial company with strong relations with its subsidiaries (Scott 1997: 159; Kraakman 2001: 153).

authors Beth Mintz and Michael Schwartz, and another by French sociologist Pierre Bourdieu. These scholars worked independently in response to different intellectual traditions: the managerial thesis and the rational choice theory respectively. But they shared a critical engagement with issues of power and inequality grounded in Marx' political economy and structuralism. Having been profoundly influenced by their work in a complementary rather than disparate way, I identified some common and complementary elements of their frameworks and outlined the methodological implications of such synthesis. I showed that these authors' conceptual legacies have been misunderstood and misrepresented in some recent publications in American sociology.

I argued that mapping interlocking directorates among the largest industrial and financial corporations has laid a foundation for a uniquely comprehensive, system-wide approach with superior descriptive and explanatory powers compared to firm-centered approaches. In the next chapter I utilize this methodology to study the structure of the emergent corporate power in Russia ten years into the transformation of the soviet economy. As a participant in the academic debate on capitalism in modern Russia, I have inherited opponents influenced by both the managerial thesis and the rational choice theory (see Chapter II). I have also viewed my empirical case, and thus its analytical needs, as different from those of all three scholars – Bourdieu, Mintz, and Schwartz, who dealt with the relatively stable economic systems. My goal has been to understand economic power in the context of a radical systemic transformation.

The analytical schema presented in Table 4.1 helps to understand the structural changes in the former state-run economy through the prism of corporate power. First of

all, the soviet economic system was organized around the two economic fields of inter-firm relations and a bureaucratic hierarchy of governance within a given industrial enterprise. The state bureaucracy planned, monitored, and coordinated capital allocation and production targets within and between industries. Although centralized in a distinct way, the state-run economy relied on the production and distribution chains of interdependent enterprises. There was a certain built-in hierarchy of power positions within the economic field. For example, some industries and enterprises were considered strategically important and had a priority in receiving funds for development, infrastructural support, related engineering and science and other benefits. In a general sense, strategic control was the state's prerogative but in practice, it was realized in cooperation between the ministry bureaucrats and the top management of industrial enterprises. Operational control was in the hands of the top management, whose dominant position rested on a set of capitals specific to their field, including industry-specific higher education, years of experience in management and production, and an expertise in handling the administrative structure of control and coordination both in inter-firm relations and within their own, very large organization. Since the management's upward mobility within the professional hierarchy of the enterprise and then in the echelons of the ministry depended on the party leadership's decisions, an unequal distribution of political and social capitals defined the soviet structure of the economic field as well.[12]

The systemic change of the kind that had taken place during the dissolution of the state-run economic system was a grand alteration of structural constraints. These alterations included changes in the inter-firm relations: the state ministries were

[12] See Bourdieu's (1998: 16) comment about the role of political capital in the soviet economy.

dismantled, state funding became irregular, in limited amounts or ceased altogether, and entire technological chains of production disintegrated. The legal reform and privatization in the 1990s altered the structure of governance within the former state-run enterprises, introduced financial capital (i.e. stock), and spurred the transformation in the value and content of political and social capitals associated with the management positions in the company. Educational capital used to be relatively less important compared to the industry experience and political capital primarily because most attended the same few, industry-specific educational institutions and with time, became members of the Communist Party. Since the mid 1990s MBA degrees from West European and North American business schools have gradually attained the dominant value everywhere while, in Russia specifically, reducing the relative importance of industry experience. My research on corporate networks revealed some remarkably young managers who held MBA degrees from abroad and sat on boards of Russian companies.

In the next chapter I examine the results of the institutionalization of a corporate system that took place during the 1990s – an incredibly complex process involving reshaping and legalizing the new relations of dominance in both fields – between firms and inside a corporate organization.

Chapter V

No Difference without Similarity: Russia's Corporate Capitalism in Comparative Perspective

Introduction

Comparative work on modern dynamics of capitalist development in the core economies shows that a trend toward globalization of production and capital accumulation has not eliminated national differences in institutions of corporate governance (e.g. Crouch and Streeck 1997; Hall and Soskice 2001; Overbeek et al. 2007; Scott 1997; Soederberg et al. 2005). Instead, privatization, legal reforms, financial and trade liberalization have produced convergence in some aspects (i.e. shareholders' rights) without eradicating historically institutionalized relations (e.g. labor participation in the German corporate governance). These studies have described a complex, heterogeneous process of change at the national level as "a process of diversity within convergence" (Cerny et al. 2005:2), that has transcended the binary opposition underlying the debate about economic globalization.

The expectation of convergence, however, has remained a cornerstone in research on Russia. In the early 1990s the so-called transitology studies predicted that rapid and drastic reforms would dismantle soviet institutions and introduce new ones, which would give rise to a market-oriented system resembling the dominant, American model of governance. Sociologists and political scientists have acknowledged the teleological

assumptions in these studies (Burawoy and Verdery 1999; Böröcz 2001) and denounced the idea of "capitalism by design" (Stark and Bruzst 1998). Nevertheless, analytical accounts of change in Russia have oscillated from anticipated "complete" convergence in the 1990s to the more recent assessments of "failed" convergence (e.g. King 2002; Lane 2000, 2007).

The binary, deterministic approach to the institutional changes in Russia contrasts with the more complex analytical view applied elsewhere. Particularly notable is the historical sociological work that has challenged the efficiency-centered explanations of the rise of the large American corporation. These studies assembled ample evidence of a contingent, socially constructed, and multifaceted political process that has shaped U.S. system of corporate governance over time (Campbell and Lindberg 1990; Domhoff 1996; Fligstein 1990; Mintz and Schwartz 1985; Perrow 2002; Prechel 2001; Roy 1997; Useem 1984; Zeitlin 1989). Moreover, geo-political relations and global economic regimes have directly affected the historical trajectories of the American and other national business systems. For example, after the Second World War, the American model was introduced to restructure corporate relations in western European and Japanese economies. This process resulted in the co-existence of two trends – persistent differentiation and increasing convergence among these, now established business systems (Djelic 1998). In her study of the post-World War II western European business, Djelic (1998) showed that cross-national diversity persisted due to a process of "translation" and "adaptation" of the dominant model to the local institutional conditions, the industrial organization, and social relations. The institutional change, thus, is seen as a contingent political process involving the interaction between the local and the global context. As Böröcz

(2001:1157) noted, a conceptual approach such as this needs to replace the prevalent framework of "path dependence" that takes the past organization (e.g., under state socialism) as the only relevant variable and consequently disconnects the processes of social change in East Central Europe from the concurrent transformations in West Europe and elsewhere.

That "all cases are linked" (ibid:1162) has been shown, for example, in Vliegenthart and Overbeek's (2007) study describing a profound impact of transnational actors and dominant regulative frameworks on the transformations in East Central Europe leading to a corporate organization with features of the Anglo-American and continental, especially German, corporate governance systems. In light of the growing number of comparative studies of corporate change and globalization, Djelic and Quack (2007) suggested a concept of "path generation" to capture the coexistence of the two fundamental trends – persistent differentiation and increasing convergence – that are transforming the national systems open to international influences.

I have drawn on the sociological approaches and cross-national empirical evidence to argue that since the late 1980s the corporate governance system in Russia has developed along a new path. The process involved an interaction among the following factors: the institutional reforms introducing the dominant, American model of shareholder-centered corporate governance (e.g. Black and Kraakman 1996; Judge and Naumova 2004; McCarthy et al. 2004); the industrial organization and the structure of ownership and management inherited from the soviet economy (e.g. Clarke 2004; Kagarlitsky 2002; Menshikov 2004); and the neoliberal policies of domestic and global economic development (e.g. Aslund 1995, 2001; Bockman and Eyal 2002; Nesvetailova

2005).[1] The thesis of "path generating" change concludes that after the decade of reforms (1) the organization of corporate capitalism in Russia would share some characteristics with other empirical variants of modern corporate organization. It would also bear an imprint of (2) the soviet economy that was its foundation, and (3) the neoliberal global regime and the associated paradigm of development which transformed the state-run economy.

This is a first study that explores this thesis in a comparative structural analysis of corporate governance in Russia. The study compares the structural characteristics of the established corporate models and empirical variations found in the industrialized economies with the governance structures of Russia's largest corporations formed during the 1990s. The methodology and comparative data come from a well-established tradition of interlock research (Mintz and Schwartz 1985; Stokman et al. 1985). Central to this analytical framework are inter-firm networks in which structural and social relations are traced by interlocking directorates established by directors holding seats on two or more companies' boards (see Mizruchi 1996). Interlock studies have viewed each national network as an outcome of historical institutional development and political organization, which accompanied the growth of big business in such different economies as that of the US, Germany and Japan (e.g. Gerlach 1992a; Mintz and Schwartz 1985; Scott 1987, 1997; Stokman et al. 1985). The comparative approach examines the structural characteristics of networks (e.g. extensiveness, cohesiveness, and centralization) as the crucial indicators of how strategic control and coordination of financial industrial capital are organized in a given context. Existing interlock studies have found certain structural

[1] Cited in parentheses are leading scholars who studied (and some directly participated in) that particular aspect of the transformation in Russia.

similarities among the corporate economies; for example, the largest banks or other financial institutions established wide and overlapping spheres of influence and contributed to the national networks' integration. The structural differences uncovered in this research provided the evidential foundation for developing a comprehensive typology of corporate capitalism (Scott 1997).

Comparative interlock research has not only produced a typology but also, and most importantly, enabled investigations of structural change over time and in different national economies.[2] Based on the empirical evidence that coordination through social networks is fundamental to the market economy, this comparative method is open to different, changing, and new forms of coordination and thus consistent with the path generating conception of change. This approach differs from the "varieties of capitalism" (Hall and Soskice 2001), a popular comparative framework built on a conceptual juxtaposition of market and network coordination underlying a two-way classification of the liberal vs. coordinated economies. A recent application of this classification to the Russian and other East European economies (Lane and Myant 2007) has led to some sort of analytical impasse when the Russian economy was found to exhibit extreme features of both types.[3] In contrast, comparative and national interlock studies comprise an "analytical terrain" (Böröcz 2001:1164) to be explored in order to bring the similarities and differences in the organization of corporate capitalism to bear on the analysis of the Russian economy and to bring the Russian case to bear on our understanding of corporate economies more generally.

---

[2] See, for example, longitudinal studies of business structure in the US (Mizruchi 1982), Canada (Carroll, 1986), and a recent analysis of change in Germany (Heinze 2004). In addition to national and cross-national research, there are interlock studies of transnational capital (Fennema and Shijf 1985; Kentor and Jang 2004).

[3] See Chapter II for details.

In the following sections I introduce the main structural characteristics typically found in the industrial economies prior to the onset of the neoliberal globalization (e.g. centrality of domestic banks). To explore the thesis about a new corporate system developing both typical and context-specific structural characteristics, I offer a number of propositions about the Russian network. I specify expected similarities and differences between the established types and the emergent system in Russia given the history of the Russian industrial economy and its neoliberal transformation. I then describe the data collection and measures of social network analysis employed in this study. In the results section I compare my findings about the business structure in Russia with the findings of Stokman et al.'s (1985) study and the related typology (Scott 1997). In the discussion section, I interpret these results in the context of the Russian economy's integration in the world economy under the neoliberal regime of capital accumulation. I argue that at the end of the 1990s the corporate system in Russia had a structure distinct enough to constitute a new type, yet exhibited emergent features consistent with the trends affecting other industrial economies. I find this to be the evidence of the underlying path generating process of institutional change rather than the failure to converge with the dominant models of corporate capitalism.

The Structural Comparative Framework

There exists a large and sophisticated literature on structures of corporate power in the capitalist economies, going back almost a hundred years. In the 1980s, two research teams utilized complex mathematical calculations of social network analysis, and new-at-the-time computer technology to conduct large-scale examinations of intercorporate networks. One group, headed by Michael Schwartz in the U.S. carried out

an extensive analysis of the American business structure (see Mintz and Schwartz 1985; Mizruchi 1982; Palmer 1983). The second group, led by Frans Stokman, Rolf Ziegler, and John Scott in western Europe, conducted a study in ten countries: Austria, Belgium, Switzerland, Germany, France, Britain, Italy, the Netherlands, Finland, and the United States (Stokman et al., 1985). This comprehensive work has laid the foundation for modern interlock research in national, comparative, and international contexts, and has remained the most informative for developing an analytical framework for the first structural examination of the intercorporate relations in Russia.

Stokman et al.'s ten-country study is well suited for understanding the governance structure in Russia against the established types of corporate capitalism. The main reason is conceptual: this study laid a foundation for Scott's (1997) typology of corporate systems as they were formed by 1973, that is prior to the onset of the neoliberal globalization, whose impact is ongoing and controversial. Another reason is the systematic quality of their data and analysis: the data collection followed a uniform approach to each national selection of the largest 200 non-financial and 50 financial companies while the network analysis measures were comprehensive and presented in detail. A later study by Windolf (2002) examined intercorporate networks in five West European countries and the US. Based on his analysis of 1993-1997 data, the national differences among the established systems have remained but some common features, such as the centrality of financial institutions, appeared to have changed in some countries (the US) but not in others (Germany). Although his findings informed my analysis, his approach to data collection was very different from Stokman et al.'s (and mine) and thus precluded me from using specific numerical parameters (such as density)

produced in his study. For example, his networks contained 100% subsidiary firms along with their parent companies while only the latter were selected for Stokman et al.'s and the present study. Windolf's (2002) study also included a separate analysis of the 1996 East German network, which was intertwined with the West German one. Besides this case of German unification, to date, only one study of director interlocks has been carried out in the post-state-socialist economies: Vedres's (2000) analysis of interlocks among all firms and banks in Hungary.[4]

1. An Overall Structure of Intercorporate Networks

The opening of the national economy to radical changes under the combined pressure of international capital and disintegration of the soviet system marked the beginning of a new institutional path in Russia's corporate development. The codification of the shareholder form began with the introduction of the Open Joint Stock Company during rapid privatization of the largest industrial enterprises in the early to mid 1990s. A two-tier management system was adopted in which the executive board was analogous to the soviet managerial board, and the supervisory board imitated the supervisory board in the American one-tier system where the chief and other top executives can be present along with outside directors. Russian corporate law of 1996 specified that a manager could accept a membership on another company's supervisory board upon receiving approval from his/her own company's board (Butler 2003). Thus the changes in the legal code and large-scale privatization allowed for the emergence of intercorporate relations among large companies and banks secured through directors' interlocks and ownership

---

[4] Please note that another paper by Stark and Vedres (2006) examined patterns of ownership rather than networks of interlocking directorates in Hungary.

ties. In all national business systems examined in Stokman et al.'s (1985) study, the vast majority of firms had director interlocks with at least one other large firm. Since privatization and deregulation of big business in Russia have opened the opportunities for directors to establish intercorporate ties, the first proposition asserts that

Proposition 1a. The system in Russia would be similar to the established business systems if a majority of large companies have formed director interlocks.[5]

Stokman and Wasseur (1985) did not find cross-national differences in the extensiveness of intercorporate networks, in which the majority of firms were continuously connected in one large network (also referred as a large component when several small components were also present). However, they found various levels of network density to be related to the incidence of both direct and indirect ties (i.e. ties via a third firm) between companies. For example, in a relatively dense network, direct ties produced a lot of indirect ties whereas in the less integrated network, direct ties did not produce as many indirect ties.

In Russia, the disruption of the soviet economic ties along with the uncertainty surrounding the emergent shareholding system of management within individual enterprises during the 1990s could have adversely affected the formation of extensive, direct and indirect, inter-firm ties. Qualitative evidence on major business groups (Menshikov, 2004; Pappe, 2000, 2002) suggests that concentration of ownership and criminalization of business have resulted in a relatively intense and selective use of interlocking directorates. Hence the next proposition:

[5] In this and the following propositions, the comparison refers to corporate governance systems in the core capitalist economies.

Proposition 1b. The system in Russia would differ from other business systems if the relations formed during the turbulent 1990s have resulted in a low density network, fragmented into a number of components.

2. Types of Directors

First regulations of the supervisory board composition were introduced ad hoc before and during the ongoing privatization in the first half of the 1990s. As the privatization program itself, they intended to mobilize top managers' support for the reforms by giving them, at least initially, full control over the newly privatized companies. The dominance of inside managers on supervisory boards was first mentioned in the 1994 privatization program that limited their number of seats to one third of the board (Pistor 1997). In contrast, workers of large enterprises did not have any meaningful representation from the beginning of reforms, and when the first comprehensive company law was passed in 1996, it contained no formal arrangements for employees and their representatives to secure seats on the supervisory board. In this regard, the legacies of the hierarchical soviet system of management coalesced with the dominant, market-centered model of corporate governance.[6]

The reformers expected that once soviet directors became the new capital owners, they would advocate for and implement the new governance system protecting shareholders' rights and support the development of capital markets, both of which would countervail domestic concentration of ownership. As Kogut and Spicer (2002) have argued, these expectations were based on erroneous assumptions and did not work out: the resultant structure of corporate control became not only concentrated but also

[6] Discussed in Chapter III.

relatively closed to the outside, especially minority shareholders. Recruitment of outside, so-called independent directors, however, was not addressed until the early 2000s (McCarthy et al. 2004). In sum, during the 1990s the insiders, namely, managers and/or large capital owners, took control of corporate assets.

In the established business systems, board members' principal employment was a crucial factor determining the types of relationships they established between companies they linked. Stokman et al.'s (1985) study identified three types of directors who sat on multiple companies' boards. Top executive managers were considered insiders, non-executive directors (e.g., prominent businessmen, government officials) – outsiders, and large capital owners that held seats on supervisory boards fell into a third, intermediate category. There were cross-national variations in the relative proportions of outsiders and insiders among multiple directors as well as the absence of intermediate directors in some cases. The following propositions describe the system in Russia in this comparative context:

Proposition 2a. The system in Russia would be similar to other business systems if it involved a comparable proportion of insiders – top executive managers and stockholding directors who created interlocks.

Proposition 2b. The corporate system in Russia would be different if no or very few outside directors were found among the interlockers.

Previous studies have shown that top executive managers (the insiders) often oversaw structural (equity, credit or production-related) links between firms. Interlock researchers referred to these ties as "primary" and examined them very closely to understand the system-wide dynamics of inter-firm relations. I ascertain their relative importance in the Russian and other corporate systems by examining the variation in density of primary and full networks across national contexts.

Proposition 2c. The corporate system in Russia would be different if it has been more exclusively based on primary, possibly structural ties between firms.

3. Bank Centrality

In each national system examined by Stokman et al. (1985) and Mintz and Schwartz (1985), the distribution of primary ties created by executive officers revealed that domestic financial institutions were central to inter-firm networks. Interlock research on the U.S. corporate system in the later period, between the early 1980s and the mid-1990s, reported a significant change in the relations between banks and large non-financial corporations indicating a decline in banks' economic centrality (Davis and Mizruchi, 1999). During the same period, German banks remained the most widely connected in the national network (Windolf, 2002:70). The decline in U.S. banks' lending to domestic corporate business was found to be associated with the reduced incidence of new executive officers joining banks' boards in the 1980s-1990s. This finding is consistent with Mintz and Schwartz's (1985) argument that board interlocks served to observe lending relations between banks and non-financial companies (Davis and Mizruchi, 1999:233). The increasing orientation of U.S. banks towards the global economy and financialization of the large non-financial corporations' activities (Mizruchi et al., 2006) indicate the direction of change in the organization of corporate governance system in the U.S. In European economies, increasing economic and political integration is compounded with pressure to adopt the dominant, shareholder value model. Whether these changes would result in the erosion of the large European banks' dominance in their respective national economies is a subject of ongoing research (e.g. Heinze, 2004).

The neoliberal reforms in Russia not only decentralized the soviet banking system and instigated a deep economic crisis, but also, and more importantly, reduced incentives for domestic banks to become engaged in extensive lending relations in the industrial sector. Financial liberalization and internationalization of the Russian economy went hand in hand with substantial capital flight abroad throughout the 1990s (Liuhto, 2005). While the largest Russian companies extensively borrowed abroad, major domestic banks continued to be almost exclusively dependent for capital on the export-oriented, resource-extracting corporations (Gnezditskaia, 2005). This dynamic suggests that domestic relations between financial and industrial companies in Russia could be shaped differently from the historical patterns formed in West Europe and North America. As was already mentioned, prior to the recent stage of globalization, it was standard for banks to be heavily involved in the domestic lending relations and thus have more ties with other firms compared to industrial companies. Hence identifying the structural position of banks in Russia would inform us about the following:

Proposition 3. The system in Russia would differ from other systems if the relations between banks and industrials followed a different pattern, that is, if banks in Russia were involved in fewer interlocks than industrial companies.

4. Business groups

Interlock researchers have found that long-term structural relations were associated with the so-called "strong ties" (containing at least two interlocks) between pairs of firms (Stokman and Wasseur 1985). Strong ties reflected many context-specific factors such as state regulations, historical patterns of family capital and geopolitical relations, and thus provided crucial evidence of the distinctive structural aspects of the

national corporate organization. In the U.S., the system of “corporate constellations” was characterized by extensive networks with a relatively low proportion of strong ties (Scott 1997; Mintz and Schwartz 1985). The proportion of ties created by multiple interlocks was significantly higher in the European countries with “corporate filiations” (e.g. Germany and Austria) and the highest percentage was found in Belgium, the most evident case of the holding-centered system of “corporate webs” (Stokman and Wasseur 1985:25; Scott 1997). In these European countries (Germany, Austria, and Belgium), intercorporate relations secured by four and more director interlocks constituted empirically significant (often equity-based) business groupings. However, the organization of business groups was not always characterized by intense interlocking. In Japan, a primary example of the group-based corporate system, companies relied on cross-stockholding rather than interlocking directors to sustain groups over time (Gerlach 1992a,b; Scott 1997).

In Russia a tendency to establish inter-firm connections was amplified in the mid 1990s when the federal state promoted the formation of financial-industrial groups (FIGs) by giving them both a special legal status and tax incentives, while deciding against substantial anti-trust legislation. These state policies produced mixed results: some officially registered FIGs did not develop intercorporate governance mechanisms, while many FIGs with strong, equity-based inter-firm ties did not seek recognition by the state. Earlier, descriptive research on the largest business groups in Russia (e.g. Pappe 2000, 2002; Menshikov 2004) described groups’ composition based on published sources and hence was limited in scope and unsystematic. Conducted in the interlock research framework, this study had an advantage of identifying groups in a system-wide analysis

for which 150 companies were selected independent of their affiliation with the prominent business groups. The existing descriptive accounts of the largest groups and the comparative interlock studies suggested the following propositions:

Proposition 4a. The system in Russia would be similar to other business systems if multiple director ties traced empirically meaningful business groups.

Proposition 4b. The system in Russia would differ from other business systems if groups traced through strong ties were found to have no overlap.

Proposition 4c. The system in Russia would be similar to some business systems with concentrated corporate control if these groups were hierarchically organized.

5. The state

Most scholars agree that extensive and rapid privatization in Russia has engendered a transformation of what used to be a highly centralized and integrated business system based on state ownership. Yet the degree to which the soviet state legacies continue to define the emergent business system remains a debated point: some studies documented the adoption of the dominant, neoliberal approach to the state's involvement in big business (Nesvetailova 2005; Sher 2008) while other scholars insisted that state ownership put Russia in "quite a different league … from other advanced capitalist countries" (Lane 2000: 489; 2007).

Fully and partially state owned corporations have been part of many western European economies during the second half of the 20th century. In this historical context, Russian government shareholdings in companies of national strategic importance can hardly be considered an anomaly. Moreover, privatization in the 1980s and 1990s did not

completely eliminate but reduce the level of state ownership in major European industrial economies (Pedersen and Thomsen 1997). First, I consider the state's presence in terms of equity holdings and then in terms of state officials' participation in director networks.

Proposition 5a. The corporate system in Russia would differ from other business systems if state ownership of the largest industrial companies exceeded the levels found in western European economies.

The structural prominence of state-owned companies in interlock networks depends on the state not only holding shares but also having the same government representative(s) serve on boards of two or more companies. This tie could be incidental, or it could reflect the fact that the individual has responsibilities in the areas of the conjoined companies. In western European countries where government officials had multiple directorships, they formed a cluster of state-owned firms; this clustering, however, did not contribute to the overall centralization (Stokman et al. 1985). I examine the following proposition via a system-wide analysis of centralization in the Russian network:

Proposition 5b. The system in Russia would be similar to other systems if state-owned companies formed a cluster but otherwise did not contribute to the network's centralization.

6. Centralization

The issue of network centralization brings together the structural aspects examined in the previous sections: How did banks, groups, and state-owned companies contribute to the overall integration in the Russian network, and in what ways did this integration make the Russian business system distinct from the structures found in other industrial economies?

Comparative interlock research has shown that the patterns of interlocks varied across national contexts and so did the form of integration and degree of centralization in the networks. In every national context, the companies were unequal in the number of firms they had interlocks with. But it is only when central, most connected companies also had direct links among themselves, one found a centralized network (Stokman and Wasseur 1985:31-2). Six of the nine West European countries, namely those with "corporate filiations" and holding-centered "corporate webs" (Scott 1997), had a relatively centralized network. It was formed around a core set of directly linked corporations which had their own domains of influence. In the less centralized and more extensive networks, characteristic of the Anglo-American system, centralization resulted from a core set of directly linked, focal companies (mainly banks) that have formed overlapping ties with numerous industrial companies (Mintz and Schwartz 1985). These patterns of centralization indicated that power to intervene in the decision-making of many largest companies and banks lied in being not just extensively connected but also directly tied to the most connected firms. Bonacich (1987) referred to this view as the "traditional" power centrality to distinguish it from a "non-traditional" version, in which one's power is derived from being connected to the least central, i.e., who have no power. Although theoretically plausible, the non-traditional conceptualization has not yet fit any of the previously examined interlock networks. Considering the likely prominence of ties within business groups in the Russian network, the power centrality analysis will demonstrate the following structural features.

Proposition 6a. The system in Russia would be distinct from other systems if the Russian network has developed a decentralized structure that lacked an interconnected core set of the largest corporations and banks.

Proposition 6b. The system in Russia would have a distinct structure if, instead of banks, resource-extracting companies have become the most central (widely connected) firms in the Russian intercorporate network.

Data and Method of Network Construction

Following the standard criteria for interlock research (Scott 1985:15), I used the monetary value of sales to select the largest 100 non-financial companies and the size of banks' assets to identify the largest 50 banks in Russia (for a complete listing of firms selected for the analysis please see Appendix 1). The selection of the non-financial firms was primarily based on the Russian business journal *The Expert*'s (2002) ranking of 200 companies that had the highest sales in 2001.[7] From that list, I selected the largest 100 Open Joint Stock Companies (with and without state holdings), and located their quarterly reports filed with the Federal Commission for the Securities Market of Russia.[8] Made publicly available in the aftermath of the 1998 financial crisis, these reports offered the data on boards of directors for the construction of a comprehensive database. Directors' full names, year of birth and current and past affiliations came from the reports submitted for the third quarter of 2001.[9] The same reports provided information on companies' ownership structure. The information about the largest 50 banks, including

[7] In accordance with the definition of an industrial enterprise adopted by their analysts, the *Expert* ranking included firms from 15 industries while excluding transport, trading, and communication firms. Since the latter played an important role in the Russian economy and were usually included in other national studies, I used another Expert-200 ranking – by capitalization – to identify the leading companies in transport and telecommunications. Among them I selected only those companies that matched the selection criteria used in the ranking by sales, which, for example, included holdings but excluded their subsidiaries.

[8] There were a few companies that had a different ownership structure and were not included in the analysis. They either were registered as a Closed Joint Stock Company, or remained a State Unitary Enterprise, the Soviet organizational form of productive enterprise.

[9] In a few cases I could not locate a company's report for the third quarter of 2001; instead, I used either 4th or 2nd quarterly report for the same year, crosschecking with the annual report if available.

their ranking by assets was taken from a book *The Largest Banks and Their Owners: A Guide to Russian Banks* (Baranov and Yacheistov 2002). In addition, I consulted banks' quarterly reports for the third quarter of 2001, submitted to the Central Bank of Russia.

I compiled these data into a dataset containing identifying information (full name, year of birth, and affiliations for the years 1996-2001) for all directors who sat on supervisory and executive boards in 2001. These data were then sorted to identify the multiple directorships that created overlapping board memberships among the 150 firms on my list. These ties were recorded and analyzed as a matrix of relations. I also constructed a second dataset containing available shareholding information on all 150 organizations. While I found that quarterly and annual reports systematically disclosed state holdings, they had incomplete information about stakes held by private organizations and individuals. To the extent these data allowed, I assessed the overlap between the social network of interlocking directorates and the stockholding structures of these companies and banks.

Network Analysis

In the course of the analysis I examined three networks of director interlocks:

- the *full* network (consisting of all ties among the 150 companies),
- the *primary* network (consisting of ties created by the executive managers only), and
- the *strong tie* network (composed of ties created by multiple interlocks between companies, one of which was a primary interlock).

I employed the standard measure of density to carry out the comparative part of my investigation. ***Density*** is a measure that takes the basic unit of the network structure to be

a pair of companies connected through their directors. When two companies share directors, such a connection is considered “direct” or at a distance 1, and when two companies send their directors to a common third company(s), the two have an “indirect” connection or at a distance 2 (Stokman and Wasseur 1985:25). Density measures the fraction of all possible ties observed at a given distance in the network. In the graph-theoretical terms, it is defined as “the ratio of observed lines to all potential lines (this number is $n(n-1)/2$ where n is the number of firms)” in the dataset (Fennema and Schijf 1978/9:318). For example, a 1.4 percent density of direct ties means that 1.4 percent of all possible pairs are actually linked by an interlock. In the analysis of the Russian structure, measures of density were applied to the full and primary networks as well as within groups identified through the strong-tie analysis. For the comparative part of the study, I compared the densities of direct and indirect ties observed in Russia to those in the ten national networks examined by Stokman and Wasseur (1985).

Analysis of ***centrality*** examines the number, directionality, and intensity of ties to identify the most central companies in a network (Mintz and Schwartz 1985:261-277; Mariolis and Jones 1982). To compare the centrality of two sectors, banking and industrial, I computed the average number of interlocks for each sector. The average for each of these economic sectors was calculated separately for all types of interlocks and for only primary interlocks to distinguish sending and receiving ties. In the strong-tie analysis distinct groups were identified so that every “strong tie” contained at least one primary, “directional” interlock. I examined the distribution of the strong ties within each of the six largest groups by using a measure of nodal degree centrality. It is defined as the number of firms with which a given firm has ties. If ties are directional, outdegree and

indegree centrality can be calculated for individual firms within groups. A firm's nodal ***outdegree centrality*** is equal to the number of companies to which this firm sent its managers. A firm's nodal ***indegree centrality*** is equal to the number of companies from which the firm received outside directors. Both measures, by definition, depend on the group's size and can be standardized. Since I compared groups almost identical in size (one group had six firms and the remaining groups included five firms each), I report the actual nodal degrees which are easy to interpret.

To compare the groups' structural integration in terms of ***centralization***, I used several summary measures. Although the ***mean outdegree centrality*** and the ***mean indegree centrality*** within the groups are equal by definition, I reported them for inter-group comparison. The related measure of interest is the ***variance*** of the outdegree centralities and indegree centralities. It is computed as the average squared deviation of each firm's outdegree (or indegree) centrality from the mean outdegree (or indegree) centrality of the group (Wasserman and Faust 1994:127-130).

The last section of Results presents ***Bonacich power centrality*** analysis applied in the full network (Bonacich 1987).[10] It is a standard structural measure in interlock research that has been used to identify the most influential firms and the overall mode of network-wide integration (Mizruchi and Bunting 1981). Conceptually, the traditional approach to the firm's centrality means that it depends on being directly linked to the most widely connected firms in intercorporate networks. In his 1987 paper Bonacich offered another, innovative measure to address situations when the powerful status is

[10] In addition to Bonacich power centrality, which has been extensively used in interlock studies, I also tried other methods generally popular in network analysis such as the Hierarchical Structuring. They confirmed the results obtained in the detailed analysis reported here without adding any more substantive insights (data not shown).

based on the advantage of being connected to units less powerful (i.e. less connected) than oneself. In the analysis of the Russian interlock network, I tested both traditional and non-traditional measures of centrality.

Bonacich Power Centrality is defined in Equation 1 where R is a matrix of relationships and C_i is the centrality score of firm *i*:

$$C_i(\alpha, \beta) = \sum_{j=1}^{N} (\alpha + \beta \cdot C_j) R_{ij} \tag{1}$$

This measure takes into account the firm's nodal degree centrality N (i.e., the number of firms it is interlocked with) and the strength of the particular tie R_{ij} (i.e., the number of interlocks per tie). Parameters α and β are used to weight the firm's centrality score by the score of the firms it is linked to (C_j). Specifically, the positive β parameter captures the degree to which 'one's centrality or power … increased positively by connections to high-status others' (Bonacich 1987:1171). On the other hand, a negative value of β describes the systemic dynamic of increase in a given unit's status as a result of being connected to less powerful actors in the system. The value of β is set to the reciprocal of the largest eigenvalue of R. A normalization parameter α is chosen in such a way that the sum of squares of the centrality measures of all firms is equal to the number of firms.

Bonacich Power Centrality scores are reported for the most connected firms along with the firm's rank in the number of interlocks, nodal degree centrality, and cumulative percent of all interlocks (Mizruchi 1982). Calculations and visualizations were performed with social network software *UCINET 6* (Borgatti et al. 2002) and *Pajek 0.97* (Batagelj and Mrvar 2004).

Results

1. An Overall Structure of the Full Network

The analysis revealed that 103 (68.7 percent) of the top 150 Russian companies established interlocks with at least one other firm; the remaining 47 companies (31.3 percent) were isolates with no board ties to any firm in the selection. The data support proposition 1a that board interlocks have not only become part of corporate governance in Russia but also involved a large number of companies to warrant a detailed comparative analysis.

Table 5.1. Structure of the full interlock network by industry in Russia, 2001

Industries	Largest component (N of companies)	(Nine) Small components	Total N of companies selected
Machinery	9	2	18
Chemical	8	3	17
Oil and Gas	13	-	13
Coal Industry	3	2	5
Energy (electric)	4	-	4
Transport	1	0	2
Ferrous Metallurgy	8	6	16
Non-ferrous Metallurgy	4	0	6
Precious metals & diamonds	1	-	1
Forest & paper	0	2	7
Tobacco	0	0	4
Food & Beverages	1	2	4
Communications	-	3	3
Finance (Banks)	**27**	**4**	**50**
Total	79	24	150

Just over half (79 out of 150) of the companies – 77 percent of those with any ties – were connected together into a single component, which included 27 banks and 52 non-financial companies operating in ten industries (Table 5.1). This pattern, in which the majority of all interlocked firms were tied together into a single continuous network, was the typical pattern found in countries of western Europe and North America (Stokman and Wasseur 1985:27). For example, in Germany 76 percent of the largest 259 firms were interlocked with at least one firm and 75 percent formed a large component in 1976. In the same year in the U.S. over 90 percent of the top 252 firms were interlocked whereas in France 88 percent of the top 250 companies were tied together via interlocks forming one large component. Thus in terms of a substantial number of companies having interlocks and being tied together in one large component, I find the Russian case to be similar to many western European and North American countries.

What is distinctive about the Russian network is that in addition to the large component, the network contained nine other, independent, but much smaller components, containing two to five firms each (Table 5.1). This contrasts with the shape of the network elsewhere. In eight out of ten national networks examined by Stokman et al. (1985:27) the number of small components ranged from zero to two, and only in two countries – Belgium and Italy, both known for their "corporate webs" centered around investment holding companies – the number of small components was three and five respectively. In the countries where small components were found, they contained no more than three companies each. In Russia, several components contained as many as five firms. I see in this pattern the first indication that the Russian business structure may

be less integrated than those in western Europe and North America (as stated in Proposition 1b).

This finding is strengthened still further when the network's density is assessed. In the U.S. and western European countries the density of direct ties varied from two to five percent (Stokman and Wasseur 1985:26). In contrast, the Russian network registered only 1.4 percent density, below the level of two percent recorded for the UK, the lowest of the nine European countries studied. Moreover, other countries recorded indirect densities ranging from five to nine times their direct measurements. Germany, for example, registered four percent direct density and 28 percent indirect density. Russia's indirect measure of 2.8 percent was barely twice its direct density, and left it far behind the UK, which again had the lowest indirect density (12 percent) among the European countries studied. The relatively low number of indirect ties in the Russian network lends additional support to proposition 1b that suggested that a more fragmented structure would distinguish it from the typically expansive and cohesive networks in other industrialized economies.

2. Directors and the Primary Network

All three major analytical categories of interlocking directors, namely, insiders, holders of intermediate positions, and outsiders, were found in Russia (Table 5.2). Considered the "true insiders," 51 percent of all interlocking directors were top executive officers employed at one of the 150 largest companies. Their counterparts in western European networks constituted less than 30 percent of all interlocking directors except for Switzerland where their proportion reached 38 percent (Stokman and Wasseur 1985:35).

Table 5.2. Interlocking directors by their principal affiliation and number of directorships

Directorships (N of seats)	Types of directors (N)						N of directors (%)
	Insider (Top Manager)		Intermediate (Stockholding [a])		Outsider		
	Industrial	Bank	Leader	Manager	Government	Other	
2	51	14	7	27	22	12	133 (79.6)
3	15	1	1	2	7		26 (15.6)
4	4				2		6 (3.6)
5					2		2 (1.2)
N of directors (%)	85 (51)		37 (22)		45 (27)		167 (100)

Note: [a] Large shareholders and/or top managers of holdings and other companies which held shares in two or more of the interlocked corporations and banks. A distinction between leaders and managers indicates the diversity of rank within the category.

A relatively high percentage of insiders clearly distinguished the Russian case from the previously studied networks. Twenty two percent of interlocking directors in Russia had either a lead or managerial position at a holding company closely affiliated with the interlocked companies via ownership. Among them, there were a few prominent and/or wealthy businessmen, who began their careers as executives, became key stockholders, and now chaired the supervisory boards of their principal companies. These businessmen often founded and headed a holding company, which in turn held substantial amount of stock in their principal operating companies and banks. This category of directors was involved "in major decisions on a more regular basis than the true outside directors" and was found in seven out of nine western European countries (Stokman and Wasseur 1985:34). Given that their proportion varied from eight to 34 percent of all interlocking directors, the percentage of stockholding (intermediate) directors in Russia

was not unusually high. Moreover, the phenomenon of the principal capital owners sitting on several supervisory boards of directors did not in itself distinguish the emergent corporate system in Russia; it was noted not only in western Europe but also in the U.S. (e.g. Soref and Zeitlin 1987). These results support proposition 2a about the Russian system exhibiting features of an insider-dominated type, with a note that the executive managers, but not the stockholding directors, were overrepresented among the interlocking directors.

The third group of the so-called outsiders was considerably small in Russia (27 percent). With one exception of 28 percent in Switzerland, the proportion of outsiders ranged from 63 percent in Austria to 83 percent in the U.S. (Stokman and Wasseur 1985:35). What also distinguished the Russian case was that the vast majority of the outsiders were federal government officials, including employees of the Central Bank and President Administration. The government officials comprised almost 20 percent of all interlocking directors and the remaining, unclassified otherwise, directors comprised about seven percent. In the analysis of the stockholding relations, presented later, I found that the appointments of government officials on multiple boards closely reflected government equity stakes in the companies.

Thus my results unambiguously demonstrate that there were few “outsiders” among the leaders of Russian business: over 90 percent of the interlocking directors held a high status position either at the top companies and their affiliates, or in the federal government. Few businesspeople from the medium and small companies were invited “up” to serve on boards of the largest 100 industrial and 50 banks in Russia, indicating that multiple directorates were distributed exclusively to those at the top of status and

power hierarchies. This almost complete absence of outsiders entrusted to serve on boards of directors was even more striking than the relatively large proportion of the executive managers among the interlocking directors.

Placed in the comparative context, these results support proposition 2b that it was unusual for the leaders of big business to restrict the access to corporate governance almost exclusively to themselves and their senior managerial associates. Even being in power, businessmen in Russia did not create many interlocks: only eight directors (less than five percent of all interlockers) held four or five directorships in top companies (Table 5.2, last column). Both facts most likely accounted for the looser integration of the full network, reflecting social closure in the top ranks of the Russian system of corporate control.

Furthermore, cross-national research has found that even where insiders constituted a minority among the interlocking directors, they established an extensive 'primary' network that accompanied structural (equity, credit, or production-related) relations. Overall, there were 265 interlocks in the Russian network, 40 percent of which were primary (Table 5.3). An additional 8.7 percent were 'induced' interlocks between pairs of firms that had the same manager from a third company on their boards. Intermediate (stockholding) directors created 15.1 percent of interlocks. Together, top managers and stockholding directors were involved in 63.8 percent of all interlocks.

Table 5.3. Types of interlocks based on the principal affiliation of directors

Type	Interlocks (%)
Primary (top managers)	40.0
Induced by primary [a]	8.7
Induced by intermediate (stockholding) directors	15.1
Induced by government	28.7
Other[b]	7.5
Total N	265

Notes: [a] An interlock or tie was "induced" when two companies were linked through their relation to a common third party. They could be supervised by the same executive(s) of the third company in the selection; the same director of a stockholding company; or the same government official. The induced relations are structurally different from indirect ties discussed in the first section of Results.
[b] Induced by outside board members other than government officials.

The primary (and intermediate if present) interlocks were found to be particularly important for establishing intercorporate networks in the U.S. and West European countries. Based on Stokman and Wasseur's (1985:40) cross-national data, I estimated that top managers on average created 59.2 percent of all interlocks (31.4 percent were primary interlocks and an additional 27.8 percent were induced by primary).[11] In half of the European countries these figures included interlocks created by intermediate directors. In Russia, the overall figure (63.8 percent) in fact was even slightly above the

[11] There were, however, substantial variations between the proportions of the primary interlocks and induced by the primary. For example, in the U.S. these figures were 29 and 16 percent whereas in the U.K the primary and induced interlocks reached as high as 48 and 25 percent respectively.

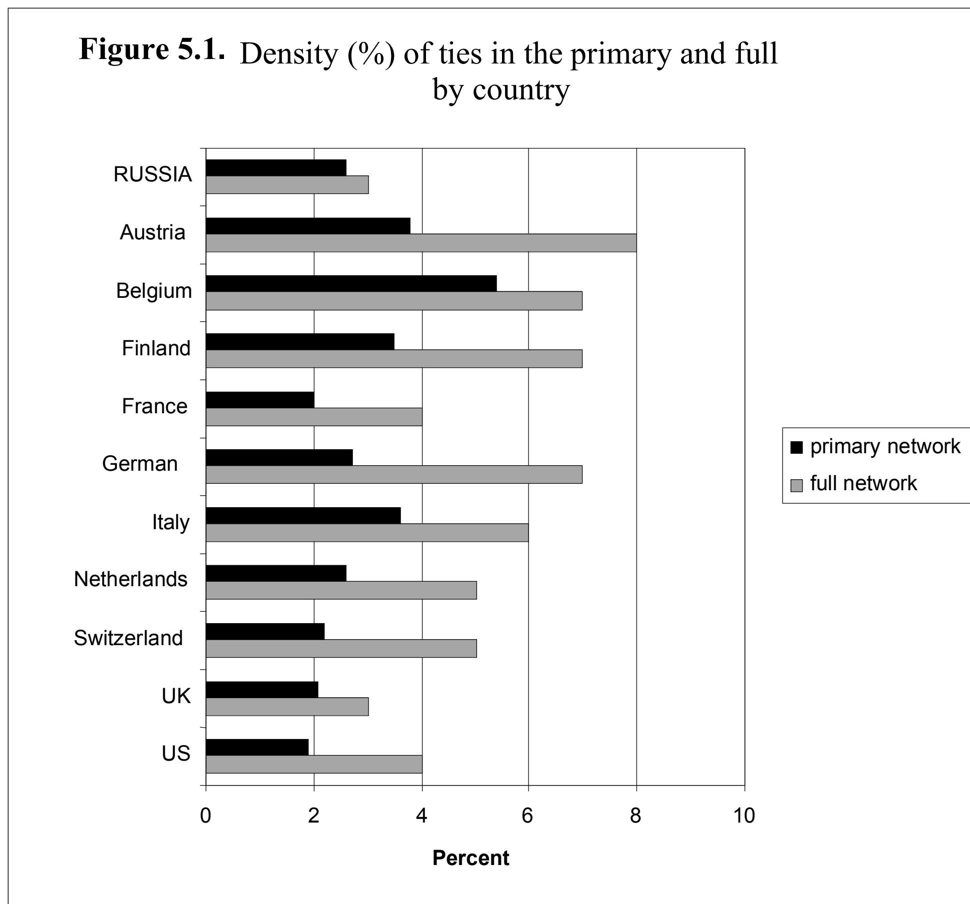
average for the industrialized economies and thus undoubtedly indicative of the substantial presence of the structural ties in the network.[12]

In the ten countries examined by Stokman and Wasseur (1985:40), the vast majority of companies (more than 80 percent of firms that had any types of interlocks) had primary interlocks. The size or extensiveness of the primary network, then, almost matched the full network even though, on average, the primary interlocks constituted 31.4 percent of all interlocks. The density in the primary network thus was lower than that in the full network but in most of these countries, similar structural cohesiveness was observed in both: for example, if the full network was relatively dense and centralized so was the primary network. Noting three cases (Italy, Germany, and the Netherlands) where the primary network revealed a more precise structure than was apparent in the full network, Stokman and Wasseur (1985:41-43) concluded that “the contours of an overall national network were determined by the pattern of its primary interlocks, even though these interlocks generally constituted far less than half of all interlocks.”

What was the pattern of the primary interlocks in Russia? As was noted earlier, the full network in Russia had a relatively low density estimated among the 150 firms selected for the analysis. Now I considered only interlocked companies and estimated the density of three percent in the full network of 103 firms, and 2.6 percent – in the network of 73 firms linked exclusively by primary (managerial) interlocks. I then compared the density measurements in Russia with the densities observed in the full and primary

[12] Following other studies, I distinguished primary interlocks from government-induced interlocks, most of which were also equity-based.

networks in other countries (Stokman and Wasseur 1985:27,42).[13] Figure 5.1 shows that relatively denser primary networks were found in Finland (3.5 percent), Italy (3.6 percent), Austria (3.8 percent) and especially Belgium (5.4 percent). Six other countries had primary networks that were either as intensely as or even less connected than the Russian primary network. This comparison reveals that in terms of density, manager interlocks did not distinguish the Russian business system.



Note: [a] Cross-national data from Stokman and Wasseur (1985).

---

[13] Stokman and Wasseur (1985) only reported densities in the largest component, which contained all or the vast majority of firms in each country, see their Tables 2.4 and 2.10. Densities in the Russian networks were calculated based on all interlocked firms.

Yet in the context of all ties, the primary interlocks could play a more important structural role in the Russian network. To examine this proposition (2c), I considered the difference between the full and primary networks' densities and expressed it as the percent of the full network's density (Figure 5.2).

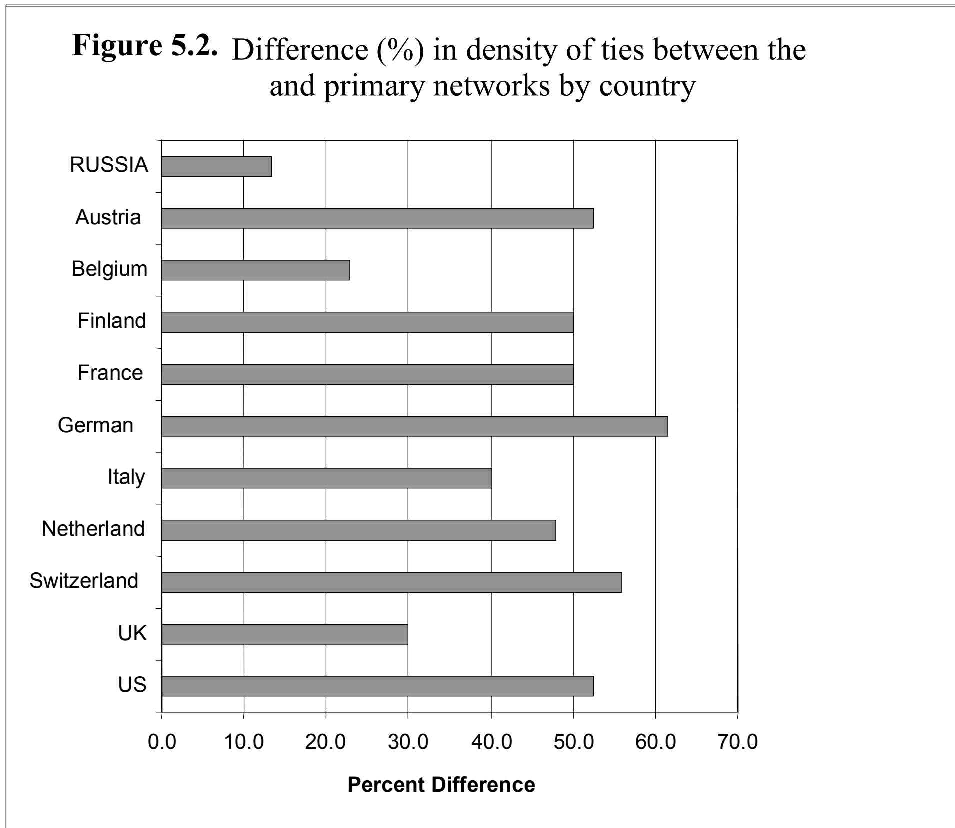


Figure 5.2. Difference (%) in density of ties between the and primary networks by country

Notes: [a] Cross-national data from Stokman and Wasseur (1985).

While on average the density of primary network was found to be about half the density observed in the full network (the median difference was 50 percent), in Russia the primary network was only 13 percent less connected than the full network. This means that unlike most other countries, in Russia the primary, managerial interlocks tied companies in a network that was almost as dense as the full network. In the other ten countries, two companies were twice less likely to have a top manager create an interlock

than they were to share any type of director. In Russia, the probabilities of having a primary (executive) interlock and any type of director interlock were almost the same. This confirms proposition 2c that the overall structure of the full network in Russia was much more dependent on the primary interlocks than was observed in other countries.

This analysis enhances the conclusions based on propositions 2a and 2b. The overall proportion of insiders (managers and stockholding directors) did not necessarily distinguish the Russian system, whereas the ties they created did. The comparative analysis revealed that in Russia the director interlocks were in general more likely to trace structural, that is, equity, capital and production-related links than was found in corporate systems of other countries. It was also possible that the power was indeed unusually concentrated in the hands of executives since outsiders (including government directors) added relatively few distinct links to the existing primary network.

3. A System-wide Position of Banks

To understand the significance of the primary interlocks in the Russian context, I examined the relations between banks and industrial companies in Russia in the full and primary networks. Table 5.4 offers evidence to support proposition 3 that the Russian banks did not follow the established pattern. In the full network, the industrial companies had on average more interlocks than the banks, 5.4 and 4.6 respectively. Moreover, the industrial corporations in the primary network dispatched an average of 3.1 executive officers to other companies, whereas the banks sent only 1.3. Perhaps most telling of all, the banks received an average of 2.0 interlocks, slightly below the 2.1 receiving average for non-financials. This disconfirms the possibility that Russian bank boards followed the American or German pattern as the meeting places where corporate lenders acquired and

shared a cross-sectoral view of broader business geography (Mintz and Schwartz 1985; Useem 1984; Ziegler et al. 1985).

Table 5.4. Mean Number of Interlocks for Each Corporation Type, 2001[a]

Corporation Type	Mean number of interlocks		
	All	Sending	Receiving
Banks	4.6 (31)[b]	1.3 (13)	2.0 (20)
Industrials	5.4 (72)	3.3 (28)	2.1 (32)
Total	5.1 (103)	2.6 (41)	2.1 (52)

Notes: [a] To compare with the US, see Table 7.1 in Mintz and Schwartz (1985:147).
[b] Number of corporations in each category in parentheses.

The comparative study found that several banks (and in some countries, other financial institutions) stood out as the most extensively interlocked firms in the network. For example, executives of three big German banks (Deutsche Bank, Dresdner Bank, and Commerzbank) took positions on the supervisory boards of 64 non-financial companies (a third of all connected non-financials) (Ziegler et al. 1985:107-109). The network with the least centrally-positioned banks was found in Italy where companies were intensely connected by managers, among which bank executives were still prevalent (Chiesi 1985:209). In Russia, no single bank established direct ties with numerous, that is, exceeding four, industrial companies. Even the reach of the banks tied to four industrials was very limited to reflect any substantial degree of a network-wide influence. Thus despite that primary ties in general were found to be more structurally important in Russia than was the case in other countries (see previous section), they did not trace wide

spheres of financial-industrial relations involving major banks, a situation typical in other systems. In a rather distinct manner, interlocks revealed the importance, albeit limited, of the industrial companies in the intercorporate system in Russia.

4. Business Groups Embedded in Strong-Tie Networks

Interlock researchers have argued that if a tie between two companies involved multiple and primary interlocks, it would signal a serious effort – a foundation for coordination/alliance (if ties were reciprocated) and for control (if ties were unilateral). Table 5.5 shows an overall distribution of single-interlock ties and multiple-interlock or "strong" ties in the Russian network. The vast majority of the strong ties (67.7 percent) involved active executives or stockholders. In contrast, the highest proportion of single ties was formed by government officials (42.9 percent).

Table 5.5. Type of interlocks by strength of ties, 2001[a]

Type/Strength	Single interlock	Strong ties (2 or more interlocks)
Primary	27.6%	67.7%
Government-induced	42.9	16.1
Other	29.6	16.1
Total % (N)	100% (98)	100% (62)

Note: [a] Calculations were based on the full network. When two companies had more than one director in common, and at least one of these directors was an executive manager of one of the companies, this tie was counted as the strong primary tie.

To explore these patterns further, a "strong tie network" was constructed based on the multiple interlock ties that included at least one primary interlock. Ties created by single and only government interlocks were excluded. This yielded a 52-firm network (Figure 5.3). The nodes shaped as circles represent 37 industrial corporations and shaped as diamonds – 15 banks. Solid lines indicate strong ties while punctuated lines mark ties induced by primary.

In the graph-theoretic terms of network analysis, the underlying structure contained 15 separate components. Strong ties traced non-overlapping business groups except for a tie between two distinct business groups (the largest component shown in Figure 5.3). Thus identifying strong ties has led to the "breaking up" of the full network's largest component into 11 strong tie groups as well as to the discovery of the strong ties in five of the nine, initially identified smaller components. In other national contexts, excluding single interlock ties reduced the number of connected companies in the main component, but it did not yield numerous small independent components. The ties reinforced by two directors permeated the network and created extensive and overlapping clusters centered on the dominant companies in the network. It was only by considering board ties of three and more directors in common, that the researchers in some European countries were able to discern smaller, empirically meaningful business groups, notably in Austria, Germany, and Finland (Stokman et al. 1985).

These results clarified propositions 4a and 4b about the role of multiple interlocks in Russia. Other countries contained groups with overlaid stock and interlock network, but there were no others in which groups accounted for the entire strong tie network. Moreover, where strong ties were found, two interlocks per tie were so common that they

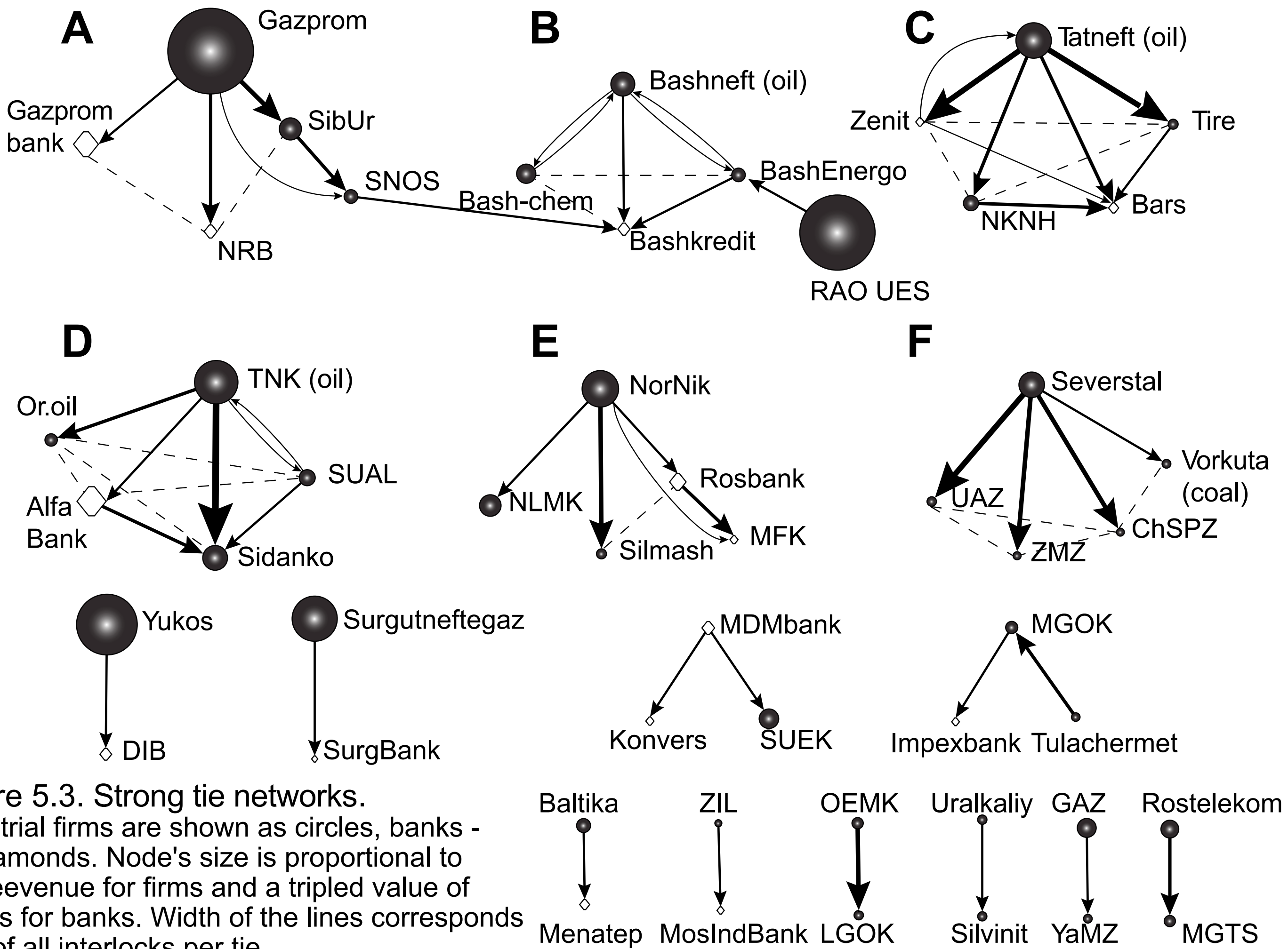


Figure 5.3. Strong tie networks.
Industrial firms are shown as circles, banks - as diamonds. Node's size is proportional to the reevenue for firms and a tripled value of assets for banks. Width of the lines corresponds to N of all interlocks per tie.

increased a possibility of inter-group coordination. In Russia, such ties were almost exclusively associated with the relatively narrow (intra-group) scope of corporate control.

The prominence of primary interlocks in strong ties suggests that interlocks were more likely to be found within groups bound together by stockholding relationships. The "strong ties" within the sets of companies were directional: the leading company dispatched its top executive managers to serve on other firms' boards of directors (the arrows in Figure 5.3 originate in the leading firm). For the visual assessment of the inequality in revenue and assets among the connected firms, the size of nodes was proportionally adjusted based on reported revenue for 2001 for the non-financial firms (Expert 2002), and the triple volume of assets for banks (Baranov and Yacheistov 2002). Figure 5.3 shows a hierarchical structure of relations in most groups, one industrial company dominating smaller companies and banks.

The structure of the largest six groups displayed in Figure 5.3 is further analyzed in Tables 5.6 and 5.7. Three groups, labeled A, B, and C included companies where either the federal or one of the regional governments had shareholdings. Group A was led by the largest corporation in Russia, gas monopoly Gazprom, where the federal state held a 38% stake at the time (fall 2001) while Gazprom held stock in five other companies selected for this study. Groups B and C were located in each of the semi-autonomous republics of Bashkortostan and Tatarstan respectively, where the regional government held substantial (direct and indirect) ownership stakes in most or all firms. The remaining clusters, labeled D, E, and F, captured the core companies of three privately owned, prominent business groups in Russia.

Table 5.6. Types of interlocks by directors' principal affiliation in the largest business groups

Groups	With some state shareholdings			Entirely private		
	A[a]	C	B	D	F	E
	Gazprom-led	Tatarstan-based	Bashkortostan-based	Alfa	Severstal	Interros
N of companies	5	5	4	5	5	5
N of companies with direct state ownership	1	3	4	0	0	0
Interlocks created by managers (%)[b]	93	60	100	70	100	46
stockholding directors (%)	7	7		30		46
government (%)		30				
other (%)		3				8
Total (N) of interlocks	15	30	10	20	22	13
Density (%) of ties based on all types of interlocks	70	100	100	100	80	50

Notes: [a] Letters identify groups shown in Figure 5.3.
[b] Includes both primary and induced interlocks.

Table 5.7. Measures of centralization and cohesion within groups (based on primary interlocks)[a]

Groups	**A**			**C**			**B**	
Gazprom-led			**Tatarstan-based**			**Bashkortostan-based**		
Firms	**Out-degree**	**In-degree**	**Firms**	**Out-degree**	**In-degree**	**Firms**	**Out degree**	**In-degree**
1. oil & gas	4	0	1. oil	4	1	1. oil	3	2
2. chemical 1	1	1	2. chemical 1	1	1	2. energy	2	1
3. chemical 2	0	2	3. chemical 2	1	1	3. chemical	1	1
4. bank 1	0	1	4. bank 1	0	4	4. bank	0	2
5. bank 2	0	1	5. bank 2	2	1			
Mean	1	1	**Mean**	1.6	1.6	**Mean**	1.5	1.5
Variance	2.4	0.4	**Variance**	1.8	1.4	**Variance**	1.2	0.2

Note: [a] Continues on next page

Table 5.7 (Cont.). Measures of centralization and cohesion within groups (based on primary interlocks).

Groups F			D			E		
Severstal			**Alfa**			**Interros**		
Firms	**Out-degree**	**In-degree**	**Firms**	**Out-degree**	**In-degree**	**Firms**	**Out-degree**	**In-degree**
1. ferrous metallurgy	4	0	1. oil	4	1	1. non-ferr metallurgy	4	0
2. machinery 1	0	1	2. non-ferr metallurgy	2	1	2. bank 1	1	1
3. coal	0	1	3. bank	1	1	3. ferrous metallurgy	0	1
4. machinery 2	0	1	4. oil 2	0	3	4. bank 2	0	2
5. ferrous metallurgy	0	1	5. oil 3	0	1	5. machinery	0	1
Mean	0.8	0.8	**Mean**	1.4	1.4	**Mean**	1	1
Variance	2.6	0.2	**Variance**	2.2	0.6	**Variance**	2.4	0.4

As Table 5.6 demonstrates, the same types of multiple directors identified in the full network, were also found in these groups: top managers, stockholding directors, and government officials. Yet the managers' position was especially pronounced in these groups: managers carried from 46 to 100 percent of interlocks. For comparison, they constituted 48.7 percent in the overall network (Table 5.3). In two privately owned groups, Alfa group (D) and the group (E) controlled by Holding Company Interros, ties created by managers overlapped with the ties formed by stockholding directors, i.e., individual dominant shareholders. In group F, all interlocks were carried by several top managers of Severstal, a metallurgical corporation that held controlling shareholdings in affiliated companies. The head and a dominant individual shareholder of group F was Severstal's chief executive, the only multiple director in his group involved in management of Severstal and an affiliated bank (since this was a single interlock, it is not displayed in Figure 5.3). The co-occurrence of interlocks created by the heads of the groups and top executive managers of the dominant company suggests that in all three privately owned groups, intense corporate interlocking coalesced with the stockholding relations.

This assertion, however, was only partially true when the state is considered an institutional investor with the controlling or dominant block of shares. Among the three groups with state shareholdings, only in the Tatarstan-based group (C) interlocks reflected the government stake in the constituent firms. There at least one government representative sat on each company's board, in much the same way that the dominant firms and their key shareholders in other groups supervised their stakes in subsidiary

firms.[14] In the other two groups with state shareholdings, namely groups A and B, the government appeared a passive investor as institutional stockholders have been in the United States. For example, in Gazprom-led group of companies, several government representatives were present on Gazprom's supervisory board. However, they held no seats on boards of firms where Gazprom was a dominant shareholder. This suggests that at the time, the Gazprom-led group was governed in the same manner as the entirely private groups, with the government a passive investor.

Collectively, multiple directors created a cohesive web of relations within each group: all possible inter-firm ties were observed in three of the six groups. Table 5.6 reports the density equal to 100 percent in groups B, C, and D while in the remaining three groups it varied from 50 to 70 percent. To assess the concentration and direction of control in these groups, I focused on the strong ties reinforced by at least one primary interlock (as displayed by solid arrows on Figure 5.3). Table 5.7 contains measures of centrality allowing one to examine and compare patterns within and across groups. The measurements clearly show that individual firms were highly unequal in their positions within these groups. For example, in every group, without exception, the top management of only one firm was present on boards of every firm (the outdegree was equal to the number of firms in the group minus one). These leading firms, however, had either no managers from other companies on their board (the firm's indegree was equal to zero), or managers from one-two companies (Groups C, B, and D). Indeed, the average number of firms one was connected to (the mean out/indegrees) varied from just below 1 to 1.6.

In fact, Table 5.7 records a classic hierarchical pattern: the structure of governance in all groups, except group C based in Tatarstan, registered a large difference

[14] This cluster is examined in detail in Chapter VI.

between the variance of outdegree and indegree; that is, between the tendency of a single dominant firm to send directors to all other member-companies, and the tendency for the rest of the group to primarily receive outside executives on their boards (a star-like pattern). A key point in support of this conclusion is that no reciprocal strong ties were found within groups except for only two instances of single reciprocal interlocks (in Groups B and D, see arrows in Figure 5.3). The analysis of the three privately-owned groups and the Gazprom-led group demonstrated enough similarities in their corporate governance structure, to speak of a private (potentially familial) type of concentrated control through ownership, which has arisen from and relied on professional managerial teams to maintain the hierarchical structure of governance within groups. Such an amalgamation of personal ownership and executive power in the organization of corporate control has been more common historically in the industrial economies than cross stockholding-based groups without many interlocks found in Japan. The hierarchical governance structure involving holding companies is not an unusual case either (see Windolf 2002: 94).

5. State Ownership

As was reported earlier, the federal government officials constituted a noticeable group among the interlocking directors but did not participate in the governance of the six largest groups. It also became clear that state ownership underlied the participation of government in the network of director interlocks. Yet, as stated in proposition 5a, the level of government shareholdings would have to be higher in the largest Russian companies than was found in the major European economies to suggest that formal state

ownership was in fact a distinguishing characteristic of the Russian corporate system.

In my selection of the largest 100 industrial companies, the federal or regional government had a majority ownership in only 18 firms (12 non-financial corporations and six banks). In addition, there were 12 firms in which the federal or regional government was a dominant shareholder – owning between 20 and 50 percent of the voting stock.

Table 5.8. State ownership of the top 150 companies in Russia by industry, 2001

Industries	A dominant shareholder [a] (N of companies)	A majority shareholder [b] (N)	Total N of companies
Machinery	5	2	18
Chemical	3	2	17
Oil and Gas	2	3	13
Coal Industry	-	2	5
Energy (electric)	1	1	4
Ferrous Metallurgy	-	-	16
Non-ferrous Metallurgy	-	-	6
Precious metals and diamonds	-	1	1
Forest and paper products	-	-	7
Tobacco	-	-	4
Food and Beverages	-	-	4
Transport	-	1	2
Communications	-	-	3
Finance (banks)	1	6	50
Total	12	18	150

Notes: [a] The federal and/or regional state was considered a dominant shareholder if its share fell between 20 and 50 percent of the voting stock (adopted from Pedersen and Thomsen (1997: 765)).

[b] The federal and/or regional state was considered a majority shareholder if its share exceeded 50 percent of the voting stock (Pedersen and Thomsen 1997:765).

Figures in Table 5.8 indicate that by 2001 state ownership in the industry had already declined to a level comparable to government ownership in major western European countries. For example, Pedersen and Thomsen (1997:768) reported that among the 100 largest non-financial companies (by sales), the national (federal and/or local) state held majority ownership in 10 German corporations, 22 French, and 29 Italian companies. In 1990 these companies accounted for 8.8, 36.4, and 37.9 percent of total turnover in each of these countries respectively (Pedersen and Thomsen 1997:768), compared to 21.4 percent for the state-owned firms in Russia.[15]

Moreover, the Russian state majority control was concentrated in energy-related sectors and transportation (seven of 12 non-financials), a pattern also consistent with the ones observed in Germany, France, and Italy.[16] Thus, by 2001 Russia no longer was in "quite a different league of state ownership from other advanced capitalist countries," as earlier research had found (Lane 2000:489). This pattern does not support the prevalent view expressed in proposition 5a that at the end of the 1990s state ownership defined the Russian industrial sector. Instead, the data confirmed that the implementation of the neoliberal approach through privatization of large industrial conglomerates had drastically reduced state ownership in Russia to the level found in modern industrialized economies.

[15] Based on the 2001 sales data for the first 100 firms in the Top 200 Rating (Expert 2002).

[16] See Pedersen and Thomsen (1997:770).

6. Centralization

Fitting the conventional model of Bonacich power centrality (1987) to the full network did not yield empirically meaningful results.[17] This was the first indicator that the network was likely decentralized. Given the finding of the hierarchically distributed strong ties in several groups (Figure 5.3), the non-traditional approach was applied next to capture a system-wide dynamic of multiple, localized spheres of corporate control. In the graph-theoretic terms, the local structure of hierarchical relations rather than the position in the global network gave power to the node located at the center of the "star" structure (Bonacich 1987:1171; Wasserman and Faust 1994:171). The localized power model produced empirically meaningful estimates of centrality. Table 5.9 contains a list of the most interlocked companies which primarily consisted of the dominant firms in the six largest groups.

The most central companies indeed maintained a considerable number of connections. The top five were involved in 32 percent of all interlocks and the top nine together created almost 50 percent of all interlocks (Table 5.9, column 5). Applied by Mizruchi (1982:141-2) in his analysis of U.S. networks, this measure showed that the inequality in the distribution of interlocking among the largest U.S. corporations declined over 70 years (1904-1974). Of special importance here is that even in 1904, at the beginning of the 20th century – a point in U.S. corporate history often compared to the rising power of Russian corporations in the 1990s – U.S. network had been already 10 percent less concentrated at the top than the Russian network in 2001.

[17] The traditional model resulted in all members of Tatarstan-based and Gazprom-led groups identified as the most central companies in the network. Details of both analyses can be obtained from the author.

Table 5.9. Most Influential Corporations in Russia, 2001

Industry	Company's name	Power Centrality score[a]	Ranking in N of interlocks	Nodal Degree Centrality	Cumulative percent of all interlocks	Group Affiliation
Gas	Gazprom	1.00	1	14	7.5	Gazprom-led
Ferrous metals	Severstal	0.86	2	6	14.0	Severstal
Oil	Rosneft	0.72	2	10	20.4	100% state owned
Oil	Tatneft	0.67	2	5	26.8	Tatarstan-based
Oil	TNK	0.58	4	4	31.7	Alfa
Banking	Rosbank	0.50	7	6	35.5	Interros/NN
Non-ferrous metals	Norilsk Nikel	0.50	7	4	39.2	Interros/NN
Oil	LUKoil	0.50	6	10	43.4	LUKoil
Oil	Sidanko	0.49	5	4	47.9	Alfa

Note: [a] The reported values were calculated in the 'non-traditional' Bonacich power centrality analysis and then scaled so that the largest score would take a value of 1.00.

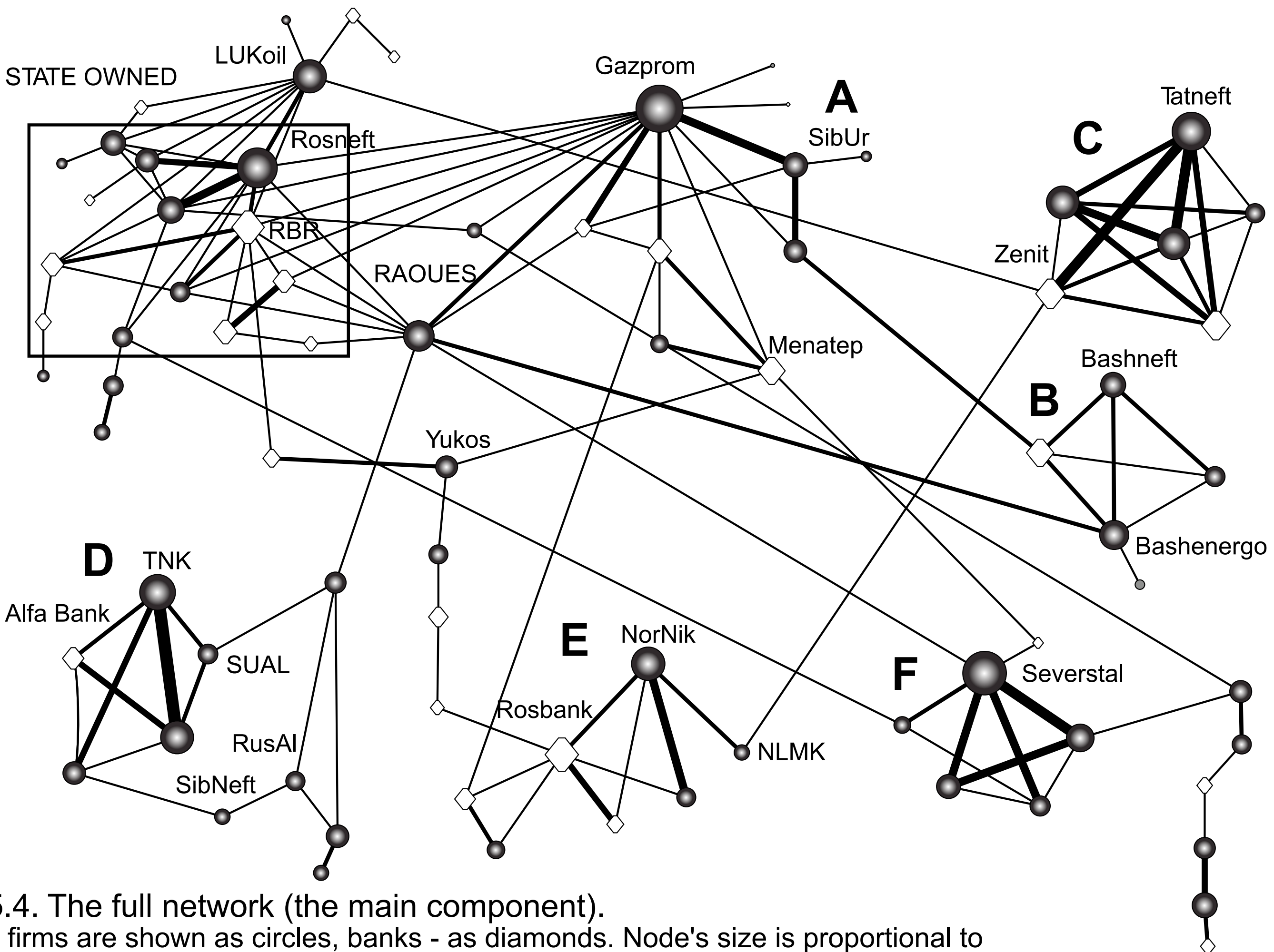


Figure 5.4. The full network (the main component).
Industrial firms are shown as circles, banks - as diamonds. Node's size is proportional to the Bonacich centrality score. Width of the lines corresponds to N of all interlocks per tie.

The results of the "non-traditional" Bonacich power centrality analysis are presented in a network graph of the main component where the size of each node is proportional to each firm's centrality coefficient. Figure 5.4 demonstrates that the companies dominant in their respective domains were not directly connected and were in fact "located" far from each other. Thus despite the evidence of concentrated corporate control, the most central companies could not be considered as constituting the center of the entire network as was found in other countries. This confirmed proposition 6a that a decentralized distribution of power distinguished the intercorporate network in Russia.

Among the most connected firms there were non-financial corporations in the gas, oil, and metallurgical industries, each strongly connected to a bank(s) of its own. The one bank that appeared among the most central firms was also a member of the group dominated by the oil and aluminum corporations. This network-wide analysis provided strong evidence for proposition 6b that financial capital in the Russian economy was generated and controlled by companies involved in the natural resource extraction and export.

Only one company fully owned by the state was among the most central firms in Table 5.9. Government-induced interlocks tied 14 non-financial firms and four banks in their own cluster: it appears in the left upper corner of Figure 5.4. The ties emanating from this cluster were limited to the three energy corporations with some state participation: Gazprom, RAO United Energy System, and the oil company LUKoil. In addition to government-created interlocks, each of these three giant corporations established its own sphere of influence through the managerial interlocks with the companies they controlled. Such pattern showed no evidence of a government attempt to

control or coordinate behavior among the firms in which it had an interest. As I have already shown, none of the major groups in the economy were impacted by the federal government directors, and there was almost no tendency for the 14 industrial conglomerates and four major banks in the government portfolio to be connected as a group through managerial interlocks.

In fact, the Russian state, another potentially centralizing actor, appears to have been similar, but even less obtrusive than the governments of other European countries. In Italy, for example, government officials were found to tie together the companies where the state was a prominent shareholder, which resulted in a bifocal network structure formed by two partially overlapping clusters of state-owned and private companies (Chiesi 1985:204). In Austria, however, the main three state-controlled companies did not have direct interlocks among themselves (Ziegler et al. 1985:81). Nevertheless, they were extensively connected in the Austrian network through their ties with several, centrally-positioned banks. A third configuration was found in Finland, where companies and banks controlled by the state were neither interlocked among themselves nor centrally positioned in the network (Heiskanen and Johanson 1985).

In the Russian context, the clustering of the state-owned firms due to government-induced interlocks provides evidence to support proposition 5b: the structure of state representation on boards of major companies and banks in 2001 did not reveal that the federal government had pursued a form of centralized control in its relations with privately-controlled big business. In sum, the corporate system showed both common and distinct characteristics such as a strong tendency toward concentration of power by the

leading non-financial corporations; nevertheless, the overall system remained relatively decentralized.

Discussion

The comparative structural analysis of the Russian intercorporate network has revealed a system of corporate governance with distinct as well as common features. In contrast to wide participation of both executive and non-executive directors in intercorporate communication and coordination[18], the non-executive ties were practically absent in the Russian network. This factor not only accounted for the relatively low absolute number of interlocks and sparseness of the network, but also, and most importantly, led to the profound differences in the position of the most connected companies in the overall network. In the hegemonic system found in the U.S. and Germany, banks – through other financial corporations or by themselves – were connected with different regional and stockholding-based clusters of industrial companies. The holding system in France also centered around several of the largest investment banks which became the hubs that linked numerous companies ("ensembles") via overlapping, extensive webs of interlocks and cross-shareholdings into a single network (Scott 1997:157-166). That was not the case in Russia. The dominance of oil and other export-oriented corporations – as opposed to banks – in Russia did not result in the sort of network-wide domination observed in other capitalist economies.

On the other hand, top executive officers of Russian companies formed a primary network whose density was comparable to such networks in the established business

[18] In his state-of-the-field article "What do Interlocks Do?" Mizruchi (1996:284) noted that although interlocks could be formed for various reasons, they primarily facilitate communication in the US business sector rather than serve as the mechanisms of direct control.

systems. Some companies created "strong ties" by sending several executives to serve on the board of other, smaller companies as well as banks. Although not numerous, these strong ties correlated with the patterns of stockholding, which is consistent with the forms of corporate governance common to holding companies elsewhere. Nevertheless, even the more familiar aspect of the Russian network had its unfamiliar aspects. The structural analysis of the strong-tie networks revealed non-overlapping groups integrated via stockholdings and interlocking directorates. These distinct business groups differed from the most similar structure elsewhere, the modern Japanese business groups. Russian business groups had a relatively small scope, including only four to six companies as compared to as many as 25 in the Japanese groups. The Russian groups had a hierarchical form in which the controlling shareholder(s) owned stock in the dominant company, which in turn held shares in other, subordinate companies. Personal involvement of the key shareholders and top executive managers in corporate governance of each firm facilitated tight coordination in a hierarchically structured system of corporate control. In contrast, in Japan, cross-holding of equal-sized large shareholdings is an essential part of in-group corporate control, sustained by means other than intense interlocking (Gerlach 1992a,b).

The shape of the structural ties in the Russian network can be explained by the stockholding relations among the Russian companies; but the absence of an extensive communication network is less understandable. This is illustrated by a recent study of the stockholding network among the largest corporations in Germany; the relationships were traced by a low-density network, consisting of almost discrete clusters. But these clusters were connected to each other by extensive ownership chains (Kogut and Walker 2001).

The absence of such chains *between* groups of companies in Russia is clearly an outcome of the recent drastic changes in their governance – the outcome that needs to be explained.

The sociological approach to corporate development in the U.S. underscores its historically contingent, socially constructed, and multifaceted political dynamics (Campbell and Lindberg 1990; Domhoff 1996; Fligstein 1990; Mintz and Schwartz 1985; Perrow 2002; Prechel 2001; Roy 1997; Useem 1984; Zeitlin 1989). In a national system open to strong international pressures, as was the case of the Russian economy at the end of the 20th century, the process of corporate change can be "path generating" (Djelic and Quack 2007). In Russia it has involved the conjuncture of the following processes: the adoption of the corporate form to replace the soviet system of management, the ascendance of the neoliberal economic approach to state regulation, and the global dominance of the U.S. model of corporate governance. These factors interacted with the unique industrial base to set the development of intercorporate relations in Russia on a novel route. A key element in this equation was the time needed to build an institutional environment conducive to adoption of the globally dominant, US corporate model of governance. In the interim, the lack of state regulation of intercorporate ownership combined with the misfiring of the bankruptcy legislation to give impetus to the emergence of concentrated ownership. With the government support for the creation of large, preferably transnational corporations yet controlled by the domestic elite, some managers-turned-owners of large corporations took advantage of the newly available corporate form to turn their companies into groups that operated as viable (often global) financial entities. These groups, in effect, became self-financing, survived the August

1998 financial crush, and gained momentum by utilizing the corporate form to expand while shifting Russian financial firms to the periphery of the interlock network.

It is notable that large American corporation itself has undergone parallel structural changes in its organization. The financialization of its capital-generating activities has lessened dependence on financial firms and reduced the centrality of banks in the US network.[19] Thus, I would argue, the centrality of the export-oriented gas, oil and metallurgical companies in Russia reflects their capacity to accumulate capital globally, enhanced by the corporate form they developed that allows them to exploit neoliberal globalization. In other words, these developments cannot be simply attributed to the legacies of the soviet system of industrial organization and finance or to the contextual factors of the 1990s such as high export prices, corruption, and domestic financial crisis.

The empirical findings of the study imply that in 2001 interlocking directorates in Russia were used as a key mechanism of corporate control. The absence of non-primary interlocks, which are prevalent in other systems, left the network fragmented, with tightly knit groups that had limited influence on the network a whole. Stated bluntly, the structure meant that the concentration of power in Russia did not approach the levels observed in West European and North American countries (also noted in the 2004 World Bank Report). At the same time, the location of natural-resource-extracting corporations at the core of the largest groups combined with the absence of the overarching integration strongly implies that there is virtually no effective check on self-aggrandizing activities of these groups. This validates the concerns expressed by prominent Russian researchers

---

[19] On the increase in the financial activities of US industrial corporations, see Krippner (2005) and Mizruchi et al. (2006).

(Kagarlitsky 2002; Menshikov 2004) that the national economy could be held captive by specific sectors and/or limited in its integration into the global economy.

Chapter VI

A Case-Study of State-Led Neoliberalism: Privatization and Corporate Reform in Tatarstan[1]

From a historical perspective, the joint-stock corporation – as a central institution of modern capitalism – has been the focal point of complex relationships of ownership and control. The question of who controls large corporations and how the organization of control affects private and public interests has been a central concern in the literature. Since the 1990s discussions on corporate governance have been centred on a shift from concentrated systems of corporate control (German and Japanese models) to a market- and shareholder-centric model (the Anglo-American model) (Crouch and Streeck 1997; Soederberg *et al.* 2005; Overbeek *et al.* 2007). This has been the case in many countries in the world, including those of East Central Europe (Vliegenthart and Overbeek 2007).

In Russia, as in other post-state-socialist countries, corporate reforms were extensive in scope and implemented with the assistance of the international financial institutions, private foreign investors, and American legal and business specialists. These reforms gave rise to a so-called "oligarchy" model, one which was organized differently from both the Anglo-Saxon model of shareholding and the German and Japanese models of concentrated corporate control. The oligarchy model presents a form of corporate

[1] This chapter was published under the title "Privatization and Corporate Reforms in Post-Soviet Tatarstan" in Yildiz Atasoy (Ed.) *World Hegemonic Transformations, the State and Crisis in Neoliberalism*. London & New York: Routledge. 2008.

governance established through political ties of private business with state bureaucrats (Gourevitch and Shinn 2005). It has often been viewed as an outcome of the opportunism and greed that flourished among elites during the dissolution of the Soviet system. This chapter investigates the process of restructuring ownership and control in some of the largest Soviet industrial conglomerates in the 1990s. The empirical foundation consists of original data collection and analysis carried out within the framework of social network studies of economic power in the largest financial and industrial companies (Mintz and Schwartz 1985; Stokman *et al.* 1985; Carroll 1986). By conducting an in-depth structural analysis of previously unexamined data, I aim to substantiate an argument that goes beyond explanations of the Russian transformation in terms of oligarchic corporate formations.

My empirical account focuses on Tatarstan, one of the most powerful regions in the Russian Federation. While Tatarstan President Mintimer Shaimiev's ability to strengthen the Tatarstan government vis-à-vis Moscow and other states has received a fair amount of scholarly attention (Matsuzato 2001, 2004), the dynamics of corporate reform carried out by Tatarstan elites have not. By focusing on a complex route taken by regional elites, I show that economic restructuring in Tatarstan has neither led to the institutionalisation of the dominant Anglo-Saxon model of corporate governance nor challenged global market expansion.[2] Instead, it resulted in a specific form of concentrated corporate control.

---

[2] One study available in English examined Tatarstan's economic development in the 1990s but found little evidence of globalization's impact on the region (McCann 2005). My analysis differs from McCann's study in several aspects: I focus specifically on changes in the formal corporate organization, use different data and a different analytical approach. For example, McCann considered the lack of convergence with the dominant western models as the evidence of globalization having no impact on Tatarstan. I argue that globalization's impact is evident in the process of corporate change rather than strictly in the convergence of outcomes.

In his analysis of the rise of a market economy in the nineteenth century, Polanyi identified two constitutive principles: (1) market expansion through laissez-faire and free trade policies that had devastating effects on people's welfare, natural resources, and even the capitalist organization of production itself, and (2) a social-protective response against market expansion in order to protect society and the economy through state policies (2001: 138). The latter was not an ideological protest against market economic principles; rather, it was a pragmatic approach to solving concrete problems by various regulations, protective legislation and other forms of intervention (Polanyi 2001: 153). In the contemporary context, the same dynamics have been identified by Fred Block's (2007) analysis of the US economy. From what he calls a neo-Polanyian perspective, Block demonstrated that even the US government has never fully adhered to the "market fundamentalism" it preached to other countries.

As Block (2007) pointed out, Polanyi's key thesis emphasized that markets are impossible without government involvement in one form (legislation) or another (repression). This thesis undermines the conventional argument that Russian reforms, despite their radical implementation, did not produce sufficient separation between the government and business, and therefore the reforms were improperly carried out (World Bank 2004). By drawing on Polanyi's analysis, I argue that market reforms in Russia were not about separating politics and the economy; they were about reconstituting the relationship between the government and industry leaders on the new terms and conditions created by the Russian economy's shift towards privatization and corporate market reforms. I analyze this by focusing on the rise of a specific form of concentrated corporate control in post-Soviet Tatarstan.

The institution of the corporation and models of corporate control

The institution of the large corporation occupies a central place in the history of industrial capitalism in general, and in the neoliberal development project in particular. It is a key institution shaping society's power structures: the corporation enables concentration of wealth, provides employment for millions of people, and thus shapes and is shaped by the political power and social structure of capitalist society (Scott 1997; Roy 1997; Perrow 2002; Prechel 2000).

Historically, ownership of large corporations has varied along a continuum between dispersed shareholding and a concentrated (blockholding[3]) structure. In the second half of the twentieth century, the concentrated blockholder model emerged as a dominant form in continental western European capitalism, in countries with traditions of civil law and a stronger state role in the economy (Scott 1997). Concentrated ownership has also been part of state-led industrialization in East Asian countries. The concentrated blockholding ownership has supported a "stakeholder" model of corporate governance that attempts to balance the interests of different groups such as creditors (including shareholders), labour, and the state. Germany is considered one of the prime examples of the stakeholder approach with formal representation of employees on company boards (Streeck 1997; Vitols 2001; Menz 2005). According to the principle of "co-determination," one half of board seats were allocated to the representatives of labour and the other half to large shareholders. The largest banks have traditionally held large stakes

[3] A blockholder is an individual, family, or an institution that owns a significantly larger amount of shares than other shareholders and whose voting rights exceed those of others. The precise percentage that constitutes a blockholder varies relative to the overall concentration of ownership. It is usually considered to be at least 10 per cent and as much as 40 per cent or more to speak of a blockholding structure of governance.

in industrial companies and dominated the German economy.

Another prominent example of concentrated blockholding ownership is found in modern Japanese business groups. Here the inter-corporate ties between companies and banks are sustained via cross-ownership when companies mutually hold blocks of shares in other companies within their group (Gerlach 1992). This arrangement is associated with long-term investment, a low incidence of hostile takeovers, and life-long employment in Japan compared to the more volatile US environment of short-term credit, low employment protection, and hostile takeovers. Despite a competitive edge, economic growth, and the stability achieved by German and Japanese corporations, by the late 1980s blockholding models in general lost their ideological credence to the Anglo-Saxon dispersed shareholding model.

Dispersed ownership historically emerged in countries with an emphasis on a weak state, the common law tradition, and market mechanisms for corporate control (Scott 1997). Found in the UK and USA, dispersed shareholding is associated with a shareholder-value model – an approach to corporate decision-making that emphasizes shareholders' interests above all. With the shift to the neoliberal form of global capitalism, the shareholder-centred model became the dominant form promoted among advanced capitalist countries (Soederberg 2004).

The end of the Cold War coincided with the institutionalisation of a market-centred model of economic development in the state-socialist countries of Eastern Europe. It specifically aimed to reduce the regulatory role of the state in the economy. Contrary to the reformers' expectations, however, a reduction in state power and corporate reforms in Russia and East Central Europe did not lead to the development of a

model similar to either the German, Japanese, or Anglo-American model (Sher 2008; Vliegenthart and Overbeek 2007). The emergent model was based on concentrated ownership but without stakeholder representation and bank ownership of industrial firms.

The post-state-socialist context

As an essential part of systemic change from state socialism to market capitalism, the implementation of corporate reform in Russia did not proceed in an ideological and institutional vacuum. Large-scale industrial production was a foundation of the Soviet economy and urban development in the Russian regions (Kagarlitsky 2002). Geared towards maximization of output, rather than profit, Soviet enterprise management was based on production targets negotiated between the party bureaucracy and enterprise managers, while the latter directly supervised meeting these targets by workers (Mandel 2004). This organization of the economy relied on a hierarchical structure of authority and rewards, and subjected labour to party-bureaucratic discipline. As Mandel has argued, Soviet workers had "no control over the wealth they produced nor any real say in the organization and goals of production" (2004: 8-9). As part of the enterprise administration, labour unions worked with management to ensure that production targets were met, and dealt primarily with workers' concerns in areas such as safety standards and distribution of consumer goods, housing, etc. (ibid).

The systemic changes of the 1990s have altered the organization of ownership and control in the large industrial enterprises in Russia. In the early 1990s the Russian federal government, led by Yegor Gaidar, implemented the standard neoliberal package of reforms, which included financial and trade-related liberalization as well as large-scale

privatization. Western governments, economists, legal specialists, and investors offered their advice, endorsement, and technical/financial assistance (Åslund 2001). In addition to the vast amounts of capital loaned by international financial institutions steering domestic policy negotiations (Nesvetailova 2005), American legal scholars in fact wrote the new Russian corporate laws with the aim of replacing the Soviet system of industrial organization (Black and Kraakman 1996).

In order to understand how these corporate reforms worked out in Russia, I have analyzed the formation and structure of governance among the largest 100 industrial companies and largest 50 banks in Russia. In the framework of structural research on intercorporate relations in capitalist economies, I examined inter-firm networks formed by interlocking directorates – a mechanism of corporate governance established by directors holding seats on two or more companies' boards (Mintz and Schwartz 1985; Stokman *et al.* 1985; Carroll 1986). Based on a comprehensive cross-national analysis, I found that in Russia as elsewhere, directors and managers of large industrial firms and banks created a network of social relations to manage capital relations and information flows.[4] Unlike the bank-dominated, extensive intercorporate networks in Germany or Japan, the emergent network in Russia was decentralized and fragmented into relatively small clusters (four to six firms) formed around each of the largest oil and other natural resource extracting and export-oriented companies. One of these clusters was centred on an oil company located in Tatarstan, and became the subject of the present empirical analysis. The cluster was isolated from all the companies outside Tatarstan (except for one interlock) and controlled by the regional government and managerial elites. This finding suggested that a specific Russian form of corporate ownership is emerging. This

[4] See Chapter V.

form brought several companies and banks under the same corporate leadership and succeeded, as in the case of Tatarstan-based companies, in protecting them from outsider corporate raiders.

Cross-national studies of corporate systems by Scott (1997) and, more recently, Gourevitch and Shinn (2005: 190-2) have included short accounts of the Russian corporate organization, which they see as an example of the "oligarchy model." Although it is usually associated with the onset of industrialization, in the Russian case this model emerged in the context of a state-socialist industrial economy undergoing privatization. These authors' analysis of the Russian case underscores that the new capital owners not only managed to control the largest companies but also wielded substantial political influence over the federal government. The formative process is self-explanatory: "a handful of oligarchs (many former apparatchiki) with access to political power obtained assets cheaply in the great wave of 'privatization' under Yeltsin and then Putin" (Gourevitch and Shinn 2005: 190). In more formal terms, the rise of the blockholder model of corporate governance in Russia has been attributed to weak democracy combined with the political power and greed of managerial and political elites.

Without disputing the crucial role of elites and weak democratic institutions in the formation of the new corporate structures, I argue that it is an oversimplification to attribute the rise of a new form of concentrated corporate control in Russia to the elites' greed and opportunity. This process was part of the larger social transformation to a market-based economy during which the government and industry elites were forced to adopt new forms of ownership and control *and* had to deal with larger issues affecting the Russian society as a whole. Specifically, they faced the challenges presented by the old

regime's disintegration, and the immiseration of the working class, the new principles of corporate control, and the imperatives of the current global environment at the same time. These dynamics, I argue, accompanied the shift to a market-centric development captured in Polanyi's (2001) notion of the "double movement."

Tatarstan elites and the challenges of transformation

Tatarstan is a region within the Russian Federation, where regional elites succeeded in building a powerful semi-autonomous state (Graney 2001).[5] It presents a unique analytical opportunity to examine how ex-communist party officials and industrial-management elites approached corporate reform independent of Russia; and how they built a regionally based state-business relationship in implementing market reforms.

An integral part of the Soviet Union's economy, the Tatarstan region was industrialized in a balanced way: it had petro- and chemical industries utilizing Tatarstan's natural resources (especially oil reserves) as well as manufacturers of heavy duty trucks, aircraft, and mechanical-engineering equipment. In 1990, prior to market reforms, energy- and chemical-related enterprises accounted for 40 per cent of Tatarstan's industrial output while the machine building industry accounted for another 40 per cent (Khakimov 1999a cited in McCann 2005: 20). By 2003 the energy- and chemical-related industries accounted for almost 60 per cent of the region's industrial output while machine building enterprises contributed 25 per cent (Tatarstan government

[5] Although the region's name Tatarstan ends in '-stan', etymologically evoking a notion of a sovereign country, it is located in the European part of Russia, about a two-hour flight to the east of Moscow. According to the 2002 Census, 3.8 million people resided in Tatarstan, which was comparable to the population of such small sovereign states as the Republic of Ireland and Lithuania.

2004). Oil exports (primarily to Europe) accounted for 63 per cent of all Tatarstan exports in 2001, while 67 per cent of imports consisted of industrial machinery and vehicles. Thus the economic restructuring of the 1990s transformed the regional economy: it became increasingly dependent on oil and chemical-related enterprises.

Although regional elites have had a weak position in the political hierarchy of both the Soviet Union and post-Soviet Russia, some regional leaders, most notably Tatarstan President Mintimer Shaimiev, have gained considerable political influence in Moscow (Matsuzato 2001). Since the late 1980s, Shaimiev, a former leader of the Tatarstan communist party, vigorously lobbied former Presidents Mikhail Gorbachev and Boris Yeltsin for special autonomous status for Tatarstan within the Russian Federation (ibid.). This was achieved in 1994 with the signing of a power-sharing treaty between Tatarstan and Russia. In 1991, Yegor Gaidar, head of the federal government, began implementing economic "shock therapy," starting with price liberalization, the elimination of centrally planned production targets and capital investment, and mass privatization. President Shaimiev did not disagree with Gaidar's market-centric approach to reform but he advocated special policies for Tatarstan: "Even though I did not accept the shock therapy method as a policy suitable for Tatarstan, I always supported Gaidar's decisions. We took a less costly route but we also tried to use the positive factors of radical economic reform" (Shaimiev 1999, my translation). Economic restructuring presented regional elites (both state bureaucrats and enterprise managers) with an opportunity to gain autonomy from the federal government. Nevertheless, a perception of the market as a formidable threat to the autonomy of Tatarstan has also remained central to President Shaimiev's attitude towards global economic expansion. In the aftermath of

the 1998 financial crisis, he emphasized that Tatarstan companies' struggle to gain access to foreign markets was tantamount to a struggle for one's life (Shaimiev 1999). In 2007 he described the impending WTO membership, which was to increase the region's largest companies' exposure to global competition, as finally "going to war" for the survival of Tatarstan as an autonomous region (Shaimiev 2007).

With mass privatization outside its control, the Tatarstan government could not predict whether the new ownership structure would take the form of dispersed or concentrated control by outside owners, and how this change would affect Tatarstan's industry. The possibility of outside control was particularly troubling since it could conceivably impair Tatarstan's autonomy vis-à-vis the Russian federal government and Moscow business elite. After extensive negotiations, the 1994 power-sharing agreement named the Tatarstan government the legal owner of the oil, chemical and petrochemical industrial complexes located on its territory and granted it full authority over their privatization. Each of these enterprises was a major contributor to the regional and city budgets. Thus, their economic survival directly or indirectly affected urban residents, who constituted about 73 per cent of Tatarstan's population.

The 1994 agreement was an important political victory for President Shaimiev, allowing him to establish an autonomous property committee to carry out privatization in the region. It also allowed him to introduce a series of measures to reduce the uncertainty of the outcome by preventing the dispersion of shares and the appearance of an outsider-blockholder. Shaimiev achieved this goal by (1) making the Tatarstan government a large blockholder with approximately 30 per cent stakes in each of the largest companies, (2) granting the government the "golden share," i.e. the right to override board decisions,

and (3) modifying one of the two privatization plans (options) offered by the federal government to large enterprises. The first, more radical option, allocated to employees a minority fraction of non-voting and voting shares free of charge and at a discount respectively. Because Gaidar's team of reformers limited the amount of voting shares available to employees to ten per cent and to senior management – to five per cent, this option did not gain wide public support (Plekhanov 1995). In contrast, the second, more popular option, offered up to 51 per cent of voting shares to all employees, but without any discount. President Shaimiev increased popular support for the first option by decreeing that under this option, as many as 30 per cent of voting shares could be distributed to employees. As a result, all four major companies in Tatarstan were privatized according to the first option, offering a sizable (but not controlling) block of shares to workers. At the early privatization stage, this effectively led to a reduction of the fraction of shares potentially available to outsiders without handing over the control of the vital enterprises to employees. Once mass privatization began, more policies were introduced to closely monitor the public circulation of shares in Tatarstan.

Beginning in 1992, the federal government issued checks or "vouchers" to all citizens of the Russian Federation, including those residing in Tatarstan. Each voucher signified a citizen's entitlement to a share in the national wealth and was intended to be exchanged for several shares in large industrial companies or investment funds (Appel 2004). When privatization in Tatarstan began in 1994, President Shaimiev issued a decree restricting the exchange of vouchers in the key Tatarstan companies to residents of the republic. He feared that these companies might otherwise be taken over by outside businessmen from Moscow and other regions.

In the aftermath of mass privatization, the continuing decline in production and real wages made the option of selling shares to private investment firms increasingly appealing to workers and residents. In 1997 Shaimiev issued an order imposing a moratorium on the sale of shares that were obtained either in exchange for privatization vouchers or through discount purchase. This moratorium lasted until 2001 and applied only to individual shareholders who held stock in key industrial companies. Thus, workers-turned-shareholders had only one way to divest their stock – by selling it back to the company.

At the same time, Tatarstan government elites were determined to take advantage of global capital markets (but without losing the state-owned 30 per cent stockholding). The state still had the remaining shares that were not distributed during mass privatization. In fact, the remaining shares in the Tatneft Oil Company that were still formally owned by the Tatarstan government were marketed on a foreign stock exchange before any other large company in the Russian Federation. In December 1996, these shares were listed on the London Stock Exchange, followed by listing on the New York Stock Exchange in 1998. Moreover, the Tatneft Oil Company was also the first to obtain multi-million dollar loans without guarantees from the government – either that of Tatarstan or Russia (Tatneft Oil 1999).

The actual outcome of voucher privatization and special sales to employees was evident in the ownership structure of the Tatneft Oil Company (2003). As of May 2003, Tatneft Oil's employees, including management, held only 2.4 per cent of non-voting shares and 4.5 per cent of voting shares. Foreign investors held voting shares in the amount of 17 per cent of the Tatneft Oil Company's charter capital.

The dynamics of the “double movement” were evident in Shaimiev’s government’s decision to embrace the idea of privatization, but not without taking special measures to control the transition to a new structure of ownership and control. The shareholder model of corporate governance allowed Tatarstan’s elites to limit workers’ formal access to representation on company boards in accordance with their new status as shareholders; it provided no legal basis for the possibility of the co-determination principle of the German model. In response to the threat of outsider control under the conditions of an economic downturn, the government placed restrictions on the circulation of shares acquired by the public (workers and other residents) in these companies. The government allocated a blockholding to state ownership, while it prepared to list the companies’ shares on foreign stock exchanges. Thus, a historically weak position of labour vis-à-vis both management and the Soviet state was reproduced in the new structures of corporate power. Nevertheless, insider control did not prevent the access of Tatarstan’s companies to foreign stock markets. As Cai and Treisman (2004: 832) have argued, Shaimiev’s extensive lobbying to avoid federal taxes increased these export-oriented companies’ profitability and thus their attractiveness to foreign investors. In sum, concentrated control was the Tatarstan government’s response to the challenges of privatization and a new, market-oriented approach to corporate governance. But this response was consistent with the demands of the neoliberal transformation.

Intercorporate ownership and control

The federal privatization program intended to decentralize state control. As a result of its application in Tatarstan, the major four industrial companies were privatized

as separate entities, despite their technological interdependence. However, the Tatarstan government managed to create one of the few special situations in the Russian Federation, where the regional state remained the dominant shareholder with an approximately 30 per cent stake in each of three major industrial enterprises (that is, until 2002). Table 6.1 shows the state's stockholdings in the first row.

Table 6.1. Interlocking shareholdings (%) in the largest industrial and financial companies and banks of Tatarstan, 2001 (shareholders are listed in rows, and the companies where they owned shares in columns)

Companies	Tatneft Oil	Petrochem (NKNH)	Chemical (KOS)	Tire	Bank Bars	Bank Zenit	Invest firm 1	Invest firm 2 (TAIF)	Total N of firms
Tatarstan government	31.3	35.2	26.6	0.4	15.5		50	used to own 50	6
Tatneft Oil				34.6	10	51	13.1		4
Petrochemical (NKNH)							11		1
Chemical (KOS)							11		1
Tire							4.3		
Bank Bars									
Bank Zenit									
Investment firm 1		3	3.5	5.3					3
Investment firm 2 (TAIF)	5.2	10	5.2						3
Total N of firms	2	3	3	3	2	1	5	1	

Sources: Tatneft Oil (2001); NKNH (2001); KOS (2001); Tire (2001); Baranov and Yacheistov (2002).

During the 1990s the Tatarstan government transferred only one of its holdings (34 per cent) in tire manufacturing to the oil company. Two large banks – Bank Bars and

Bank Zenit – have been closely affiliated with the petrochemical industry of Tatarstan. These banks were relatively large in the context of the Russian Federation: in terms of their capital, Bank Bars and Bank Zenit ranked 19th and 26th respectively in 2001 (Expert 2002). The Tatarstan government and the Tatneft Oil Company held relatively large stakes in Bank Bars, while the government had indirect control of Bank Zenit via its stockholding in the Tatneft Oil Company. The latter remained one of the key institutional shareholders since the bank's inception in 1994. Nevertheless, as Table 6.1 shows, the government of Tatarstan did not allocate any significant stakes in the industrial companies to the two major banks. Instead, throughout the 1990s, the Tatarstan government and the Tatneft Oil Company remained the key shareholders in the region.

At the time of privatization, the government of Tatarstan had set up two investment companies (in Table 6.1, Investment firms 1 and 2). State-owned shares in the oil, chemical, petrochemical and tire companies were used to establish Investment Firm 1 in 1993.[6] The second holding, Investment firm 2 had a different ownership structure and a different trajectory. Named "Tatar-American Investments & Finance" or TAIF, it was set up as a joint venture between the Tatarstan government and a US registered firm (the name was undisclosed). Each side in the venture held a 50 per cent stake. Whereas TAIF became a minority shareholder in the oil, petrochemical and chemical companies, these companies themselves had no ownership stake in the firm.

Among individuals who were invited to manage the company on Tatarstan's side were the managers with ties to the Tatarstan government and the President's family (Shigabutdinov 2005). Through these personal ties, TAIF had a privileged access to

[6] The full name of this holding was Tatneftehiminvest.

export oil and benefited from differences between domestic and world oil prices. In addition to the profit made from oil sales, the firm also used Tatarstan state-granted tax relief for three years. As soon as the three years expired in 2001, TAIF changed its profile to operations with stock and bought out the state-held stake (thus divesting itself of state ownership). Subsequently, TAIF became the most prominent financial company in Tatarstan and began to transform government control of corporate capital in the region. I will discuss this as a key development later in the chapter.

The evidence presented so far suggests that the Tatarstan government proceeded to adjust to new corporate forms of control and a market economy by consolidating private ownership of industrial and financial firms. The government, however, did not allow banks to own large stakes in major companies, which would lead to cross-ownership. As I explained in the section on corporate models, stable corporate groups, most notably those found in Japan, tend to be based on ownership of large blocks of shares mutually held by industrial companies and banks (Gerlach 1992). The mutual holding of equity protects the companies from hostile takeovers and thus creates a more favourable environment for long-term investment and redistribution of capital within the corporate group (ibid.). Both stability and financial monitoring within the systems of concentrated corporate control are realized by granting bankers membership on major companies' boards (Stokman *et al.* 1985). The absence of bankers on the industrial boards in Tatarstan may be explained by the fact that while industrial companies generated capital from their exports, they drew credit primarily from foreign banks which were not permitted to own a large amount of company shares.

Despite the volatile economic environment and widespread hostile takeovers in Russia, neither cross-ownership nor bank ownership of industrial companies were established by the Tatarstan government. Instead, a distinct arrangement between top government officials and industrial managers – Tatarstan's "power elites" (Domhoff 1996) – characterized the boards of principal industrial enterprises (Table 6.2). Some top industry managers and high ranking government officials held two to four board memberships, allowing them to coordinate the strategic decisions of regional industrial giants and large banks.[7]

Table 6.2. Supervisory Board composition (%) by directors' primary employment, 2001

Board members		Companies					
		Tatneft Oil	Petro-chemical (NKNH)	Chemical (KOS)	Tire Company	Bank Bars	Bank Zenit
Tatarstan government		26.7	23.5	**38.5**	15.4	**50.0**	6.7
Managers of the company		**46.7**	**35.3**	**38.5**	15.4	11.1	6.7
Managers of other firms in Tatarstan	Banks	13.3		11.1			
	Industr.	6.7	5.9		**53.8**	16.7	26.6
	TAIF		11.8	7.7	7.7	5.6	
	Other	6.7	11.8	7.7	7.7		
Outside of Tatarstan			11.8	7.7		5.6	**60.0**
Total N of directors		15	17	13	13	18	15

Sources: Tatneft Oil (2001); NKNH (2001); KOS (2001); Tire (2001); Baranov and Yacheistov (2002).

[7] The institutional reform included an adoption of a two-tier system with the supervisory and the executive board. The latter became occupied by top managers, an arrangement closely resembling the soviet managerial board, which used to make operational decisions in enterprises. Since strategic planning decisions were made at the level of government industrial ministries, the supervisory board as such did not exist in the soviet enterprise.

For example, a special arrangement was made in 1997 between the Tatneft Oil Company, whose shares were sold on foreign stock exchanges, and the petrochemical company of Tatarstan: Tatneft Oil was to supply about 30 percent of its oil production at a low price without prepayment to the petrochemical, and in turn would receive (through barter) higher-priced petrochemical products. Even though this arrangement negatively affected Tatneft Oil's profitability, this action allowed the government to support the struggling petrochemical industry in Tatarstan.[8] Also, in 2001 the government reached an agreement to build the first oil refinery in Tatarstan, a major industrial project jointly financed by Tatneft Oil (with 63 percent of shares) and petrochemical companies (with 25 percent of shares).

This concentration of control by elites in the absence of cross-holding ownership ties rendered two of the four largest industrial companies – the chemical and petrochemical companies – open to a major change in their structures of control in the 2000s. In other words, President Shaimiev's careful embrace of the market principles led to significant government control of the economy, but it was based on an ownership structure open to further transformations. These transformations, however, did not come from outsiders as the World Bank had predicted (Gray 1996). Rather, they arose from the insider power elites.

[8] It was understood as a temporary arrangement during the demonetization of the Russian economy. According to a business daily, Tatneft Oil managers were interested in continuing support of the petrochemical company but only if the latter became a subsidiary of the Tatneft Oil Company (Pechilina 1998).

The rise of a private financial company

Throughout the 1990s the overall economy and industry in Russia and Tatarstan were impaired by the economic crisis (including the 1998 financial crush), and foreign direct investment tended to be concentrated in Moscow (Iwasaki and Suganuma 2005). State-run investment programs ceased to exist. The 2000s opened a new era with the election of Russian President Vladimir Putin, the reestablishment of centralized federalism, and the rise in world oil prices. A potentially unstable and contentious situation between President Putin and Shaimiev regarding Tatarstan's autonomy was resolved due to their shared belief in concentrated political power and investment in industry (Matsuzato 2004). At the same time, continuous attempts by the largest gas and oil corporations in Russia to obtain control over Tatarstan's companies made the latter vulnerable, especially because their protection largely rested on Shaimiev's personal influence.

Starting in 2001, a privately owned financial company (TAIF) began to play an increasingly central role in Tatarstan's economy. Its management used various mechanisms (including legal procedures) to acquire the newly built oil refinery in Tatarstan which processed oil produced by Tatneft Oil. It also succeeded in obtaining a controlling block of shares (47 per cent) in the largest chemical company in Tatarstan. And finally, it received the right to manage the state-owned block of shares (28.6 per cent) in Tatarstan's largest petrochemical corporation, in addition to its own 25.6 per cent shareholding (NKNH 2005a). By 2005, in addition to the petrochemical, oil-refining, and

chemical conglomerates, TAIF managed companies in telecommunications, construction, finance and investment, as well as other services (TAIF 2005).

Table 6.3 shows the relative size of TAIF's influence not only in Tatarstan's economy but also in the entire Russian Federation. The sales and ranking data for industrial companies comes from a Russian business-rating agency, *The Expert*, which did not include TAIF in its "top companies" rankings. The numbers reported by TAIF managers in the 2005 Annual Report allowed me to estimate that TAIF would be in the 27th position in the 2005 "Expert Top 400" rating. Substantial even in comparison to large business structures in the Russian Federation, TAIF has become second only to the Tatneft Oil Company in the Tatarstan economy.

Table 6.3. Sales, profits, and ranking of the largest companies in Tatarstan, in millions of RUR, 2003-2005

	Sales (Ranking in the Top 400 firms)			Profit (after taxes)
	2003	2004	2005	2005
Tatneft Oil	116 632 (14th)	150 793 (18th)	169 944 (18th)	36 563
TAIF			**85 200 (27th)**	12 700
Petrochemical	24 961 (41st)	38 229 (50th)	48 069 (50th)	925
Tire	10 260 (111th)	12 386 (136th)	14 919 (159th)	-51.3
Chemical	8 935 (130th)	11 788 (149th)	13 421 (176th)	2 002

Sources: Expert (2003-2005); TAIF (2005).

The rise of TAIF as a blockholder altered the structure of ownership and control in these companies. Table 6.4 shows that the most significant change was the increased

presence of TAIF directors on the petrochemical and chemical companies' boards (compare to Table 6.2). Bankers from Bars and Zenit had disappeared from the boards of the four industrial companies.

Table 6.4. Supervisory Board composition (%) by directors' primary employment, 2005

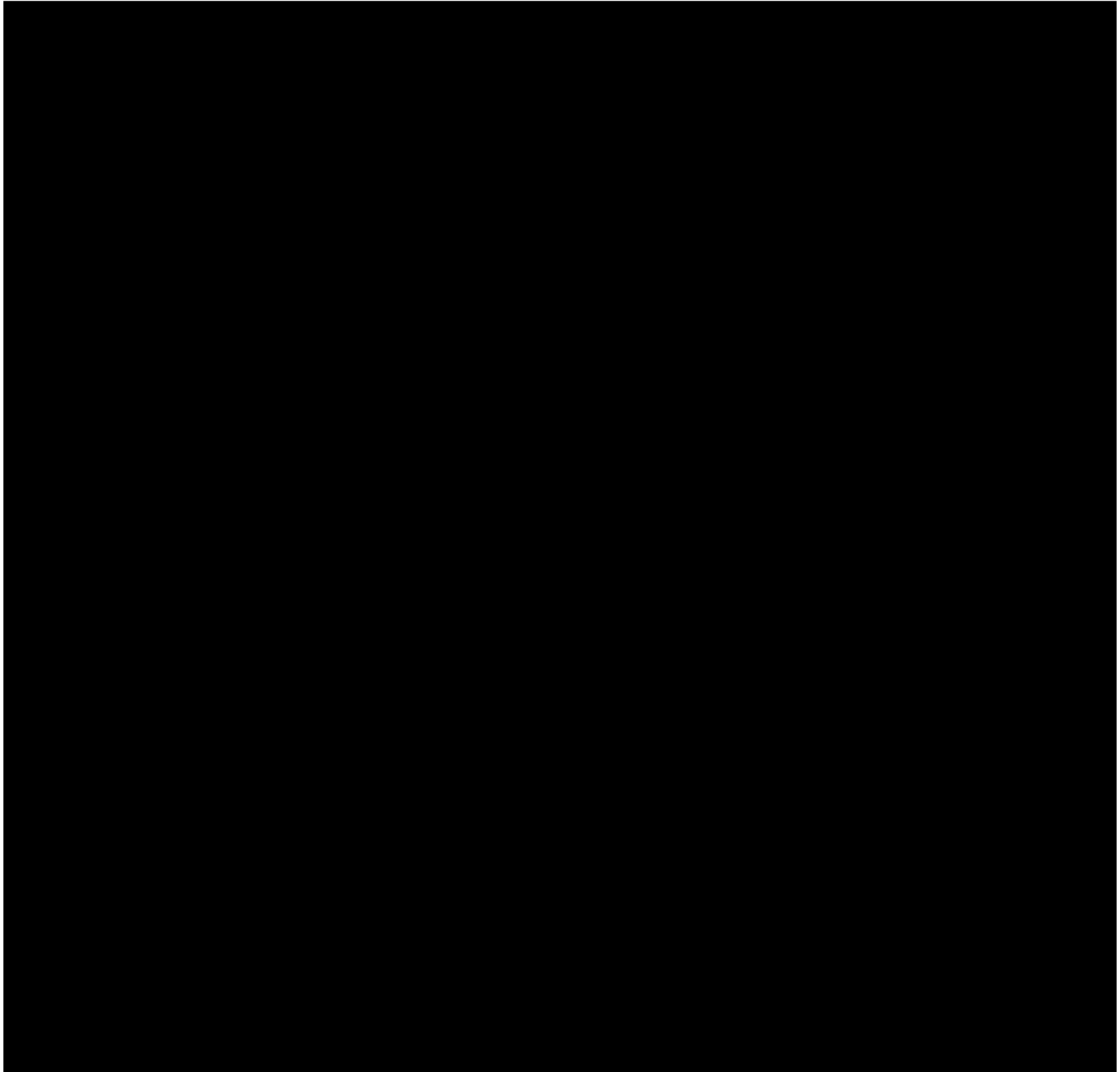
Board members		Companies: Tatneft Oil	Petro-chemical (NKNH)	Chemical (KOS)	Tire	Bank Bars	Bank Zenit
Tatarstan government		**40.0**	11.8	23.1	21.4	**35.3**	6.7
Insider managers		**40.0**	**35.3**	23.1	21.4	17.6	13.3
Managers of other firms in Tatarstan	Banks						
	Industr.		23.5	7.7	**42.9**	29.4	**40.0**
	TAIF		11.8	**38.5**		5.9	
	Other		11.8	7.7	7.1	5.9	
Outside of Tatarstan		20.0*	5.9		7.1	5.9	**47.7**
Total N of directors		15	17	13	14	17	15

Sources: Tatneft Oil (2005); NKNH (2005b); KOS (2005); Tire (2005); Bank Bars (2005); Zenit (2005).

* Two board members represented foreign financial firms, and one was a member of the Russian Independent Directors Association.

The increased presence of TAIF managers on company boards changed the structure of intercorporate governance in the region. Figure 6.1 shows the ties between Tatarstan companies created by interlocking directorates in 2001 and 2005. The arrows point in the direction of control: the sending company's executive officers hold seats on the supervisory boards of the receiving firm. The thickness of the arrows is proportional to the number of executives involved in each tie. The thick arrows also highlight significant ownership relations between companies: the sending company holding a controlling/blocking amount of shares in the receiving companies.

Figure 6.1. Networks of ownership ties and interlocking directorates created by top managers of Tatarstan's industrial and financial companies, 2001 and 2005.



Sources: Tatneft Oil (2001, 2005a, 2005b); NKNH (2001, 2005); KOS (2001, 2005); Tire (2001, 2005); Baranov and Yacheistov 2002; Bank Bars (2005); Bank Zenit (2005); TAIF (2005).

As evident in Figure 6.1, between 2001 and 2005 the network structure changed from unipolar (Tatneft Oil-dominated) to bipolar, with TAIF emerging as a second pole. Importantly, there were no longer any direct formal ties between these two dominant companies. Thus, structural network analysis shows the increased role of private capital concentrated in TAIF, the company that by 2005 had established a sphere of influence relatively independent from the state-controlled Tatneft Oil.

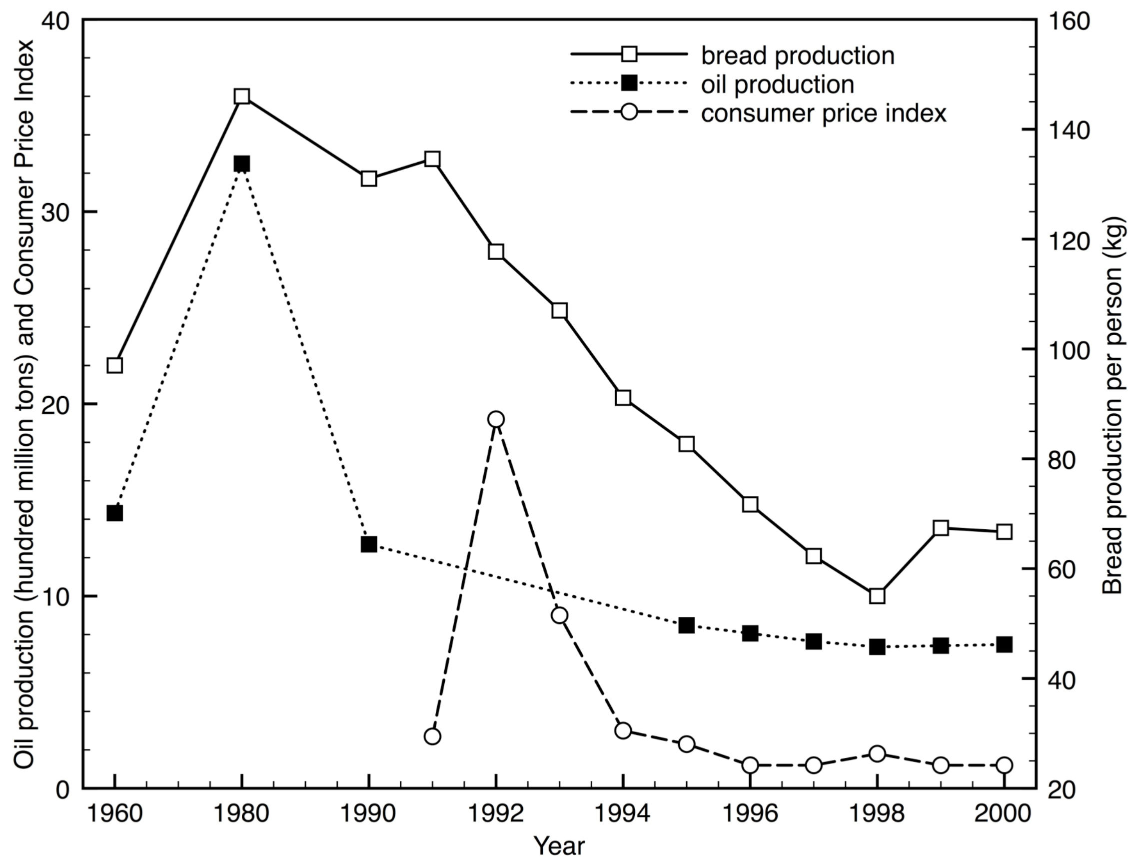
In contrast to the hasty privatization deals of the mid-1990s between the federal government and Moscow business elites, Tatarstan elites took more time to transfer control of industrial wealth from the state to private capital. The emergent model of concentrated ownership without stakeholder representation has not only enabled specific government-business leadership to establish its control over capital flows in the region but also allowed it to use public power to support the struggling enterprises in times of crisis.

Conclusion

This analysis shows that the Tatarstan government adopted a careful approach to market transition which, in itself, did not question the primacy of market principles and private capital ownership. I argue that the trajectory of corporate transformation in Tatarstan is best understood in terms of Polanyi's (2001) notion of the "double movement," which suggests that a transition to a market model involves both adherence to market principles and some protective measures aimed at bringing stability to social

relations and providing for collective welfare. As Figure 6.2 shows, the radical reforms of the early 1990s exposed and exacerbated the existing inequalities and dependencies in Tatarstan and Russia: the collapse of the centralized economy severely undermined workers' economic security while financial liberalization wiped out their savings prior to mass privatization (Nesvetailova 2005).

Figure 6.2. Economic indicators of Tatarstan, 1960-2000: bread production (in kg per person), oil production (in hundred million ton), and an annual relative change in consumer price index.



Source: *The Statistical Report of Tatarstan, 1920-2000* (Tatarstan State Statistics Committee 2001: 67, 69, 239).

Enterprise management and local party elites also found themselves in a vulnerable position since the reforms targeted the structure of ownership and control rather than the improvement of the largest enterprises' industrial capacity. Although enterprise managers could neither reject nor radically alter the content or sequence of large-scale reforms, managerial and party elites were in a structurally more powerful position to organize their efforts and use the reforms and new institutions to their advantage. The Tatarstan elites pursued a strategy of concentrated corporate control and intercorporate coordination yet their policies diverged from the internationally well-established practices of concentrated ownership as government involvement in corporate management of companies continues to be significant. Nevertheless, partial state ownership does not present obstacles to further privatisation. This has allowed me to argue against the "oligarchy model" often conceptualised as a special case of elites' political opportunism and greediness. What is emerging instead is a politically managed form of corporate control in building a market economy in the post-state-socialist context.

This trajectory toward the concentrated form of corporate control without stakeholder representation reconstituted the relations between government and business elites on the new terms. These new terms reproduced Soviet hierarchical relations between management and labour, on the one hand, to the exclusion of the latter from corporate governance. The new structure of control, on the other hand, opened domestic enterprises to foreign investment and control by financial firms. This outcome suggests that the Soviet legacies of state managerial control are combined with the principles of

the corporate shareholding model in a particular way that does not undermine market expansion.

Chapter VII

Conclusions

The academic debate on economic globalization has drawn critical attention to the neoliberal reforms' impact on the historically diverse forms of national capitalism and related issues of growing economic, political and social disparities. My study's contribution to this debate is manifold. My analytical review of the academic research on Russian corporate capitalism shows how the neoliberal ideology influences social science epistemology, shapes state policies, and defines the terms of the political discourse. I argue that it is imperative to overcome the shortcomings common to the studies of Russian capitalism. In my view it can be done most effectively by using the global political economy approach in combination with the structural methodology and the empirical data assembled in research on interlocking directorates in the established corporate systems. A challenging and innovative part of my dissertation work was to combine these elements of sociological research to study the emergent system in Russia without creating yet another account of "inadequate modernization." I particularly benefitted from insights developed in Mintz and Schwartz's 1985 study of American business structure and Bourdieu's research on the economy. My empirical findings demonstrated that this approach is a forceful alternative to efficiency-centered analyses of corporate transformation, rooted in functionalist understanding of economic development and articulated through the rational choice tenets.

Three empirical chapters of my dissertation contain a multifaceted account of the corporate transformation in Russia that followed the dismantlement of the soviet state economy in the 1990s. In the first empirical chapter I addressed a broad question of what type(s) of property the corporate form creates and reproduces in a modern industrial economy. Sociologists have examined the conventional discussions of private, public, state, and collective (i.e. strictly legal ownership-based) property types and identified "classwide" (Zeitlin 1976), "quasi-collective" (McDermott 1991), and "socialized" (Roy 1997) property types. Thus I posed a question specific to the Russian context: given the centrality of the corporate reform to the neoliberal transformation, what were the implications of defining the joint-stock corporation – the corporate form to be instituted – in terms of private property (as in home ownership) as has been done to promote the political process of privatization? And how did the adoption of the shareholder-centered model of corporate governance (re)structure the relations among the state, capital, labor, and general public in the Russian case? Drawing on the historical sociological analyses of the large American corporation by Charles Perrow (2002) and William G. Roy (1997), I developed an analytic narrative focused on the key turning points in the Russian Federal state's decision-making during the critical period, from 1989-1993, when the privatization of large Russian enterprises was being planned and implemented. I analyzed the codification of the shareholder-centered corporate governance to show that it was prior to mass privatization that the state had relinquished control of industrial enterprises through a sequence of changes in the legal framework. The state established the joint-stock corporation as a key institution that excluded the state and labor from the new system of corporate governance and eliminated the mechanisms of public

accountability. This framework was utilized throughout the 1990s to pass corporate ownership and leadership into the hands of the elites, enabling them to concentrate control over massive capital assets. I argued that this outcome was not inevitable; it was, instead, a consequence of a combination of forces inherited from the soviet past and channeled by the new, shareholder-centered structure of corporate governance and the ideology of neoliberal globalization.

To identify the structural characteristics of the emergent type of corporate capitalism in Russia, I conducted a multivariate analysis of the intercorporate relations and thus advanced our understanding well beyond a simplified view of corporate systems based on the type of ownership. Viewed from a critical perspective, corporate ownership structure in the national economy is neither fully transparent nor easy to interpret. It is one dimension of the corporate system that intertwines with other structural, social, and organizational aspects in different ways (e.g. German and Japanese systems are based on concentrated ownership yet each system has developed very distinct features). Thus there is no analytical need to assume that emulation of the shareholder-centered model would have the same effect on all corporate systems based on concentrated ownership. Moreover, it is important to be aware of the analytical affinity between narrowing of the debate to the two main types of corporate systems, and Hall and Soskice's (2001) varieties of capitalism framework. Both – the focus on dispersed vs. concentrated corporate ownership and the varieties of capitalism approach – reduce the existing diversity among national corporate organizations to two clusters: one camp is "liberal market economies" (LME) associated with low state participation, dispersed ownership and the Anglo-American model, and another one is "coordinated market economies"

(CME) with strong states, concentrated ownership and the European corporate governance model. As I pointed out, this and similar bi-polar classifications did not shed light on the processes of change and their complex outcomes given the multifaceted impact of the neoliberal globalization on the existing diversity of corporate organizations.

Recent comparative studies of the established corporate systems in western Europe documented two simultaneous trends of convergence and divergence affecting national institutions and organizational structures. I evaluated a thesis that the two trends have also coalesced in shaping the emergent corporate system in Russia. In contrast to the prevalent "failed convergence" view, this thesis posed that during the neoliberal reforms of the 1990s, the organization of corporate governance in Russia had acquired distinct as well as typical features. Based on the original data, I compared intercorporate networks formed by directors of Russia's largest industrial companies and banks with typical and distinctive features of large-scale inter-firm networks in the established business systems. The analysis showed that structural ties, usually associated with concentrated ownership, were also present in Russia; however, in this context, they formed a distinct, segmented structure without a core set of firms. Similarly to business systems in western Europe, state-owned companies did not contribute to centralization. Most strikingly different were the absence of robust, extensive links among the key firms and individuals in the Russian economy and the marginal position of banks. The structural analysis showed that at the end of the 1990s the corporate system in Russia had a structure distinct enough to constitute a new type, yet exhibited emergent features consistent with the trends affecting other industrial economies. This evidence indicated an underlying "path generating"

process of institutional change, rather than the failure to converge with the dominant models of corporate capitalism.

I concluded my dissertation with a case-study of modern corporate reforms and ensuing social inequality. I brought together my analyses of the legal framework, the structural characteristics of intercorporate relations, and the neoliberal globalization to examine how the government played a central role in the institutionalization of concentrated corporate power during the neoliberal transformation of 1990 - 2005. For an in-depth analysis, I selected the region of Tatarstan based on two criteria. (1) The network analysis of Russia's business structure revealed that one of the largest and most cohesive business groups was controlled by the regional government of Tatarstan. (2) Rich natural resource endowment, industrial infrastructure, and a nearly autonomous status vis-à-vis the federal center further distinguished Tatarstan as an important case to examine the relationship between state policies and the resulting structure of concentrated corporate control.

Often presented in collections of papers, critical political economy research has brought together in-depth case studies of national and regional economies, placed in the global and comparative contexts. Overbeek and van der Pijl (1993) edited one of the earliest collections on the neoliberal transformation. Among the more recent volumes, two included a chapter on Russia: Soederberg et al.'s (2005) contained an overview of the neoliberal transformation in Russia (Nesvetailova 2005), and another collection edited by Yildiz Atasoy (2008) included my study of corporate reforms in the republic of Tatarstan. The comparative-global analytical approach has revealed geographical unevenness of the spread of neoliberalism and its temporal dimension: in contrast to the

1980s, the 1990s brought more complexity (Cerny et al. 2005:8) failing to prevent further escalation of economic and political crises in the 2000s (Atasoy 2008).

To take into account the dynamics of the neoliberal globalization, I turned to Karl Polanyi's ([1944] 2001) work in order to see beyond the "inadequately executed reforms" and historically "backward" explanations of the Russian transformation. Unlike the conventional approach that views market expansion and protectionist policies as two ideologically opposing movements, Polanyi's notion of the "double movement" considered them as two constitutive principles of market capitalism. I showed that the regional state and business elites often appeared benign in their endorsement of the neoliberal economic policies, which nevertheless consistently impoverished the population and undermined labor's ability to assert its stakeholder position in the emerging corporate governance structures. At the same time, continuing state involvement in the economy and in the affairs of key corporate actors protected domestic elite's access to global capital and gave it time necessary to complete the transfer of public assets to the privately owned firms. Polanyi's ideas helped understand why a complex developmental route taken by the regional elites as a reaction against the neoliberal radicalism of the Federal government did not challenge the global market expansion.

The view of corporate change as the path generating process emphasizes the nationally-specific social and political factors as well as the country's position in the global economy. It undermines the prevalent argument that the system of corporate control in Russia will come to closely resemble the existing types of corporate capitalism. Despite a comparatively low presence of foreign ownership, the Russian corporate

economy will, in my view, continue to remain weakly integrated at the national level. There are, at least in the 2001 data, few forces that could impel further integration, and ample forces for the preservation of the autonomy of present groupings. This analysis examined the corporate structure at the very beginning of Vladimir Putin's presidency. It provided a useful benchmark for the future studies of the federal government and big business relations in the 2000s.

An appreciation of the complexity of the processes that impel Russian business structure should preempt interpretations of its novelty as either inadequacy or as a preliminary moment in an evolution toward more familiar forms. In light of many variations found in the structures of intercorporate relations in capitalist economies, to which the rich scholarship of comparative political economy amply attests, we can, I believe, expect the Russian system to keep changing, but also to retain its novel character. In any case, the notion of "transition" frequently suggested as encapsulating the current stage of capitalism in Russia – and implying, therefore, a linear historical development to a European or North American form, is not an adequate interpretation. It normalizes the observed concentration of capital in the hands of the few and conveniently promises eventual national prosperity and stability while ignoring the fact that the development of Russian corporate capitalism is blazing a new path in the situational conflict of the modern, global and neoliberal, form of large-scale capital accumulation, in a national setting characterized by an institutionally weak, resource-rich, and already industrialized environment.

In sum, my empirical investigation led me to the following conclusions:

1. The globally dominant, shareholder-value model of corporate governance does not have built-in mechanisms to insure public accountability and labor's participation in governance of the largest enterprises. On contrary, the model has been used by the elites to institutionalize a concentrated and non-transparent form of corporate control.
2. The system-wide corporate transformation, however aggressive in its neoliberal application, engenders a new system of corporate governance that bears the impact of both its historical legacies and its contemporaneous global context and thus cannot be expected to replicate the American type.
3. Contrary to the popular expectations of broadening individual access to economic resources, concentration of economic power by the elites is consistent with the neoliberal orientation of government policies.

Therefore, my analysis offers a critique of the globally dominant principles of corporate governance widely presented as a foundation of a democratic society with an efficient economy based on private property. These principles, first and foremost, have been instrumental in establishing the corporate form of property as the medium institutionalizing a narrow, class-based appropriation of capital while socializing the costs and the risks involved in the adjustment of Russia's economy to the global neoliberal regime.

References

Appel, Hilary (2004). *A New Capitalist Order: Privatization & Ideology in Russia & Eastern Europe* Pittsburgh, PA: University of Pittsburgh Press.

Ashwin, Sarah (1999). "Redefining the Collective: Russian Mineworkers in Transition: in M. Burawoy and K. Verdery.(eds.) *Uncertain Transition: Ethnographies of Change in the Postsocialist World*,pp. 245-271. Lanham, MA: Rowman & Littlefield.

Åslund, Anders (1995). *How Russia Became a Market Economy*. Washington, DC: Brookings.

----- (2001). *Building Capitalism: The Transformation of the Former Soviet Bloc*. Cambridge: Cambridge University Press.

----- (2007). *How Capitalism was Built: The Transformation of Central and Eastern Europe, Russia, and Central Asia*: Cambidge University Press.

Atasoy, Yildiz (Ed) (2008). *Hegemonic Transitions, the State and Crisis in Neoliberal Capitalism*. New York: Routledge.

Bank Bars (2005). Annual Report. Online. Available HTTP: <http://www.akbars.ru/about/free_inf/annual_reports/> (accessed 24 August 2006).

Baran, Paul M. and Paul Sweezy (1966). *Monopoly Capital: An Essay on the American Economic and Social Order*: Monthly Review Press.

Baranov, Gleb and Kirill Yacheistov (2002). *The Largest Banks and Their Owners: A Guide to Russian Banks [in Russian]*. Moscow: Publishing House "Kommersant" Alpina.

Barsenkov, Alexander (2002). *Introduction to Modern History of Russia: 1985-1991 [in Russian]*. Moscow: Aspect Press.

Batagelj, Vladimir and Andrej Mrvar (2004). Pajek 0.97: A program for analysis and visualization of large networks, University of Ljubljana.

Bearden, James, William Atwood, Peter Freitag, Carl Hendricks, Beth Mintz, and Michael Schwartz (1975). *The nature and extent of bank centrality in corporate networks.* Paper presented at the meetings of the American Sociological Association, San Francisco.

Berle, Adolph and Gardiner C. Means (1932). *The Modern Corporation and Private Property*. New York: Macmillan Company.

Black, Bernard and Reinier Kraakman (1996). "A Self-Enforcing Model of Corporate Law." *Harvard Law Review* **109**:(8): 1911-1982.

Black, Bernard, Reinier Kraakman and Jonathan Hay (1996). "Corporate Law from Scratch: in *Corporate Governance in Central Europe and Russia. Vol. 2 Insiders and the State*, pp. 245-302.

Blasi, Joseph and Andrei Shleifer (1996). "Corporate governance in Russia: An Initial Look: in R. Frydman, C. W. Gray and A. Rapaczynski (eds.) *Corporate Governance in Central Europe and Russia. Vol. 2 Insiders and the State*. New York: Central European University Press.

Block, Fred (2007). "Understanding the Diverging Trajectories of the United States and Western Europe: A Neo-Polanyian Analysis." *Politics & Society* **35**:(1): 3-33.

Bockman, Johanna and Gil Eyal (2002). "Eastern Europe as a Laboratory for Economic Knowledge: The Transnational Roots of Neoliberalism." *The American Journal of Sociology* **108**:(2): 310-352.

Bonacich, Phillip (1987). "Power and Centrality: A Family of Measures." *American Journal of Sociology* **92**:(5): 1170-1182.

Borgatti, Stephen P., Martin Everett and Linton C. Freeman (2002). Ucinet 6 for Windows: Software for Social Network Analysis. Harvard, MA, Analytic Technologies.

Böröcz, József (2001). "Change Rules." *American Journal of Sociology* **106**:(4): 1152-1168.

Böröcz, József and Melinda Kovács, Eds). (2001). *Empire's New Clothes: Unveiling the EU's Enlargement*. Holy Cottage, UK: Central European Review. Online in the Archive of European Integration (AEI), University of Pittsburgh, USA.

Bourdieu, Pierre (1998). *Practical Reason: On the Theory of Action*. Stanford, CA: Stanford University Press.

----- (1999). *Language and Symbolic Power*. Cambrdige, MA: Harvard University Press.

----- (2005). *The Social Structures of the Economy*. Cambridge, MA: Polity.

Bourdieu, Pierre and Loic Wacquant (1992). *An Invitation to Reflexive Sociology*. Chicago, IL: University of Chicago Press.

Boycko, Maxim, Andrei Shleifer, Robert Vishny, Stanley Fischer and Jeffrey Sachs (1993). "Privatizing Russia." *Brookings Papers on Economic Activity* **1993**:(2): 139-192.

Boyer (1997). "French Statism at the Crossroads" in W. Streeck and C. Crouch (eds.) *Political Economy of Modern Capitalism: Mapping Convergence and Diversity*, pp. 71-101. Thousand Oaks, CA: Sage.

Brandeis, Louis (1914). *Other People's Money, and How the Bankers Use It*. New York: F.A. Stokes.

Burawoy, Michael (1996). "The state and economic involution: Russia through a China Lens." *World Development* **24**:(6): 1105-1117.

Burawoy, Michael and Katherine Verdery (1999). "Introduction" in M. Burawoy and K. Verdery (eds.) *Uncertain Transition: Ethnographies of Change in the Postsocialist World*, pp. 1-17. Lanham, MA: Rowman & Littlefield.

Butler, W.E. (2003). *Russian Company and Commercial Legislation*. New York: Oxford University Press.

Cai, Hongbin and Daniel Treisman (2004). "State Corroding Federalism." *Journal of Public Economics* **88**: 819-843.

Campbell, John L. (2004). *Institutional Change and Globalization*. Princeton, NJ: Princeton University Press.

Campbell, John L. and Leon N. Lindberg (1990). "Property Rights and the Organization of Economic Activity by the State." *American Sociological Review* **55**:(5): 634-647.

Carroll, William K. (1986). *Corporate Power and Canadian Capitalism*. Vancouver: University of British Columbia Press.

Cerny, Philip G., Georg Menz and Susanne Soederberg (2005). "Different Roads to Globalization: Neoliberalism, the Competition State, and Politics in a More Open World" in S. Soederberg, G. Menz and P. G. Cerny (eds.) *Internalizing Globalization: the Rise of Neoliberalism and the Decline of National Varieties of Capitalism*, pp. 1-32. New York: Palgrave Macmillan.

Chandler, Alfred D. (1977). *The Visible Hand: The Managerial Revolution in American Business*. Cambridge, MA: Harvard University Press.

Chiesi, Antonio M. (1985). "Property, Capital and Network Structure in Italy" in F. N. Stokman, R. Ziegler and J. Scott (eds.) *Networks of Corporate Power: A Comparative Analysis of Ten Countries*, pp. 199-214. Cambridge: Polity.

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

Crouch, Colin and Wolfgang Streeck, Eds). (1997). *Political Economy of Modern*

Capitalism. Thousand Oaks, CA: Sage Publications.

Davis, Gerald F. and Mark S. Mizruchi (1999). "The Money Center Cannot Hold: Commercial Banks in the U.S. System of Corporate Governance." *Administrative Science Quarterly* **44**:(2): 215-239.

Deeg, Richard and Gregory Jackson (2007). "Towards a More Dynamic Theory of Capitalist Variety." *Socio-Economic Review* **5**: 149-179.

DiDonato, Donna, Davita Silfen Glasberg, Beth Mintz and Michael Schwartz (1988). "Theories of Corporate Interlocks: A Social History." Research in the Sociology of Organizations. 6.

DiMaggio, Paul J. (1983). "State Expansion and Organizational Field" in R. H. Hall and R. Quinn.(eds.) *Organizational Theory and Public Policy* pp. 147-161. Beverly Hills, CA: Sage.

DiMaggio, Paul J. and Walter W. Powell (1991). "The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organization Fields" in W. W. Powell and P. J. DiMaggio (eds.) *The New Institutionalism in Organizational Analysis*,pp. 63-82. Chicago, IL: Chicago University Press.

Djelic, Marie-Laure (1998). *Exporting the American Model: The Post-War Transformation of European Business*. Oxford: Oxford University Press.

Djelic, Marie-Laure and Sigrid Quack (2007). "Overcoming Path Dependency: Path Generation in Open Systems." *Theory and Society* **36**: 161-186.

Domhoff, G. William (1996). *State Autonomy or Class Dominance?: Case Studies on Policy Making in America*. Hawthorne, NY: Aldine de Gruyter.

Emirbayer, Mustafa and Victoria Johnson (2008). "Bourdieu and Organizational Analysis." *Theory and Society* **37**: 1-44.

Evans, Peter (1995). *States and Industrial Transformation*. Princeton, NJ: Princeton University Press.

Expert (2002). The Top 200 Annual Ratings., Online. Available HTTP: <http://www.raexpert.ru/ratings/>.

Fennema, Meindert and Huibert Schijf (1978/79). "Analysing interlocking directorates: Theory and methods." *Social Networks* **1**: 297-332.

Fish, M. Steven (2001). "When more is less: superexecutive power and political underdevelopment in Russia" in V. Bonnell and G. W. Breslauer.(eds.) *Russia in the New Century: Stability or Disorder*. Boulder, CO: Westview Press.

Fligstein, Neil (1990). *The Transformation of Corporate Control*. Cambridge, MA: Harvard University Press.

----- (2002). *The Architecture of Markets: An Economic Sociology of Twenty-First-Century Capitalist Societies*. Princeton, NJ: Princeton University Press.

Gaidar, Yegor (1989). "His article was reprinted in." *Russia-2000: Contemporary Political History (1985-1999)* **2**: 194.

Gerlach, Michael L. (1992). *Alliance Capitalism: The Social Organization of Japanese Business*. Berkeley, CA: University of California.

Gerlach, Michael L. (1992). "The Japanese Corporate Network: A Blockmodel Analysis." *Administrative Science Quarterly* **37**:(1): 105-139.

Glasberg, Davita Silfen (1989). *The Power of Collective Purse Strings: The Effects of Bank Hegemony on Corporations and the State*. Berkeley, CA: University of California Press.

Glasberg, Davita Silfen and Michael Schwartz (1983). "Ownership and Control of Corporations." *Annual Review of Sociology* **9**: 311-332.

Gnezditskaia, Anastasia (2005). "Unidentified Shareholders': the Impact of Oil Companies on the Banking Sector in Russia." *Europe-Asia Studies* **57**:(3): 457-480.

Gourevitch, Peter A. and James Shinn (2005). *Political Power & Corporate Control: The New Global Politics of Corporate Governance*. Princeton: Princeton University Press.

Gramsci, Antonio (1971). *Selections from the Prison Notebooks*. New York: International Publishers.

Graney, Katherine E. (2001). "Ten years of sovereignty in Tatarstan: end of the beginning or beginning of the end?" *Problems of post-communism* **48**:(5): 32-41.

Granovetter, Mark (1985). "Economic Action and Social Structure: The Problem of Embeddedness." *The American journal of sociology* **91**:(3): 481-510.

Gray, Cheryl W. (1996). "In Search of Owners: Privatization and Corporate Governance in Transition Economies." *The World Bank Research Observer* **11**:(2): 179-197.

Hall, Peter A. and David Soskice (eds) (2001). *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*. New York: Oxford University Press.

Hanson, Philip and Elizabeth Teague (2007). "Russian Political Capitalism and its Environment: in D. Lane and M. Myant.(eds.) *Varieties of Capitalism in Post-Communist*

Countries,pp. 149-164. New York: Palgrave Macmillan.

Harvey, David (2005). *A Brief History of Neoliberalism*. New York: Oxford University Press.

Hay, Colin (2004). "The normalizing role of rationalist assumptions in the institutional embedding of neoliberalism" *Economy and Society* **33**:(4): 500-527.

Heinze, Thomas (2004). "Dynamics in the German System of Corporate Governance? Empirical Findings Regarding Interlocking Directorates " *Economy and Society* **33**:(2): 218-238.

Heiskanen, Illka and Erkki Johanson (1985). "Finnish Interlocking Directorships: Institutional Groups and Their Evolving Integration" in F. N. Stokman, R. Ziegler and J. Scott (eds.) *Networks of Corporate Power: A Comparative Analysis of Ten Countries*. Cambridge: Polity.

Held, David and Anthony McGrew (eds) (2005). *The Global Tranformations Reader: an Introduction to the Globalization Debate*. Malden, MA: Polity.

Hilferding, Rudolf ([1910] 1981). *Finance Capital: A Study in the Latest Phase of Capitalist Development.* London: Routledge and Kegan Paul.

Hough, Jerry F. (2001). *The Logic of Economic Reform in Russia*. Washington, DC: Brookings Institution Press.

Iwasaki, Ichiro and Keiko Suganuma (2005). "Regional Distribution of Foreign Direct Investment in Russia." *Post-Communist Economies* **17**:(2): 153-172.

Jackson, Gregory (2002). *Organizing the firm: corporate governance in Germany and Japan, 1870-2000*, Columbia U. PhD Dissertation.

Jackson, Gregory and Richard Deeg (2006). "How Many Varieties of Capitalism?: Comparing the Comparative Institutional Analyses of Capitalist Diversity." Discussion Paper, 06/2. Max Planck Institute for the Study of Societies.

Judge, William and Irina Naoumova (2004). "Corporate Governance in Russia: What Model will It Follow?" *Corporate Governance* **12**:(3): 302-313.

Kagarlitsky, Boris (2002). *Russia under Yeltsin and Putin: Neo-liberal Autocracy*. Sterling, VA: Pluto Press.

Kentor, Jeffrey and Yong Suk Jang (2004). "Yes, There Is a (Growing) Transnational Business Community." *International Sociology* **19**:(3): 355-368.

King, Lawrence (2002). "Postcommunist Divergence: A Comparative Analysis of the

Transition to Capitalism in Poland and Russia." *Studies in Comparative International Development* **37**:(3): 3-34.

Klein, Naomi (2007). *The Shock Doctrine: The Rise of Disaster Capitalism*. New York: Metropolitan Books.

Knell, Mark and Martin Srholec (2007). "Diverging Pathways in Central and Eastern Europe: in D. Lane and M. Myant.(eds.) *Varieties of Capitalism in Post-Communist Countries*,pp. 40-62. New York: Palgrave Macmillan.

Kogut, Bruce and Andrew Spicer (2002). "Capital market development and mass privatization are logical contradictions: lessons from Russia and the Czech Republic." *Industrial and Corporate Change* **11**:(1): 1-37.

Kogut, Bruce and Gordon Walker (2001). "The Small World of Germany and the Durability of National Networks." *American sociological review* **66**:(3): 317-335.

Kokh, Alfred (1998). *The Selling of the Soviet Empire: Politics & Economics of Russia's Privatization - Revelations of the Principal Insider*. New York: Liberty Publishing House.

KOS (Kazan Organic Synthesis JSC) (2001). A Quarterly Report of the Equity Securities Issuer (the 3rd quarter). Online. Available HTTP: <http://www.kazanorgsintez.ru> (accessed 27 October 2003).

----- (2005). A Quarterly Report of the Equity Securities Issuer (the 3rd quarter). Online. Available HTTP: <http://www.kazanorgsintez.ru> (accessed 27 June 2007).

Kotkin, Stephen (1995). *Magnetic Mountain: Stalinism as a Civilization* University of California Press.

Kotkin, Stephen (1991). *Steeltown USSR: Soviet Society in the Gorbachev Era*: University of California Press.

Krippner, Greta R. (2005). "The Financialization of the American Economy." *Socio-Economic Review* **3**:(2): 173-208.

Kryshtanovskaya, Olga (2005). *The anatomy of Russia's elite [in Russian]*. Moscow: Zakharov.

Lane, David (2000). "What Kind of Capitalism for Russia? A Comparative Analysis." *Communist and Post-Communist Studies* **33:**: 485-504.

Lane, David (2007). "Post-State Socialism: A Diversity of Capitalisms?" in D. Lane and M. Myant (eds.) *Varieties of Capitalism in Post-Communist Countries*, pp. 13-39. New York: Palgrave Macmillan.

Lane, David and Martin Myant (eds) (2007). *Varieties of Capitalism in Post-Communist Countries*. New York: Palgrave Macmillan.

Lechner, Frank J. and John Boli (eds) (2004). *The Globalization Reader*. Malden, MA: Blackwell Publishing.

Liuhto, Kari, (Ed. (2005). *Expansion or Exodus: Why Do Russian Corporations Invest Abroad?* New York: International Business Press.

Mandel, David (2004). *Labour after Communism: Auto Workers and Their Unions in Russia, Ukraine, and Belarus*. New York: Black Rose Books.

Mariolis, Peter and Maria H. Jones (1982). "Centrality in Corporate Interlock Networks: Reliability and Stability." *Administrative Science Quarterly* **27**:(4): 571-585.

Matsuzato, Kimitaka (2001). "From Ethno-Bonapartism to Centralized Caciquismo: Characteristics and Origins of the Tatarstan Political Regime, 1900-2000 " *The Journal of Communist Studies and Transition Politics* **17**:(4): 43-77.

----- (ed) (2004). *Vladimir Putin's Phenomenon and Russia's Regions: An Unexpected or Expected Victory? [in Russian: Fenomen Vladimira Putina i Rossijskie Regiony: Pobeda Neozhidannaya ili Zakonomernaya?]* Moscow: Materik.

McCann, Leo (2005). *Economic Development in Tatarstan: Global Markets and A Russian Region*. New York: RoutledgeCurzon.

McCarthy, Daniel J., Sheila M. Puffer and Stanislav V. Shekshnia (eds) (2004). *Corporate Governance in Russia*. Northampton: Edward Elgar.

McClintick, David (2006). How Harvard Lost Russia. Institutional Investor Magazine.

McDermott, John (1991). *Corporate Society: Class, Property, and Contemporary Capitalism* Boulder, CO: Westview Press.

Menshikov, Stanislav (2004). *An Anatomy of Russia's Capitalism [in Russian]*. Moscow: International Relations.

Menz, Georg (2005). "Auf Wiedersehen, Rhineland Model: Embedding Neoliberalism in Germany" in S. Soederberg, G. Menz and P. G. Cerny (eds) *Internalizing Globalization: The Rise of Neoliberalism and the Decline of National Varieties of Capitalism*, pp. 49-68. New York: Palgrave Macmillan.

Mintz, Beth and Michael Schwartz (1985). *The Power Structure of American Business*. Chicago, IL: The University of Chicago Press.

Mizruchi, Mark S. (1982). *The American Corporate Network, 1904-1974*. Beverly Hills, CA: Sage.

----- (1996). "What Do Interlocks Do? An Analysis, Critique, and Assessment of Research on Interlocking Directorates." *Annual Review of Sociology* **22:** 271-298.

Mizruchi, Mark S. and David Bunting (1981). "Influence in Corporate Networks: An Examination of Four Measures." *Administrative Science Quarterly* **26**:(3): 475-489.

Mizruchi, Mark S. and Michael Schwartz (eds) (1987). *Intercorporate Relations: The Structural Analysis of Business*. New York: Cambridge University Press.

Mizruchi, Mark S., Linda Brewster Stearns and Christopher Marquis (2006). "The Conditional Nature of Embeddedness: A Study of Borrowing by Large U.S. Firms, 1973–1994." *American Sociological Review* **71**:(2): 310-333.

Nesvetailova, Anastasia (2005). "Globalization and Post-Soviet Capitalism: Internalizing Neoliberalism in Russia" in S. Soederberg, G. Menz and P. G. Cerny (eds.) *Internalizing Globalization: the Rise of Neoliberalism and the Decline of National Varieties of Capitalism*. New York: Palgrave Macmillan.

NKNH (Nizhnekamsk Petrochemical JSC) (2001). A Quarterly Report of the Equity Securities Issuer (the 3rd quarter). Online. Available HTTP: <www.scrin.ru> (accessed 16 October 2003).

----- (2005). Annual Report. Online. Available HTTP: <http://www.nknk.ru/year_rep.asp> (accessed 12 November 2007).

----- (2005). A Quarterly Report of the Equity Securities Issuer (the 3rd quarter). Online. Available HTTP: <http://www.nknk.ru/qrep.asp> (accessed 28 July 2006).

North, Douglass C. (1990). *Institutions, Institutional Change and Economic Performance*: Cambridge University Press.

Overbeek, Henk, Bastiaan Van Apeldoorn and Andreas Nölke (eds) (2007). *The Transnational Politics of Corporate Governance Regulation*. New York: Routledge.

Overbeek, Henk and Kees van der Pijl (1993). "Restructuring Capital and Restructuring Hegemomy: Neo-liberalism and the Unmaking of the Post-War Order" in H. Overbeek (ed.) *Restructuring Hegemony in the Global Political Economy*. New York: Routledge.

Palmer, Donald (1983). "Broken Ties: Interlocking Directorates and Intercorporate Coordination." *Administrative Science Quarterly* **28**:(1): 40-55.

Pappe, Yakov Sh. (2000). *"Oligarchs": The Economic Chronicle 1992-2000 [in Russian]*. Moscow: State University, Higher School of Economics.

----- (2002). "Russia's Big Business as an Economic Phenomenon: Its Founding and Modern Stage of Development." *Studies on Russian Economic Development [Problemy Prognozirovania]* **1**: 29-46.

Pechilina, Galina. (1998, January). "The Tatneft Oil Company does not want to be a milk cow". *Kommersant-daily.*

Peck, Jamie and Nik Theodore (2005). "Comparing Capitalisms: Theorizing the Persistence of Institutional Variation". *The second DEMOLOGOS meeting,* Vienna, June 16-18.

Peck, Jamie and Nik Theodore (2007). "Variegated Capitalism." *Progress in Human Geography* **31**:(6): 731-772.

Pedersen, Torben and Steen Thomsen (1997). "European Patterns of Corporate Ownership: A Twelve-Country Study." *Journal of International Business Studies* **28**:(4): 759-778.

Pels, Dick (1998). *Property and Power in Social Theory: A study in Intellectual Rivalry*. New York: Routledge.

Perrow, Charles (2002). *Organizing America: Wealth, Power, and the Origins of Corporate Capitalism*. Princeton, NJ: Princeton University Press.

Plekhanov, Sergey (1995). "The Road to Employee Ownership in Russia" in J. Logue, S. Plekhanov and J. Simmons (eds.) *Transforming Russian Enterprises: From State Control to Employee Ownership*, pp. 35-70. Westport, CT: Greenwood Press.

Polanyi, Karl ([1944] 2001). *The Great Transformation: The Political and Economic Origins of Our Time*. Boston, MA: Beacon Press.

Portes, Alejandro (1997). "Neoliberalism and the Sociology of Development: Emerging Trends and Unanticipated Facts." *Population and Development Review* **23**:(2): 229-259.

Prechel, Harland (2000). *Big Business and the State: Historical Transitions and Corporate Transformation, 1880s-1990s*. Albany, NY: SUNY.

Radygin, Alexander and Natalia Shmeleva (2003). "Main Corporate Governance Mechanisms and Their Specific Features in Russia" in Y. Gaidar (eds) *The Economics of Transition*, pp. 461-510. Cambridge, MA: The MIT Press.

Rothenberg, Paula S. (ed) (2006). *Beoynd Borders: Thinking Critically about Global Isseus*. New York: Worth Publishers.

Roy, William G. (1997). *Socializing Capital: The Rise of the Large Industrial Corporation in America*. Princeton, NJ: Princeton University Press.

Ryzhkov, Nikolai (1990). "On the economic reform." *Reprints from the Soviet Press* **50**:(6): 5-20.

Scott, John (1987). "Intercorporate Structures in Western Europe: A Comparative Historical Analysis" in M. S. Mizruchi and M. Schwartz (eds.) *Intercorporate Relations: The Structural Analysis of Business* pp. 208-232. New York: Cambridge University Press.

----- (1991). "Networks of Corporate power: A Comparative Assessment." *Annual Review of Sociology* **17:**: 181-203.

----- (1997). *Corporate Business and Capitalist Classes*. New York: Oxford University Press.

----- (2000). *Social Network Analysis: A Handbook.* Sage Publications.

Shaimiev, Mintimer (1999). Press Conference with Tatastan President June 10, 1999. Federal News Service, Official Kremlin Int'l News Broadcast.

----- (2007). "Large Companies are Crucial for Tatarstan's Economy."

Sher, Anna (2001). "A di-vision of Europe: the European Union Enlarged" in J. Böröcz and M. Kovács (eds.) *Empire's New Clothes: Unveiling the EU's Enlargement*, pp. 218-251. Holy Cottage, UK: Central European Review. Online in the Archive of European Integration (AEI), University of Pittsburgh, USA

----- (2008). "Privatization and Corporate Reforms in Post-Soviet Tatarstan: in Y. Atasoy.(eds.) *Hegemonic Transitions, the State and Crisis in Neoliberal Capitalism*,pp. 186-206. New York: Routledge.

Shigabutdinov, Albert (2005). "An Interview with Albert Shigabutdinov." *The Chemical Journal* **6**: 36-38.

Shleifer, Andrei and Daniel Treisman (2000). *Without a Map: Political Tactics and Economic Reform*: The MIT Press.

Soederberg, Susanne (2004). *The Politics of the New International Financial Architecture: Reimposing Neoliberal Domination in the Global South* New York: Zed Books.

Soederberg, Susanne, Georg Menz and Philip G. Cerny (eds) (2005). *Internalizing Globalization: The Rise of Neoliberalism and the Decline of National Varieties of Capitalism*. New York: Palgrave Macmillan.

Soref, Michael and Maurice Zeitlin (1987). "Finance capital and the internal structure of

the capitalist class in the United States" in M. S. Mizruchi and M. Schwartz (eds.) *Intercorporate Relations: The Structural Analysis of Business*. New York: Cambridge University Press.

Stark, David and László Bruszt (1998). *Postsocialist Pathways: Transforming Politics and Property in East Central Europe*. Cambridge: Cambridge University Press.

Stokman, Frans N. and Frans W. Wasseur (1985). "National Networks: A Structural Comparison" in F. N. Stokman, R. Ziegler and J. Scott (eds.) *Networks of Corporate Power: A Comparative Analysis of Ten Countries*,pp. 20-45. Cambridge: Policy.

Stokman, Frans N., Rolf Ziegler and John Scott (eds) (1985). *Networks of Corporate Power: A Comparative Analysis of Ten Countries*. Cambridge: Polity Press.

Strange, Susan (1986). *Casino Capitalism*. Oxford: Blackwell.

Streeck, Wolfgang (1997). "German Capitalism: Does It Exist? Can It Survive?" in C. Crouch and W. Streeck (eds.) *Political Economy of Modern Capitalism: Mapping Convergence and Diversity*, pp. 33-54. Thousand Oaks, CA Sage Publications.

TAIF (2005). "Annual Report.".

Tatarstan Government (2004). "Program for the oil-gas-chemical industrial complex, 2004-2008 (in Russian)."

Tatarstan State Statistical Committee (2001). The Statistical Report of Tatarstan 1920-2000. Kazan.

Tatneft Oil JSC (1999). Annual Report. Online. Available HTTP: <http://www.tatneft.ru/buh/archive.htm> (accessed 12 November 2007).

----- (2001). A Quarterly Report of the Equity Securities Issuer (the 3rd quarter). Online. Available HTTP: <http://www.tatneft.ru> (accessed 27 October 2003).

----- (2003). Form 20-F filed with the US Securities and Exchange Commission. Online. Available HTTP: <http://sec.edgar-online.com/2003/06/30/0000950168-03-002263/Section11.asp>, (accessed 8 August 2006).

----- (2005). A Quarterly Report of the Equity Securities Issuer (the 3rd quarter). Online. Available HTTP: <http://www.tatneft.ru/info/archive05.htm> (accessed 8 September 2006).

Tire (Nizhnekamsk Tire JSC) (2001). A Quarterly Report of the Equity Securities Issuer (the 3rd quarter). Online. Available HTTP: <http://www.shina-kama.ru> (accessed 27 October 2003).

----- (2005). A Quarterly Report of the Equity Securities Issuer (the 3rd quarter). Online. Available HTTP: <http://www.shina-kama.ru> (accessed 17 July 2007).

Useem, Michael (1984). *The Inner Circle: Large Corporations and the Rise of Business Political Activity in the U.S. and U.K.* New York: Oxford University Press.

van Apeldoorn, Bastiaan, Andreas Nolke and Henk Overbeek (2007). "Introducing key concepts, questions and approaches" in H. Overbeek, B. van Apeldoorn and A. Nölke (eds.) *The Transnational Politics of Corporate Governance Regulation*, pp. 1-24. New York: Routledge.

Vitols, Sigurt (2001). "Varieties of Corporate Governance: Comparing Germany and the UK" in P. A. Hall and D. Soskice (eds.) *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*, pp. 337-360. Oxford, NY: Oxford University Press.

Vliegenthart, Arjan and Henk Overbeek (2007). "Corporate governance regulation in East Central Europe: the role of transnational forces" in H. Overbeek, B. van Apeldoorn and A. Nölke (eds.) *The Transnational Politics of Corporate Governance Regulation*, pp. 177-196. New York: Routledge.

Wallerstein, Immanuel M. (2004). *World-Systems Analysis: An Introduction*: Duke University Press.

Wasserman, Stanley and Katherine Faust (1994). *Social Network Analysis: Methods and Applications*. New York: Cambridge University Press.

Wedel, Janine R. (1998). *Collision and Collusion: The Strange Case of Western Aid to Eastern Europe 1989–1998*. London: Macmillan.

Williamson, Oliver E. (1985). *The Economic Institutions of Capitalism*. New York: Free Press.

World Bank (2004). *The Memorandum on Economic Development in the Russian Federation: From Transition to Development.* Online. Available HTTP: <http://web.worldbank.org> (accessed 8 January 2005).

Worth, Owen (2005). *Hegemony, International Political Economy and Post-Communist Russia*. Burlington, VT: Ashgate.

Zeitlin, Maurice (1974). "Corporate Ownership and Control: The Large Corporation and the Capitalist Class" *American Journal of Sociology* **79**:(5): 1073-1119.

Zeitlin, Maurice (1989). *The Large Corporation and Contemporary Classes*. Cambridge, MA: Polity.

Zenit Bank (2005). Annual Report. Online. Available HTTP: <http://www.zenit.ru/info/report/annual/> (accessed 7 July 2007).

Ziegler, Rolf, Gerhard Reissner and Donald Bender (1985). "Austria Incorporated" in F. N. Stokman, R. Ziegler and J. Scott (eds.) *Networks of Corporate Power: A Comparative Analysis of Ten Countries*, pp. 73-90. Cambridge: Polity.

Appendix 1

Table A1. 100 industrial companies included in the dataset

	Industry	Company's name in English	Members Supervisory Board, N	Members Executive Board, N	Part of Holding Company in 2002	Expert 2002 Rating	Expert 2001 Rating
1	Oil and Gas Production	GAZPROM	11	20		1	1
2	Energy	RAO UES	15	15		2	3
3	Oil and Gas Production	Lukoil	11	22		3	2
4	Oil and Gas Production	Yukos	15	5		4	4
5	Oil and Gas Production	Surgutneftegaz	9	1		5	5
6	Oil and Gas Production	TNK	9	7		6	7
7	Non-ferrous Metallurgy	Krasnoyarsk Aluminium Smelter (KrAZ)	7	1	RUSAL	7	28
8	Non-ferrous Metallurgy	Bratskij Aluminium Smelter (BrAZ)	7	1	RUSAL	7	34
9	Non-ferrous Metallurgy	Sibirskij Aluminium	7	1	RUSAL	7	38
10	Non-ferrous Metallurgy	Novokuznetskij Aluminium Smelter (NkAZ)	9	1	RUSAL	7	43
11	Machinery	AvtoVaz	12	48		8	12
12	Non-ferrous Metallurgy	Norilski Nikel	9	3		9	6

	Industry	Company's name in English	Members Supervisory Board, N	Members Executive Board, N	Part of Holding Company in 2002	Expert 2002 Rating	Expert 2001 Rating
13	Oil and Gas Production	Sibneft	9	3		10	11
14	Oil and Gas Production	Tatneft	15	22		11	8
15	Oil and Gas Production	Slavneft	11	15		12	10
16	Precious metals and diamonds	Alrosa	15	25		14	14
17	Ferrous Metallurgy	Severstal	15	12		15	13
18	Oil and Gas Production	Sidanco	11	5		16	22
19	Ferrous Metallurgy	MMK	10	17		17	15
20	Oil and Gas Production	Bashneft	9	1		18	18
21	Chemical	SIBUR	17	1		-	19
22	Chemical	Orenburgneft	9	1	TNK	6	23
23	Ferrous Metallurgy	NTMK	11	7	Evraz Holding	19	27
24	Ferrous Metallurgy	NLMK	9	15		21	16
25	Non-ferrous Metallurgy	Ural Elektromed	9	1	Ural Mining & Metallurgical ompany JGMK)	23	48

	Industry	Company's name in English	Members Supervisory Board, N	Members Executive Board, N	Part of Holding Company in 2002	Expert 2002 Rating	Expert 2001 Rating
26	Machinery	TVEL	10	1		24	21
27	Coal Industry	SUEK	3	1		25	-
28	Chemical	Bashneftekhim	7	1		26	17
29	Machinery	GAZ	11	21		27	20
30	Ferrous Metallurgy	Vyksa Steel Works	13	1	United Metallurgical Company (OMK)	29	53
31	Machinery	KamAZ	17	9		31	26
32	Non-ferrous Metallurgy	SUAL	11	28		32	24
33	Food and Beverages	Lianozovo Dairy Plant	7	10	Wimm-Bill-Dann	33	54
34	Chemical	Nizhnekamskneftekhim	17	25		34	25
35	Ferrous Metallurgy	Mechel	9	7		35	30
36	Food and Beverages	Baltika	7	1		36	46
37	Chemical	Salavatnefteorgsintez	13	14		37	-
38	Coal Industry	Holding company Kuzbassrazrezugol	9	13		41	42
39	Chemical	Acron	7	5		42	52
40	Tobacco	FM Izhora	5	1		45	75

	Industry	Company's name in English	Members Supervisory Board, N	Members Executive Board, N	Part of Holding Company in 2002	Expert 2002 Rating	Expert 2001 Rating
41	Ferrous Metallurgy	Oskol elektrometallurgical ompany	9	1		48	44
42	Machinery	Uralmash-izhora	7	1		49	58
43	Energy	Irkutskenergo	11	5		50	49
44	Chemical	Apatit	9	1		51	50
45	Chemical	Moskovskij NPZ	9	1		52	121
46	Non-ferrous Metallurgy	VSMPO	7	20	VSMPO-Avisma	54	82
47	Forest and paper products	Syktyvkar LPK	9	1		56	57
48	Ferrous Metallurgy	Nosta	11	14		58	40
49	Chemical	Nizhnekamskshina	13	11		61	62
50	Tobacco	Liggett Dukatt	5	1		62	78
51	Coal Industry	Coal company Kuzbassugol'	11	8		64	-
52	Machinery	UAZ	11	15		66	59
53	Chemical	Kazanorgsintez	13	11		67	61
54	Ferrous Metallurgy	Lebedinskiy GOK	9	1		68	55
55	Chemical	Uralkalij	9	20		69	51
56	Coal Industry	Coal company Yuzhnyj Kuzbass	7	11		70	98

	Industry	Company's name in English	Members Supervisory Board, N	Members Executive Board, N	Part of Holding Company in 2002	Expert 2002 Rating	Expert 2001 Rating
57	Chemical	Silvinit	10	10		71	65
58	Machinery	Ufimsk Engine Building PO	15	1		72	96
59	Forest and paper products	Volga	9	5		74	68
60	Machinery	Irkutsk Aviatsionnoe PO	11	1		75	83
61	Coal Industry	Vorkuta Coal	11	18		81	80
62	Forest and paper products	Kondopoga	7	15		82	76
63	Chemical	Ammofos	7	1		85	69
64	Ferrous Metallurgy	Tulachermet	15	1		86	0
65	Machinery	Izhmash	15	6	Group Izhmash	87	89
66	Chemical	AZOT	9	1		88	86
67	Forest and paper products	Archangel'skij CBK	7	7		89	66
68	Ferrous Metallurgy	Taganrog metallurgical works	11	5		90	90
69	Forest and paper products	Svetogorsk	5	1		91	81
70	Chemical	Toliatti Azot	9	1		92	73
71	Tobacco	Don Tabak	7	9		93	91

	Industry	Company's name in English	Members Supervisory Board, N	Members Executive Board, N	Part of Holding Company in 2002	Expert 2002 Rating	Expert 2001 Rating
72	Machinery	Baltijskij plant	7	12		94	60
73	Machinery	ZMZ	12	11		95	85
74	Machinery	Rostvertol	11	17		97	-
75	Ferrous Metallurgy	Cherepovec steelrolling plant	9	1		98	105
76	Tobacco	British-am Yava	11	6		99	94
77	Chemical	Omskshina	9	1		100	145
78	Forest and paper products	Solikamskbumprom	7	1		102	110
79	Chemical	Kirovo-Chepetsk Chemical Plant	11	15		103	93
80	Forest and paper products	Ust' Ilim LPK	8	1		106	-
81	Chemical	Kujbyshev Azot	15	10		108	100
82	Chemical	Soda	9	25		109	123
83	Chemical	Kaustik	11	23		110	88
84	Machinery	ZIL	15	12		128	97
85	Machinery	"Severnaya verf"	9	1		146	32
86	Transport	Aeroflot	9	14			
87	Transport	Far East Sea port	11	11			

	Industry	Company's name in English	Members Supervisory Board, N	Members Executive Board, N	Part of Holding Company in 2002	Expert 2002 Rating	Expert 2001 Rating
88	Communications	Rostelekom	11	13			
89	Communications	MTC	8	1			
90	Communications	MGTS	12	15			
91	Energy	Bashkirenergo	13	13			
92	Chemical	Nevinnomysskiy Azot	9	1			
93	Ferrous Metallurgy	Mikhajlovskij GOK	7	1			
94	Forest and paper products	Kotlass CBK	9	1			
95	Ferrous Metallurgy	Volzhskij pipe plant	5	1	TMK		
96	Food and Beverages	Cherkiz meat plant	5	7			
97	Machinery	Rocket and Space Corporation Energiya"	12				67
98	Ferrous Metallurgy	ChTPZ	9	11	Severstal	15	-
99	Non-ferrous Metallurgy	Achinskij glinozem	11	1			95
100	Ferrous Metallurgy	Kachkanarskij GOK	7	1			99

Table A2. 50 banks included in the dataset

	Bank's name in English	Members of Supervisory Board, N	Members of Executive Board, N	Ranking by assets, July 2001
1	Sberbank	17	16	1
2	VTB (Vneshtorgbank)	5	6	2
3	IIB (International Industrial Bank)	5	9	3
4	Alfa Bank	8	11	4
5	Gazprom bank	10	10	5
6	Globeks bank	8	4	6
7	Rosbank	12	6	7
8	NRB (National Reserve Bank)	11	10	8
9	MDM Bank	7	11	9
10	Bashkreditbank	9	8	10
11	Citi Bank	3	6	11
12	RBD (Russian Bank for Development)	8	3	12
13	Sobinbank	7	13	13
14	DIB	7	7	14
15	Bank of Moscow	13	8	15
16	Nomos Bank	7		16
17	MMB	6	5	17
18	Evrofinans	6	7	18
19	AK Bars	18	11	19
20	Guta Bank	7	13	20
21	Menatep bank	8	9	21
22	Deutsche Bank	4	4	22
23	IBK	5	9	23
24	PSB (Manufacturing & Construction)	8	7	24
25	Rossel'hozbank	7	8	25
26	Zenit	15	14	26
27	Konversbank	13	9	27
28	MFK	5	12	28

	Bank's name in English	Members of Supervisory Board, N	Members of Executive Board, N	Ranking by assets, July 2001
29	Raiffeisenbank	3	4	29
30	Avangard	5	7	30
31	Legprombank	9	4	31
32	Masterbank	5	7	32
33	BIN Bank	5	18	33
34	RBIO	3	9	34
35	Avtobank	11	12	35
36	Promtorgbank	5	7	36
37	Olimpijskij	2	11	37
38	Impexbank	3	6	38
39	ING Bank Evraziya	5	14	39
40	Petrokommerc	9	9	40
41	Promsvyazbank	3	6	41
42	Vizavi	3	2	42
43	Credit Swiss First Boston	4	9	43
44	Transkreditbank	7	9	44
45	Vozrozhdenie	22	10	45
46	IBG NIKoil	7	6	46
47	Moscow Industrial bank	16	10	47
48	ABN AMRO Bank	3	4	49
49	MIB	6	6	51
50	Surgutneftegazbank	9	7	58