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THE BIRTH OF AN ENTREPRENEURIAL BOARD IN EMERGING MARKETS: A RUSSIAN CASE

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This paper investigates the role of boards in founder-managed firms with concentrated ownership in emerging markets. The existing literature suggests that this type of company, even if they decide to recruit high-profile individuals as directors, rarely empowers the boards in the corporate governance structure. The paper conducts a case study of AFK Sistema—a large Russian investment company which is controlled and managed by the founder. We observe that, contrary to expectations, in this company the founder empowered the board of directors at the same time focusing on recruiting independent (mainly foreign) directors to the board, in spite of the costs associated with this governance structure in the Russian context. Based on this case, we develop a theory of entrepreneurial boards where directors are expected to take the initiative in relations with both internal and external actors and where the empowerment of boards is necessary to provide them with proper motivation.

GEL classification: D23, G34, M14

Keywords: board of directors, corporate governance, founder-managed firms, entrepreneurial function, emerging markets

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1. Introduction

The role of boards in companies with concentrated executive ownership remains a disputed topic. The agency theory (the dominant paradigm for studies of boards in the literature) suggests that when a company is controlled by its management, the role of independent directors should be limited, since the principal-agent problem between officials and owners is absent (e.g. Gabrielsson 2007; Desender et al. 2013). This is particularly true for founder-managed companies, where the success of the business is determined by the vision and the energy of the entrepreneur. The resource dependence theory suggests that even in this case boards can matter for a company, linking the organization to external actors and thus reducing uncertainty, and providing legitimacy and critical resources (Hillman and Dalziel 2003); thus, the boards exercise an important service function.

However, while the resource dependence theory explains why companies attempt to recruit independent directors to their boards, it does not necessarily argue that in order to obtain resources through independent directors one needs to empower the board as a decision-making actor. Independent directors may accept positions on powerless boards in exchange for remuneration, as a tool for networking or in order to enhance their future career by gaining from the company's reputation; in exchange, they can provide access to resources and information for the company management, with the board remaining a strictly advisory body. This is frequently observed in companies where politicians or bureaucrats occupy board positions, without active intervention in the company operations or strategic decisions.

This paper develops a theory explaining why founder-managed companies with concentrated ownership may recruit independent directors and create strong boards,[5] even if the owner continues to manage the company. We suggest that this happens when the founder is particularly interested in establishing a board where independent directors actively take initiative on behalf of the company, for example, acquiring new business projects and securing new partners, which are then offered to the management. This board may be important for the founder as a tool to ensure long-term growth and for the survival of the company. In a sense, board members act as co-entrepreneurs for the company, and thus we refer to this activity as the 'entrepreneurial function' of boards. Certainly, we do not equate the activity of the board members in this case to entrepreneurship (particularly, because the risks and decision-making abilities are hardly comparable), yet we argue that the entrepreneurial function can be exercised

[5] We define the 'strength' of the board as the degree of involvement in the corporate decision making and the ability to act as a veto player (Almazan and Suarez 2003). The 'strength' is not a binary characteristic, but rather a matter of degree. In the extreme case of a 'weak' board, the board automatically approves any decisions submitted by management without further discussion or has very limited responsibilities; this board could exist merely to satisfy the requirements of the law. If the strength of the board increases, a larger portion of company decisions are subject to board approval and, more importantly, directors can change and shape company decisions.

only by intrinsically motivated board members and cannot be achieved if board members are motivated merely by remuneration. Intrinsic motivation, in turn, requires the empowerment of the boards.

We construct the theory inductively, based on a case study of a Russian company *AFK Sistema*, which provides an example of the development of such an entrepreneurial board. Looking at an emerging market company in the context of this study is particularly promising. Emerging markets are generally characterized by very high concentration of ownership (Claessens and Yurtoglu 2013). Furthermore, for emerging markets it is typical that owners are actively engaged in company management. The empirical literature on Asian markets shows that under these conditions the monitoring function of boards is weaker than the service function (Young et al. 2001; Tian and Lau 2001; Peng et al. 2008; van Essen 2012). In the case of *Sistema*, as we will show, the owner goes beyond that, actively promoting a strong and independent board. However, for emerging markets the costs of empowering boards, since this leads to slower and more formalized decision making and complicates informal interaction between the founder and her business partners, are particularly high. Based on our observations, we develop a more general theory of entrepreneurial boards.

The paper is organized as follows. Section 2 presents a brief literature review. Section 3 presents the context of the study and the methodology. Section 4 reports the main observations from the case study. Section 5 develops the theory of entrepreneurial boards. Section 6 concludes.

2. Literature review

The role of boards in companies with concentrated ownership is primarily discussed within three branches of the literature. The first concentrates on the monitoring function of boards, consistent with the agency approach, and emphasizes how this function can be transformed if the company is controlled by a few dominant owners. When concentrated ownership is not associated with direct involvement in the management of the company, there is still space for opportunistic behaviour of the management, and thus, the board's monitoring function is required. The extent to which boards play a role in this context depends on the type of ownership: Sur et al. (2013), for example, distinguishes between institutional, corporate and family ownership, suggesting that the monitoring function is particularly relevant for the first. If the key shareholder is directly involved in the company management, boards can play a role in resolving 'principal-principal' problems—the possible opportunistic behaviour of the dominant shareholder jeopardizing interests of minority shareholders (Anderson and Reeb 2003; Young et

al. 2002; 2008).[6] In this case, however, strong boards may appear only either as a 'concession' of the dominant shareholder, or as an attempt to improve company's attractiveness in capital markets. In our paper, we investigate a case where 'principal-principal' conflicts are unlikely to explain the formation of strong boards in companies with executive ownership.

When the dominant shareholder is directly involved in company management (as in founder-managed firms) and the pressure from minority shareholders is limited, the role of boards can be explained by their service function. This is what Sur et al. (2013) expects to affect board formation for companies with family and corporate ownership (in the latter boards should play an important role in improving connections between different parts of the corporate structure). The role of boards should be explained by the resource dependence perspective (Desender 2009; Bettinelli 2011; Daily et al. 2013). As mentioned, this approach looks at boards as structures which make it possible for the company to optimally manage external dependencies and uncertainties. Board members can provide advice to the company management, enrich the company by giving access to information and other resources, and, finally, serve as a source of legitimacy and reputation (Pfeffer and Salanick 1978).

The extent to which the board can exercise these functions depends on several characteristics: board size (which has been in the focus of the early literature, see Pfeffer 1972); the background and the composition of board members (Westphal and Fredircsson 2001; Kroll et al. 2008, McDonald et a. 2008; Kor and Sundaramurthy 2009; Faleye et al. 2012; Johnson et al. 2013); and the way board members interact with each other and with the management (Huse et al. 2011; Tian et al. 2011). The composition of the board, in turn, is investigated from two perspectives: on the one hand, the literature looks at particular types of directors and their contributions to the company (Hillman et al. 2000; Faleye et al. 2011; Krause et al. 2013); on the other hand, the contribution of the board may depend on how its members 'fit together'—from what Hillman et al. (2010) characterizes as 'board capital'. There is a vast empirical literature confirming that the resource dependence perspective indeed reflects an important aspect of the board's role (for a survey see Hillman et al. 2009). Yet, as mentioned, the resource dependence perspective does not necessarily explain the reasons for empowering boards, which is at the core of our study.

The explanatory power of the resource dependence theory for individual firms clearly depends on their characteristics and evolution (Daily and Dalton 1993; Kroll et al. 2007; Courtemanche et al. 2013). The dynamic perspective is precisely at the core of the third group of studies relevant for us—the literature on founder-managed firms, where the effects of board

[6] The ability of boards to resolve the 'principal-principal' conflicts is subject to controversy in a large recent body of empirical literature (Kaymak and Bektas 2008; Hu et al. 2010; Jiang and Peng 2011).

characteristics can be different from other firms with executive ownership (Garcia-Ramos and Garcia-Olalla 2011). There are two problems founder-managed firms face in their development. First, the 'threshold firm' argument (Daily and Dalton 1992; Gedajlovic et al. 2004) suggests that after certain period of growth further successful development is feasible only if founders transfer control to professional management. Second, if the founder remains active in the management, the company will sooner or later face the problem of succession (e.g. to the next generation of founder's family), which is known to be a critical point many firms do not survive (e.g. Miller et al. 2003). Audretsch and Lehmann (2006) generally argues that boards with an appropriate composition can enhance the entrepreneurial access of knowledge spillovers. Zahra et al. (2009) indicates that strong boards of directors may improve their ability to cross the threshold, since the directors will assist the management in accumulating knowledge and concentrating on key strengths of possible development.

We acknowledge the importance of this argument; in fact, in the case of *Sistema*, it is also possible to trace the 'crossing of the threshold' in terms of the professionalization of the management of this company (although the owner remained actively involved in company decision-making). However, we also observe the presence of another challenge, which could, somewhat simplified, be referred to as 'second threshold'[7], where the development of independent and strong boards becomes necessary. In this case, the main challenge for the firm is associated with trust and legitimacy. The legitimacy provision is one of the key elements of board formation in the resource dependence theory (Certo 2003; Hillman et al. 2007); however, in particular for emerging markets there may be a deeper problem of trust which the company has to deal with. Emerging markets are typically characterized by very low trust levels, affecting the way business is conducted with domestic partners and making personal connections a crucial component of the business operations (Oleinik 2005). Dealing with foreign partners, companies from emerging countries often face substantial mistrust as well, for example, due to general mistrust to their country of origin resulting from non-transparency, unclear origin and business practices (e.g. Filippov 2010). As we argue, the founder may be able to overcome this mistrust, using her own personal reputation;[8] however, over time, this resource may become insufficient. This is precisely the 'second threshold' we describe, which, as we argue, is associated with the emergence of the entrepreneurial boards, and which constitutes our contribution to the literature.

[7] Note that we do not argue that this threshold should always occur after the 'first', i.e. when challenges of decision-making require professionalization of management. Although the timing seems to be like this in our case, it may be a coincidence.
[8] Throughout the paper, we use the concepts of 'trust' and 'reputation' interchangeably.

3. Case selection and methodology

3.1. Russian context

Russia is, as are many other emerging markets, characterized by a very high level of ownership concentration. Empirical research has repeatedly shown that most Russian companies are controlled by a single owner or a coalition of shareholders, although to actually trace the ownership structure is very hard because of its non-transparent nature (Chernykh 2008). These ownership structures rarely represent cases of a 'family firm', as it is known in the standard management literature. Since the origins of business in Russia are linked to the privatization of originally state-owned assets of Soviet companies, Russian founder-managed companies often emerge as relatively big groups, where the initial owner (or coalition of owners) managed to succeed in the privatization struggles of the 1990s and subsequent property redistribution. It typically required strong political and business connections of the initial owners, which were then used to establish business contacts and to protect the property in the lawless environment of the early stage of Russian post-Soviet economic reforms. At the same time, Russian companies created in the 1990s are currently facing the problem of intergenerational succession or of crossing the threshold from founder-managed to professionally managed firms (Dolgopyatova et al. 2009).

Russia is a continental law country, with two main legal forms of corporations: limited liability company (OOO) and joint stock company (AO).[9] The latter is used by large public Russian companies (and, in particular, by *Sistema*). For this legal form, Russian law stipulates a strict separation between the board of directors (or the supervisory board) which has to be established in all companies with more than 50 shareholders and the management of the company (which may be exercised either by a single CEO or by a collective managing body); thus, in the Russian system the function of the boards rather resembles that of supervisory boards in two-board corporate governance systems (e.g., in Germany). The positions of the board Chair and the CEO are separated, and the share of members of the collective managing body may not exceed 25% of the number of directors (lower-level managers and company officials may be included on the board without limit). Directors are elected by the shareholders for a one year term.

The board of directors is, specifically, assigned, according to the law, the authority to: determine the main directions of the company development and strategy; approve the main transactions, including acquisitions and the reorganization of the company; assemble and prepare the shareholder meetings and determine their agenda; approve the internal regulations of the

[9] In 2014, the system experienced a major reform, which, however, happened after the conclusion of our investigation. Details of the former system see in (Iwasaki 2007).

company and approve the issue of new stock; and provide recommendations regarding the dividend payment. Furthermore, it may be assigned the responsibility to select the management of the company. However, in addition to these issues, companies may grant additional authority to the board; thus, the responsibilities of boards in Russian companies can vary substantially.

At the same time, it is well known that the operations of Russian business are dominated by informal governance practices (Estrin and Prevezer 2011). Regardless of the authority of the board in the company by-laws or in the legislation, some boards actually influence the decision-making, while others are merely approval mechanisms which have been established to satisfy the requirements of the law (on the similar international experience see Cohen et al. 2012). Internationalization has improved the quality of corporate governance in Russian firms (Heinrich 2003) and, in particular, it has supported the empowerment of boards; but even in this case many companies apply a purely formalistic approach to satisfy the requirements needed to obtain foreign financing; at the same time, the dominant informal governance structure still mostly excludes the boards. From this point of view, the same formal by-laws and regulations can be associated with both 'working' and 'sleeping' boards (Dulyak 2013) giving company owners large de-facto opportunities for designing various governance structures.

The existing empirical evidence on Russian boards generally suggests that the boards are typically relatively weak in terms of their ability to influence company strategy. In most Russian companies, boards are under the control of the management and key shareholders, with outside directors forming a minority of the board members. Boards spend excessive amounts of time discussing tactical issues (which would typically be a matter for management) (Lazareva et al. 2007). Iwasaki (2008) suggests that Russian companies are characterized by extremely heterogeneous board structures: while in some boards are dominated exclusively by insiders, others have a large share of outsiders; he also shows that the composition of the board is driven primarily by bargaining between shareholders ('principal-principal' conflicts). Having a large share of outside directors, however, does not improve the performance of Russian boards (Peng et al. 2003). Melkumov (2009) argues that resource provisions may be an important task for Russian boards, although conjectures that this task should be particularly assigned to boards of companies from the Soviet period (as a legacy of pervasive role of networks in the Soviet economy). In this paper we investigate the case of a Russian company, which, contrary to these observations, has a strong functioning board of directors.

3.2. Case selection

The choice of a single case study approach in this paper follows the argument of Yin (1984), who suggests using a revelatory case to observe phenomena previously unexplored in scholarly debate, which could serve as a starting point for further theory building (Eisenhardt 1989). Our case therefore had to satisfy two criteria: to be a single-owner founder-managed firm, and a firm where, contrary to the expectations of the theory, there is a large share of independent directors on the board, and where the board is endowed with substantial authority in the corporate governance structure. This would allow us to reveal functions of board previously not discussed in the literature and to develop the theory we are interested in.

Sistema was established in 1993 and already by the late 1990s was acknowledged as one of the largest Russian business groups (Pappe 2000), consistently ranked among the top 10 Russian companies in terms of revenues. In 2013, the company reached 308th place in Fortune 500 list. Key financial indicators of *Sistema* are summarized in Table 1. The company emerged as a conglomerate, including a large number of service and high-tech companies. Over time it transformed into an investment company with a diversified portfolio. As of early 2014, the two main assets of the company are *MTS* (one of three largest mobile service providers in Russia) and *Bashneft* (one of ten largest oil companies in Russia); both companies are also listed, as is *Sistema*. Until the acquisition of *Bashneft* in 2009, *Sistema* was one of very few large high-tech companies in Russia; even currently it is different from other companies which mostly focused on energy and metals. *Sistema* has a highly concentrated ownership structure. As of 2013, the company's founder, Vladimir Evtushenkov, holds more than 64% of the company stock and continues to be personally engaged in the governance and management of the company. In the 1990s, *Sistema* used a cross-holding structure, as did many other Russian businesses; the information about key owners has been published since early 2000s.

Table 1: Key financial indicators of Sistema, 2006-2013, US$ million

	2006	2007	2008	2009	2010	2011	2012	2013
Turnover	10266.59	13410.65	16071.13	18749.82	28099.00	32981.00	34241.00	35942.07
Net profit	813.00	1571.90	61.98	1643.44	918.00	218.00	1794.00	2257.53
Total assets	20191.24	28396.66	29177.12	42011.04	44109.00	43902.00	44726.00	43249.00
Equity	4520.71	6658.76	9327.82	14010.00	14209.00	13706.00	13315.00	14495.70

Source: official reporting of Sistema; turnover and net profits are reported for the respective reporting year; other indicators are reported for the end of the reporting year

Most assets of *Sistema* are located in Russia and the post-Soviet countries (although recently the company also invested in an Indian telecommunications company) and it does not have major foreign shareholders (*Deutsche Bank* is a nominal shareholder representing the owners of the GDR, which as of the end of 2013 accounted for 19% of the shareholder capital); however, many subsidiaries of *Sistema* (particularly *MTS*) have large investments abroad. Still, many of the holdings of *Sistema* were developed as joint ventures with European multinationals (including, for example, *Allianz* or *Deutsche Telekom*). *Sistema's* stocks are listed both in Russia and in the UK (through GDRs at the London Stock Exchange). Thus, for *Sistema* the task of broadly defined internationalization (including searching for partners abroad and acquiring capital) is highly relevant.

In autumn 2014 (i.e., after the conclusion of our case-study), unexpectedly for observers of the Russian economy and business community, the Russian prosecution initiated an investigation concerning the legality of the privatization of *Bashneft* and the subsequent purchase of this company by *Sistema.* Evtushenkov was put under house arrest, and *Bashneft* was renationalized based on a court's decision. The subsequent prospectives of *Bashneft* are unclear; the situation, one the hand, has not influenced the results of our studies, but, on the other hand, illuminates a number of important observations we made during the case study.

3.3. Methodology of the study

Data collection for the case study was based on archival research and semi-structured interviews. Archival research was used for preliminary information gathering and the analysis of formal rules concerning the role of the board in *Sistema*. We mostly looked at company information (website, reports and financial statements, company by-laws and other regulations), and information in the public domain on the members of the board. We also looked at the agendas of the board meetings, and other available information on board activity published by the company (e.g. attendance of board meetings). Furthermore, we collected the statements of company officials made in their public media appearances (in particular, those by the company's founder and CEO). We collected additional and updated information in summer 2014 (after the completion of interviewing).

We conducted ten semi-structured interviews with key decision-makers and company officials. We interviewed four groups of actors. The first set of interviews was conducted with the directors. We selected the set of respondents to cover a broad range of various groups represented on the board, and thus interviewed three Russian and two foreign members of the board (the distinction is particularly important in the emerging market context). In the management team, we interviewed the senior vice president responsible for corporate

governance and two first vice presidents responsible for particular investment areas of *Sistema*. We also interviewed the corporate secretary, that is, the person responsible for the implementation of the corporate governance system and organizing the communication between the board and the management team. Finally, we conducted an interview with the founder of the company (and Chair of the board) who is responsible for key decisions and thus crucial for our study. *Appendix 1* lists the main interviews we conducted.

All interviews were conducted in Moscow. The conversations typically lasted for 60-90 minutes and were conducted in Russian with Russian counterparts and in English with foreigners. Each interview started with verifying general information concerning the respondents. The remaining part of the interview typically consisted of three parts. The first focused on understanding the respondent's perception of the role of the board in *Sistema*, its interaction with the management team and the procedures used for board operations. The second part discussed the potential contributions of the members of the board to the functioning of the company. The third part discussed the recruitment of board members and possible changes over time. For directors, managers and the corporate secretary the plans of the interviews were designed separately (although to some extent overlapped). While we based each interview on a set of questions prepared in advance and sent to the respondent, there were multiple deviations from the original plan following the particular path the interview took (*Appendix 2* presents the reduced plan of the interview with a director). In the final step, we discussed our conclusions with the corporate secretary of *Sistema*, who reviewed a short summary of this paper. This step was necessary, as otherwise the theoretical priors and a lack of information about particular details of company operations could bias our results.

4. Main findings

4.1. The evolution of the corporate governance in *Sistema*

Like most Russian companies, *Sistema* emerged as a business with a non-transparent property structure (Pappe 2000) and with weak corporate governance. Interestingly, though, the interviews we conducted indicate that, at least according to the current recollection of events, Evtushenkov attempted to implement some form of formal corporate governance in *Sistema* beyond the formal requirements of the law at a relatively early stage of the company's development:

> I have spent 15 years at *Sistema* and have seen the entire development from a small company to a dynamically run company following all Western procedures. I have to acknowledge that there were many pessimists when this was promoted, many

thought that it was excessive, there was excessive paperwork. But Mr. Evtushenkov—we have been working together for 15 years—consistently followed this line (non-executive director).

According to Pappe (2000), in the 1990s the company's business assets were primarily concentrated in the City of Moscow—and *Sistema* had very strong ties to the Moscow mayor of the time, Yuriy Luzhkov, which probably substantially contributed to the company's business activity. In 1998, the company entered a period of expansion, associated with acquiring assets throughout the country. Furthermore, since 1997 *MTS* developed from a Moscow-focused mobile phone provider to a company present throughout the Russian Federation (furthermore, the late 1990s–early 2000s were the period of massive expansion of mobile phone access in Russia). In 2005 was the IPO of *Sistema* on the LSE. Thus, it could be hypothesized that this massive growth could have shifted the company towards the threshold where instituting corporate governance mechanisms and professionalizing management became important.

Let us provide an incomplete list of changes *Sistema* underwent during the period in question. In 2002, *Sistema* published the list of beneficiaries (Russian companies in the 1990s rarely provided any information on the property structure at all); in 2004 it adopted a number of internal directives regarding the functioning of its governance institutions, and a Corporate Behaviour Code, which specified the corporate governance procedures and included additional norms on transparency. The company adopted a risk management directive and a dividend policy directive; the first independent directors joined the board of *Sistema*. In 2007 the company created an internal scoring system for corporate governance of subsidiaries; over the period in question, the company decentralized the management of subsidiaries and reorganized it, dividing subsidiaries into industrial groups. In 2007, the first corporate social responsibility report was published. In 2006, *Sistema* shifted from a single CEO system envisioned in the Russian law to a collective management system, which can be seen as an element of the professionalization of the management. Throughout 2006-2009, the management body experienced substantial personnel changes (the ratio of newcomers and resignations to the number of board members at the end of the year varied between 40% and 70%), reflecting the changes in the company.[10] Overall, the changes seem to be consistent with moving to the more professional, transparent and formalized management necessary for founder-managed companies at a certain point of their evolution.

[10] The managing body of the company continued changing at a high speed after 2010. In the interviews, company officials explain the fast turnaround of management team by changing portfolio of assets company holds. Interestingly, the board membership shows much more persistence than the composition of the managing bodies: while the key managers of the company are frequently replaced, directors typically keep their position for a number of years. Between 2006 and 2013, on average, the company replaced 1.6 board members per year.

The transformation also affected the functions of the board. Before 2006, the board primarily assisted the CEO in exercising managerial tasks. During this period, according to the interviews, board meetings were very frequent and typically devoted to tactical issues; the board was primarily composed of company executives. The establishment of the collective management system in 2006 allowed the board to concentrate on the issues of strategy. Since 2006, the founder returned to the position of the board chairman (he had been the chairman from 1994 to 2004), at the same time remaining active in day-to-day company decisions. At the same time, as Table 2 shows, the share of independent directors on the *Sistema* board was initially rather low, as was the share of foreign directors. Thus, the professionalization of management, the establishment of corporate governance bodies and the increasing transparency did not immediately result in the creation of a strong and independent board. However, over time the situation changed.

By the end of the first decade of the 2000s, *Sistema* still faced the major challenges of internationalization beyond the original market niche, and of intensifying contacts with foreign partners, on the one hand, and ensuring the long-term development and stability of the company given the ageing of the founder, on the other. In particular, a possible trigger for concerns regarding future organization of *Sistema* was the global economic crisis of 2008-2009, which also had a substantial effect on Russian business. Although, as Table 1 shows, the fundamentals of the company remained robust during the crisis, it did change the perception of the company leadership. Responding to the question about possible 'milestones', when changes in the operations and organization of *Sistema* became particularly pronounced, the interviews clearly revealed that it happened after the crisis. "The crisis shook us up quite strongly, everybody started to move. Before crisis everything was good, we had a lot of money, we were growing, capitalization was growing. Euphoria was there. After the crisis everybody started to move" (non-executive director).

Hypothetically, there were several ways the company could have responded to the challenges. It could have, for example, substantially reduce the level of transparency, returned to the practice of personalized decision-making and taken a very conservative stance on future strategy, possibly extracting revenue from the most stable 'cash cows' in the company portfolio. Instead, the company pursued a strategy of strengthening corporate governance in 2011-2013. Furthermore, the company's strategy was redefined: *Sistema* positioned itself as an investment company rather than a conglomerate.

For us, the most relevant fact is that the changes had substantial implications for the composition of the board. As the Table 2 shows, the number of independent directors made up two-thirds of the board; the share of foreign citizens also increased substantially. In 2011-2013

Sistema focused on acquiring high-profile individuals as members of the board (at the same time endowing it with real authority). While it is hard to explain this shift in terms of the pure resource dependence perspective, we will attempt to provide an explanation based on the entrepreneurial functions of the board.

Table 2: Evolution of membership in the board of Sistema, 2005-2013, end of the year

	2005	2006	2007	2008	2009	2010	2011	2012	2013
Number of directors	11	11	10	10	13	11	12	13	13
Independent directors	3	4	3	4	4	3	5	8	8
Non-executive directors	6	5	5	4	7	6	6	4	4
Executive directors	2	2	2	2	2	2	1	1	1
Russians	10	9	8	7	8	7	8	7	6
Foreigners	1	2	2	3	5	4	4	6	7

Source: compiled by authors based on company information

Sistema has systematically outperformed the existing Russian corporate governance standards in terms of transparency. The share of independent directors in *Sistema* exceeds substantially the recommendations of the new Russian Corporate Governance Code (2014), which requested that at least one third of the board members are independent directors. It also outperforms several international standards in this respect. The UK Corporate Governance Code (2013) recommends that at least one half of the board members be independent.

4.2. Composition of the board

As a first step, let us have a closer look at the composition of the *Sistema* board over time. Based on biographical data, we classified the independent directors into several groups: industrial specialists (e.g., deep knowledge of markets where *Sistema* subsidiaries operate); functional specialists (e.g., having expertise in accounting, marketing etc.); former CEOs of large Russian and international companies; investment experts (i.e., having experience in operating investment companies) and political and social influential figures (see Table 3). While there is a small group of industrial experts on board, the company rarely appoints them to board level (they are more frequently encountered on the boards of subsidiaries). There seems to be an increase in the number of investment experts, probably consistent with the new self-identification of *Sistema* as an investment company since 2011 Two groups, which account for the largest shares of independent directors and also exhibit most substantial growth over time, are CEOs of large companies and politicians and bureaucrats. This may be consistent with the importance of legitimacy, reputation and connections as the main contribution *Sistema* board members provide.

Directors of *Sistema* frequently have multiple areas of expertise.The contribution of Roger Mannings, can be described as that of functional expertise (in the audit committee of the board he chairs, due to his year-long experience with the KPMG), that based on knowledge of international markets (especially in the Western Europe) and that of industrial expertise (oil and gas, healthcare etc.). David Iakobashvili, in addition to being well-connected in the Russian business community, also has experience of managing *Wimm-Bill-Dann*, a Russian food producer, which was among the first to be listed internationally. Marc Holzmann has experience in business, academia and governmental structures. The board of *Sistema* includes high-profile individuals with strong reputations for resources and connections.

Table 3: Professional background of Sistema independent directors, 2005-2013

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013
Industrial experience	2	2	1	1	0	1	2	2	1
Functional experience	0	1	1	1	1	1	1	2	2
Experience in investment company business	0	1	1	1	1	0	0	2	2
CEOs and entrepreneurs	1	2	2	2	1	1	3	4	4
Politicians, former bureaucrats, community influential persons and scientists	2	2	1	2	3	1	1	2	3

Source: complied by the authors based on company reports

Note: a director may have multiple forms expertise, and thus counted several times

The composition of the board of *Sistema* indicates that the company attempts to use the resources of the board, rather than to keep the board for purely formal reasons. One foreign independent director describes the shift in the composition of the board as an outcome of the initiative of Evtushenkov, willing to keep people with different experience and competences in the board. The interviews provide mixed information about how board members are selected. Nomination is by the main owner or on the suggestion of directors, top-managers or minorities. Furthermore, at least for foreign members of the board, it is unlikely that by becoming directors they were able to improve their personal reputation (*Sistema*, while successful, is not a company with global recognition), although they could potentially use their positions, e.g. to acquire new board positions. Thus, we need to have a closer look at the motivation of the board members.

4.3. Functioning of the board

Overall, the board appears to be not merely a collection of high-profile individuals, but a body with substantial influence in the corporate governance of the company—what could be referred to as a functioning board. While almost all respondents explicitly acknowledge it in the interviews (they frequently referred to what they call the "extended responsibility" of the board as part of the philosophy of *Sistema* corporate governance), there are two indicators supporting this claim: the attention the company pays to organizing the work of the board and the ability of the board to revise the decisions made by the management.

The board regularly meets 8 to 10 times a year. In terms of topics, since 2009 two issue areas appear to be particularly important: general strategy issues, considering, for example, new business activities, general directions of the company development (i.e. concerning multiple business segments), and the approval of acquisitions and divestments (which is obviously very important for an investment company). Overall, about 50% of all issues on the board agenda belong to these two areas. In the area of strategy, "no important decision is made without the board" (Russian independent director). More tactical issues are rarely discussed at the board (see Table 4).

Table 4: Agenda of the board meetings of Sistema, %

Types of issues	2009	2010	2011	2012	2013
Business strategy, new investments and activities	22	25	19	22	30
Functional strategy			9	7	7
Appointments and personnel	7	4	3	10	11
Participation in subsidiaries	6	12	9	16	10
Approval of deals	34	37	33	17	19
Approval of internal documentation	2		1	2	2
Financial reporting and audit	14	12	8	12	8
Corporate governance and issuance of securities	15	10	18	14	13

Source: compiled by authors based on company information.

The meetings of the board are typically preceded by meetings of committees, although the frequency of committee meeting differs depending on the structure of the agenda. Since 2011, the board has included five committees: strategy; appointments, remuneration and corporate governance; audit, finance and risk; ethics and control; and investor relations and dividend policy. Throughout the last decade, the number of committees has steadily grown (from an original three – strategy committee, corporate behaviour committee, and appointments and remuneration committee). Within the structure of the committees, the strategy committee has

been indicated by the respondents as a particularly important one, also receiving a lot of attention from Evtushenkov. Until 2011, most committees included both board members and company managers; however, as of 2011, only directors may participate in committees.

The directorate shows a significant commitment to participation in the board activities. On average, a board member attended more than 90% of the meetings of the board during his tenure; only few board members attended 80% of the meetings. The attendance of the committee meetings exceeds 80%, with the exception of strategy committee, which has the largest membership (attendance is close to 70%). This is important, since, as we show in what follows, board meetings of *Sistema* are time consuming. The interviews also reveal that Evtushenkov himself devotes a lot of attention to the activity of the board, actively participating in the discussions. Unlike other Russian companies, where the board meetings typically have to merely accept the already prepared set of decisions, in *Sistema* key suggestions from the management are reviewed by the board, and it is not uncommon for the board to request a decision to be improved or revised. The respondents were not unanimous with respect to how often the board actually turns down the proposals of the management, but all agree that it is not an exceptionally rare case. It is also the case that the management adjusts the proposal for final discussion at the board based on previous informal communication with the directors (according to some respondents, it happens in roughly 20% of the cases). The board rarely makes an immediate decision on the items on the agenda for issues of crucial importance for the company and strategy decisions; typically the members engage in a detailed discussion of the topic. Fast decisions happen only in the case of purely technical items, or for poorly prepared items. Occasionally the members of the board suggest new topics for discussion (typically as an extension of the topics being debated), but it happens infrequently during the meetings of the board themselves as usually the proposals have to pass through the committees of the board. There is a monitoring system for the decisions of the board. After each meeting, a special list of directives, including the responsible officials, is prepared; at the beginning of the next meeting, the board checks as to whether these directives were implemented or not.

Most *Sistema* directors acknowledged that exercising their function on board is a time consuming procedure (directors residing abroad, for example, referred to a 'board week' preceding the actual board session, when they have to come to Moscow and participate in numerous meetings).

The company invests substantial effort in ensuring that board members actively cooperate with each other during the board meetings. For example, the board meetings (typically taking place on Saturday) are always preceded by an informal dinner on Friday, which serves as a communication channel between directors and the management (the importance of this informal

institution cannot be emphasized enough—literally every interview we conducted contained references to these informal meetings and perceived them as a highly positive feature of *Sistema*'s board organization). The function of this dinner is, as in case of the board committee meetings, to prepare the final decision of the board, however, unlike committees, which have to follow a certain more formalized routine, the dinner serves as a platform for the free exchange of thoughts and ideas.

The company encourages contacts between directors and the management team: directors have the opportunity to discuss their concerns with the managers, and the managers are also allowed to directly contact board members. Some of the independent directors say that they have discussions with the managers of the company very often. The attention devoted by the company to the work of the board is perceived as extraordinary even by the directors themselves: "I have never seen a company where a board meeting honestly lasts for several days" (non-executive director); "It is known that many Russian companies do it [implement the corporate governance norms] only formally, to satisfy some rating criteria. We intend to go away from it, while ratings are important for us, we look for efficient mechanisms of work" (member of the managing body).

As for board composition, the system of board functioning we observe in *Sistema* did not emerge by coincidence or as the outcome of external pressure (e.g. conflict among shareholders). All respondents in the interviews we conducted unambiguously confirm that the strengthening of the board was explicitly promoted by the founder. This was also confirmed by Evtushenkov himself. The interviews explicitly point out that by introducing a relatively more powerful board, the dominant shareholder is actually limiting his power: "He [Evtushenkov] as a shareholder could have had absolute power. He, based on his convictions, consciously decided to balance it out" (a member of the managing body). Furthermore, Evtushenkov did not merely envision or support the creation of the corporate governance structure we described, but is actively engaged in the routine work of the board, e.g. encouraging board members to express their opinion regarding the issues on the agenda (a foreign independent director).

At the same time, the management of the company clearly recognizes that a functioning board comes at a cost within the Russian context. This applies generally to having a developed corporate governance structure. A non-executive director points out that his personal feeling is that in Russia for the owner it may be better not to have a publicly open company and not to disclose any information. Technically, preparing a board meeting (with a large share of foreigners) is not an easy task: Still, in spite of these costs, the company opts for a strong board and explicitly supports it.

4.4. Entrepreneurial function and motivation

The interviews revealed the multiple functions and contributions board can provide *Sistema.* For example, advice and expertise play an important role (as it was indicated by Evtushenkov himself in his interview, where he explains the development of the corporate governance structures in the company by its size and complexity and the need to have independent information on every company decision). Similarly, many interviews confirm the importance of the political connections of the members of the board, which is not unusual for emerging markets. However—and this is the most important finding for us—respondents repeatedly referred to the importance of what we have described as the 'entrepreneurial function'.

As discussed, we define entrepreneurial function as taking the initiative in relations with internal and external actors. Previously reported evidence, in line with the interviews, confirms that in relations with managers board members often proactively seek contacts and discussion. As for external actors, there are two ways in which *Sistema* board can be seen as exercising the entrepreneurial function. First, direct evidence of these activities is, as mentioned, the involvement of board members in project initiation. This is acknowledged by both directors and management. On the board side, non-executive director describes the work of the board in the following way: "we are generating projects, the board members are very active in this respect. I have brought several myself". Occasionally, members of the board refer to their industry specific expertise in acquiring projects (foreign independent director). On the management side, the member of managing body claims that:

> The board includes a large number of independent directors with broad interests, who are actively expressing their interest in deals made by company and suggest various investment opportunities—for instance, to me as the portfolio manager—which are associated with their activity, geography and membership in other boards.

As the interviews reveal, from the point of view of the management the independence of directors is particularly relevant because they have larger network of contacts, who are different from that of the management.

Second, interviews with the management and directors show that board members are expected to actively represent the company and promote it in the networks they have access to (especially while exploring new markets and business opportunities). In this, *Sistema* board members do not produce new projects directly, but still act independently and use their reputation on behalf of the company. One of top-managers describes the board as a "ministry of

foreign affairs" or the "UN" of *Sistema*. The importance of reputation as a key resource board members can provide is explicitly acknowledged in the interviews.

> It starts with a name. A foreign investor does not know *AFK Sistema*, but he knows that a certain Mr. X, a reputable person, was once the *Coca-Cola* president and joined *Sistema*. He is a reputable person and would not join a company engaged in dubious activities. He accepted responsibility, including legal […]. But the member of the board would not join any company, there are currently serious risks—reputational ones, but also that of criminal prosecution. (non-executive director).

Furthermore, the importance of proactive participation and contact-building for *Sistema* seems to be increasing over time compared to pure advisory functions:

> A member of the board came, looked at the file, suggested an interesting question, asked it, looked at it [the question], and went away. Now everything has changed. Let us take a meeting with foreign investors. … We [representatives of *Sistema*] go to a Singapore, where nobody knows us, but there is a person, who is known, who can say – I am responsible, I know them [*Sistema*]. This person [member of the board] is trusted. This is an entirely different situation. (non-executive director).

At the same time, as Evtushenkov points out in his interview, the activity and the connections of the board members should be perceived merely as complements to his own contribution because of specific features of Russian business. A strong board with an entrepreneurial function seems to be a solution to the dilemma the owner arguably faces: on the one hand, there is a need to actively promote the company internationally (which requires connections and reputation), but on the other hand, the owner has to remain active in managing the business because of the importance of his connections as a shield against risks within the home country.

The company explicitly acknowledges the link between the entrepreneurial function of the board and the need to motivate the members of the board accordingly. Unlike the management staff, which can be (and are) motivated by clear performance indicators, a formal approach is inapplicable to the board members because of their position in the company. Company by-laws specify three components of the remuneration for board members: (1) a fixed remuneration for participation in board meetings and other tasks; (2) additional profit-bases remuneration paid annually in form of stocks (50%) and cash (50%); (3) additional remuneration

based on the capitalization growth of the company. Stock holdings in the company capital can be seen as the first tool incentivizing directors to invest effort in the entrepreneurial function. Indeed, most independent directors own small portfolios of the company stock.

The second and, probably, more important motivation factor in terms of this paper is the intrinsic motivation. The crucial role of intrinsic motivation is acknowledged by the company officials; according to the corporate secretary:

> People, who work on the *AFK Sistema* board, do not work merely for money. There has to be money, for sure, […] it is similar to what is paid to the board members of large companies. [But what is important is] activity, participation in what is happening, contacts, the ability to develop each other and the people around you. A person, who just came for money, is insufficient, we need creative motivation. It is a specific issue, one cannot gain it for money.

Evtushenkov makes a similar comment confirming the importance of the entrepreneurial function for the board members:

> Each of them [board members] is to a large extent already involved in the things we do, and—I will honestly say—not formally, not just that they come, spend some time and go. Many of them feel concerned, many come outside the official board meetings, many organize various connections to funds, to people, in the West, wherever they are.

In the interviews of independent directors they explicitly mention intrinsic motivation as driving their behaviour. A foreign independent director, while describing his work on other boards, explicitly refers to another company where he decided not to continue his engagement on the board because the business model of the company was less interesting and simpler than that of *Sistema*. He also explicitly says that he is personally interested in many areas of *Sistema* activity, and points out the importance of the feeling of involvement in *Sistema* that comes from the involvement of Evtushenkov. A Russian independent director also repeatedly refers to the fact that contributing to the company is “interesting” for him, for example, because of the company’s multi-sector profile (one can argue that the breadth of the *Sistema* activities provides larger opportunities for the self-development of the board members).

Finally, the composition of the board seems to some extent to increase its attractiveness for individual board members as well. This may relate to networking, which is a common

argument explaining why directors assume positions on company boards. However, the interviews reveal that the decision to join the board depended not merely on direct benefits from the interaction with other members, but also with how 'comfortable' one feels being a member of this board. From this point of view, the effort of *Sistema* to increase cohesion within the board plays an important role.

5. A theory of an entrepreneurial board

The case of *Sistema* illuminates the possibility of what we refer to as 'entrepreneurial boards' which are boards where external directors take initiative on behalf of the company particularly, focusing on its long-term development goals in relation to external and internal partners, and are engaged in initiating projects for the company. Based on these observations, we propose the following causal mechanism explaining the formation of entrepreneurial boards. This mechanism relies on three plausible assumptions, which are outlined in what follows.

First, we assume that company's ability to operate in certain markets crucially depends on trust in the company from the possible partners, which in turn is derived from the personal reputation of particular officials of the company or individuals associated with it (assumption A1). It seems to be particularly plausible for companies from emerging markets, if they operate both domestically (because of weak rule of law, which makes impersonalized transactions risky, see North 1993) and internationally (where poor reputation of or lack of information about the country of origin may frighten business partners). However, the role of personal connections is, obviously, non-negligible in developed countries as well (it may matter, for example, if the legal disputes are considered particularly threatening because of delays in the implementation of projects or the costs of litigation).

Second, while we acknowledge that each individual's reputation is a dynamic characteristic and can be acquired over time, we also assume that the speed of reputation acquisition is slow, and in some cases particular individuals may find it extremely hard to acquire a reputation relevant for certain groups of business partners (assumption A2). For example, if company enters new markets or substantially expands the scope of operations, it may be very hard for its officials to acquire a reputation relevant for the new potential partners. For founder-managed firms, the reputation of the founder obviously depends on the success of the company; but we assume that in some cases even the founders of extremely successful businesses will find it hard to establish connections outside their 'original' markets. This problem may be particularly pronounced for emerging market companies pursuing a broad internationalization strategy, i.e. attempting to find foreign partners. The international business

literature acknowledges the existence of these problems and discusses various tools to overcome them (Hitt et al. 2000; Luo and Tung 2007).

Third, we assume that the mere association with a company by a particular individual is insufficient for the company to use this individual's reputation in business affairs. Stated otherwise, merely hiring a particular individual or including her on the board does not automatically allow the company to access the resource of this individual's reputation. Reputation can only be used in case of an individual's active personal participation, for example, if she promotes the company's activity within the network she has access to (assumption A3). This may be the case because this personal participation implies a greater commitment to the company and is associated with greater personal cost (of time and effort) for the individual; and thus creates a costly, and therefore credible, signal in favour of the company (cf. Farrell and Rabin 1996).

Based on these three assumptions, the mechanism is as follows. At the early stage of its development, a founder-managed company typically and crucially relies on the ability of its founder, including their reputation (as follows from A1). Reputation matters particularly in emerging economies with their lack of impersonalized exchange; here the (political) connections of the founder also serve as a tool protecting the company from possible expropriation and giving access to governmental support, which is often a crucial competitive advantage. Over time, if successful, the company faces the challenge of limits to founder's ability to sustain its growth. From A2 it follows that the limits may also emerge because of the inability of the founder to provide the reputational advantages needed to operate in new markets (especially in case of internationalization) or because the founder considers the long-term development of the company when her personal reputation may not be available.

The orientation of the founder also varies from firm to firm: founders may be more concerned about value maximization or pursue a conservative harvest strategy (Le Breton-Miller and Miller 2008; Miller and Le Breton-Miller 2011; Miller et al. 2011). The founder may also have some sort of 'Schumpeterian' motivation:[11] she may be intrinsically motivated to preserve the company over the long run, looking at it as her 'creation' and not merely a tool of revenue. The problems we describe, however, are faced by different types of founders. 'Value-maximizers' will encounter the fact that the subsequent growth of the company is impossible (furthermore, since the company relies on founder's reputation, simply 'selling it and going away' is also impossible). Those interested in the conservative harvest strategy or having a Schumpeterian motivation face the problem of intergenerational change (which may endanger

[11] Schumpeter (1937) emphasizes that the will to create and to establish a new entity is driving the entrepreneurial behavior.

the protection of reputation) or simply believe that in a long run a large company cannot survive, focusing on conservative harvest opportunities only.

The founder needs (a) to establish a set of individuals with broad reputational resources allowing the company access to new markets or ensuring its continuous survival in the future and (b) make sure that (as A3 requires) these individuals actively engage in promoting the reputation of the company. Selecting external directors and designing their activities can be instrumental in achieving this task. While professional management (which has been emphasized in the previous literature on threshold founder-managed firms) could also hypothetically complement the connections of the founder by using its own informal ties, boards have a much broader membership, and thus are likely to give larger opportunities for finding new connections and improving the reputation of the company. Furthermore, connections are not necessarily the main characteristic the selection of managers should be based upon, because of their need to oversee day-to-day business operations. In many cases it may be easier to convince an individual with a useful reputation to become a director rather than to join its management staff. Finally, the incentives for management often makes it particularly focused on the short-term implications of business decisions, while the main goal of the founder is to ensure the long-term survival and growth of the company. External directors are frequently able to give the company access to various personal networks and are less dependent on short-term concerns than managers.

More specifically, the company attempts to build up the reputation of the board, which in turn affects the reputation of the company. This ‘collective’ reputation of the board is determined by the reputation of its members, but also the extent to which they are willing to invest their time and effort in the company’s work. There are clear overlaps between the actions of individual board members in terms of the board reputation (and the company reputation), which make increasing the cohesion of the board particularly important.

The board becomes ‘entrepreneurial’ if its members take the initiative on behalf of the company and focus on its long-term interests. In the case of *Sistema*, which is redefining itself as an investment company, the entrepreneurial function is associated with initiating projects. By incentivizing this activity, the company gains from the reputation of these members (in line with A1 and A3) and from their knowledge; indeed, it is likely that the members are better able to judge the potential of their networks and the opportunities for the company there. Active the participation of external directors promoting projects utilizes merely the reputation advantage. Besides, in many cases directors use the tacit knowledge they possess, which is difficult to obtain otherwise.

However, incentivizing directors to actively participate in projects is a non-trivial task. We argue that empowering the board provides the necessary incentives for the active

participation of its members. The literature has acknowledged the link between board power and the willingness of its members to engage in strategic management (Golden and Zajac 2001). The main argument comes from the literature on entrepreneurship. Starting from Schumpeter (1937), it has emphasized the role of non-material factors in entrepreneurial motivation; entrepreneurs are often driven by their aspiration to develop (Benz 2009; Carsrud and Brännback 2009). By empowering directors and making them active participants in company decision-making, the company encourages them to act on similar motivation. By the appropriate selection of directors (that is, the board members are chosen from those willing to act in an 'entrepreneurial fashion' from the start), the company can achieve the active participation of its directors and thus create an entrepreneurial board. Besides, this empowerment allows the directors to manage the risks associated with the abuse of their reputation, which should make them more eager to put it at stake while developing projects for the company.

Thus, the board can be described as 'entrepreneurial' from two angles: first, because of the motivation of its members (derived from the opportunities to self-actualization) and second, because of the use of tacit knowledge in projects (the literature, starting from Hayek (1945) has emphasized the importance of knowledge acquisition and tacit knowledge in entrepreneurial action, see Shane 2000; Shane and Venkataraman 2000; Eckhardt and Shane 2003; Davidsson and Honig 2003). In terms of the language of the dynamic capabilities (Teece 2007), the involvement of directors should therefore allow the company to sense (through the knowledge advantage of the directors) and to seize (through the reputation mechanism, in line with A1) new business opportunities, as well as to maintain them (through the interaction between the management and the board).

Empowerment as an additional factor strengthening the motivation of board members does not preclude the importance of intrinsic motivation. Board members may be more inclined to assume the entrepreneurial function if other board members are also active in this respect—particularly because there are effects of the actions of board members on the reputation of others. Also, extrinsic motivation (shares and payment) play a role; in case of shares, intrinsic and extrinsic motivation can mutually reinforce each other. When the entrepreneurial function is central, empowerment becomes more important than when a company expects the board to exercise the pure service function and, therefore, we are more likely to observe strong boards even in companies with concentrated founder ownership.

The described mechanism is unlikely to be equally strong in all founder-managed companies. Entrepreneurial function is particularly important for emerging markets. On the one hand, in emerging markets personal reputations are especially important in doing business, since the resources are often allocated through closed networks (Boisot and Child 1996; Puffer and

McCarthy 2011), and if emerging market companies attempt to enter global markets, they are frequently perceived with mistrust by their potential partners. On the other hand, in emerging markets it is crucial for the company to maintain active participation of the founder in its operations, since in many cases the connections of the founder shield the company from possible expropriation by predatory bureaucrats or extra-legal pressure from competitors. It means that this type of company is particularly dependent on finding complementary sources to the founder's reputation (rather than simply transforming the company into professionally managed firm), and entrepreneurial boards may be particularly useful in this respect. Finally, an emerging market environment can be conducive to very fast expansion at the early stage of the company's development, but at the same time the companies reach the limit of growth based on the connections of the founder relatively early, again making entrepreneurial board an attractive solution.

6. Conclusion

We investigated the reasons for the empowerment of boards in founder-managed companies. Since the founder is actively engaged in company management, principal-agent problems cannot explain the creation of strong boards; and we explicitly focused on a case where principal-principal problems are weak. Furthermore, while in this case the boards can play a crucial role in providing resources and expertise to the company, it cannot explain the empowerment of boards as such. In a revelatory case study of *Sistema* we demonstrated a case where a founder-managed company in the absence of principal-principal problems opted for a strong board, which was explicitly promoted by the founder in spite of certain costs.

To explain this puzzle, we suggested that boards can exercise what we referred to as the 'entrepreneurial function' the board members take initiative on behalf of the company and pursue its long-term goals in relations to external and internal actors (for example, initiating projects for the company). The entrepreneurial board emerges as a tool to augment the founder's connections and reputation which provided the initial push for the growth of the company, while allowing the continuous use of the founder's reputation and connections which remain essential for the company functioning. However, to ensure that board member exercise this function, it is essential to ensure their intrinsic motivation is high; this requires empowering the board. This is the mechanism we observe in the case of *Sistema*.

We expect entrepreneurial boards to be particularly important in emerging markets, first, because of the crucial role of reputation, and second, because of the need for the founder to remain engaged in the company. In particular, an entrepreneurial board can be instrumental in overcoming the reputational obstacles to internationalization, which companies from emerging

markets often face. However, we do not consider entrepreneurial boards a specific function of emerging markets, in fact, the need to implement the entrepreneurial function of the boards may be highly relevant for any business where a steady stream of new projects is crucial and which operates in a field or industry with a crucial role for personal connections and reputation.

This paper is based on a single case study. This approach was useful to identify the entrepreneurial function of the board and the preconditions for its development. However, we acknowledge the need of further quantitative studies.

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Appendix 1: List of interviews

Respondent	Position	Additional information	Employed in the company // holds current position
1- Igor Petrov	Corporate secretary	Member of two boards of directors of Russian partly government-owned companies	2006 // 2006
		Members of the board	
1- David Iakobachvili	Independent director	Chair of IR and dividend policy committee; member of audit and finance committee	NA // 2011
2- Roger Munnings	Independent director	Chair of audit and finance committee; member of appointment, remuneration and corporate governance committee, IR and dividend policy committee, and ethics and control committee	NA // 2010
3 – Dmitry Zubov	Non-executive director	Member of appointment, remuneration and corporate governance committee	1998 (with a subsidiary) // 1999 (member of the board; 2000-2012 – deputy chairman)
4 – Jeannot Krecke	Independent director	Member of appointment, remuneration and corporate governance committee and IR and dividend policy committee	NA // 2012
5- Alexander Goncharuk	Non-executive director; Deputy chair of the board	Chair of ethics and control committee; member of strategy committee and appointment, remuneration and corporate governance committee	1993 (with a subsidiary) // 1996 (member of the board, 2008 – deputy chairman)
6 – Vladimir Evtushenkov	Chair of the board, founder and owner of the company	Chair of strategy committee	Founder // 1994 (member of the board, 2006- chair of the board)
		Members of managing body	
1 – Sergei Drozdov	Senior vice-president	Head of Corporate Governance Complex since 2011 (before that, head of Property Complex since 2002)	1995 // 2006 (was member of the board in 2002-2006)
2 – Anton Abugov	First vice-president	Head of Investment Complex Telecom and Media since 2012 (before that, head of Strategy and Development Complex since 2006)	2006 // 2006
3- Alexei Buyanov	First vice-president	Head of Investment Complex Financial Assets since 2013 (before that, head of Finance and Investment Complex since 2002)	1994 // 2006

Appendix 2: Outline of the interview with a member of the Board of Directors

Dear respondent!

National Research University "Higher School of Economics" and Frankfurt School of Finance and Management have launched a joint project on "The Role of the Board of Directors in Russian Corporate Governance System: Transformations after the Crisis." Within the framework of the project, in-depth interviews with members of the Board of Directors, with members of Executive Board, and with the corporate secretary of the company are conducted. This interview aims to analyze the changes in composition and tasks of the Board, particularly in the area of business strategy development, the role of the Board in company relationships with stakeholders, and its interaction with executive management. Special attention is paid to personal and professional features of board members and their ability to contribute to the company's performance. The period of investigation covers 2006 (or the beginning of respondent's work as a member of the Board) till 2013.

The interview will be conducted based on following topics and the main questions.

Basic information about respondent

Short biography of a respondent (0.5-0.7 p.) will be produced based on information from issuer's report and company site before interviewing. During the conversation, this biography will be presented to the respondent, and he can correct it or add necessary data.

Contribution of Board members to the company's performance

- What is the main personal contribution to the company's operations and performance you provide as a member of the Board? Which aspects of your knowledge and experience are particularly important for the company?
- Which contributions do you think do other various members of the Board provide to the company's performance and operations? Which aspects of their knowledge and experience are particularly relevant for the company? Could you describe the main contribution of independent directors to the company's performance and operations?
- Which major changes did occur in the Board composition during the last years? Which aspects of the knowledge and experience of board members turned out to be most relevant for Board functioning and the company development?

The Role of the Board in the company

- What types of issues does the Board spend most time and devote attention to? Please, estimate the allocation of time (in %) for various issues, particularly for the development and discussion of business strategy during Board meetings.
- What changes did take place in terms of the set of issues considered by the Board during last years? In particular, what changes did take place in terms of the Board's attention paid to business strategy?
- Question for a member of the Committee on Strategy: How is the work of the Committee organized?
- How is the work of the Board organized? What are the typical characteristics of its meetings?
- Could you describe the contribution of the Board to the company's shareholders?
- If a member of the Board has political or administrative experience, does it provide any contributions to the company and its relations with labor teams and governmental authorities (federal or regional)?

Interrelations between the Board of directors and the company management

- How do the board members and the managers interact or communicate?
- How does the top management support activities of the Board and its committees? How does the board contribute to the decision-making of the top management and what benefits does it provide?

- How are the decision-making procedures by the Board and the monitoring of the implementation of its decisions organized?

The Board of Directors and subsidiaries

- Does the Board (or its committees) pay particular attention to issues concerning subsidiaries of the company? What issues are typically prevalent in this field?

Additional sources of information

Before and after the interview, we plan to collect data on composition and activities of the Board of Directors from open sources (issuer's reports, company Charter and special board instructions, company site, and business media). Typical agendas of the Board meetings will be also analyzed if possible.

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