

Between Under-determination and Over-determination:  
A Multi-level Understanding of 'Success of Path Dependence'  
through 'Perpetuation of Failure' during Reform

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### **Biography**

An AIM (London, United Kingdom) Research Associate and a Senior Lecturer in Coventry Business School, Edward has background in three distinct areas: Economic policy (privatisation and corporate restructuring; informal institutions during Bulgarian and Russian transitions), Marketing (relationship marketing; power and disciplining during service encounters; critical and post-modern conceptualisations), and Strategy (clusters, regions and regional development; analysis of networks and communities; public policy towards high-tech networks and clusters).

### **Abstract**

Path dependence theory continues to attract considerable attention. This discussion builds upon current research in the area, highlighting disagreements and addressing under-researched aspects of agency, 'path following' and 'path violation', as well as path dependent resource use. By investigating privatisation mal-management – illicit expropriation of state-owned assets for personal gain – we fill conceptual and empirical gaps, firstly, by demonstrating how individuals give meaning to inherited, long-standing structures and processes, secondly, by conceptualising a mix of 'path following' and 'path violation' in the context of 'strong' and 'early' path dependence, and finally, by tackling sidelined issues of path dependent resource utilisation, not resource allocation.

**Keywords:** structure and agency, path violation, path amplification, strong path dependence, institutional entrepreneurs, privatisation

## **Introduction**

Path dependence has attracted considerable attention from scholars working in areas as diverse as economic geography, historical sociology, international business, knowledge management, organisational learning, philosophy of science, politics and international relations, marketing, and strategic management. Accumulated theory is built on assumptions of the power and legacy of initial conditions, of choices and circumstances which are difficult to alter and 'reverse'. Technologies, underlying institutions and organising structures – extending from the level of the dyadic interaction, through the individual organisation to the industry, clusters, regions and the economy – may possess 'self-reinforcing properties' and are, thus, historical products.

This discussion builds upon the rich and varied path dependence scholarship, highlighting disagreements and contentions in the area but also addressing under-researched aspects of negative lock-ins, inertia, and 'path violation'. These matters are discussed in the context of privatisation mal-management – defined here as the illicit expropriation of state-owned assets for personal gain, on the part of inherited elites such as management, bureaucrats in ministries and ex-communist party members – in early to mid 1990s Bulgaria and the clubs of insiders who perpetuated and 'amplified' path dependent processes and structures. The clubs facilitated the remarkable continuity and inertia characterising not only the project of privatisation and corporate restructuring in the country but economic, social, and political reforms more generally.

The investigation of the nature and consequences of the involvement of bureaucratic clubs in the economy has been possible through the search for and sense-making of deeper, longer-term aspects and peculiarities of national development. This search for a historical and, therefore, embedded answer to 1990s economic problems sheds light on seminal issues which remain unresolved in path dependence theory regarding the role of individuals in sustaining and changing path dependent structures and processes (see Mahoney and Snyder 1999), the interplay of path following and path violation, and the place of resources and resource use in sustaining or changing paths. The first issue – that of agency – demarcates 'undersocialized' from 'oversocialized' approaches. We approach this issue by developing a multi-level analysis of mal-management where levels of path dependence and the institutional, organisational and individual levels of organising are linked.

A number of implications of our investigation of privatisation mal-management are explored. They will hopefully enrich path dependence theory in three distinct ways. Firstly, the

empirical analysis not only fills a specific gap in case study material of path dependence (see Foray 1997; Noda and Collis 2001) but illustrates the aforementioned inter-penetration of organising and path dependence of organising at the institutional, organisational and individual levels. This is partly demonstrated through the combined examination of informal institutions and the weakness of institutional entrepreneurs but also through the study of ‘path amplifying’ and ‘path reinforcing’ qualities of clubs which presented ‘interconnected opposition to innovation’, ensuring what we refer to as the ‘success of path dependence’ in the 1990s through the ‘perpetuation of failure’. Thus, in response to Mahoney and Snyder’s (1999) criticism of over-socialised structuralist conceptualisations, we demonstrate how individuals give meaning to inherited, long-standing structures and processes by employing a multi-level investigation.

Secondly, the paper investigates some of the difficulties in escaping negative lock-ins, thus providing empirical backing for the link drawn in current scholarship between path dependence and punctuated equilibria. Our empirical support for such a link, though, is only partial. The story of privatisation mal-management teaches us that, rather than approaching path continuity and path redirection as polar opposites, we may need to develop a more nuanced and sophisticated thinking which combines path weakening and limited path violation during crisis. This may be particularly so in cases of ‘strong path dependence’ (David 2001) or ‘early path dependence’ (Martin and Sunley 2006) – precisely the type uncovered in 1990s privatisation mal-management.

Thirdly, path dependence thought remains preoccupied with issues and mechanisms of path dependent resource allocation. Analysis of path dependence in terms of resource utilisation, though, is rarer (Lavoie 1996; Setterfield 1997). In the process of unravelling privatisation mal-management and accounting for the role of clubs in perpetuating sub-optimal outcomes and failure, we place emphasis not on the allocation but the use of resources such as information, access to specific institutional channels, ability to counter competitive claims for control over resources, and power over the legitimacy claims of competitors such as the institutional entrepreneurs in question.

The discussion opens with an overview of strands of and concepts in path dependence theory of specific interest to our analysis. Next, deficiencies of past and current conceptualisations are noted, more specifically regarding agency, path violation, and path dependent resource use. A largely empirical section succinctly presents the story of privatisation mal-management in early to mid 1990s Bulgaria, followed by our attending to the characteristics of bureaucratic clubs which not only reaffirmed but amplified path dependent structures and

processes during the period of interest. In order to account for the remarkable continuity and the negative lock-ins of economic development, antecedents or ‘initial conditions’ of such sub-optimal, long-standing structures, processes and behaviours are uncovered. The national history supplies our analysis with seminal historical moments which sealed the development path at the collective and individual levels and help us make sense of the 1990s conditions not only in the sphere of privatisation but also more generally. In conclusion, we present three promising implications concerning the inter-penetration of agency and structure, the interlocking path dependence and path violation, and the nature and effects of path dependent resource use.

### **What is Out There? A Glimpse at Writings on Path Dependence**

Definitions of path dependence invariably reflect a belief that initial conditions and choices are not easily reversible and that ‘particular sequences’ may exhibit ‘self-reinforcing properties’, thus potentially precluding the search for or adoption of novelty (Song et al. 2003). Path dependent phenomena are treated as products of history – a focus equally applicable to ‘developmental sequences’ in the natural sciences and ‘social dynamics’ (Martin and Sunley 2006). Current outcomes are viewed as deeply affected by previous outcomes (Puffert 2002), possibly engendering lock-ins (Arthur 1994).

Path dependence theory is habitually traced, by organisation researchers at least, to David’s (1985, 1986) pioneering research on ‘sticky’ early conditions and Arthur’s work on non-linear economic processes (1988, 1989). However, the concept is considerably older. Its origins may be located in Veblen’s (1898) notion of ‘cumulative causation’ and Menger’s (1883) thesis of ‘institutional emergence’. It was in the 1980s, though, that various aspects of path dependence and lock-ins came in vogue. They have been applied, ever since, to economic geography (Buzar 2005; Krugman 1991; Kenney and Patton 2005; Martin and Sunley 2006), environmental economics (Goodstein 1995), historical sociology (Goldstone 1998), international business (Cantwell and Zhang 2006; Jones and Khanna 2006), knowledge management (Carlile 2004), marketing (Wollin and Perry 2004), organisational learning (Engelhardt and Simmons 2002; Song et al. 2003), philosophy of science (Sterman and Wittenberg 1999), politics and international relations (Mahoney and Snyder 1999), and strategic management (Puffert 2002), among others.

Writings belonging to or informed by path dependence theory have enriched analysis of organising by providing vocal criticism of ‘acontextual’ and ‘ahistorical’ approaches (Lundgren 1992). They force us to be sensitive to ‘intertemporal dependence’ (Håkansson

and Johanson 1992), cumulative investments, unique historical effects, “historical specificity and persistence” (Hage and Hollingsworth 2000: 998) by tracing current action, organisational configurations, and institutional conditions to respective action, configurations, and conditions in past moments. This issue of ‘stickiness’ of history, or of what authors refer to as systemic ‘non-ergodicity’ and ‘quasi-fixity’, betrays an interest in ‘dangers’ of development lock-ins typically discussed as ‘rigidities’ or inflexibilities and associated with inertia, reproduction (Mahoney 2000), insularity, and failure.

There is some disagreement among path dependence scholars as to the degree of freedom of individuals and the power of structures (Mahoney and Snyder 1999). In spite of the determinism customarily attributed to path dependent conceptualisations, issues of agency remain important. Though not particularly pronounced, relatively voluntarist and somewhat ‘undersocialized’ arguments may be uncovered in otherwise predominantly structural and ‘oversocialized’ approaches which approach structures as ‘omnipresent’, delimiting and demarcating individual behaviour. The propensity to bracket individual and collective action and emphasise larger structures owes to an interest in context and local, highly idiosyncratic specificities of development. Whilst not challenging the importance of such specificities, we argue that a proper understanding of path dependence may need to suitably scrutinise agency and structure.

Building upon the last point, lock-ins have been studied as capable of preserving inefficient institutions (Setterfield 1993). Due to our interest in institutional conditions behind the 1990s privatisation mal-management in Bulgaria and the historical contingencies accounting for such mal-management, the thesis of the path dependence of institutions (North 1990) is fully embraced. Inflexible and difficult-to-transform institutions – formal and informal – shape agency but are themselves maintained or transformed through agency. Current institutional and organisational configurations are, thus, a reminder of historical institutional and agency choices. In accounting for institutional failure and the persistence of sub-optimal institutional and organisational arrangements, ours is one of few accounts of pssCEE (post-state-socialist Central and Eastern European) transition engaging with matters of path dependence and, more specifically, informal institutional path dependence (Bramall 2003; Zukowski 2004). The story of 1990s institutional and organisational arrangements also addresses conceptual and empirical deficiencies discussed by Zukowski (2004) concerning the often generic treatment of path dependence.

## **Path Dependent Privatisation Mal-management and Lock-ins in 1990s Bulgaria**

### **An Overview of Some Instances of Mal-management**

In spite of promises for speedy privatisation and determined structural adjustment efforts by successive Bulgarian cabinets, the early to mid 1990s witnessed privatisation slowness and mal-management. Three vignettes illustrate such mal-management, some of its more pronounced processes, and the role of bureaucratic clubs in maintaining the inherited status quo. The stories, documented by Bozhkov (1997), Dimitrova (1996), Gozes and Zahariev (1996), Pantev (1997), Radev (1996) and an anonymous article in *Standard* (February 27, 1997), attest to the scale of the spoils of privatising state-owned enterprises (SOE) and the negative lock-ins in terms of bureaucratic involvement and administrative-political fiat.

An initial impetus for the 1990s 'quiet' sales and the subsequent mass scale privatisation mal-management was provided by the process of 'capitalising' the economy in 1987 and 1988. Some SOEs were turned into OODs (Ltd's), following a Council of Ministers Act No 35 of 1987 sanctioning the leasing of state property to private individuals and legal entities with no provision for public auctions and transparent bidding procedures. Contracts were signed with SOE personnel, provided that management was a prospective lessee. A second regulation, No 2 of 1989, further secured the preferential treatment of insider lessees, for they were allowed to trade freely with the newly acquired assets. CEU Project Syndicate (1996) note that management was in complete control of the assets at its disposal. Assets were sold, and state assets were transferred en masse into private pockets, taking advantage of the deepening economic chaos and the legislative disorder.

Mal-management practices were gradually perfected through the early to mid 1990s. They rested on the inter-penetration of public and private, economic and political-administrative bureaucratic and nomenclature arms. The privatisation plans for the Neftohim oil refinery attracted considerable interest in 1995-1996 mainly due to the activities of Stefan Nedelchev – the SOE director – and Vladimir Zheglov – advisor to the prime minister and a member of the boards of directors of Neftohim and Biochim Bank. As noted by the investigation committee at the time, Zheglov's was a powerful position of a middleman among diverse, closely related groups in the public administration and management teams. The position allegedly allowed Zheglov to transfer and pass on vital information across SOEs, administrative branches, the cabinet, and the bank.

The scale and consequences of information and asset flows across SOEs, branches of the administrative apparatus, financial institutions responsible for the design and implementation

of privatisation policies and programmes of corporate restructuring, and the cabinet were equally visible following the nomination of Vesselin Blagoev, director of the Privatisation Agency in the mid 1990s, to the post of managing director of Creditbank in the late 1990s. At the time, the bank belonged to Multigroup – an industrial-financial conglomerate largely controlled by ex-bureaucrats and other insiders belonging or close to the ruling ex-communists. Blagoev's nomination was assessed, by commentators, as a sign of goodwill and a 'compensation' for his assisting the illicit privatisation efforts of the Multigroup conglomerate during Bulgaria's voucher, cash, and MEBO privatisation.

Equally telling was the scandal surrounding the attempted privatisation of the Bulgarian Telecommunication Company and the allegedly favourable treatment of two of its directors, Mikhail Danov and Lyubomir Kolarov. The Videnov cabinet unofficially backed Danov's and Kolarov's resistance to the participation of outsiders in BTC's privatisation. Whilst the Privatisation Agency and the cabinet delayed the ownership restructuring scheme by protracting the re-valuation procedures, anonymous licences were distributed to insiders, thanks to Ordinance No. 10 issued by Kolarov. The ordinance was eventually declared unconstitutional by the Supreme Court, and any licences issued and signed by Kolarov should have been immediately annulled. Though the cabinet denounced Kolarov's activities, it refused to make public the full details of Kolarov's illegal deals. Interestingly, the licences were not annulled until the cabinet's fall.

### **The Clubs and Structured Clubs – A Lasting Feature of the 1990s Reforms**

The vignettes provide clues as to the dynamics beneath the surface of privatisation mal-management. In order to make sense of these dynamics and explain the institutional lock-ins as well as organisational deadlocks of 1990s developments, though, we distinguish next between types of privatisation players but also draw the outlines of the bureaucratic entities deeply involved in corporate restructuring.

Privatisation insiders – the inherited economic-political, ideological, and managerial elites in the country – need to be clearly distinguished from outsiders – domestic and foreign investors, non- or low-level participants in the pre-1989 system. 'Insiders' is, hence, an umbrella term, relating to individuals working for the old ministries, councils, and other governmental bodies implicated directly or indirectly with economic planning and production decision-making. As demonstrated in the short vignettes, insiders capitalised on two critical resources: valuable, non-public information and the organisation of the bureaucratic entities in possession of such information. Information about SOE finances and assets, privatisation

procedures and timing, the positioning and links of SOEs within supply chains was remarkably asymmetric in the 1990s. Pieces of worthwhile information were not shared equally by privatisation players. Insiders typically possessed knowledge of consequence to the moves and privatisation game outcomes that was denied to others. Much of the information on frequently changing legal procedures, privatisation processes and plans, for instance, was private and withheld. This was even more so the case with in-depth information on the history, financial position, assets, and management of SOEs that were to be privatised. Of consequence to privatisation mal-management and our account of it was precisely this ability of insiders to acquire non-public information, retain it, not share it with outsider players, and harness it for attaining private ends. Whilst constituting a crucial weapon in the hands of privileged insiders and though critical to the longevity of their interests, superior and retained information was insufficient as a power source. Privatisation mal-management was, hence, equally reliant upon the insiders' monopolistic, long-standing possession of additional economic-political and administrative resources such as access to valuable institutional channels and resource concentrations, ability to threaten and lessen others' resistance, ability to counter claims for control over resources, and effective control over the legitimacy claims of pro-reform constituencies. Control over these resources was facilitated by the insiders' access to and place in the administrative apparatus discussed next.

As far as the bureaucratic entities entrusted with the process of post-state-socialist corporate restructuring and privatisation, we deem Weber's (1947) conception of bureaucracies to be an appropriate starting point. To Weber, bureaucracies harboured impersonal and rational behaviour. Individuals were assumed to act as responsible implementers of the objectives, procedures, and rules of the organising structures within which they were positioned. During the 1990s Bulgarian privatisation, though, one came across few if any examples of such traits or behaviour. Hence, the characteristics of ideal types and Weber's normative conceptualisations of the virtues of bureaucratic institutions are only of conceptual-theoretical use. They provide a counter-balance to the deviations from Weberian proscriptions of bureaucratic behaviour, as illustrated in Table 1.

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It is important to remember that misuse of information may affect Weber's bureaucracies as well. Misuse, though, tends to dominate in institutional entities which we refer to as clubs and structured clubs (quadrants III and IV, Table 1). There are certain differences between

clubs and structured clubs. The latter type is more formalised and dependent on greater differentiation and stratification. Nonetheless, important commonalities weaken the need for their separate treatment. Importantly, both were founded on principles of exclusion and restriction regarding access and membership. These were, therefore, entities composed of few, select insiders who shared specific information. The clubs and structured clubs had actually been designed in the 1950s with the sole purpose of preserving the privileged access to resources on the part of their members, partly made possible through the extensive individualisation and personalisation of transactions, the trust among members, and the extensive interest convergence implying that members placed higher utility valuations on staying in than out of such exclusive, long-term information-and-resource-rich circles. Common background and shared socio-economic experiences had created strong bonds among members. Their joint socialisation in the high and mid levels of the pre-1989 political and economic elite also explained the cohesion and stability of club circles in the post-1989 bureaucracy.

Mobility and circulation – identified by Song et al. (2003) as effective mechanisms for transferring knowledge and extending geographical and technological knowledge reach – were highly regulated both before and after 1989. Regulation and control ensured exclusive knowledge circulation as well as knowledge sharing and information homogeneity across various bureaucratic entities and pockets such as the clubs. At the same time, the fact that outsiders were largely not permitted entry or were at least actively discouraged from joining the bureaucratic pockets meant that valuable information held within the clubs and structured clubs was kept strictly separate from the information circulating in the public sphere and, thus, made available to outsider parties interested in the process of privatisation. Using the imagery and language of Song et al., clubs were in possession of highly ‘geographically localized knowledge’ – betraying our attention to path dependence in terms of resource utilisation, not resource allocation.

The networking and networking-related privileges of club members provide an excellent example of sub-optimal and negative lock-ins, from the point of view of Bulgarian society as a whole. These privileges were strongly path dependent in nature, as they were typically passed from one generation of party and management functionaries to their offspring and close associates. Strong and enduring networking effects demonstrated the closed nature of clubs formed through cross-generational connections among members in possession of most if not all types of capital identified by Bourdieu and Wacquant (1992). They substantiate our claims of weak elite co-optation, weak to non-existent generation of counter elites, limited

circulation and considerable elite reproduction, thus expanding studies of other pssCEE elites (Stark 1991; Werning Rivera 2000).

The individuals and coalitions within the clubs and structured clubs were agents with a stake in preserving path dependent configurations. They actively sought to prolong these organising and institutional configurations through what we refer to as mechanisms of ‘path amplification’, not ‘path dampening’. Whilst the 1990s generation of insiders was obviously not responsible for designing the trajectory of development of the Bulgarian bureaucracy and the economy after WWII, it made a highly successful attempt to directly affect the evolution and future path of development not only of their club-like organising formations but also of the national project of transition by shaping and manipulating institutional and organisational paths. The strategies and activities of club members were relentlessly ‘path reinforcing’, representing a potent example of amplifying and positive-feedback type of pssCEE agency at the individual and collective levels alike.

Bureaucratic insiders deepened the institutional and organising trap of the 1990s. Sub-optimal organising arrangements in the production and non-production (financial) spheres were retained, owing to the explicit choice of these actors to keep the lock-ins in place and, thus, effectively stall reforms. The longer-term development of the country was sacrificed, in order for insiders to maximise economic returns while they could. Their insecurity, founded on the awareness that sub-optimal processes and outcomes would not have remained tolerated for much longer, prompted clubs to prolong this transitional situation of quasi-capitalist, quasi-state-socialist macro management for as long as possible, in order to accumulate maximum short-term rents. This was a case of ‘interconnected opposition to innovation’ from the top, ensuring the ‘success of path dependence’ and the ‘perpetuation of failure’.

### **Why the 1990s Path Dependence?**

It is not enough to know that insiders and bureaucratic entities in the 1990s successfully derailed national reforms in corporate restructuring and privatisation by relentlessly championing path preservation. We also need to account for the equally remarkable tolerance towards path dependence and path amplification. In order to address such issues satisfactorily, we note two intimately related aspects of counter-agency: firstly, the failure of counter-elites to act as true institutional entrepreneurs, heralding and championing reforms in privatisation and elsewhere, and secondly, the tolerance on the part of the electorate of such sub-optimal actions and outcomes as well as the historical sources of such tolerance.

The willpower and fortitude of clubs and structured clubs could have been challenged in the early 1990s – at least in theory. ‘Path breaking’ and ‘path violation’ are achievable through agency within institutional domains (Zucker 1987). ‘Institutional entrepreneurs’, for example, are agents capable of affecting institutional structures and re-designing institutional settings. They can catalyse ‘path breaking agency’ by defying powerful institutional and organisational influences, through individual responses and collective initiatives. Thus, even though much of path dependence theory appears deterministic (Mahoney and Snyder 1999) and assumes monolithic institutional influences, purposeful and calculated action need not be bracketed. More specifically, and related to our story, institutional entrepreneurship could have succeeded in early to mid 1990s Bulgaria, taking advantage of the multiplicity of conflicting institutional logics operating at the time across the CEE region: firstly, the inherited logic and institutions of state-socialism, secondly, the institutional logic of shock therapy and neo-liberalism, and thirdly, the slowly emerging New Europe’s “European affection for market socialism” (Nørgaard, 2000: 32). Conflicts among distinct influences provided individuals with a distinct opportunity to reflect upon such influences and assess them. In this period of flux and transition, rules and regulation were under public scrutiny, precluding any institution from exerting homogenous and unidirectional influence on the individual. In short, the period was of such nature that members of the public could adopt one of Mouzelis’ (1989) forms of reflection and distancing from institutional dictates either through theorising about such dictates or through strategising and attempting to preserve or transform them.

In early to mid 1990s Bulgaria, though, there was a noticeable shortage of institutional entrepreneurs. The low visibility, lack of legitimacy and low power potential of such pro-reform constituencies may be explained by several path dependent dynamics. More specifically, due to accumulated historical and socio-cultural conditioning of the majority of the voting population discussed below, institutional entrepreneurs were not provided with adequate, concentrated, and vocal support to act as agents of change by reversing the institutional and organisational reproduction in question. Up until 1997, the pro-reform opposition was rather disorganised, lacked a common platform and vision, and had to negotiate its way through the complexities of 1990s reforms and the low demand for decisive reform measures on the part of a risk-averse citizenry which feared a clear break with the inherited formal and informal institutions.

The account of the weakness of institutional entrepreneurs, of the lock-ins of sub-optimal institutional conditions and organisational arrangements may profit from conceptions of path dependent social capital, of ‘learned passivity’, and of conceptions of individual and society

in the post-state-socialist space. Social capital is related to the ‘collective memory’ of a society and its knowledge of ‘power structures’ (Schrader 2004). Weak social capital is found in ‘fragmented societies’ – marked by highly segregated, dual inner and outer moralities. In such societies, informal behavioural norms overlay formal behavioural norms, making novel institutions ‘dysfunctional’. This approach to institutional persistence and institutional inconsistencies is highly relevant to our discussion, not the least because of the similarities between Bulgarian and Russian reform retardation and privatisation peculiarities in the early to mid 1990s. Schrader’s juxtaposing the ‘low-trust culture’ in Russia’s public domain and the ‘high-trust culture’ in the private domain – found in societies composed of exclusive personal networks which are largely disconnected from other networks – has much to say about the Bulgarian realities of unlimited, unreserved trust among members of networks (families, close associations such as neighbourhood committees, or even the clubs conceptualised here) and the absence of such trust among members belonging to external networks, hence precluding the development of Schrader’s healthy ‘societal space’. One easily distinguishes between the high degree of trust, resource sharing, and interconnectedness among members of the clubs and structured clubs described here, on the one hand, and the lack of trust and involvement outside of these clubs, on the other hand. Loyalty, solidarity, and resource pooling were exclusive to club members, denying the very possibility of a ‘neutral category of indifference’ (see Giddens 1990). Added to these was the low trust in the system. Though lacking under state socialism, system trust was supposed to be developed partly through building new institutions. Personal trust was to be supplemented or replaced by ‘institutional trust’ and ‘system trust’. However, social capital in Bulgaria remained weak at the social level. It proved to be dominated by the capital contained within personal or semi-official networks throughout society. The clubs and structured clubs described and analysed here were just one example of such personalised, high-trust, exclusive networks which hampered the development of a meaningful societal space and frustrated efforts to champion institutional change in the early to mid 1990s.

The high trust at the personal and immediate levels of organising as well as the low level of trust at the macro, social level can help us explain the path reinforcing properties of clubs and the perpetuation of failure. Accounting for such trust peculiarities, though, requires an even ‘deeper historical explanation’ of ‘path-dependent origins’ (Cantwell and Zhang 2006). The list of underlying factors is too long and complex to be presented in its entirety here. Rather, of all economic, historical, and socio-cultural antecedents which profoundly influenced institutions and, hence, the clubs and 1990s reform outcomes, we refer to only some historical peculiarities and specific historical moments.

The history of the country can be crudely reduced to a few decisive moments: firstly, the 863 conversion to Orthodox Christianity and the adoption of the Byzantine Christian legislation code, secondly, the 1199-1204 failed negotiations between Tsar Kaloyan and Pope Innocent III aimed at bringing the country closer to the Western-Catholic model of political and social organisation, thirdly, the fall in 1396 of the second Bulgarian empire to the Ottoman Turks, and finally, the incorporation of the country in the sphere of influence of Stalin's Russia in 1944.

The four historical moments and the periods in between systematically reinforced a specific social model of national development which remained largely undisturbed, in its core, until the late 1990s. They enforced strong form egalitarianism, as well as weak drives for self-governance and civil society. Bulgarian egalitarianism, for instance, was historically associated with the lower level of modernisation, the lesser experience of Bulgarians with capitalism, and the absence of an understanding of the standing of the individual relative to society (Kiuranov 1994). Not surprisingly, Bulgarian society entered the 1990s lacking awareness of civil society, principles of self-governance and the associated normative belief in investing in but also demanding from one's state and its institutions. Having suffered centuries of denied self-governance under the Ottomans (1396-1878) and forty-five years of basically direct rule from Moscow (1944-1989), the citizenry had come to intensely distrust but also fear the 'system' and its institutions. For centuries, the Ottoman state had secured for itself a complete monopoly of all activity, not allowing society to develop as an autonomous entity separated from and possibly even opposed to the state. The omnipresence of authority and the absence of an even embryonic notion of individual or collective rights (the population had no religious and legal rights but was referred to as *rayah* – 'flock', a term used for all non-Muslim subjects) hampered the development of healthy 'mutual trust' and 'shared values' which are so critical to the natural, organic birth and growth of a civil society. The loss of statehood over the long term along with the autocratic, early feudal institutional arrangements, the systematic repression and the complete isolation of the country from the Orthodox East and the Catholic West sealed its economic and social backwardness for centuries (Kiuranov 1996).

Furthermore, under the Ottoman system of responsibility and answerability, the village as a whole was held liable for various offences against the system. The punishment for assisting the activities of *cheti* – small bands of insurgents – active in the environs of a village, for instance, was collective. Similarly, acts of exacting and punishment, with respect to the payment of various taxes, were collective in nature. Whereas the period of the High Middle Ages heralded the gradual yet irreversible 'uprooting' of the individual in the West, the

individualisation and denial of the earlier principle of anonymous collectivisation, in Ottoman-held territories the primacy of the collective over the individual was never seriously questioned. This peculiarity of socio-political organisation was reinforced by the backwardness of the region and its predominantly agricultural economic infrastructure. The belated arrival, in the post-Ottoman Balkans and in Bulgaria, of expectations of individualisation and the lack of historical experience with individual identity had major repercussions for defining 'individual-collective' and 'individual-state' relations as well as the birth of a civil society founded on, firstly, individual identities, and secondly, a sense of belonging to a larger, trans-historical and sovereign entity which was answerable to the people it was supposed to serve.

The particularly strong state control during state socialism meant that guilt and responsibility remained underdeveloped concepts and that the link between behaviours and consequences was inadequately understood by the citizenry. This lacking understanding of 'paying for one's action' permeated all spheres of life. This highly inappropriate view of accountability, responsibility, and guilt meant that costs were not borne even for 'minor' offences. Collective responsibility bred irresponsibility, precluding individual growth and leaving the average voter in a state of democratic adolescence and civic immaturity. Overbearing paternalism had reduced the individual to an automaton with amputated obligation to themselves and society. No matter how badly organisational entities and institutions performed and how ill-informed their decisions were, there was a common belief that mistakes would be brushed away and paid by someone else – an unhealthy, inherited situation whose reversal would prove far from straightforward. Such 'historically rooted' perceptions substantially encumbered reforms, for voters found it difficult to impossible "to change their old mental schemes of perception" (Ganev and Stamenova 2000: 34). Replacing collective irresponsibility with individual responsibility was a challenging task for 1990s reforms and institutional entrepreneurs.

### **What Was Out There ... What is There Now**

There are a number of implications of our investigation of privatisation mal-management, the sources of its longevity and the absence of organised, vocal opposition either on part of pro-reform institutional entrepreneurs or the general public. Firstly, we trust that ours was a powerful empirical example of path dependence, of the difficulty in 'escaping' from path dependent processes and structures – contributing to gradually filling the dearth in case studies and illustrative material of path dependence identified by Foray (1997) and, more recently, Noda and Collis (2001).

By summarily incorporating some initial conditions behind the path dependent processes and organising lock-ins, we aimed to address a more fundamental deficiency of some path dependence theory: its focus on path dependence effects, at the expense of attentiveness to path dependence causes (Booth 2003). We trust that the account of the 1990s could be used in the study of mechanisms and preconditions – that is, the drivers behind – specific cases of strong path dependence. Our explanation of the remarkable absence of novelty in early to mid 1990s Bulgarian institutions, of the mechanisms and preconditions built upon but also contributed to a number of seminal arguments in path dependence theory. Firstly, Martin and Sunley's (2006) notion of 'path-interdependence' across processes and activities was used to demonstrate how bureaucratic/organisational and informal institutional path dependence were mutually reinforcing with the economic, socio-cultural, and historical path dependence. Though succinct, the story hopefully demonstrated how and why the paths in these spheres co-evolved, strongly impacting on and reinforcing one another. Secondly, the empirical example suggested a possibility of renewal through recombining legacies and through borrowing. When compared with other pssCEE states, though, one finds lesser complexity – or variety – of programmes, agents, and institutional entrepreneurs to act as pro-reform alternatives and, thus, challenge the power of inherited clubs. The lesser complexity of programmes, actors, and underlying cognitive understandings may help account for the incomplete break with pre-1989 practices and forms of organising, while also being affected by the latter. The Bulgarian institutional environment of the 1990s experienced weak 'offensives' by new organisational and institutional arrangements, precluding its regeneration and redirection.

Secondly, the over-socialised conceptualisations characterising path dependence thinking allegedly suffer from insufficient conceptualisation of the ways in which actors give meaning to, maintain, and help alter structures (Mahoney and Snyder 1999). The analysis of privatisation mal-management, though, did not miss on the opportunity to study agency. It identified the place and role of individual actors, partly by linking meso and macro level of path dependence and continuity with examples of micro, individual-level action. In a manner not dissimilar to Lamberg et al.'s (2004) thesis, though in a different context, we drew connections across levels of analysis and levels of path dependence. By linking individual agency with higher-level lock-ins, we attempted to explain why and how path dependence is not exclusively about structural or historical determinism but accommodates for contingency and probability (Martin and Sunley 2006). Explaining the precise interplay between path dependence and human agency is equally rare in institutionalist writings of pssCEE path

dependence, as Zukowski's (2004) macro-level analysis and Kaneva's (2001) interest in fundamental, formal, and informal institutions demonstrate.

Thirdly, building upon Arthur's (1989) concepts of increasing rigidity and non-adaptability, the lock-ins identified here were approached in a manner typical of path dependence theory: as negative by-products of path dependence. Recent studies suggest that this should not necessarily be case (see Cantwell and Zhang 2006). The Bulgarian case of club-assisted 'perpetuation of failure' was a particularly telling example of negative socio-political and institutional lock-ins, at the level of formal and informal institutions as well as with respect to organising patterns and individual behaviours. The analysis of privatisation mal-management is a reminder of how and why the concept of lock-in still brings distinctly negative connotations.

The mid 1990s were an intriguing example of path dependence or path continuation but limited path redirection or 'path reconfiguration' – to be assessed in light of the partiality of path dependent thinking towards endogenous change. Change is typically treated as cumulative. Small transformations and incidents build up, eventually re-directing a system or a process. Path dependent processes, systems, and institutions are assumed to exhibit pronounced self-reproducing properties which can be 'disturbed' only through 'punctuated equilibria'. The association between path dependence and punctuated equilibrium is strong in theory. Our discussion uncovered empirical support for such a conceptual marriage – but only to an extent. In 1996, the accumulated mal-management in privatisation was among a number of drivers which created sufficient imbalances to lead to a complete economic collapse. The cabinet fell and parliamentary elections brought to power the weak pro-reform constituencies we had noted in the discussion of institutional entrepreneurs. However, this punctuated change in the economy and society did not generate the institutional and organisational path divergence one would have expected. The clubs stayed, though being debilitated and somewhat altered. Path destruction and path divergence were, obviously, imperfect. The peculiar institutional order which succeeded the economic turbulence of the mid 1990s suggests that path dependence theory need not conceptualise path dependence and change as incompatible opposites. Rather, a path may be approached as a mix of continuity and change (see Saint-Martin 2005), of what we refer to as 'path following' and 'path violation' or 'path breaking' even in historical moments of dramatic external shocks or violent internal implosion. Whilst the financial collapse, hyperinflation and the endless demonstrations of late 1996 and throughout 1997 might have led commentators to pronounce the break of lock-ins, paths were only weakened and not broken. New institutional ingredients were added. New faces appeared on TV screens. Still, only some path dependent

institutions (including informal institutions), organising entities, rules and agents lost out. Many individual and collective actors who benefited from their special position before the collapse continued to benefit. From the hindsight of 2007, we may safely argue that the 1997 ‘window of locational opportunity’ (Martin and Sunley 2006) demonstrates that such ‘windows’ are always spaces that connect and not only disconnect.

Our account questions the belief in radical, short and successful change not only during early transition but also more generally. We share Schrader’s (2004) view that the modern institutions witnessed in advanced Western societies have been in the making during processes of ‘longue durée’ and modernisation. At the deathbed of state socialism across CEE, authors assumed that all that was required of the newly emerging societies was to imitate the institutional blueprint available from Western societies, in order to ‘catch up’. Transition, though, turned out to be not a short-term process. Societies which had been removed from the Western sphere of institutional influence for centuries could not have been expected to catch up overnight by adopting ready-made institutional and organising arrangements. This is particularly so in cases of David’s (2001) ‘strong’ and Martin and Sunley’s (2006) ‘early’ path dependence – precisely the type of path dependence one would expect as regards organising principles and institutions which make deliberate policy engineering less possible.

Lastly, theorists have noted the tendency of path dependence theory to emphasise path dependent resource allocation, at the expense of an interest in resource utilisation (see Lavoie 1996; Setterfield 1997). The story of clubs and structured clubs focused on the latter, though, not only by identifying valuable and monopolistically-controlled resources of consequence to the privatisation and corporate restructuring outcomes but also by demonstrating the mechanisms through which resources such as information, access to institutional channels, and control over legitimacy assisted the ‘path amplifying’ efforts of privatisation insiders.

Table 1. Bureaucracies, Clubs, and Structured Clubs

possession of theoretical info; formal relations	BUREAUCRACIES	MARKETS
	STRUCTURED CLUBS	CLUBS
possession of practical/ specific info; informal relations	high degree of stratification	lesser stratification

(adapted from Boisot 1995: 237)

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