Stock Ownership and Corporate Control as Determinants of Company Modernization: The Case of Russia

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Abstract

The paper studies evolution of stock ownership and corporate governance mechanisms in the Russian industrial companies and their impact on business restructuring and innovation activities. The study is based on original enterprises' survey, statistical data and in-depth interviews with top-managers of selected companies. Empirical data for several years were collected and the research outputs were obtained within the project "Structural Changes in the Russian Industry" implemented at the Higher School of Economics (HSE) under the supervision of Professor E. Yassin.

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1 Introduction

The second section describes empirical data used in the paper. The third one shows the main trends in redistribution of corporate ownership for over a decade of reforms. The fourth part analyzes the internal mechanisms of corporate governance: board of directors and replacement of executive top management. The fifth section describes the basic approach for evaluation of the major effects of corporate ownership and control specifics on business restructuring and performance. The sixth section presents a brief overview of known empirical research and puts forward several qualitative hypotheses. The conclusive seventh section brings the outputs of the analysis. We found that level of property concentration, and different structures of corporate ownership/corporate control have no effect on restructuring and business performance. The impact of directors' (CEOs) turnover is weak and contradictory. The only indirect characteristic of corporate control – company's participation in business groups demonstrates positive effects on enterprise modernization policies and business performance including positive dynamics of gross value added per employee.

2 Brief Description of Empirical Base

Our paper is characterised by a combination of several methods of analysis including statistical analysis of official reporting data of enterprises based on a wide and representative sample, study of random enterprises' survey data based on a formalized questionnaire and, finally, analysis of a number of in-depth interviews with top-managers.

The basic representative sample covered 1288 enterprises located in 12 constituent territories of the Russian Federation. The enterprises were included in the observation programme so that the sectoral composition of the sample would correspond to the regional location of industrial sectors. About 800 joint stock companies (JSCs) were included into this sample (See brief description of Russian corporate sector in Box 1). Reporting data (from statistical and accounting reporting sheets) reflect performance of companies during 1997-2002 including outputs, costs and profits, assets and liabilities, investments and other indicators of enterprise activities.

Box 1. **The main legislative specifics of Russian corporate governance**
The foundations of corporate legislation were created in Russia when Section 1 of the RF Civil Code (passed in October 1994, effected starting from 1995) and the Federal Law on Joint-Stock Companies (№ 208-FZ of December 26, 1995) were adopted. This law was amended in 1996 and 1999 and was significantly modified in 2001. The revised version of the Law was starting from 2002 when minor changes were made. Corporate relations are also regulated by security markets law and privatization legislation. Under Russian legislation, there are two main types of joint-stock companies in the economy – open JSC (i.e. public) and closed JSC (i.e. a type of a private company). In case of an open JSC the number of founders is unlimited, while the number of founders of a closed JSC may not exceed 50. If the number of a closed joint stock company's shareholders exceeds 50, such company must be transformed into an open one within a period of one year. The main feature of closed JSC is a ban on free circulation of shares. An open JSC has a right to do placing of shares and issued securities of the company convertible into stock through both open and closed subscription. A closed joint stock company is not entitled to do placing of the company's shares and convertible securities through open subscription or to offer them for purchasing to an unlimited number of persons through any other method. Shareholders of both open and closed JSCs have a right to alienate their shares without consent from other shareholders and the company. At the same time, the shareholders of a closed JSC intending to sell their shares to a third party are obliged to notify the rest of shareholders and the company thereof in writing. Here, other shareholders enjoy a privileged right to purchase the stock sold by closed joint stock company's shareholders. The Charter of a closed JSC may also provide for a priority right for the company itself to buy out such shares if the company's shareholders fail to take advantage of their priority rights.

Official reports of enterprises do not allow an analysis of the factors resulting in their performance. Therefore, for an in-depth analysis of enterprise behaviour, statistical information was enhanced with top management survey data. Additionally, special formalized survey of the basic sample was conducted by the HSE in autumn 2002. As a result, 473 questionnaires were received from enterprises with the assistance from the State Statistics Committee of Russia (Goskomstat). The formalized survey brought data on ownership and corporate governance, business restructuring and investments, integration and decision-making. This combination of different sources of information allowed the creation of a comprehensive database incorporating six years of statistical data and questionnaire data. A reader could see detailed description of samples and the database in Yassin (2004).

All questionnaires specified regional location and sectoral association, while the rate of response on other questions equalled 80-98%. State-owned enterprises (federal or regional property) accounted for one-fifth of the sample as a whole, with joint-stock companies accounting for more than two-thirds, of which 80% are open joint-stock companies. Every ninth enterprise was a limited liability company.

The main structural parameter of the sample is its sectoral composition (Table 1). In comparing sectoral composition of the sample and the main set with the number of enterprises in Russian industry, deviations were a maximum of 3-4 percentage points.

Table 1. **Sectoral distribution of enterprises under formalized survey**

Sectors	The Sample		Operating industrial enterprises
	Number of respondents	Share, %	Share, % *
Fuel and energy	53	11.2	9.5
Metallurgy	12	2.5	2.3
Chemical and petrochemical	9	1.9	4.3
Machinery building and metal working	133	28.1	32.4
Forestry, paper pulp and timber	66	14.0	13.7
Construction materials	38	8.0	6.0
Light industry	72	15.2	11.0
Food industry	90	19.0	16.0
TOTAL	473	100	-

*Note: * Sectoral shares in the total number of industrial enterprises were calculated on the basis of data as of the end of 2001, see (Goskomstat, 2002, pp. 20-23).*

The 2002 average employment (including dual job holders and contracted employees) was used to identify peer groups. In the sample as a whole, every fourth enterprise had up to 100 employees. The bulk of enterprises (46%) were classified as “medium-size” with a payroll of 101 to 500 employees, the rest of the sample being “large” (501 to 1000 employees) or “extra large” (over 1000 employees) enterprises.

There is a correlation between the size of enterprises and their sectoral association, with small enterprises being more widely represented in energy and light industry (32% and almost 44%, respectively). Medium-size enterprises were more widespread in construction materials and food industry, while enterprises employed more than 500 persons in metallurgy and machinery building.

The analysis of ownership and corporate control and quality of management would have been incomplete without the use of interviews or case-studies. In-depth interviews involving managers of 37 industrial enterprises from 7 Russian regions were held in autumn 2003 relying on the scenario developed on the results of the formalized survey. Interviews were focused on the study of enterprise modernisation and factors that contribute or hold back positive shifts in business competitiveness in the 2000s. Interviews were complemented by analytical papers based on information received during visits to the enterprises and also data from web sites, regional mass media and other open or 'hidden' sources.

Interviews were held in the most widespread sectors such as machinery building, food and light industries (these sectors covered 60% of enterprises accounting for over 52% of total employment and over 30% of industrial output in Russia) and metallurgy (14% of industrial output and 10% of employment)[1] as an example of export-oriented production. In selecting companies we took into account other characteristics such as a variety of "success stories" and "failure stories", mandatory coverage of green-fields, and enterprises that underwent restructuring or bankruptcy proceedings, and also companies integrated into alliances or business groups. The sample included 33 JSCs, of which 23 were open companies and 10 closed companies employing from 200 up to 100000 employees.

Almost one half of respondents were general (executive) directors while others were deputy directors supervising economic, financing and investment issues of enterprise operation. In a number of cases interviews involved key owners and chairmen of the board. Almost all respondents worked at the given enterprise for a minimum of 4-5 years.

One should note that if the basic sample included over 800 joint-stock companies, the sample of surveyed enterprises consisted of about 320 companies, including 310 joint-stock companies whose statistical data and data received through surveys were combined. We can use the basic sample for ownership composition studies. Research of restructuring activities has been carried out only in respect of those joint-stock companies whose CEOs were surveyed at the end of 2002. And results of in-depth interviews were used for qualitative explanation of observed phenomena and justification of hypotheses.

3 Structure of Corporate Ownership and Major Trends in Ownership Changing

Starting from the mid-90s, a number of empirical researches carried out by the Bureau of Economic Analysis (BEA), the HSE, the Russian Economic Barometer (REB) and other institutions have focused particularly on the examination of the issues of corporate

[1] *See Goskomstat, (2002, pp. 20-31).*

ownership and control in Russian companies. The above research (Aukustionek et al., 2003; Vitebsky et al., 2002; Guriev et al., 2002; Dolgopyatova, 2004; Radygin and Entov, 2001; and others) has revealed that intensive processes of redistribution of corporate ownership have been under way in Russian industry for over a decade.

Those processes have resulted in:

- a reduction in the participation of federal, regional and local authorities in capital with the continuation of the privatisation campaign;
- a growth in participation of the company top-management in equity with a noticeable drop in participation of all the other employees;
- a growth in the share of outside non-government owners against the background of vertical and lateral integration, and development of conglomerates as well;
- significant increase in concentration of equity in the hands of the dominating shareholder (or tightly consolidated group of shareholders).

Economic growth after the 1998 crisis was accompanied by intense redistribution and concentration of ownership, as well as a switch-over of ownership from company managers to outside private businesses. Consolidation of capital based on its expansion in the Russian economy continued (Deryabina, 2001; Pappe, 2002a). Various integrated business groups (not only the oligarchic groups on a nation-wide scale, which are constantly being mentioned in the mass media, but also regional groups and local groups) were formed.

The specifics of the 'property' institution in Russia, as it was mentioned in (Ustyuzhanina, 2001), consists in constant changes in ownership. Such intense processes have been noted by many researchers. According to the data of the HSE (Dolgopyatova, 2002) and the REB (Kapelyushnikov, 2001), nearly 5% to 7% of joint-stock companies changed their principal owner on an annual basis in 90s. According to our latest survey, one out of five enterprises (on the average 6.6% a year) experienced radical changes in the composition of influential owners in a three-year period (from autumn 1999 till the end of 2002).

The above research pointed to an insignificant role of financial investors and foreign shareholders in the equity composition of enterprises. Principal owners included employees of enterprises and outside stockholders (legal entities). It is to be underlined that the share of participation by the management in the capital of JSCs is always underestimated.

Structural annual survey carried out by the Goskomstat of Russia at 27,000 large and medium-size industrial enterprises has shown that the share of participation by employees and individuals in the capital declined, with a significant growth in participation by non-financial institutions. However, available outputs of the statistical survey (Table 2) are related not only to joint-stock companies, but also to other legal entities, while the structure of authorised capital was calculated using the size of authorised capital as ’weights’. So, on average, it tends to larger entities. In this case, the preservation of the position of authorities in the composition of equity capital is a result of the calculation method.

More adequate data of the structural survey in respect of the reference sample (the average structure of capital is determined by calculating a mean of shares of each joint-stock company) (Table 3) shows similar results.

Generally, surveyed JSCs are characterised by the same lines of redistribution of ownership (Table 4, Column 1-3). According to data as of the end of 2002, employees accounted for a larger portion of stock capital followed by non-financial commercial institutions and individuals. The aggregate share of outside private investors exceeded that of employees of companies by 20 percentage points.

Let us examine the structural characteristics of authorised capital of only those JSCs where one or another type of shareholder is included in the composition of owners (Table 4, Column 4-6). The data on the number of such JSCs clearly points to the extent of participation of that shareholder. Though employees as shareholders participated in capital more frequently than other types of owners they still accounted, on the average, for less then a half of the capital. Outside private owners participated in the capital of 80% of enterprises in the sample and aggregately owned about 70% of equity. Such a higher extent of participation (greater than that of employees) is achieved through participation in the capital of non-financial commercial institutions.

A number of surveys (Dolgopyatova, 2002; Kapelyushnikov, 2001; Kuznetsov, 2003; Radygin and Entov, 2001) have shown that Russian companies are characterised by a high degree of ownership concentration the extent of which grows from year to year. The index of the largest shareholders’ share in the capital of an industrial enterprise amounted to nearly 20% to 35% in the late 90s and early 2000s. Companies with owners with a controlling interest accounted for 15% to 25% of the sample.

Indirect evidence from respondents (Golikova et. al., 2003) points, for instance, to the fact that a dominating owner can be found in at least two-thirds of open JSCs. Interviews which help identify the extent of affiliation between shareholders also point to the fact that Russian JSCs are characterised by a huge extent of property concentration. So the 33 interviewed JSCs demonstrated an extremely high level of concentration. In fact, 25 companies had a dominating owner with a controlling block of shares in his hands. Except for one company that preserved the post-privatization dispersed ownership with managerial control, all other JSCs had blockholders. Practically all interviewed companies had dominating owners controlling their activities: 20 respondents called external owners (legal entities or individuals) and 12 other respondents mentioned company directors.

The surveyed JSCs are characterised by a high level of concentration of capital. It was high even in late 1998. In a three-year period, it increased by more than 5 percentage points (Table 5), while the gap between the mean and the median narrowed, that is, the dispersed portion of capital decreased.[2] By 2002, two-thirds of JSCs had a blockholder; while over 38% of JSCs already had an owner with a controlling block of shares.

Integration has had a great effect on the structure of corporate ownership. Property transformation was accompanied by various reorganizations in the corporate sector and creation of complicated schemes of ownership became the major mechanisms of integration (Pappe, 2002b). Russia became a leader in Central and Eastern Europe as regards mergers and acquisitions (PWC, 2002). Whereas since 1999 business groups have been actively expanding their presence in the economy in conditions of consolidation of capital, starting in 2002 they switched over to restructuring and legal reorganisation of establishing holding companies (Radygin, 2002).

The high weight of non-financial commercial institutions in the equity illustrates property integration based on shareholding. In different surveys, this group of shareholders is typical of 15% to 30% of companies in the sample. Also, their share in that portion of the sample is estimated on average at a level of 40% to 55% of the equity capital.

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[2] *Such a gap was also observed in other research. It proved the dispersal of shares among minority shareholders with a high concentration of capital by dominant owners. For instance, according to a survey of over 300 JSCs carried out by the HSE in 1999, it amounted to nearly 5 points in 1995 and 1998 (Dolgopyatova, 2002).*

Integration plays a significant role in corporate control. Our interviews showed that 20 entities interviewed were members of business groups or presented holding companies of a group. At the same time, only 4 respondents mentioned non-property forms of integration (market coordination or “give-and-take” or tolling contracts).

Shareholding links support intense participation of a group in management of companies – members of groups including both strategic and operative issues. Also, shareholding of a group pushes replacement of enterprise’s top managers by a new team. New CEO may be the owner of the business himself or a loyal hired manager.

Our survey also showed that enterprises participated in amalgamation and business-groups. Two-thirds of respondents did not consider their JSCs to be members of amalgamation, while other JSCs were included in one or another amalgamation (about 15% of JSCs were members of informal groups, while over 19.5% of JSCs were members of legally registered amalgamations). Though the figures above do not only reflect property links between JSCs in these groups, interviews point to the fact that such links prevail.

Table 2. **Structure of authorised capital of industrial enterprises as of the end of the year (% of authorised capital)***

Shareholders or founders	**1999**	**2002**	**Change in the three year period**
Authorities – the total, including	18.5	17.7	- 0.8
- Federal authorities	10.4	9.9	- 0.5
- Authorities of constituent entities of the RF	7.3	6.8	- 0.5
- Local authorities	0.8	1.0	+ 0.2
Commercial non-financial institutions	41.6	65.7	+ 24.1
Financial institutions	3.2	5.3	+ 2.1
Non-commercial institutions	4.3	1.5	- 2.8
Individuals – the total, including	20.1	9.8	- 10.3
- employees of the enterprise	10.3	3.8	-6.5
Total	100	100	-
Including foreign individuals and legal entities**	6.6 (40.3)	10.8 (42.8)	+4.2 (+ 2.5)

*Note: * In respect of JSCs and limited liability companies, excluding small businesses.*
*** Only enterprises with foreign participation are shown in brackets .*
Source: Author’s calculations based on the aggregate data of the structural survey, see (Goskomstat, 2002, p. 81, 98-99); (Goskomstat, 2000, p. 72) as well as the preliminary data for 2002 provided by Goskomstat to HSE.

Table 3. **Structure of authorised capital of JSCs in the reference sample as of the end of the year (% of the authorised capital)**			
Shareholders	**1999**	**2002**	**Change in the three year period**
Authorities – the total, including	9.5	6.9	- 2.6
- Federal authorities	4.7	3.4	- 1.3
- Authorities of constituent entities of the RF	3.4	2.5	- 0.9
- Local authorities	1.4	1.0	- 0.4
Non-government external investors – total, including	45.6	55.2	+ 9.6
- Commercial non-financial institutions	22.2	28.4	+ 6.2
- Financial institutions	0.7	0.8	+ 0.1
- Non-commercial institutions	4.2	3.3	- 0.9
- Individuals	18.5	22.7	+ 4.2
Employees of a particular enterprise	44.9	38.0	- 7.0
- Total in respect of the sample of JSCs	100	100	-
- Including foreign legal entities and individuals	2.9	3.6	+ 0.7

Source: author's calculations based on the data of Goskomstat structural survey in respect of nearly 790 JSCs in the reference sample.

Table 4. **Structure of authorised capital of surveyed JSCs as of the end of the year (% of authorised capital)**						
Shareholders	**In respect of all JSCs**			**In respect of JSCs with a listed shareholder***		
	1999	**2002**	**Change in the 3-year period**	**1999**	**2002**	**Change in the 3- year period**
	(1)	(2)	(3)	(4)	(5)	(6)
Authorities –the total, including	11.1	9.6	- 1.5	40.9 (77)	43.2 (65)	+ 2.6
- Federal authorities	6.4	4.5	- 1.9	37.7 (48)	36. 0 (37)	- 1.7
- Authorities of costituent entities of the RF	3.4	3.9	+ 0.5	41.8 (23)	45.6 (25)	+ 3.8
- Local authorities	1.3	1.2	- 0.1	38.0 (10)	33.7 (10)	- 4.3
Non-government external investors – total, including	45.7	55.4	+ 9.7	61.8 (210)	69.4 (234)	+ 7.6
- Commercial non-financial institutions	21.6	30.0	+ 8.4	44.3 (139)	53.6 (164)	+ 9.3
- Financial institutions	0.8	1.0	+ 0.2	11.3 (20)	17.9 (17)	+ 6.6
- Non-commercial institutions	5.3	2.6	- 2.7	35.3 (43)	25.4 (30)	- 9.9
- Individuals	18.0	21.8	+ 3.8	31.5 (164)	34.6 (185)	+ 3.1
Employees of an enterprise	43.2	35.0	- 8.2	51.1 (240)	45.3 (226)	- 5.8
- Total in respect of the sample of JSCs	100	100	100	-	-	-
- Including foreign legal entities and individuals	2.8	3.4	+ 0.6	38.2 (16)	32.7 (30)	- 5.5

*Note: * The number of JSCs with contribution in the authorised capital by the listed shareholders is given in brackets.*
Source: Author's calculations based on the data of Goskomstat structural survey of nearly 300 JSCs (surveyed in 2002).

Table 5. **Indices of ownership concentration in JSCs**				
	End of 1998		**End of 2002**	
	Mean	**Median**	**Mean**	**Median**
Share of the largest shareholder, %	36.4	29.4	41.8	38.2
Share of the three largest shareholders, %	48.8	47.0	57.4	55.5

Source: Author's calculations based on survey data .

So, dispersed ownership of employees has become a thing of the past. It was replaced by a high concentrated corporate property of enterprise managers or outside investors. In many cases the latter represented the interests of business-groups. The status of the dominant owner turns an outside shareholder into ’an insider’ (in the standard meaning of the term, based on the notion of insider’s information), since such an owner directly participates in the management of the enterprise or exercises tight control over managers appointed by him.

4 Major Internal Mechanisms of Corporate Control in Companies

The board of directors of a joint-stock company is a collegial body formed by the meeting of shareholders for taking strategic decisions and organising and monitoring the work of executive bodies of the JSC (see brief description of a Russian JSC’s bodies in Box 2). The ratio between representatives of shareholders or stakeholders in the board of directors describes the structure of corporate control (power structure) at the company.

Against the background of consolidated insider ownership, the work of the board of directors of a large number of companies is characterised by a decrease in the number of directors. This phenomenon is limited only by the need to comply with the norms provided for by the Russian law on JSCs with the number of shareholders exceeding 1000 or 10000). Also, representatives of insiders openly dominate in the composition of the board of directors, while executive management has an important role to play.

Box 2. **Specifics of a Russian JSC's governing bodies**
Under Russian corporate law, the bodies of governance in a JSC include: • general shareholders' meeting – top body for company governance; • a board of directors – general body governing the company activities; • executive bodies of company – managing company's current operation and reporting to the board and general shareholders' meeting. Executive bodies of a company may be: a) company's sole executive body (director, general director) or b) company's sole executive body (director, general director) and company's collective executive body (management board, directorate). In this case, the person who exercises the functions of company's sole executive body also performs the functions of company's collective executive body's CEO; c) profit managing organization or an individual manager under the terms of a contract on delegating authority of the company's sole executive body. The board of directors exercises general governance over company's activities except for issues that are the competence of the general shareholders' meeting. The number of board members must not be less than 7 members for companies with more than 1000 shareholders; and 9 members for JSCs with more than 10000 shareholders. Members of company's collective executive body may not make up more than ¼ of the total number of board members. The chairman of the board of a JSC is elected by a majority vote of the total number of company's board members if not established otherwise by the Charter. The person performing the functions of the sole executive body may not be elected as the chairman of the board. In a company with less than 50 shareholders, who are holders of voting shares, the Charter may provide for the functions of the board to be performed by the general shareholders' meeting.

In the first years after privatisation, representatives of employees usually occupied at least 60% to 70% of seats in the board of directors (Basargin and Perevalov, 2000). The quantitative analysis of the structure of the board of directors based on the outputs of surveys carried out by the HSE and the BEA in the late 90s (Dolgopyatova, 2004; BEA, 2001) points to the preservation of dominant positions of employees. The leading role in the board of directors belongs to representatives of the management (one-third to 40% of seats) followed by representatives of employees (mostly the same managers) or external shareholders. To analyse the comparative advantages of shareholders with regard to power structures, let us compare the ownership structure and the composition of the board of directors using the ratio of representation which is determined as the share of representation in the board of directors per 1% of the share capital by each group of shareholders.[3] As a rule, that ratio as regards employees is significantly more than one

[3] *The ratio was proposed in (Basargin and Perevalov, 2000, p. 124); the authors calculated it in respect of 43 JSCs of the Sverdlov Region in 1993-1998.*

(1.3-1.5), primarily due to participation by managers of corporations.[4] As regards outside private owners, that ratio is smaller (at a level of 0.6-0.8). Partly, it reflects the limited abilities of minority shareholders to exercise control. As regards authorities, that ratio amounts to 0.8-0.9, primarily due to a more active participation by regional and local authorities.

According to our survey, the average number of directors is less than seven. Also, there is a decrease in that number. The average number of members of the board of directors correlated with the size of the JSC (six persons at small JSCs to eight persons at large companies). Employees dominated in the board of directors, both in 1998 and three years later (Table 6). However, their representation gradually decreased (according to respondents it was due to a decrease in participation by the management). In absolute terms, large shareholders (individuals) were leaders among outside owners. They represented either new outside owners or the former management which no longer ran the enterprise. In relative terms, there was a rapid growth in the extent of representation of authorities and other directors, including the so-called independent directors. In the latter case, estimations by respondents should be treated cautiously. In most cases they do not understand the meaning of the term ’the independent director’. The highest ratio of representation (1.63) was observed with employees, the ratio of outside private investors amounted to 0.55 (the highest ratio (0.82) in that group was observed with large shareholders (individuals)), while that of the authorities amounted to 0.73.

Actually, as seen from interviews, along with large shareholders and company’s managers other stakeholders influence to a certain extent the decision making process in corporations. The management of companies regards regional and local authorities and labour teams (in case of large enterprises) as the most influential forces. The boards of directors of some JSCs include representatives of labour teams from among medium level managers or trade-union leaders, particularly if there are still employee-shareholders. In individual cases, those representatives can pursue a relatively independent policy. However, they are closely affiliated with the management. Also, as early as the late 90s there was a trend to include in the boards of directors representatives of regional and local authorities which were not shareholders of these companies (Dolgopyatova, 2002). Thus, the authorities ’add’ direct and legitimate methods of corporate control over activities of JSCs to tight administrative regulation and

[4] *Respondents may overestimate the representation of ordinary employees and the extent of their participation in the stock capital. At the same time, they underestimate to a great extent the share of managers in the capital.*

widespread informal relations those typical for Russian economy. The above phenomena should be taken into account in estimating the performance of the so-called independent directors.

Table 6. **Aggregated composition of the board of directors (% of the total number of members of the board of directors)**

Representatives of shareholders or stakeholders	**End of 1998**	**End of 2002**
Employees of the enterprise	60.3	56.0
- including management of the enterprise	38.5	35.4
Large shareholders (individuals)	16.5	17.9
Authorities (municipals, regional, federal)	5.1	6.7
Commercial institutions, including financial institutions	12.0	12.7
Non-commercial institutions	1.6	1.5
Other directors, including independent directors	4.5	5.2
Number of JSCs which supplied answers	278	294

Source: author's calculations based on survey data.

Incidentally, in assessing the need for approval of key decisions by executive management with various stakeholders, large owners were rated first by respondents (managers). They were followed, with a significant lag, by labour teams, the enterprise's business partners in joint projects and alliances and regional and local authorities. Enterprises had the least need to coordinate their decisions with federal authorities and banks rendered services to them.

It has become clear from the interviews that boards of directors are usually formed by the dominant stockholders and follow their instructions. At the same time, boards of directors are closely related to the executive management. Large outside owners are often members of the top management team. To some extent, the board of directors performs formal organisational duties, while actual decisions are made by a narrow group of persons who combine the 'roles' of a shareholder, an executive manager and a non-executive director. The aim of the board of directors as a monitoring mechanism of executive management and a protecting tool of the rights of all shareholders and stakeholders is not implemented today.

Another mechanism of corporate control by shareholders of the company is turnover of the top management. Theoretically, it should encourage managers to be more competent and serve as incentives for their improved performance (Muravyev, 2003). If the CEOs of the surveyed JSCs held office for one month to 33 years, their average term in office was 8 years (Table 7). CEOs were replaced both for natural causes and for reasons justified by decisions of major shareholders. Many "new" CEOs are often appointed from among top managers of the enterprise; the average parameters of the record of service of the CEO at a particular enterprise are twice as much as the CEO's term in office.

Table 7. **The periods a general director (CEO) held office (number of years)**

	Number of JSCs	Minimum	Maximum	Mean	Median
Record of service as a CEO	342	0.1	33.0	8.1	6.0
Record of service of a director with a particular JSC	342	0.1	47.0	15.5	15.0

Source: Author's calculations based on survey data.

According to survey data, the process of replacement of CEOs was intensified in Russian JSCs after the 1998 crisis. In the past four years (after the 1998 financial crisis till the time of survey) over 40% of new CEOs took office, while in the period after completion of privatisation (within seven years from the second half of 1995) and during the entire period of reforms (over the past ten years), this number was 57% and about 70%, respectively. Nearly 40% out of the latter (that is, nearly 30% of CEOs in the sample) came from the outside. So, the major part of CEOs took office in the period of emergence of the market economy in Russia.

Incidentally, our in-depth interviews show that 15 JSCs replaced a CEO after the 1998 crisis and another 3 companies in 1997-1998. About half of the companies interviewed went through the change of key owners as well. New shareholders came after bankruptcy or captures, sometimes voluntary sale of shares took place. As a rule, replacement of the CEO was initiated by the dominating owners including business groups. The new CEO could either be an owner or a hired manager representing the owner's interests. Sometimes the owner may be ready to appoint a member of the old managerial team as a new CEO. At the same time, there are several cases where the CEO turnover was not connected with the change of owners. Reasons for CEO's exit may be supported by natural determinants or the personnel policy of a business group.

As a result, insider control by dominant owners prevails at Russian industrial companies. They include the managers of enterprises, either representatives of the former directorial corps or new owners. On the one hand, such an 'insider' type of corporate governance mitigates the agency problem (Stiglitz, 1999). On the other hand, it is accompanied by a violation of the rights of minority shareholders, the "closure" of the company to outside investors, and lack of transparency. Thus, the survey showed estimates by respondents (senior managers) as to the prospect of improving the transparency of their businesses and granting access to new investors with whom they will have to share control with. One out of six respondents found it hard to answer, while the aggregate of other respondents consisted of two nearly equal portions; one portion of respondents admitted that they were not prepared for such developments, while the others said they would sooner make public information and share control with investors. These outputs correlated with the availability of bank loans; the greater the problem was to receive a bank loan, the more prepared the respondents were to share control with a new shareholder.

5 Effects of Ownership and Control on Modernisation: Analytical Approach

Corporate ownership and control are the factors which in the static are regarded as internal conditions for modernisation of enterprises. To analyse their role, groups or clusters (Table 8) characterised the ownership structure and corporate control mechanisms were formed. Comparative statistical analysis of these clusters will help identify the differences in business modernisation and performance indices.[5]

The extent of ownership concentration is measured by the index of the stake owned by the largest shareholder. Groups with a high, medium and low concentration of capital were identified on the basis of controlling interest or blocking ownership. In addition to this, JSCs with a high concentration of ownership and the aggregate of other companies were compared.

Ownership structure by the principal shareholder was presented by groups of JSCs in which each type of the shareholder occupied dominant positions.[6] For the purpose of grouping, statistical data as of the end of 2002 was used.

[5] *To identify the links between different groups or compare index values depending on the specifics of comparable variables, the methods of calculation of contingency tables, rank correlation and comparison of sample averages were used. The threshold value of significance for statistical correlation was set at a level of 0.05.*

[6] *Under this definition, the dominant shareholder is regarded as a shareholder whose share in the stock capital (or in the composition of the board of directors of a JSC) exceeds the share of any other shareholder as applied to the break-down of shareholders into three major types: employees, authorities and non-government outside owners.*

Table 8. **Groups of JSCs by ownership and corporate control indicators**		
List of groups (clusters)	**Number of JSCs**	**% of the sample**
1. Dominant group of owners	290	100
1.1. Domination by employees	94	32.4
1.2. Domination by authorities	25	8.6
1.3. Domination by outside private investors	171	59.0
2. Extent of ownership concentration (the largest shareholder's stake)	232	100
2.1. Absence of blocking ownership (the stake does not exceed 25%)	78	33.6
2.2. Absence of controlling interest with existence of blocking ownership (the stake is over 25%, but less than or equal to 50%)	64	27.6
2.3. Existence of controlling interest (the stake exceeds 50%)	90	38.8
3. Existence of the dominant group of shareholders in the composition of the board of directors	269	100
3.1. Domination by employees	169	62.8
3.2. Domination by authorities	11	4.1
3.3. Domination by outside private investors	89	33.1
4. Change of JSC's CEO	342	100
4.1. CEO's record of service does not exceed 4 years	138	40.4
4.2. CEO's record of service is over 4 years and less than 10 years	99	28.9
4.3. CEO's record of service is over 10 years	105	30.7
5. Participation in amalgamations and business-groups	338	100
5.1. JSCs are not members of any amalgamations	224	66.3
5.2. JSCs participated in informal or formal amalgamations	114	33.7

Source: Author's calculations based on survey data.

To reflect the structure of corporate control, data on the composition of the board of directors of companies according to the type of principal shareholders was used. Though employees dominated in this group, it was impossible to identify whether the company's management was hired or consisted of shareholders. Taking into account the fact that the group of companies with domination of authorities in the ownership structure or composition of the board of directors was small, particular attention was paid to the comparison of JSCs with domination of employees or outside private owners.

To analyse the CEO turnover, a variable reflecting the record of service of the general director in that position was used. The sample of JSCs is divided into groups of companies where CEOs were replaced either in the period following the 1998 crisis ('young' CEOs), or in the period starting from the beginning of mass privatisation (CEOs with a record of service of more than four years and less than ten years) or even earlier ('old' directors).

The indicator of integration was the participation of the enterprise in an amalgamation or business group established on the basis of formal or informal relations.

The comparison of the groups has revealed a weak correlation between indicators of ownership structures. Groups with a low and medium extent of concentration of capital are almost similar as regards representation of the major types of shareholders. However, JSCs with a high concentration of capital stand out. In JSCs with domination by outside owners, the extent of concentration of ownership was nearly nine percentage points higher than that in companies with domination by employees.

As regards indicators of corporate control, they correlated, as expected, with the equity capital composition. If employees dominated in capital, they preserved the leading positions in boards of directors in 88% of cases. If outside owners dominated in the capital, they dominated in less than 43% of boards of directors, while in 54% of cases the domination switched over to employees.

A certain “nonlinear” relation of the composition of the board of directors was also typical of JSCs with a different level of concentration of capital. With a low level of concentration, outside owners dominated only in 22% of enterprises, while with a medium and high level of concentration they dominated in 55% and 41% of enterprises, respectively. With domination by outside investors, the average size of a parcel of shares of the largest shareholder was 7 percentage points higher than that in the case of domination by employees.

A more intense change of CEOs was typical of enterprises with concentrated ownership and domination by outside shareholders in their structure and composition of the board of directors. The above confirms that new outside shareholders induce a replacement of an enterprise’s CEO and bolster control over executive management through the board of directors.

Dispersion of the extent of ownership concentration between groups of JSCs with “young” CEOs and “old” CEOs amounted to over 6 percentage points. In enterprises with domination by employees, one out of two CEOs held office for more than ten years and less than 23% of CEOs were replaced after the crisis. As opposed to this, with domination by outside private shareholders 50% of CEOs took office after the crisis, while less than 23% of CEOs remained in office from the early 90s..

Indicators of integration such as participation of company in amalgamations did not correlate with any of the above indices of ownership or corporate control.

The major indicators of business performance are statistical indices of resource utilization and costs in the period 1999-2002. They are as follows:

- labour productivity (gross value added per worker) as the most important indicator;
- capital productivity (ratio of gross output to the value of fixed assets);
- profitability (ratio of profit (loss) to the cost of goods, jobs and services sold).

The year 1999 was selected as the reference year (the first post-crisis year of industrial development and growth). The comparison of groups is based on the use of the following two forms of indicators:

- for comparison of different enterprises, standardised deviations of the value of performance indices from the industry average value (in respect of eight major branches of industry) were calculated as per year of the above period. In this case, average values of JSC groups were compared separately with each other as per year.
- for analysis of changes in dynamics, special parameters by the index within the period of the last three years (2000-2002) were considered. As regards profitability, it was the difference between the levels of profitability in 2002 and 1999; as regards capital productivity, it was the rates of growth (or decline), while in respect of labour productivity, the fact of its growth (or decline) in 2002, as against 1999.

The past three years showed positive dynamics of the selected indicators in most JSCs. In the sample, on average, labour productivity increased at more than 79% of JSCs, while capital productivity icreased at 78% of enterprises. As regards the level of profitability, the results are not that positive; a growth in profitability was typical of only one-third of JSCs.

In addition to the above, for estimation of the business performance, the questionnaire includes subjective integral estimation by respondents of the financial and economic situation of their enterprises. As of the time of the survey, one out of five JSCs said that the financial and economic state of their companies was poor, while less than one out of ten enterprises noted that it was sound.

Such survey variables as certain restructuring and reforming events at the enterprise served as principal indicators of modernisation. In the sample of JSCs, each of the 14 listed major measures was carried out by 13% to 76% of enterprises. Indices of investment activity (the volume of investments in fixed assets) allow a more comprehensive picture of modernisation to be drawn. Statistical indicators are formed as follows:

- for the purpose of dynamics analysis of company's investment activity, the rate of growth in aggregate volumes of investments in 2000-2002, as against 1999, was used;
- for comparison of investment activity of different JSCs, a relative index of the extent of investment activity (the ratio of the volume of investment to the value of fixed assets) was used. The index was calculated as per year and compared as per group of JSCs.

In general, the investment activities were rather moderate; 35% to 42% of JSCs in the sample did not make any investments in fixed assets. In this context, it is not only the fact of such investments that is important, but also the relative volumes thereof. It has been revealed that over 60% of JSCs within the four-year period under consideration (1999-2002) invested less than one-fourth of the value of their fixed assets, while more than 46% of JSCs made investments within a range of 10% of the value of their fixed assets.

In addition, investment activities are characterised by the structure of financing. These indicators were found in the questionnaire. According to the survey, own capital is the major source of company investments (it accounted for over 80% of total investment) followed by bank loans (11% of investments), Russian partner-enterprises (3.7%) and other Russian investors (2.1%). Budget funds accounted for less than 2% of investments, while stock market funds, for the mere 0.3%.

6 Effect of Ownership and Control on Business Restructuring and Performance: Justification of the Hypotheses

There are many empirical studies of the impact of privatisation, ownership structures and corporate governance features on restructuring and performance of enterprises in different transition countries. These studies use different indicators of business restructuring and/or performance indices based on accounting and survey data. Usually, current performance indices are used, but sometimes researchers can attract data from special surveys of enterprise restructuring activities. The results of different surveys implemented in different years are difficult to compare. Besides, as special comprehensive observations of many surveys have shown (Carlin, 1999; Bevan et al., 1999; Djankov and Murrell, 2002), it is impossible to make exact and final conclusions based on a bulk of studies.

In many empirical studies, a quantitative analysis of the correlation between enterprise performance and the ownership structure (share of various types of shareholders) was made. However, they did not produce any clear conclusions in respect of the influence by one or another shareholder on the company's performance. Thus, as was shown in (Djankov, 1999), in 6 CIS countries (including Russia), the property of outside private or state investors was not correlated with enterprise restructuring. At the same time, property of managers was positively correlated with business performance at low or high levels (so the link has a U-form), and large (more then 30% of stock) foreign investors ownership was positively correlated with the performance. Also, a positive effect of foreign shareholders was captured in a study of Romanian companies (Earl and Telegdy, 2001) as well as in the recent study of Czech companies – also in case of concentrated foreign property (Hanousek, Kocenda and Svejnar, 2004). Another study conducted in Romania, Bulgaria and Poland (Angelucci et al., 2002) could demonstrate positive effects of foreign ownership on business development. In the study of Romanian firms, a positive effect of private property in comparison with state property was revealed (Earl and Telegdy, 2001), but in case of the Czech Republic it is difficult to make clear conclusions. Thus, state companies differed with smaller profitability indices and had the same sales indices in comparison with private enterprises (Kocenda and Svejnar, 2002). Also, in a large-scale research of privatised companies in 25 transition economies the impact of the type of property was not observed (Carlin et al., 2001).

In studies carried out in Russia by the BEA, the REB and other institutions, indicators of the positive influence of employees as owners on the efficiency of Russian companies (Aukutsionek and Batyaeva, 2000; Kapelushnikov, 2001; BEA, 2001; Bevan et al., 2001) were revealed. However, a positive correlation in a number of cases was explained by the endogenous factor, that is, the selection by employees of the most desirable enterprises in the course of privatization (BEA, 2001; Kuznetsov and Muravyev, 2001). Advantages of outside owners were identified in other studies (Radygin and Entov, 2001). It seems that certain conclusions can only be made in respect of a positive correlation between the presence of foreign shareholders and the efficiency of the enterprise revealed in many researches both in Central and East-European countries and Russia (Kuznetsov and Muravyev, 2001; BEA, 2001; Radygin and Entov, 2001; Bessonova et al., 2003).

There is no exact evidence of the positive effect of property concentration either. Attempts of econometric analysis of the effects of ownership concentration on the company performance in Russia and other countries did not yield clear outputs either. For example, Earl and Teledgy (Earl and Telegdy, 2001) have shown that ownership concentration was positively correlated with the performance (labor productivity) of Romanian companies. But in the Czech Republic it was possible to reveal positive impacts of dispersed property on the profitability of companies surveyed (Kocenda and Svejnar, 2002). In Poland it was shown that the effect of concentration on performance has a U-form, and competition works as a complimentary phenomenon for concentration in corporate governance (Grosfeld and Tressel, 2002).

Based on the data of 400 Russian companies, a team of English scholars (Bevan, et al., 2001) could not find correlations between business restructuring and enterprises performance. In some cases, a positive effect of ownership concentration was revealed (Radygin and Entov, 2001), while in others this was revealed as negative (Kuznetsov and Muravyev, 2001). In most cases, that correlation was not linear. Thus, a survey of mainly medium-sized industrial enterprises in the sample of the REB (Kapelushnikov, 2001) showed that enterprises with a medium extent of concentration were the most efficient (10% to 15% equity participation). According to data from Russia’s largest companies (Kuznetsov and Muravyev, 2001), the correlation between ownership concentration and profitability had, on the contrary, a U-form; it hit the minimum with equity participation by the largest shareholder amounting to 52%.

Effects of integration on business restructuring and performance on the basis of empirical data have not been studied. It was noted by researchers that large business groups played an important role in investment processes and the hiring of skilled personnel (Dynkin and Sokolov, 2002), as well as in the structural transformation of the Russian economy (Deryabina, 2001). Integration was mainly necessitated by the need to reduce production costs and minimise transaction costs, as well as the need for consolidation of the market power and protection against opportunistic behaviour of market counterparts (Avdasheva, 2002). Integration was accompanied by such intense enterprise restructuring as was related both to reorganization of assets and establishment of a new business management system.

The effect of the replacement of the CEO on the company’s performance was assessed differently. Data on 217 companies in the period 1998-1999 (Goltsman, 2000) revealed that the likelihood of change of the top management did not depend on the company’s performance. According to a survey carried out by the BEA (Muravyev, 2002), it was concluded that the likelihood of dismissal of a CEO with a poor performance record was higher. As noted in Muravyev (2003), the analysis of the management turnover was complicated due to the need to separate the effects related to such a replacement and the effects related to the shifts in ownership structure.

Our interviews gave basis for preliminary comparison of ownership and control features with the economic state of surveyed companies. Our qualitative data demonstrated (Table 9) that JSCs characterised by higher ownership concentration, non-separation of property and control and by property of business groups had a better financial state and higher investment activities. At the same time, JSCs with 'old' top-managers demonstrated higher investment activities without a significant difference in the financial state. In this case, start-up businesses run by owners and privatised enterprises that retained the old directors are combined in the same group. And 'de novo' businesses determined better indicators of enterprise development.

Let us formulate the major hypotheses (on the basis of interviews and outputs of various empirical researches) in respect of the role of ownership and mechanisms of corporate control in enterprise's modernisation.

Table 9. **Comparison of 33 interviewed JSCs with different features of corporate control and ownership (% to a number of companies in each group)**

Groups of JSCs	**Financial state**			**Investment activities**		
	Good	**Medium**	**Bad**	**High**	**Medium**	**Low**
Ownership concentration						
- Higher	46	39	15	27	54	19
- Medium and low	17	33	50	17	50	33
Dominant owner						
- Top-managers	46	31	23	39	39	23
- External shareholders	35	40	25	15	55	25
Integration						
- Shareholding links	50	35	15	30	55	15
- No links	23	31	46	15	46	39
Replacement of CEO						
- Changed after the crisis	39	39	22	22	50	28
- Not changed	43	36	21	29	50	21
Total	39.5	39.5	21.0	24.2	51.5	24.2

1) Ownership concentration provides the basis for the emergence of an efficient owner who is interested in reforming the business and the prospect of development thereof. The differences between new private shareholders and ’soviet-type’ CEOs who became key owners of their enterprises are eliminated.
2) Integration makes it easier for enterprises to gain access to resources and market channels and facilitate restructuring and business development.
3) Formal structures of ownership and corporate control do not reflect the specifics of internal corporate relations, so they cannot be treated as factors behind modernisation of business.
4) The turnover of the company’s CEOs is a complicated variable. It correlates closely with other parameters of ownership and corporate control. It includes both the dismissal and voluntary resignation of the CEO. In conditions of domination by a large shareholder, the CEO is either the owner or the secondary person in the business (whose situation is typical of the new CEOs). In this context, a change of the CEO cannot be regarded as a factor behind modernisation. In our opinion, a detailed analysis of a combination or separation of ownership and management should be taken into account in future studies.

7 Effect of Ownership and Power Structures on Business Restructuring and Performance: Major Outputs

Ownership structure: concentration of capital. Contrary to our assumptions, the clusters in question did not correlate with any indices of business performance. It was also neutral in respect of restructuring measures taken by enterprises. Separation of JSCs with the largest shareholder with the controlling interest did not reveal any differences in the performance of business, either. However, it showed that these companies were more active in implementation of investment projects.

Those companies probably had better access to outside financing. JSCs with a higher extent of concentration of ownership used less their own capital; instead, they spent bank loans and funds received from Russian partners or non-government investors. If in the group with the owner with the controlling interest the share of their own capital amounted to 71% of investments (the share of banks and Russian investor-enterprises amounted to 14% and 11%, respectively), in the group of JSCs with a low concentration of capital it was over 86% (the share of banks and Russian investors amounted to 8% and less than 3%, respectively). More active borrowing by the enterprise from outside sources can be explained by the existence of the owner of the business; in such a situation the risks of non-repayment of loans become lower. Another evident explanation is the mitigation of “the insider’s dilemma”, since, as was shown above, domination by outside owners is more typical of JSCs with a high concentration of capital.

Ownership structure: domination by the owner. The comparison of the two main groups of JSCs, which differ in the type of the dominant owner, did not constitute the case for the latter. Only a weak positive correlation was revealed between domination by insiders and the capital productivity over 3 years (1999, 2000, 2001) and the level of profitability in 2002. The group was neutral to distribution of JSCs according to investment activity and restructuring. In this context, there is no sufficiently convincing evidence for the fact that employees are efficient owners.

Structure of power: domination by the shareholder in the board of directors. The comparison of the two main groups of JSCs did not show significant differences in business performance either. Statistical data revealed only a weak positive correlation between domination by employees and the level of capital productivity in 2000 and 2001.

Domination by outside private investors had an effect on frequencies of equipment sales and the managers training (such measures were taken by these companies 40-50% more often than by JSCs with domination by employees).

Though investment activity was mostly the same, JSCs with domination by outside private owners financed 75% of their investments out of their own capital, as against 82% of investments in case of the group with domination by employees.

Mechanisms of corporate control: turnover of the CEO. The CEO’s term in office correlated weakly with the subjective estimation of the economic situation of the JSC. The best estimations were given by CEOs who held office for 4 to 10 years, while the worst estimations were given by ’young’ CEOs. It is not excluded that such a difference can be explained by the fact that the new generation of CEOs put forward higher demands. However, objective statistical data also showed a positive correlation between the CEO’s term in office and the level of labour productivity in respect of the gross value added in 2001 and 2002 and integral dynamics of that index in a three-year period. If, in the group of JSCs with 'young' CEOs, a decrease in labour productivity in respect of the gross value added was observed with 29% of JSCs in the group of JSCs with 'old' CEOs, it was observed in a mere 12.5% of JSCs. Also, in a period of three years the index of profitability positively correlated with the length of the CEO's term in office.

The length of CEO's work in this position is a factor which is primarily neutral in relation to restructuring. A trivial significant correlation is the positive correlation between the existence of a 'young' CEO and a radical change of the team of senior managers.

Thus, CEOs who came to work at the enterprise before privatisation showed higher performance of their JSCs. To some extent, the above fact shows the higher efficiency of JSCs with concentrated ownership by employees (that is, ownership by managers), or it may also mean that managers were able to privatise more efficient enterprises.

Integration: participation in amalgamations and business groups. This group is characterised by a certain correlation with enterprise performance. A positive correlation between participation in business groups and capital productivity and labour productivity (in 2001 and 2002) was revealed. So, 87% of integrated companies showed growth in this index in a three-year period as against 76% of autonomous JSCs. Participation by the company in an amalgamation correlated with the higher utilisation of industrial capacities by the enterprise.

Only this group showed a close correlation with many restructuring measures (Fig.). There was a significant difference between enterprises affiliated with business groups and autonomous enterprises in respect of nine restructuring measures whose difference proved a positive correlation between participation in amalgamations and taking measures aimed at replacing obsolete equipment, putting into operation new facilities and introducing of new technologies and an increase in spending on R&D, marketing and advertising, and the training of personnel (20-40% more often). Implementation of an investment project, advance training of managers and change of the team of senior managers were undertaken 80% to 100% more often by integrated companies.

In 2002, affiliated JSCs were more active in investments; the level of relative investments was 2 times higher than that of autonomous companies. Differences in sources of financing in the sample in question were statistically insignificant (JSCs belonging to groups financed 76.1% of investment out of their own capital and 13.8% of investment out of bank loans, compared with 83.0% and 9.2% in autonomous JSCs). At the same time, affiliated JSCs had easier access to investment loans. According to estimates of respondents, access to loans was easy or impossible for 29% of such JSCs in each case. As regards autonomous JSCs, only 16% of such companies had easy access to investment loans, while 44% estimated their company's access to loans as impossible.

Thus, integrated JSCs were more active in carrying out technical reconstruction, training of personnel and business restructuring related to market promotion. These companies can be characterised not only by an active restructuring policy, but also by a comprehensive nature of such policy, stronger investment policy and higher business performance.

8 Concluding Remarks

The main conclusions drawn from the outputs of empirical analysis are as follows:

- After the 1998 crisis, intense processes of corporate ownership concentration and transfer of ownership from employees to outside private shareholders, and replacement of the senior management have taken place. Corporate ownership was mainly concentrated with insiders, which also included dominant outside owners. At the same time, executive management retained prevailing positions; it can either be a large owner or be affiliated with outside private owners. Insider control alone does not mean that ownership and control are separated or combined in the hands of the executive management. This topic demands further studies. Regional and local authorities (in some cases labour teams) are important stakeholders in corporate governance.

- Intense vertical or lateral integration is the reality of the present-day development of the Russian industry. Integration stimulates the transfer of shares to outside owners and a change in composition of the dominant shareholders and mechanisms for enforcement of corporate control.

- Different structures of corporate ownership and corporate control have no significant effect on business restructuring and performance. In this context, the hypothesis on the positive role of concentration of ownership was not convincingly proved.

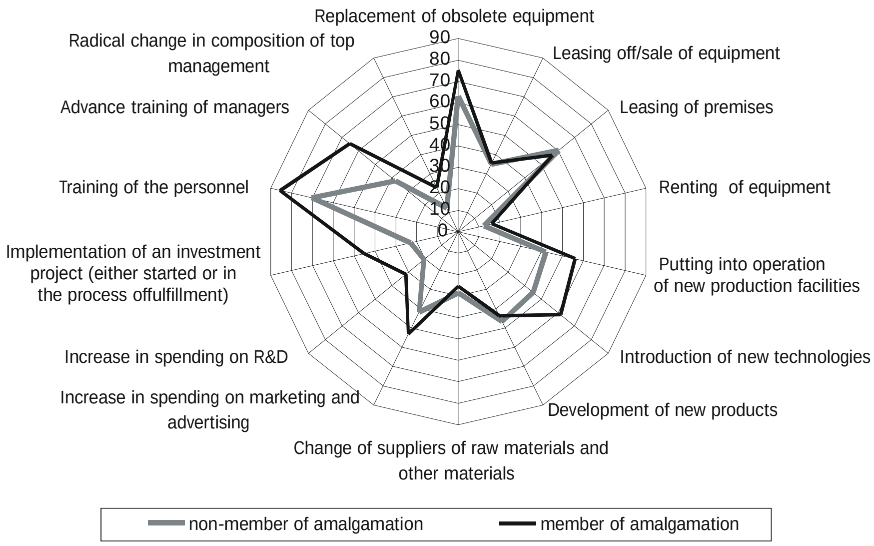
- Replacement of CEOs of JSCs was partly justified by redistribution of ownership and composition of the board of directors. The use of the above mechanism of CEOs turnover did not contribute to comprehensive enterprise restructuring and growth in their investment activity. At the same time, there was explicit evidence of the less efficient operation of enterprises run by new CEOs. 'Old' CEOs probably 'took hold' of the most potentially efficient enterprises.

- The surveyed JSCs were characterised by low investment activity and the prevalence of their own funds in investment sources; the above showed the existence of significant barriers for business development. The specifics of financing investments were strongly connected with the insider type of corporate governance. Only one out of six respondents directly said that they were prepared to make their companies transparent and share control with new investors. A high concentration of capital or domination by outside owners in boards of directors contributed to a relatively greater use of outside sources of financing, mainly, bank loans and funds of Russian non-governmental investors.

- Integration had a great effect on activities of JSCs. These phenomena had no correlation with the ownership structure and corporate control features. So we received corroboration for one of our hypotheses. Indirect characteristics of corporate control such as participation by the enterprise in amalgamations and business groups contributed to comprehensive restructuring and business development, growth in investment activity and improvement of the access to loans. As a result, the dynamics of the generated gross value added per employee was positive at integrated companies.

- Obviously, the outputs obtained and conclusions drawn are correct to the sample data and indicators used. Therefore, ownership structures and composition of the board of directors cannot be regarded as factors behind modernisation of companies. It is likely that other factors and conditions have an effect on modernisation. At the same time, the available quantitative data inadequately reflects the actual property relations and internal corporate control specifics. It should also be stressed that with integration it is difficult to determine the actual company's business boundaries (an enterprise as a legal entity vs. a firm as a business of dominating shareholders). It complicates the correct interpretation of statistical indices or survey data of an individual enterprise and can distort any precise statistical calculations or econometric analysis.

Figure 1. **Profiles of Enterprise Restructuring Depending on Participation in Amalgamations**



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