Contents

List of Figures and Tables vii

Acknowledgements xi

Notes on the Contributors xiii

Part I Russia and Poland in Comparative Perspective **1**

1 Corporate Governance in Russia and Poland in Comparative Perspective: An Introduction 3
Tomasz Mickiewicz

2 Corporate Governance Structures in PostSocialist Economies: Towards a Central Eastern European Model of Corporate Control? 23
Wladimir Andreff

Part II The Political Economy of Corporate Governance **49**

3 Corporate Control, Governance Practices and the State: The Case of Russia's Yukos Oil Company 51
Yuko Adachi

4 Politicians or Administrators? State Corporate Governance in Poland 72
Maciej Bałtowski and Tomasz Mickiewicz

Part III Institutional Owners and Relational Finance **89**

5 The Rise and Fall of a Central European Enterprise: The Case of Elektrim 91
Piotr Jaworski and Slavo Radosevic

6 Financial Performance and Knowledge Management in Capital Groups: Privatized versus New Private Businesses 119
Jan Chadam and Zbigniew Pastuszak

7 Sources of Capital and Structures of Influence: Banks in the Russian Corporate Network 136
Ilya Okhmatovskiy

8 'Private Benefits of Control' and Debt Financing 159
Igor Filatotchev and Tomasz Mickiewicz

Part IV Concentrated Ownership and Performance 177

9 Ownership Structure and Corporate Governance in Russian Firms 179
Andrei Kuznetsov, Olga Kuznetsova and Rostislav Kapelyushnikov

10 Ownership Concentration and Corporate Performance: Evidence from Poland 194
Maria Aluchna

Part V Stockmarket Finance and Corporate Governance Rules 215

11 Home Bias and Stockmarket Development: The Polish Experience 217
Anna Zalewska

12 The Contribution of CEE Capital Markets to Corporate Finance 243
Jens Köke and Michael Schröder

13 A Comparative Study of Corporate Governance in the Czech Republic, Hungary and Poland 259
Robert W. McGee

14 Transparency and Disclosure in Russia 278
Robert W. McGee

Bibliography 296

Index 323

Part I

Russia and Poland in Comparative Perspective

1

Corporate Governance in Russia and Poland in Comparative Perspective: An Introduction

*Tomasz Mickiewicz**

Russia is a country that many love, some hate, but hardly anybody can remain indifferent about it. The largest country on earth, rich in natural resources, a nuclear superpower, a nation that participated in some of the most dramatic events throughout the twentieth century. Even cool-blooded economists become passionate as soon as they start discussing Russia, as well-exemplified by the recent heated discussion between Shleifer and Tresman (2004) and Rosefielde (2005). One is tempted to recall Conrad (1999 [1911]), who a century ago declared when introducing his novel about Russia: 'my greatest anxiety was in being able to strike and sustain the note of scrupulous impartiality' (p. lxxxiii).

Maintaining some acceptable level of impartiality is simpler for us, as this book is limited in its objectives. It deals with corporate governance. We aim to understand more about corporate control structures, the links between corporate governance and finance, its political economy and implications for performance, including some lessons that go beyond any individual country. That leads to the important characteristic of this volume. It is comparative. Which country should Russia be compared with? Shleifer and Tresman (2004), rather provocatively, point to Brazil. That we doubt. We have to look for a country that would share with Russia some sufficient similarity in terms of inherited institutional experience. There is no entirely satisfactory answer to this query, but we propose Russia's old and smaller neighbour, Poland. Between 1831 and 1915, most of Poland was sharing the Tzarist institutions with Russia. And again, the same applies to the period between *circa* 1948 and 1989, when both nations shared the experience of the Soviet command economy. It is equally easy to point out the differences. The command economy had a longer history in Russia, and Poland was more liberal since 1956. Yet, at the starting point of the systemic transition

* I am grateful to Yuko Adachi, Wladimir Andreff, Andrei Kuznetsov, Olga Kuznetsova, Robert McGee, Ilya Okhmatovskiy and last but not least to Anna Zalewska for comments and criticism. Obviously, all remaining errors are mine.

at the end of the 1980s, after the reforms initiated by Gorbachev, the economic systems in the two countries were very similar. What makes the comparison interesting is the fact that while the starting point was comparable, the corporate structures in both countries evolved in different directions. This book aims to enhance our understanding why.

We believe that those interested in Russia may learn from studying Poland, and equally importantly, those concerned with Poland may benefit from studying Russia. While marked differences may be found, one is also surprised by similarities.

The themes covered in this book should also be relevant to anybody interested in more general studies of corporate governance. Institutions are easier to understand by capturing the differences between the common and the idiosyncratic, and that is impossible to grasp without a comparative perspective.

Besides, we live in a world that is globalizing fast. While the characteristics may differ, both Russia and Poland are representative of the surge of trade and investment from abroad that followed the end of communism. Both economies have come a long way from the economic autarchy of the COMECON to become active players in the global economy.

The aim of this chapter is twofold. We present a snapshot of the corporate ownership structures in Russia and Poland, comparing them with the two other major Central European economies: the Czech Republic and Hungary. Next, based on this we introduce the main themes of this volume, and offer some conclusions.

Corporate ownership structures in Russia and Poland

Our discussion of corporate ownership characteristics draws on the sample of companies produced by the Business Environment and Enterprise Performance Survey (2002), available from the European Bank for Reconstruction and Development. The main advantage of this survey is that, unlike some other sources, the sample is not restricted to a small minority of companies that are quoted on the stock exchange. It also offers detailed information on owners' characteristics not available elsewhere.

For Russia and Poland, the sectoral composition of the survey is very similar, with about 30 per cent of companies in trade, 25 per cent in manufacturing, 15 per cent in construction, 10 per cent or slightly below in both transport and communication and in business services, and a few per cent in hotels and restaurants, other services and mining (the latter, in Russia only). The survey produced 487 usable questionnaires for Russia and 488 for Poland. However, we focus only on one-third of enterprises which are in the medium and large-size category (50 or more employees). This is where the ownership structures become more diversified, and the classic agency problems of corporate governance may emerge. In addition, we compare both Russia and Poland with two other major Central European Economies: the Czech Republic and Hungary

(the BEEPS survey sample is smaller for both: 266 and 207 observations correspondingly).

Concentration of ownership

We are interested in three related dimensions of corporate control: concentration of ownership, identity of the owners and the institutional origins of the companies.

The first dimension is illustrated by Figure 1.1, which presents histograms of the share of the largest owner in equity for the four countries. Interestingly, the pattern is very similar for all four economies. Corporate ownership remains heavily concentrated; between 50 per cent and 60 per cent (the latter in Poland) of the dominant owners hold all or almost all equity alone.

One may also note an interesting local maximum in densities around 50 per cent of equity, being most visible in Russia, but noticeable in Poland and the Czech Republic as well. This may be seen as an indication that the choice of equity portfolio is partly driven by the private benefits associated with legal control – for the dominant shareholders, the 50 per cent threshold seems to be very relevant. In general, looking at the concentration of ownership we may infer that we are far away from the market-based, 'Anglo-Saxon' system of corporate control, where minority shareholder interests are well-protected and medium-size firms participate on the formal capital markets as the owners-founders-entrepreneurs diversify their holdings as soon as the opportunity arises (Shleifer and Vishny, 1997).

Thus, our first conclusion is that Russian and Polish companies share one important common attribute: concentrated ownership.

Interestingly enough, the two economies are not very different either when we look at the identity of the dominant shareholder (see Table 1.1). For the four major 'transition' economies, it is only Hungary that stands apart from the other three (as confirmed by χ^2 values from pairwise tests). The difference relates to the role played by foreign ownership in Hungary; 44 per cent of medium and large firms in Hungary are controlled by foreign companies, as compared with 22 per cent in Poland, 20 per cent in the Czech Republic and 16 per cent in Russia. This results from the privatization strategy chosen in Hungary and is consistent with macro data on foreign direct investment. Clearly, Hungary may be seen as representative of one of the stylized corporate governance models in Central Eastern Europe, as discussed by Andreff in the second chapter of this book.

Yet, while Russia and Poland are not very different with respect to the identity of owners, some characteristic features are noticeable. While the share of domestic companies in ownership is very similar, ownership by foreign companies is marginally more frequent in Poland. One may also notice that the share of employee ownership in Poland is twice as high as in Russia (6.8% versus 3.3%), and may be attributed to the choice of privatization methods (see again, the chapter by Andreff). Another interesting difference

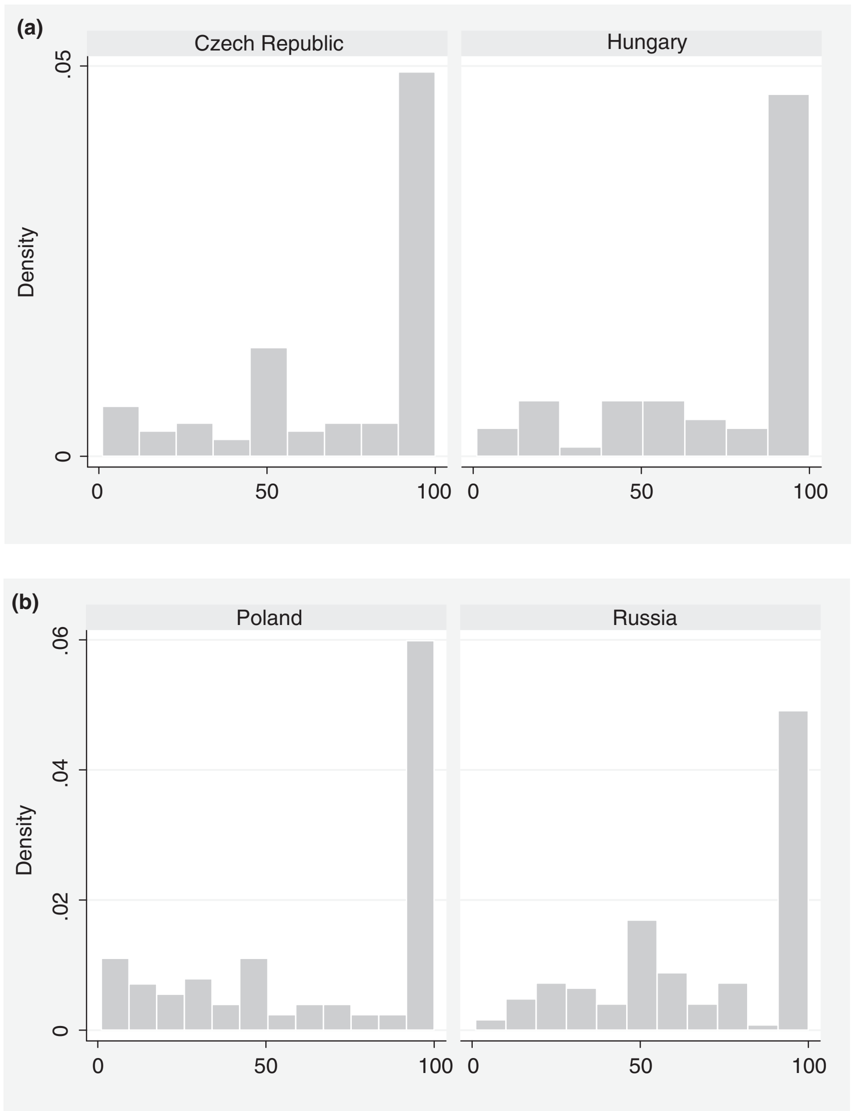

Figure 1.1 Percentage of equity held by the largest shareholder (medium-size and large companies, histogram)

relates to the fact that in Russia a larger proportion of medium-size and large companies is held by individual private owners (39% versus 25% in Poland). However, one has to be cautious when interpreting this result. The difference between private individual ownership, family ownership and employee

Table 1.1 Identity of the largest shareholder, based on EBRD BEEPS survey, 2002

Largest shareholder	*Czech Republic*	*Hungary*	*Poland*	*Russia*	*Total*
Individual	29	16	41	58	144
	33.33	23.53	25.47	38.67	30.90
Family	4	1	6	3	14
	4.60	1.47	3.73	2.00	3.00
Domestic company	16	13	20	17	66
	18.39	19.12	12.42	11.33	14.16
Foreign company	17	30	35	24	106
	19.54	44.12	21.74	16.00	22.75
Bank	1	0	0	1	2
	1.15	0.00	0.00	0.67	0.43
Investment fund	1	0	2	0	3
	1.15	0.00	1.24	0.00	0.64
Managers	2	1	2	3	8
	2.30	1.47	1.24	2.00	1.72
Employees	0	0	11	5	16
	0.00	0.00	6.83	3.33	3.43
Government	15	6	39	37	97
	17.24	8.82	24.22	24.67	20.82
Other	2	1	5	2	10
	2.30	1.47	3.11	1.33	2.15
Total	87	68	161	150	466
	100.00	100.00	100.00	100.00	100.00

Notes: Small companies (employment below 50) are excluded from comparisons. The first figure = cell count, the second (lower) figure = column percentage. For companies with two major shareholders (i.e. coded as three digit entries in the BEEPS survey answers), the identity of the first category is reported, i.e. 1 (individual) for 102 coding, 2 (family) for 207 coding etc).
Pearson $\chi^2(27) = 53.0705$ (probability = 0.002).
For pair-wise comparisons:
Czech Rep. v. Hungary: Pearson $\chi^2(8) = 13.8648$ (probability = 0.085),
Czech Rep. v. Poland: Pearson $\chi^2(9) = 12.4455$ (probability = 0.189),
Czech Rep. v. Russia: Pearson $\chi^2(9) = 10.5406$ (probability = 0.309),
Hungary v. Poland: Pearson $\chi^2(8) = 22.5576$ (probability = 0.004),
Hungary v. Russia: Pearson $\chi^2(8) = 28.9756$ (probability = 0.000),
Poland v. Russia: Pearson $\chi^2(9) = 11.3838$ (probability = 0.250).

ownership may not be clear-cut. The individual owners are not dispersed investors (like in the 'Anglo-Saxon' model), but would typically be related to the company they hold ownership stakes in. After privatization to employees, employees may leave companies and hold shares, and, even more importantly, may sell shares to other individuals with whom they are closely connected. Given that, a more appropriate statistic could be the joint share in ownership held by employees, other private individuals and families. When aggregated this way, it is still different, but less so (44% for Russia versus 36% for Poland). Correspondingly, a more cautious (and robust) conclusion is that institutional ownership plays a larger role in Poland.

And last but not least, there is one characteristic that makes both Russia and Poland similar to each other and different from the Czech Republic and Hungary: for the first two countries almost a quarter of companies still have the government as the dominant owner. This may be compared with 17 per cent in the Czech Republic and only 9 per cent in Hungary. The role of government in corporate governance will be analysed in chapters by Adachi and Bałtowski and Mickiewicz. Here, one is tempted to comment that the common tradition of big government that we referred to in the opening sequence of this chapter is still detectable in both Russia and Poland.

The new versus the old

Thus, are we to conclude that Poland and Russia share all in common with respect to corporate ownership characteristics? The answer is no. Table 1.2 sorts the medium and large-size companies by their origin (method of establishment). This time it is Poland which is different from the other three economies (again as confirmed by χ^2 values for the pairwise comparisons): 67 per cent of medium-size and large companies in Poland are *de novo* (new) firms, that were created from scratch by the owners/entrepreneurs, as compared with 56 per cent in the Czech Republic, 51 per cent in Russia and only

Table 1.2 Company origins, based on EBRD BEEPS survey, 2002

Company origins	*Czech Republic*	*Hungary*	*Poland*	*Russia*	*Total*
Privatized	19	28	32	39	118
	26.39	45.90	28.32	34.51	32.87
New private	40	20	76	58	194
	55.56	32.79	67.26	51.33	54.04
Subsidiary of	5	4	1	7	17
privatized company	6.94	6.56	0.88	6.19	4.74
Joint venture with	7	8	3	8	26
foreign company	9.72	13.11	2.65	7.08	7.24
Other	1	1	1	1	4
	1.39	1.64	0.88	0.88	1.11
Total	72	61	113	113	359
	100.00	100.00	100.00	100.00	100.00

Notes: Small companies (employment below 50) are excluded from comparisons. The first figure = cell count, the second (lower) figure = column percentage. Pearson $\chi^2(12) = 26.1384$ (probability = 0.010).
For pair-wise comparisons:
Czech Rep. v. Hungary: Pearson $\chi^2(4) = 7.7108$ (probability = 0.103),
Czech Rep. v. Poland: Pearson $\chi^2(4) = 10.1656$ (probability = 0.038),
Czech Rep. v. Russia: Pearson $\chi^2(4) = 1.5945$ (probability = 0.810),
Hungary v. Poland: Pearson $\chi^2(4) = 23.5710$ (probability = 0.000),
Hungary v. Russia: Pearson $\chi^2(4) = 6.1456$ (probability = 0.189)
Poland v. Russia: Pearson $\chi^2(4) = 9.8808$ (probability = 0.042)

33 per cent in Hungary. (A detailed discussion of the Czech Republic would take us too far afield; however the relatively high share of new private firms – second after Poland – is noticeable. The mass privatization programme became the trademark of Czech privatization, and the main theme of analysis and discussion. However, one should not overlook a very efficient early small privatization programme that produced similar results and dynamism as in Poland; for details see Frydman *et al.*, 1993 and Earle *et al.*, 1994.) It is not just that Poland differs from Russia; the former seems unique in this respect when compared with other transition economies (see the typology presented in the subsequent chapter by Andreff).

Why is that? The explanation has to take into account the interaction of institutions, policies and social attitudes. As mentioned already, Poland experienced a relatively larger margin of economic freedom than most of the other countries subjected to the command economy system. That created experience and partly explains social attitudes. In a survey across 'old' and 'new' Europe, reported by Blanchflower *et al.* (2001), Poles came out on top in terms of willingness to create their own enterprises. That effect was enhanced by two other factors: full freedom of entry was established there quickly, starting in 1989 (the first regulations were adopted in 1988), and state enterprises could sell assets to outside owners from 1990 onwards, which helped many new firms to build capital (Balcerowicz, 1995). The role of the new private sector as a source of dynamism in the Polish economy throughout the 1990s is well-described in Jackson *et al.* (2005; see also Mickiewicz *et al.,* 2005, on employment creation by firms). However, as strongly argued by Winiecki (2002) it is far from obvious how much of the initial liberalization of entry survived the wave of increased regulatory and tax pressure in the late 1990s. Whether Poland will be able to revitalize its initial dynamism remains an open question at the time of writing.

More details

We may get additional insights by cross-tabulating the origins of companies against the dominant owner, and this is presented in Tables 1.3–1.6, for the four countries we discuss. The results should be treated with some caution, as they are based on only a small number of observations. For Hungary (Table 1.4), we may again confirm the dominant role of foreign ownership, and we can now also see that it resulted more from the choice of privatization method than from the new entry of foreign firms, as already asserted. When we compare Hungary with Poland, we see immediately that 50 per cent of *privatized* firms are controlled by foreign companies in the former economy, against 22 per cent in the latter, even if the outcome already incorporates the post-privatization, secondary ownership transfers. On the other hand, the share of foreign companies in the *new entrants group* is more similar: 35 per cent for Hungary against 30 per cent for Poland. One may also note some impact of investment-fund-driven mass privatization programmes in

Table 1.3 Czech Republic: company origins (rows) and identity of the largest shareholder (columns)

	Individual	*Family*	*Dom.comp.*	*For.comp*	*Bank*	*Inv.fund*	*Managers*	*Other*	*Total*
Privatized	8	0	6	4	0	1	0	0	19
	42.11	0.00	31.58	21.05	0.00	5.26	0.00	0.00	100.00
New private	20	4	5	6	0	0	2	2	39
	51.28	10.26	12.82	15.38	0.00	0.00	5.13	5.13	100.00
Subsidiary of privatized company	1	0	3	1	0	0	0	0	5
	20.00	0.00	60.00	20.00	0.00	0.00	0.00	0.00	100.00
Joint venture	0	0	0	6	1	0	0	0	7
	0.00	0.00	0.00	85.71	14.29	0.00	0.00	0.00	100.00
Other	0	0	1	0	0	0	0	0	1
	0.00	0.00	100.00	0.00	0.00	0.00	0.00	0.00	100.00
Total	29	4	15	17	1	1	2	2	71
	40.85	5.63	21.13	23.94	1.41	1.41	2.82	2.82	100.00

Table 1.4 Hungary: origins (rows) and identity of the largest shareholder (columns)

	Individual	*Family*	*Dom.comp.*	*For.comp*	*Managers*	*Other*	*Total*
Privatized	7	0	7	14	0	0	28
	25.00	0.00	25.00	50.00	0.00	0.00	100.00
New private	9	1	1	7	1	1	20
	45.00	5.00	5.00	35.00	5.00	5.00	100.00
Subsidiary of privatized company	0	0	4	0	0	0	4
	0.00	0.00	100.00	0.00	0.00	0.00	100.00
Joint venture	0	0	0	8	0	0	8
	0.00	0.00	0.00	100.00	0.00	0.00	100.00
Other	0	0	0	1	0	0	1
	0.00	0.00	0.00	100.00	0.00	0.00	100.00
Total	16	1	12	30	1	1	61
	26.23	1.64	19.67	49.18	1.64	1.64	100.00

Table 1.5 Poland: origin of the company (rows) and identity of the largest shareholder (columns)

	Individual	*Family*	*Dom.comp.*	*For.comp*	*Inv.fund*	*Managers*	*Employees*	*Other*	*Total*
Privatized	4	1	9	7	2	1	7	1	32
	12.50	3.13	28.13	21.88	6.25	3.13	21.88	3.13	100.00
New private	33	5	10	23	0	1	2	2	76
	43.42	6.58	13.16	30.26	0.00	1.32	2.63	2.63	100.00
Subsidiary of privatized company	0	0	0	1	0	0	0	0	1
	0.00	0.00	0.00	100.00	0.00	0.00	0.00	0.00	100.00
Joint venture	0	0	0	3	0	0	0	0	3
	0.00	0.00	0.00	100.00	0.00	0.00	0.00	0.00	100.00
Other	0	0	0	0	0	0	1	0	1
	0.00	0.00	0.00	0.00	0.00	0.00	100.00	0.00	100.00
Total	37	6	19	34	2	2	10	3	113
	32.74	5.31	16.81	30.09	1.77	1.77	8.85	2.65	100.00

Table 1.6 Russia: origin of the company (rows) and identity of the largest shareholder (columns)

	Individual	*Family*	*Dom.comp.*	*For.comp*	*Bank*	*Managers*	*Employees*	*Government*	*Total*
Privatized	19	2	9	2	0	1	5	1	39
	48.72	5.13	23.08	5.13	0.00	2.56	12.82	2.56	100.00
New private	36	1	4	13	1	2	0	1	58
	62.07	1.72	6.90	22.41	1.72	3.45	0.00	1.72	100.00
Subsidiary of privatized company	3	0	2	1	0	0	0	0	6
	50.00	0.00	33.33	16.67	0.00	0.00	0.00	0.00	100.00
Joint venture	0	0	2	6	0	0	0	0	8
	0.00	0.00	25.00	75.00	0.00	0.00	0.00	0.00	100.00
Other	0	0	0	1	0	0	0	0	1
	0.00	0.00	0.00	100.00	0.00	0.00	0.00	0.00	100.00
Total	58	3	17	23	1	3	5	2	112
	51.79	2.68	15.18	20.54	0.89	2.68	4.46	1.79	100.00

Notes: Small companies (employment below 50) are excluded from comparisons. The first figure = cell count, second (lower) figure = row percentage. For companies with two major shareholders (i.e. coded as three digit entries in the BEEPS survey answers), the identity of the first category is reported, i.e. 1 (individual) for 102 coding, 2 (family) for 207 coding, etc.).

both the Czech Republic and Poland: these are the only two economies where we can trace firms that have investment funds as owners, albeit the numbers are very small.

In general, the majority of *new* medium and large firms are controlled by either individual owners or families in all these economies. The percentage is clearly the highest for Russia (64%), but not very different from the Czech Republic (62%). It is 50 per cent for both Poland and Hungary.

However, a more significant difference relates to the structure of control of *privatized* companies. 54 per cent of Russian privatized companies have either individuals or families as the largest shareholders. That contrasts with Poland, where the corresponding figure is only 16 per cent. Hungary and the Czech Republic are in between, with 25 per cent and 42 per cent, correspondingly. The difference in composition could be partly explained by the role of foreign owners (22% of *privatized* firms in Poland and 5% in Russia are controlled by foreign companies), and partly by employee ownership (22% of privatized firms in Poland and 13% of privatized firms in Russia). Still, one may risk an observation that both the post-privatization and post-establishment (in case of new firms) transfers of ownership went to some extent in opposite directions in Poland and Russia. For the first economy, it was not uncommon for the entrepreneur to sell stakes in his/her company to some institutional owners, foreign in particular (however, unfortunately, the BEEPS survey does not distinguish between the original foreign entry and this type of secondary transfer). On the other hand, corporate control by individuals emerges as a typical outcome of post-privatization evolution in Russia.

Emerging patterns of capitalism?

Can we infer anything about the wider systemic characteristics from the ownership data just discussed? In particular, can the dominant role of individual concentrated ownership of companies in Russia be linked to the skewed general distribution of asset ownership? Is concentrated ownership of assets hidden behind the institutional ownership in Central Europe as well? While some institutional ownership may also lead back to concentrated ownership by individuals via pyramid schemes, it is unlikely it would change our conclusion that much. The institutional owners in Central Europe may be represented by privatized companies, with relatively dispersed, stock-exchange based ownership, or by foreign companies (see the chapters in this volume by Aluchna and by Jaworski *et al.*). Thus, most likely, in Central Europe we do not (yet?) face concentrated private individual owners or families controlling large sections of corporate property. Thus, the Central European economies remain different both from some Asian economies and some continental 'old' EU economies (especially France and Sweden), where ultimate corporate asset ownership is heavily concentrated (Morck and Steier, 2005).

Thus, in terms of ownership (but not in terms of access to education, and generally in human capital endowment!), one could say that Russia may be

evolving towards a Brazilian model. Still, Central Europe, Poland included, could be following the same path of inequality in asset ownership at a slower pace. With entry being more difficult in Poland now, there is less chance that fresh entrepreneurship could counterbalance the tendency for those already wealthy getting richer. It is possible that in some foreseeable future Poland would therefore evolve towards the corporatist model of continental 'old' EU, where inequality in control over industrial assets is balanced not by entrepreneurial opportunities and private job creation, but by the welfare state.

The main themes of the book

The themes just discussed are expanded in Chapter 2 of this book, where Andreff shows how the alternative paths of privatization and transition produced different models of corporate control and ownership. Our quantitative presentation of ownership structure above was intended as an introduction to this analysis and is broadly consistent with it. We see the distinctive pattern of foreign corporate control in Hungary, a mixed model of new entry and employee control in Poland, some role of financial institutional investors in the Czech Republic (albeit it seems to be transient) and concentrated individual ownership in Russia. Andreff places his analysis in the context of both the general (economic) corporate governance literature and the economics of transition. Along the first dimension, he accentuates the inadequacy of the bipolar (owners-managers) agency perspective, a model that is too narrow to enhance our understanding of the complex corporate control relationship in the 'transitional economies'. The second line of his criticism relates to a rather mechanistic perspective on privatization, which dominated the theoretical discussion early in transition, and implied that a transfer of property to new owners is a simple task, identity of the new owners is not an important issue, and speed is critical. That led to an early stress on fast privatization methods, voucher privatization in particular. Various variants of these schemes were implemented in the Czech Republic, Russia and (on a more limited scale) in Poland. However, this led either to petrifaction of employee/insiders control, or to dispersed individual ownership. Coupled with inefficient legal mechanisms protecting minority shareholders, both outcomes produced no significant efficiency gains, which in turn, led ultimately to some reexamination of the applied theoretical perspectives.

Privatization is a proper domain of political economy and Chapters 3 and 4 adopt this perspective. Chapter 3 by Adachi presents the case of Yukos Oil Company. After the assets were privatized in an almost haphazard way at the beginning of the 1990s, the company's dominant owners imposed their control on multiple subsidiaries at the cost of abuse of minority shareholder rights, producing a tightly controlled, well-functioning business group. The 1990s story of Yukos illustrates very well the ambiguities and trade-offs both in the privatization process and in corporate control design. The trade-offs are

between speed and quality and between internal functionality/efficiency and negative externalities. The privatization of Yukos was effective in the sense that it was fast, but ineffective in two ways. Firstly, and similar to other large Russian companies, it was non-equivalent: an enormous amount of corporate wealth was transferred to new owners, creating a sense of social injustice, which made the whole privatization programme unpopular. Second, it was ineffective, in the sense that it created a dispersed control structure, with multiple bargaining problems, difficult to solve, given unknown values of assets and high transaction costs in the nascent, inadequate legal capitalist environment. Adachi shows clearly that given this environment, the abuse of minority shareholders was almost unavoidable in the process of turning Yukos into a functional, integrated business group. Nevertheless, the process, while improving internal efficiency and increasing the value of the company significantly, contributed (along with other cases) to the general climate of uncertainty and short-termism on the part of investors.

The second phase of the Yukos company history started in the early 2000s, when after the consolidation of control, the dominant owners promoted a new policy of corporate responsibility, transparency and protection of shareholder rights. From one point of view, this was to be expected. Regardless of the way the ownership is originally established, ultimately it is in the best interest of the owners to promote a business climate where the property rights are protected and transferable. And the latter requires not only the protection of dominant holdings, but also of the minority interests. This may also explain some ambition of the Yukos owners to influence politics. However, by the time the new Yukos strategy was implemented, the balance in the close relations between businessman and politicians in Russia shifted towards the latter. On the positive side, the government became consolidated and more effective. On the negative side, it adopted some degree of authoritarian and antidemocratic stance, and Yukos became a good opportunity for signalling the shifting balance of power. Recalling the irregularities from the early period, Yukos was effectively renationalized.

The key issue is the following. Performance is conditional on the long-term horizon of investors, and the latter in turn may be endangered by the abuse from private agents. However, it may also be endangered by the threat coming from those in control of state institutions of coercion. At the time of writing it is still difficult to assess in which direction Russia will evolve, and if both of these dangers are going to diminish or grow in the future.

While Russia has its problems with the political environment, so does Poland. In fact, as discussed in the opening section to this chapter, there is a common denominator between the two countries: both preserved a relatively high share of state ownership. Chapter 4 by Bałtowski and Mickiewicz looks more closely into the issue of corporate governance of the state-owned sector in Poland. At the beginning of the transformation, that is in the early 1990s, economic policy-makers assumed that fast privatization could easily

solve the problem of state corporate governance leaving very little in the state domain. Correspondingly, while the practice of governance of state assets was initially based on sound principles, these were never embedded in strong legal foundations, as the necessity to exercise control over state assets was perceived as temporary.

Nevertheless, fast privatization turned out to be impossible to accomplish. The slow path of privatization in Poland during the 1990s may be attributed both to technical reasons and to the difficulty in politically negotiating the implied distribution of benefits resulting from wealth transfers. Moreover, for some state-sector firms (coal mining, metallurgy, transport), to remain in the state domain was a guarantee of continued soft budgeting. In addition, the state administration and other politically-connected stakeholders soon rediscovered that control over state assets is possibly the easiest way of realizing private benefits associated with political control. Interests became entrenched and a strong anti-privatization lobby emerged. When the early 'technocratic' reformist governments of 1989–93 (Mazowiecki, Bielecki, Suchocka) were voted out of power, subsequent governments, regardless of the declared ideological affiliation, were increasingly involved in reaping benefits from the state-owned companies. This approach was reflected in the across-the-board appointment of 'our own people' to the supervisory boards and management boards of state-owned companies after each change of government. The state dominion was used to strengthen the party influence. However, growing public pressure and criticism ultimately led to some positive developments and reforms that have taken place in 2003–04 in the area of corporate governance exercised by the state. Thus, a source of optimism is in the free media and the democratic process. These, while slow and inefficient, are still the only mechanisms in place that may ensure that the reforms continue.

While the two chapters just discussed focus on the issue of public failure, chapter 5 (by Jaworski and Radosevic) illustrates vividly the potential for private failure. The chapter discusses the case of Elektrim, once the largest non-financial company quoted on the Warsaw Stock Exchange, which became practically insolvent, and which, with a threat of bankruptcy hanging over it for a few years, had to sell the majority of its assets to survive. The case may be seen from different angles and this is what the chapter provides. It illustrates the importance of strategic management, and the importance of a 'strategic owner', that is an institutional owner with branch-specific knowledge and resources capable of imposing a sound business strategy on a privatized company. This was missing in Elektrim, which was floated on the stock exchange with corporate control first left to insiders, and then to a coalition of insiders and financial investors. The company strategy was first based on using privatization opportunities and cheap prices of assets to create a wide multi-sector conglomerate, and in the next phase to focus on the core business of telecommunications. Lacking financial resources themselves, the

company managers did not want to transfer control to foreign corporate investors either. The company overextended itself and at the time of the downturn of the telecommunications market it collapsed.

As argued by the authors, the Elektrim case illustrates how undercapitalized privatized enterprises with limited management capabilities have difficulty in growing through generic expansion. If we take a look into other cases, we can conclude that there were possibilities to grow effectively, either at a slower pace using only domestic capital or choosing one strategic investor. Controlling insiders were clearly oriented on growth, without a proper weight given to profits. Not only was there a conflict of interest between managers and shareholders, but also the strategy of the company was evolving in a haphazard way following changes in management. Clearly, neither the nascent capital market mechanism nor dispersed owners were capable of pressing a coherent long-term strategy on the insiders.

A corollary to the presence of strategic corporate investors as dominant owners is the formation of business groups and networks, and this is the topic of Chapters 6 and 7, the first of which focuses on Poland and the second on Russia. In their contribution on Poland, Chadam and Pastuszak provide evidence for an interesting phenomenon, which we already discussed in the first section of this chapter: the Polish corporate system is characterized by the strong presence of newly created private companies. As the authors demonstrate, after 15 years of growth, a significant number of these companies is already forming capital groups. Thus, while privatized companies are typically reducing the scope of their operations, becoming more focused on their core competence business, the successful new private companies are expanding into *related* areas of activity, building capital groups in the process. The authors document two things. Firstly, that the capital groups centred around new private companies exhibit stronger financial performance than their counterparts built by the privatized firms. And, secondly, they look into management strategies, and find that the new private companies seem to utilize superior knowledge-management techniques, which may be one of the important factors of their competitive edge.

In Chapter 7, Okhmatovskiy presents characteristics of the corporate networks in Russia, which encompass links with the banking sector (and are therefore labelled 'financial-industrial' groups). By mapping the links between the boards of the companies, Okhmatovskiy demonstrates that Russian banks receive many directional ties created by the executives of industrial corporations on boards of banks. He argues that this finding should be analysed in the institutional context, which is very different from the mature market capitalism of economies like the United States. Arguably, the network position of Russian banks reflects a subordinate role of banks in today's Russian economy. Okhmatovskiy explains this subordinate role by the fact that Russian banks are dependent on large industrial corporations (first of all, exporters of raw materials) as the major source of financial capital. An empirical test of

hypotheses provides support for this context-specific application of the resource-dependence argument. Once again, we see that a mechanical application of the corporate governance paradigm designed for the institutional context of mature market economies may lead to unrealistic conclusions. Okhmatovskiy argues that it is more productive to compare emerging industrial-financial networks in Russia with their counterparts from the similar early stage of capitalist organization some one hundred years ago in the United States than with a very different institutional setting of the latter economy as observed today.

Chapter 8 by Filatotchev and Mickiewicz may be seen as complementary to Chapter 7. The focus is still on close ties between the banking institutions and corporations, while we discuss performance implications. Building on the 'law and economics' literature, the chapter analyses debt financing in an environment where a dominant owner is able to extract *ex ante* 'private benefits of control'. A model is suggested that describes a possible collusion between entrenched dominant shareholder(s) and fixed-claim holders in extracting a 'control premium'. In this framework, ownership concentration results in lower efficiency, measured as a ratio of investment to a firm's debt, while this effect may be modified as it also depends on the identity of the largest shareholder. The analysis sheds new light on agency problems associated with the financial-industrial groups in emerging and transition economies. On the macro-economic level, one possible outcome of the collusion between banks and dominant shareholders is a 'crowding-out' of entrepreneurial firms from the debt market. Thus, in line with the previous analysis, a supporting argument is found to illustrate the contrast between an economic system based on close links between providers of fixed claim finance and corporate owners, and the system where finance is more market-driven and the scope for the entry of entrepreneurial firms is higher.

Chapters 9 and 10 (first on Russia and next on Poland) follow a similar theme and offer an interesting empirical illustration demonstrating that the role of concentrated ownership may be ambiguous. In their contribution, Kuznetsov, Kuznetsova and Kapelyushnikov focus on the business environment characteristics in Russia, and argue that the strategies of the dominant owners are predominantly conditioned by it. They find a negative association between the size of the dominant owners shareholding and such performance parameters as profitability, investment and capacity utilization. The authors argue that these findings reflect the insecurity of dominant shareholders and top managers. They may be well-aware that the size of the holding gives no immunity against raiders: the legal system offers inadequate protection of legitimate owners, even if they hold majority stakes. Therefore it might be the case that the incumbent owners are reluctant to see their firms as long-term commitments in spite of large ownership stakes. On the other hand, concentrated ownership facilitates wealth transfers from the company. As a result, the owners may use their position to drain resources out of the firm.

Interestingly, the effects of ownership concentration are also ambiguous in Poland, and Aluchna in Chapter 10 utilizes a unique dataset on ownership and performance of Polish quoted companies. While the ownership concentration of quoted companies may be lower than for the joint sample of both quoted and privately held companies, it is still relatively high. The dominant shareholder holds on average a stake of 41 per cent of votes, whereas the three biggest shareholders control almost 60 per cent of votes. The civil law tradition of Poland supports ownership concentration and makes it consistent with the continental 'old' EU. Moreover, the results indicate that the ownership concentration has been growing over the analysed period of six years. The concentration calculated by the stake of the dominant shareholder as well as by the stakes of the three and five biggest shareholders increased. The stake of the dominant shareholder rose from 34 per cent in 1997 to almost 41 per cent in 2002, whereas the position of the three biggest shareholders increased from 52 per cent in 1997 to 59 per cent in 2002. At the same time, the free float calculated as the stake hold by shareholders who own less than 5 per cent fell from 43 per cent in 1997 to merely 33 per cent in 2002.

In addition, Aluchna applies simple but robust econometric techniques to demonstrate that it is not the ownership stake of the largest shareholder, but that of the second largest that may have a positive impact on the firm's performance. Owing a significant stake, the second biggest shareholder can monitor the dominant shareholder, may outweigh his/her impact on the company, and exert influence that leads to better performance. In contrast, unchecked dominant shareholders (holding large stakes, having full control over the company and not being monitored by strong minority shareholders) may engage in value-destroying practices. This finding is consistent with some cases in recent Polish corporate history where the dominant shareholder was successfully challenged by strong minority shareholders, typically investment funds, to block some value destruction, tunnelling, and other practices (transfer pricing, share dilution).

The latter conclusion leads us naturally to the Chapter 11 by Zalewska, which deals with the implication of pension reform for stockmarket development. It was the pension reform in Poland that led to the emergence of pension funds as important players on the stockmarket. However, their potential for exerting a disciplining impact on the dominant owner is conditional on the existence of a credible exit option. Unfortunately, as argued by Zalewska, the latter has been limited by the restrictions on the freedom of pension funds' investment decisions. In particular, the government enforces a home bias in investment behaviour (as is also the case in Russia).

The chapter not only provides a non-technical introduction to home bias and its role in stockmarket development, but also uses the Polish experience as a case study. It discusses the main arguments for portfolio diversification, the primary side effects that emerge from locking funds into underdeveloped

equity markets, and highlights the problems the Polish pension funds face as a result of the 'enforced' home bias policy of the Polish authorities. The findings support the view that an enforced home bias has a negative impact on local stockmarket development, on the performance of pension reform and on corporate governance.

With Chapter 12 by Köke and Schröder we move to a more general perspective, discussing the capital markets in Central and Eastern Europe. These are fast-growing emerging markets, although they still exhibit a relatively low market capitalization and turnover compared to Western European exchanges. The high speed of expansion corresponds to strong economic growth in Central and Eastern Europe. Another important reason might be the membership in the European Union and expectations on a future EMU membership as well as an increasing integration into the world economy. The best-developed stock exchanges are those of the Czech Republic, Hungary and Poland, and among these, the Polish Stock Exchange clearly merits a top ranking. The Warsaw Stock Exchange has the highest capitalization, the largest official market segment, which is particularly interesting for foreign and institutional investors, and a liquid index future on the blue chip index WIG20, which allows investors to efficiently hedge stockmarket risk.

Building on this discussion, the authors offer a more detailed analysis of the sources of corporate finance. This shows that the CEE firms finance the largest fraction of investment internally. Compared to Western countries, only Hungarian companies finance a similarly large fraction of gross fixed capital formation externally (about 50%), that is without relying on internally generated funds such as retained earnings. This fraction is much lower for Poland (25%), the Czech Republic (11%) and the Slovak Republic (4%). Closer analysis of the sources of external finance reveals that the largest part is obtained by taking new credits, and a much smaller part by issuing equity or debt securities. In Hungary and Poland, new credits significantly contribute to financing investment, while in the Czech Republic the issue of domestic debt securities is particularly relevant for corporate finance.

The dominance of credit finance is confirmed in a case study of all non-financial corporations listed by the Warsaw Stock Exchange. It has also been growing in significance in recent years and, compared to earlier years of transition, internal funding has declined significantly. While finance by equity issues has declined over the period 1994–2000, it still contributes strongly to corporate finance and its significance may be growing again alongside stronger economic growth and revitalization of the Warsaw Stock Exchange in the early 2000s.

Köke and Schröder's findings are well-complemented by the contribution by McGee (Chapter 13), who discusses corporate governance regulations. Based on the careful analysis of the Reports on the Observance of Standards and Codes (from the World Bank) and other sources, the author concludes that corporate governance practices in Hungary and Poland seem to be

somewhat better than corporate governance in the Czech Republic. Another clear conclusion is that all three countries are in need of improvement in some areas of corporate governance. This chapter points out which areas of corporate governance are strong and which are weak for each of the three countries, and provides a discussion of why this is the case.

It is likely that corporate governance practices in all three countries will continue to improve, perhaps markedly, in the next few years. One impetus for improvement is membership in the European Union; pressure from EU bureaucrats will force changes in corporate structure and governance practices. The adoption and implementation of IFRS and International Auditing Standards will help improve corporate financial reporting practices. Assistance in the improvement process will also come from within, as top management seeks foreign investment. The Big-4 accounting firms, which audit most of the larger firms in these countries, will help enterprises in these countries climb the learning curve, thus facilitating the process of corporate governance reform and improvement. It would not be too much of a stretch to predict that in a decade, if not less, the corporate governance practices of the Czech Republic, Hungary and Poland will be more or less on a par with practices in the older members of the EU, at least as far as the large companies are concerned.

Chapter 14, also by McGee, focuses on corporate governance rules adopted in Russian companies, and on transparency in particular. As noted by the author, the passage of time, moving up the learning curve through trial and error, plus advice from the large international accounting firms and international organizations have all helped Russian companies increase both the quantity and quality of disclosure. Contrary to some stereotypes, in terms of governance practices, Russia's score is now on a similar (or even higher) level than in several Central European countries, Poland in particular, and clearly higher than China. The quality of Russian financial statements is getting better, and an increasing number of Russian accountants are seeing the value of good reporting practices. Nevertheless, there is a long way to go to achieve the standards prevailing in high-income OECD economies.

In addition, the chapter focuses more closely on two aspects of transparency: completeness and timeliness. The financial statements of selected Russian companies are examined to determine the extent and timeliness of disclosure, two key aspects of transparency.

Conclusions

Obviously, it is difficult to summarize a number of interesting themes included in this volume in a short statement. Nevertheless, we intend to highlight a few points, with some arbitrariness and a serious risk of specification error and selectivity bias. Our intention here is to highlight some areas, which may still be controversial and deserve further research.

Corporate governance may improve either bottom-up, by voluntary adoption of good practices by large companies, or top-down by improving the standard of government regulation and enforcement. Interestingly, as of today, the largest Russian companies while still a long way from the best world practice, have improved a lot by their own actions and their corporate governance practice looks *better* than that found in Central Europe, Poland included, contrary to some stereotypes. After all, as noted by McGee, Russian companies that want to attract foreign investment, or even a loan from the local bank, need to disclose financial information. Paradoxically, however, it may well be that it is the instability that one finds in the business environment that provides the largest Russian companies with a strong incentive to counterbalance it with the stability of their own accounting and corporate governance practices.

Investors are concerned by the risk originating both from within and outside companies. The latter source of risk implies that our understanding of corporate governance is enhanced as soon as we extend it towards the political economy perspective. Ultimately, the providers of finance may be expropriated both by majority shareholders and by government officials. Self-regulated capital markets may be the ideal solution, but for such an institution to work well, one needs a rather long time. And even where good corporate governance practice is adopted, it still may not lead to wider economically efficient outcomes if more basic protection and stability of property rights is endangered. Thus, a well-functioning market left alone in the absence of the state is an illusion: a limited state is impossible where state institutions fail. A weak state is not a limited state, rather, it is an unpredictable state.

In this respect Russia and Poland have few things in common, and a few things that make them different. Both share a common tradition, which is one of extensive state control and interference coupled with limited predictability. Unlike several other major transition countries, both have extensive state corporate ownership, which, unlike some Western economies, is not yet subject to the same corporate governance rules as the private sector. In both countries, corruption and realization of political private benefits has been rampant albeit the scale is smaller in Poland.

With all the similarities there are also differences, however. The rich natural resource base in Russia is both an advantage and a disadvantage. An advantage, if properly used, is that it may result in a lower tax burden and a better business environment in the non-resource sector. It is a disadvantage if rent-seeking and rent extraction results in concentrated control of assets, with oligarchic structures not interested in competition, freedom of entry and promoting new entrepreneurship.

The second difference relates to the characteristics of the political system. Russia is a much larger country and a strong presidential system may be an advantage if it facilitates reforms and change. And some corporate

governance reforms have indeed been introduced in Russia. However, with concentrated political power, there is also a risk that Russia may be going back from democracy to some form of authoritarian political capitalism. And democracy, with all its inefficiency, is still a more efficient mechanism for institutional improvement.

One general lesson from this book is that from the point of view of economic efficiency, both new entry and balance of power are good. This we see on the micro level. Newly created capital groups perform better than the old ones, centred around privatized enterprises. Along a different cross-section, companies where the dominant owners' influence is balanced by a strong minority stockholder base seem to perform best.

On a purely formal plane, corporations are not that different from polities. Thus, these two general findings may apply in the latter case as well.

Index

arbitration, international 101–3, 106, 118
Argentina 218, 224–7, 229
Anglo-Saxon model of corporate governance 5, 7, 162, 180–1, 186, 195, 284
asset stripping 31, 62–3
Austria 212, 244–5, 248, 251

Balcerowicz, L. 9
bankruptcy 39, 99–100, 103, 148, 160, 163, 268
banks 33–4, 43–4, 136–57
  bank control theory 137–8, 150–1
  bank hegemony theory 138–9, 149–50
  crises 253–4
  governance role of debt 164–9
  insurance of deposits 146
  listed 225
  privatization 27, 45
  state-owned 146–7, 173
  structure of liabilities 146, 153–6
  see also institutional investors; financial-industrial groups; monitoring
barter and demonetization 183–4
Belarus 28, 35, 42
boards, executive and supervisory 78, 142–6, 151, 202, 213
  board members share ownership 207
  cooptation model 139–40, 151–2, 157
  employees as directors 83, 268
  formal responsibilities 269–71
  interlocking directorates 139, 141–2, 148, 150, 154
  outside directors 80, 115, 138, 142–3
  state-owned firms 34–5, 75, 77–86
Bolivia 226
bond markets 147, 223, 228, 247–9, 254, 256–7
Bratislava Stock Exchange 244–7
Brazil 3, 12–13, 224, 227
Budapest Stock Exchange 225, 230, 244–50, 257
Bulgaria 26, 27, 28, 46, 201
business environment indicators 259–61

Canada 227
capital flows *see* foreign direct investment
capital groups 119–35
  see also conglomerates; financial-industrial groups
capital market 199, 218
  see also stock markets
Central Europe 23, 199
Chile 218, 226–9
China 75, 279
coal industry 74, 75, 85
coalitions, intra-firm 40–1, 43–4, 163–4
Coase theorem 31–2
command economy 24, 85, 92
commercialization of state-owned enterprises 35, 55–6, 76–8, 121
Commonwealth of Independent States 23, 199
communism *see* command economy
competition 38, 44, 73–4, 81–2, 198–9, 256, 281
conglomerates 92–5, 108
  advantages and disadvantages 108–9
  see also financial-industrial groups
corporate control 21, 23–5, 28–47, 51–3, 57–65, 138–9, 151–2, 174, 185–7
  conflicts between major investors 100–3, 106, 114–18
  consolidation of shares 58–63
  convergence in corporate control structures 42–7, 206, 212
  corporate control versus ownership 185–6, 196
  efficiency of 165, 185–7
  largest and dominant shareholders 185–6
corporate finance *see* finance, corporate
corporate governance as academic discipline 278
corporate governance standards 161–2, 165, 169, 172, 179–81, 185–6, 194, 199–200, 212, 228, 262–77
  OECD principles of corporate governance 53, 72–3, 189, 262, 265

corporate governance standards – *continued*
  of the public sector 72–82
  origins 179–81
  Reports on the Observance of Standards and Codes 262–76
  see also corporate control; shareholders' rights;
corporate networks *see* networks
corporatization of state-owned enterprises *see* commercialization
corporatist model 13
corruption 66–8, 73, 84, 147, 190, 261
cost of finance 164, 168–9, 171–2, 253
crime 30, 57–8, 183–4
Czech Republic 5–12, 26–9, 31–3, 36, 43–4, 46, 85, 198, 200, 218–9, 226, 248, 251, 253–4, 259–77

de novo firms 8–9, 23, 27–8, 44–6, 122–35, 170–3, 194, 202, 211–13
debt *see* banks; finance, corporate
democracy 21–2, 86
derivatives markets 249–50
disclosure and transparency 64–6, 80–1, 84–5, 96, 169, 183–4, 255, 265–6, 268–9, 278–95
  components of 281
  Opacity Index 279–81
  quantity and quality 285–6
  timeliness 287–8, 291–4
diversification 93–4, 163
domestic bias *see* home bias
downsizing 103–7, 119–23

EBRD Transition Indicators 263–5
Economic Freedom indicators 259–61
El Salvador 226
employees 36–8, 40–1, 268
employment 31, 38, 75, 183
  insecurity and risk aversion 223
enterprise performance *see* performance
entrenchment and incentive effects 39, 64, 161–2, 164–8, 186
entrepreneurship 9, 21, 164–5, 167, 170–3
  entrepreneurship versus 'comradeship' 188
  entrepreneurial firms crowded out in terms of finance 170–3
entry barriers 21, 44
Estonia 26–9, 42–3, 245, 264
equity finance *see* finance
equity market *see* capital market; stock markets

European Bank for Reconstruction and Development *see* EBRD
European Union 13, 148
  enlargement 75, 244, 264, 277
expropriation of private assets by the state 21, 65–6, 69
expropriation of shareholders by managers and/or dominant owners 32, 38, 53–4, 59–63, 159–61, 163–70, 173, 186, 190, 214
  cost of expropriation 162, 165–6

finance capital theory (banks versus industrial firms) 137–8, 151
finance, corporate, sources of 60, 138, 146–7, 159–60, 162, 252–7
  listed versus non-listed firms 157
financial constraints 28–9, 38, 93, 146–7, 153, 160–3, 167–8, 170–3, 189, 253, 257
financial dependence 153–7
financial-industrial groups 30, 33–4, 39–40, 44, 57–63, 93, 95, 108–9, 137–40, 146, 151, 154, 160, 162–3, 166–70
  shifting balance of power between banks and industry 151
  see also networks
financial investment
  diversification of portfolio investment 115, 189, 212, 218–33
  foreign portfolio investment 147, 226–30, 246–7
  government bonds versus stocks 223–6
  investment climate 60–1
financial performance
  measurement of 202–3, 208–10
  of companies 38, 128–33, 167, 183, 189–90, 207–14, 282
  of portfolio investments by pension funds 233–40
financial restructuring 103–7
financial systems 184
focusing as business strategy 95–8, 109, 112
foreign credit 153–4
  see also finance, corporate
foreign direct investment 5, 21, 29, 42–5, 66, 75, 96, 109, 112
  political factors 68–9
foreign trade 92–4, 109
France 12, 144–6, 206, 212, 226
freedom
  of entry 9, 21 (*see also* entry barriers)
  political 21–2 (*see also* democracy)

gas and oil *see* oil and gas sector
Germany 44, 138, 141, 144–6, 162–3, 196, 206, 212, 226–7, 245, 248, 251, 253, 270
globalization 43, 51, 68, 281
Gorbachev, Mikhail 24
government bonds 223–7, 228, 248–9, 251–2
Greece 244–5

hard budget constraint 37, 198–9
see also soft budget constraint
high leverage strategy 103
home bias 219–20, 227, 230, 238–41
hostile takeovers 190
human capital 40–1, 130
Hungary 5–12, 24, 26–7, 29, 35, 42–3, 46, 218–19, 226, 251–4, 259–77

incentives 38
independence of private businesses 66
see also state administration and business
inflation 146–7, 184, 223
informational asymmetry between stakeholders 162, 169, 197
'initial conditions' 9, 130, 179–81
initial public offerings 180, 253–4, 256–7
see also privatization
innovations 125
insiders *see under* ownership
institutional investors 29, 42, 96, 99, 109, 112–18, 163–4, 196–7, 201, 228
privatization investment funds 32–3, 198, 201, 206–7, 213, 250–2
integration of the production processes 54–63, 94–5
interest groups *see* rents and rent seeking
interest rates 168
interested party transactions 62
investment 164–8, 189–90
returns versus liquidity considerations 163
see also financial investment
investment funds *see* institutional investors; ownership, institutional origins
Italy 206, 212, 227

Japan 95, 108, 141, 162–3, 226

Kazakhstan 28
Khodorkovskii, Mikhail 56, 64–5

knowledge management 119–20, 123–8
knowledge life cycle model 124
Korea, Republic of 163, 283
Kornai, J. 25

Latin America 218–19
Latvia 245
labour-shedding 38
legal environment *see* corporate governance standards
liberalization, external 92–3
Lithuania 245
London Stock Exchange 196, 213, 224–5, 230, 245
long-term business relationships 163

macroeconomic stabilization *see* inflation
Mafia 30
managerial objectives: growth versus shareholders value 108, 114–17
managerial talent, market for 73
managers 23, 31–2, 36–41, 43–4, 64–5, 92–3, 108–12, 186–8
generic versus specialized 94
new versus old 96–7, 108–12, 187–8, 199
see also entrenchment
market versus state 21
see also state administration and business
media 73–4, 78–9, 86
Mexico 229
minority shareholders 41–2, 96, 159–62
see also expropriation
monitoring 138–42, 151–2, 160–2, 164, 168–70, 196–7

natural resources 21
see also oil and gas
Netherlands 226
networks 136–7, 142–6, 183–4
centrality measure 145, 149
see also financial-industrial groups
New York Stock Exchange 196
new private sector *see de novo* firms; ownership
nomenclature 24, 30, 33

offshore companies 62
oil and gas sector 54–63, 143–5, 147
oligarchs 21, 30, 33–4, 42, 44, 65, 67
outsiders *see* ownership, outsiders

ownership, corporate
  banks 7
  concentration 5, 12, 25, 57–64, 151, 161–2, 166, 168, 173–4, 187–92, 195–8, 200–13
  dispersed 7, 195, 206–8
  employee 5, 38, 44–5, 199, 206–7
  family 6, 12
  foreign 5, 9–12, 37–8, 42–3, 45–7, 198–9, 201–2, 206–7, 245
  insiders 30, 37–8, 167–8, 183–5, 198, 201–2, 206–8
  institutional origins of the companies 5.9 (*see also de novo* firms; state-owned firms)
  institutional 7, 9–12, 112–18, 198–9, 201, 206–8, 213
  managerial 7, 31, 39, 63, 182, 197, 199, 206–8
  outsiders 38–9, 161, 167–8, 182–3, 186, 198–9
  see also corporate control

parent companies versus dependent companies 130–3
pension funds 197, 207, 217–19, 223–41, 251–2, 282
pension reforms 217–20, 229
performance 33–8, 127–35, 167, 170, 174, 189–90, 196–9, 202, 211–14
  see also financial performance
Peru 226, 227, 229
Poland 3–4, 21–2, 259–61
  bond market 248, 257
  business environment indicators 259–61
  capital market *see* Warsaw Stock Exchange
  capital groups 119
  corporate finance 253
  corruption 81–2
  elections 82
  historical heritage 3–4, 76
  macroeconomic conditions 109
  ownership and corporate control structures 5–12, 36–8, 44–5, 74, 198, 200–1, 251
  pension system 217, 226–7, 230–40
  privatization 26–8, 76–8, 194, 206–7
  reforms under Soviet system 24
  shareholders' rights 266–71, 279–80
  state sector 74
political freedom *see* freedom, political
Portugal 253–4
Prague Stock Exchange 200, 225, 230, 244–7, 257
preferred stock 196
principal–agent model 4, 28, 35, 37–41, 52–3, 70, 114, 159, 195–7
private benefits of control 5, 78–9, 85–6, 161–2, 165–6, 169–70, 196, 213
private sector *see de novo* firms; ownership, corporate, privatization
privatization 23–36
  and asset dissipation 28–9
  anti-privatization lobby 85
  direct sale 29–30, 84, 93–5
  employee buy-outs 5, 12, 25, 30–1, 44–5, 76
  initial public offerings 29, 93, 244, 257
  foreign owners 5, 9, 26–7, 29, 37–8, 42–3
  impact of *see* performance
  insiders 5, 181
  'loans for shares' 33–4, 56, 67, 147, 151
  managerial buy-outs 30–1
  mass privatization 9, 25, 31–3, 85, 206, 251
  methods 26–7
  nomenclature privatization 24
  oil sector 54–6
  post-privatization ownership transfers 12, 30–2, 36–7, 45–6, 182–3, 187–8, 206–7
  prices 201
  restitution to former owner 29
  small privatization 8–9, 28–9
  speed and quality trade-off 25, 85, 181–2
property rights, protection, transferability 21, 64, 69
public opinion 68, 84–5
Putin, Vladimir 68–9
pyramids 83, 161, 170, 196

reorganization *see* restructuring
reforms *see* liberalization
relationship investors 166, 169
rents and rent seeking 21, 84, 173
resale *see* privatization, post-privatization ownership transfers
research and development 162
resource dependence 139–40, 152–67
restructuring 33, 37–9, 55–63, 94–5, 103–7, 119–23, 169–70, 174, 198, 255–6
Riga Stock Exchange 230
risk and uncertainty in the economic environment 21, 54, 60, 69–70,

93, 139, 163, 167, 183–4, 186, 190, 192–3
Romania 28, 46, 201
rule of law versus arbitrariness 70, 85
see also state administration and business; risk and uncertainty in the economic environment
Russia 3–4, 21–2
abuse of minority shareholders 53–4, 186
banks 143–57
boards 142, 149–50
business environment 259–61
Central Bank 147
corporate governance standards 21, 51–4, 179–80, 185–6, 192–3
culture 278
financial crisis (in 1998) 63–4, 147–8, 150–1
judicial system 61–3
oil and gas sector 54–65, 68–9, 143–4, 146–8, 150–1, 157, 170
ownership and corporate control 5–12, 30, 36, 38–9, 44, 151, 182–3, 186
pension system 219, 224, 227
privatization methods 28, 32–4, 54–6, 85, 181–4
state administration, relations with business 62, 65–70, 149
stock market 185, 243–7
see also Soviet Union

Sachs, J. 25
savings 146
securities markets *see* stock markets
self-management (under command economy) 76
service sector 130
share dilution 61–2
shareholders' rights 32, 53–4, 59–62, 102–3, 136, 196, 199–200, 265–71
see also corporate governance standards; disclosure; expropriation
Shleifer, A. 25, 75
'short-termism' (and subjective discount rate) 167, 168, 184, 190–3
Slovak Republic 28, 46, 248, 253–4, 264
Slovenia 28, 245–6
small firms 28–9, 256–7
see also de novo firms; privatization, small scale
socialist economies *see* command economies
soft budget constraint 75, 85, 163, 253–4
see also hard budget constraint
Solidarność 'trade unions' 76, 78
Soviet Union 24
Spain 206, 212, 248, 251, 253–4
special interests *see* rents and rent seeking
speculation 147
state administration 21, 36–7, 73, 77–86
and business 65–8, 94, 108, 146–7, 173
state capture 67
state-owned firms 8, 27, 30, 34–5, 38, 73–4, 198–200
with private management 35–6
minority state interests in private firms 83
stock markets 29, 36, 159–60, 199–200, 206, 212, 282
capitalization 230–1, 244–5
expectations, impact of 240
liquidity 244–5
performance 239–40, 244
small countries 229
see also Bratislava, Budapest, London, New York, Prague, Riga, Warsaw
strategic investors 25, 29–30, 93, 114–15, 161, 198, 206
strategy of firms 112, 114–17
subsidies *see* soft budget
Sweden 12
Switzerland 144

taxes
evasion 38, 59, 65, 183–4
revenue 146, 149
technology
agency problems 162
new technology sector 100, 114
transfer 69
see also telecommunication
telecommunication, investment in 95–8, 100–3
timeliness of financial reporting 287–94
transparency *see* disclosure and transparency
transfer pricing 59
Turkmenistan 28, 35, 42

unemployment 44, 82, 223
United Kingdom 144, 162, 196, 206, 212, 224–6, 245, 248, 251

United States 138, 144–6, 148–50, 152, 162–3, 196, 283
Uruguay 226
Uzbekistan 35, 42
USSR *see* Soviet Union

Vishny, R. 25, 75

wages 31, 38, 75, 183
  and risk aversion 223
  managerial 78
Warsaw Stock Exchange 93, 98–9, 200, 206, 212–13, 225–40, 243–50, 255–7
wealth distribution 12–13, 64
  by owners-managers 66
Winiecki, J. 9
workers' councils 38
World Bank 218, 227–30, 279

Yeltsin, Boris 33, 54, 67–8
Yugoslavia 24, 35