S t u d i a i A n a l i z y
S t u d i e s & A n a l y s e s

C e n t r u m A n a l i z
S p o l e c z n o – E k o n o m i c z n y c h

C e n t e r f o r S o c i a l
a n d E c o n o m i c R e s e a r c h

3 4 7

Piotr Kozarzewski

Corporate Governance Formation in Poland, Kyrgyzstan, Russia, and Ukraine

W a r s a w , J u n e 2 0 0 7

Materials published here have a working paper character. They can be subject to further publication. The views and opinions expressed here reflect the author(s) point of view and not necessarily those of CASE.

The paper was prepared within the project titled: 'Corporate Governance Practices and Prospects in Transition Countries: The Case of Russia, Ukraine, and Kyrgyzstan.', carried out with the support of INTAS.

The publication was financed by Westdeutsche Landesbank Polska SA.

Keywords: **corporate governance, transition economies, Poland, Kyrgyzstan, Russia, Ukraine.**

© CASE – Center for Social and Economic Research, Warsaw 2007

Graphic Design: Agnieszka Natalia Bury

ISSN 1506-1701, ISBN 978-83-7178-438-5 EAN 9788371784385

Publisher:

CASE – Center for Social and Economic Research

12 Sienkiewicza, 00-010 Warsaw, Poland

tel.: (48 22) 622 66 27, 828 61 33, fax: (48 22) 828 60 69

e-mail: case@case.com.pl

http://www.case.com.pl/

Contents

Abstract **5**

1. Introduction **6**

2. Post-Communist reforms **7**

2.1. Conditions for the start of the reforms **7**

2.2. Reform policies **10**

2.3. Reform outcome **19**

3. Evolution of ownership structure **27**

4. Corporate governance goals, problems, and practices **33**

5. Actors of corporate governance **39**

6. Conclusions **43**

References **45**

***Piotr Kozarzewski** is a member of the Council of the CASE – Center for Social and Economic Research, Warsaw, and a docent at the Institute of Political Studies, Polish Academy of Sciences. He participated in numerous research projects focusing on transition problems, especially political economy of transformation, privatization, corporate governance and enterprise sector reform in Poland and other countries of the former Soviet block. He also has an extensive experience in advisory projects for the governments of post-Communist countries. He is an author of more than 150 publications and research papers, including Understanding Reform: The Case of Poland (CASE, Warsaw 2005, together with Jacek Kochanowicz and Richard Woodward) and Prywatyzacja w państwach postkomunistycznych [Privatization in Post-Communist Countries] (ISP PAN, Warsaw 2006).*

Abstract

This paper presents a cross-country comparative study of corporate governance formation in four transition countries that differ significantly in the reform design, implementation, and outcome. The analysis showed that corporate governance formation in these countries is characterized by both similarities and differences. Similarities originate first of all from the common features of the historical background of these countries, the features of centrally planned economy; from the similarities of the principles of the reform programs; and from similarities of certain basic, objective regularities of the post-Communist transition. Such common features include, e.g., highly insiderized initial ownership patterns, high role of managers, high ownership concentration, dual trends of ownership structures' evolution towards concentration and outsiderization, and many others. The differences originate, among others, from the specific features of the countries' historical, cultural, and institutional heritage, the soundness of the reform design and implementation, the main characteristics of the enterprise sector, the quality of the legal base and enforcement mechanisms. Countries that had more favorable "background" (traditions of private entrepreneurship, capacities of the elites) and during the transition period managed to create good legal background for private sector

and appropriate institutions are more likely to enjoy formation of more efficient corporate governance mechanisms and patterns.

1. Introduction

This paper presents a cross-country comparative study of corporate governance formation in four transition countries: Poland, Kyrgyzstan, Russian Federation, and Ukraine. These countries were chosen because, apart from the fact that all them originated from the centrally planned Soviet type economy and since the beginning of the 1990s implement reform programs aimed at building of market economy, they differ significantly both in the ways this goal have to be achieved (i.e., patterns of the reform process), and in reform outcome. The main task is to find out what are the main peculiarities of corporate governance regimes that have formed in these countries and to try to find the most important factors that contributed to the present state of corporate governance and major differences between them.

The task of analyzing successes and failures of corporate governance in transition economies is of crucial importance because the quality of corporate governance is one of the key factors determining the microeconomic efficiency of the enterprise sector and quality of investment climate of the country. Consequently, this pre-determines perspectives for catching-up economic growth of the national economies.

We use the term “corporate governance” in a broad sense as the system of legal and economic institutions that create formal and informal regulatory system that determines behavior of enterprises. The central place is attributed to mechanisms of investors’ and other stakeholders’ impact on enterprises’ functioning. This understanding of corporate governance is in line with the OECD 1994 definition: “Corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance.”[1]

In the paper, an interdisciplinary approach involving microeconomic, social, institutional, and historical analyses was used. The study is of a mostly qualitative character; quantitative analysis was used only where direct country data comparison is possible. The paper

[1] Http://www.encycogov.com/WhatIsGorpGov.asp.

is based on the findings on the INTAS "Corporate Governance Practices and Prospects in Transition Countries: The Case of Russia, Ukraine, and Kyrgyzstan" project,[2] various projects on corporate governance in Poland and other countries carried out by CASE – Center for Social and Economic research, and well as raw data and findings of other researchers and institutions.

The paper is divided into six sections. The second section is devoted to historical overview of post-Communist reforms that created conditions for corporate governance formation. The third section deals with formation of ownership structure of private sector and the main trends of its evolution. In the fourth section, the main goals, problems and practices of corporate governance are discussed. The fifth section is devoted to the analysis of the main actors of corporate governance at an enterprise level. The sixth section contains some general conclusions.

2. Post-Communist reforms

2.1. Conditions for the start of the reforms

Generally speaking, conditions for the start of the reforms in all post-Communist countries had a lot in common – economically, politically, culturally, etc. At the same time, there were significant differences between single countries and groups of countries that influenced the course of transformation, including corporate governance formation.

The countries of the Communist block were characterized by different depth of pre-transformation reforms of the command system.

Poland was one of the first Communist countries that started to try to resolve the problem of low efficiency of the command economy not through administrative strengthening of the mobilization role of the state, but by introducing some elements of decentralization of economy, including governance of the enterprise sector. As in some other Communist countries (first of all Yugoslavia), these changes were aimed at increase of microeconomic effectivity of economy through introducing motivation mechanisms based on employee self-management. As early as in 1956, the Act on Workers Self-Management was passed which granted state-owned enterprises (SOEs) a limited autonomy allowing insiders (directors and

[2] The project was realized by the consortium that consisted of Stockholm Institute of Transition Economics (Sweden), CEFIR – Centre for Economic and Financial Research (Russia), CASE – Center for Social and Economic Research (Poland), CASE-Kyrgyzstan, Center for Social and Economic Research (Kyrgyzstan), Institute for the Economy in Transition (IET) (Russia), and Research Institute of Statistics (Ukraine). Within the framework

employees) to make decisions in some areas of SOEs' operations. These changes in corporate governance of SOEs were of superficial nature and in fact did not work, as they contradicted the model of central planning that has been adopted in Poland. Only in 1981 political (emergence of the Solidarity trade union, mass protest actions) and economic conditions (deep economic crisis) made possible a deeper reform of the enterprise sector, with employee self-management being part of a new set of decentralized principles of SOE operation, known as "The Three S's" (self-management, self-financing and self-dependence). The new law (which is still in force for SOEs) has introduced a corporate governance system that to a certain extent imitated the two-tier "Continental" system with three bodies: director (as a managing body), employee council with supervisory functions, and general assembly of employees whose competences resembled those of general meeting of shareholders. In fact it made incomplete property rights, which were immanent feature of the command economy based on state property, even more non-transparent because the law gave employees some features of owners – but without real owners' financial responsibilities.

Enterprise reform was a part of a wider program of building quasi-market economy in Poland (of Yugoslavian and Hungarian type). Central plans were changed for the system of government-guaranteed orders, there was limited price, wages, and foreign trade liberalization, and more liberal conditions for small private businesses were created. As a result, by the time the Communist system collapsed, Poland, along with Yugoslavia and Hungary, was one of the most reformed economies of the Communist block. It should be added that the share of private sector in Polish economy was the highest among the Communist countries (about 30% of GDP), especially in agriculture (about 70% of GDP). Thus, at the verge of the transition, Poland already had some (although predominantly distorted) market institutions – both created in the course of the attempts to reform the centrally-planned economy, and that had survived during the much shorter, than in the case of the USSR, period of the Communist rule.

Besides, Poland had educated elites, who through almost the whole period of Communist rule in Poland, held serious discussions on improving the efficiency of Polish enterprise sector. Unlike in most other countries of the Soviet bloc, those discussions went far beyond ideas of how to improve the central planning system. The most popular approach was that of participation of employees in the management of state-owned firms. Even if some of the discussion participants had doubts as to whether state-owned enterprises with employee participation were the most effective form of enterprise (especially compared to privately owned companies), they believed that in the given circumstances, this was the most radical and ef-

---

of the project, two rounds of surveys were conducted in 2005 and 2006 which included 978 and 981 enterprises respectively in Russia, 1232 and 1103 enterprises in Ukraine, and 299 and 306 enterprises in Kyrgyzstan.

fective solution. However, there was an influential circle (Leszek Balcerowicz belonging to it) that believed that only consistent liberal market reforms would be able to ensure sustainable development of the Polish economy.

Soviet republics, including those being the subject of the research, at the verge of transition found themselves in much more difficult situation. The USSR was the last Communist country that undertook serious attempts to reform the planned economy (although there were countries that hadn't made even such an attempt: Albania, Bulgaria, Czechoslovakia, GDR, and Romania). Until mid-80s, the Soviet economy was one of the most "unreformed" centrally planned economies (there were two failed attempts of economy decentralization in 1957 and 1965). Depletion of capacities for extensive growth aggravated by the crisis on the world fuel markets forced Mikhail Gorbachev to start reforms – first being an attempt to undertake new forced industrialization (policy of "acceleration"). Only two years later, in 1987, the *perestroika* policy has been proclaimed to a large extent patterned after Yugoslavian, Hungarian and Polish solutions. A package of laws have been adopted that increased autonomy of SOEs, introduced elements of employee self-management, allowed for creation of non-state firms and individual businesses (as a "pure" private ownership had still not been legalized). Elements of ownership changes have also been introduced in the form of the right of employees to lease assets of SOEs. The same as in other reforming Communist countries, these measures were intended to keep the economy within the boundaries of the system of "real socialism." These laws opened the process of spontaneous de-etatization of the Soviet economy, mostly through profit and asset stripping from the existing SOEs to new quasi-private entities. Later on, deepening economic crisis that put the country at the verge of real collapse, forced the Soviet leaders to look for more radical solutions, even if they would mean resignation from basic Communist economic dogmas. In 1990, the most radical ever in the Communist block program of reforms "500 Days" was prepared by a team headed by Grigoriy Yavlinskiy. It assumed far-reaching privatization, de-monopolization and building market structures as the first step, followed by macroeconomic stabilization and price/trade liberalization as the final step (Yasin 2003). The program was formally accepted by President Gorbachev but never implemented by the Soviet government which undertook the last attempt of Soviet-conservative "stabilization" at the beginning of 1991, involving a nonequivalent exchange of old banknotes and administrative price adjustment (Dabrowski et al. 2004).

Unlike in Poland and other Central and East European Communist countries, in the Soviet republics (with the exception of the Baltic states) there were no formal institutions that would facilitate development of market economy. Instead, a number of informal institutions existed (horizontal network links etc.). There were only traces of private property (mainly in agricultural sector) and co-operatives had been *de facto* etatized. Strong traditions of pater-

nalistic state combined with lack of clear rules that all members of the society must obey, promoted passiveness, "legal nihilism," and negative attitude towards private entrepreneurship (especially not related to production). However, the USSR was not fully homogenous in this respect. For example, in Central Asian republics (including Kyrgyzstan) and Caucasus region strong informal family and clan relationships existed, which resulted in situation, when the formal social and state structures did not reflect the real structure of social, political and economic linkages which substantially impeded rebuilding of theses structures in the course of transition (Kozarzewski 2006a: 37-40).

Intellectual potential of reformers in the Soviet republics was generally much weaker than in Central European countries, mostly due to very severe repressions against independent activities of Soviet intellectuals and very strong Communist indoctrination of the larger part of the Soviet intellectual elite. Only at the times of *perestroika* systematic studies of crisis of Communism and possible remedies began. It should be also noted, that after the dissolution of the USSR, it turned out that the major part of pro-reform intellectual resources remained in Russia and, to much lesser extent, in Ukraine. Weak domestic intellectual resources in Kyrgyzstan and most other Soviet republics seriously impeded the processes of design and implementation of market reforms.

Lack of local knowledge and other capacities (not only in FSU countries, but in most of other post-Communist countries) was to some extent compensated with foreign technical assistance programs, which, due to various reasons, proved to be only of limited efficiency (World Bank 2004; Papawa and Beridze 2005; Kozarzewski 2006a: section 6.3.4). The same goes for (often informal) knowledge transfer between the FSU countries, especially from Russia to other countries (for example many laws were patterned after the Russian ones).

2.2. Reform policies

After the collapse of the Communist rule, all the four countries (as well as virtually all other countries of the region) embarked upon the market reforms that consisted of four main elements: stabilization, liberalization, privatization, and institutional reforms. The main difference laid in the importance attributed to each element by the governments, the speed and sequence of their implementation. The sequence dilemma had two main solutions.

The first one assumed that macroeconomic stabilization should be achieved as fast as possible, together with imposing regulation and institutional constraints (in order to create a framework for actors' behavior and prevent tunneling) (Murrell and Wang 1993). The second one assumed that stabilization and liberalization efforts would fail as long as the majority of the equity stayed in the state hands (which is by definition was an inefficient owner), thus

ownership rights still being incomplete. Besides, privatization would create demand for further reforms (Frydman and Rapaczynski 1994; Boycko et al. 1995).

The "stabilization and liberalization first" approach was characteristic first of all for Poland, Hungary, and Estonia; other countries implemented (with various degree of consequence) policies with delayed stabilization and liberalization measures. The speed dilemma meant the choice between a "big bang" policy (so-called shock therapy) and gradualist approach that in theory, among others, should have "softened" the transformation shock for a large part of population and economic agents by allowing them more time for adaptation. There were only a few countries that decided to implement shock therapy at least in some areas of the reforms: first of all these were Poland (mainly in the field of stabilization and liberalization), Hungary, and Estonia. As in the case of the choice of the transformation model, real reform policies very often depended not only on the elaborated concept, but were the result of political interactions between main actors and interest groups.

In the next sections we will analyze policies in two areas of the reform directly relevant to the corporate governance formation, i.e. privatization and creation of legal background for corporate governance formation.

Privatization

In privatization policies, several patterns can be found. A lot depended on officially proclaimed and/or unofficially pursued goals of privatization. These goals might be the following:

– systemic (to contribute to the change of the economic system through making private property the dominant form);

– economic (to solve the problem of microeconomic inefficiency of state-owned enterprises and boost the performance of the enterprises sector);

– political (making the whole reform process smooth, stable and irreversible through creation of powerful pro-reform lobby of actors, involved in privatization process and using its results);

– fiscal (to obtain budget revenues from selling state property and to cut-off subsidies);

– social (attaining a kind of social justice through shares distribution schemes via distribution of part of the privatized stock among the whole population and resolving social problems in concrete enterprises with the help of investors);

– hidden, when the government drew public attention to one goal while the real, most important goals were not advertised because they were less attractive to the broad public. The hidden agenda could be "honest" (aimed at acceleration of the reforms and avoiding

some obstacles, e.g., related to public opinion) and "dishonest" (aimed at meeting interests of rent-seeking groups).

When boosting performance of enterprises by finding them an efficient owner was among the main goals, privatization policy was rather friendly towards investors, including foreign ones, with few sectors excluded from privatization. Only a small number of countries decided to that (mainly among the Central and East European and Baltic states). In other countries, where privatization de facto served many other political, social and fiscal goals, privatization policy was more restrictive both in terms of sectors designated for privatization, and type of investors that were allowed to take part in privatization processes. Here, the policies were usually restrictive first of all against foreign investors. Several countries of the second group, however, started to manifest a kind of "pragmatization" of privatization policy, its reorientation towards meeting the economic goals. It led to lifting of most restrictions on privatization (regarding both objects and subjects of privatization). Some countries, including Russia, still conduct restrictive policy that combines numerous exclusions of branches and enterprises from privatization with limiting the access for foreign investors.

All the four analyzed countries differed significantly in design and implementation of privatization programs.

Polish approach towards privatization was probably the most diversified, if not to say eclectic. It can be characterized by the two main features:

– diversity of privatization goals, most of them never being explicitly formulated. In fact, Polish government to greater or lesser extent tried pursue all the goals mentioned above with limited use of hidden agenda, especially "dishonest one" (in that country, rent-seeking groups were looking for profits not in privatization, but rather in retaining the state control over enterprises);

– gradualist, highly consensual character of privatization processes. The reform authors were aware of a trade-off between the speed and quality of transformation processes. They believed that lower speed resulting from careful preparation of privatization deals (both in the technical and social dimensions) was much more important than massive and rapid formal change of owners, because the reformed market environment would exert strong pressure on state-owned enterprises and force them to adapt and restructure, thus making their privatization less urgent, although still necessary.

The main features of Polish privatization were reflected in the privatization law, which envisaged a wide range of possible methods and paths of ownership transformation: sale both to strategic investors and via the stock market, management-employee buyouts and even a unique kind of mass privatization that had been designed not only to transfer a significant (albeit limited in comparison with other post-Communist countries) part of the state's

sectors assets to Polish citizens, but also to create a mechanism of active restructuring of the companies participating in mass privatization (the National Investment Funds program).

In Russia, initially the main idea was to quickly create demand for the institutions of private property. According to the reform authors, it was not crucial how to distribute assets initially – they believed that eventually, in the course of market supply and demand interplay, the property would be re-distributed efficiently. Therefore, during the first years of transition, mass, non-equivalent forms of property distribution prevailed. It led to emergence of insider-dominated ownership structures, with a significant managerial control as the managers had normally been able to force employees either to vote with the management, or to sell them their shares (CEFIR 2006). The next, case-by-case stage of privatization that started in 1995, was highly influenced by the political need of the government and the president to build a powerful social base that would make possible for them to keep power in the situation of very strong anti-reform attitude of population and very low ratings of president and the government just before the presidential elections of 1996. A non-transparent mechanism "loans for shares" was introduced that made possible transfer of a significant amount of state property in hands of limited number of persons (so-called oligarchs). Both groups of owners (insiders and oligarchs) were more oriented at rent seeking than value creation and thus failed to play a significant role in creating demand for market institutions that would promote competition, investor protection, property redistribution towards efficient owners, etc.

Characteristic features of Ukrainian privatization were a slow start and several concept changes that involved a wide range of privatization methods. At the first stage of privatization (1992-1995), a consensual model was adopted when enterprises decided themselves whether to privatize or not. Due to lack of reliable valuation procedures and qualified auditing firms, a significant number of companies was sold to their managers and employees at a very low cost. At the same time, despite the possibility to buy "cheaply," insiders generally expressed very limited interest to privatization, mainly because of lack of understanding what privatization is for and shortage of financial resources of potential buyers (Kostyuk 2005). At the second stage (1995-1999), mass privatization was a prevailing method, quite similar to Russian program of voucher privatization. And, like in Russia, it led to mass enfranchisement of insiders which proved to be owners more inclined to asset stripping and wealth creation through salaries than through the raise of productivity. The third stage (2000-2004) was characterized by prevalence of case-by-case deals and attempts to attract strategic outside owners. Unlike the "wholesale" methods, case-by-case privatization assumed high role of the government in undertaking concrete decisions on privatization deals which created conditions for voluntary actions and corruption thus contributing to creation of powerful rent-seeking oligarchic groups. The privatization process lost its transparency and many privatiza-

tion deals were conducted with serious violations of the law. At the beginning of 2005, privatization process was halted by the parliament and a campaign for wide-scale re-privatization began. After several months, the government dropped the idea of mass re-privatization, but didn't revert to privatization, which since then has a very slow pace (Paskhaver and Verkhovodova 2006).

In Kyrgyzstan, privatization policy can be clearly divided into several stages. At the first stage (1991-1993), the main accent was made on the "small" privatization of trade objects, catering and consumer services, and management-employee buyouts (MEBOs). On the second stage (1994-1997), the mass privatization had been implemented. As in the case of Russia and Ukraine, it led to enfranchisement of insiders. At the third stage started in 1998, mainly case-by-case deals were realized. After the March Revolution of 2005, the privatization process was de facto put on hold. The efficiency of the privatization policy on all the stages was not very high. The process of privatization was characterized by high level of politicization and low level of public support that created the opportunity for populist calls – sometimes successful – for slowing down privatization, its stoppage or even for reviewing its results (the latter even became one of the slogans of the March revolution). There are many influential special interest groups in the country that are not interested in privatization: officials, enterprises getting various rents, misguided population. Too many goals were set for privatization, especially on the initial stages, when privatization was regarded as a panacea or a means for solving various social problems. Some restrictions on the privatization were excessive – there are still many sectors where privatization is restricted or forbidden due to some political, ideological, group, bureaucratic and other reasons. The quality of the legal regulations was also very doubtful – privatization programs and legal acts were in some respects too ideological and very frequently contradicted each other and other laws (Dabrowski et al. 2005; Kozarzewski et al. 2006).

Corporate governance

An important aspect of environment creation in transition countries was elaboration of the legal base for corporate government formation, including formal choice of corporate governance model that should be implemented by private entities. In the most developed marked economies, two main corporate models exist: Anglo-Saxon (mostly developed in the UK and USA) and Continental (to be found in most European countries). The main differences lay in interrelations of a company with its owners and business environment (see Table 1).

It seems that, pragmatically speaking, the Continental model was more suitable for post-Communist countries, at least at the first stages of transition, due to following of reasons:

– the influence of external control (in the form of commodity, financial, take-over and other markets) did not exist or was not sufficiently effective. In such conditions, the efficient functioning of internal supervision was of fundamental importance;

– the investment potential of population was weak; therefore the main sources of capital had to be looked for elsewhere. The Continental model assumed the significant role of a strategic investor, in many post-Communist countries circumstances – most likely foreign (and, later, also domestic industrial and institutional);

– both the managerial skills and technical assets of existing enterprises were archaic and not adapted to the new challenges of the emerging market environment. Strategic investors, especially foreign ones, might be expected to bring to a company not only capital, but also a new culture of management, of company behavior towards its environment, new technology etc.

Second, the corporate governance model was expected not only to meet enterprises' needs (i.e., improve their competitiveness), but also to serve the transition in general, being a part of the new political, social and economic model. Therefore, the choice of a model depended on social and political considerations as well. Here, the choice between Anglo-Saxon and Continental model was not so obvious, because the Anglo-Saxon idea of shareholder value suited the ideas of mass enfranchisement of population. On the other hand, the Continental model was of a more participatory character, which suited the advocates of employee self-management and participation (Kozarzewski 2006b).

Third, unlike green-field companies, privatized enterprises did not emerge out of the blue. They represented a continuation (in economic, organizational, social and other ways) of former SOEs. The "legacy" of SOEs had several aspects, including the following:

– a state-owned enterprise had its own organizational structure, with each body having its own competencies to which all actors had become accustomed;

– in most state-owned enterprises, stable structures of power and influence had been established, and many insider actors were afraid of losing them after privatization;

– mentality and behavior of the main insider actors were to a great extent determined by their previous experience in the state-owned enterprise.

Table 1
Basic characteristics of the Anglo-Saxon and Continental models of corporate governance

Components	Corporate governance model

	Anglo-Saxon	Continental
Organization perceived as:	instrument	joint undertaking
Objectives of the organization:	to serve the owners	to serve all the groups engaged
Measures of success:	company value (price of shares, dividends)	meeting the needs of stakeholders
Perspective of operations:	short-term	rather medium-term
Ownership structure:	dispersed	concentrated
Shareholders' identity:	– private persons – financial institutions	industrial investors institutional investors private persons
Shareholders' influence:	low	significant
Capital market:	highly developed, great diversity of capital suppliers, large set of financial instruments	much smaller diversity of financial instruments
Main source of raising capital:	– securities market – stock exchange	institutional sources
Main forms of disciplining the managing staff:	– active enterprise control market – main instrument: "high cost" takeover transactions	– emphasize on internal supervision mechanisms, – "low cost" direct monitoring – weak enterprise control market
System of the boards:	one-tier (board of directors)	two-tier (managing board and supervisory board)
Structure of the supervising board/board of directors:	– board of directors composed of executive (insider) and non-executive (outsider) directors – CEO sits on the board – rare presence of large shareholders – rare presence of bank representatives	– supervisory board members elected by shareholders and by employees, – the CEO can not sit on the supervisory board – large shareholders are always present – bank representative often present

Sources: De Wit and Meyer (1998); Prowse (1994); Koładkiewicz (2000); Kozarzewski (2000).

Here, a real threat was that entrenched insiders would resist any attempt to change the internal *status quo*. Therefore, there was a popular view that strong owner control must be imposed, while taking insiders' concerns into account. Under such circumstances, the Continental model seemed to be a good solution (Jarosz and Kozarzewski 2002; Kozarzewski 2006a).

In their legislation, almost all the transition countries have introduced at least some basic elements of Continental corporate governance model, among others, through introducing the two-tier structure of the boards (usually above some threshold of number of shareholders or fixed assets value). However, the quality of the legal base was often problematic, both at conceptual and implementation level. From the point of view of corporate governance formation, apart from leaving legal gaps and contradictions with other laws, in many countries the legislation was devised under intellectual pressure of Anglo–Saxon model with its characteristic dispersed ownership and related to it protection of minority shareholders. It gave preferences to minority owners and insiders and restricted the opportunities of large external shareholders to purchase shares. But the reality of post-Communist economy causes that minor owners are and in foreseeable future will be rather small category of investors. More-

over, experience of many countries in the region shows that minority shareholders can be used by certain financial–industrial interest groups for a hostile take-over of a company. Another drawback of legal systems in most post-Communist countries lies in that the strictest provisions concerning protection of property rights, especially in the field of disclosure requirements, apply only to listed companies, which, due to underdeveloped securities markets in these countries, represent a small part of the enterprise sector. Other companies enjoy more relaxed requirements.

Besides, the analyzed countries had their own specific legislative problems.

In Ukraine, there is still no Corporate Law and corporate governance in Ukrainian companies is regulated by a number of acts, including the Civil Code, Economic Activity Code, Act on Companies, privatization programs, etc. But still, many aspects of corporate governance are not covered by legal regulations and, according to international surveys, Ukraine's laws are among the less compliant with international standards of corporate governance regulation (Pugachova 2006).

In Kyrgyzstan, the adoption in 2003 of the new Act on Joint-stock Companies was the significant improvement in the legal base of corporate governance. First of all, we should mark out its detailed elaboration – the law became not only a set of norms but also a kind of a manual for companies. However, some contradictions with other laws remained, and the level of property rights protection at a company level is still not optimal (e.g., over-protection of minority shareholders). Besides, there are ill designed provisions that, e.g., do not require to increase the authorized capital after a new issue of shares; the role and functions of the board of directors is not clearly defined (see more Dabrowski et al. 2005; Kozarzewski et al. 2006).

By today Russia has entered the group of leaders among transitional economies in terms of level of comprehensiveness of economic law. At the same time, the country still demonstrates a far greater backwardness, as far as "efficiency" of its application (the court system etc.) is concerned. Enforcement now constitutes one of the weakest components in the system of property rights and honoring contract obligations. Complexities associated with the application of law in the corporate governance area arise due to both "flaws" in, and inconsistency of the procedural law and imperfection of the material law. As the judicial and arbitration practices have just begun taking shape, they do not always form the base sufficient to draw conclusions on judicial interpretation of complex or even disputable provisions of the law on joint-stock companies (especially in the field of ownership rights protection and abusive behavior of managers) (Hashi et al. 2004). Besides, law enforcement suffers from widespread corruption in courts, regulatory bodies, and law enforcement agencies (CEFIR 2006).

Poland also found itself among transition countries with most elaborated economic and corporate law. The latter represents a "classical" Continental approach, although defining only the broad framework for the companies' organizational structure and companies bodies' activities, which makes possible for firms to create structures and rules that suit most their needs. However, the legal base is not free from faults. The first one is the dark side of the advantage mentioned above: the law proved to be not instructive enough in the situation when main actors, many of whom originated from the centrally-planned economy, lacked adequate knowledge on a modern private company structure and functioning. Second, the system of rights and safeguards that regulates corporate governance relations within companies is not very efficient. For example, minority interests can be (and sometimes are) abused with the help of anti-collusion provisions. Disclosure requirements are often regarded as very complicated and there is a widespread opinion among managers, that some of them are impracticable. Managers have some legal possibilities of profits stripping and tunneling, etc. Third, legal acts sometimes contradict each other and overlap. Fourth, the peculiarity of the Polish legal system is that the main vehicle for representation of stakeholder interests is privatization legislation, rather than regulations affecting the enterprise sector in general. Thus, there are fundamental differences in the corporate governance regime depending on whether an enterprise originated in the state sector or the *de novo* private sector – a situation which is, to our knowledge, not found in any other European country. Besides, Poland experiences serious enforcement problems, mainly due to inadequate capacities and skills of prosecutors and courts (Tamowicz and Dzierżanowski 2002; Kozarzewski 2003a).

In recent years, in many transition countries attempts have been made to strengthen corporate governance by elaborating and introducing best practices of corporate governance. The main idea behind this approach was that because legal regulations themselves were incapable of dealing with all the problems of corporate governance, a set of principles should be prepared which would both serve as instruction on how to behave correctly and as a form of moral pressure on companies to introduce these principles. These initiatives – in the form of codes of corporate conduct or some other recommendations – took place in all four analyzed countries. Conceptually, they were to a large extent based on principles of good corporate governance proposed by the OECD and Cadbury Committee (OECD 2004; Cadbury 1992). In Russia (in 2002), Ukraine (2003) and Poland (2002) these codes were introduced by securities market regulators and apply only to listed companies and are of "comply or explain" type. In 1997 in Kyrgyzstan, the government has elaborated the Manual on Corporate Governance in Kyrgyz Republic as an annex to the model charter of a JSC.

There are also other areas of the reform policy that affect corporate governance formation through creation friendly business environment for private sector development. Here,

more decisive and comprehensive reform policy has been implemented by the states where fast and radical "liberal" reform approach has been chosen (mainly the Central and East European and Baltic states). Governments of these countries concentrated their efforts at creation of favorable conditions for functioning of private enterprises: their registration, property rights protection, contracts enforcement, well-elaborated and stable legal base, efficient tax incentives, insolvency procedures, equal treatment of domestic and foreign entities, demonopolization and better supervision of natural monopolies, etc. Besides, governments of these countries were concentrated on creation of well-functioning financial market institutions which were to function in accordance with highest standards of quality. Such a policy also was aimed at creation conditions for foreign capital attraction. Whereas South European states and CIS member states usually conducted more restrictive and at the same time less coherent (inconsistent and stop-and-go) policy of creation of business environment.

2.3. Reform outcome

High diversity of reform programs implemented led to very mixed results across countries and regions. From this perspective, three groups of countries can be singled out:

– successive reformers, who in many aspects came close to the most developed market economies (countries of Central and Eastern Europe and Baltic states – CEEB);

– catching-up reformers (South-Eastern European states – SEE) that at the beginning were slow reformers, but managed eventually to accelerate them;

– moderate reformers (most of the CIS countries) which conducted inconsistent stop-and-go reform policy prone to political struggle between various interest groups, but which nevertheless managed to build moderately successful market economy, although in many aspects significantly lagging behind the first group;

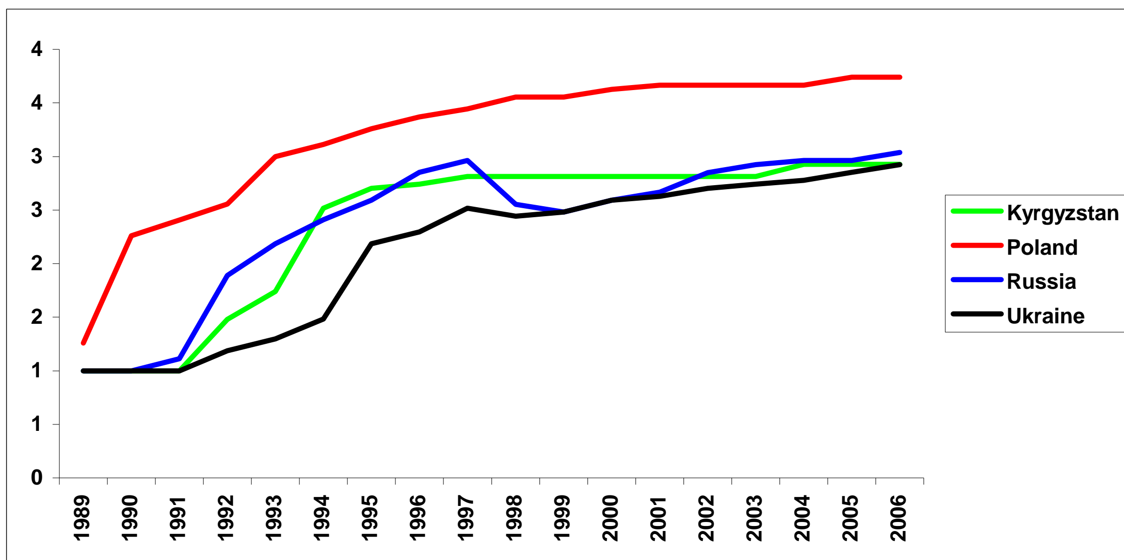
– market reform outsiders: Belarus and Turkmenistan being the countries that effectively do not conduct market reforms.

It should be noted, that many countries were characterized by inconsistent reform pace – lagging behind in some areas, they could outrun other countries in another areas.

Analyzed four countries belong to the first and the third group. After initially high reform pace, in these groups of countries reforms significantly slowed down after approximately 5 years after they had started. As a result, even the most reformed countries haven't achieved yet the level of the developed market economies The main reason for this is emergence of a powerful coalition of special interest groups that extract rent from the transitive state of the economy in these countries and therefore are not interested in further reforms. This coalition strongly affects the economic policy of almost all governments of transition countries (see

more Kozarzewski and Woodward 2006). The same processes can be witnessed in all the four analyzed countries (Figure 1).

Figure 1
Overall dynamics of the reform progress



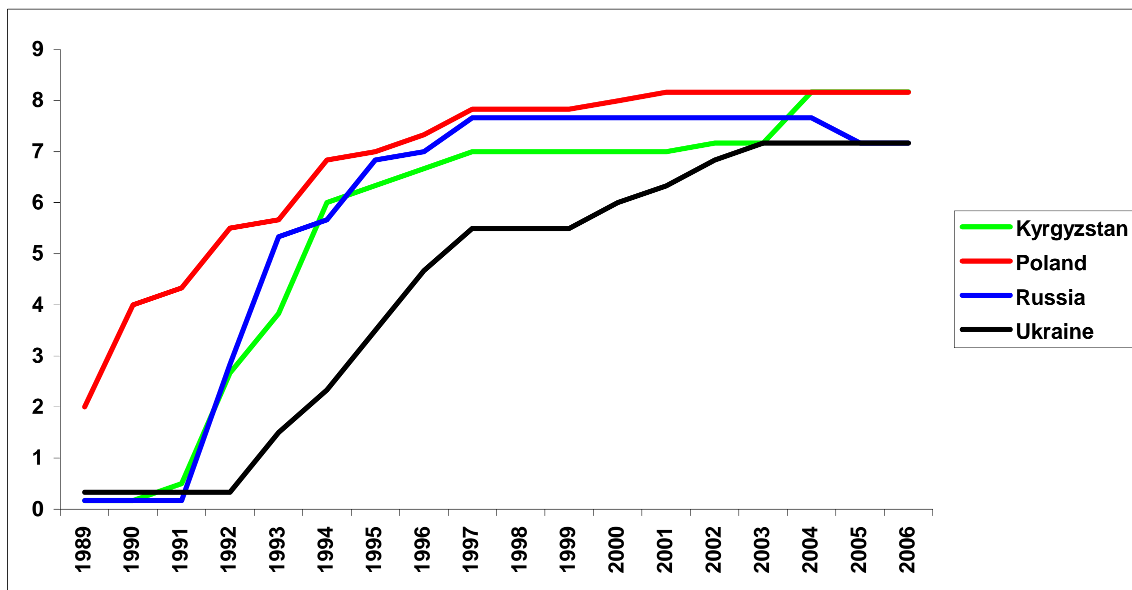
Reform progress index is developed on the basis of the EBRD indexes which depict progress in main areas of the economic reform (EBRD 2004: 199-201). It ranges from 1 (lack of reforms) to 4.3 (reforms are completed).

Source: EBRD data; own calculations.

In every country that had started market reforms, the role of private sector in economy increased, albeit unevenly across the region – depending on the scope, consistency and depth of the reforms implemented. According to the EBRD estimates, on average, the share of private sector in the GDP of transition countries increased from about 10% in 1989 to 65% in 2006. Progress of privatization of economy is a good illustration of above-mentioned inconsistency of the reform pace with Poland lagging behind other CEEB states and Kyrgyzstan outrunning CIS states.

In 2006 the share of private sector in GDP was about 75% in Poland in Kyrgyzstan, and approximately 65% in Russia and Ukraine. It should be noted that Russia was the only post-Communist country, where, due to recent centralistic trends in governmental policy, the share of private sector in the GDP decreased (Figure 3). Another remark: the process of privatization in broad sense (measured by the share of private sector in economy) is far from completed even in the most successful transition countries: about 80% of private sector in GDP in Czech Republic, Slovakia, Estonia, and Hungary is still significantly lower than in the most developed market economies where it is usually far beyond 90% or even 95% (CEEP 2000).

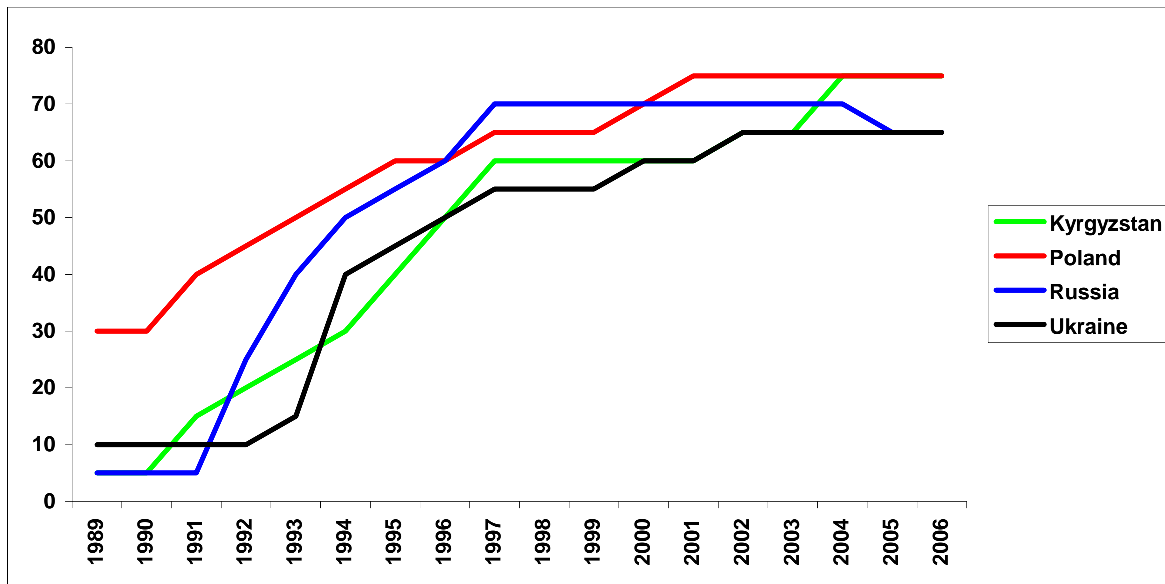
Figure 2
Dynamics of privatization



Synthetic index that takes into account progress in large and small privatization, and share of private sector in GDP. Ranges from 0 (no progress) to 10 (completion of privatization; all the GDP is produced by private sector).

Source: EBRD data; own calculations.

Figure 3
Private sector share in GDP (in %)



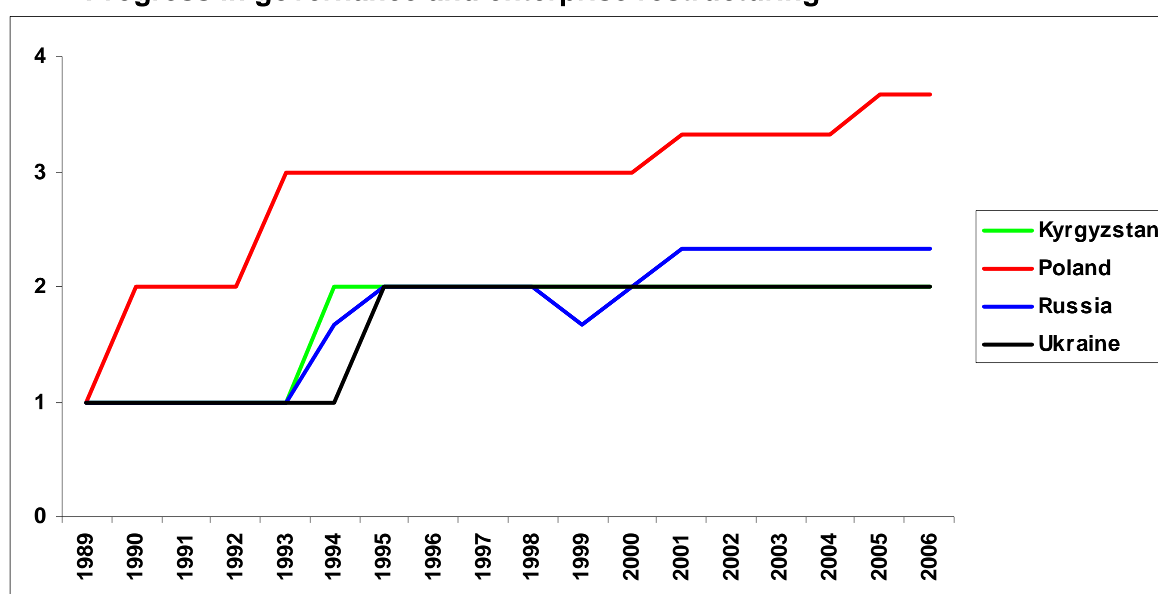
Source: EBRD data.

It is not clear, what proportion of GDP is created by former state-owned enterprises and *de novo* private sector. Unfortunately there is no official statistical data, and all the estimates are very rough. According to the World Bank, *de novo* private sector is more developed in CEEB and SEE states than in the CIS countries. Estimations show that it constitutes significantly more than 50% of employed in the whole private sector in Central and South

European countries, and much less than 50% in CIS countries (World Bank 2002). The importance of this subject comes from the fact that privatized enterprises have to be reformed in order to get rid of the above-mentioned “legacy” after a SOE, while private companies created from a scratch do not have that intermediate period.[3]

Turning to privatization in the narrow sense (i.e., transfer of state property to non-state hands), we should mention that not only in the analyzed countries, but in most other transition countries so-called small privatization (of small objects in retail trade, catering, and service) has ended or is close to the end, while so-called large privatization was not finished in any country (mainly largest objects of infrastructure and extracting industries still remaining in the state hands).

Figure 4
Progress in governance and enterprise restructuring



1 – Soft budget constraints (lax credit and subsidy policies weakening financial discipline at the enterprise level); few other reforms to promote corporate governance.
2 – Moderately tight credit and subsidy policy, but weak enforcement of bankruptcy legislation and little action taken to strengthen competition and corporate governance.
3 – Significant and sustained actions to harden budget constraints and to promote corporate governance effectively.
4 – Substantial improvement in corporate governance and significant new investment at the enterprise level.
4+ – Standards and performance typical of advanced industrial economies: effective corporate control exercised through domestic financial institutions and markets, fostering market-driven restructuring.
Source: EBRD data.

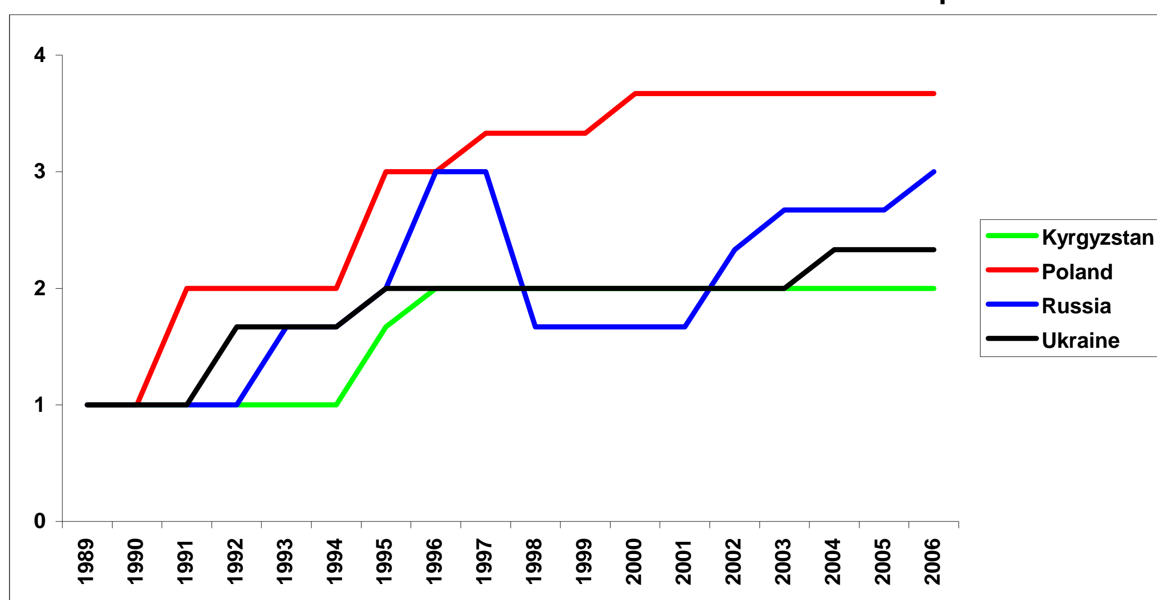
General progress in governance and enterprise restructuring shows the growing distance between the CEEB countries where steady improvements are seen (although these countries still conduct enterprise policy somewhat relaxed comparing to the most developed market economies), and CIS member states where, after significant improvements in 1993-

[3] In Poland this period usually lasts for 2-5 years (Bałtowski 2002: 307).

1996, the last 10 years were marked with stagnation. The latter group of countries is characterized now by moderately tight credit and subsidy policy, but weak enforcement of bankruptcy legislation and little action taken to strengthen competition and corporate governance. Poland, on the one hand, and Russia, Ukraine, and Kyrgyzstan on the other, seem to be typical representatives of the respective groups of countries (see Figure 4).

Securities markets and institutions remain underdeveloped in all the transition countries. However, most of the CEEB countries quite early have reached the highest among all the post-Communist countries level of their development (Poland being unquestionable leader in this process), while other countries have lost impetus and now stagnate, or, like Russia, have ups and downs in development of the sector (presently we witness the swift catching-up dynamics in this country) (Figure 5).

Figure 5
Securities markets and non-bank financial institutions development



1 – Little progress.

2 – Formation of securities exchanges, market-makers and brokers; some trading in government paper and/or securities; rudimentary legal and regulatory framework for the issuance and trading of securities.

3 – Substantial issuance of securities by private enterprises; establishment of independent share registries, secure clearance and settlement procedures, and some protection of minority shareholders; emergence of non-bank financial institutions (for example, investment funds, private insurance and pension funds, leasing companies) and associated regulatory framework.

4 – Securities laws and regulations approaching IOSCO standards; substantial market liquidity and capitalization; well-functioning non-bank financial institutions and effective regulation.

4+ – Standards and performance norms of advanced industrial economies: full convergence of securities laws and regulations with IOSCO standards; fully developed non-bank intermediation.

Source: EBRD data.

Business environment for corporate governance development is gradually improving, but the scope and pace of this improvement remains uneven, which is clearly visible, e.g., in annual World Bank "Doing Business" reports. Besides, apart from positive changes, some

negative factors emerge and strengthen in many countries of the region, such as deviated patterns of economic behavior that have formed due to adaptation of economic agents to distorted environment of not fully reformed economy. It leads to creation of so-called institutional traps – petrifaction of inefficient patterns of behavior adopted in the past (for example, opposition of insider owners to outsider investors, reluctance in issuing new shares because of fear of losing control over a company, artificial delinquency, barter trade, etc.) (Kozarzewski 2006: 241-244). Basically, the business environment is more favorable in CEEB countries, SEE countries are now coming close to that group, and CIS countries are characterized by relatively less favorable business environment.

Finally, foreign direct investments should be mentioned as at the beginning of transition, post-Communist countries faced the problem of inadequate financial resources for development, and inadequate capacities for creation of efficient corporate governance mechanisms. National reform policies manifested a significant variety of approaches towards foreign investments from "open doors" policy to severe restrictions imposed due to economic (fear of competition) and political (fear of "selling-off national treasuries to foreigners") reasons. Regardless formally proclaimed policies, these countries varied in the quality of investment climate and attractiveness of objects to invest to in the course of privatization. All these factors were mutually reinforcing which resulted in huge differences in the level of foreign direct investments (FDI) across the region, especially calculated on per capita basis: in CEEB countries, the cumulative net FDI is 3.5 times higher than in SEE countries, and from 7 to 17 times higher than in Central Asian and Western CIS countries. Russia especially is worth noting, with extremely low cumulative FDI inflow per capita. Besides, the "quality" of FDI differs across the region. Generally speaking, better investment climate contributes to attracting investors with long-term plans for investments made in this country, who, apart from financial resources, ensure transfer of knowledge, new technologies, know-how, governance culture, etc. – all that is so needed in a transition country. Countries with worse investment climate are risking not only lower financial inflow (they may still enjoy FDI inflow, e.g., due to the size of the market or rich mineral resources – see Bevan and Estrin 2000), but also worse "quality" of foreign investors – more oriented at tunneling, less innovative, and very often in fact not being "true" foreign investors (representing the capital that had previously fled from the country to one of the tax heavens) (Papava and Beridze 2005; Kozarzewski 2006a: 166-169, 212-213).

The faults of business environment in transition countries come from uncompleted and/or suboptimal reform design and implementation. Liberalization and enterprise sector reform successes vary not only across the region, but across sectors of national economies as well. As it was mentioned above, the state still controls a fair part of equity; demonopoliza-

tion of economy is far from being completed, and regulation of natural monopolies needs serious improvement. Investment climate in most countries is still far below the level of the most developed market economies:

– the quality and stability of legal base is inadequate. In most countries, the standard set of regulations has been adopted quite quickly, but usually: (1) it not fully took into account real needs and conditions of a country; (2) the process of law creation was poorly coordinated which resulted in inconsistent legal base; (3) laws were often poorly designed, full of gaps and contradictions; (4) law-making was prone to political pressure of rent-seeking groups and electoral cycles;

– administrative barriers for business activity are still high in most countries of the region in the field of starting and closing business, administrative interference, etc.;

– enforcement is one of the biggest problems: for most countries, poor protection of property rights, creditors' rights, and contract enforcement is characteristic. Enforcement institutions are still usually weak and incompetent; there are no efficient bankruptcy procedures;

– the level of corruption in economic life is still much higher than in the most developed market economies even among the reform leaders. And some countries not successful in the reforms are placed among the most corrupt countries on the globe;

– access to financial resources (getting credit) is improving but companies still have inadequately big problems in this respect, which is caused by underdeveloped financial sector in post-Communist countries.

Table 2

Basic data on conditions for corporate governance development

Index/data	Country			
	Kyrgyzstan	**Poland**	**Russia**	**Ukraine**
EBRD:				
Reform progress index[a, b]	3	4-	3	3
Privatization[c]	8.2	8.2	7.2	7.2
Small-scale privatization[a]	4	4+	4	4
Large-scale privatization[a]	4-	3+	3	3
Private sector share in GDP estimate (%)	75	75	65	65
Governance and enterprise restructuring[a]	2	4-	2+	2
Competition policy[a]	2	3	2+	2+
Banking reform and interest rate liberalization[a]	2+	4-	3-	3
Securities markets and non-bank financial institutions[a]	2	4-	3	2+
Cumulative FDI net inflow per capita 2004 (US$)	100	1,486	38	155
World Bank:				
Ease of doing business (place)	90	75	96	128
Investor protection index[d]	6	6	5.3	3.7
Getting credit (place)	65	65	159	65
Informal economy estimate (% of GDP) 2003-2005	39.8	27.6	46.1	52.2
Freedom House Corruption rating[e]	6	3.3	6	5.8
Heritage Foundation Index of economic freedom[f]	62.8	61.6	54.3	55.5

[a] Ranges from 1 (lack of reforms) to 4+ (reforms are completed).

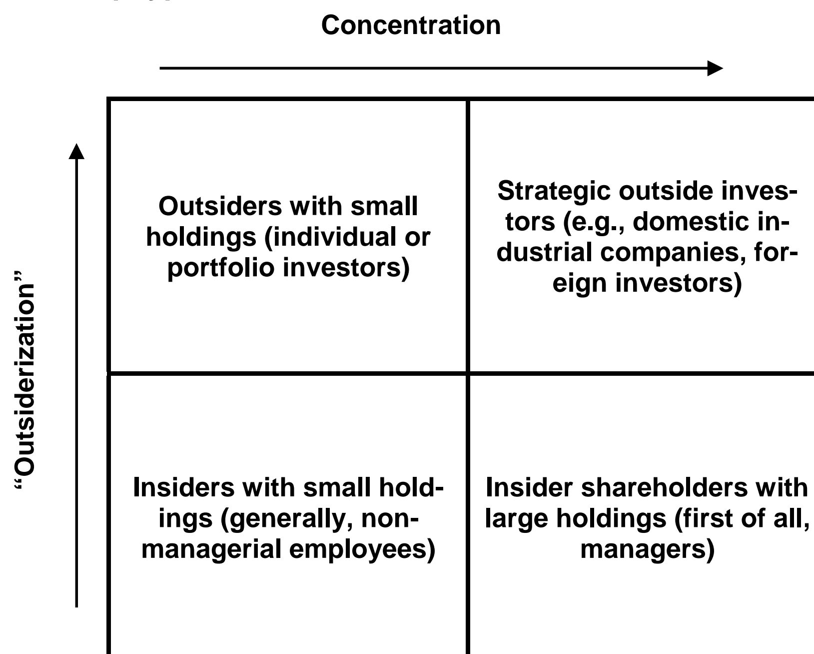
[b] Index is developed on the basis of the EBRD indexes which depict progress in main areas of the economic reform (EBRD 2004: 199-201).
[c] Synthetic index that takes into account progress in large and small privatization, and share of private sector in GDP. Ranges from 0 (no progress) to 10 (completion of privatization; all the GDP is produced by private sector).
[d] Ranges from 0 to 10, with higher values indicating better investor protection.
[e] Ranges from 1 to 7, with higher values indicating lower corruption.
[f] Ranges from 0 to 100 with higher values indicating higher level of economic freedom.
Source: EBRD, the World Bank, Freedom House, and Heritage Foundation data; own calculations.

3. Evolution of ownership structure

Formation of ownership structures in transition countries was influenced by the dual character of privatization processes which included, as it was mentioned above, privatization of state-owned enterprises and setting-up of *de novo* private firms. In the case of the latter type of companies, initial ownership structures from the very start reflected investors' needs, whereas in the case of privatized SOEs, privatization methods and schemes often predetermined initial ownership structures. First of all, these were mass privatization schemes that led to creation of predominantly dispersed ownership structures or concentrated in the hands of special investment funds, and various forms of MEBOs, that created very "insiderized" ownership structures, sometimes dispersed and sometimes with shares concentrated in the hands of managers. These ownership structures very often did not reflect the specific needs of a company and interests of major insider and outsider actors – both stakeholders and actual and potential investors. In such circumstances, significant after-privatization ownership changes were inevitable. Maybe a little exaggerated, a term "secondary privatization" was coined for this type of processes (Błaszczyk et al. 2003). It should be noted, that processes of secondary privatization could be a part of privatization policy design (as, e.g., in Russia, where the government counted on swift redistribution of shares) or rather unexpected side effect of government's attempt to create ownership structure that suited some model visions, but did not take into account the strength of market forces (e.g., all the ideologically motivated MEBO schemes, including Polish employee privatization, restrictions imposed on participation of foreign investors in privatization deals, etc.).

Despite all the variety of post-privatization ownership changes, some general patterns and trends can be seen. If we describe ownership structure with the help of two parameters: the level of ownership concentration and the level of its "outsiderization," i.e., which part belongs to insiders and which to outsiders, we can draw the ownership types matrix (see Figure 6).

Figure 6
Ownership types matrix



Source: Own calculations.

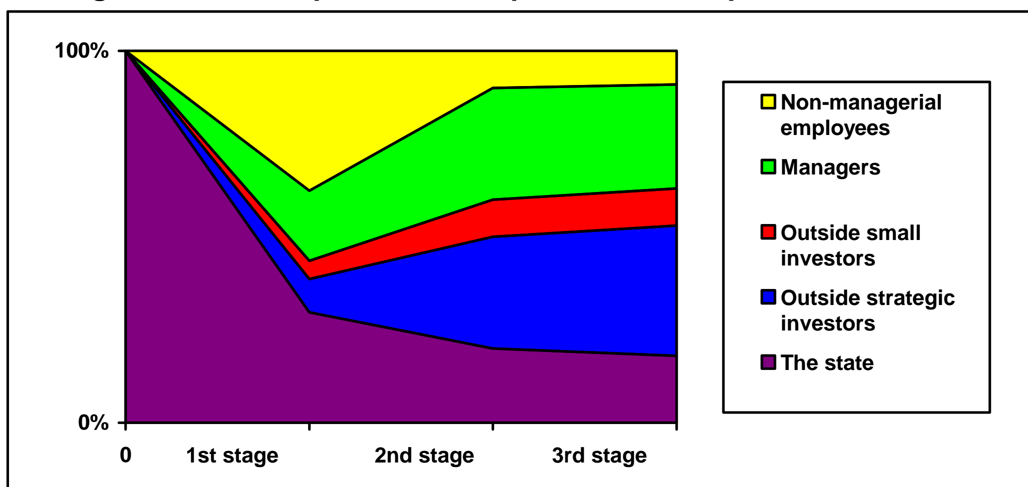
Three of the four types are strongly present in transition economies (both insider types and outsider concentrated). At the same time, the role of outsider dispersed investors is very weak which is determined by the weak and shallow capital markets, especially of their organized part. This also hinders certain kinds of financial investors (such as investment and pension funds and insurance companies) from expanding their role as portfolio owners.

The general trend of secondary privatization processes is concentration of property on the one hand, and its "outsiderization," on the other. Most often, one can see shifts of shares from employees to managers and, especially recently, from employees to outside strategic investors. These trends were so strong, that were seen even in countries, where severe restrictions on post-privatization ownership redistribution were imposed – as, e.g., in Belarus (Kozarzewski 2001a).

There are usually three stages of post-privatization ownership redistribution (Figure 7). At the first stage, insiders are the main beneficiaries of privatization, so their share in property increases as the state share decreases. Non-managerial employees usually acquire more shares than managers. Outsider shareholders emerge slowly, especially small dispersed ones. At the second stage, the pace of de-etatization slows down, and the secondary privatization starts – with its above-mentioned processes of concentration and "outsiderization" of shares. The role of outsider investors is growing, especially strategic ones. By the end of this stage, mass property redistribution is mostly over. At the present, third stage, redistribution is going on mainly within the analyzed categories of owners, especially external

strategic investors. Such redistribution can have a form of “civilized” acquisitions on capital market, but may also assume more cruel and illegal forms.

Figure 7
Changes in ownership structure of privatized enterprises



Values are tentative.
Source: Own calculations.

Common trends in post-privatization ownership structures evolution do not mean their homogenization. At some moment, a structure reaches its point of equilibrium that depends on characteristics of the company and its environment (size, performance, branch, level of property rights protection, development of financial institutions, interplay of main actors of the company, etc.). That’s why in every country one can find companies with different patterns of ownership structure.

In all the three countries analyzed in the INTAS project (Russia, Ukraine, and Kyrgyzstan), two major categories of dominant shareholders exist – managers and domestic outside investors. Foreign investors control companies rather seldom – which is a reflection of the low level of FDI in these countries. In Russia and Kyrgyzstan, more than half of the companies are already under control of domestic outside investors, while in Kyrgyzstan manager-controlled firms are the most widespread form of ownership structure – which may originate not from the slower pace of ownership changes (the differences between the rounds of the survey were not important), but rather much smaller size of Kyrgyz companies which allowed them to reach “outsiderization” equilibrium at a higher level of insider control. This is rather typical for transition countries (Kozarzewski 2006a: 164) and is also seen in all the three countries in the presented surveys. At the same time foreign investors usually control the largest companies, and domestic outsider owners control firms that are larger than managers’, but smaller than foreign-owned.

Concentration levels are rather high – average C1[4] ranging from 59% in Russia to 71% in Kyrgyzstan. Only in about 10% of companies in each country small shareholders (which possess below 5% of shares) own more than a half of companies' assets. Average block of shares possessed by the largest shareholder gives him very high voting power. Rather low C1 in the case of Russian companies where managers are the largest shareholders should be noted – it may be explained by the typical for Russia situation, when managers can control employees-shareholders with administrative methods, without the necessity to buy-out their shares (CEFIR 2006).

Table 3
Ownership structure and level of ownership concentration at companies in Russia, Ukraine, and Kyrgyzstan in 2006 (in %)

Largest owner	Russia		Ukraine		Kyrgyzstan	
	Percentage of companies	C1	Percentage of companies	C1	Percentage of companies	C1
Managers	28.2	43.8	20.9	60.2	44.9	71.3
Domestic outsiders	58.1	62.6	57.9	62.6	25.9	69.9
Foreign outsiders	3.6	72.6	14.4	76.8	10.7	67.5
State	10.1	61.5	6.8	67.9	18.5	71.1
Total/average	100.0	58.9	100.0	64.5	100.0	70.6

Source: Survey data (from the 2006 round) obtained in the "Corporate Governance Practices and Prospects in Transition Countries: The Case of Russia, Ukraine, and Kyrgyzstan" project (see footnote 2); own calculations.

Dynamics of ownership changes in the three countries clearly show that in majority of companies post-privatization processes of concentration and outsiderization are over and now the "third stage" evolution is the main form of ownership change. The differences between two rounds of the survey in terms of level of ownership concentration and identity of the largest shareholders are not significant; at the same time, in a fair number of companies new largest investors emerged. As a rule, these were friendly takeovers, although they often (especially in Kyrgyzstan) led to changes of a CEO. Most of the companies apparently do not perceive hostile takeovers as a serious threat: only 12% respondents in Russia and 4% in Kyrgyzstan are afraid of being a victim of them in the nearest future; 16% of companies in Russia and 5% in Kyrgyzstan managed to defend themselves against hostile takeovers in the course of the last 2 years (Table 4).

[4] In fact, a *quasi*-C1 index has been calculated, because in the case of managers we didn't have the data on individual shareholdings. It still gives adequate picture, at least from the perspective of control over a company, because managers are the only shareholder category which is usually characterized by strong common interests which result in coordinated behavior.

Table 4
Takeovers (in %)

	Percentage of "yes" answers		
	Russia	**Ukraine**	**Kyrgyzstan**
Change of the largest shareholder or appearance of a new large shareholder took place in 2004-2005	22	15	14
Only the companies where the change took place:			
The appearance of the new largest shareholder was a result of:			
hostile takeover	13	4	–
friendly takeover	87	96	100
Appearance of the new largest shareholder entailed involvement of a court	10	7	15
The CEO was replaced as a result of a change of the largest shareholder	34	43	69
During the last 2 years, there were failed attempt(s) of hostile take-over of the company	16	n/a	5
Company feels the threat of a hostile takeover in the nearest future	12	n/a	4

N/a – data not available.
Source: Survey data (from the 2006 round) obtained in the "Corporate Governance Practices and Prospects in Transition Countries: The Case of Russia, Ukraine, and Kyrgyzstan" project (see footnote 2); own calculations.

Companies in Russia and Kyrgyzstan controlled by foreign investors appeared to be the most prone for takeovers (in 2004-2005 almost half of them had changed an owner); opposite pole is represented by insider-dominated firms, where such changes were only sporadic. Interestingly enough, there are no such clearly visible links between ownership structure and takeovers among Ukrainian companies.

Certain conditions for development of ownership structure in Poland significantly differed from that of CIS, including Russia, Ukraine, and Kyrgyzstan. Heterogeneous and consensual character of privatization, together with limited use of mass privatization schemes, on the one hand, led to heterogeneity of emerging types of ownership structure, and on the other hand, made initial ownership structure less "schematic" and more suitable to the needs of an enterprise and its actors. This made secondary privatization processes less urgent and created stronger path dependency effects.

So-called indirect privatization (through commercialization) included mostly large SOEs, in sectors whose privatization was politically uncontroversial. In the "mainstream" indirect privatization, strategic investors were preferred; minority blocks of shares were distributed among employees and other small shareholders. So-called direct privatization (selling assets of SOEs as ongoing concern to a private entity) as a whole included mostly small and medium-sized enterprises, most of the buyers were insiders, especially provided that a half of direct privatization deals were employee leasing schemes, and in other cases majority of buyers were managers of these enterprises. The mass privatization program (limited to only 512 companies out of the total number of more than 8 thousand SOEs at the beginning of transition) included mostly medium-sized companies; the main blocks of shares were distrib-

uted among 15 investment funds, the Treasury was the second largest shareholder that kept 25%, and employees who received 15%.

Specificity of privatization "background" and post-privatization ownership changes led to emergence of two basic patterns of ownership structure: "outsiderized" concentrated and more dispersed and "insiderized."

The first pattern is represented mainly by the largest companies which went through capital privatization and have highly concentrated ownership structures, often dominated by foreign investors. By the way, in the sector of former SOEs, they are unquestionable leaders in post-privatization restructuring and creation of highly efficient corporate governance structures and behavior. Insiders' participation is very limited, unlike in privatized SMEs and in spite of pro-insider provisions of Polish privatization law. Within that pattern, two main groups of dominant owners exist: foreign investors and domestic institutional shareholders.

The second pattern is found predominantly in companies privatized through "direct" methods, especially management-employee buyouts. There were two main trends of ownership transformation in insider-owned companies: towards concentration of shares and toward their "outsiderization." These processes had varying intensity in different groups of companies, and two main sub-patterns of ownership structure have emerged: management-employee pattern (large blocks of shares in the hands of managers, the rest dispersed among non-managerial employees) and dispersed insider ownership. In a significant number of companies, ownership has eventually concentrated in the hands of an outside investor and now they represent the first ownership structure pattern (Kozarzewski 2007a). It is worth noting that the most important factor which influenced the direction and dynamics of ownership changes in insider-dominated companies was economic performance, which favored concentration and "outsiderization" of ownership when performance was very poor or very good. In the former case, this can be seen as a trade-off between the power of insiders and the firm's chances for continued existence. In the latter case, it reflected the opportunity of insiders to reap significant gains by selling their shares to outside investors (Kozarzewski and Woodward 2003).

Poland significantly lags behind other CEEB countries in quantitative progress of privatization with still large state-controlled sector which produces about 1/4 of the country's GDP. During the 17 years of transition, Polish government failed to privatize almost 1/4 of state-owned entities: in 2006, there were still 965 SOEs (only about 1/4 of them functioning, though; the rest was subject to rehabilitation and liquidation procedures) and 985 companies controlled by the state, including 407 companies where privatization had started, but was halted at the stage of commercialization (Błaszczyk and Nawrot 2007). At the beginning, the main cause for this were problems with entering the next stage of privatization: technical dif-

ficulties related to restructuring and preparing a privatization deal, lack of appropriate buyers, etc. Later on, however, strong lobbies emerged which were interested in keeping enterprises in this intermediate stage. At the enterprise and branch levels, these included trade unions and other organized groups of employees who were not interested in privatization because it would lead to deep restructuring followed by shutdowns of loss-making enterprises, lay-offs, and liquidation of branch privileges.

On the other hand, there are two features that positively distinguish Poland comparing to analyzed CIS countries: higher role of foreign investments and *de novo* private enterprises. Exact statistical data for the whole enterprise sector are absent, but there is information on 1300 largest (in terms of sales) Polish enterprises which together constitute 67% of the total sales of the enterprise sector. In this sample, 84% of companies are private. In the private part of the sample, *de novo* private firms dominate in every respect: number of companies, total sales, and employment. It can be regarded as a success, given limited development capabilities of the former state-owned sector. Foreign capital controls exactly one half of private enterprises, but its role in Polish private sector is significantly higher: foreign-owned companies obtain almost 2/3 of sales and employ nearly 2/3 of the workforce (Table 5). There are no quantitative differences between engagement of foreign capital in privatized and *de novo* private sector.

Table 5

Private sector structure

Type of enterprise	Number of companies		Sales		Employment	
	N	%	bln zlotys	%	thousand	%
Privatized	336	30.7	207.0	40.7	392.9	46.9
De novo private	759	69.3	300.9	59.3	444.8	53.1
Controlled by domestic investors	547	50.0	180.4	35.5	309.5	36.9
Controlled by foreign investors	548	50.0	327.5	64.5	528.2	63.1
TOTAL	1095		507.9		837.6	

Source: Bałtowski and Miszewski (2007: 251).

4. Corporate governance goals, problems, and practices

A condition *sine qua non* of introduction of corporate governance mechanisms in transition economies is understanding of the main actors what are the goals of corporate governance, what can be achieved with introducing corporate governance principles, and what are the most sensitive corporate governance problems in national economies.

Managers' replies in all the three surveyed countries were quite similar and showed the widespread understanding of the importance of corporate governance in successful running

of a company (Table 6). Only 8% of respondents in Russia and Ukraine and 11% in Kyrgyzstan were of the opinion that corporate governance is irrelevant for their companies. The most important goal, mentioned by about 2/3 of the respondents, was raising the effectiveness of the decision-making process. In Russian and Kyrgyz companies, the second goal was raising the company's reputation. The third most often mentioned reason was law obedience, but deeper analysis showed that it was very seldom the sole reason for introduction of corporate governance practices, so it rather did not mean just a necessity that would be avoided if not required by law. So, a significant number of companies perceived corporate governance goals as complex ones that combine improvements in internal functioning of companies, their image for outsiders, and the need to comply with the legal requirements. At the same time, the role of corporate governance in resolving corporate conflicts seems to be undervalued. It is hard to say, what is the reason for this – whether corporate conflicts are not so numerous to be a serious problem for many companies, or many corporate conflicts are resolved without the use of corporate governance mechanisms. One should also pay attention to the fact, that the need of introducing corporate governance practices for prestigious reasons is important for only 1/4 of the Ukrainian enterprises comparing to 44% of Russian and 51% of Kyrgyz companies.

Table 6

The goals corporate governance serves in companies according to managers' opinions (in %)

Goal	Country		
	Russia	Ukraine	Kyrgyzstan
Raising the effectiveness of the decision making process	66	66	62
Facilitating access to domestic and international capital markets	10	10	32
Raising company's reputation	44	25	51
Prevention and (or) resolution of corporate conflicts	14	11	16
Conducting business in compliance with the law	41	42	38
Other	2	1	2
Corporate governance does not serve achieving any goals in our company	8	8	11

The sum of percents is more than 100 because a respondent could choose up to three goals.

Source: Survey data (from the 2006 round) obtained in the "Corporate Governance Practices and Prospects in Transition Countries: The Case of Russia, Ukraine, and Kyrgyzstan" project (see footnote 2); own calculations.

The most sensitive corporate governance problem for managers in all the three surveyed countries is inadequate current legislation (laws on companies, on bankruptcy, etc.). This problem is most often mentioned by the Ukrainian respondents which corroborates the widespread in the literature poor assessment of corporate legislation in this country. Kyrgyz and especially Russian legislation is usually assessed as more adequate, and this is also reflected in the respondents' answers. Weak small shareholders' protection and inadequate judicial system are the second and the third most important problems mentioned by the re-

spondents. Cross-country analysis showed two peculiarities. First, for the Ukrainian companies only two problems really count: inadequate legislation and weak protection of small shareholders, most other problems mentioned only sporadically. Second, more than 2/3 of Russian and Ukrainian managers are of the opinion that the main problems of their national industries go beyond corporate governance, comparing to a mere 9% of Kyrgyz managers (Table 7). This question needs further analysis, because we can only guess what these other, most important problems are. Terms of trade? Geopolitical position? Richness in natural resources? Something else? At this moment, we don't know.

Table 7
The most sensitive corporate governance problems in national industry according to managers' opinions (in %)

Problem	Country		
	Russia	Ukraine	Kyrgyzstan
Weak protection of small shareholders	37	30	41
Weak protection of large shareholders	10	4	17
Insufficient control over managers' operation	19	4	16
Failure by companies to meet information disclosure requirements	9	2	9
Inadequate competence of the members of the board of directors	14	3	15
Inadequate protection of creditor rights	8	6	10
Inadequacy of current legislation (laws on companies, on bankruptcies, etc.)	39	58	48
Weakness of the judicial system in settling corporate disputes	25	14	26
Other corporate governance problems	6	9	8
Main problems go beyond corporate governance	39	35	9

The sum of percents is more than 100 because a respondent could choose more than one problem.
Source: Survey data (from the 2006 round) obtained in the "Corporate Governance Practices and Prospects in Transition Countries: The Case of Russia, Ukraine, and Kyrgyzstan" project (see footnote 2); own calculations.

As best practice codes in Russia and Ukraine are not compulsory and generally apply only to listed companies, and the Kyrgyz Manual on Corporate Governance has a status of a recommendation, for the majority of the surveyed companies (93% of the surveyed companies in Russia and 86% in Ukraine are not listed) introducing efficient practices of corporate governance is a question of a good will and understanding of the role of good corporate governance mechanisms in the company's success.

What is acceptable and what is not acceptable for managers from the basic principles of good corporate governance? It should be noted that this proved to be the most difficult question for the respondents, because up to 45% of them were not able to express their opinions on some corporate governance rules. Strangely enough, the most difficult in this respect was the question on insider information control. If we assume that the managers understood the question correctly, it may reflect broad use of insider information by the main companies' actors.

Among the 7 rules listed, the vast majority of respondents accepted information disclosure to all the shareholders of the company. Additionally, the use of independent evaluators and auditors was equally popular in Russia. With the notable exception of Kyrgyz managers, more respondents were in favor of each rule than against it. The Russian managers seem to be the most supportive for their companies' openness. The opposite pole is represented by the Kyrgyz companies, where the majority of managers are against information disclosure for broad public, election of independent directors on the board, and introduction of insider information control (Table 8). Maybe it can be explained with the fact that the majority of Kyrgyz enterprises are rather small with insider-dominated ownership structure and the main actors do not see the need for more openness, or even may regard it as a threat for their positions.

However, the picture becomes somewhat different when we turn to the reality, i.e., investigate what corporate governance rules have been introduced in practice. Formally, the Ukrainian companies become the most transparent and compliant to good corporate governance practices (table 9). It should be noted that the level of openness and compliance depends not only on a good will of companies, but also on legal requirements, and that may at least partially explain some of the major differences between countries. At the same time, there are two rules, neglected by the majority of companies in all the three countries: formal committees on the board of directors and shareholders departments.

Table 8

Acceptability for a company of selected corporate governance rules in the opinion of managers (in %)

Rule	Country								
	Russia			Ukraine			Kyrgyzstan		
	acceptable	not acceptable	difficult to answer	acceptable	not acceptable	difficult to answer	acceptable	not acceptable	difficult to answer
Full, equal and timely information disclosure on the company for all its shareholders	71	10	17	76	6	17	71	17	12
Information disclosure for broad public	48	24	26	47	23	25	30	51	19
Insider information control, refraining from use of insider information for personal benefit	38	16	44	30	13	45	25	43	32
Election of independent directors on the Board	38	32	28	44	23	25	33	49	17
Special minority shareholders rights (e.g., preemptive right)	38	26	34	36	28	28	42	38	20
Use of independent evaluator and independent auditor	72	8	18	59	14	20	51	34	15
Strict procedure of dividend payments	65	13	20	58	7	26	60	28	11

Source: Survey data (from the 2006 round) obtained in the "Corporate Governance Practices and Prospects in Transition Countries: The Case of Russia, Ukraine, and Kyrgyzstan" project (see footnote 2); own calculations.

Table 9
Corporate governance practices in the surveyed companies (in %)

Practice	Country		
	Russia	Ukraine	Kyrgyzstan
Company has a shareholders department	35	33	23
Agenda of general meetings of shareholders is supplied to all of shareholders	81	96	77
Shareholders' register maintained by an independent registrar	74	90	63
There are independent directors on the board of directors of your company	43	55	25
There are representatives of minority shareholders on the board of directors	24	60	43
There are formal committees (audit, remuneration, nomination) on the board of directors	7	18	6
Company uses international accounting standards (US GAAP/ IAS)	9	30	61
Annual reports are audited by an independent auditor	91	99	75

Source: Survey data (from the 2006 round) obtained in the "Corporate Governance Practices and Prospects in Transition Countries: The Case of Russia, Ukraine, and Kyrgyzstan" project (see footnote 2); own calculations.

Inspired by Guriev et al. (2003), we created a Corporate Governance Index (CGI) which gives a stylized picture of corporate governance practices in surveyed companies.[5] It takes into account 6 rules: (1) use of international accounting standards, (2) existence of shareholders department, (3) agenda of general meetings of shareholders should be supplied to all of shareholders, (4) shareholders' register should be maintained by an independent registrar, (5) there should be independent directors on the board, and (6) there should be representatives of minority shareholders on the board of directors. An introduced rule was scored as 1; the CGI was calculated as a sum of scores received by a company. In order to make the index comparable between various groups of companies, it was calculated only for firms where a board of directors had been created.

The difference in legal requirements makes direct cross-country comparison difficult. Nevertheless one should appreciate the score for Kyrgyz companies which is much higher than could be expected after the analysis of managers' opinions and introduced rules of corporate governance (Table 10). It means that the level of corporate governance development in this country to a large extent depends on whether a company has a board of directors or not.

Table 10
Corporate Governance Index (CGI) in the surveyed companies (which have board of directors)

Groups of companies	Country		
	Russia	Ukraine	Kyrgyzstan
The largest shareholder			
Managers	2.8	3.7	3.3
Domestic outsiders	2.8	3.6	3.8

[5] The role of Sergey Stepanov from CEFIR in experiments with the CGI is should be also appreciated.

Groups of companies	Country		
	Russia	Ukraine	Kyrgyzstan
Foreign outsiders	3.3	3.6	3.8
State	3.1	3.5	3.0
Profitability			
Profits	2.8	3.6	3.7
No profits, no losses	2.6	3.7	3.2
Losses	2.8	3.6	3.3
Employment			
1-200	2.5	3.4	3.4
201-1000	2.7	3.6	3.3
1000+	3.2	4.0	3.7
Total	2.8	3.6	3.5

Source: Survey data (from the 2006 round) obtained in the "Corporate Governance Practices and Prospects in Transition Countries: The Case of Russia, Ukraine, and Kyrgyzstan" project (see footnote 2); own calculations.

Formally, Ukrainian companies are characterized by the best average CGI, Kyrgyz ones are only slightly lagging behind, and Russian companies have relatively the worst score. In all the three countries, large firms are more likely to adopt the norms of good corporate governance than the smaller ones, the largest Ukrainian companies having the highest CGI in the whole sample. Among Russian companies, the best CGI score, apart from the largest firms, have companies controlled by foreign investors. In Kyrgyzstan, the best are the companies that belong to outsiders – both domestic and foreign. Additionally, in this country profitable companies gain higher CGI scores than those bearing losses. All this shows a complex nature of adoption of best corporate governance practices which needs further research.

As it was mentioned above, in Poland too best practices code is compulsory (according to the "comply or explain" principle) only for listed companies. Unfortunately, during the last years no research on adopting these practices in non-listed companies has been conducted. The Warsaw Stock Exchange, however, publishes detailed statistical data on best practices compliance of all the listed companies[6]. By 2006, all these companies agreed to follow the code, and only 2% of them haven't introduced any of the 53 best practices principles. An average company has introduced 44 principles. Good practices of supervisory boards functioning proved to be the most difficult to follow: average compliance level equals 86%. Two principles appeared to be extremely difficult: introduction of independent board members (only 29% of companies did that) and elaboration of the publicly available supervisory board statute that creates two committees: on audit and remunerations (32%). The third difficult to implement principle (51% of compliant companies) stated that an auditor should be chosen by the auditing committee of the supervisory board. All other principles have been adopted by the vast majority of the companies; 38 of them by more than 90% of firms and 4 by all the

[6] Available at http://www.gpw.pl.

firms (dealing with goals of the company, independent evaluations, accessibility of general meetings of shareholders, and mentioning compliance with the best practices code in a company's annual statement).

5. Actors of corporate governance

One of the factors that affect the quality of corporate governance in companies is the system of roles that various actors play in decision-making processes due to different formal competencies and informal place in the company's hierarchy of influence. Unfortunately, here we have little opportunity of making use of hard data. Instead, we have to rely on opinions of people who are directly involved in the decision-making, which naturally brings into question the objectiveness of the information obtained this way. Nevertheless, it seems that despite the use of non-precise, subjective tools of assessing objective facts and processes, we still are able to identify certain most important features, especially being aware of the character of bias which may have been introduced by respondents' answers.

Table 11
Influence on decision-making (average from 1 = very weak to 5 = very strong)

Decisions	Actors			
	CEO, managing board	Board of directors (if exists)	General meeting of shareholders	Largest shareholders
Russia				
Main directions of development	4.3	3.9	2.3	4.1
Production, day-to-day management	4.8	2.8	1.5	2.7
Finances, investments	4.4	3.9	2.1	3.9
Hiring managers	4.6	3.4	1.7	3.6
Observance of shareholders' interests	3.9	4.0	3.2	4.0
Average	4.4	3.6	2.1	3.4
Kyrgyzstan				
Main directions of development	4.5	3.9	3.4	3.4
Production, day-to-day management	4.7	3.6	2.6	2.8
Finances, investments	4.5	3.7	3.0	3.2
Hiring managers	4.6	3.8	2.8	2.8
Observance of shareholders' interests	4.2	4.0	3.8	3.2
Average	4.5	3.9	3.3	3.2

Source: Survey data (from the 2005 round) obtained in the "Corporate Governance Practices and Prospects in Transition Countries: The Case of Russia, Ukraine, and Kyrgyzstan" project (see footnote 2); own calculations.

Table 11 shows rather typical picture for transition countries which can be described as "managers rule in the company." To some extent, it may be the result of the above-mentioned bias, but in fact it rather shows that corporate governance in the analyzed com-

panies basically stays within the Continental corporate governance model, where all the decisions, including strategic ones, are taken (or at least prepared) by the executive branch, while board of directors rather play the role of a "classical" supervisory board with its predominantly control and permissive functions. In Kyrgyz companies, boards of directors are also significantly engaged in day-to-day management of companies and hiring of managers which is rather outside the scope of their typical responsibilities. In turn, in Russian companies, we see high role of largest shareholders, especially in the field of defining main directions of development; they seem to some extent to "bypass" the existing bodies, exerting direct influence on running the company. This is especially seen in the very weak role of general meeting of shareholders whose almost sole function is looking after shareholders' interests. Unfortunately, we do not have data for Ukrainian companies.

A question arises how existence or absence of a board of directors influences the division of powers in a company. We were able to check it only on Kyrgyzstan data, because only in this sample there were enough companies without a board of directors. A general pattern was found according to which in the latter group of firms, board of directors' functions were taken over by a CEO/managing board and the largest shareholders. It is worth noting that the role of general meeting remains almost intact, even in the question of looking after shareholders interests – this function is mainly taken over by top managers. This could happen due mainly to highly insiderized ownership pattern of companies without board of directors, where managers are at the same time the core owners.

Table 12

Influence on decision-making in groups of companies with different characteristics (average from 1 = very weak to 5 = very strong)

Groups of companies	Actors			
	CEO, managing board	Board of directors (if exists)	General meeting of shareholders	Largest shareholders
Russia				
Largest shareholder				
Managers	4.6	3.5	2.2	3.6
Domestic outside	4.3	3.6	2.1	3.8
Foreign	4.4	3.7	2.0	3.9
State	4.4	3.5	2.0	3.2
Profitability				
Profits	4.4	3.7	2.2	3.7
No profits, no losses	4.4	3.6	2.3	3.7
Losses	4.3	3.5	2.0	3.5
Employment				
1-200	4.5	3.5	2.1	3.5
201-1000	4.4	3.6	2.1	3.6
1000+	4.4	3.7	2.2	3.8
Kyrgyzstan				
Largest shareholder				
Managers	4.6	3.8	3.2	2.9

Groups of companies	Actors			
	CEO, managing board	Board of directors (if exists)	General meeting of shareholders	Largest shareholders
Domestic outside	4.4	4.1	3.5	3.7
Foreign	4.0	3.7	3.0	3.8
State	4.3	3.7	3.3	2.6
Profitability				
Profits	4.6	3.9	3.3	3.2
No profits, no losses	4.5	4.0	3.1	3.2
Losses	4.4	3.7	3.1	3.1
Employment				
1-50	4.6	3.6	3.4	3.3
51-200	4.6	4.0	3.2	3.1
200+	4.3	3.9	3.1	3.1

Source: Survey data (from the 2005 round) obtained in the "Corporate Governance Practices and Prospects in Transition Countries: The Case of Russia, Ukraine, and Kyrgyzstan" project (see footnote 2); own calculations.

One can expect that influence of corporate governance actors may depend on some companies' characteristics. In other studies, such most influential characteristics usually are a company's ownership structure, economic performance, and size. Table 12 once again corroborates numerous observations that managers have the strongest positions in companies where they are the largest shareholders. Their positions are relatively the weakest in Russian companies controlled by domestic outsiders and Kyrgyz companies controlled by foreign investors. In both countries, both domestic outside and foreign investors have relatively the highest direct impact on decision-making in companies which they control. Apart from that, in both Russian and Kyrgyz companies the state is perceived as the weakest owner, which at a first sight seems to contradict the fact, that in Russia the interference of the state in companies' functioning is very high. Apparently in the case of the analyzed companies, which are state-controlled, we deal with the perceived weak role of the state as an owner of this concrete enterprise, and not with the perceived role of the state in the economy. Weak role of the state as an owner is typical for transition countries which is corroborated not only by respondents' opinions, but also by in-depth analysis of the real role of the state in governance of enterprises, e.g. in Poland (Kozarzewski 2007b).

Profitability do not differentiate relative positions of the main actors vis-à-vis each other. Instead, we see that all of them are perceived as exerting less influence on decision-making in loss-making companies, than in profitable ones, contrary to observed in other countries, e.g., Poland and Belarus, situation when bad economic condition of an enterprise forces its actors to act (Kozarzewski 2000, 2001b).

Interdependence between actors' influence and size of companies is not clear enough. In the Russian sample, larger companies are characterized by higher role of board of directors and largest shareholders; in Kyrgyz larger companies, higher role of board of directors is accompanied by weaker role of all the other actors: managers, general meeting, and largest

shareholders. Apparently here we deal with some variations of corporate governance mechanisms that are determined by specificity of industrial relations in these countries, especially identity of largest shareholders and established patterns of corporate behavior.

Some similarities and differences between decision-making patterns in the companies in analyzed countries and in Polish firms have already been mentioned above. In Poland, too, managers see themselves as the most important chain in the decision-making process. According to their opinions, the second place in MEBO and state-controlled companies is occupied by supervisory boards, and by the largest owners in firms which belong to foreign investors. Weak role of the state as a corporate governance player and omnipotence of managers in state-controlled companies is also worth noting (Table 13).

Table 13
Percentage of Polish companies where the mentioned actors participate in making the most important, strategic decisions (in %)

Actors	Group of companies		
	Controlled by foreign investors	Controlled by the state	MEBOs
Executive board	94	100	85
Supervisory board	69	74	80
General meeting of shareholders	50	47	49
Largest shareholders	75	10	24
Trade unions	–	21	–

Source: Kozarzewski (2003a).

The scope managers' independence and responsibility is different across the ownership groups of companies. In the sample of the largest Polish private companies, on the whole, managers in foreign-dominated companies have the lowest level of independence, especially in the field of R&D and investment. The relatively most independent are managers in the companies, where the largest group of shareholders are private persons, especially insiders. Companies dominated by domestic institutional shareholders represent the average level of these indices (see Table 14).

Table 14.
The subjective level of independence which the management team has in decision-making process in largest Polish enterprises (average from 1 = decided by the owners to 7 = decided by the executive team)

Decisions	The largest shareholder category				Total
	Foreign investors	Domestic institutional shareholders	Domestic outsider individuals	Insiders	
Product mix	4.9	5.9	6.3	6.4	5.7
Selection of customers	5.4	5.8	6.3	6.0	5.8
Selection of suppliers	5.0	6.0	5.9	6.4	5.7
Investment	3.9	4.6	5.3	5.2	4.6

Decisions	The largest shareholder category				Total
	Foreign investors	Domestic institutional shareholders	Domestic outsider individuals	Insiders	
Research and development	3.6	5.4	6.0	6.3	5.1
Finances	4.8	4.9	6.0	6.3	5.2
Employment	5.5	5.6	6.2	6.4	5.8
Wages	5.6	5.7	6.0	6.7	5.8
Patterns of management and organisation	5.3	5.6	5.9	6.1	5.6
Price policy and marketing	5.0	6.0	6.0	5.4	5.6
Choice of trade partners	5.1	5.9	6.3	6.7	5.8
Average independence level	4.9	5.6	6.3	6.4	5.6

Source: Kozarzewski (2002).

It is very important that independence of managers is linked with ownership concentration: in the companies with lower ownership concentration managers are more independent than in companies with high ownership concentration. The average managers' independence level is strongly negatively correlated with both C1 and C5 on a significance level better than 0.01. After comparing the findings on executive boards powers with the data on patterns of ownership structure and on the structure of supervisory boards, the following hypothesis was formulated: in the companies, where a majority of shares belongs to private individuals, and first of all to insiders, this majority is often rather formal and does not ensure a real control over the company. In some cases, minor shareholder groups could exert real influence on companies; in other cases, there could be some stakeholder groups that rule in companies (Kozarzewski 2002).

6. Conclusions

Corporate governance formation in post-Communist countries is characterized by both similarities and differences.

Similarities originate first of all from the common features of the historical background of these countries, the features of centrally planned economy; from the similarities of the principles of the reform programs; and from similarities of certain basic, objective regularities of the post-Communist transition. Such common features include, e.g., highly insiderized initial ownership patterns, high role of managers, high ownership concentration, dual trends of ownership structures' evolution towards concentration and outsiderization, and many others.

The differences originate, among others, from the specific features of the countries' historical, cultural, and institutional heritage, the soundness of the reform design and implementation, the main characteristics of the enterprise sector, the quality of the legal base and en-

forcement mechanisms. Countries that had more favorable “background” (traditions of private entrepreneurship, capacities of the elites) and during the transition period managed to create good legal background for private sector and appropriate institutions are more likely to enjoy formation of more efficient corporate governance mechanisms and patterns.

In the analyzed countries, corporate governance practice is still closer to the Continental, than the Anglo-Saxon model. At the beginning of the transition, the Continental model seems to be the only feasible solution for the post-Communist economies, and presently the conditions of the transition countries still do not allow for widespread development of corporate governance based on shareholder value and developed and highly liquid capital, labor and other markets.

The analysis once again corroborated earlier observation, that for corporate governance functioning, and, more widely, for companies' functioning matters not only the level of ownership concentration, but also the identity of core shareholders. There are differences between corporate governance characteristics in companies controlled by managers, domestic outsiders, foreign investors, and the state. State again and again proves to be one of the most inefficient owners; managers-owners are usually also not very efficient in introducing good practices of corporate governance[7]. Outside investors, especially foreign, are more likely to introduce more effective corporate governance in companies controlled by them, than any other type of an owner.

[7] Explaining the reasons for this is beyond the scope of the paper. It should be noted however, that in some circumstances managers may perform the role of the most efficient owners – when there are no foreign investors, and possible domestic external investors are more likely want to reap the assets of the company than to create conditions for its long-term development. In such circumstances, managers become the only force really interested in the company's long-term existence, and are one of the few bearers of market mentality. Such a situation was characteristic for some slow-reforming post-communist countries at early stages of transition (Kozarzewski 2001b; Kozarzewski et al. 2002).

References

Bałtowski, M. (2002), *Przedsiębiorstwa sprywatyzowane w gospodarce polskiej [Privatized enterprises in the Polish economy]*, 2nd ed., PWN, Warsaw.

Bałtowski, M. and M. Miszewski (2007), *Transformacja gospodarcza w Polsce [Economic transition in Poland]*, PWN, Warsaw.

Bevan A. A., Estrin S. (2000), "The Determinants of Foreign Direct Investment in Transition Economies," *WDI Working Paper*, No. 342.

Błaszczyk, B. and W. Nawrot (2007), *Postępy prywatyzacji w Polsce w latach 1991-2006 a sektor niesprywatyzowany [Progress of privatization in Poland in 1991-2006 and non-privatized sector]*, in: B. Błaszczyk and P. Kozarzewski (eds), "Zmiany w polskich przedsiębiorstwach. Własność, restrukturyzacja, efektywność" [Changes in Polish enterprises: Ownership, restructuring, effectivity], *CASE Reports*, No. 70, CASE, Warsaw.

Błaszczyk, B., I. Hoshi, E. Kočenda, and R. Woodward (2003), *Ownership and Performance in Transition Economies: An Overview*, in: B. Błaszczyk, I. Hoshi I., and R. Woodward (eds), *Secondary Privatization in Transition Economies. The Evolution of Enterprise Ownership in the Czech Republic, Poland and Slovenia*, Palgrave Macmillan, Houndmills and New York.

Boycko, M., A. Schleifer, and R. Vishny (1995), *Privatizing Russia*, The MIT Press, Cambridge.

Cadbury, A. (1992), *The Report of the Committee on the Financial Aspects of Corporate Governance*, The Committee and Gee, London.

CEEP (2000), *The Development of Enterprises of Public Participation and of General Economic Interest in Europe since 1996. Their Economic Impact in the European Union,* European Centre of Enterprises with Public Participation and of Enterprises of General Economic Interest, Brussels.

CEFIR (2006), *Background Study: The Case of Russia*, mimeo prepared for the INTAS "Corporate Governance Practices and Prospects in Transition Countries: The Case of Russia, Ukraine, and Kyrgyzstan" project, Moscow.

Dabrowski, M., P. Kozarzewski, and R. Mogilevsky (eds) (2005), *Kyrgyzstan at a New Stage of Development*, UNDP Kyrgyzstan, Bishkek.

Dąbrowski, M. (ed.), R. Antczak, V. Mau, A. Shapovalov, I. Sinicina, K. Yanovskiy, and S. Zhavoronkov (2004), "Russia: Political and Institutional Determinants of Economic Reforms," *CASE Reports*, No. 56, CASE, Warsaw.

De Wit, B. and R. Meyer (1998), *Strategy. Process, Content, Context. An International Perspective*, International Thomson Business Press, London.

EBRD (2004), *Transition Report 2004: Infrastructure*, European Bank for Reconstruction and Development, London.

EBRD (2006), *Transition Report 2006: Finance in Transition*, European Bank for Reconstruction and Development, London.

Frydman, R. and A. Rapaczynski (1994), *Privatization in Eastern Europe: Is the State Withering Away?* Central University Press, London.

Guriev, S., O. Lazareva, A. Rachinsky, and S. Tsukhlo (2003), "Corporate Governance in Russian Industry," *CEFIR and NES Working Papers*, No. 32, March.

Hashi, I., P. Kozarzewski, I. Mezheraups, and A. Radygin (2004), *Corporate Governance*, in: *Partnership for Corporate Governance and Secondary Privatization in Transition*, final report for the RTTP program, Moscow – Warsaw – Stoke-on-Trent.

Jarosz, M. and P. Kozarzewski (2002), *Sukcesy i klęski prywatyzacji w krajach postkomunistycznych [Successes and Failures of Privatization in Post-Communist Countries]*, ISP PAN, Warsaw.

Koładkiewicz, I. (2000), *Nadzór korporacyjny: z doświadczeń doświadczonych [Corporate governance: From experiences of the experienced]*, in: S. Rudolf (ed.), *Efektywność nadzoru właścicielskiego w spółkach kapitałowych [Effectiveness of owner control in corporations]*, Łódź University Publishers, Łódź.

Kostyuk, A.N. (2005), *Corporate Governance in a Transition Economy*, Virtus Interpress, Kiev.

Kozarzewski, P. (2000), *Owner Control*, in: M. Jarosz (ed.), *Ten Years of Direct Privatization*, ISP PAN, Warsaw.

Kozarzewski, P. (2001a), *Transformaciya otnosheniy sobstvennosti na belorusskikh promyshlennykh predpriyatiyakh [Ownership transformation at Belarusian industrial enterprises]*, in: R. Antczak, M. Górzyński, and P. Kozarzewski (eds), *Belarusskaya eko-*

nomika: ot rynka k planu 1995-2000 [Belarusian economy: From market to plan 1995-2000], CASE and IPM, Warsaw.

Kozarzewski, P. (2001b), *Izmeneniya sistemy upravleniya i kontrolya na belorusskikh predpriyatiyakh. Razvitie novogo menedzhmenta [Changes in management and control system at Belarusian enterprises. Development of the new management]*, in: R. Antczak, M. Górzyński, and P. Kozarzewski (eds), *Belarusskaya ekonomika: ot rynka k planu 1995-2000 [Belarusian economy: From market to plan 1995-2000],* CASE and IPM, Warsaw.

Kozarzewski, P. (2002): "Changes in Corporate Governance Structures in Polish Privatized Companies," *Working Papers*, No. 8, Center for Slavonic and East European Studies, University College London, London.

Kozarzewski, P. (2003a), "Corporate Governance and Secondary Privatisation in Poland: Legal Framework and Changes in Ownership Structure," *Studies and Analyses*, No. 263, CASE, Warsaw.

Kozarzewski, P. (2003b), *Nadzór właścicielski, kontrola i zarządzanie [Corporate governance, control, and management]*, in: M. Jarosz (ed.), *Pułapki prywatyzacji [Privatization traps]*, ISP PAN, Warsaw.

Kozarzewski, P. (2006a), *Prywatyzacja w krajach postkomunistycznych*, ISP PAN, Warszawa.

Kozarzewski, P. (2006b), *Privatization in the Context of Post-Communist Transition: The Case of Poland*, in: *An Enterprise Odyssey: Integration or Disintegration*, University of Zagreb, Zagreb.

Kozarzewski, P. (2007a), *Prywatyzacja w Polsce w perspektywie porównawczej. Wyniki ilościowe i jakościowe [Privatization in Poland in comparative perspective: Quantitative and qualitative effects]*, in: B. Błaszczyk and P. Kozarzewski (eds), "Zmiany w polskich przedsiębiorstwach. Własność, restrukturyzacja, efektywność" [Changes in Polish enterprises: Ownership, restructuring, effectivity], *CASE Reports*, No. 70, CASE, Warsaw.

Kozarzewski, P. (2007b), *Zarządzanie i nadzór korporacyjny w sektorze publicznym [Management and corporate governance in the state-controlled sector]*, in: B. Błaszczyk and P. Kozarzewski (eds), "Zmiany w polskich przedsiębiorstwach. Własność, restrukturyzacja, efektywność" [Changes in Polish enterprises: Ownership, restructuring, effectivity], *CASE Reports*, No. 70, CASE, Warsaw.

Kozarzewski, P. (ed.), A. Kisenkov, I. Lukashova, M. Lukashova, and J. Mironova (2006), "The System of Corporate Governance in Kyrgyzstan," *Studies and Analyses*, No. 326, CASE, Warsaw.

Kozarzewski, P. (ed.), S. Pukovich, and I. Sinicyna (2002), "Problemy funktsionirovaniya privatizirovannykh predpriyatiy Gruzii" [Problems of functioning of Georgian privatized enterprises], *Studies and Analyses*, No. 243, CASE, Warsaw.

Kozarzewski, P. and R. Woodward (2006), *The Reform Process in Post-Communist Transition: Understanding Reform in Eastern and Central Europe and the Commonwealth of Independent States*, in: J. M. Fanelli and G. McMahon (eds), *Understanding Market Reforms*, Vol. II, Palgrave Macmillan, Houndmills and New York.

Kozarzewski, P. and R. Woodward (2003), *Poland I: Ownership and Performance of Firms Privatized by Management-Employee Buyouts*, in B. Błaszcyk, I. Hoshi, and R. Woodward (eds), *Secondary Privatization Transition Economies: The Evolution of Enterprise Ownership in the Czech Republic, Poland and Slovenia*, Palgrave Macmillan, Hampshire and New York

Murrell, P. and Y. Wang (1993), "When Privatization Should Be Delayed: The Effect of Communist Legacies on Organizational and Institutional Reforms," *Journal of Comparative Economics*, No. 17.

OECD (2004), *Principles of Corporate Governance*, OECD, Paris.

Papava, V. and T. Beridze (2005), *Oczierki politiczieskoj ekonomii postkommunisticzieskogo kapitalizma [Essays on political economy of post-Communist Capitalism]*, Delo i Servis, Moscow.

Paskhaver, A. and L. Verkhovodova (2006), "Privatizatsiya do i posle oranzhevoy revolutsii" [Privatization before and after the Orange Revolution], Studies and Analyses, No. 319, CASE, Warsaw.

Prowse, S. (1994), "Corporate Governance in an International Perspective," *BIS Economic Papers*, No. 41, July.

Pugachova, M. (2006), *Korporativnaya sistema upravleniya na Ukraine [System of corporate governance in Ukraine]*, mimeo prepared for the INTAS "Corporate Governance Practices and Prospects in Transition Countries: The Case of Russia, Ukraine, and Kyrgyzstan" project, Kiev.

Tamowicz, P. and M. Dzierżanowski (2002), *Biała księga nadzoru korporacyjnego [White book on corporate governance]*, IBnGR, Gdańsk.

World Bank (2002), *Transition. The First Ten Years. Analysis and Lessons for Eastern Europe and the Former Soviet Union*, World Bank, Washington DC.

World Bank (2004): *Economies in Transition: An OED Evaluation of World Bank Assistance*, World Bank, Washington DC.

Yasin, Ye. (2003), *Rossiiskaya ekonomika. Istoki i panorama rynochnykh reform [Russian economy. Origins and outlook of market reforms]*, HSE, Moscow.