

# Success of path dependence through perpetuation of failure during reform

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## ABSTRACT

*The primary purpose of this paper is to extend current debates about path dependence and to contribute to scholarship by addressing inadequately researched aspects of path dependence: the role of individuals in sustaining long-standing 'inefficient' institutions; the balance of 'path following' and 'path violation'; and path dependent resource utilisation, not resource allocation. These matters are illustrated through and discussed in the context of 'asset-stripping' and 'rent-seeking' in the 2000s and during the earlier, illegal privatisation of state-owned assets in 1990s Bulgaria.*

## 1. INTRODUCTION

**P**ATH DEPENDENCE HAS ATTRACTED CONSIDERABLE ATTENTION in economics, economic geography, international business, knowledge management and organisational learning, politics and international relations, among other disciplines. In spite of the differences across schools theorising path dependence, all share the fundamental assumption that initial conditions are powerful and that past choices and circumstances are difficult to reverse. Technologies, institutions and organisational structures, we are told, possess self-reinforcing properties.

This discussion builds on: first, the definition of path dependence in terms of 'highly inefficient structures' (Roe, 1996; Martin and Sunley, 2006) which cannot easily be eliminated and transformed; and second, 'self reinforcing institutions' (Pierson, 2004). The application of the concept follows earlier analyses in the context of Central and Eastern Europe (CEE) (Zukowski, 2004). The writings of prominent critics of 'path dependence' such as Kenney and Patton (2005) and Martin and Sunley (2006) provide the basis for our critical revision of scholarship.

Our primary purpose is to extend existing research by drawing attention to inadequately researched issues:

- the role of individuals in sustaining long-standing 'inefficient' and even harmful institutions, processes and structures;
- the balance of 'path following' and 'path violation', the latter being defined as the partial to complete elimination of path dependent structures and processes;
- path dependent resource utilisation, and not resource allocation as emphasised in research.

These issues are explored in the context of 'privatisation mal-management': illegal privatisation of state-owned assets for personal gain, on the part of inherited elites such as sections of the political nomenklatura in 1990s Bulgaria. The analysis also extends to 'asset-stripping' in the 2000s.

As far as the first issue is concerned, our empirical analysis aims to fill the gap in case study material about path dependence noted by Foray (1997) and Noda and Collis (2001). In doing so, we investigate the role of individuals in sustaining or changing path dependent institutions, structures and processes (Mahoney and Snyder, 1999). Of interest are the place of norms and beliefs (informal institutions) of voters, the weakness of institutional entrepreneurs, and the role of the members of clubs who ensured the 'success of path dependence' in the 1990s through the 'perpetuation of failure': failure being defined in terms of slow reform progress (Mihov, 2001) and privatisation, as evidenced in Hunya's (1997) and Frydman *et al.*'s (1993) analyses of Bulgarian reforms.

In relation to the second issue, the paper is about the difficulty in reforming inefficient and harmful institutions. Our starting point is a claim in path dependence theory that there is a link between path dependence and 'punctuated equilibria', the latter term suggesting that change is rare, rapid and dramatic. Our empirical support for such a link is only partial. The story of privatisation mal-management teaches us that, rather than approaching path following and path violation as polar opposites, we may need to think about path dependence in terms of both path following and 'path violation'. This may be particularly so in cases of 'strong path dependence' (David 2001), as uncovered in our story of 'asset-stripping' and 'rent-seeking' behaviour during privatisation.

Concerning the third matter, path dependence thought remains preoccupied with the question of how resources are *allocated*. Analysis of the ways in which resources are *utilised* in a path dependent manner is rare (Lavoie, 1996; Setterfield, 1997). In the process of explaining privatisation mal-management, we attempt to place emphasis on the path dependent use of resources such as information, access to institutional channels, ability to counter competitive claims, and legitimacy.

The case study of Bulgarian reforms has been chosen for its several peculiarities. Bulgarian privatisation was marked by an intriguing mixture of path breaking and path dependence. The case also provides empirical illustration for three under-researched yet important sources of reform failure and 'strong' path dependence: the power of the political nomenklatura relative to that of the economic-managerial nomenklatura, the insufficient changes within the political nomenklatura, and the weakness of external and internal institutional entrepreneurs. Last but not least, the case helps demonstrate what was special about Bulgaria's transition that made it perform so poorly, thus reiterating differences with respect to a number of demand and supply factors: firstly, the more organised, active, and self-conscious nature of counter-elites elsewhere in CEE and the fact that the new, counter-elites offered a genuine alternative to the policies of the inherited nomenklatura; secondly, the strength and resilience of the political nomenklatura in Bulgaria, having defeated the economic nomenklatura — possibly the only segment of Bulgarian society and the ruling elite which could have designed and carried out sound and less self-serving economic policies in the 1990s and 2000s; and thirdly, the nature of Bulgarian society and the strength of popular expectations for a paternalistic, strong and active state, coupled with the populism of the ex-Communist party. This was clearly in contrast to societies such as the Polish, Czech and those in the Baltic states with their stronger tradition of self-governance and civil society, some elements of which were never completely crushed after WWII. This has much to do with the historical development of the various countries studied. Bulgarian development is highly distinct, as explained in the historical section.

The discussion of the case of Bulgarian reforms demonstrates that path dependence is not simply about the absence of alternatives available to economic agents; nor does it imply a unique available path which helps maintain the status quo. The selected path of development is affected by various factors such as inherited and newly formed power relationships, opportunism, and the defining and enforcing of property rights. The outcomes of such evolutionary processes may be assessed as 'success' or 'failure', but the concept of path dependence itself is neutral and neither implies success nor failure but instead represents an inevitable process.

The adopted methodology — inductive and not deductive, using grounded theory in order to elucidate a case study of CEE privatisation — is relatively unusual in economics, even though it is more common in other social science disciplines such as sociology, anthropology, and management and marketing sciences. Thus, the research adopts an empirical approach, drawing conclusions from specific examples of Bulgarian privatisation. Even though quantitative, deductive methodologies tend to dominate in economics, the discussion demonstrates the potential and some of the strengths of alternative, qualitative approaches when attempting to identify and explain economic relationships.

The discussion starts with an overview of methodological issues. The analysis itself consists of separate sections which present the empirical material: the story of privatisation mal-management and inefficient, path dependent institutions, structures, and behaviours in Bulgaria as an example of CEE reforms. Relevant aspects of path dependence theory are noted next. We also discuss demand- and supply-side factors, such as antecedents of path dependence, in two separate and complementary attempts to account for strong path dependence through the perpetuation of failure. In conclusion, we note implications for future theory-building.

## 2. THE METHODOLOGICAL FRAMEWORK

We use the Bulgarian case study as a form of grounded theory (Glaser and Strauss, 1967). This case provided the empirical data and was also the basis for the theory building with respect to path dependence. Grounded theory was useful because its inductive, 'emergent' approach allowed the constant comparison and grouping of data into categories and theory (Strauss and Corbin, 2008) — particularly useful when the researcher works in a relatively new field. The Glaserian dictum that 'all is data' was used to treat interview, observational and archival material as data in a lengthy comparative and theory-building process. The application of the theory facilitated the conceptualisation of the empirical material and the formulation of new propositions about path dependence theory. Its concept-generating and theory building potential proved considerable. Thirdly, our research revealed the role of incidents and processes during privatisation — appropriate units of analysis in grounded theory (Glaser, 1998).

The case study framework was the second important methodological ingredient. A case study is 'an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident' (Yin, 2003, p. 32). It allows for the investigation of complex phenomena, helps 'illuminate' sets of decisions, their sources, implementation and outcomes (Schramm, 1971) through the design of matrices of the concepts and categories investigated, placing evidence within the categories in question, consigning the data in chronological order and arranging it for purposes of pattern and concept design.

## 3. SOME FINDINGS ABOUT BULGARIAN PRIVATISATION

### 3.1 *An overview of instances of mal-management*

In spite of promises for speedy privatisation made by successive Bulgarian cabinets, the 1990s witnessed slow and ineffective privatisation (Table 1). Disappointing outcomes have been linked, by commentators, to privatisation mal-management. Short stories illustrate processes of mal-management and

the role played by bureaucratic clubs in maintaining the inherited status quo. The particular stories have been documented by Dimitrova (1996), Gozes and Zahariev (1996), Pantev (1997), Radev (1996), Chirov (2009) and Kozhuharov (2007, 2008) among others. These stories and analyses shed light on the scale of the spoils of privatising state-owned enterprises (SOEs hereafter) and the intentional preservation of 'inefficient' organisational and institutional outcomes through bureaucratic involvement and administrative-political fiat.

**Table 1: Privatisation of SOEs**

	1991	1992	1994	1996	1998
Privatisation transactions			549	3,090	1,201
Proceeds (in USD m)			232.8	416.6	530
Share of industry in GDP	37.4	40.5	35.4	32.4	33.0
% private sector in industrial output	6.5	10.7	18.9	28.7	40.0

Source: Mihov 2001, p. 413

The most important, initial impetus for mass scale privatisation mal-management was the process of 'capitalising' the economy in 1987 and 1988. Some SOEs were turned into OODs (Ltd's), following Council of Ministers Act No 35 (1987). The Act sanctioned leases of SOEs to private individuals and legal entities without the provision for public auctions and transparent bidding procedures. Contracts were signed with SOE personnel, provided that the incumbent management was a prospective lessee. A second regulation, No 2 (1989), further secured the preferential treatment of insider lessees. They were allowed to trade freely with the newly acquired assets.

Mal-management practices were perfected in the course of the 1990s, thanks to the inter-penetration of sections of the political nomenklatura, criminal elements, and parts of the economic-managerial nomenklatura. The privatisation plans for the Neftohim oil refinery attracted considerable interest in 1995-1996 due to the activities of Stefan Nedelchev, the SOE director, and Vladimir Zheglov, an 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 closely related groups in the public administration, the new management team, the government, and the financial sector. The position allegedly allowed Zheglov to pass on vital information across SOEs, administrative branches, the cabinet, and two financial institutions (the aforementioned banks).

The scale and consequences of information and asset flows across SOEs, branches of the administrative apparatus, financial institutions, and successive cabinets became particularly visible during 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 controlled by insiders belonging or close to the ruling Socialist Party (ex-Communist Party). Blagoev's nomination was assessed, by commentators, as a 'compensation' for his assisting Multigroup during the voucher and cash privatisations.

A third scandal centred on the attempted privatisation of the Bulgarian Telecommunication Company and the allegedly favourable treatment of two directors: Danov and Kolarov. The cabinet unofficially backed Danov's and Kolarov's resistance to the participation of outsiders in BTC's privatisation. Whilst the re-valuation procedures were protracted, anonymous licences were distributed to insiders under Ordinance No. 10 issued by Kolarov. The ordinance was eventually declared unconstitutional by the Supreme Court. The licences should have been annulled. Though the Videnov cabinet denounced Kolarov's activities, it refused to make public any details of Kolarov's illegal deals. The licences were not annulled until the cabinet's fall.

Among the recent analyses documenting the considerable scale and variety of corruption and illegal economic behaviour, we highlight those of Kozhuharov (2007, 2008) and Chirov (2009). Kozhuharov (2007) provides detailed overviews of a number of illicit deals in the 2000s which have been large enough to affect the national economy. The examples also demonstrate the interpenetration, resilience and strength of the pre-1989 elite and of the inherited political nomenklatura in particular. We have incorporated here a brief overview of only some of the cases researched in Kozhuharov's volume.

Gushterov was a prominent financier, insurer, member of the High Council of the Bulgarian Socialist Party and also headed one of the many foreign businesses founded by the State Security services and the Bulgarian Communist Party. Because of his membership in such webs of inter-personal relations, Gushterov was able to open the first insurance company in the country, at a time when private sector operations in the sector were not allowed. Back in 1990, Gushterov was provided with a loan of BGL 3m to open the company and a further BGL 1m in shares of the Bulgarian Chamber of Commerce. The order was signed by the Prime Minister at the time, Andrey Lukanov, and Gushterov was allowed to invest no personal funds in the new venture. The insurance company was never operational, and it is still unclear how the money was used. It was years later, and only following the executive changes at the Bulgarian Chamber of Commerce, that Gushterov was forced to pay back the loan, without any interest payments and at an exchange rate of the BGL to the USD which was 6.2 times (less favourable to the state) than the original one.

Similar schemes were used extensively used to finance the first private banks, insurance companies and many other companies in the country. Loans were being provided to members of the political (Party) nomenklatura and were invariably repaid at (personally) very favourable exchange rates given the dramatic devaluation of the Bulgarian currency on a number of occasions during the 1990s, especially in the early 1990s. Large sums were thus siphoned off, without providing support for industrial activity, the creation of 'real services', and without protecting the valuable assets of the SOEs which could have survived the transition period and could have become profitable by the mid 1990s.

Early in the spring of 1990, Andrey Lukanov, executed a long-standing plan to turn a couple of thousand high-ranked members of the political nomenklatura into sole owners of valuable SOE assets and, therefore, of the national economy. Lukanov ordered the 'investment' of considerable loans to members of the political nomenklatura, mainly ex-officers from the State Security services. Kozuharov (2007, p. 33) points out that 'Due to incompetence and their desire for a lavish lifestyle, the majority of the urgently-appointed millionaires squandered the gift. The fact that among them there is a small set of people with business acumen and appropriate education who managed to take advantage of the opportunity to build real small empires does not alter the general picture'.

Another case of large-scale corruption which brought to its knees one of the foremost energy enterprises in the country, the coal-power stations in the Maritsa basin, involved a number of private companies acting as sub-contractors both to the stations and to the company supplying the power to the central heating system of Sofiya. The Minister of the Economy in the Stanishev cabinet from the mid 2000s, Rumen Ovcharov, was directly involved in these deals. A number of schemes of scrounging the assets of the SOE have been documented: closed and non-transparent bidding procedures, overvaluation of sub-contractors' activities, and charging for repairs which never took place. Steel and iron components, machinery and rail tracks were sold illegally, having been intentionally misclassified as 'condemned'. It is not coincidental that the Managing Director of SOE 'Maritsa Iztok', Ivan Markov, was also a member of the High Council of the Bulgarian Socialist Party, an ex-deputy minister, and a shareholder or manager of a number of several private enterprises throughout the energy sector. Many of the other high-ranking managers in 'Maritsa Iztok' have been shown to be related to the current President, another member of the inherited political nomenklatura, member of BSP and an agent with State Security from October 1989, Georgi Parvanov. Ivan Markov is also financially related to the earlier mentioned Minister of the Economy, Rumen Ovcharov, through the 'Energotrade Consult' company staffed with pre-1996 high-ranked members of the Ministry of the Economy. Some of the members involved in these schemes were also active in diverting funds from the EU SAPARD programme. One of them, Liudmil Stoykov, the

owner of the company which was a monopoly buyer of scrap from SOE 'Maritsa Iztok' and a personal friend of President Parvanov, has been shown to have diverted at least €7m from the programme.

There are also the SOEs which were 'unfortunate enough' to have been completed shortly before the 1989 coup and which were never opened after 1989 but whose machinery and assets were diverted to the grey economy. Examples are the power stations in two major towns, Haskovo and Pazardzhik. A third prominent case is a high-tech SOE for hard disk drives created in the 1980s in Stara Zagora which was intentionally bankrupted, with USD 190m of high-tech investment irreversibly lost to the state.

In a more recent publication, Kozhuharov (2008) analyses prominent connections among the various branches of the nomenklatura, tracing the mutual sponsorship and financial support streams which flow across them. A recently debated case involved the management of contracts by the National Electricity Company and, more specifically, the pronounced tendency on the part of the management to replace direct commercial links (79 per cent in 2002; 40.6 per cent in 2003; 6-7 per cent in 2005-2006) with indirect, mediated links with foreign electricity clients. Most of these companies-mediators have been shown to be owned by members of the political nomenklatura. The huge profits that they generate accumulate because of the difference between the (low) price charged internally by the National Electricity Company and the (much higher) price claimed by the mediators on the international market.

A last set of examples are uncovered in Chirov (2009), who discusses the number of firms managed by nomenklatura members abroad, both before and after 1989, and the large-scale 'misuse' of financial resources for personal enrichment on their part. Both internally and with respect to these SOEs, the majority of the managers were directly appointed by the political nomenklatura, with only 54 per cent of SOE managers having had higher education and an even smaller percentage having had the necessary managerial, professional and education skills to manage SOE efficiently and effectively. Such managers, Chirov demonstrates, tend to encircle the SOEs under their command with SOEs (before 1989) and private companies (after 1989) managed by their relatives and friends.

### *3.2 The clubs and structured clubs: a lasting feature of Bulgarian reforms*

The stories have been carefully chosen. They illustrate aspects of path dependence that are not studied empirically or are more generally under-researched. Based on the empirical material, we draw the outlines of the bureaucratic entities deeply involved in the process of corporate restructuring.

'Privatisation insiders' is an umbrella term which describes members of sections of the inherited political nomenklatura and, more rarely, the economic-managerial nomenklatura. These were individuals working across ministries, councils, the banking system, criminal organisations close to the pre-1989 elite, and the Secret Service inherited from the pre-1989 regime and

implicated with economic planning and production decision-making under state-socialism. Insiders capitalised on two 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 SOEs supply chains was guarded carefully in the 1980s and remained non-public in the 1990s. Information on the frequently changing legal framework, privatisation processes and plans was inequitably shared among privatisation players. Of consequence to privatisation mal-management was the enduring ability of insiders to harness non-public information to attain private ends.

Though a crucial weapon in the hands of privileged insiders, information alone is an insufficient explanatory factor. Privatisation mal-management was equally reliant upon the insiders' monopolistic, long-standing possession of additional resources such as continued legitimacy in the eyes of the general public, access to valuable institutional channels, and the ability to lessen others' resistance and counter claims for control over resources. Control over resources was facilitated by the insiders' access to the administrative apparatus discussed next (Table 2).

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**Table 2. Bureaucracies, clubs and structured clubs.**

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

Source: Boisot 1995, p. 237; extensively modified

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To Weber (1947), bureaucracies harbour rational behaviour. However, one could find few if any examples of such behaviour during the last two decades of Bulgarian reforms. Prominent were 'clubs' and 'structured clubs'. Even though structured clubs are formalised and dependent to a greater

extent on differentiation and stratification, we emphasise commonality of clubs and structured clubs, as both are founded on the principles of exclusion and restriction of access. They had been designed in the 1950s with the sole purpose of preserving the privileged access to resources on the part of the new elite, made possible partly through the extensive personalisation of transactions and the convergence of their interests. Members placed high utility valuations on being life-long members of such exclusive, long-term information- and- resource-rich circles. Common background and shared education and socialisation experiences created strong bonds among members.

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**Table 3. Bulgarian GDP  
(average annual percentage changes)**

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<i>Period</i>	<i>% change of real GDP</i>	<i>Period</i>	<i>% change of real GDP</i>
1961-65	6.6	1989-90	-9.1
1966-70	4.7	1991-92	-9.5
1971-75	4.5	1993-94	0.2
1976-80	1.2	1995-96	-3.6
1981-85	0.9	1997	-6.9
1986-90	-1.8	1998	3.5
		1999	2.5

Source: Nørgaard 2000

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The networking-related privileges of club members provides an example of sub-optimal organisational outcomes, from the point of view of Bulgarian society as a whole. These outcomes are also strongly path dependent in nature, as they can be traced back to specific historic moments, such as the entry of the Soviet Army into Bulgaria in 1944, the 1945 Yalta conference, the ascendance of the Communist regime and subsequent imposition of state socialism in the 1940s, the manipulated parliamentary elections in 1946, and the 1950s crystallisation of the economic and political nomenklatura. These privileges have passed from one generation of functionaries to their offspring and close associates. Strong and enduring networking effects helped reinforce 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), thus substantiating our claims of weak 'elite co-optation', limited 'elite circulation' and considerable 'elite reproduction' (Stark, 1991; Werning Rivera, 2000) in line with our approach to 'strong' path dependence in terms of 'inefficient', difficult to eliminate structures and processes.

**Table 4: Freedom House Ranking of Selected CEE States**

	Bulgaria	Czech Rep.	Estonia	Poland	Romania	Slovakia
Political rights (1989-1990)	7	6	-	4	7	6
Political rights (1990-1991)	3	2	-	2	6	2
Political rights (1991-1992)	2	2	2	2	5	2
Political rights (1992-1993)	2	2	3	2	4	2
Civil liberties (1989-1990)	7	6	-	3	7	6
Civil liberties (1990-1991)	4	2	-	2	5	2
Civil liberties (1991-1992)	3	2	3	2	5	2
Civil liberties (1992-1993)	3	2	3	2	4	2
Democratisation (1997)	3.90	1.50	2.10	1.50	3.95	3.80
Democratisation (1998)	3.55↑↑	1.50	2.05↑	1.45↑	3.85↑	3.65↑
Democratisation (1999)	3.31↑	1.75↓↓	2.06↓	1.44↑	3.19↑↑	2.50↑↑
Democratisation (2002)	3.00↑	2.13↑↑	1.94↑	1.50↓	3.31↓	1.94↑↑
Rule of law (1997)	na	na	na	na	na	na
Rule of law (1998)	na	na	na	na	na	na
Rule of law (1999)	4.13	2.75	2.63	1.88	4.25	3.13
Rule of law (2002)	4.00↑	3.13↓↓	2.13↑↑	1.88	4.50↓	2.63↑↑
Econ. liberalisation (1997)	5.38	1.88	2.13	2.00	4.63	3.38
Econ. liberalisation (1998)	4.08↑↑	2.00↓	2.00↑	1.92↑	4.50↑	3.58↓
Econ. liberalisation (1999)	3.75↑↑	1.92↑	1.92↑	1.67↑	4.17↑↑	3.25↑↑
Econ. liberalisation (2002)	3.25↑↑	2.08↑	1.92	1.92↓	3.92↑	2.33↑↑

Source: FH reports for Bulgaria, Czech republic, Estonia, Poland, Romania, Slovakia for 1998 and 2002

The clubs combine methods of modern management and pre-modern, patriarchal elements of over-reliance on personal interaction, subordination and hierarchical control, and a familial-type trust. Some of these traits have been incorporated in Chalakov's (2008b) description of the system of 'cousin-like relationships'. To Chalakov, 'networks' invariably include: *politicians* such as MPs, provincial governors and mayors; *bankers*; newly created *businessmen* controlling the entrance and exit of non-privatised SOEs; members of the judiciary; criminal networks; media organisations and think-tanks legitimating the activities of the network.

The clubs were significant contributors to the retardation and failure of privatisation and reforms. The longer-term development of the country was sacrificed, as reflected in the Freedom House readings for Bulgaria and in Moody's and Euromoney Risk's investment risk rankings (see Table 4). As recently as 2002, Bulgaria scored less favourably than nine other countries in the region, across key categories of reform speed and effectiveness.

#### 4. PATH DEPENDENCE: CAN IT EXPLAIN BULGARIAN PRIVATISATION?

##### *4.1 Theories of path dependence*

The origins of the concept of path dependence are habitually traced to David's (1985) pioneering research about 'sticky' early conditions and Arthur's (1989) work on non-linear economic processes. However, the concept is considerably older. Examples of earlier use include Veblen's (1898) notion of 'cumulative causation' and Menger's (1883) discussion of 'institutional emergence'. 'Path dependence' is also similar to the notion of 'contingency' in biology and reminds us of 'chaos' in physics (Liebowitz and Margolis, 1995) and the associated assumptions that outcomes are dependent on initial conditions and seemingly 'insignificant events'.

It was in the 1980s that the theory of path dependence came into vogue. A prominent example is research in evolutionary economics (Nelson and Winter, 1982), about the evolution of industries and the adoption of technologies. Thinking in this area shows that, contrary to the expectations of neo-classical economists that initial conditions do not affect outcomes of economic processes, the equilibrium that an industry or a technological adoption process reaches is affected by its path. Nelson and Winter also demonstrate that the starting point of a process and 'accidental events' affect specific outcomes.

Though there are currently a number of separate strands of path dependence thinking, they share common arguments and assumptions. Definitions of path dependence invariably betray a belief that initial conditions and choices are not easily reversible, that history is 'sticky', and that outcomes are 'non-ergodic' and are 'quasi-fixed', thus drawing attention to the 'dangers' of 'lock-ins' (Arthur, 1989) and 'rigidities' (Mahoney, 2000). This means that current outcomes are deeply affected by past choices. Therefore, path dependent structures and processes are products of history: an understanding that is as applicable to the 'developmental sequences' and 'chaos' concepts in the natural sciences as they are to 'social dynamics' (Martin and Sunley, 2006). Social structures and processes exhibit 'self-reinforcing properties', with 'increasing returns' and 'network effects' (Katz and Shapiro, 1986; Farrell and Saloner, 1986) precluding the elimination of inefficiencies.

There are various views about 'forms' of path-dependence. Liebowitz and Margolis (1995) distinguish among: 'minimal' path dependence in cases of 'durability in a decision'; behavioural persistence due to the inability of the individual to make accurate predictions; and a third 'form' where inefficient outcomes occur even though the individual possesses the required information to make an optimal decision. Closer to our 'narrower' definition of path dependence is the analysis of path dependence in terms of 'self reinforcing institutions' (Pierson, 2004) and the preservation of 'highly inefficient structures' which cannot be eliminated (Roe, 1996), even when individuals possess the necessary information. Inability to 'eliminate' inefficiencies may be due to

'information' costs and the cost of coordinating actions in order to resolve such inefficiencies.

We share, firstly, Roe's (1996) view that outcomes may persist largely due to information costs and coordination problems. We also interpret path dependence not 'broadly' and in terms of 'history matters' but with respect to institutions which are self reinforcing (Pierson, 2004). Secondly, our analysis aims to extend current academic debates about the degree of freedom of the individual (Mahoney and Snyder, 1999). While we share an interest in context, a proper understanding of path dependence needs to study agency, be it individual or collective. Thirdly, we agree that lock-ins help preserve inefficient institutions (Setterfield, 1993). Inflexible and difficult-to-transform institutions affect agency but are also maintained or transformed through agency. Fourthly, in order to account for the persistence of sub-optimal arrangements, we study both path following and path violation. We also link both to path dependent resource utilisation, and *not* resource allocation only.

As regards the case of Bulgaria, the evolutionary nature of path dependence becomes clear. Development seems to have been marked by much greater resistance and stickiness, has resulted in a number of internally generated economic, financial and political complications at a time when other CEE reformist regimes enjoyed growth and development (see Table 4). Nonetheless, it is important to clarify that our use of the term 'failure' does not qualify path dependence as such but the economic and financial outcomes, as captured in statistics of growth and prosperity at the national level.

#### *4.2 Explaining Bulgarian privatisation path dependence through demand factors: inherited institutions*

It is not enough to know that insiders and bureaucratic entities successfully derailed national reforms by promoting path preservation. We also need to account, firstly, for the exact form of path dependence by identifying 'initial conditions', 'accidental events', and 'positive feedbacks' in addition to those discussed in the preceding section (left-hand column, Figure 1). Secondly, we explain the remarkable tolerance of path dependence and link our answer to Roe's (1996) argument that 'highly inefficient structures' may prove difficult to eliminate partly due to the inability of agents to coordinate their actions effectively.

As far as the first issue is concerned, we identify specific 'initial conditions' which have shaped the country politically, economically and socio-culturally. Exemplary are the 'antecedent conditions' found in the 'critical juncture' thesis (Collier and Collier, 1991). A path dependent account of Bulgarian privatisation should also identify 'network effects', defined as surpluses which accumulate when a growing number of agents use the same processes, services, technologies, products, or structures: a concept used in analyses of path dependence (Arthur, 1989; David, 1985) and the adoption of standards (Farrell and Saloner, 1986).

A prominent example of initial conditions is the level of modernisation: a powerful antecedent of reforms inherited from the pre-1989 system (Nørgaard, 2000). The low level of modernisation, captured in four indicators discussed by Nørgaard, is linked with societal modernisation (Figure 1). It affects the predominance of conservative or reformist attitudes (demand factors), the willingness of voters to challenge established institutional structures and governance processes (demand factors), and the degree of effectiveness of the implementation of reform policies. We test our assertion by comparing the figures for low level of modernisation with Nørgaard's readings for support for reforms in CEE during the 1990-1997 period. The low Bulgarian readings suggest weak backing for the new system of production and, consequently, insufficient de-legitimation of the political nomenklatura: a powerful factor of reforms which we link to privatisation mal-management in the next section.

Another set of lasting initial conditions are industrial and trade policies. In the 1950s and 1960s, the political nomenklatura designed short-sighted industrial strategies. Enterprise distribution was unbalanced with a pronounced bias towards large-scale, mammoth enterprises. Mainly through the personal decisions of high-ranking Party officials (members of the political nomenklatura) in the late 1970s, Bulgarian industrial development was dominated by large investment projects in electronics, ferrous metallurgy, and heavy machinery (Dobrinsky *et al.*, 1995) designed to generate exports for the USSR. These industrial complexes were isolated from other branches of the economy and, importantly, from foreign competition. They were set up without consideration for national endowments and were either populated or guided by members of the aforementioned clubs, as demonstrated in the empirical section. These significant components of distortion of the economic system made transition particularly painful. Inherited elites capitalised on this 'inheritance' while taking advantage of their position as middlemen.

Lastly, Bulgarian institutional entrepreneurs were inadequately supported (Table 5). The level of support for market economics was low even during the honeymoon period at the start of reforms, evidenced by the consistent successful election turnouts for the ex-communist party. Such delays in the early 1990s proved crucial. A window of opportunity, the 'phase of extraordinary politics', limitless possibilities (Nørgaard, 2000), and 'political breakthrough' (Balcerowicz, 1997), was wasted.

As regards the second issue, we note firstly, the failure of counter-elites to act as true institutional entrepreneurs thanks to popular attitudes (powerful demand factors); and secondly, the tolerance of the electorate for sub-optimal outcomes and the historical sources of such tolerance (another demand factor). Both matters relate to Roe's (1996) 'strong' path dependence and the preservation of highly inefficient structures, given the inability of agents to coordinate and eliminate such inefficiencies. Thirdly, we discuss incentives in relation to the role of the political and economic-managerial nomenklatura (a supply factor), in a later section.

**Table 5: Market support for reforms in selected countries  
(% of votes supporting reforms)**

<i>Country</i>	<i>1990</i>	<i>1991</i>	<i>1992</i>	<i>1993</i>	<i>1994</i>	<i>1995</i>	<i>1996</i>	<i>1997</i>
Czech Rep.	58.1	61	55.4	51.8	48.6	43.7	44.9	29.8
Hungary	61.8	65.1	55.6	46.2	44.1	40.3	38.6	37.8
Poland	61.1	56	55.7	57.3	51.6	64.2	63.4	66.3
Slovenia	na	na	66.2	44.5	51.3	46.1	46.5	46.4
Bulgaria	46.4	61.8	56.3	52.1	39.7	40.3	45.8	52.3

Source: Nørgaard (2000)

In theory, 'path breaking' and 'path violation' may be achieved through agency within institutional domains (Zucker, 1987). 'Institutional entrepreneurs' are individuals capable of altering institutional structures. They catalyse 'path breaking agency' through individual responses and collective initiatives. Institutional entrepreneurs could have succeeded in 1990s Bulgaria. After all, rules and regulation were under public scrutiny during this period of flux and transition. In early to mid 1990s Bulgaria, though, institutional entrepreneurship was marred by low visibility and legitimacy, both being strongly path dependent. Given the accumulated historical conditioning of voters discussed below, institutional entrepreneurs rarely enjoyed adequate, concentrated, and vocal support to act as agents of change. Furthermore, the pro-reform opposition was virtually non-existent before 1989, remained disorganised until 1997, and had to negotiate its way through the complexities of 1990s reforms. Finally, the collapse of a pro-reform cabinet early in the transition process (in 1992) reduced the capacity of institutional entrepreneurs to develop a common platform and present the risk-averse citizenry with a vision of effective reforms.

The crucial set of agents who failed to challenge path dependent, institutional inefficiencies were the voters. We discuss them in the context of social capital, 'learned passivity', and widely held beliefs and norms: informal institutions which are rarely discussed in analyses of path dependence and of CEE reforms. 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 dual (inner and outer) moralities. In such societies, informal behavioural norms overlay formal behavioural norms. 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 Bulgaria where one still finds unreserved trust among members of networks (families, close associations such as

neighbourhood committees) and absence of trust among members belonging to external networks. Such conditions preclude the development of a healthy 'societal space' which is a major requirement for the successful coordination of agents when challenging ineffective, inherited institutions.

Social capital remained weak in the 1990s. It was dominated by the capital contained within personal or semi-official networks throughout society. The clubs described here were just one example of such personalised, exclusive networks which frustrated efforts to champion institutional change. Accounting for such trust peculiarities in Bulgaria requires a 'deeper historical explanation' of 'path-dependent origins' (Cantwell and Zhang, 2006). We identify 'initial conditions' which help explain this demand factor: the 863 conversion to Orthodox Christianity and the adoption of the Byzantine Christian legislation code, 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, the fall in 1396 of the second Bulgarian empire to the Ottoman Turks, and the incorporation of the country in the sphere of influence of Stalin's Russia in the mid 1940s.

The four historical moments reinforced specific socio-cultural arrangements which remain largely undisturbed. They have enforced a strong form of egalitarianism and a weak form of self-governance (Kiuranov, 1994). Having had limited experience with the Western Mediaeval system of civil and urban governance and having suffered denied self-governance under the Ottomans (1396-1878) and the Soviets (1944-1989), voters distrusted and feared the 'system' and most public institutions associated with it. For centuries, the Ottoman state secured for itself a complete monopoly over economic, political and social activity, not allowing society to develop as an autonomous entity. The omnipresence of authority and the absence of even an 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, initiative taking' and shared values which are critical to the birth and development of civil society. The long-term loss of statehood, the imposition of autocratic institutional arrangements and the systematic repression of individual initiative sealed the country's economic backwardness (Kiuranov, 1996) and the social-cognitive makeup of its people.

Interestingly, under the Ottoman system of responsibility and answerability, the village was the entity 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, was collective. Similarly, acts of 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, in Ottoman-held territories the primacy of the collective over the individual was never seriously questioned. The late arrival, in the post-Ottoman Balkans, of expectations of indi-

vidualisation and the lack of historical experience with individual identity had major repercussions for defining 'individual-collective' and 'individual-state' relations founded on the notion of individual identity and a sense of belonging to a larger, trans-historical and sovereign entity such as 'society' or a 'state'.

The period after national liberation was turbulent. The diplomatic losses of the country at the Congress of Berlin (1878) and the Treaty of Versailles (1919) prevented completion of the belated project of national unification. Coupled with external pressures and the consolidation of communist and fascist ideologies, they thwarted the development of democratic institutions based on notions of personal initiative taking.

Lastly, particularly strong state control before 1989 meant that guilt and responsibility remained underdeveloped and that the link between behaviours and consequences was inadequately understood by many individuals during state-socialism. This lack of understanding of 'paying for one's action' permeated all spheres of life. Costs were typically not borne by the perpetrator, 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. Such 'historically rooted' perceptions substantially encumbered reforms, for voters found it difficult 'to change their old mental schemes of perception' (Ganev and Stamenova, 2000, p. 34).

#### *4.3 Explaining the Bulgarian privatisation path dependence through supply factors: elites and rivalry*

Our demand-focused analysis ignores the behaviour of the political and economic-managerial nomenklatura, some of which remained tied to the clubs and structured clubs while others changed dramatically with privatisation. Here, we strengthen the demand-side explanation by considering supply-side factors: the specificity of the Bulgarian elites, incentive mechanisms, and the rivalry among sections of the nomenklatura. These factors prolonged the inherited, pre-1989 conditions through 'lease-buyout' processes, mis-use of information and other resources, the longevity of clubs, and intentional 'blocking' of healthy SOEs by gaining control of 'entry' (suppliers) and 'exit' (buyers) partners of the SOE, documented by Chavdarova (2001).

Given a lack of space, we mention just a handful of studies confirming the consciously path dependent behaviour of the overwhelming majority of the political nomenklatura. Prohaska (1998) tells a story of 'resistance' to reforms on the part of various agents such as the managers of SOEs and government officials. The elite, she argues, effectively blocked privatisation progress. Andronova-Vincelette (2001) places emphasis on the massive delaying of reforms', much due to the resistance of the inherited elite. The examples of the Plovdiv-based Agrobusiness Bank and the inter-penetration of financial, managerial, and political elites (such as Multigroup, Orion, and Euroenergy) as well as recent studies by Gertchev (2006), Chavdarova (2001), and Stanchev (2001) provide further backing for the thesis of 'strong path depend-

ent' behaviour of the Bulgarian elite. Stanchev's review of illegal practices demonstrates the absence of the benevolent and well-intentioned agents for change that some external commentators of CEE reforms assume. Chavdarova's (2001) paper on corruption demonstrates, conceptually and empirically, the difficulty in finding examples of apparatchiks who changed dramatically with privatization, on the contrary there was a naïve 'expectation that economic liberalisation has the potential to reduce corruption' (p. 10). Similar are the conclusions of the Research Fellows from the Center for the Study of Democracy (2002); to them, corruption and crime were organized and conducted by individuals 'connected to the ruling elites'.

In support of our view that the behaviour of the inherited elites constituted a clear example of strong path dependence, firstly, we briefly comment on the writings of key ideological, political and economic representatives of that elite from the 1990s. The views may appear shocking, yet they provide incontrovertible evidence of the insufficient reform of the political nomenklatura. Writings of two of BSP's (Bulgarian Socialist Party, the Bulgarian ex-communists) key figures, Lilov and Varon, illustrate Chalakov's (2008b) argument that, unlike the ex-Communist parties elsewhere in CEE, the BSP never had a 'well developed reform wing' (p. 230), partly attributed by Raychev and Stoychev (2004) to the paradox that any attempts to liberalise the Bulgarian economy and society until the early 1980s were associated with the decisions of the Communist General Secretary, Todor Zhivkov.

In a relatively recent publication, Lilov (2000) poses the following question: Can state-socialism be reformed and modernised? The author reaches an affirmative answer, presenting China as an example of the capacity of state-socialism to replace, at some point in the future, capitalism. We are reminded that one day society will "give expression to its socialist nature and accomplish its socialist aims" (p. 8). Communist party officials are quoted, arguing that the Chinese example will "show humanity that the road to socialism is inevitable, that it is better than the capitalist one" (p. 15). It is patently clear that Lilov shares the conviction that pro-market reforms are not irreversible and that the collapse of state-socialism is a temporary set-back. Varon (2001), an equally dominant member of the political nomenklatura, challenges the "neoliberal barbarisation of capitalism" (p. 75). Instructive is Varon's encouraging the Bulgarian elite to proudly view themselves as being part of the European forces destined to 'overcome capitalism'.

Secondly, we need to understand the incentives that actors faced during the 1990s and why the nomenklatura kept the dysfunctional system intact. We need a sense of the motivations for not trying alternatives. Chavdarova (2001) attributes delayed reforms to, among others, the weakness of civil culture and the inability of society to control and limit the prominence of interests. Her study documents why even those members of the elite who cared to behave productively were forced to be part of this system of patronage. Incentives remained 'inverted', firstly, because of the isolation of the

country during the wars in ex-Yugoslavia and the subsequent criminalisation of the economy; secondly, the link between corruption and the 'value of the resources', 'level of personal discretion', and 'level of responsibility' analysed by Ganev (1998); thirdly, the political and legislative instability during the period which did not alter incentives sufficiently; and finally, the absence of positive external incentives, unlike the prospect of EU and NATO membership in the late 1990s.

Thirdly, analysts of Bulgarian reforms fail to distinguish among factions of the inherited nomenklatura. Nonetheless, such a distinction helps explain the motivation of the elite and, therefore, economic mal-management. An edited volume by Chalakov et al. (2008) is the only attempt to address this analytical gap by investigating rivalry *within* the elite. The volume is of interest here as it treats the Bulgarian transition explicitly as an example of path dependence; the elites are not assumed monolithic, as is typically the case; and primacy is accorded to the institutional framework, even though here we also analyse *informal* institutions.

Chalakov (2008a) identifies structural and functional differences between the economic-managerial nomenklatura consisting of the managerial and economic elite, and the party (political) nomenklatura which incorporated 'organisational departments', 'ideological departments', and the Secret Service (State Security service). Created by Stalin, the political nomenklatura's attitude towards the economic and managerial elite was 'marked by deep conflicts' (p. 24). Therefore, the history of post-WWII Bulgaria was one of battles among representatives of the political nomenklatura and the economic-managerial nomenklatura, invariably ending with defeat of the latter. Examples include the 1960s destruction of the Bulgarian Sea Fleet economic unit and the imprisonment of its CEO Georgi Naydenov, the 1970s demotion of the founder of the electronics industry in the country Prof. Ivan Popov, and the 1980s struggle between Ognyan Doynov as a key sponsor of the interests of the economic nomenklatura and the earlier mentioned Soviet citizen Andrey Lukanov — a member of an elite Communist clan and a key figure in the political nomenklatura close to certain Moscow circles.

Late state-socialist reforms such as Regulation of the Economic Mechanism (REM) No. 53 (1981), Regulation No. 1196 (1974), Regulation No. 535 (1980) and Regulation No. 2242 (1987) encouraged economic efficiency while endorsing the principle of centralised control over the economy by the political nomenklatura. The Regulations did not alter sufficiently the hierarchical and observational qualities of the economic framework, even though they created an impression of relaxed control. They preserved the long-standing subordination of economic agents, be they entrepreneurs, institutional entrepreneurs, or the economic nomenklatura, while demonstrating how the ineffective macro-management on the part of the political nomenklatura, the growing technological gap with the West, and the heated competition with the newly industrialised economies in the 1970s had forced the political nomen-

klatura to search for compromises and new solutions. Finally, the reforms intensified the collision of the political and economic logics and revealed the desire of the political nomenklatura to transform its political capital into economic capital.

The collapse of the administrative economy and the political system in 1989 did not undermine the position of specific sections of the political nomenklatura such as members of the Party-organisational nomenklatura, the former Security Service and the foreign trade cadre, much due to their 'sophisticated complex of knowledge, skills, textual and technical resources' (Chalakov, 2008a, (p. 45), including circles of contacts, control over archives and databases, and intelligence-gathering devices. The 'immense capacity to control economic agents — commoners and economic and managerial leaders alike — ... awarded the party nomenklatura key economic functions and shaped its specific capital' (p. 48). This 'strongly' path dependent process was assisted by the inability of the economic-managerial nomenklatura to develop as a self-sustaining political force (Peev, 2002) and to oppose the economic agents created by the political nomenklatura: criminalised 'insurers', 'mugs' and 'middlemen' (Chalakov, 2008b).

Last but not least, the political nomenklatura managed early enough in the process of reforms to gain control of the activities of the newly emerging entrepreneurs and to minimise their role. Chalakov lists various forms of forced control designed by the political nomenklatura to subdue the newly arrived entrepreneurs, for instance by 'sending the thick-necks' (p. 170). The stories illustrate 'failure' mainly due to political interference stifling economic initiative-taking. They also inform of the private tragedies of the members of the economic-managerial nomenklatura whose SOEs were often cut up in pieces or were drained of resources through intentional blocking of 'entry' (suppliers) and 'exit' (buyers) points. This process systematically and intentionally weakened the economic-managerial nomenklatura in the early 1990s.

We do not suggest that no economic agents attempted to create wealth and behave responsibly. However, examples of proper management remained the exception during the period (Chirov, 2009). Macro-level indicators about the health of the Bulgarian economy in the 1990s illustrate the strength of inertia and the considerable path dependence of reforms.

It may be equally naïve to paint a black-and-white picture of the destructive role of the political nomenklatura and the potentially constructive function of its economic-managerial nemesis. However, the CEOs of many of the SOEs that experienced asset-stripping were not the CEOs from the 1980s. Some SOE managers refused to participate in the entry-exit scrounging of SOE assets. Such cases demonstrate the possibility for an alternative development in the country, had the balance of power within the nomenklatura been different. These relatively rare success stories are typically attributed to the lack of interest on the part of the political nomenklatura in less profitable sectors. Wherever the spoils were high, effective privatisation and reforms

were stalled early in the 1990s. Where they were low, the economic-managerial nomenklatura was allowed to retain its position at the periphery of the economy. It was in these peripheral sectors that privatisation proved relatively successful and isolated cases of economic growth in the mid 1990s were recorded, a development which remains sidelined by the media and in academic analyses.

## 5. CONTRIBUTIONS

Though the paper used the example of Bulgarian privatisation, it was our aim to extend theories of path dependence. There are a number of implications of our investigation of path dependence, its sources and consequences. Firstly, this was an empirical case study of the difficulty in escaping from path dependent and harmful outcomes. Our account seeks to address the problem of the scarcity of case studies and illustrative material (Foray, 1997; Noda and Collis, 2001).

By identifying and analysing 'initial conditions' and 'antecedent actions' behind institutional and organisational lock-ins, we have attended to another deficiency of path dependence writings: their focus on path dependence effects, and not causes of path dependence (Booth, 2003).

Research addresses insufficiently the ways in which actors give meaning to or alter structures (Mahoney and Snyder, 1999). Our investigation has identified explicitly the contribution individual actors and groups of actors made to prolonging harmful institutional arrangements. Similar to Lamberg *et al.*'s (2004) analysis, though in a different context, we drew connections across levels of analysis and levels of path dependence. By linking individual agency with higher-level institutional lock-ins — and by examining the interplay between 'harmful' institutions and human agency — ours is among a handful of institutionalist studies of CEE path dependence, along with Zukowski's (2004) macro-level analysis and Kaneva's (2001) interest in fundamental, formal, and informal institutions.

Building upon Arthur's (1989) concepts of increasing rigidity and non-adaptability, the lock-ins identified here were defined as negative, path dependent outcomes. Recent studies suggest that this should not necessarily be case (Cantwell and Zhang, 2006). Nonetheless, the Bulgarian 'perpetuation of failure' was an example of negative lock-ins, at the level of formal and informal institutions as well as with respect to patterns of bureaucratic organisation. The analysis was a reminder of how and why the concept of lock-in might still carry distinctly negative connotations.

Path dependence theory tends to emphasise path dependent resource allocation, not resource utilisation (Lavoie, 1996; Setterfield, 1997). Our account has focused on resource utilisation, by identifying valuable resources of consequence to privatisation and by demonstrating the mechanisms through which resources assisted the 'path amplifying' efforts of privatisation insiders. While the analyses of Lavoie and Setterfield tend to emphasise the

path dependent utilisation of aggregate productive resources such as capital and labour, our discussion addressed how specific resources can be marshalled along the route to forming path-dependent organisational structures: an essentially microeconomic concern. As such, our treatment of the path dependence of resource use is different. This may be treated as yet another contribution to the conceptualisation of 'resource' and 'resource use', and consequently their importance to path dependence.

The analysis has also demonstrated the significance of informal institutions. Though rarely acknowledged, the analysis of social institutions has demonstrated that it is not enough to dissect reforms with respect to incentives and motivational factors, as frequently occurs in the literature. Analyses of laws and regulations cannot explain path dependence. The legal framework during the period is a text which says little about its 'background': informal institutions, interests and power relations.

Last but not least, we would like to draw attention to our choice of methodology: inductive, qualitative and one that relies upon the application of grounded theory and is thus rather rare in economic analyses. The adopted methodology is a further contribution to the discipline, demonstrating the worth of applying such methodologies to economics.

## 6. LIMITATIONS AND FUTURE RESEARCH

The authors did not delve in much depth into the secondary literature of CEE reforms. Nonetheless, extending path dependence theory may also contribute to the literature on CEE elites, by building upon our discussion of the role of individual members in sustaining long-standing inefficient institutions and path dependent resource utilisation in clubs.

Parts of the discussion have also relied heavily on a taxonomy of economic agents supplied by Chalakov *et al.* (2008). Though we treat the political and economic-managerial nomenclature as clearly distinguishable, the borderline between them was blurred at times. Our relatively simplified treatment of elite categories was probably required but could be revisited.

Supply-side determinants have been studied extensively with respect to privatisation. There is a voluminous literature on CEE elites. However, there are fewer studies (e.g. Prohaska, 1998; Chavdarova, 2001) which have enquired into the demand-side factors introduced by us, including informal institutions. We hope that our discussion may fuel intellectual curiosity into demand-side factors.

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ENDNOTES

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