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Post-Voucher Russian Entrepreneurship

Executive Summary:

The economic environment in Russia today is unfavorable for both small-scale entrepreneurship of many kinds and for a large proportion of privatized enterprises. The predominant trend today is toward the consolidation of corporatism. Of the seven objectives that were specified in 1992 for Russian privatization, only one has been achieved: that of "creating conditions and organizational structures to broaden the scale of privatization." A large proportion of both production enterprises and privatized service enterprises have fared poorly since privatization, and many employees feel cheated by the privatization initiative. The expansion of legal entrepreneurship has been disappointing. Most political and economic power remains in the hands of bureaucratic oligarchies, many of which operate at the regional level with a substantial measure of autonomy from central authorities. Public support for economic reforms has declined sharply. Most entrepreneurs outside the circle of managerial elites have little ability to lobby effectively for changes that would improve the business environment, but the bureaucratic-industrial-financial alliance is rapidly solidifying its power.

Most of the objectives that were identified for Russian privatization are arguably no nearer realization than they were in 1992, and key objectives became ever more elusive as the privatization program evolved. "A layer of private owners" has been created from the state enterprise sector only nominally. And far from increasing the efficiency of enterprises, privatization has resulted in declining efficiency in a large proportion of enterprises. The social infrastructure is now seriously imperiled, and the stated objective of obtaining finances for infrastructure development through privatization turned out to be largely irrelevant to the actual operation of the privatization initiative through the conclusion of the voucher privatization period, as the objective of pursuing privatization at a rapid pace prevailed over any consideration of obtaining revenue through privatization. Rather than contributing to the process of financial stabilization, Russia's rapid privatization initiative exacerbated Russia's economic woes, and by hampering the development of new businesses, the state has worked against competitiveness in the economy. Finally, the objective of attracting foreign investments through privatization remains largely unrealized.

Overall, for most privatized enterprises in our five research regions (Moscow, Ekaterinburg, Voronezh, Smolensk and Kazan), the Gaidar reformers' promise of improved productivity and profit from a new market environment seems to have faded. Many privatized firms are on the verge of bankruptcy, and the prospect of widespread unemployment looms
large. A few are doing well, especially those whose business is extracting and exporting resources that commanded high prices in the West.

The Russian government has not devoted adequate attention to building the necessary infrastructure for new private businesses since the reforms began. Political elites continue to speak encouragingly about entrepreneurship, but concrete measures that would provide a comprehensive legal framework for market relations and to ensure that tax policies would not be punitive, for example, have not been realized. And Russia’s bureaucracy continues to expand, creating additional bureaucratic impediments to the success of both new and privatized businesses. A variety of tactics are used by numerous state and local bureaucrats to benefit themselves at entrepreneurs’ expense. Fines are often extracted from business people who cannot keep abreast of the ever changing regulatory structure within which they have to operate, for example, and excessively high rents are sometimes charged—often many times higher than official rates. A variety of other abuses of privilege are commonplace.

Our research regions illustrate three notable implications of regional power for entrepreneurship. First, it is evident in every region in our study that prominent business people depend strongly on the good will of regional officials for their success. The power that prominent business and financial leaders are acquiring through their support of regional leaders seems to be reducing competition, as it becomes increasingly difficult for start-up businesses and small enterprises to prosper. This process also supports and threatens to enlarge elements of the command system in the Russian economy.

A second important implication of regional power is that the tension and conflict that are thereby created between regional elites and federal authorities magnify the uncertainty that confronts business people because of their unavoidable dependence on the good will of regional officials. This further complication of region-center relations has worrisome implications for the business community, no matter how these conflicts evolve. Questions that are often at issue here include such matters as tax policies, property rights, price controls and export-import regulations—questions that directly determine entrepreneurs’ possibility to operate profitable businesses. On the one hand, it tends to be in the interest of entrepreneurs for regional officials to have more rather than less decision-making authority over economic questions, because it is usually easier for business people to establish good relations with regional administrative elites than with officials in Moscow. On the other hand, however, the business environment sometimes becomes more problematic for business people even when regional officials are successful in their tug-of-war with central authorities, if the regional officials choose to use the power advantage that they gain to benefit themselves at the expense of private entrepreneurs.
Finally, regional authoritarianism has had a dampening effect on market relations. When local administrative elites gain enough authority to impose regulations that are at variance with state policies, the result for most entrepreneurs seems to be negative. The usual beneficiaries are members of the former nomenklatura.

Having now moved beyond the "initiation phase" of reforms, Russian policy makers must focus on constituency building and the crystallization of ever-widening circles of alliances among affected interest groups. In our research regions, no crystallization of public support for the reforms seems likely in the foreseeable future. Opposition movements are better positioned to find support among the public. The interests that are being articulated the most effectively today are those of still-powerful branches of industry, the bureaucracy, and new financial groups. Thus, the principal direction of change is toward a more vertical structure of control, with regional and federal officials and powerful industrial and financial interests working together toward restoring the chain of command that existed before the reforms began.
POST-VOUCHER RUSSIAN ENTREPRENEURSHIP

Lynn D. Nelson
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Introduction

In this paper we examine the changing face of entrepreneurship from the beginning of the Yeltsin reforms until now, with particular attention to the course of business activity in the wake of the voucher privatization initiative. This study is part of a larger investigation of regional- and national-level developments which bear on the institutionalization, and thus the sustainability, of reforms that were initiated with the aim of promoting market relations in the Russian economy and democratization in the political sphere. We are beginning our analysis with the marketization dimension because well-functioning markets are widely judged to be a fundamental component of the networks of "uncoerced human association" that support democratic political systems and a robust civil society.1

After describing our research procedures, we evaluate the achievements of the reforms until now, in light of the objectives that were emphasized when the reforms were undertaken. Then, we address regional factors related to entrepreneurship--exploring critical implications of regional bureaucratic power for entrepreneurship. Finally, we inquire into prominent features of the entrepreneurial environment that is taking shape today, and to the interests that are coalescing to restore a vertical structure of economic control.

Data and Methods: Summary

We collected data for this study from mid-February until late August 1995 in five regions: Moscow (city), Ekaterinburg and the surrounding Sverdlovsk oblast, Voronezh (city and oblast), Smolensk (city and oblast), and the Republic of Tatarstan. These regions diverge on a number of dimensions that are important to our research problem, and we selected them with an eye toward identifying significant regional variations on key dimensions for analysis. (We discuss the methodological utility of multiple data sources and "investigator triangulation" in the technical appendix.) We also gathered national-level data concerning the principal

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dimensions of our research problem throughout this period. Our 1995 research is an extension of earlier projects that we carried out in 1992-93 and 1993-94 in all of these regions except Tatarstan.

We collected three kinds of data in the project: background contextual and statistical information (including data from public records and also public opinion survey data), primary and secondary documents from a variety of sources, and interview data. The largest part of our data collection effort was directed toward conducting 1,508 interviews with respondents who have been involved in economic reform issues. We interviewed elites, opinion leaders and other strategically placed individuals from business, government, politics, labor, the media, academia and other related spheres. We utilized a theoretical sampling procedure and network sampling for respondent selection--seeking to interview people in each region who were knowledgeable about the themes of our interviews and, in many cases, who were centrally located in networks that were critical to our research problem.

The trends and patterns that we describe in this paper were identified according to systematic coding and interpretation procedures that are discussed in the technical appendix. We consistently selected respondents' statements for quotation in the narrative that represented the characteristic position that was held by that particular subset of respondents about the subject being discussed. If this approach is carefully followed it illustrates for readers the overall trends in a set of data.

We have selectively masked attributes of respondents to ensure confidentiality.

The Reforms and Entrepreneurship: Outcomes until Now

In this section, we highlight achievements of the reforms to date in light of the objectives according to which the reforms were undertaken. Because Tatarstan's privatization program was distinctly different from privatization in other regions, and because privatization there was less comprehensive than in the other regions in this study, the conclusions that we have reached for this paper about privatization do not speak directly to the situation in Tatarstan.

The Privatized Sector

The privatization program that was submitted by the Russian government in 1992, and approved on June 11 of that year, specified seven objectives: "to form a layer of private owners who will support the creation of a socially oriented market economy"; "to increase the efficiency of enterprise activities through privatization"; to provide "social protection for the population and to develop a social infrastructure with finances provided through privatization"; "to contribute to the process of financial stabilization in the Russian Federation"; "to create a
competitive environment and promote demonopolization of the economy"; "to attract foreign investment"; and "to create conditions and organizational structures to broaden the scale of privatization in 1993-1994." ²

In late 1995, it is clear that only the seventh of these objectives has been achieved. Most of the other six objectives are arguably no nearer realization than they were in 1992, and key objectives became ever more elusive as the privatization program evolved. "A layer of private owners" has been created from the state enterprise sector only nominally.³ Most individuals who invested their vouchers in joint stock companies did not become "private owners" in any meaningful sense. And as we will indicate in a later section, a substantial number of enterprise directors who are in the process of becoming "owners" seem now to be involved in building a corporatist system. This is not what was intended for the "layer of private owners" that voucher privatization was supposed to bring about.

Further, it is widely acknowledged that, far from increasing the efficiency of enterprises, privatization has resulted in declining efficiency in a large proportion of enterprises, because of negative factors associated with the external environment and interorganizational relations. Social protection has also declined since the start of privatization. Indeed, the social infrastructure is now seriously imperiled, and the stated objective of obtaining finances for infrastructure development through privatization turned out to be largely irrelevant to the actual operation of the privatization initiative through the conclusion of the voucher privatization period. Instead, the objective of pursuing privatization at the most rapid possible pace prevailed over any consideration of obtaining revenue through privatization. And rather than contributing to the process of financial stabilization, Russia's rapid privatization initiative exacerbated Russia's economic woes, as we and others have pointed out elsewhere.⁴ Has privatization created a competitive environment and helped to promote demonopolization? There is competitiveness in the Russian economy, but most of it is a result of new businesses, not privatized ones. Yet the state has hampered, not aided, the development of new businesses, and in that way has worked against competitiveness in the economy. Privatization itself has changed the competitiveness of the overall environment very little.

³"Reforma" Foundation, Privatizatsiia v Rossii: itogi pervogo etapa i perspektivy dal'neishego razvitiia (Moscow, 1994); and Liudmila Vagramenko, "Privatizatsiia nuzhna. No drugaia . . .," "Ekonomika i zhizn', no. 13 (13 April 1995): 1, 4.
Alexander Radygin, head of the privatization department in Egor Gaidar's Institute for the Economy in Transition and one of the authors of the Russian privatization program, observed in mid-1994 that the administrative elite still controlled the levers of Russian enterprise, and that "the formation of the new property structure---which is the objective that was presented as being the most important in the privatization process--is still ahead." In a like vein, Evgenii Yasin, then head of the Analytic Center of the Administration, wrote in June 1994, "There is no so-called 'effective' owner yet, and in this sense privatization has not achieved its aims." Some former state-owned enterprises (SOE's) have been broken up, but separating functionally differentiated units of an organization does not create competitiveness. The situation today among many privatized enterprises can be more accurately described as monopolization in a new privatized mode than as demonopolization. Financial-industrial groups are heavily involved in this process.

The objective of attracting foreign investments through privatization remains largely unrealized. Outside the fuel-energy comlex, and in spite of a strong effort by the Russian government, the level of foreign investment remains disappointingly low, both in real dollar terms and in comparison with foreign investments in other countries. Only the last of the privatization objectives, then, is actually being realized. Conditions and institutions were created that broadened the scale of privatization in 1993 and 1994. Privatization has not yet produced overall benefit for entrepreneurship, however, and our discussion of interest group activity below suggests that this unfavorable situation may not soon change for the better.

For most privatized enterprises in our research regions, the Gaidar reformers' promise of improved productivity and profit from a new market environment seems to have faded. We interviewed 109 officials in okrugs and other administrative subdivisions below the city level of government throughout Moscow--people who, because of their positions, are knowledgeable about the workings of enterprises in their subdivisions. The head of administration in one okrug told us that for most enterprises in her okrug that had been privatized, "privatization did not bring anything good. It has not improved their economic situations but in many ways has worsened them." In other ways, she continued, "nothing has changed. The names of their

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3 See Nelson and Kuzes, Radical Reform in Yeltsin's Russia, 101-02.
4 See, for example, Vladimir A. Mau, Ekonomika i vlast': politicheskaya istoriya ekonomicheskoi reformy v Rossii, 1985-1994 (Moscow: Delo Ltd., 1995), 54; and A. S. Orlov, Obychestvenno-politicheskie protsessy v srede predprinimatelei (Moscow: Academic Center "Rossiiskie issledovaniia," 1994).
enterprises have changed, and now sound very impressive. Instead of ‘factory,’ now they are a ‘joint stock company.’ But in reality, privatization in most cases has brought negative results."

Not only production enterprises but also privatized service enterprises were consistently characterized by our respondents as having fared poorly since privatization. As another Moscow okrug official described the situation among service enterprises in his area, "Most are either already bankrupt or are on the edge of bankruptcy. I am especially speaking of such enterprises as cleaners, tailors, photography studios and repair shops. Because of unbearable taxation and utility costs, they had to increase their prices so much that most of their former customers, who are now near the poverty level, have completely stopped using those services. So these enterprises can be called ‘privatized’ only formally, because their privileges as owners gives them the ability only to sublease their shops to successful commercial organizations [new businesses]."

The manager of a well-known Moscow restaurant, now privatized, illustrated several themes that we heard again and again from business people, officials and analysts. "I can say nothing positive about the privatization we went through," he told us. "It brought about no good for the people who work here. The huge rent payments [for the building the restaurant occupies] and taxes are eating all of our revenues. . . . Now, we have no way of improving the restaurant. We aren’t able to save anything at all to invest. And there are too many bureaucratic levels that we have to get through. . . . The state is strangling us with taxation and bureaucratic red tape."

The effect of these changes on enterprise workers has been generally negative. The general director of a production enterprise in Smolensk (a joint stock company) noted that "A class of owners has appeared" because of voucher privatization, "but it is very tiny." And as for workers, he stated, "Voucher privatization turned out to be the first thing that planted in people’s minds disbelief in everything that the reformers had hoped to accomplish through the reforms. Many commercial structures enriched themselves through voucher privatization, but 99 percent of the population only got disappointment."

The typical judgments about voucher privatization among our Smolensk respondents were characteristic of what we found in all our research locations. A Moscow okrug official told us. "According to the majority of workers, after privatization they became owners only in words . . . , and the fear of unemployment appeared. They are not confident of their futures."

Elaborating on this theme, the president of a new, private production and retail firm with more than 2,000 employees in another city offered this assessment of the situation workers typically face in privatized enterprises: "As a general rule, the directors and management of privatized enterprises . . . destroyed their enterprises, slowed production, got rid of people--and all that,
to avoid paying dividends for enterprise shares, to force their workers to 'give away' these pieces of paper which they don't know what to do with, and which aren't giving them anything." As a financial manager in Smolensk described this phenomenon, "Enterprises have no interest in improving themselves, and we are now dealing with the process of their selling themselves off. If we were strictly following the law on bankruptcy, at this point more than 40 percent of Smolensk enterprises would be bankrupt."

The employees we interviewed who work outside the top management of privatized firms tended to offer similar assessments. A specialist in a privatized printing enterprise in Voronezh, for example, maintained, "Privatization has brought us, not growth, as everyone had expected, but a decline in production. The reason is that directors--the so-called 'directors' corps'--are doing their best to destroy, to bankrupt, their enterprises. They want to diminish the values of their shares--down to zero--and then buy them 'for a song.' They're doing it with very serious faces, complaining about the difficulties that they're going through. And they will survive, themselves, having high salaries . . . . They will win this game against their workers [shareholders] who are either receiving minimum salaries or are taking [forced] leaves of absence with no pay." Are the workers aware of what is happening in such situations? A Smolensk director of a financial institution offered an answer: "Workers at privatized enterprises want privatization to be stopped, or reversed," he told us. People are, in principle, against this 'false' privatization which did not give them anything besides unemployment, both hidden and actual. Of sixteen production enterprises in this industrial district, fourteen are not working. People have lost all their confidence in Chubais [the architect of Russia's privatization program]. Smolensk has become an incredibly passive city--a city of poverty--, where enterprises have stopped working, there are no jobs, but officials are enriching themselves."

Back in September 1992, a World Bank Country study of the Russian Federation described SOE's as being in a half-way house between a command and a market economy. In 1995, the situation is very different. Now, for many of the smaller former SOE's the half-way house has been closed, and many are now on their own with no good prospects for survival because of the poor market for their products and services. A number of large production enterprises are waiting for the axe to fall. These enterprises have been kept open by government subsidies because of concern about social unrest if the unemployment rate soars. and many of their employees come to work every day, or occasionally, with nothing

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productive to do. Some privatized firms are managing to get by, for now, but with little likelihood of developing into thriving businesses because of a variety of bureaucratic, technical, financial, organizational and informational barriers. Yet, a few are doing well, especially those whose business is extracting and exporting resources that command high prices in the West.

New Business

At the time that the Soviet Union ceased to exist, the nonstate sector was developing rapidly. The number of cooperatives and private enterprises had grown dramatically from 1988, when the Law on Cooperatives was enacted. With these developments, a new class of entrepreneurs had begun to emerge which promised, even before the breakup of the USSR, to pose a real challenge to the state economic monopoly. In two previous books we report on the Russian government’s neglect of the non-state business sector beginning in late 1991. In the second book, which we completed in November 1994, we observe that the Russian government was at that time, partially in response to pressure from the West, evidencing continuing but unenthusiastic attention to entrepreneurship that was being pursued outside the domain of large enterprises.

Little has changed a year later. Yeltsin, Chernomyrdin and many other prominent political elites, including most members of the parliament, continue to speak encouragingly about entrepreneurship, but adequate steps have yet to be taken to build the necessary infrastructure for private business—measures to put in place a comprehensive legal framework for market relations, for example, to create a workable system for financing business development, and to ensure that tax policies will provide needed revenue while protecting incentives for profit-making.

Russia’s legal environment for entrepreneurship came under fire from Chernomyrdin himself at a meeting with his ministers in mid-October 1995, when he admitted, according to

Russian Public Television (ORT), that the government is not living up to the plans that Yeltsin had outlined earlier in the year to create a legal basis for the country's economic renewal. Only 50 percent of the required laws are in place, he noted.13

Chernomyrdin's recent candor in admitting failings of his government across a broad spectrum of policy areas has been interpreted by some analysts as a strategy to defuse sharp criticism from opposition leaders as the December election campaign heats up.14 Yet Russia's bureaucracy continues to expand. Numerous respondents described to us bureaucratic impediments to the success of both new and privatized businesses. We were told of the multiplicity of licenses that had to be obtained, often at great cost of time and effort, to get the permissions necessary for conducting business. Our respondents often recounted specific features of the maze of ever-changing regulations and restrictions that they face, many of which seem to be designed to either extract the maximum amount of tax money from enterprises or to thwart entrepreneurial initiatives. And if, in spite of their best efforts to keep abreast of these rules, a business person should fail to be aware of a new regulation, a stiff fine is in the offing. An owner in Ekaterinburg complained, "There is a constant threat over everyone that his accountant might not catch every requirement, because tax regulations are constantly changing. Every day new rules appear. But there is no chance to learn about many of them. Often they aren't even published. A bureaucrat is our main enemy today."

A Moscow enterprise director highlighted several aspects of this problem that were described to us in detail by a number of other respondents in our five research regions: "The more fines tax collectors collect, the higher their salaries are. So they try to find all kinds of ways to levy fines. They refuse to explain what they want from us. They are unwilling to provide any help, saying, 'Figure it out for yourself.' They are rude, and they tend to see entrepreneurs as potential thieves." In reality, many respondents maintained, tax collectors are often corrupt--taking only cash as payment for fines, for example, without giving business people receipts. These fines are often based on ambiguous rules or regulations that were unknown to the entrepreneur. Anyone who complains, we were repeatedly told, is fined even more.

A Smolensk entrepreneur that we interviewed summarized a dominating theme in our conversations with business people: "It is obvious now that the state has completely failed to support entrepreneurship in our country. So for now, what is really necessary for us is that

14See, for example, Monitor: A Daily Briefing on the Post Soviet States, vol. 1, no. 117 (17 October 1995). Available from jf-monitor@services.sura.net, Internet.
they simply would not continue getting in our way—that they would not create new, unnatural
difficulties and obstacles simply to collect as much revenue as possible . . . They should make
it possible for us to develop our businesses, so that in the future we can pay more taxes. As it
is, people have lost their hope of being able to achieve something independently. Everything
that was started correctly—for example, private entrepreneurship and private farming—
everything is dying." Adding detail to the universal complaint about unreasonable taxation, the
owner of an Ekaterinburg construction firm spoke in tones we heard urgently and without
challenge from business people in all our regions: "They don’t let us work. When you start
estimating the totals from taxes, rent and fines, it just makes you cry. If you invest one ruble,
you have to pay them 98 kopeks, and sometimes it’s even 110. Is this a tax policy? This is just
a state racket! . . . All the business people I know are in the same situation. We are losing our
customers, because we cannot provide the services that they want. Our workers are leaving,
because we can’t pay them what they deserve. If this continues," he concluded. "I’ll have to go
out of business." A Smolensk store owner complained, "Not counting federal taxes, there are
more than a dozen local ones. And the tax system was created so that no one would be able to
understand it clearly. Officials are hiding information about it. The tax collector I report to is
trying to keep me from knowing about new changes in tax regulations so that he can fine me
later [for noncompliance]."

Our respondents detailed a variety of tactics being employed by state and local
bureaucrats, in addition to the collection of fines, to use their positions to benefit themselves.
Entrepreneurs must rent their places of business, of course, and rents are often shockingly
high—frequently many times higher than official rates, with local bureaucrats apparently
pocketing the difference. Officials have, in some cases, set up their own enterprises, which
predictably are given the sought-after permits that are often withheld from potential
competitors, and in other situations they have been found accepting bribes to funnel business
development monies to certain entrepreneurs and not others.

Such bureaucratic misuse of privilege and power was so commonplace in the old
command hierarchy that it surprises no one. As the president of a major financial group in
Moscow characterized this situation, "Today, all power is in the hands of the bureaucracy. All
the talk about power distribution remains just talk. The president is purposefully building a
bureaucratic state. . . . The question is, Why do we need such a state, which is benefiting only
the bureaucratic nomenklatura and the half-criminal governmental mafia?" These practices
seriously impede the development of normal market relations. Indeed, a large number of
respondents insisted to us, the scale of official corruption is larger and less constrained now
than it was under the Soviet system.
These findings help to explain why, in spite of a reform program that is ostensibly aimed at creating a free market, the expansion of legal entrepreneurship has been disappointing. Official data are inadequate, but through this period, the Russian Center for Public Opinion Research (VTsIOM) has been gathering data from their periodic national samples about the number of respondents who have gone into business as entrepreneurs, and also who would like to. Since late 1991, about 25 percent of respondents have expressed the desire to start private businesses, but the proportion who say that they actually have taken that step has remained near 4 percent.\(^{15}\)

There clearly has been expansion of the private sector since 1991, but a large proportion of it, outside the domain of street kiosks, has been in the "gray area. This "gray area" entrepreneurship is a problem for the government, because it loses tax revenue, and it discourages potential entrepreneurs who are unwilling to do business in this way. Because these "gray area" operations provide fertile soil for criminal activity, the forces that impede the development of new legal businesses produce undesirable outcomes for the entire society.

**Regional Factors**

There was substantial potential from the outset of reforms for regional variation in the implementation of economic policies, due to regional differences in economic conditions, technological factors and the availability of natural resources as well as policy orientations among local leaders. Public spending needs vary from region to region, as do tax contributions. In the absence of a standard formula for redistributing budget revenues, ad hoc arrangements between the center and individual regions have developed. The weakness of the center has contributed further to the "disorder in relations between the center and the periphery" Philip Hanson observes,\(^ {16}\) and these conditions in combination provide clear opportunities for local interest groups to shape the evolution of economic policy. Egor Gaidar outlined this problem in even darker hues at the close of the voucher privatization period. "Capitalism cannot, in reality, be stopped," he maintained. "But the dilemma is bureaucratic (nomenklatura, state) capitalism or democratic (civic, open) capitalism." The potential of bureaucratic elites to derail the reforms is especially strong in the regions, where they "retain absolute power," Gaidar continued.\(^ {17}\)

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Our five research regions illustrate three notable implications of regional power for entrepreneurship. First it is evident that prominent business people depend strongly on the good will of regional officials for their success. To the extent that this process is reciprocal and is carried out appropriately, it reflects the emergence of interest group activity that is a hallmark of democratic institution-building. We suggest below that earnest interest group activity is well underway among prominent business people in Russia who command sought-after resources—especially among financial groups. There is reason to doubt, however, that this development is, in fact, a promising sign for either the strengthening of democratic structures or evolution toward more competitive market relations—themes that we explore in more detail below.

A gubernatorial campaign that was underway toward the end of our data collection period illustrates the importance for business people of these connections with officialdom. Sverdlovsk had been granted special permission by Yeltsin to hold the election because divisive political conflict had erupted between the executive and legislative branches that threatened regional stability. Support from the business community was split among the contenders, but a telling feature of the campaign was that business people with substantial holdings—a number of bankers, for example, directors of large privatized enterprises, and owners of large private companies—were heavily involved. Our analysis indicates that virtually all prominent businesses in the Sverdlovsk oblast made substantial expenditures to support the election efforts of "their" candidates.

A broad spectrum of our respondents emphasized that the election outcome was a crucial matter for prominent businesses. As a highly successful businessman in Ekaterinburg described the situation, "It is absolutely necessary for us to participate in politics—to give money to improve the conditions in which we operate. To decide whom to support, we have to figure out who is the least problematic devil for us—who will give us a chance to conduct our business."

The kind of relations that characterize the economic sphere in the Sverdlovsk oblast, where prominent business people depend heavily on personal ties with regional officials, is a

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prominent feature of the business environment in all of our research regions. The president of a major Moscow financial institution put it this way: "If I need anything, I go to the first person—at worst, the second—who is in charge of decisionmaking in that area. I offer him my support in his activities, either professional or political, and I can get anything I want."

The critical implication of this situation for the business environment is that it severely limits the potential of start-up businesses and small enterprises to prosper and increase entrepreneurial competitiveness. It thus threatens to sustain and even enlarge elements of the command system in the Russian economy. As the director of a small commercial enterprise in Moscow described the problem, "Personal connections is the basis for distributing offices, loans, and other resources. The average entrepreneur is not a candidate for these privileges. Small businesses have no way to get anything." A Kazan executive in a medium-size enterprise pointedly highlighted for us this impediment to business success among those outside the circle of elites: "For the average entrepreneur, who does not have a person ‘at the top’ or a ‘hand’ in the power structure, there is only a kiosk by a bus stop or a tiny stand at the local market."

These developments have shaken the confidence of many ordinary business people in the reforms, and have caused them to question their future in the system, from Ekaterinburg to Smolensk. The owner of a small private production firm in Ekaterinburg, for example, told us, "People are afraid to invest, because they’ve lost confidence in the future. They live for the moment. They don’t trust the current authorities on any level--starting from the tax collector, and up to the president." A wholesaler in Ekaterinburg highlighted a related effect of these hard times for most business people: "Any good entrepreneur is eager to transfer his money abroad today—not for economic reasons . . . , but rather for political ones." A Smolensk businessman who imports products from Western Europe framed the problem even more negatively. "The outlook for entrepreneurship isn’t promising," he argued, and added, "If I had any chance to, I’d leave immediately for Cyprus." Underscoring this position, the CEO of a Moscow commercial bank, which was created primarily to service small businesses, observed, "The small businesses sector is shrinking . . . I think the reason is due both to high taxation and the unstable political situation. No one wants to look ahead. People don’t want to know what will happen tomorrow. As a result, they’re just buying, selling, and taking profits from interest. And tomorrow it starts all over again. It’s too risky to invest in production, now." Such pessimism about the future of entrepreneurship reflects the prevailing perspective among the business people we interviewed.

A second important implication of regional power is that the tension and conflict that are thereby created between regional elites and federal authorities magnify the uncertainty that confronts business people because of their unavoidable dependence on the good will of regional
officials. The regions that are faring best in this political struggle are, predictably, those with
the most resources. This further complication of region-center relations has worrisome
implications for the business community, no matter how these conflicts evolve. Questions that
are often at issue here include such matters as tax policies, property rights, and export-import
regulations—in short, questions that directly determine entrepreneurs’ possibility to operate
profitable businesses. On the one hand, it tends to be in the interest of entrepreneurs for
regional officials to have more rather than less decision-making authority over economic
questions, because it is usually easier for business people to establish good relations with
regional administrative elites than with officials in Moscow. On the other hand, however, the
business environment sometimes becomes more problematic for business people even when
regional officials are successful in their tug-of-war with central authorities, if the regional
officials choose to use the power advantage that they gain to benefit themselves at the expense
of private entrepreneurs. For example, the owner of a business in Kazan suggested that "the
demand of bureaucrats to seize as much as possible actually promotes the development of
entrepreneurship and privatization in the regions, but the question is, For whom is it being
done?" His answer: "The nomenklatura have adapted themselves to the new [economic]
conditions, and they have kept all the power in their hands."

A third implication of regional power that was notable in our research locations is that
regional authoritarianism has had a dampening effect on market relations. We will illustrate
this point by briefly discussing two regions in our study: Tatarstan and Smolensk. Tatarstan
offers a particularly striking example of this type of situation. A political leader in Kazan told
us, "In Tatarstan, the power of Shaimiev [president of Tatarstan] is nearly absolute. Everything
is decided through personal relations, and Shaimiev’s power structures are responsible for
practically everything. In Tatarstan, private business is being kept down, even in the retail
sector. We are moving toward feudalism."

We found in Tartarstan a pattern that presented itself in all our research regions. When
local administrative elites gain enough authority to impose regulations that are at variance with
state policies, the result for most entrepreneurs seems to be negative. As a Kazan businessman
told us, "I cannot recall a single local regulation, which takes precedence over a corresponding
federal regulation, that would ease life for an entrepreneur. The effects have been just the
opposite . . ."

These are not just minority voices from Shaimiev’s political opposition. We heard similar
charges from a very large number of both business people and political leaders, and we were
told nothing by our Tatarstan respondents that would seem to contradict these assessments.
Kazan was one of the more sensitive regions in our study, in that a sizeable number of
potential respondents were reluctant to talk with us because of possible negative ramifications for themselves. Our opinion, therefore, is that those who refused to be interviewed would not have painted a less negative picture of the situation for entrepreneurship in Tatarstan than the one that was sketched out for us. "Our regional elites are especially conservative," an entrepreneur emphasized—underscoring the assessment that we heard with striking consistency from our respondents. "There isn’t even a touch of economic liberalism among them."

Local elites in Smolensk present a different kind of pattern. The governor, Anatolii Glushenkov, was elected in April 1993 on a wave of backlash that prevailed in a number of conservative regions against the economic policies of the Russian government. He displaced Valerii Fateev, who was a committed Yeltsin reformer and activist in Gaidar’s party, Russia’s Choice (later, Russia’s Democratic Choice). The most influential elites in the Smolensk oblast are military-industrial complex directors. They helped to elect Glushenkov, and they continue to press for state subsidies in an effort to keep their enterprises afloat. The alliance between these industrial directors, and Glushenkov and his conservative entourage in Smolensk officialdom, has resulted in a business environment that was characterized by one prominent businessman we interviewed as "a swamp of conservatism." As the director of a privatized production enterprise described the situation in Smolensk, "At the beginning of privatization, ‘free’ entrepreneurs were quite powerful. But then it became clear that all the initiative went to the nomenklatura. The nomenklatura can ‘transform’ themselves through ownership in a bank or a holding company, but they remain nomenklatura. As a group, they are no more conscientious now than they ever were."

The manager of a private commercial firm underscored the conservative bent of the Smolensk environment with charges that we heard again and again: "Both in the oblast and the city of Smolensk, the speed of economic reform has slowed. . . . The influence of executive power structures is growing at all levels, and the influence of entrepreneurs is diminishing. There are no new initiatives to promote economic reform. Pro-communistic structures are gaining increasing power, and democratic organizations have completely lost their foothold in the region."

Consolidation of Reforms?

The conclusion of voucher privatization signified the beginning of a new strategic phase for Russia’s reforms, with new demands on Russia’s policy makers and policy managers, and new challenges for entrepreneurs. As Stephan Haggard and Robert Kaufman point out, the "politics of initiation." in the first phase of a reform program, tend to allow for the insulation
of "politicians and their technocratic allies from particular interest group constraints." That Russia's reformers were successful in fielding the challenges that were presented during the initiation phase is signified by their ability to see voucher privatization through to its completion, in spite of harsh opposition to this policy course from several opposition interest groups.

Haggard and Kaufman emphasize that in the second phase of reforms, the "politics of consolidation" demand "a somewhat different balance between state autonomy and the representation of interests"---one which requires studied constituency building and the crystallization of alliances among affected interest groups. 20 It is at this point that the fit of state initiatives with interest group concerns that are effectively voiced becomes critical to maintaining the direction and momentum of reforms, John Waterbury argues, because "top-down change without the support of organized constituencies probably cannot be sustained." 21 Put differently, the base of interest group support that was established during the initiation phase must be broadened, because, as Joan Nelson maintains, the "tactics" that resulted in successful reform initiation must give way to strategies for offsetting the fact that public acquiescence to stabilization measures "predictably erodes." At that point, governments have one of two choices: either to enforce measures for "sustained repression," or to build "strong support coalitions" or find ways to gain a measure of popular support as reforms continue. 22

In this section of the paper, we consider the progress of policy elites toward building the kinds of support among interest groups and the public that are necessary for sustaining reforms in a democratic context.

The Public Mind

Surveys that have been carried out by VTsIOM since 1992 indicate that confidence in the overall direction of the country, and support for economic reforms specifically, have declined sharply over time. When asked whether or not they thought that "events in Russia [were]
moving in the right direction,” in the several 1993 surveys that included this question, between 25 and 30 percent gave a positive response. (The year 1993 was the first year that this question was asked.) By 1995, however, the percentages favorable were 10 to 12 percent. (The 1995 data that we have are from February, March, April and May.)

A question asking whether or not the economic reforms should be continued was asked beginning in March 1992. At that time, 47 percent of respondents favored moving ahead with the reforms. By May 1995, the percentage favoring the reforms had dropped by nearly half, to 26 percent. And the percentage of VTsIOM respondents who believed that “a system based on market relations” was superior to one “based on state planning” dropped precipitously between June 1993 and May 1995—from 39.4 percent in 1993 to 22.3 in 1995. This trajectory spells trouble for “the politics of consolidation” among the Russian electorate.

It is not surprising, then, that market-oriented political leaders are facing a severe political test in late 1995. Boris Grushin of the survey research firm Vox Populi stated on October 9 that recent survey results suggest that the Communist Party had more support than any other party among likely voters (14 percent). Next was Our Home Is Russia (10 percent), Yabloko (8 percent) and Women of Russia (7 percent). No other party, including Russia’s Democratic Choice, appeared to have enough support to clear the 5 percent hurdle that is necessary to participate in the allocation of the State Duma seats that will go to candidates on party lists in the December 1995 elections.

As Joan Nelson observes, policy elites tend to have a choice of “constructive alternatives to repressive approaches” in the face of public resistance to the continuation of a reform initiative. She suggests that the remaining options at that point are to either build “strong support coalitions” or find “ways to gain support from at least some urban popular elements.” In the Russian case, the second of these alternatives appears to have become

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23 “What do you think: Are events in Russia moving in the right direction, or does it seem to you that they are leading to a dead end?”

24 “Informatsiia,” Ekonomicheskie i sotsial’nye peremeny, no. 4 (July-August 1995): 36. These were nationwide surveys of between 1,500 and 1,600 urban dwellers.

25 “Do you think now that the economic reforms should be continued, or that they should be stopped?”


27 The question asked, “What economic system is better in your opinion: one based on state planning and distribution, or one based on market relations?” The surveys were nationwide samples of urban and rural residents. In June 1993, 1,993 people were surveyed, and in May 1995, 2,550. See “Informatsiia,” Ekonomicheskie i sotsial’nye peremeny, no. 4 (August 1993): 38; and Ekonomicheskie i sotsial’nye peremeny, no. 4 (July-August 1995): 36.


virtually unrealizable, as support for the government’s current course has dropped sharply even
among those urban aggregates which have traditionally favored reforms.30

The unfavorable conditions of life that are associated with recent economic developments
among a broad cross-section of the Russian population are implicated in the comprehensive
erosion of public support for reforms. Economic data provide useful indicators of the problem,
and survey data also help to fill in this picture—giving researchers hints at how the reforms are
being judged among different population subgroups, and at how people say their lives have
been affected. Our 1995 interviews provided information of a third kind related to the question
of public support for the reforms. We wanted to learn more about the prospects for interest
group mobilization among different potential constituencies by obtaining readings on that
potential from those who are closest to its source, and from those who are the best positioned
to become mobilizers in the formation of interest groups.

On this subject, the pattern that is suggested by our data is unambiguous. In all five of
our research regions, the elites, opinion leaders and analysts we interviewed consistently
indicated that no crystallization of public support for the reforms is likely in the foreseeable
future. Any mobilization that may occur, we were repeatedly told, would probably take either
the form of seeking compensation for particular losses—in investment funds, for example (and
some of that is now happening)—or participating in movements organized to oppose the
government’s current economic course. We sought evidence of embryonic or even potential
interest group developments of a different sort—using our network sampling technique to search
for even the faint beginnings of such mobilization activity. We found none.

**Interest Group Formation and Development**

In Russia today, most political and economic power remains in the hands of bureaucratic
oligarchies, many of which operate at the regional level with a substantial measure of
autonomy from central authorities.31 In this sense, Gaidar’s fear that regional elites might take
charge of a kind of state capitalism has been realized. A year after he voiced this concern, it is
clear that the principal direction of change is toward a more vertical structure of control, with

30See, for example, Larisa B. Kosova, “Razocharovanie v reformakh v razlichnykh statusnykh gruppakh,”
*Ekonomicheskie i sotsial’nye peremeny*, no. 4 (July-August 1995): 36-37; Khakhulina and Golovachev, “Piat’
let ekonomicheskikh reform: izmeneniia v otsenakh i mneniiakh naseleniia,” 33-36; and “Informatsiia,”

31See also Orlov, *Obshchestvenno-politicheskie protsessy v srede predprinimatelei*, 38-39; Vladimir Lepekhin,
“Rossiiskii politicheskii landshaft i ob’edineniia predprinimatelei,” *Biznes i politika*, no. 1 (1994), 6-12; Expert
Institute of Russia’s Union of Industrialists and Entrepreneurs, *Lobbizm v Rossii: etapy bol’shogo pyt* (Moscow: Expert
regional and federal officials and powerful industrial and financial interests working together toward restoring the chain of command that existed before the reforms began. The business interests that are being articulated the most effectively are those of still-powerful branches of industry and of new financial groups. But the interests of disappointed workers, and of most of the country’s population overall, have not found broad and determined organizational expression. And most entrepreneurs outside the circle of managerial elites are merely trying to survive, with virtually no ability at this point to lobby effectively for changes that would benefit them or promote economic competitiveness.

Conclusion

In the face of broad public and legislative disapproval, the Yeltsin reformers successfully completed the initiation phase of reforms. Yet, consolidation of reforms in a democratic context is another matter. Russia’s political sphere in late 1995 reflects profound instability, and public confidence has been undermined in both the reforms and the reformers. Even the word “reform” has lost much of its earlier resonance in Russia today. In our recent experience, when people now speak of recent economic changes, they do not usually characterize them in terms of reform. When we asked our respondents about different aspects of “the reforms,” they typically responded, “What reforms?” “Reform” is becoming a distinctively Western word to describe the changes in Russia’s economy since the end of the Soviet period. From the remains of an economic system in disarray, the bureaucratic-industrial-financial alliance is solidifying its power, using old connections and new money, acquired, in many cases, opportunistically. The Russian government continues to affirm its support for small business, but the predominant trend today is toward the consolidation of corporatism.
**Technical Appendix**

**Background**

This study is an extension of earlier projects that we carried out during 1991, 1992-93 and 1993-94. In 1991, we conducted semi-structured personal interviews in Moscow among cooperative owners, managers of joint ventures, foreign business people, and state enterprise personnel with the aim of exploring key aspects of the interrelationships between political, economic and social factors in the emerging reforms (N=101). Our objectives in that work were both descriptive and theoretical, as we sought to utilize these preliminary findings in clarifying the process of institution building under conditions of structural transformation.

In our 1992-93 and 1993-94 inquiries, which were carried out in all of our 1995 research locations except Tatarstan, we combined quantitative survey data with qualitative data from open-ended interview questions and several other types of primary and secondary source material in an effort to both describe and interpret ongoing political and economic changes. A large part of our 1992-93 research involved the gathering and analysis of interview data. Following pretesting (n=250), in 1992 we interviewed 5,782 respondents in the four research locations--privatization decision-makers (n=171), directors and owners of state, privatized and new private enterprises (n=966), and nonmanagerial workers in state, privatized and private enterprises (n=4,645). We interviewed all the privatization decision-makers in Voronezh and Smolensk and samples in Ekaterinburg and Moscow based on our judgments of who the key decision-makers were in those cities. Among enterprises, outside Moscow we carried out our research in all the privatized enterprises where we were able to secure permissions. and in Moscow, we sampled from a large number of already privatized enterprises--selecting all industrial enterprises that had been privatized and sampling randomly from others. We constructed our state enterprise and private enterprise samples to match as closely as possible the distribution of spheres of enterprise activity characterizing our privatized-enterprise subsample.

Our 1993-94 project also included a large survey research component, along with analysis of several other types of primary and secondary data. In 1993 we interviewed 5,019 respondents following pretesting (n=140) in Moscow and Voronezh. We used four interview schedules in most of this work, with fixed-choice and open-ended items, to gather data in each city from (1) probability subsamples of the general population (n=4,000); (2) directors of enterprises (n=583); (3) administrators in the government's privatization program (n=146); and (4) city, oblast, and federal-level officials (n=243). We also carried out 47 strategic unstructured interviews to follow up on questions raised during the course of interviewing with
the interview schedules. We combined probability sampling (for the general population subsamples) with theoretical sampling in the project, and our principal focus in interviewing enterprise directors was production enterprises.

Our studies in 1992-93 and 1993-94 were descriptive and explanatory, and we combined typological regression standardization, which permitted the utilization of multiple control variables to estimate the "pure" effects of several predictors, with qualitative interview data which facilitated more direct inquiry into relational and temporal factors that were central to our research questions.

Overview of Our 1995 Project

Research Locations. Our 1995 research was carried out in Moscow (city), Ekaterinburg and the surrounding Sverdlovsk oblast, Voronezh (city and oblast), Smolensk (city and oblast), and Kazan and the Republic of Tatarstan. These regions diverge markedly in size, geographic location, and economic conditions. The reform paths that have characterized these areas until now also reflect marked dissimilarity, as do positions among their electorate on questions of economic policy.

Moscow, as Russia's capital and largest city, offered the opportunity for research among officials and opinion leaders with both national and local constituencies. The concentration of a substantial portion of private Russian business activity there and the divergence of Moscow's privatization program from the state program also contributed to the pursuit of our research objectives. The Moscow electorate have consistently shown strong support for economic and political reforms, and in the December 1993 elections, Moscow gave Russia's Choice its strongest support in Russia (with 35 percent of the vote).

Ekaterinburg (population 1,347,000), the largest city in the Urals region, has long been a major military production center. In April 1993, while backing Yeltsin in the referendum by a one-sided margin of nearly nine-to-one, 83.6 percent of voters in the Sverdlovsk oblast approved a proposal to take economic matters into their own hands by creating a Urals Republic within the Russian Federation. In the December 1993 elections, however, Russia's Choice did much better than in many other regions of Russia, garnering 25 percent of the vote.  

The population estimates for these cities are for 1994 and are taken from Rossiiskii statisticheskii ezhegodnik: 1994. Moscow: Goskomstat Rossii, 1994.

40Forty-nine percent of eligible voters participated.
Voronezh (population 905,000), in south-central Russia, is home to a diverse array of production enterprises, from heavy machinery and electronics equipment to processed food and clothing. It is the central city of the black soil agricultural area and has a large rural population (38.5 percent of the total for the oblast). Voronezh's governor, Andrei Kovalev, was appointed by Yeltsin in the summer of 1992 but did not become a strong advocate of the government's reform program. He has a broad base of popular support among the electorate. Both the executive and legislative branches in Voronezh have worked to ease the pain of economic hardship among Voronezh residents—keeping the prices for consumer goods more in line with salaries than they were in most regions. Voters in the Voronezh oblast showed their strongest support in December 1993 for Zhirinovsky's Liberal Democratic Party (LDP; 31 percent).

Smolensk, located on the Dniepr River in western Russia, is one of Russia's oldest cities, and with a population of 353,000 is the smallest city in our study. The governor of Smolensk until April 1993 was Valerii Fateev, a committed Yeltsin reformer who had worked for radical economic transformation throughout the oblast with considerable success. He was defeated in the April elections by a rival, however, who promised to slow the pace of reforms. In December, only 43 percent of Smolensk oblast voters supported the Yeltsin constitution, and only 11 percent voted for Russia's Choice.

With a population of 3.7 million people, the Republic of Tatarstan is located at a crossroads that connect Europe, Central Asia and Siberia. Tatarstan is rich in natural resources. The capital, Kazan (population 1,092,000), is an old industrial center on the Volga River. The Supreme Soviet of Tatarstan adopted a Declaration on State Sovereignty on August 30, 1990, and the following March 61.4 percent of voters cast their ballots for sovereignty. In November 1992, a constitution was adopted by the Supreme Soviet of Tatarstan, and on February 15, 1994, a treaty was signed with Russia which specified the political relationship between Russia and Tatarstan—the first such treaty between the federal government and a subject of the Federation. Tatarstan also introduced a unique form of privatization in 1992—one which has been described as a "mild" approach to entering the market. In the December 1993 elections, 22 percent voted for both Russia's Choice and for Zhirinovsky's LDP, and 12 percent cast their ballots for Yabloko.

**Objectives and Research Questions**

The execution of the project centered on four objectives, which emerged from our theoretical framework. First, we wanted to describe the evolution of strategies, organizational arrangements and features of interest articulation that have been critical for privatization and entrepreneurship from the late Soviet period through the first, initiation, phase of reforms and
into the consolidation phase. Second, we wanted to assess the relative effectiveness of official bodies and competing interest groups in achieving their aims during the current, consolidation, phase of reforms. Third, we deemed it important to identify features of the reform initiative which seem to have been particularly noteworthy in both promoting and hindering achievement of the reformers’ consolidation phase goals at both local and national levels. Finally, we hoped to locate privatization and entrepreneurship developments in the larger structural and institutional context of Russian society.

Our previous research, combined with related theoretical and empirical work of other researchers, provided the foundation for a number of research questions which we articulated before the 1995 data collection phase began—questions that guided our construction of the semi-structured interview guides with which we began our interviews and which also pointed us toward other primary and secondary data that we collected from a variety of sources. Our preliminary set of questions was revised markedly as data gathering proceeded, consistent with our iterative research strategy (discussed below).

One set of questions that we posed concerns the overall pattern of political developments and organizational emphases which has evolved from the initiation phase to the consolidation phase. A second set structured our inquiry into specific privatization and entrepreneurship issues which we identified as significant and illustrative cases in each of our five research locations. A third group of questions highlight policy implications of the study.

**Research Design, Data Collection and Interpretation**

**Time Frame and Types of Data Collected.** Data collection began in mid-February 1995 and continued until late August. We collected three kinds of data during this period. First, we gathered background contextual and statistical information (including data from public records and also public opinion survey data) regarding recent reform developments. With these materials we updated our files for each city and oblast in our earlier projects—files which document progress both locally and nationally toward realizing the objectives of the economic program.

Second, we collected primary and secondary documents from a variety of sources. We obtained these documents in each of our research locations to inform our inquiry into configurations of interest group alliances, for example, critical points of consensus and disagreement among state actors and interest groups, and related questions. The field work directors in each region coordinated this document collection and wrote a regional report which included both the collected material and their analyses of several questions that we posed to them. A key feature of each regional report was to be a description of local progress toward
realizing the objectives of the economic program, with supporting statistical and other
explanatory detail, and a discussion of important aspects of economic change in the city and
oblast (particular problems that arose and how these problems were resolved, for example,
issues and conflicts that became especially important, and similar details). We reviewed these
reports before the conclusion of the data collection period and requested revisions and
supplementary information in some cases.

Finally, the largest part of our effort in the project was directed toward gathering data
through semi-structured interviews with selected respondents who have been involved in
economic reform issues and activities related to democratic institution-building, broadly
conceived. We conducted 1,508 interviews in the study: 537 in Moscow, 363 in the Voronezh
oblast, 244 in the Smolensk oblast, 278 in Tatarstan, and 86 in the Sverdlovsk oblast.\footnote{We also conducted a number of unstructured strategic interviews with officials, decision makers, opinion leaders and researchers during the course of data collection. Those interviews were not used in the analysis for this paper, however.}

(These numbers include 50 pretest interviews in Moscow and Voronezh.) We interviewed
elites, opinion leaders and strategically located individuals from business, government, politics,
labor, the media, academia and other related spheres. Our interviews focused on a number of
subjects related to our research questions, as originally framed and modified and further
elaborated over the course of data gathering.

\footnote{We also conducted a number of unstructured strategic interviews with officials, decision makers, opinion leaders and researchers during the course of data collection. Those interviews were not used in the analysis for this paper, however.}

We had originally planned to conduct 360 interviews in the Sverdlovsk oblast, but shortly after Lynn Nelson arrived in Moscow in late January, it became evident that we would have difficulty in Ekaterinburg and
Sverdlovsk oblast obtaining the volume of data there that had originally been anticipated. Local officials were
making it known that they did not want to cooperate—a situation we have encountered before in that region. We
studied our options in Ekaterinburg with the aid of Boris Berzin, who served as field work director there in
1993. A group of his colleagues also participated in these discussions, which continued through the end of
February. Berzin’s view was that we should abandon our plan to work in the Sverdlovsk oblast this year,
because of official resistance. We did not want to choose that path, both because the political and economic
situation there was intriguing in light of our research problem, and because we wanted to update the longitudinal
data we had gathered in that region during 1992 and 1993.

Ultimately, we assigned the responsibility of field work direction in Ekaterinburg to Elena Petrovna
Markelova, a specialist who works with political parties and public unions in the office of the Presidential
Representative in the Sverdlovsk oblast, and we scaled down the number of interviews to be conducted there.
Markelova was ideally positioned to elicit as much cooperation from local officials as we could hope to receive,
and we knew that she was well-regarded by key individuals from whom we wanted to secure interviews and
other information for the study. We decided to seek around 100 interviews in Ekaterinburg/Sverdlovsk oblast
rather than the 360 that we had originally planned, and to gather the other primary and secondary data there that
were highlighted in the project proposal as planned.

This change in the Sverdlovsk region made it possible for us to add Tatarstan to the study. Our preliminary
work in late January and February had convinced us that research in Tatarstan would provide valuable
information for our inquiry into regional politics, because of Tatarstan’s initiatives which had led to a greater
degree of regional autonomy than had been gained by other regions in our study. On the regional autonomy
dimension, Tatarstan and Smolensk are in some ways at polar extremes from one another.
**General Research Strategy.** For this study, we wanted to utilize a more fine-grained and pliable data collection procedure than is possible in interviewing that utilizes the single-shot approach of questionnaire construction and administration—even when questionnaires include a large number of open-ended items. To realize our research objectives, we needed to follow a data collection strategy that would be suited to investigate questions that emerged, in some cases, and that we reconceptualized in others, over the course of the study—one that would be responsive to theoretical reformulations during the period of data collection that could be quickly incorporated into our ongoing field work. We believed that this would both give us better interview data than we would otherwise obtain and also direct us to sources of other primary and secondary data that we might otherwise miss.

We began the project with a concrete theoretical perspective that we had developed and elaborated over the course of data collection and analysis in our earlier studies. This foundation enabled us to make selective use of the analytic induction and grounded theory approaches for broadening our inquiry in this round of data collection and building into the study procedures for revising and redirecting selected foci of our research throughout the data collection period. In analytic induction, after researchers have identified central aspects of the problem to be studied, data collection is combined with analysis and reformulations in "an iterative interplay between data collection and revision of the hypothesis," as Alan Bryman and Robert Burgess identify the process.35 This perspective on the interaction of data and theory during field work is related to the "grounded theory" approach, which also highlights procedures that are useful in systematizing comparison and coding.36 We began the study with a more fully elaborated theoretical framework than the grounded theory approach typically assumes, however, and we built on the grounded theory literature by incorporating deductive testing and verification strategies and other methodological refinements that have been introduced by a number of...
researchers and tested, in some cases, in our own Russian field work since 1991.\textsuperscript{37} (We highlight aspects of our verification strategy below.)

An iterative process of interview guide construction, interpretation of collected data, and revision of interview guides for additional field work was followed throughout the data collection period. The interview guides highlighted important directions that we wanted interviewers to take in the course of the interviews, but interviewers were not tied to a restrictive list of predetermined questions. Rather, themes and specific points that should be addressed during the course of interviews were specified, and interviewers were expected, and trained, to identify promising leads which emerged as interviews were conducted. Over the course of data collection we developed four interview guides, two of which went through major revisions.

We trained our interviewers, all residents of the regions where they collected data, in the use of interview guides. We worked with separate research teams in each region. Including the field work directors (one in each region), our research organization included 13 interviewers in Moscow, 3 in Ekaterinburg, 10 in Voronezh, 9 in Smolensk and 9 in Tatarstan. Lynn Nelson coordinated the field work with the assistance of Irina Kuzes, who assumed coordination responsibilities for the last two months of data collection.

Lynn Nelson directed training seminars for all interviewers and field work directors before data collection began. (We had worked with a number of our interviewers in 1992 and also in 1993, and Lynn Nelson had conducted training seminars in all of the research locations except Tatarstan during both of those two earlier projects.) We held project review seminars with each interview team except for those in Ekaterinburg approximately every three weeks during the first three months of data collection.\textsuperscript{38} At that point, interviewing was completed in Voronezh, and most of it had been finished in the other regions outside Moscow, as well. We


\textsuperscript{38}Because travel costs between Ekaterinburg and Moscow are quite high, and also because of the small size of the Sverdlovsk oblast research team, the training and project review schedule was modified for that region.
met with the field workers less frequently after that time (except in Moscow, where meetings were held often), during the final stage of data collection. Frequent telephone, fax and e-mail correspondence throughout the period also facilitated coordination.

The project review seminars were useful in several ways. Two or three days before each seminar, field work directors who were away from Moscow sent us disks with all interview reports (discussed below) that had been written since our previous seminar. We reviewed this material before the seminar and critiqued the reports during the seminars—suggesting changes that we thought were needed in the approaches of different interviewers and highlighting areas for further inquiry (including suggestions for reinterviews. We reinterviewed about 5 percent of our initial respondents during the study. The 1,508 interviews that we collected include these reinterviews.). During the seminars, interviewers also made suggestions to us for revising interview guides and redirecting the research in a variety of ways, based on their field experiences and their interpretations of data that they had collected. During these meetings, we discussed with each research team the changes that we believed should be made for the next round of interviewing, and we invariably came to consensus after discussing the different perspectives that we brought to the questions and recommendations that were presented.

**Sampling.** We utilized a theoretical sampling procedure in the study, which Glaser and Strauss describe as a process "whereby the analyst jointly collects, codes and analyzes his data and decides what data to collect next and where to find them." As Robert G. Burgess describes this approach, it "formalizes various activities" that are important in field studies: "having enough evidence, having enough data in a particular area, and deciding when to move on to other related problems." Rather than seeking to produce representative samples of populations, theoretical sampling aims to facilitate sound explanatory, as well as descriptively detailed, analysis of data, by allowing researchers to overcome the restrictiveness of probability sampling in following leads and elaborating tentative findings in ways that would not be possible with probability sampling. As part of our theoretical sampling strategy, we employed the network sampling technique, which is defined by W.L. Neuman as "a method for identifying and ‘sampling’ or selecting the cases in "an interconnected network of people or

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40Burgess, In the Field, 56.
41See Jennifer Mason, "Linking Qualitative and Quantitative Data Analysis," in Analyzing Qualitative Data, ed. Bryman and Burgess, 103.
organizations" that are important to a research problem.\textsuperscript{42} Our list of potential respondents changed as our interview guides revised and as new directions for inquiry were identified during the course of data collection.

Our theoretical sampling procedure was oriented toward selecting respondents in each region who were knowledgeable about the themes of our interviews and, in many cases, who were centrally located in networks that were critical to our research problem. A significant number of people we wanted to interview turned us down, in many cases out of fear or concern about the implications of an interview for their jobs, confidentiality assurances notwithstanding.

\textbf{Interviews and Interview Reports.} Approximately 80 percent of the interviews were tape recorded. On a daily basis, interviewers completed a report for each interview which included transcriptions of key points in the interview and answers to questions that were posed by the project collaborators in addenda to some of the interview guides. Our questions concerned specific dimensions of the research problem appropriate to particular interview situations. They were intended to facilitate our review of progress toward realizing the research objectives and identifying needed modifications in the interview guides. Interviewers utilized recordings in preparing their interview reports, and the tapes were also selectively reviewed by project collaborators to monitor the quality of interview reports from each interviewer.

The duration of interviews was usually from about an hour to one-and-a-half hours, although a number were longer. Interview reports averaged 3.5 pages in length—for a total of about 5,300 pages.

All interview reports were stored in machine-readable form for analysis.

\textbf{Reliability and Validity.} We identified the trends and patterns that we describe in this paper, and selected excerpts from our interviews for presentation in the narrative, according to systematic coding and interpretation procedures. Our coding was multi-stage, with checks for accuracy and within-sample representativeness.\textsuperscript{43} Triangulation (particularly data and investigator triangulation) and also respondent validation gave us checks on internal consistency reliability and external consistency.\textsuperscript{44} We found Miles and Huberman's tactics for testing and

\textsuperscript{42}W. Lawrence Neuman, Social Research Methods: Qualitative and Quantitative Approaches (Boston: Allyn and Bacon, 1994), 199.

\textsuperscript{43}See Miles and Huberman, Qualitative Data Analysis, 55-72; and Strauss and Corbin, Basics of Qualitative Research, 61-158.

confirming conclusions to be useful and utilized a number of them in our analysis. (The provisional nature of our predesigned instrumentation can contribute to construct descriptive-contextual validity, and comparative analysis of different categories of respondents and different regions can facilitate external validation if "local webs of causality" are not aggregated out.)

Confidentiality. In this paper we have masked some actual attributes of respondents to ensure confidentiality. Thus, we occasionally have misstated region of residence, but not in ways that would suggest correlations between region and responses that we deem to be out of line with our overall pattern of findings. We have also sometimes misstated the sex of respondents, and in some cases we have described respondents' work ambiguously in order to protect confidentiality. Extreme caution was necessary in this regard, because of the sensitivity of the research problem for many respondents.

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45A. Michael Huberman and Matthew B. Miles, "Data Management and Analysis Methods." in Denzin and Lincoln, Handbook of Qualitative Research, 438; and Miles and Huberman, Qualitative Data Analysis, 262-76.

46See Huberman and Miles, "Data Management and Analysis Methods." 435, 441.