

Institutional Matrices' Concept in Meso-Level Social and Economical Diagnosis: Case of Consulting, Russia, 2004

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The essence of this paper presents the reflection of a real economic decision making. This decision was found in the consulting process for the Rosenergoatom Concern (the main producer of the nuclear energy with 10 Nuclear Power Plants). Since the liberalization of energy market in Russia in 2003 the changing of legal format this state organization has been actualized. The main task of social-economic diagnosis was to estimate the current situation and to recommend the strategically well-grounded new legal form.

The paper characterizes (i) the object of consulting and its main purposes; (ii) the key methodological presuppositions; (iii) the principal results and recommendations; and (iv) modern institutional theories and possibility to use them in the diagnosis of the Russian society. And the conclusions (v) are formulated at the end.

1. The object and the main aims of consulting

The object of consulting was RosEnergAtom Concern having the juridical status of a federal state unitary enterprise. It includes 10 major nuclear power plants with their supporting enterprises. RosEnergAtom generates and sells electric power and heat. Its share in the national power output is about one sixth (1/6). The largest portion of the generated power is sold in the federal wholesale power market which is under state control. Prices of power (tariffs) are set by the Federal Energy Board (FEB) on the basis of RosEnergAtom cost estimates with due calculation of profits and investments. FEB sets the volumes and rules of power supply to consumers.

The federal laws of 2003 aimed at liberalization of the power market require from the Concern a higher flexibility, efficiency, more rapid responses than under almost fully guaranteed state support. The expected exclusion of the investment item from the tariffs makes it necessary to look for other sources of investments needed for further development of the industry. The consultants were invited to analyze how much the present organizational-legal form of the Concern, i.e. federal state unitary enterprise, complied with the new challenges and to consider other legally possible forms that would be more suitable for the Concern. As the main factors determining the future of the Concern the following were identified: 1) the effect of social-economic tendencies on nuclear power production; 2) prospects of liberalization of the power market; 3) study of the international experience in reformation of power companies. On this basis it was supposed to find out the most suitable and legally allowable form and to implement the necessary changes. Special attention was paid to the form of a joint-stock company since it is the form of nationally largest power producers competing with the Concern in this market.

2. Key methodological presuppositions

The first methodological principle which, explicitly or implicitly, precedes the process of economic diagnosis is to select and demonstrate a suitable theory (or theories) that can be used as the basic rationale for the analysis and prediction of the situation.

In this case, because of the Concern's terminologically confused status and not clear parameters of the industry within which it is and will be functioning, no

existing economic *theory of micro level* can be used. In other words, for all the determinacy of the legal status of this company, its structural-functional description cannot be given in the language of any known economic theory. The Concern is neither firm, nor hierarchy, it is a transitional form with constantly changing rules of internal functioning and external interactions. Therefore, the transitional character of the Concern did not allow us to use modern theories of the micro level (the more so, neoclassicalism or orthodoxy – theory of firm, theory of market organization, economic theory of public sector, etc.). The set of their concepts is inapplicable to the specific character of the Concern.

On the other hand, due to its transitional character, the Russian economy cannot be embedded within the existing *theories of macro level* in the mainstream - from classical theories of economic equilibrium, Marxian schemes and Keynesian conceptions up to modern theories of regulation, and this also confines their possible use. Thus, the French theoretician of regulation Robert Bouaye notes that “grand transformation of Russia poses a great deal of problems having no obvious solution within the framework of existing economic theories “ (Буаёе, 1997, p.31).

Then the most pertinent for the economies in transition are different institutional theories both of traditional institutionalism (see, for example, *Sanchez-Andres, March-Poquet*, 2002), and modern neo-institutionalism (for example, works of Russian authors – Radayev (*Радаев*), Shastitko (*Шаститко*), Tambovtsev (*Тамбовцев*) Oleynik (*Олейник*) Their postulates on the role of institutions in the organization of the economic structure embracing social and cultural contexts, allow us to use institutional theories in the analysis of a broader than neo-classicalism area of phenomena.

In the result of consulting it was decided to take up the institutional approach: first, neo-institutional concepts (transaction costs, hierarchy, institutional exchange, etc.): second, traditional institutionalism (path dependence) with a focus on historical and social context of the economic development.

Our difficulty was that the current period in the Russian social science and Russian social-economic practice are characterized by plurality of methods and theories that are, as a rule, not very deep and not quite adapted to the present Russian conditions. Moreover, these theories are taken from the international experience based largely, in contrast to our special case, on the market paradigm.

As we know from our experience in analytical work, this methodological framework does not make it possible to embrace the whole economic field really existing today in Russia.

In the absence of an established theory fitting the Russian economy we had to use our own conceptual developments, namely, the theory of institutional matrices and, in particular, its part devoted to X- and Y-economies (*Кирдина, 2000, Кирдина, 2001*, see also <http://kirdina.ru/book>)¹. According to its statements, the Russian economy is an economic system largely of a redistributive instead of market type. Accordingly, it is dominated by the institutions of the redistributive X-economy, in which the institutions of the Y-economy are only of a compensatory type completing it to make it a “whole”. In the same way as in market economies the regulatory action of the state with its redistributive functions corrects the lapses of market, in the alternative economies market instruments serve to fill in the lapses of redistribution. Therefore, with this theory the mixed character of the Russian economy which combines different kinds of ownership and different economic relations is theoretically described and conceptually defined, which correlates with the statements of many domestic economists – Abalkin (*Абалкин*) , Nickiforov (*Никифоров*).

The second methodological principle accepted and realized in the course of economic diagnosis is taking the object of consulting in its genesis, that is, the use of largely evolutionary instead of teleological approach. This was dictated mostly by the scope of the industry, its logistical specifics and, therefore, by inertia in its development. This inertia is just what makes it necessary to treat the previous paths as significant for the future. Another reason for this preference was the lesson of insufficiency of teleological approach already learned from the experience of the decomposition of ownership on a set goal in the traditional power industry and creation of the UES – Unified Energy System that has had no public support and failed to yield the expected economic efficiency.

The third methodological principle is connected with the specificity of the object of diagnosis – a social object. The knowledge necessary to understand it

¹ The basic statements of the theory of institutional matrices were presented by the author at the previous meeting on Social theory network, see “The Institutional Matrices Theory in the Context of Modern Sociology. Abstracts. The 5th Conference of the European Sociological Association “Visions and Divisions: Challenges to European Sociology”, August 28- September 1, 2001. Helsinki, Finland.

inevitably contains “implicit knowledge”² whose holders are workers of the organization, and it is only through personal contacts that the consultants-theoreticians can obtain this knowledge. This means that social-economic diagnosis, or recognition ability, especially as an element of management consulting, implies the urgent need in a dialogue. The means of such a dialogue were:

- study, analysis and joint discussion (with the management of the Concern and its divisions) of documents regulating internal and external activity of the RosEnergoAtom Concern – from legal acts and federal programs down to internal directions, instructions and analytical papers;

- regular consultations and weekly conferences with the team of workers charged by the client to support the management consulting;- expert interviews and talks with the personnel of the Concern in whose competence the problems being solved are.

The fourth principle, or the special feature of the used methodology, is the combination of analytical and expert methods at all stages of the work. The need of analytical methods is stemming from the complicated character of the topic, great amount of information and need for in-deep justifications for the recommended solutions to the set problem. The use of expert method is prompted by ambiguity in the assessment of the situation and in prospects of the industry growth.

It is reasonable to dwell in particular on characterization of experts involved in the work. The team of experts delegated by the client held other theoretical positions than the consultants. These experts were guided mostly by classical economic theories with the market paradigm. Their position can be explained, first, by the political goals (creating a market economy); second, by the main idea of the federal laws of 2003 set on liberalization of power market; third, by a belief (based on western experience and statements from modern textbooks

² The category of implicit knowledge that cannot be formalized, are alienated from their holders but are transmitted largely through inter-personal contacts and are in themselves the pith of knowledge about a particular object was introduced by Michael Polanyi, a chemist and philosopher, in the late 1950s. See *Polanyi, 1985*.

in *economics*³) in the efficiency of market mechanisms for the solution of the problems of this industry. The additional practical argument was that the main rival of the Concern in the power market, i.e., UES, is functioning as an open-end company, that is formally as a structure of the classical market type.

The clash of the opposite positions and opinions caused by contrasting theoretical approaches has turned very useful. These two approaches (experts' and analytical) completed each other and allowed us to offer a well balanced and not trite solution with the greatest chances to be implemented and, therefore, to minimize the implied transaction costs.

3. The principal results and recommendations

In contemporary Russia it is becoming ever more obvious that the actions of historical patterns inherent in the country cannot be annealed by adoption of particular legal acts toward development of market. These historical patterns stemming from the specificity of the entire material and technological environment of Russia and of the system of production ties based on it Bleskov (*Блесков, 2002*), Kirdina (*Кирдина, 2000*; Sorokin (*Сорокин, 2003*) are, in their turn, determined by its territorial, geographic and spatial specifics. According to what V.V. Putin said during the meeting in Kremlin with European businessmen on the 5th of December, 2003, our low tariffs of electric power are stemming from the low temperatures in the country, and neither we ourselves, nor market can change these primary causes.

The borrowed market instruments are subject to “institutional isomorphism” – they keep their name and form but, to be accommodated with the new environment, acquire new features, often changing their nature. Isomorphism of the Russian market system underlies the dual activity of the economic agents of all levels, including state enterprise. On the one hand, all forms of private and state enterprise are legally fixed and really functioning. On the other, this isomorphism of market instruments is an obstacle to creation of “game rules” in the economy that would be unambiguous, consistent and tailored to the interests of economic agents. The state that acts in the function of a major regulator of market relations (which is alien to it) is always faced with a need to

³ See, for example, the well-known textbook *МЭНКЬЮ* (Manque “Principles Economics”, 2002). According to it, one of 10 principles of the economics (Principle 6) says that “ordinarily, the market is a splendid method for organization of economic activity”, p. 19-20.

handle the “bottlenecks” in the economic policy thus sacrificing its direct duties in the formation and implementation of the sector of efficient state property. This is the cause of slowness in the reformation of objects of state enterprise, permanent revision of privatization horizons and decomposition of ownership of state enterprises.

Are the above mentioned facts of a transitory character, are they only short-time political swerves, or do they reflect the real trends? The answer to this question discussed within this group of experts was finally found in the statements of the theory of institutional matrices chosen as a methodological basis. This theory outweighed the scale toward the acknowledgement of quite a natural and long-term character of the witnessed changes.

In sum, the general conclusion from the analysis of the course and prospects of the Russian social-economic development that influences nuclear power production and the status of the RosEnergAtom Concern was as follows:

The economy is a subsystem of the society, and its development is determined by the whole social, political and ideological context. According to this, when making predictions about economic development in Russia we mean a significant complex of social characteristics determining the vector of the most probable trajectory. It is noted that in the short term the central regulation of the economic development of the country will strengthen, including the regulating role of the state bodies of power and state enterprise. This conclusion was confirmed through comparison of theoretically based predictions with the actual recent trends. With respect to such strategic directions as nuclear power production, these tendencies will be the most conspicuous ones. At the same time, market elements that are due to complement the economic field with those mechanisms that have proved their efficiency in the Russian context will ever more actively be infused and spread. Complementing the institutional infrastructure with market elements is needed to achieve a balance between the alternative forms of economic relations and to form a mixed type of economy as is witnessed all over the world. In Russia it will mean the expanded liberalization of market together with strengthened state regulation but acting under a more strict, flexible and committed system of state control. Market forms, in order to fit the institutional context, have to be duly adapted.

The conclusions and recommendations made in the course of management consulting were the result of the comparison of data obtained from the contextual

analysis on all identified directions. The major result of diagnosis based on the above described theoretical scheme and consideration of social-economic, industrial and legislative trends was the need to modify the initially supposed solution of the problem. The transformation of the RosEnergoAtom Concern from a federal state unitary enterprise into an open-end company – **a corporation with 100-% participation of the state** was acknowledged as the most rational one. This makes it easier to tackle the problems of the RosEnergoAtom Concern in external and internal framework of the production activity, and it fits the trends in the social development of the country. The form of corporation with 100-% state participation will make it possible to keep and expand the mechanisms of state control and, at the same time, to use the main advantages of decomposition as a flexible form of activity adequate in complexity to the real production system. The rationale given by consultants to this conclusion was that decomposition within that time and in those forms as had been contemplated by the top management and experts of the Concern were hardly possible and hardly rational. Agreeing with that the most rational model of reformation of the RosEnergoAtom Concern is an **open-end company – OEO**, the consultants note that this variant cannot be realized instantly and in those forms as it is allowed by the present legislation.

First, because of changed rates and direction of market transformations and focus on their pragmatic character, it is necessary to allow time for preparatory period, during which to use the opportunities of the present form of FSUC in solving the future tasks of transformation into OEO. They include: 1) taking inventory, performing audit, clarification and automation of the internal routine of financial and accounting documents; 2) development of the rational structure (including rescheduling the assets); 3) debugging the mechanism of management and duties within the Concern with clarification of rights, responsibility and motivation of the managing personnel. In the selection of concrete solutions of arising problems, preference should be given to those management forms which fit the existing form of the federal state unitary enterprise and can be used and developed in decomposition. In other words, it is necessary to test the basic management decisions and procedures as potential elements of the system of the future OEO. With this in mind, **expert strategic monitoring** was suggested.

Second, it is meant not to change the status of the state ownership of the Concern as was initially supposed, but to modernize its character. The arguments in favor of this decision are the above mentioned trends in the development of the

institutional economic environment. They include: 1) the already started revision of the social and economic policy, 2) anticipated adoption of new legislation and legal norms, 3) clarification of the order in the transition period in the liberalization of the power market, etc. Under these conditions, it is possible to expect either the general change in the “rules of game” for economic units of the Concern type, or to propose a **non-standard algorithm** of creating a Concern-based OEO in order to escape possible transformation risks and to include the interests of the industry. It is a strategic variant that suggests an appeal to the Ministry of Nuclear Power Generation and to the RF Government about the development of a special status **OEO – State Corporation** for the RosEnergoAtom Concern, including the package of standard charter documents specially prepared with participation of scientists and practitioners. On their basis it is possible to transform also other units of federal property, which is urgent for the contemporary stage of the Russian economy.

Therefore, on the basis of the performed social and economic diagnosis a new solution of the task has been suggested which takes into account the realities and prospects in the development of the industry. Again, the modification of the original variant of the anticipated solution was influenced by that the consultants relied on certain theoretical methodological premises. The experts on the side of the Concern proceeded from the a priori expediency to transform the Concern into a market (essentially private) form – a joint-stock company. They had used the ideas taken from the textbooks in economics and from ideological premises about market transition of Russia when decomposition of ownership was seen as panacea for many economic problems. The consultants who employed the institutional approach have proposed to keep the state ownership and to use the decomposition of ownership as a form of modernization and a mechanism of its development. In this case the theoretical premises have made it possible to capture and use those tendencies which to the practitioners staying, as a rule, within the latest developments could not view as obvious or significant.

4. The validity of modern institutional theories for the social-economic diagnosis of the Russian society

During the social and economic diagnosis, theory and practice come into interaction, which ideally can have two major results (Fig. 9). Investigating the practice with the help of particular theoretical statements, the scholars offer certain solutions which are to modify this practice. New means and procedures

appear, which are used in the management and formation of new routines minimizing the public efforts. In this case, such a means can be the new organizational-legal form “OEO – State Corporation” which fits the institutional environment and has a modernized form as it absorbs modern developments of market, legal and economic culture. This is the first of the anticipated results from the interaction between theoreticians and practitioners in the course of economic diagnosis.

On the other hand, in the course of interaction of practice and theory the latter is also enriched and clarified. The formulated statements get concrete substance which makes it possible to further develop theory by moving it closer to practical needs. In this case the theory was enriched by awareness of different forms that present alternative market mechanisms in the context of redistributive economic environment. Isomorphism of the form of a joint-stock company used as a mechanism for the development of state property allows us to specify the system of concepts in which the processes of establishment of new institutions of the redistributive X-economy can be described and organized.

The results of our management consulting of a large corporation confirm, in our view, the conclusions in literature about the specifics of social-economic diagnosis as a form of the actualization of theoretical knowledge.

First, the significance of institutional theories noted in many works as the most adequate theoretical instruments of diagnosis of social-economic situation in Russia is validated. Scope and historical civilization features of the Russian socium and national economy require to consider the long-term factors of development as the most meaningful dimensions of functioning. For such countries as Russia that are implementing their own and not dependent paths of development, the path dependence theory is the most natural and promising approach. In this case it is the use of the theory of institutional matrices advancing the ideas of traditional institutionalism that had allowed us in the course of practical diagnosis, first, to structure the description and give a prediction of the situation, and, second, to suggest non-ordinary solutions to problems.

Second, it has become evident how important it is to take into consideration the contextual changes in practical consulting of management and political problems. As was noted by L. G. Hayden, the main task of the scientist-consultant in this case is to develop criteria suitable to the new set of rules and

institutions necessary for the solution of the problem. In this connection Hayden notes that it is necessary to assess a new proposal before the innovation. Of course, contextually variable approach to the analysis of policy and management requires ample investments into such studies. Notwithstanding its expensiveness, the alternative of allocation of billions of dollars to wrongly oriented policy which will fail is a still more expensive, disappointing and harmful undertaking. Studies are necessary for the development and perfection of the criteria in such a way that the policy may lead to a new context fitting the needs of the entire public matrix. Theoretical modeling must be of a repetitive nature since it needs constant revisions according to the emergence of new knowledge and information (*Hayden, 1995, p.*).

Theoretical rationale for the management consulting work presented in this paper shows, in our view, the significance of theories as factors determining the selection of such new contextual criteria which help concentrate the efforts of practitioners on the most probable and rational points. The consultants suggested to the managers a solution which answers both to set goals and to existing possibilities in contrast to a variant that provides few chances of achievement but would require large unpayable financial, labor and organizational costs.

In conclusion, it would be to the point to cite Keynes known for that his theoretical stance was used as the basis of social-economic policy by not one post-war European government. He wrote that "... the ideas of economists and political thinkers - both when they are in the right and when they are in the wrong – have much more value than it is usually believed. In reality they are the only ones who do govern. Lunatic rulers listening to voices from the heaven draw their crazy ideas from the works of an academic scribbler written some years ago (*Keynes, 1936, pp.383-384, translated to Russian, 1993*). This places a great responsibility on theorists. It is because there always exists a probability that theories advanced at academic institutes may, even without knowledge of their authors, become an instrument of social-economic diagnosis and practical policy. This responsibility that is even higher when it concerns practical use of economic theory in diagnosis and consultation, and we have fully realized and deeply felt it in doing this job.

Conclusions

The paper shows how the institutional matrices' theory has proved to be useful in consulting empirical research project. The task was to recommend a legal form suitable to a state power monopoly in Russia after liberalization in the energy market according to the 2003 federal laws. The recommendation is based on the evolutionary approach to predictions of the main trajectory in the development of state property. It takes into consideration the balance between the system of basic institutions of redistribution economy and complementary institutions of market economy. As a result, a new legal form of the joint-stock company with 100% of state shares – State Corporation was suggested. This decision embodies modernization of the redistribution's institutional form during the market reforms in Russia.

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