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Author(s): Kathryn Hendley, Peter Murrell, Randi Ryterman
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Agents of Change or Unchanging Agents? The Role of Lawyers within Russian Industrial Enterprises

Kathryn Hendley, Peter Murrell, and Randi Ryterman

The transition from state socialism toward market capitalism has led to an almost endless supply of new laws and legal institutions. Industrial enterprises need to adapt to this new institutional regime. In-house lawyers are well placed to be agents of change in facilitating this adjustment. Using survey data from 328 Russian enterprises, the article examines the role of company lawyers, asking whether they have fulfilled this potential. Legal expertise is not in short supply, but lawyers are marginalized within the enterprise. They focus on established, routine tasks, such as handling labor relations or drafting form contracts, rather than on shaping enterprise strategies in the newer areas created by the transition, such as corporate governance or securities law. The failure of in-house lawyers to emerge as agents of change in Russia reflects a continuation of their low status during the Soviet era and the lack of professional identity among these company lawyers.

Kathryn Hendley is professor of Law and Political Science and Director of the Center for Russia, East Europe, and Central Asia, University of Wisconsin-Madison; Peter Murrell is professor of economics and chair of the Academic Council of the IRIS Center, University of Maryland; and Randi Ryterman is economist, the World Bank. Thanks are due to Alla V. Mosgovaya of the Institute of Sociology of the Russian Academy of Sciences, who coordinated the survey throughout Russia; to David Miller and Michael Morgalla for research assistance; and to Stewart Macaulay and Howard Erlanger for helpful comments. We gratefully acknowledge the support of the National Council for Eurasian and East European Research, the National Science Foundation, the World Bank, and the U.S. Agency for International Development under Cooperative Agreement No. DHR-0015-A-00-0031-00 to the Center on Institutional Reform and the Informal Sector (IRIS). The findings, interpretations, and conclusions expressed in this paper are entirely those of the authors. They do not necessarily represent the views of the World Bank, its executive directors, or the countries they represent.

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Lawyers have the potential to act as agents of change in socioeconomic systems undergoing reform (Hajjar 1997; Sajo 1993). This catalytic capacity stems from the lawyers' expertise in interpreting the new "rules of the game," in advising when use of the legal system will inure to the benefit of laypeople, and in providing guidance through the legal system when its use is warranted. The willingness of lawyers to embrace new laws and legal institutions can have a profound influence on whether legal reforms are truly integrated into day-to-day business practices and contribute to the process of economic change. The extent to which lawyers act as the enablers of reform varies among countries depending on the institutional structure, the prevailing legal culture, and the roles that governmental and business elites traditionally assign to lawyers.

In this paper, we examine the role of legal professionals within Russian industrial enterprises. The marginalization of these legal advisers during the Soviet past reflected the relative unimportance of law under state socialism. We examine whether their role has changed in response to the challenges arising from the post-Soviet transition toward the market. In Russia, as in all other postsocialist countries, a deluge of new laws and legal institutions has accompanied this transition. The capacity of enterprises to use these new legal instruments to their benefit is critical to their performance in the new environment, and their ability to utilize these laws depends on the performance of legal professionals. The shift toward market incentives, with the increased importance of contracts and other legal obligations, arguably provided an opportunity for in-house lawyers to play a more pivotal role within the enterprise than they did during the Soviet era. This change would have required an escalation in the lawyers' status within the enterprise and an expansion of their responsibilities. Understanding the role that business lawyers play in Russian enterprises has the potential to tell us much about the effectiveness of, and the possibilities for, legal reform in transition countries.

We first focus on the extent to which legal advice is available to enterprise management. This allows us to examine the assumption that postsocialist countries, including Russia, suffer from a dearth of lawyers and that increasing the number of lawyers will expedite the transition. We then assess the extent to which in-house lawyers constitute agents of change by examining the place assigned to them in the hierarchy of enterprise decision

1. German authorities recognized that East German lawyers could undermine the reforms associated with reunification. Markovits (1996, 2271) comments that in "Germany, no other former socialist elite has been submitted to so thorough an ideological cleansing process as the legal profession."

2. For example, Jeffrey Sachs, a key advisor to the Russian government on privatization, has commented, "Russia doesn't need economists. It needs lawyers" (D'Alemberte 1992, 8). See also World Bank 1996, 93; Ashlund 1995, 7; Soloncov 1999, 220; Boots 1997, 293.
Lawyers and Russian Industrial Enterprise

making and the tasks on which the lawyers usually focus their efforts. We are particularly interested in whether lawyers in Russian enterprises focus on the mundane and the routine, or whether they play a significant role in shaping the strategy of enterprises in those areas of activity that have been newly opened up by reforms and that require innovation, especially the opportunities offered by privatization and financial liberalization. Thus, we not only characterize the role of lawyers but also present a picture of how enterprise behavior is changing in one specific dimension of activity among the many dimensions of enterprise restructuring that are called for in reaction to the new demands of the capitalist market economy.

We see our study as a starting point for more detailed research on the role of lawyers in transition economies. For the past decade, most countries in the former Soviet bloc have been pursuing a multifaceted transformation from state socialism to some sort of market democracy. Law has served as a means of reforming both the political and economic systems of these countries. Scholars have devoted considerable attention to the role of lawyers in implementing these reforms. To date, most of the research has focused on lawyers in private practice and especially on their enhanced capacity to protect citizens' rights through litigation thanks to the introduction of new laws and institutions (e.g., Jordan 1996b; Petrovna 1996; Burrage 1993; Sajo 1993). The role of lawyers working at industrial enterprises has been mostly overlooked. The emphasis on lawyers in private practice at the expense of in-house counsel is not unique to this region, but it is standard throughout the literature on legal professions (e.g., Galanter and Palay 1991; Nelson 1988; Friedman et al. 1989; Heinz and Laumann 1982; Heinz et al. 1997). It is particularly pronounced in studies focused on countries with civil law legal traditions. These countries, which include Russia, have a divided legal profession (Merryman 1985). Lawyers in private practice are distinct from company lawyers. The relative neglect of in-house counsel by researchers is particularly problematic in the post-Soviet context, where enterprises must keep apace of the deluge of new laws and legal institutions in order to

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3. For a discussion of the functions of in-house lawyers elsewhere, see Van Houte 1999 (Belgium); Mackie 1989 (United Kingdom and Australia); Chayes and Chayes 1985 (United States); Kolvenbach 1979; Gunz and Jones 1991 (Canada); Daly 1997 (global organizations).

4. The determinants of enterprise restructuring have been a major concern of economists studying the transition process (World Bank 1996).

5. The structure of the legal profession in Russia is similar to that in other Soviet bloc countries (e.g., Markovits 1996, 2275–76). More generally, the challenges facing Russia's industrial enterprises mirror those in surrounding countries, differing only in the details.

6. Changes to the system of legal education are another common theme within the literature on legal professions in transition countries (Ajani 1997; Gabor 1993; Granik 1993; Meyer 1993).

7. See the essays included in Abel and Lewis 1988. Kolvenbach 1979 and Van Houte 1999 are notable exceptions. The fact that in-house lawyers are not generally admitted to practice at court in many civil law countries contributed to the tendency to leave them out of analyses of the bar (Spedding 1987; Rueschemeyer 1973).
understand the options available to ensure their survival. The behavior of
task and enterprise legal advisers, therefore, looms as a critical gap in our knowledge.

Our analysis is based primarily on the results of a survey of 328 Russian
industrial enterprises conducted between May and August of 1997. The
sample included enterprises from six cities (Moscow, Novosibirsk, Ekaterinburg,
Saratov, Voronezh, and Barnaul), with each city represented roughly
equally. The enterprises were concentrated among 10 sectors.8 Their size
ranges from 30 to 17,000 employees, with a median of 300 and a mean of
980. Most of the enterprises were established during the Soviet era, and
about three-fourths (77%) had been privatized. In virtually all of those
privatized, some stock is in the hands of insiders, and nearly a third were
entirely owned by insiders. Outsiders (nonemployees of the enterprise) held
some stock in 60% of the enterprises. In each enterprise, Russian surveyors
administered different survey instruments to four top managers: the general
director, and responsible officials in the areas of sales, purchasing (supply),
and legal matters.9 In this article, we draw almost exclusively on answers to
the survey on legal matters. To the best of our knowledge, ours is the only
survey of in-house enterprise legal professionals that has been conducted in
Russia.

The information we present is divided into two main sections. First, we
examine the legal expertise available to enterprises, both internal and hired
externally, and the position of legal advisers within the enterprise. We show
that legal resources are not in short supply. However, when examining the
place that enterprise lawyers hold in the decision-making structure of the
enterprise, we argue that these lawyers are not viewed as integral elements
of the top echelon of management, which has a deleterious effect on their
capacity to serve as agents of change. This picture is consistent with the
information presented in the second part of the analysis, where we focus on
the specific tasks undertaken by enterprise lawyers. We show that the lawyers
are heavily focused on the old or the routine, such as formulating form
contracts or going to court. They primarily play a reactive role within enter-
prises, tending to be called on to solve problems once they arise. The lawyers
are less involved in matters relating to the formulation of top
management’s strategies, such as corporate governance or the use of new
financial instruments. We conclude the paper by discussing possible reasons
why Russian business lawyers have remained unchanging agents rather than
emerging as agents of change— that is, why they appear to play a relatively

8. The sectors are (number of enterprises in parentheses) food processing (67); textiles,
clothing and leather (60); fabricated metal (34); electronics (34); chemicals and petroleum
(33); machinery and transport equipment (23); construction (18); wood products (8); paper
and printing (5); and other (46).

9. Surveyors sought out the heads of the sales, purchasing, and legal departments. When
the enterprise did not have one of these departments, the person who carried out the relevant
duties in the enterprise responded to that questionnaire.
technical, traditional role in the enterprise with little involvement in the strategic decision making that is needed to reorient enterprises to the market economy.

THE LEGAL EXPERTISE AVAILABLE TO RUSSIAN ENTERPRISES AND ITS PLACE IN THE ENTERPRISE

Making sense of the present-day Russian legal profession in terms of the usual distinction between lawyers in private practice and in-house counsel is somewhat problematic. During the Soviet era, private law firms were forbidden. Instead, law students who were interested in becoming lawyers and who had no desire to become prosecutors or judges chose between joining a kollegiya advokatov (college of barristers) and working in an enterprise legal department. The former were known as advokaty and the latter as iuriskonsul'ty. Entrance to the kollegii advokatov was highly politicized and limited to relatively few (Rand 1991; Kaminskaya 1982; Feifer 1964). Becoming a iuriskonsul't, by contrast, required no vetting for political reliability, and was regarded as a safe, albeit somewhat boring, job. For the most part, these iuriskonsul'ty tended to limit their activities to the confines of the enterprise, rarely venturing into court (Shelley 1981–82; Giddings 1975). Advokaty spent most of their time representing criminal defendants; representing enterprises was a minor sideline.

This distinction between iuriskonsul'ty and advokaty has begun to break down in the post-Soviet period, as both groups take on new tasks and take advantage of the disintegration of state regulation over the legal profession. Some iuriskonsul'ty have organized themselves into private law firms, while some advokaty have expanded their practice from the traditional criminal

10. Legal education was also a common training ground for those who worked in the bureaucracy of the government and the Communist Party (Huskey 1988). For example, both Gorbachev and Putin are graduates of prominent law faculties.

11. For more information on prosecutors (prokuratura), see Thaman 1996 and Smith 1978.

12. As in most civil law countries, becoming a judge is one of the career patterns open to Russian law students. See Solomon and Foglesong (2000) for a thorough analysis of how the system of selection and retention of judges has been reformed since 1985.

13. For a discussion of analogous divisions within the legal profession in other civil law countries, see Abel 1988, 4–8. Boigeol 1988 details the unsuccessful efforts to unify the historically divided French bar. Daly (1997, 1063–65) details the creation of a separate organization for in-house lawyers in the United States in 1982 as a response to their dissatisfaction with “second-class status” within the American Bar Association. Such specialty organizations exist for many subgroups within the U.S. legal profession, but the ABA remains an umbrella organization.

14. The distinction between advokaty and iuriskonsul'ty is roughly equivalent to the distinction within the English bar between barristers and solicitors (Kritzer 1996), though as we note below, the dividing line is more porous in the contemporary Russian context. Of course, during Soviet times the iuriskonsul'ty did not have the same possibilities that solicitors do to set up in private practice.
defense work to include corporate law. As in most European countries, the two groups remain distinct in terms of restrictions on entry (Rogowski 1995; Abel 1988). The advokatura is considerably more exclusive, with entry often limited to those who pass a demanding exam (with considerable regional variation). There is no similar licensing process for iurist-konsul'ty. At the same time, Russian lawyers\textsuperscript{15} now have a wide range of opportunities and, more important, are free to make their own choices about their careers rather than having the state dictate to them. A full discussion of the role of in-house counsel is set forth below (see "Activities of Legal Professionals at Russian Enterprises").

Internal Legal Expertise

In contrast to the common wisdom (Åslund 1995, 7; Solomonov 1999, 220; Boots 1997, 293), our data suggest that there is no shortage of lawyers in post-Soviet Russia. Legal expertise is generally available to the management of Russian enterprises. Slightly more than 80\% of the enterprises surveyed had employees charged with providing legal advice. In 44\% of sampled enterprises, legal advisers were in legal departments, while a further 37\% of enterprises had individual employees who rendered legal advice as needed. We found size and age of enterprise, but not ownership, to be significantly associated with the presence of legal departments.\textsuperscript{16} Not surprisingly, size is the variable most strongly related to the presence of legal departments.\textsuperscript{17} Enterprises founded before any liberalizing reforms took place (i.e., before 1985) are more likely to maintain legal departments. Whether an enterprise is currently state owned, formerly state owned and now privatized, or never state owned appears to have no significant bearing on the presence of legal departments. This suggests that legal departments are in large part a relic of the Soviet era, when they were de rigueur for large

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\textsuperscript{15} We use the term lawyer to refer to those who have a law degree and who practice law. As in most European countries, a law degree is conferred upon completion of a five-year undergraduate program. Legal education in Russia has undergone fundamental changes over the past decade. See generally Ajani 1997; Orank 1993. We exclude from the term lawyer those who provide legal services but have had no formal legal training as well as those with legal training whose jobs are unrelated to the law.

\textsuperscript{16} As part of a multivariate analysis, we also examined the significance of geographic location. The results do not fit any clear pattern. We found Barnaul enterprises to be quite a bit more likely to have legal departments, while Saratov and Ekaterinburg enterprises were somewhat more likely to have them, and Moscow, Novosibirsk, and Voronezh enterprises were least likely to have legal departments. In a previous study of the surveyed enterprises' strategies for dealing with problems in their relationships with trading partners, we were similarly confronted with patterns that did not fit the prevailing assumptions about Russia's regions (Hendley, Murrell, and Ryterman 1999b).

\textsuperscript{17} Looking at the two ends of the spectrum, we find that 82\% of enterprises in the top quartile by size (more than 850 workers) have legal departments, but that only 40\% of enterprises in the bottom quartile (fewer than 136 workers) are similarly endowed.
industrial enterprises.\textsuperscript{18} The evidence also indicates that Russian entrepreneurs do not regard legal departments as essential. This, in turn, tends to undermine the hypothesis that newer enterprises in transition economies are more likely to want their lawyers nearby because they must engage in arms length transactions, lacking the longstanding ties that older enterprises inherited from the days of planning (Hendley, Murrell and Rytermann 2000).

To understand the nature of the legal assistance, the role of lawyers in the enterprise, and the effects of the institutional form of that assistance, we have divided our enterprises into three groups: enterprises with legal departments (ELDs); enterprises with employees who provide legal advice but without formal legal departments (ELAs); and enterprises with no official specifically charged with providing legal advice (ENLs). In the following paragraphs (and in the accompanying tables), some of the information provided on these three groups of enterprises relates to the characteristics of the respondents to the questionnaire. For ELDs, the respondent is a member of the legal department (usually its head); for ELAs the respondent is the person charged with providing legal advice; for ENLs the respondent is the enterprise official most likely to be able to respond knowledgeably to questions on legal matters, but this official has no specific responsibility within the enterprise for legal issues.\textsuperscript{19}

Interestingly, legal counsel does not always come from lawyers, though most of those providing legal advice have had some formal education in law. This marks Russia as different from both Europe and the United States, where those providing legal advice to corporations are exclusively lawyers (Van Houtte 1999; Spangler 1986). By contrast, our interviews with enterprise management indicate a casual attitude toward the need for lawyers as opposed to laymen with relevant experience. This attitude reflects the fact that lawyers have no monopoly—either formal or informal—on dispensing legal advice or related services.\textsuperscript{20} The existence of a legal department within an enterprise seems to increase the likelihood of having lawyers on staff.

\textsuperscript{18} The structure of Soviet enterprises was determined centrally. As a rule, legal departments were deemed necessary for large enterprises.

\textsuperscript{19} When administering the questionnaire on law-related topics, the surveyors sought out the head of the legal department. If the enterprise had no legal department, they asked to speak with the person charged with providing legal advice for the enterprise. If the enterprise had no legal department and no person charged with providing legal advice, then the surveyors were instructed to have the general director answer this questionnaire or to have the general director nominate another enterprise official who, in the view of the general director, was the most knowledgeable about the subject matter of the questionnaire. This occurred at 67 enterprises. Some of the enterprises that we have included within the ENLs (e.g., those claiming to have no internal legal professionals and/or to have no legal department), may have lawyers, for example, if the pertinent person was not available to answer the questionnaire. We believe that the number of such firms is very small.

\textsuperscript{20} See Kritzer 1998 for an analysis of the role of nonlawyers in the legal services market in the United States. What is intriguing about the Russian case is that within the enterprise no distinction is made between lawyers and nonlawyers in terms of their perceived competence or their scope of authority.
### TABLE 1
Legal Training of Legal Advisers in Russian Enterprises

<table>
<thead>
<tr>
<th>Type of enterprise</th>
<th>Position of Respondent at Enterprise</th>
<th>Extent of Legal Training</th>
<th>Number of enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>A Law Degree</td>
<td>Some Legal Training</td>
</tr>
<tr>
<td>ELD</td>
<td>Member of legal department</td>
<td>87.4</td>
<td>6.3</td>
</tr>
<tr>
<td>ELA</td>
<td>Employee charged with providing legal advice</td>
<td>67.5</td>
<td>6.5</td>
</tr>
<tr>
<td>ENL</td>
<td>Employee knowledgeable about legal matters in enterprise where no employee is charged with providing legal advice to enterprise</td>
<td>6.5</td>
<td>6.5</td>
</tr>
<tr>
<td>All respondents</td>
<td>All respondents</td>
<td>64.6</td>
<td>6.4</td>
</tr>
</tbody>
</table>

**Notes:** Data are based on information from those who responded to the legal questionnaire from 328 enterprises. ELD = enterprises with legal departments; ELA = enterprises with employees who provide legal advice but without formal legal departments; ENL = enterprises with no official specifically charged with providing legal advice.

Table 1 documents that 87% of respondents from ELDs had law degrees, as compared with 67% from ELAs and 6.5% from ENLs. Perhaps this is a carryover from the Soviet period when the central state assigned graduates of law faculties to enterprises as part of the annual “distribution” (raspredelenie) of labor. Enterprises without legal departments were less likely to benefit from this distribution of first-time entrants to the Soviet labor market. Lawyers obtaining jobs in this way were required to stay with the job for at least three years, but many stayed for their entire work career. This tendency is common in countries with civil law traditions. As Merryman (1985, 102) notes, “the average young lawyer soon finds himself locked into a career from which escape is likely to be too costly to contemplate.” The higher concentration of full-fledged lawyers in ELDs may have a more practical explanation. Once a lawyer is hired within an enterprise, he or she is likely to want to be surrounded by like-minded people and to encourage management to hire those with legal education to fill vacancies.

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21. Blankenburg and Schultz’s study of the German bar (1998, 135) finds that most in-house lawyers spend their entire career within a single company. On the other hand, Van Houtrte (1999, 12) found that many Belgian company lawyers began their careers as independent lawyers or worked for large law firms (see also Abel 1988, 8). See Heinz and Laumann (1982, 195) for an analysis of the propensity of U.S. lawyers to move among subsectors of the bar. A follow-up study (Heinz, Hull, and Harter 1999) analyzed the relative contentment of lawyers in these subsectors.
The size of legal departments ranges from 1 to 17 people, with a mean of 2.5. Although the largest enterprises among our sample tended to have legal departments that exceeded the norm, among enterprises that are not in the largest size category there is no correlation between size of enterprise and size of legal department. We were interested in how the size of legal departments had changed since the initiation of fundamental market reforms at the beginning of 1992. Embedded within the reforms were contradictory incentives. On one hand, the accompanying recession and the decrease in state subsidies might have caused enterprises to scale back in an effort to survive in the short run. On the other hand, the increasing complexity of business life and the increased use of sophisticated financial instruments might convince management of the need for increased attention to legal niceties.

The relative size of legal departments (i.e., as proportion of enterprise employment) changed since 1992 in a majority of ELDs, with 37% decreasing in size and 18% increasing. Given a 24% average decrease in enterprise employment over the same time period, this indicates a substantial reduction in the absolute size of legal departments. The departments of smaller enterprises were more likely to remain unchanged, whereas larger enterprises were more likely to reduce their legal staffs. Interpreting these turnover data is problematic, since we do not know whether the departures were voluntary. Strong financial incentives might have prompted isukonsul'ty to strike out on their own in the 1990s, though independence was not risk free. It may be fair to conclude that those who remained at the enterprise were less adventurous, which may help to explain why management typically failed to call on them to assist in matters of privatization and the complex financial transactions that we might expect to be handled by lawyers.

The willingness of enterprise management to commit resources to their legal staff is enhanced with the presence of a legal department. While the vast majority of surveyed enterprises subscribe to Rossiiskaya gazeta and Ekonomika i zhizn', the two national newspapers that contain the text of proposed and final legislation as well as commentaries on them, ELDs are much more likely to purchase a comprehensive and updateable computerized legal database and to subscribe to the official journals of the legislature (e.g., Sobranie zakonodatel' stva Rossiiskoi Federatsii) and judicial branches (e.g., Vestnik Vysshego Arbitrazhnogo Suda Rossiiskoi Federatsii). No doubt the institutionalized presence of legal specialists contributes to a recognition of the importance of these publications in keeping up with rapidly changing Russian law.22

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22. Multivariate analyses show that differences in enterprise size cannot explain this relationship between the presence of legal departments and the legal resources purchased by the enterprise.
We also investigated the extent to which the surveyed enterprises employed lawyers on a full-time basis in the sales and purchasing departments. These are the parts of the enterprise that deal with contracts—either to buy inputs or to sell outputs—on a regular basis. Having lawyers in these departments has never been the norm, and not surprisingly, most enterprises fit that pattern. Yet we found that enterprises with in-house legal expertise were more likely to use lawyers in this somewhat innovative manner, even when controlling for enterprise size. For example, among ELDs, 51% currently have a lawyer in the sales department, and 43% have a lawyer in the purchasing department. The incidence of lawyers in these departments was slightly less in ELAs, and declined precipitously within ENLs. This indicates that hiring lawyers to work for the sales or purchasing department is not seen as a substitute for in-house counsel, but as a mechanism for augmenting existing legal expertise.

The Status of Enterprise Lawyers and Their Integration into Enterprise Management

Our data provide some insight into the status of legal professionals within Russian enterprises. They tend to confirm our impression, gleaned from observation and interviews, that legal personnel are not within the top echelon of management. Those providing legal expertise tend to share certain characteristics that speak to their relatively low status. In particular, the low level of membership in the Communist Party during the Soviet period is telling. As a rule, Party membership was a critical prerequisite for advancement and success within Soviet industry. Party members were regarded as trustworthy, and were the key players in the informal networks (both within and among enterprises) that kept the planned economy running. Given the low level of new hires in enterprises since 1992, the past membership of current employees would be highly correlated with present status. Our survey data show an 83% pre-1992 Communist-Party

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23. Of the surveyed enterprises, 65% did not have lawyers in the sales department, and 69% did not have lawyers in the purchasing department.

24. Among ELAs, 31% had lawyers in the sales department and 28% had lawyers in the purchasing department. By contrast, among ENLs, 8% (5 enterprises) had lawyers in the sales department, and 10% (6 enterprises) had lawyers in the purchasing department.

25. It is tempting to hypothesize that the lawyers in the sales and purchasing departments came from downsizing legal departments. We find no evidence for this hypothesis: enterprises with legal departments that shrank in size are less likely to have such lawyers.

26. The literature on in-house counsel in Europe reveals that these lawyers also carry out mundane functions (e.g., Van Houtte 1999, 18–20; Rogowski 1995; Kolvenbach 1979, 17). In the United States, by contrast, in-house counsel have experienced a rapid increase in status over the past several decades and are more likely to be involved in shaping company policy (e.g., Rosen 1989, 486–88). See also Daly 1997, 1077–78.

27. A full description of how the planned economy operated is beyond the scope of this article. See generally Berliner 1957 and Hewitt 1988.
TABLE 2
Pre-1992 Communist Party Membership and Gender of Enterprise Officials

<table>
<thead>
<tr>
<th>Position</th>
<th>% CP members before 1992</th>
<th>% male</th>
</tr>
</thead>
<tbody>
<tr>
<td>Head of enterprise (general director)</td>
<td>91</td>
<td>93</td>
</tr>
<tr>
<td>Head of sales department</td>
<td>53</td>
<td>62</td>
</tr>
<tr>
<td>Head of purchasing department</td>
<td>57</td>
<td>71</td>
</tr>
<tr>
<td>Head of legal department</td>
<td>36</td>
<td>41</td>
</tr>
</tbody>
</table>

Note: Results are from the 58 enterprises for which data are available for all four officials.

membership rate among current general directors. The 40% membership rate among heads of legal departments provides strong evidence of the marginal role of these individuals both within the enterprise and in inter-firm networks. It also indicates that their low status is not recent in origin, but is a carryover from the prior system (Shelley 1984, 46).

Just as revealing is the gender distribution. Although women were well represented in Soviet industry, they were marginalized and excluded from policymaking positions. Little has changed in this regard since the collapse of the Soviet Union. The reasons are complicated and well beyond the scope of this article. Suffice to say that when a particular position (or department) is identified as the domain of women, this is not a mark of esteem. Yet the majority of legal departments are headed by women. Our interviews and observations suggest that women were shunted off to these positions during the Soviet era because they were low status. Brown (1996, 388) argues that "discriminatory attitudes shaped the beliefs of the largely male-dominated management of Soviet state enterprises and perpetuated this hierarchy by gender." The feminization of legal departments only served to confirm their low status. Thus, currently the causation can work in both directions. Whether the initiatory causal factor was gender or professional, the combination has been lethal in ossifying the low status of legal departments. Table 2 presents a consistent set of statistics on gender and prior Communist Party membership for that subset of enterprises on which we have data for the general director and the heads of sales, purchasing, and legal departments. This table provides clear evidence of the comparatively low status of legal departments.


29. A similar dynamic is at work in the judiciary, the domination of which by women began in the Soviet era and continues to the present day. Markovits (1996, 2277) notes the feminization of the East German legal profession, including the judiciary.
These data are mirrored in the lack of respect accorded in-house counsel
by management. In the large majority of enterprises we have visited over
the past decade, we have encountered managers who belittle lawyers. This
reflects attitudes toward the enterprise's own lawyers, who are regarded as a
necessary evil, as well as lawyers more generally. We found these remarks
qualitatively different from the sort one often encounters in the United
States. The Russian managers did not distrust their legal advisers. Rather,
they were often hard-pressed to see the value their lawyers added and were
consistently surprised by our interest in talking to such trivial staff members.
The physical location of the legal departments, however, provides a more
objective indicator of their lack of power. Almost without exception, the
legal departments were located in the "Siberia" of the enterprise, far from
the offices of the general director and other top officials, indicating an in-
ability to obtain desirable office space (Spangler 1986, 80). In the enter-
prises we visited, the lawyers were uniformly housed in close quarters and
frequently crammed into a single room without access to computers or se-
cretarial support.

Attitudinal data from our survey allow us to obtain indirect insight
into the degree to which lawyers are an integral part of enterprise manage-
ment teams. Three attitudinal questions were asked on all four surveys in
each enterprise. These questions relate to trust, bribery, and the role of
contracts.30

It seems reasonable to hypothesize that at least two factors affect these
attitudes. First, enterprise officials working within top management would
tend to have, or develop, attitudes that are similar to those of other mem-
ers of top management. Thus, if sales directors, for example, work closely
with the general director, one would expect, other things equal, the attitu-
dinal responses of the sales directors to be related to those of the general
directors. If enterprise lawyers are out of the loop, then their attitudes would
not be so closely related to those of other enterprise officials. Second, an
enterprise official's attitudes might in some way reflect that official's profes-
sion. For example, attitudes could reflect the absorption of a specific set of
professional norms inculcated in training.

If these two factors are working in practice, then one should expect to
find evidence of the first when examining cross-enterprise correlations

30. Each question asked respondents to indicate which of two statements they most
agreed with. Gradations of agreement were allowed through the use of a scale from 0 to 10,
with one end indicating complete agreement with one statement, and the other complete
agreement with the opposing statement. For trust, the two statements were "most people
cannot be trusted" and "most people can be trusted." For bribes, they were "giving into bribes in
the course of carrying out duties can always be justified" and "giving into bribes in the course
of carrying out duties can never be justified." For contracts, they were "the main use of a
contract is at the beginning of a transaction: we use it to organize the transaction and to
clarify the responsibilities of each party to the agreement" and "the main use of a contract is
as a tool to protect and/or advance our interests, after the agreement has been concluded."
between the attitudes of officials. The second factor will not affect such correlations, since the professional norms, by definition, will be enterprise-independent. When examining the survey data, we indeed find that for two of the three attitudinal questions (trust and contracts), the attitudes of enterprise lawyers correlate less strongly with the attitudes of general director than do the attitudes of the sales and procurement directors. (The results for the third question, on bribes, are mixed.) Judging by these attitudinal data, lawyers are less integrated into the top echelon of management than are sales and procurement directors.

Outside Counsel

The managers of Russian enterprises need not limit themselves to employees when seeking legal advice. Like their counterparts the world over, they have the prerogative to engage outside counsel on a continuing or intermittent basis. This option was also available during the Soviet period, though the prohibition on private law firms limited the range of options. Anecdotal evidence suggests that small enterprises without the resources for a full-time legal staff occasionally hired advokaty on a part-time basis (Shelley 1980–81). While few of these advokaty were actually experts in economic law, they coped as best they could. Lawyers are now free to organize private law firms. As in the West, a number of these firms have positioned themselves as business law specialists, and this has become an increasingly lucrative market. The availability of these new-style law firms varies regionally. Moscow has a more diverse market for legal services than elsewhere, including a significant number of branch offices of Western law firms. Yet the Moscow enterprises surveyed do not emerge as significantly more likely to use outside lawyers than do enterprises in other regions.

A majority (53%) of the surveyed enterprises have never used outside counsel. Among the remainder, 16% have a permanent and continuing relationship with outside counsel, while in 31% the relationship is intermittent. Most of these relationships began after 1992. Smaller enterprises are

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31. Russia presents a fascinating contrast to the Western industrialized democracies, where the number of in-house counsel has grown dramatically since World War II at the expense of private law firms. For an analysis of this trend, see Mackie 1989; Rosen 1989; Spangler 1986. Rosen (1989, 488) notes that “corporate legal departments are emerging from the tutelage of outside law firms.” Russia is only now experiencing the rise of private law firms, which were stifled during the Soviet period.

32. Multivariate analysis shows that enterprises in Moscow, Ekaterinburg, and Voronezh are slightly more likely to use outside counsel, and that enterprises in Barnaul, Novosibirsk, and Saratov are slightly less likely to use them. But these results are not statistically significant.

33. Among enterprises that have some sort of relationship with outside counsel, 51% initiated it after 1995; 27% initiated it between 1992 and 1994; 7% initiated it between 1988 and 1991; and 15% initiated it prior to 1988.
TABLE 3
Use of Outside Counsel in Russian Enterprises

<table>
<thead>
<tr>
<th>Type of Enterprise</th>
<th>Percentage of Enterprises of This Type That...</th>
<th>Number of Enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Has Continuous Relationship with Outside Counsel</td>
<td>Has Intermittent Relationship with Outside Counsel</td>
</tr>
<tr>
<td>ELD</td>
<td>7.7</td>
<td>23.8</td>
</tr>
<tr>
<td>ELA</td>
<td>22.7</td>
<td>36.6</td>
</tr>
<tr>
<td>ENL</td>
<td>19.3</td>
<td>40.3</td>
</tr>
<tr>
<td>All</td>
<td>15.6</td>
<td>31.7</td>
</tr>
</tbody>
</table>

NOTES: Sample of 328 Russian industrial enterprises. ELD = enterprises with legal departments; ELA = enterprises with employees who provide legal advice but without formal legal departments; ENL = enterprises with no official specifically charged with providing legal advice.

significantly more likely to turn to these outside lawyers. The common wisdom that new start-up enterprises would be more inclined to rely on them is not really borne out. Instead, these new private enterprises are somewhat more likely to use outside counsel, but not significantly so.

The availability of legal expertise within the enterprise affects the extent to which outside lawyers are used. We had anticipated that enterprises with no other access to legal expertise (ENLs) would be much more likely to resort to outside counsel. The survey results tell a different story. As Table 3 demonstrates, 19% of ENLs have a continuing relationship with external lawyers, while 40.3% of such enterprises use outside lawyers occasionally, while the corresponding figures for ELAs are 23% and 37%. This suggests that outside lawyers are used as often as a supplement as they are as a substitute. Perhaps enterprises that have some internal legal expertise—even if not provided by lawyers—are more cognizant of their vulnerability and respond by taking remedial steps. The management of ENLs may simply be oblivious to their potential legal liability and, therefore, unwilling to hire outsiders. Our expectation that ELDs would be less likely to use outside counsel was confirmed. More than two-thirds (69%) of the ELDs had never hired outsiders, while 24% had retained outside lawyers from time to time, and only 8% had an ongoing relationship.

The limited data available indicate that outside counsel do not play a central role in day-to-day decision making at Russian enterprises. For example, their involvement in negotiations to purchase inputs is minimal. Similarly, outside counsel have only a small role in drafting form sales contracts. ENLs and ELAs are more likely to involve outside counsel in the writing

34. According to Ruechemeyer (1973, 38), German companies with in-house legal departments are also unlikely to call upon private law firms.
and/or review of these contracts than are ELAs. Although U.S. corporations often retain outside law firms when facing litigation (Spangler 1986, 102–4; cf. Chayes and Chayes 1985, 277–79), we found no evidence that use of outside counsel in Russia was related to levels of litigation. The reasons probably lie in the differences in the litigation process (Daly 1997, 1075). In contrast to the scorched-earth attitudes that underlie the common-law adversarial system in the United States, Russian litigation is considerably more low key. The inquisitorial system, combined with an absence of technical evidentiary rules, diminishes the importance of specialization. In addition, anecdotal evidence suggests that the practice of hiring outside counsel to deal with specialized legal issues, such as intellectual property or antitrust, as is the practice of Western corporations (Daly 1997; Friedman et al. 1989), is far from routine in post-Soviet Russia (Hendley et al. 1997, 22–23).

What explains the reluctance of enterprises to turn to outside lawyers? We asked enterprises to evaluate the extent to which their willingness to use the courts was tempered by the cost or unavailability of outside counsel. ENLs emerged as the most troubled by these factors. Their concern persists irrespective of whether they actually had any contact with such lawyers. Even among enterprises with in-house legal expertise, those that had an ongoing relationship with outside counsel were more likely to exhibit concern over cost. In the pilot stage of this research, we encountered a Moscow food service factory that had engaged a Western law firm to help it stave off a hostile takeover bid. The head of the legal department reported that he had hoped to continue the relationship, but he had been so shocked after receiving the first bill for routine corporate services that he had fired the outside firm (Hendley et al. 1997, 23). As such stories make their way into the legal folklore, they may further discourage enterprises from looking outside for legal expertise.

35. Of the enterprises that use outside counsel, 62% of ENLs and 56% of ELAs involve them in the writing or reviewing of form sales contracts, compared with only 25% of ELAs.

36. The description is of the arbitraj courts, which deal with business disputes. (See below for a discussion of the distinction between these courts and the courts of general jurisdiction.) As the market grows more developed in Russia, the importance of litigation specialists may increase. Support for this can be seen in the tendency of German companies to engage outside law firms to handle litigation (Rogowski 1995, 128).

37. The question asked about both cost and unavailability. Among enterprises that had a continuing relationship with outside counsel, we assume that their concern centered on cost.

38. Concern over cost is typically cited as one of the main reasons for the dramatic increase in the number of in-house counsel in U.S. corporations in recent decades (Spangler 1986, 71; Heinz and Laumann 1982, 365). Writing in 1986, Spangler (1986, 71) concluded that U.S. corporations saved 35–50% by using in-house lawyers rather than outside counsel. In all likelihood, the cost differential has only widened with the passing of time. Cost is not the only criterion by which outside counsel are judged in the U.S. context. The quality of the work produced and the responsiveness to direction from in-house lawyers are also important (Chayes and Chayes 1985, 292).
ACTIVITIES OF LEGAL PROFESSIONALS AT RUSSIAN ENTERPRISES

During the Soviet period, in-house lawyers led a somewhat schizophrenic existence. Not only did they carry out the traditional functions of corporate counsel by championing the interests of the enterprise, but they were also frequently called upon to solve legal problems for employees. This responsibility went well beyond giving casual advice to those intimidated by the apparent complexity of the legal system. Nor was it limited to work-related issues. Soviet _iuridikonsul'ty_ provided substantive assistance to workers at all levels of the enterprise on issues of family law, housing, and even criminal matters (e.g., Shelley 1984, 1981–82). The lawyers’ loyalties became more entangled when management and workers found themselves on opposite sides of an issue, as when management took disciplinary action against employees. The _iuridikonsul't_ typically straddled the fence, counseling each side on its options. The apparent conflict of interest was not recognized in the Soviet context because workers and management were viewed as parts of a unified whole rather than as inevitably antagonistic.

With the onset of market reform, the role of enterprise legal professionals has undergone a fundamental shift. No longer do they serve as legal problem solvers for workers. Indeed, the dividing lines between management and labor have come into sharper relief as the economic difficulties have forced enterprise administrators to lay off workers (wholly or partially) and delay paying those who remain. Privatization also contributed to this shift. It was the central element of reforms that aimed at encouraging Russian enterprises to focus on profitability and downplay social welfare functions. Regardless of the cause, the reality is that Russian legal professionals now identify firmly with management. Their universally accepted raison d’être is to protect the interests of the enterprise. This realignment of their functions renders them more closely analogous to Western corporate counsel.

We were interested in how Russian in-house legal professionals occupy themselves in this postprivatization era and whether they are taking on tasks traditionally associated with corporate counsel in Western firms. Consequently, the survey asked respondents how often they engaged in a series of activities typically regarded as requiring some level of legal expertise. From the results, set forth in table 4, a picture emerges of what in-house

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41. See Commander, Dutt, and Stern 1999 for a discussion of enterprise restructuring.
42. For an overview of Russian privatization, see Askland 1995; Boycko, Shleifer, and Vishny 1995.
legal professionals do.⁴³ Some tasks were carry-overs from the Soviet era, whereas others were market related. Analysis of the results allow us to assess the level of change in the day-to-day behavior of legal personnel. Certain activities seem to be performed in virtually all enterprises, while others are less commonplace. Even more intriguing is the divergence between what corporate counsel do elsewhere and what they do in Russian enterprises. Although we do not have comparable data for other countries, the scholarship on legal professions presents a relatively consistent picture of corporate counsel who are fully engaged in providing advice on wide range of business issues, and this serves as the foundation for our comparison.⁴⁴

Handling labor relations was a central preoccupation for Soviet iuris-konsul'ty (Shelley 1984, 34, 96–116). However, much of the work done by legal professionals in Soviet enterprises would be handled by human resource departments in the West.⁴⁵ We had hypothesized that privatization might give rise to a similar reassignment of personnel issues within Russian enterprises. Table 4 clearly shows that this task remains within the purview of the legal staff. Over 70% of the respondents in ELDs and ELAs are occupied by labor issues “often” or “constantly,” and only 4% “never” engage in this activity. While consistent attention to this issue over time is noteworthy, it is important to recognize that the sorts of labor disputes that tend to arise have changed fundamentally.⁴⁶ During the Soviet period, labor complaints were invariably individualized, and they frequently involved claims for overtime or complaints about fines imposed by management. Management-initiated dismissals were relatively few, and only a small percentage of these led to court cases. During the Gorbachev period, strikes were legalized

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⁴³. Since enterprises in ENLs did not have anyone specifically charged with offering legal advice, Table 4 reports only on the activities of the legal professionals in ELDs and ELAs.

⁴⁴. We are not claiming that there is a single template for Western corporate counsel. The literature suggests variation among Western countries in terms of the style of lawyering (e.g., the willingness to engage in proactive lawyering). Our comparison between Russia and the West is aimed at a more basic difference in the sorts of tasks assigned to in-house legal departments.

⁴⁵. Soviet labor law divided responsibility for handling labor relations between the enterprise and the trade union (Hendley 1996). Enterprise management, acting through in-house counsel, had primary responsibility. The legal department personnel would implement the hiring and firing decisions made by management, and would respond to wage and other complaints made by workers. Once the legal department had acted, the trade union typically had the right to respond. The relationship between management and the trade union was not adversarial (Rubin 1981). All employees (including managers) were members of a single state-sponsored trade union. Management controlled the wages of enterprise trade union officials, which allowed them to exert pressure to obtain the desired results (Hendley 1996, 155–56).

⁴⁶. The role of trade unions also changed dramatically. The monopoly of the state-sponsored trade union was broken, though it remains dominant in most sectors. For a full discussion of the evolution of trade unions in the post-Soviet era, see Crowley 1997. The changes in the nature of labor disputes diminished the role of trade unions. Contemporary disputes tend to revolve around the financial viability of the enterprise, rather than abuses of workers’ rights.
TABLE 4

Time Allocation of In-house Legal Professionals in Russian Enterprises

<table>
<thead>
<tr>
<th>Activities</th>
<th>Constantly</th>
<th>Often</th>
<th>Sometimes</th>
<th>Once or Twice</th>
<th>Never</th>
</tr>
</thead>
<tbody>
<tr>
<td>Negotiating with delinquent customers</td>
<td>48.12</td>
<td>21.05</td>
<td>17.29</td>
<td>6.39</td>
<td>7.14</td>
</tr>
<tr>
<td>Handling labor relations</td>
<td>41.35</td>
<td>33.08</td>
<td>18.80</td>
<td>2.63</td>
<td>4.14</td>
</tr>
<tr>
<td>Designing or revising form sales contracts</td>
<td>34.96</td>
<td>28.95</td>
<td>13.91</td>
<td>13.91</td>
<td>8.27</td>
</tr>
<tr>
<td>Preparing to go or going to arbitrazh courts</td>
<td>39.47</td>
<td>20.30</td>
<td>14.29</td>
<td>9.77</td>
<td></td>
</tr>
<tr>
<td>Preparing to go or going to courts of general jurisdiction</td>
<td>31.58</td>
<td>17.29</td>
<td>15.04</td>
<td>11.28</td>
<td>24.81</td>
</tr>
<tr>
<td>Consulting with senior management about corporate governance</td>
<td>26.69</td>
<td>12.41</td>
<td>16.92</td>
<td>13.53</td>
<td>30.45</td>
</tr>
<tr>
<td>Negotiating with banks</td>
<td>10.90</td>
<td>9.02</td>
<td>31.95</td>
<td>15.79</td>
<td>32.33</td>
</tr>
<tr>
<td>Consulting with local authorities</td>
<td>7.52</td>
<td>10.15</td>
<td>38.72</td>
<td>19.55</td>
<td>24.06</td>
</tr>
<tr>
<td>Preparing or reviewing various types of commercial paper</td>
<td>6.02</td>
<td>8.65</td>
<td>24.81</td>
<td>13.53</td>
<td>46.99</td>
</tr>
</tbody>
</table>

Note: Results are for the subset of 268 enterprises that either have a legal department or have a specific employee charged with providing legal advice.

and layoffs became more common (Hendley 1996). The withdrawal of subsidies to loss-making enterprises and privatization made the task of rationalizing the work force within enterprises more urgent. The past decade has brought high levels of open unemployment to Russia for the first time since the 1920s. The wages of those who remain employed are routinely delayed by months in many sectors. The labor disputes that arise from these conditions tend to address these general problems of delays in wage payments rather than focusing on individual shortfalls. As with arrears, these labor conflicts can lead to litigation, but need not.

When we turn our attention to tasks that would be prominent for Western corporate counsel, we find that not all of them have been taken on by their Russian counterparts. One function that is common to both is drafting form sales contracts. Given that close to 90% of the surveyed enterprises employ a standard form contract for the sales of their output (see Hendley, Murrell, and Ryterman 1999a), and that almost all of them reported having revised this document since 1995, it is hardly surprising that a majority of legal professionals reported having been “often” or “constantly”
engaged in designing or revising their form sales contracts. In a separate set of questions, we asked whether specific enterprise personnel had been involved in revising the document. The results reveal that legal professionals are simply one of several interests represented in this process. Also participating are the general director, the chief accountant, and representatives of the sales and finance departments. At ELDs, almost without exception, someone from the legal department participates in the drafting process. At enterprises without legal departments, the general director plays a more pivotal role.

Negotiating with delinquent customers (which is also part of the portfolio of Western company lawyers) likewise emerges as a routine activity of the surveyed legal professionals. This problem is relatively new. Under the planned economy, the key challenge was to obtain inputs that were invariably in short supply (Berliner 1957; Hewitt 1988). Manufacturers grew accustomed to relying on officials in the sectoral industrial ministries for help in getting needed inputs. The legal department was uninvolved in this process. Prices were of little importance, and payment was assured, since all means of production were owned by the state. In contemporary Russia, the situation is quite different. The ministries have gone by the wayside. Even more important, while goods are abundant, few enterprises have the means to pay for them. The abysmal record of Russian enterprises in paying their bills in a timely fashion has made debt collection a pressing problem for most.47 As Hendley (forthcoming) details elsewhere, efforts to collect on these contractual obligations typically begin in the sales department, which trades on its relationship with customers to encourage payment. If payment is not forthcoming, the responsibility shifts to the legal department (or the functional equivalent). Involving legal professionals tends to increase the pressure on debtors, with threats of legal action and punitive sanctions. More often than not, negotiations give rise to compromise settlements rather than litigation, thereby facilitating the continuation of the underlying trading partnership.48

Our data reflect this reality. More than two-thirds of our enterprise legal professionals engage in negotiating with delinquent customers "often" or "constantly." Furthermore, the intensity of legal advisers' activities is positively correlated with the seriousness for the enterprise of the problem of customer arrears. The nature of legal expertise within the enterprise seems

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47. See Hendley et al. 2000 for an analysis of how the surveyed enterprises respond to problems with their trading partners.

48. In a U.S.-based study of the behavior of lawyers, Macaulay (1979, 117) found that lawyers involved in consumer disputes sought "to educate, persuade and coerce both sides to adopt the best available compromise rather than to engage in legal warfare."
to make a difference. Enterprises with organized legal departments (ELDs) tend to be called into these negotiations on a more consistent basis.49

With the exception of these humdrum contractual negotiations, Russian in-house counsel are generally excluded from participating in the discussion of financial issues. This marks them as distinct from corporate counsel elsewhere. As table 4 indicates, about one-third of the legal professionals had never participated in negotiations with banks. This is, of course, a routine activity for most Western company lawyers. The results suggest that interacting with banks is not normally within the purview of Russian legal advisers, and is more likely to be handled by a manager with more generalized responsibilities.50 At ENLS, where those who responded to our questionnaires are more likely to serve as a jack-of-all-trades, 24% reported working with banks "constantly," compared with 14% at ELAs and 8% at ELDs. The contrast between the amount of involvement of legal advisers in pursuing debtors versus negotiating with banks is consistent with our earlier observation that legal department personnel at Russian enterprises were not generally involved in formulating corporate strategy and, instead, were focused more narrowly on mundane, technical legal matters (Hendley forthcoming).

Further support is provided by the lack of time devoted by legal advisers to the issues surrounding commercial paper. In recent years, various types of negotiable promissory notes (veksely) and other security interests have become widespread throughout Russian industry (Woodruff 1999). More than two-thirds of our sampled enterprises had used some form of commercial paper during 1996. These securities impose legal as well as financial obligations on enterprises. Yet, as table 4 reveals, in-house legal professionals are not regularly consulted on this topic. About one-fourth of them were sometimes consulted, but almost half reported no experience with commercial paper. In fact, at more than one-half the enterprises that used these financial instruments, the legal staff had been mostly overlooked. This confirms our in-person interviews, which revealed that legal departments were not usually included in discussions about whether to accept veksely. Rather, at the enterprises we visited, decision making with respect to veksely and other forms of commercial paper tended to be concentrated within the finance department (Hendley 1999). It also confirms the above observations that enterprise lawyers are not heavily involved in the strategic decisions of the enterprise, in this case whether to issue or accept new forms

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49. At ELDs, 53% report engaging in negotiations with delinquent customers constantly, compared with 42% in ELAs.
50. In a series of six case studies drawn from the survey, Hendley (forthcoming) found that the legal department (or its functional equivalent) often had no idea whether the enterprise owed money to banks. Negotiations over the terms of bank loans were typically handled by the chief financial officer. The legal professionals complained that they only saw the documents when problems later arose.
of commercial paper. By contrast, Western corporations typically seek legal advice (sometimes from outside law firms) before embarking on transactions that make use of securities and other sophisticated financial instruments.

A mixed picture emerges with regard to corporate governance. The transformation of state-owned enterprises into joint-stock companies in the early 1990s in connection with the mass privatization program gave rise to a new set of obligations to shareholders. Principal among these is the requirement to hold an annual meeting of shareholders at which the preceding year's financial results are presented and a new board of directors is elected. The details of these and other duties are set forth in the law (Tikhomirov 1996). Like corporate statutes the world over, the Russian law is fairly technical, suggesting the need for lawyers to be involved in its interpretation and implementation. Comparative experience would also support this hypothesis, given that lawyers usually manage corporate governance issues in Western corporations (Mackie 1989, 23). Russia is different, however. As table 4 indicates, only about a quarter of our sample deal with these questions on a "constant" basis. A slightly larger group (30%) reported no relevant experience. When we confine the sample to those legal personnel at enterprises that held elections for their board of directors in 1996, we find that legal professionals engaged slightly more often in corporate governance issues, but even in these cases, one-third of the legal professionals are very infrequently engaged in consulting with senior management about corporate governance.51 More generally, this relative lack of involvement may reflect a continuation of roles played during privatization. For the most part, legal professionals were peripheral to the privatization process within enterprises. They might have been called on to answer technical legal questions, but they were not part of the inner circle that formulated the strategy of privatization. Enterprise interviews reveal that those who orchestrated privatization tend now to be the key players in matters of corporate governance (both routine and extraordinary). The sideline role of in-house lawyers at this critical and potentially transformative moment speaks to their inability to act as agents of change. Their noninvolvement inevitably shaped the choices made by enterprise management in the privatization process and their strategies as privatized enterprises.

Litigation is, of course, traditionally within the province of legal professionals, and it was a regular activity for нотариус в the former Soviet Union. It remains an integral part of legal professionals' functions today. When analyzing litigation in the Russian context, it is essential to distinguish between the арбитраж courts and the courts of general jurisdiction.

51. The Russian law on joint-stock companies introduced a requirement that boards of directors be elected annually (Tikhomirov 1996). Although this law went into effect in 1996, those companies that had boards with longer terms had the option to allow those terms to expire before instituting annual elections. Of the 245 joint-stock companies in our sample, 80% held elections in 1996.
### TABLE 5
Time Spent Preparing to Go or Go to Arbitrazh Court

<table>
<thead>
<tr>
<th>Type of Enterprise</th>
<th>Position of Respondent at Enterprise</th>
<th>How frequently does the person responsible for legal matters engage in this activity? Percentage of enterprise respondents who engaged in this activity...</th>
</tr>
</thead>
<tbody>
<tr>
<td>ELD</td>
<td>Member of legal department</td>
<td>Constantly</td>
</tr>
<tr>
<td></td>
<td></td>
<td>50</td>
</tr>
<tr>
<td>ELA</td>
<td>Employee charged with providing legal advice</td>
<td>27</td>
</tr>
<tr>
<td>ENL</td>
<td>Employee knowledgeable about legal matters; no enterprise employee is charged with providing legal advice to enterprise</td>
<td>10</td>
</tr>
</tbody>
</table>

**Notes:** From a sample of 328 Russian industrial enterprises. ELD = enterprises with legal departments; ELA = enterprises with employees who provide legal advice but without formal legal departments; ENL = enterprises with no official specifically charged with providing legal advice.

The former are a self-contained hierarchy of specialized economic courts (Hendrix 1997; Hendley 1998b). They hear cases brought by legal entities (including industrial enterprises) against one another or against the state. Their jurisdiction also includes bankruptcy. The procedural rules governing these courts do not require that litigants be represented by lawyers. In interviews, officials of arbitrazh courts estimate that about half of the parties that appear in these courts have counsel, either from within the enterprise or outside it (Hendley 1998a). Even so, the sort of legal expertise within the enterprise makes a critical difference in the frequency with which the surveyed legal professionals interact with these courts. Table 5 graphically illustrates this point. While half the legal professionals at ELDs claim to be "constantly" engaged in court-related activities and 8% report a complete absence of such activities, the percentages for ELAs are 27% and 26%.

We wondered whether these levels of activity corresponded to the litigiousness of the enterprise. We found that it did. Enterprises that appeared more frequently in arbitrazh court during 1996 as either a defendant or plaintiff were much more likely to have legal staff that is preoccupied with preparing for or going to court.\(^52\) Whether there is a causal relationship

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52. Eighty percent of enterprises that went to court more than five times as a plaintiff or defendant had legal advisers who were "often" or "constantly" occupied with litigation-related
between the presence of lawyers and litigation rates is a separate question that is beyond the scope of this article. Our data do suggest that enterprises with legal departments feel more comfortable in the arbitrazh courts. The legal professionals within these departments may not always appear in court with managers, but they may play a crucial behind-the-scenes role in preparing the documents and briefing top enterprise officials.

When examining legal advisers' time spent in preparing for and appearing in the courts of general jurisdiction, the differences between enterprises with different levels of legal advice are even more pronounced. These courts hear all other types of cases, (e.g., cases involving individuals and/or disputes that are not primarily economic in nature) (Solomon and Fogle-song 2000; Feifer 1964), but their dockets are dominated by criminal cases. Industrial enterprises find themselves in these courts with regard to labor relations or housing problems (though enterprise involvement in such cases has diminished with the widespread divestiture of the housing stock to municipalities in recent years). In contrast to the procedural rules for arbitrazh courts, the civil procedure code, which governs the courts of general jurisdiction, requires that litigants be represented by counsel (art. 44, Grazhdanskiy protsesual'nyi kodeks RSFSR [Civil Procedure Code of the RSFSR], Moscow: INFRA, 1997). Given that those who have completed their legal education are more concentrated in ELDs, this prerequisite may explain the reluctance of legal professionals at ELAs to involve themselves with these courts. For example, 41% of legal advisers at ELAs report "never" having any involvement with the courts of general jurisdiction, compared with 11% at ELDs. The explanation for the divergence in behavior is not a difference in the incidence of problems that could erupt into litigation. ELAs are as likely as ELDs to confront labor-related concerns.

Looking at the propensity to engage in litigation activities more generally, table 4 shows that a significant percentage of those surveyed reported that they were "often" or "constantly" occupied with preparing for, or going to, one of these courts. At the same time, it is worth noting that these percentages are considerably less than for negotiating with delinquent customers or handling labor problems and that about 20% report no involvement with the arbitrazh courts during the two years preceding the survey (Hendley, Murrell, and Ryterman 1999a).

Taken as a whole, then, the data indicate that legal professionals have a rather limited role within Russian enterprises. They are deeply involved in

activities. Of these enterprises, only 8.6% had legal staff who reported no or extremely minimal contact. Among enterprises that never went to court, 83.4% had legal professionals that had no or minimal contact with the arbitrazh courts, and 10.3% were consistently engaged in court-related activities.

53. At the other end of the spectrum, we found that 67% of ELDs reported "constantly" or "often" preparing to go or going to courts of general jurisdiction, compared with 28% of ELAs and 15% of ENLS.
activities that are clearly defined as legal in nature, such as litigation or the negotiations with delinquent customers that precede legal action. They also provide expertise about the requirements of Russian law, including tax law, though the final decisions remain within the purview of top management. Labor relations retain the legalistic veneer acquired during the Soviet era and, consequently, remain a preoccupation for legal personnel. Yet legal advisers generally do not participate in decision making on financial matters, even though such decisions inevitably have legal consequences. Interactions with banks are apparently not one of their concerns either. Along similar lines, they have almost no contact with local governmental officials. The involvement of legal advisers in corporate governance matters is less than would be expected given the central role that law should play in such matters. Apparently, legal professionals are part of the team that implements decisions made by top management, not part of the team that helps to devise those strategies. This would include decisions about the extent to which enterprises rely on private security firms, known as kryzhi. Our conversations with in-house legal advisers reveal a consistent lack of curiosity about why various decisions have been made and about their possible repercussions. They view their role as assessing the technical legality (though not the advisability) of such decisions.

CONCLUSIONS

Russian legal professionals have been given a reactive rather than proactive role within enterprises. They tend to be called on to provide solutions once problems have arisen. They are assigned a role in the enterprise that is outside the top echelon of management. They usually do not take part in formulating the strategy and/or negotiating complex business transactions that give rise to such problems. This tendency to compartmentalize the legal staff and to view them as relevant only when deals unravel is not unique to Russia. It is a theme that runs through the literature on legal professions, though it is more common in discussions of civil law countries than of common law countries (Daly 1997; Rogowski 1995; Abel 1988). During the latter half of this century, in-house counsel in the United States, and in other common law jurisdictions to a lesser extent, have become more deeply involved in business decisions, and they have evolved toward a more proactive and preventive style of practice (Rosen 1989; Mackie 1989; Chayes and Chayes 1985). Whether legal advisers within Russian enterprises will come to play a more central role over time remains to be seen.

54. More than 40% of the surveyed legal professionals had either never met with local authorities or did so only once or twice a year, while 37% did so “sometimes,” and less than 20% did so “often” or “constantly.”
A full analysis of why legal professionals remain peripheral within most Russian enterprises is beyond the scope of this paper. The survey results along with our interviews and observations at Russian enterprises allow us to advance several possible reasons. There is, of course, no single causal factor. Instead, a complicated mix of institutional, economic, and cultural influences gives rise to the technical, nonstrategic role of Russian in-house counsel.

One factor is the historical role assigned to lawyers. During the Soviet period, central planning relegated law and lawyers to the sidelines. The primary goal for enterprises was to meet the production targets of the plan, and few were penalized for violating legal norms in the pursuit of this goal. In a world in which law was malleable, lawyers were peripheral. Management assigned them tasks that required detailed knowledge of legislation and administrative regulations, such as wage claims, but did not regard them as key advisers. This marginalization of the legal staff persists in the post-Soviet era. Management may rely on legal personnel to guide them through the labyrinth of tax law and other technical issues, but when key strategic decisions need to be made, the legal personnel are not generally consulted. For example, when enterprises privatized, few managers reached out to their legal advisers. Tasks that might appear to outsiders to be within the domain of lawyers, such as drafting articles of incorporation, were viewed as matters of business strategy and assigned to more trusted deputies. The legal staff was called on, if at all, merely to assess the charter’s compliance with the new laws. This condescending attitude was not isolated to privatization; it is reflected in the exclusion of lawyers from meetings at which financial transactions are negotiated. Tasks that are typically identified as within the province of company counsel in the West have been monopolized by managers without legal training in Russian enterprises. Thus, even though the role of in-house legal advisers is now more compatible with management interests, the advisers still lack the respect of management and, therefore, continue to carry out mundane tasks in an unassuming manner.

The importance of the role traditionally assigned to enterprise lawyers becomes apparent on examination of one atypical case. At the moment, enterprises with proactive legal departments are the outliers. When carrying out a series of six in-depth case studies as a follow-up to the survey, Hendley (forthcoming) encountered one such enterprise. The anomalous nature of this large machine tool plant in Ekaterinburg (more than 10,000 workers) can be seen on several dimensions. With 17 employees, this enterprise’s legal department was the largest of any of the 328 surveyed enterprises. A close observation of the lawyers’ responses to typical legal dilemmas revealed a level of ingenuity and an unwillingness to limit themselves to providing technical expertise that was absent elsewhere. The general director as well as the sales department and other business units of the enterprise
held the legal department and its head in high regard, and regularly consulted with them before consummating major transactions. When pressed, the lawyers had difficulty explaining why they had become “players” within the enterprise. Since most of them had worked at this same plant for their entire work career, they did not see themselves as extraordinary. They commented that the legal department had always had the respect of the general director, even during the Soviet era, and suggested that this tended to attract creative and competent lawyers. Their present role was consistent with their traditional one, which was very different from the historical experience of most lawyers in Russian enterprises.

Another part of the explanation lies in the lack of any common bond among in-house legal professionals in Russia. This group exhibits few signs of being a coherent profession with the stature and respect that arises therefrom. The common features of a profession (e.g., restrictions on entry, monopolization of the right to perform certain tasks) are absent and show few signs of developing.55 As we noted earlier, there is no licensing process for in-house counsel. Nor have standards been developed for what constitutes minimal competence, and no one monitors who holds themselves out to have such skills. No tasks have been singled out as requiring the special skills of lawyers. Interviews with managers suggest that there is not even general agreement that graduates of law faculties are a better bet than those without formal training. This combination of elements helps us understand why nonlawyers tend to perform certain functions, such as ensuring compliance with the norms of corporate governance, that are elsewhere monopolized by lawyers (Kritzer 1998).

But what explains the slow pace of professional development among Russian in-house counsel? Russia was a late developer with regard to the legal profession (Pomeranz 1999). The progress that had been achieved at the time of the October Revolution was completely undermined by the refusal of the Communist Party to allow any organization or profession to have autonomy from the state. In the years since the collapse of the Soviet Union, considerable progress has been made in reasserting a professional identity for litigators (advokaty) (Jordan 1996a), prosecutors, and judges (Solomon and Fogleston 2000), but in-house legal personnel have been left out. The divided nature of the legal profession in Russia makes this sort of uneven development inevitable. Perhaps the geographic distance between in-house lawyers and the lack of any natural meeting place contributes to their sense of isolation and the absence of any serious movement for a true, unifying professional organization. It may also be that they identify more with their enterprise or industrial sector than with other legal personnel.

55. See Pomeranz (1999, 241 n.3) for a summary of the ever-expanding literature on professions.
Whether this state of affairs will persist is unclear. Scholars who have studied the rise of in-house counsel in common law jurisdictions generally agree that the exponential increase in the government's regulation of companies following the end of World War II is the primary cause for the dramatic growth in both the number and stature of in-house lawyers (e.g., Mackie 1989; Spangler 1986). Over the past decade, Russian business has experienced a change in the role of government that might have similar repercussions. The explosion in administrative regulation and legal norms affecting Russian business is reminiscent of the postwar era in the United States. Moreover, these government directives, which were not contestable in the legal arena under Soviet central planning, are now open to challenge by private actors. This transformation in the relationship between the state and business gives rise to a tentative hypothesis that Russian managers will gradually recognize the value of having lawyers nearby who can advise them on the legal consequences of various business strategies. This outcome assumes that lawyers can provide quality service—that is, that they are being competently trained in the existing law faculties. It further assumes that law is meaningful. Put more bluntly, it assumes that managers will regard compliance with the law as an achievable and worthwhile goal. We take all of this for granted in the West but cannot do so in post-Soviet Russia. On the positive side, we can observe Russian enterprises beginning to use law and legal institutions as an arena in which to fight corporate battles. This change is particularly noticeable in the realm of corporate governance, where a wide variety of enterprises have taken their arguments about who owns the company into the court. Given the long-standing tradition in Russia that those in positions of power use law instrumentally to achieve their goals, it is surprising and encouraging that natural resource companies, which enjoy considerable political and economic influence, are not solving their problems purely through special decrees from the executive but are turning to the courts (Thornhill 1999; Kenyon 1999). By pursuing the claim in the courts, these companies place themselves in an arena where the value of lawyers can be demonstrated.

At this point, however, legal professionals who work in Russian industrial enterprises cannot fairly be regarded as agents of change in market reform. They remain on the sidelines, content to carry out the policies formulated by others. Whether these in-house legal advisers will become more important as the market matures remains to be seen.

REFERENCES


