Introduction

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This book seeks to shed further light on the type of capitalism that has emerged in Central Asia, the Caucasus and other peripheral areas of the post-state socialist world, drawing out the implications for both domestic and overseas firms from a broad perspective that is founded in the literature on comparative institutional analysis. We call this cluster of countries the ‘transitional periphery economies’, to set them apart from other emerging and more mature types of capitalism; this reflects the more complex mix of political and market mediation, and informal personal ties, than is encountered in the more developed states of the post-state socialist world. This collection is a wide-ranging one, and incorporates both detailed country studies and chapters dealing with broad thematic issues. What these accounts have in common is that liberalization is not a one-way street, and that there is little connection between liberalization and growth. At the same time, international firms are pragmatic and creative in finding ways of coping with quite different yet durable forms of institutional mediation and coverage.

COMPARATIVE CAPITALISM AND THE TRANSITIONAL PERIPHERY

Although the early literature on comparative capitalism focused on the case of the developed world, there has been a growing interest in the types of institutional arrangements prevalent in key emerging markets (Lane and Wood, 2012; Wood and Demirbag, 2012; Demirbag and Yaprak, 2015). The early literature on comparative capitalism held that only in the developed world were there the institutional foundations for stable and sustained growth and high levels of overall prosperity, and in other economies there would be strong pressures to converge with either the liberal or coordinated market ideal (Hall and Soskice, 2003). However, since the early 2000s, it has become clear that many emerging markets have proved capable of generating significant growth despite a failure to evolve towards one or other of the mature institutional archetypes, and others have become locked on suboptimal trajectories, with little prospect of meaningful institutional redesign (Lane and Wood, 2012). This has led to efforts to identify new capitalist archetypes that might best describe such persistently different economies. Again, much of the early comparative literature on institutions has tended to focus on the firm as a transmission belt, whereby specific sets of institutional pressures resulted in some outcome or other; what went on inside the firm was, at best, described in terms of stylistic ideal-types (Wood et al., 2014). This, in turn, has led to a subsequent interest in exploring variations in intra-organizational practice, and the effects of the entrants of new players from abroad.

The project of identifying persistently distinct types of capitalism beyond the coordinated and liberal market economies (CMEs and LMEs) encountered in the advanced societies led to the development of a number of alternative capitalist archetypes. These included the 'hierarchical market economies' of Latin America (characterized by particular patterns of stratification and elite composition) and the 'segmented business systems' of tropical Africa (characterized by large pre-modern peasant and informal sectors, and persistently durable uneven institutional coverage) (Wood and Frynas, 2006). Hancke et al. (2007) argued that the Mediterranean economies had similarly distinct features of their own, including a tightly regulated large firms sector, a weakly regulated small business sector, and a prominent role for family ownership. There was a similar recognition that in the case of post-state socialist Central and Eastern Europe, initial expectations of a swift transition to the LME or CME models were misplaced, with the exception of Slovenia, and possibly Estonia and Slovakia (Lane and Myant, 2016). The title of 'emerging market economy' has been used to describe the bulk of economies in the region (Nölke and Vliegenthart, 2009). Key features would include the revival of pre-Soviet traditions of corporate law but also, at least in some instances, the persistence of specific modes of Soviet-era practice in large organizations, despite market reforms (ibid.). Again, such economies are characterized by limited institutional alignment and coupling (Lane and Wood, 2012).

A feature of this model was the neglect of a large swathe of post-state socialist countries, most notably those of the Caucasus and Central Asia. This stimulated the development of a new archetype, the 'transitional peripheral economy' (TPE) to describe such states (Wood and Demirbag, 2012). TPEs were characterized by the persistence of informal networks that pre-date, but persisted through the Soviet era, with extended ties and networks which, in many instances, correspond with clans (Wood and Demirbag, 2012; Northrop, 2000; Collins, 2006). Of course, extended networks of support are a feature of many emerging markets. However, in the case of Central Asia, what sets them apart are the extent to which core features have survived all manner of internal and external shocks. If one considers *guanxi* networks (China), or peasant-based and tribal networks of support (Africa), it will become apparent that a feature of such networks is the extent to which they are redefined and reinvented to fit the process of modernization and economic growth (Gold et al., 2002; Michailova and Worm, 2003). *Inter alia*, this includes the ability to extend across national boundaries and to accommodate all manner of complex commercial transactions. However, to date, clan networks have tended to be much more spatially confined, with a strong linkage back to regions of origin (specific mountains, valleys, and so on), and also seemingly more capable of accommodating their form according to quite different external circumstances (Northrop, 2000; Collins, 2006). Quite simply, if *guanxi* or African tribal-based networks persist owing to the ability to reinvent tradition to suit modern purpose, the kind of clan networks encountered in Central Asian TPEs seem to be more adept at retaining original traditions; even if, at times, with a stronger priority being focused on concealment than adjustment (Northrop, 2000).

Many countries across the region have experienced national resource windfalls and are battling to escape an excessive dependency on them. Rather than using resource windfalls as a means of funding economic diversification, there has been a tendency to save the gains into a national sovereign wealth fund, and/or to fritter the gains away on vanity projects and the personal lifestyles of ruling elites. Indeed, given the challenges of sustaining national industrial bases, there has been a disturbing tendency for national economies to relapse, countenancing industrial decline as unavoidable, and/or indeed as something to be positively welcomed, given the seemingly richer gains from mining. Of course, even developed Australia fell into this trap.

A reliance on minerals brings with it not only the resource curse, but also a tendency to focus on aspirations of future minerals booms. Most notably, the oil and gas industry has a recent history of talking up oil discoveries in order to access debt capital; if they fall for such snake oil salesmanship, then national governments risk locking themselves into a cycle of suffering many of the consequences of a resource curse, without the resources to go with it (Frynas et al., 2016). Again, advances in automation mean that mining and, indeed, oil and gas, often only require far leaner labour forces than in the past (Topp, 2008). This means that there may be little trickle-down from mineral windfalls. Although some mineral-rich countries in the region have set up sovereign wealth funds, ostensibly as a device to save some of the latter for future generations, a common theme has been a great deal of opacity in how such funds are managed (Cumming et al., 2017).

A variation on the theme of foreign exchange windfalls is the case of Armenia, where a large diaspora provides the basis of inflows of investment capital and remittances. Although relations between the diaspora and the political elite have been awkward at times, the Armenian economy remains heavily reliant on the diaspora (Panossian, 2004). A risk with diaspora-driven growth is that it may lead to resource curse-like effects, with the easy foreign exchange windfalls reducing the need for sound economic policies.

CHAPTER SUMMARIES

This book is divided into three parts. Part I focuses on the transitional periphery in Central Asia. The rationale behind this part is to extend existing theories to understand the institutional set-up in the transitional periphery, particularly in clan-based economies of Central Asia. There are four chapters in this section.

In Chapter 1, Makhmadshoev contributes to the debate on the institutional perspective by examining unstable institutional settings and embedded factors that impact on firm behaviour in transitional periphery. Makhmadshoev argues that 'the neo-institutionalist approach, and in particular the North-inspired new institutional economics lens, tends to represent the most dominant approach adopted by many business and management scholars with an interest in post-socialist economies'. This chapter proposes an extension to institutional theory by integrating insights from the comparative capitalism 'varieties of transition' approach and the perspective on institutional change. The logic behind his argument for taking a more institutional change-oriented focus on institutional theory is the non-linear shape of institutional change in the transitional periphery countries. He also argues that limited attention has been paid to change agents in the transitional periphery. Therefore, he argues that integrating insights from comparative capitalism and theories of institutional change can enrich the current thinking on institutions and the firm in the transitional periphery by shedding new light on the role of actors as agents of institutional change, including the mechanisms they deploy to achieve such change.

Chapter 2 (Wood and Demirbag) seeks to examine clan-based authoritarianism and type of capitalism that has emerged in Central Asia, focusing particularly on Uzbekistan. The chapter focuses more on the theoretical aspect of transition, and aims to extend institutional theory to understand clan-based authoritarianism. Wood and Demirbag begin by examining the political context in Uzbekistan, and recent developments which highlight the main characteristics of clan-based authoritarianism and clan-based capitalism. Clan-based capitalism is characterized by strong clan networks, which makes them resilient to external shocks without making significant adjustments to the system. Wood and Demirbag also highlight implications of this emerging type of capitalism on foreign direct investment, and firm-level practices associated with the clan-based economic model in Uzbekistan. They conclude that Uzbekistan has performed better than any other post-Soviet country since 1989, which is also reflected in policy interventions used in Uzbekistan. These policy interventions encompass elements of the new (that is, the construction industry as an engine for growth) and elements of the past (most notably cotton, but also heavy engineering).

Chapter 3 (Manalsuren, Michalski and Śliwa) discusses the understandings, practices and influences upon management in contemporary Mongolia, which presents an interesting example as Mongolia is one of the poorest transitional periphery countries, largely isolated from external sources (Demirbag et al., 2005) and with relatively lower human capital development, while it has an advantageous location between two big emerging markets (Kaynak et al., 2007). Given the transitional stage of Mongolia, the research design adopted in Manalsuren et al.'s chapter is particularly meaningful and important to explore change or institutional embeddedness of management practices in the Mongolian context. The authors use a dataset of 45 in-depth interviews with three different groups of managers (socialist era, transitional era and non-native managers) to examine the managerial role in the Mongolian context. They also offer explanations for managerial practices unique to Mongolia by examining influencing factors such as the nomadic cultural heritage and the legacy of its socialist era, and the evolution and development of Mongolia's economic, legal and political system from its socialist past to its trajectory to capitalism. They weave these discussions into implications for managers and political authorities in the Mongolian context.

In Chapter 4, Usul makes the case that the clan-based economies which have emerged in the transitional periphery create different types of political risk management strategies.

Part II in this book consists of three chapters. The aim of this part is to examine developments and trends in Caucasia, in the countries of Georgia, Armenia and Azerbaijan. It expands upon and underscores themes highlighted in Part I by developing arguments on economic and social change, labour relations and human resource management in this part of the world.

In Chapter 5, Gevorkyan examines economic and social change in two countries: Armenia and Georgia. He adopts a 'five forces of change' framework and attempts to rationalize within the international business context the experiences of these two countries. The author argues that, from an institutional perspective, the experience of these two countries embodies the concept of gradualism. He weaves this into discussions of management practice, and makes a theoretical contribution in which he argues that the lesson from analysis of these two transitional periphery countries is that they should expect a dynamic evolution of macrostructures and business categories. He then proposes taking action towards developing a multifaceted analysis methodology. Gevorkyan further argues that understanding the country specifics is the starting point to understanding the evolution of business strategy in the countries included in his analysis.

In Chapter 6, Yorgun examines similarities and differences between Azerbaijan and Turkey in terms of labour relations, as these two countries have distinctly different economic and political histories. Yorgun argues that despite their distinctly different paths, there are some similarities in adopting and transforming labour relations in these two countries, one of which is clearly in the transitional periphery. Yorgun examines the impact of sudden changes and political shocks in creating changes in Turkey and Azerbaijan. He concludes that changes in industrial relations in both Turkey and Azerbaijan are ongoing processes, and that systems in both countries are not stabilized yet: the processes remain incomplete in both countries, which will continue to remain unstable for some time.

In Chapter 7, Serafini and Szamosi discuss how the national context, educational system and national labour law in transitional periphery countries affect human resources (HR) policies adopted by a United States (US) multinational corporation (MNC). The authors challenge the literature on 'Anglo-Saxonization', which assumes that US MNCs exert a homogenizing process on HR policies due to isomorphic pressure (which is also one of the arguments of the institutional theory). This is particularly important as the transitional periphery countries inherited some legacies of the Soviet era in their human resources-related policies (Sahadev and Demirbag, 2010, 2011; Wood and Demirbag, 2015). The authors adopt Whitley's definition of national features of employment and work relations, through which they examine a US MNC luxury hotel chain operating in both developing economies and transitional periphery countries in the Caucasus and Central Asia regions. They aim to address the juxtaposition of human resource management implementation according to national capitalist archetypes, namely liberal market, the coordinated market and transitional periphery economies (LMEs, CMEs, and TPEs, respectively). Serafini and Szamosi conclude that, contrary to the Anglo-Saxonization argument, in the case of transitional periphery contexts the powerful social ties resulting from deeply rooted local clan systems play a significant role. Therefore, the US MNC's adoption of home country HR policies and practices is partially institutionally rooted.

Part III also consists of three chapters. These are cases from other transitional periphery countries. Chapter 8 by Danilovich and Croucher examines investment decisions made by Belarusian firms under the conditions of institutional concentration. They point out that the reality of government–business relations is significantly different in the region in general, and in the Belarusian case in particular. Their argument builds on Makhmadshoev's analysis and complements Serafini and Szamosi's conclusions, and refers to institutional fluidity in Belarus. This chapter utilizes Zartman and Rubin's (2000) theory of power and negotiation and concludes that while the majority of individual economic actors are suppressed in the Belarusian 'pseudo-market' system, and the Soviet institutional legacy still influences state–business relations, state-controlled companies appear to exert indirect influence on the government. Danilovich and Croucher further expand their argument to how informal connections with the formal institutions enable managers to exert indirect influence on the institutions that oversee them.

Chapter 9 by Arslan, Larimo and Tarba examines the equity commitment made by multinational enterprises (MNEs) from Nordic countries at the time of market entry in transitional periphery economies. While there is a significant body of literature on MNEs' entry mode in developing countries, transitional periphery countries pose an extra layer of uncertainty and risk, hence affecting equity commitment decisions of MNEs at the market entry stage (Kaynak et al., 2007; Demirbag et al., 2008; Demirbag et al., 2010). The authors argue that, when these economies appeared to have stabilized during the 2000s, large MNEs chose high equity commitments even in transitional periphery countries. They conclude that entry mode and equity commitment decisions are influenced not only by institutional stability in these countries, but also by availability of suitable partners or target firms to acquire, as some of these countries have limited options for MNEs in the first place.

Chapter 10 is by Akbar and Kisilowski. The authors examine the 'transnational periphery' through the lens of 'nonmarket strategy' or 'corporate political strategies', through which they aim to uncover the importance of a phenomenon critical to post-Soviet countries (Demirbag et al., 1998; Demirbag and Gunes, 2000; Mellahi et al., 2012; Demirbag et al., 2015). Akbar and Kisilowski contrast their empirical findings from their research in Eastern Europe and Central Asia (EECA) countries with literature adopting Hillman and Hitt's framework in the context of Western Europe (Hillman, 2003). This is an interesting approach which uncovers limitations of Hillman and Hitt's framework (Hillman and Hitt, 1999) when applied to transitional periphery countries. Their findings are especially important given that the business environment in many of the transitional periphery countries bears a heavy legacy of the Soviet era (Demirbag et al., 2010; Zsolt et al., 2011). Therefore, Akbar and Kisilowski extend Hillman and Hitt's framework to incorporate the particularities of the EECA institutional context, focusing specifically on two other important types of nonmarket strategies, which they label as 'relational strategies' and 'procedural strategies'.

CONCLUSION

A common theme across much of the region is that the relationship between domestic governance arrangements, economic policies and growth remains tenuous. Whilst some of this may be ascribed to statistical chicanery, a great deal reflects the extent to which the relationship between formal institutions and the ad hoc solutions derived at by key actors remains tenuous. However, it is also a reflection of the extent to which market fundamentalism may be equally as unsuccessful as central planning if realities on the ground are ignored; solutions imposed in the early 1990s shared the lack of realism characteristic of their predecessors. Again, if the results of democratic elections are easily overthrown by a colour-coded revolution, then the incentives of political actors to abide by democratic rules are very slight.

It is easy to highlight institutional failures, but much more difficult to identify viable ways forward. However, what emerges from the different accounts in this volume is not only the variety of the problems experienced, but also instances – if at times fleeting – of progress and growth. Through a closer analysis of the latter, it may be possible to draw out sets of policy options that may provide more viable ways forward that are more closely in tune with realities on the ground. It is the intention of this volume not just to provide a catalogue of challenges and failures, but also to provide the basis for future debates both on how we may better theorize about the region, and on what possible solutions might prove viable, where and when.

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