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EVOLUTION OF CORPORATE CONTROL MODELS IN THE RUSSIAN COMPANIES: NEW TRENDS AND FACTORS

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This paper analyses the specifics of national corporate governance in the Russian economy and the emergence of micro-models of corporate control in Russian companies. Special attention is paid to key issues of separation (non-separation) of corporate ownership and executive management. The prevailing type of corporate control is the control by the dominating owner who takes a direct part in management or controls hired managers. The paper shows that integration processes promote gradual separation of ownership and operational management, and emergence of demand for legitimate institutions used to exercise shareholders' corporate control over the executive management. The paper is based on results of surveys and in-depth interviews with top-managers and owners of Russian companies implemented in 1999—2005.

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В работе анализируются особенности национального корпоративного управления в российской экономике и процессы трансформации моделей корпоративного контроля (микромоделей) в российских компаниях. Особое внимание уделено вопросам разделения/совмещения собственности и управления. Выявлен преобладающий тип контроля, основанный на прямом участии доминирующего собственника в управлении. Показано, что интеграционные процессы способствуют постепенному отделению собственности от оперативного управления и становлению спроса на легитимные институты контроля акционеров над исполнительным менеджментом. Анализ основан на использовании данных опросов и интервьюирования руководителей российских компаний, выполненных в 1999—2005 гг. при участии автора.

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Introduction[1]

Corporate governance issues in Russia were first addressed in the middle 1990's, after the completion of the voucher privatization. The focus at that time was on domination of employees' stock ownership and on managers who had enough control to discriminate outside owners (including foreign investors who were shocked by Russian corporate governance habits). The privatization was the result of a political compromise between the government and employees and became the foundation of property redistribution to come.

The economic upraise that followed the 1998 financial crisis triggered another property redistribution and revealed problems in Russian corporations caused by loopholes in corporate legislation and enforcement. It became extremely popular in economic research to look at corporate governance-related issued in the context of the Russian economy in transition and emerging ownership relations. Starting in the mid 1990's a number of studies specifically focused on corporate ownership and control at enterprises were carried out.

The purpose of this paper is to analyze trends in the development of stock ownership and its impact on establishment of corporate control on the micro level taking into account different motivations of corporate governance agents. The conclusions present a model of concentrated insider ownership and corporate control in Russian companies after intensive transformation of stock ownership.

This paper is mostly based on empirical surveys of enterprises carried out in 1999—2005 including those surveys where the author was personally involved. Results of research projects implemented by the State University — Higher School of Economics (SU HSE), the Bureau of Economic Analysis, the not-for-profit organization "Projects for Future" in 1999-2005 were used. These projects were supported by the World Bank, US AID, Moscow Public Scientific Foundation, Regional Think Tanks Partnership Program,

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and personal academic grant of SU HSE. Also the first results of joint project of SU HSE and Hitotsubashi University on Corporate Governance in Russia (2004—2007) are used. All these organizations and projects participants bear no liability for the contents of this paper reflected personal opinion, estimates and suggestions of the author.

The core place among these surveys belongs to qualitative data — interviews in depth conducted with directors or/and owners of Russian join-stock companies (JSCs): 19 interviews in industry in 5 regions of Russia, Autumn 1999, (Dolgopyatova, 2001); 20 interviews at open JSCs in industry and other sectors in 6 regions, Summer 2003 (TTPP, 2004); and 33 interviews of industrial JSCs in 8 Russian regions, Autumn 2003 (Yasin, 2004).

Evolution of Corporate Ownership and Type of Corporate Governance during 90s

In late 1980s state-owned enterprises de facto fell under control of their managers in coalition with the employees. Voucher privatization resulted in legalization of control within the primary structure of share capital. Just after privatization the Russian corporate sector could characterize by dispersed insider property ((Blasi, Kroumova, Kruse, 1997); (Dolgopyatova, 1995)) and insider corporate governance model with weak shareholders and strong managers (Berglof and von Thadden, 1999). Being shareholders they could use a wide range of tools for exercising the control over companies and expropriating other owners: stripping assets, violation of shareholders' rights (Black et al., 2000), (Dolgopyatova, 2002). Having an interest in property did not provide any tangible benefits during 90s. Since enterprises were loss-making, actually or formally, it was not possible to profit by selling shares or to get revenue in the form of dividends. Even the owners of large shareholdings could not exercise their control rights because of the poor legal protection. Ownership rights could generate revenue only if they gave control over the cash-flows of an enterprise. In such conditions getting or keeping control over the current activities of a company became the main motive for buying shares.

Radical changes have taken place since that time. Incentives for the following corporate property redistribution processes were underway in Russia for more than twelve years:

- Reduced role of authorities of all levels as a result of privatization;
- Growing share of the management in the company's equity on the background of substantial reduction of the share of all employees;

- Growing share of external non-state owners, mainly due to stronger weight of legal entities. In particular, property became mutual on the basis of vertical and lateral integration or emergence of conglomerates. Successful Russian exporters of oil, gas, metals acquired large share packages;
- Substantially larger stock capital concentration by separate shareholders (coalitions of shareholders). Formally share of the major shareholder was reached about 30—40% of total stock. In fact it is larger due to various coalitions and affiliation of shareholders.

The economic growth that followed the financial 1998 crisis was characterized by stronger property redistribution and concentration. In many cases ownership was transferred from company managers to outside private business. Capital consolidation continued on the basis of fast private sector expansion in the economy (Deryabina, 2001; Pappe, 2002a). Powerful business groups took shape, among which not only national 'oligarch' groups, that are the soapbox of the mass media, but also regional and local ones. Integration is typical for small and medium companies too, and establishment of groups went through restructuring of large privatized companies (Avdasheva, 2004; Dolgopyatova, 2004).

Thus, the dispersed employee property becomes a thing of the past, and its place is taken by highly concentrated corporate ownership of enterprises' managers or external investors representing domestic private sector. The status of the dominating owner turns an outside shareholder into an "insider", for such an owner takes a direct part in management or exercises tough control over the managers he/she appoints (Dolgopyatova, 2003a, chapter 2).

Russian corporate sector moved on the expected way of emergence of a large shareholder with consolidated stock what was enough for tight control over managers (Stiglitz, 1999). The development through establishment of consolidated insider ownership was the 'second best' way against the background of underdeveloped institutional environment. A birth of dominating owner formed prerequisites for changing insiders' behavior: from stripping assets to incentives for business development, for gradual erosion of differences between old "insiders" i.e. managers and new "insiders" represented by large external shareholders (TTPP, 2004, part 4).

Composition of a Board of Directors under insider's consolidated property shows a tendency for decreasing the number of the board's members. The trend is limited only by the necessity to comply with the legislative norms for JSCs in which the number of shareholders exceeds 1,000 or 10,000. As a rule average number of members is not exceed 7 persons. Also there is a dominance of insiders' representatives on the board, and the leading role of executive managers.

Boards of directors at several enterprises include representatives of work collectives (usually medium-level managers or trade union leaders), especially if there are employee shareholders in the collective. In some cases these representatives pursue a relatively independent policy, but more often they are closely affiliated with the management. In the end of the 90's a tendency to include representatives of regional or local authorities, who are not shareholders, in the boards became evident. In this way the authorities "add" to administrative regulation and informal relationships some direct (and legitimate) methods of corporate control over the activity of JSCs. This should be taken into account while assessing the activities of the so-called 'independent directors'.

All these trends in composition of stock ownership and Boards of Directors can be illustrated by a number of quantitative and qualitative surveys (see (Dolgopyatova, 2003b); (TTPP, 2004)). In particular, the surveys results (Table 1) also testify to growing concentration starting from mid-90s, as well as to the fact that a big part of industrial JSCs have a controlling or "blocking" shareholder. We will give just a few additional empirical evidence of this fact. In particular, it was a survey of 304 open JSCs in different sectors of the economy conducted in autumn 2002 (Golikova et.al, 2003). Over 70% of the respondents (76% in industry) thought that their enterprise already had an owner with the control interest. A joint survey conducted by the CEFIR and the IET in 2002, which covered more than 600 industrial JSCs (Guriev et.al., 2003), showed that the average share of the biggest external shareholder at all companies was about 24% of the equity capital, while that of the company's administration was more than 19%.

As a rule, qualitative in-depth interviews conducted on small samples show that real concentration of property is much higher than formalized surveys could reflect. In majority of cases top-managers are dominating owners of businesses. Thus, in two sets of interviews in 2003 (about 50 JSCs in sum), more then 70% of JSCs have dominating owner with more then 50% of shares, and a block holders (more then 25% of shares) were presented on more then 90% of this small sample.

Capital consolidation in the hands of the largest owners that gain control over the companies' business is continuing. The fresh quantitative survey of 822 JSCs conducted in March-June 2005 have shown that 3/4 of JSCs surveyed have a block-holder and about 2/3 — a shareholder with more then 50% of ordinary shares. It is interesting that 82% of the same sample answered that their JSCs have a stockholder (or a group of stockholders) controlling their company.

Table 1. *Stock Property Concentration in Industry according to Independent Survey Data*

Concentration indicators	SU HSE-1		BEA		IET		REB			SU HSE -2	
	End of 1995	End of 1998	Start of privatization	01. 2000	End of 1999	02. 2003	02.1999	02.2001	02.2003	End of 1998	End of 2001
Share of the biggest shareholder, %	26.3	27.8	...	...	...	29.7	32.9	34.5	37.2	36.7	42.2
Share of 3 biggest shareholders, %	40.5	45.1	...	...	38.1*	48.9	...	...	...	48.9	57.6
Share of enterprises (%) having a shareholder with interest over 25%	44.5	46.8	13.4	25.8	31.6	...	51	51	56	55.2	67.1
Share of enterprises (%) having a shareholder with interest over 50%	14.8	19.6	5.5	10.3	12.8	...	25	25	26	32.0	39.5

* Data for five shareholders.

Source: author's calculations based on surveys primary data or published data
SU HSE-1, survey of 360 enterprises (318 JSCs) conducted in 1999, about 220 JSC responded.
BEA, survey of 437 companies conducted in 2000, about 390 JSC responded.
REB regular surveys, about 100—150 companies responded (Kapelyushnikov and Demina, 2005, p. 58).
SU-HSE-2, survey of about 520 enterprises (350 JSC), 220 responded (Yasin, 2004).
IET, survey of 201 JSC at the end of 1999, about 190 responded (Radygin and Entov, 2001, pp. 190, 194) and survey at the beginning of 2003, over 280 responded (IEPP, 2003, p. 185).

Specifics of national corporate governance

First of all, Russian corporate economy of the last decade was characterized by constant redistribution of property, which was usually accompanied by takeover or stabilization of corporate control. A number of empirical studies of SU HSE, REB, CEC state that from the mid 90's each year the principal owners of 6—8% of industrial enterprises on the average could change. Redistribution processes annually affect up to one sixth of stock capital (Kapelyushnikov and Demina, 2005). In general, transactions are going outside the organized markets. Bankruptcy procedures, hostile acquisitions, corporate stock capital manipulations are frequently used methods.

Non-transparency of JSCs. In majority of cases real ownership structure is not transparent and does not reveal clearly principal owners. Property integration is based on vertical 5—7 levels chains of affiliated individuals and companies, offshore firms, nominal holders, as well as multistage company management systems, sometimes using cross-ownership. So far there has been no visible reduction in the number of such levels, with the exception of several companies that have disclosed their beneficiaries to enter the stock markets. This was the result of the general institutional environment of the Russian economy, the use of illegal finances and not always legitimate ways of property acquisition. Today non-transparency of property relations is artificially maintained by the management of many companies as a barrier against possible interference of the state or private businesses — potential "capturers" (Pappe, 2002b, pp. 89—90).

Not only the ownership structure and business organization are non-transparent, but also the business performance. Not all public JSCs comply with even formal legislative requirements in regard to publication of their data. The existing accounting practice is oriented at tax authorities' needs, therefore the quality of reporting remains low and does not provide adequate information to the shareholders, creditors and business partners. Transition to international financial accounting standards is performed by certain companies which deal with foreign investors or place securities in financial markets. Various surveys show that 8—15% respondents mention the use of international standards (Yasin, 2004; Golikova et al., 2003).

Business closeness and self-financing. An important feature of insider corporate control is protection from new shareholders. The logical consequence is an absence of dividends and a policy of self-financing of business development. In fact, the dominating owner has received profits mainly in non-dividend forms. At the same time, in the last three years a tendency to pay dividends emerged in a number of large companies, which had consolidated ownership and practically displaced minority shareholders. In this case dividends serve as a legal source of high incomes of the companies' owners and can be openly used for acquisition of new assets. Large JSCs with significant state shares (energy and communication companies) also pay dividends under the pressure of the government. At the same time, the majority of public companies fail to pay dividends or do it irregularly. The above-mentioned survey of 304 open JSCs (Golikova et al., 2003) shows that about 60% of the participants did not pay any dividends in 2000—2002. Only one fourth of the participants paid dividends on a regular basis (i.e. every year), and one third of the participants paid dividends twice during these years. The new survey of 822 JSCs has demonstrated that about 61% of companies did not pay dividends for 2001—2003 financial years.

Investments into the Russian economy are characterized not only by low rates, but also by a focus on own investment sources of a company or financing out of the funds of the partners, with which the company often has property relations (business group funds are involved). For many years, as official statistical data show, the share of external sources of investments into fixed assets in the economy has not exceeded 50—55%. It is not so very little, but in the raised capital the money from the budget and off-budget funds prevail. Bank loans share in the investment activities is very small: about 5—7% of investments for many years. Neither is the stock market an effective investment tool. Shares deliver about 0.2—0.5% of investments and bonds — 0.2—0.3%. Only few Russian companies really raise investments in the form of debt or share capital in the Russian or foreign markets. A tangible part is formed by loans of other enterprises and partner investments. The share of foreign investments in the economy is about 5—6%. As for industry here the share of own funds is much higher and is above 68—70% in early 2000s, but it has been constantly on the decline since 1998.

Institutional investors have no incentives to acquire packages of shares of majority of other Russian companies being off decision-making. Only 8—10 JSCs issued public offerings in the markets, preferring foreign one. The first public offering in the Russian market was made in 2002. Today the corporate bond market is the most dynamic sector of the Russian market. The number of bond issuers is estimated as some 150 companies. The purpose of bond loans is to raise investments or to implement certain corporate actions within business groups. An additional advantage lies in the company's acquiring a credit history.

Generally, this situation speaks about a motivated choice made by the companies. The self-financing and/or partner financing system is logically linked to the companies being closed to external investors in equity, to non-payment of dividends, and absence of transparency in regard to property. There are explanations of a very minor role of stock market in raising investments and a weak position of institutional investors. The insignificant role of the bank sector is due to its limited resources and high creditor risks in the economy.

Models of corporate control at the micro level

Along with discussions of emerging national model of corporate governance in Russia models (types) of corporate control at micro-level were discussed as well. In fact one can observe various micro models of corporate control. Thus, in (Affanasiev, 2000) three main types and two mixed types of corporate control were defined based on consideration of three main actors of internal corporate relations (managers, employees teams and outside shareholders). This typology reflected mass privatization outputs up to mid-90s taking into account incentives, limits and possible coalitions in decision-making. By our opinion, the impact of stock ownership composition on corporate control in JSCs was increased with intense redistribution of property and management turnover (approximately since 1997—1998). Today a model (as stable distribution of control over a joint-stock company between its owners and managers) is based on real composition of stock capital. The domination of insider control in Russian JSC's does not exclude a certain variety in the degree of ownership consolidation and the type of dominating shareholder. Based on these two parameters in our earlier studies (see details in (Dolgopyatova, 2001) or (Dolgopyatova, 2002)) we identified four control models observed in the late 1990's in privatized industrial JSCs (Table 2).

1. *Model I — 'private enterprise',* which combines the functions of owners and managers. The major owner is the director, while the small shareholders could include other managers, ordinary employees, and the authorities thus reaching a balance of interests. The model is characterized by internal stability and in future can be transformed into the family business.

Table 2. *Emergence of corporate control models in the Russian enterprises* (based on in-depth interviews conducted in Autumn, 1999)*

	Branch of industry	Number of enlisted employees at the moment of:		Legal form	The model of privatization	Bankruptcy, reorganizations	Outside shareholders, state property	The model of corporate control
		privatization	The survey					
1	Machinery Building	About 4000	3700	Public JSC	The third	—	Individuals — 39%, legal entities — about 8%	II is emerging
2		About 1000	350	Public JSC	Leasing (buyout)	—	Minor block of share was sold to outsiders	II, likely will transform into I
3		More then 10000	7150	Public JSC	The first	—	Institutional (including foreign) investors — more then 30% in sum	IV
4		More then 1000	300	Public JSC	The first	Bankruptcy proceedings	15 businessmen are buying the bankrupt's estate	(probably IV)***
5		About 10000	3600	Public JSC	Special conditions of privatization	Will take over by the public JSC with state ownership	State — 44%, institutional (including foreign) investors — about 30% in sum	—
6		About 400	110	Public JSC	The second	Threat of bankruptcy	Outsider (most likely affiliated with top management) — 25%	II
7		More then 10000	4500	Close corporation	Leasing (buyout)	—	One of the main suppliers, one of the main customers and the bank serving the company — 30% in sum	IV

Continuation of the table 2

	Branch of industry	Number of enlisted employees at the moment of:		Legal form	The model of privatization	Bankruptcy, reorganizations	Outside shareholders, state property	The model of corporate control
		privatization	The survey					
8	Wood processing and furniture	About 1500	500	Public JSC	The second	Bankruptcy proceedings	More then 20 businessmen are buying the bankrupt's estate	(Had not been emerged)
9	Construction materials	More then 700	370	Public JSC	The second	—	State -8%, There are about 10 minor outsiders too	II
10	Light	More then 1200	740	Public JSC	Leasing (buyout)	—	A bank — 10%, there are minor outsiders affiliated with top management	II
11		More then 600	200	Close corporation	Leasing (buyout)	Threat of bankruptcy	There are outsiders (there are no clear data)	Has not been emerging
12		About 800	200	Close corporation	Leasing (buyout)	After external administration****	The main supplier bought controlling block of shares	III (probably IV)
13		More then 400	200	Close corporation	Leasing (buyout)	—	There are no outsiders	II
14		60*	140	Close corporation	New private business (co-operative)	Reorganized in 1992 from a co-operative	One of founders of the closed company (former manager) — about 15%	II

Continuation of the table 2

	Branch of industry	Number of enlisted employees at the moment of:		Legal form	The model of privatization	Bankruptcy, reorganizations	Outside shareholders, state property	The model of corporate control
		privatization	The survey					
15	Food processing	About 500	450	Public JSC	The second	After external administration****	Wholesale company — 52%, supplies of raw materials — 40% in sum	III (probably IV)
16		About 800	740	Public JSC	Leasing (buyout)	—	A group of affiliated legal entities has controlling block of shares	III
17		More then 200	190	Public JSC	The second	Probably will be reorganized (take-over)	A group of affiliated individuals and legal entities owner the firm	III
18		600	600	Public JSC	The second	—	State — 12%	I
19	Pharmaceutics	1250	1300	Division of close corporation	The first	Reorganized from the public JSC	Private firm (wholesale and retail seller of medicines) — 79%	III

* This table was published earlier in (Dolgopyatova, 2002).

** The data illustrate situation at the moment of changing legal form in 1992

*** Types of corporate control just before the beginning of bankruptcy procedure (see in brackets)

**** The enterprises went successfully through the procedure of 'venshneye upravleniye'. According to this procedure established by Russian legislation an external manager ('vneshnii upravlayushii') tries to improve the situation of the enterprise. Sometimes he or she (or affiliated company) can bye out the enterprise with its debts.

2. *Model II — 'collective managers' ownership',* which combines the functions of owners and managers, too. In such a 'managers cooperative' the top managers (normally, 4—5 people) hold the controlling stake. Usually, none of the leading shareholders has a blocking stake but the director's stake exceeds that of any individual member of the team. The model is not free from the risk of destroying the team control structure as its important feature may be a deferred conflict between the owners. Disintegration of their coalition is quite possible which will result in revival of the painful and costly process of ownership redistribution. Besides, even in the short-term perspective other risks related to the functioning of the management system are obvious: difficulties with replacement of managers-owners, problems of setting up a united management team through a combined effort by the shareholders and the employees working under a contract. As far as small enterprises are concerned this model can be gradually transformed into the model of private enterprise.

3. *Model III — 'concentrated outside interest',* where the outside owner disposes of the controlling stake, while the managers are hired employees or own small stakes (3—5%). This model was mainly created during the secondary redistribution of privatized stock ownership. Over the last few years bankruptcy procedures have been applied to establish it. The model is internally stable. Changes are possible in case of the enterprise restructuring upon a decision by the major owner. Some risks for the enterprise are rooted in the owners' motivation defined by the general interests of their business. Other risks are related to opportunistic behavior of the management.

4. *Model IV — with 'dispersed ownership'*, where the management team actually manages the enterprise. It is typical of this model that the manager (management team) is normally the owner of a medium-sized stake (5—15%). The other shares are dispersed among the smallest shareholders, both insiders and outside individuals (some share may belong to the authorities, institutional investors, and other owners). At first sight, the model is similar to the type of corporate management accepted by the Western economies where its efficiency is supported by a number of internal and external mechanisms (the well-developed stock market and the transparent corporate control market). Under the Russian conditions it would be premature to talk about availability of such markets. The main features of the model are: a combination of lack of control over management, the managers' feeling of insecurity, and their inability/unwillingness to increase the stake that they own. The model is formed in large and very large enterprises in ineffective sectors that are burdened with substantial social infrastructure. This model is also stable provided there are no long-term shifts in the economic situation that might change the perception of the business profitability and create a demand for the shares.

All other things being equal, the emergence of various micro-models was affected by quality of management, individual qualifications of top managers, interests of other stakeholders as much as it is by such objective parameters as enterprise size and sector. All the models of corporate control have had common characteristics mentioned above (non-transparency, closeness). Making use of enterprise assets by the managers to buy it out in their own interests was typical of the two models with concentrated managers' ownership in 90-s. The dispersed ownership model of control made it possible to drain assets in order to invest them into other types of business or to consume.

In respect of the first three models it would be to a significant degree reasonable to argue that there is a correlation between the structures of corporate control and corporate ownership. (Of course we should take into account the stakes owned by entities affiliated with management and the fact that small shareholders are inevitably poorly represented in companies' executive bodies). Significant misalignment of structures of ownership and control (that is in fact in the hands of managers) is characteristic of the dispersed ownership model. The costs of opportunistic behavior of managers are markedly lower here than in the case of the concentrated outsider ownership model while the owners incur immeasurably higher costs of maintaining control over managers.

Our further qualitative study has shown (see for details (Dolgopyatova, 2004) or (TTPP, part 3)) that these models could also be observed in the de novo business organized in the form of JSC, with just one exception. Model IV was generated by the peculiar nature of the Russian mass privatization in the conditions of deep transformational crisis.

Intensive equity redistribution processes against the background of integration transformed the control structures on the micro level. In the existing institutional environment, the models of control with dispersed and moderately concentrated ownership (IV and II) could not institutionally compete with models based on strong equity concentration (I and III) and were gradually pushed out. Many Russian JSCs, for instance, were taken over by large Russian business groups, bought by outside owners, or became the general director's property. Today, the Model I is not only consolidation of shares with the director but also direct involvement of the dominating outside owner in the management process (start-ups JSCs or purchase of privatized enterprises and replacement of the 'old' management). The boundary between Models I and III is mobile. The choice is made by the dominating shareholder, who is free to sell the business, reorganize it, and change the management system. It is interesting that at the same time the model of collective managerial property is under way being preserved by de novo Russian businesses.[2] Table 3 contains the main characteristics of the open JSCs surveyed in 2003 that can be used to categorize the objects into different micro model. Our small sample is obviously dominated by Models I and III. Models II and IV are still used in some medium-sized independent enterprises which are not in a very good condition.

Today one can rarely see examples of decreasing concentration of ownership regulated by the dominating shareholders: Wimm-Bill'-Dann Food company and other 5—6 companies entering securities markets with initial public offering and some other public companies issued shares for open markets. These new phenomena can be interpreted as the first steps towards a new 'regulating dispersed ownership' model which could be adopted by a small number of companies anyway. This would be a control model in which, unlike in Model IV, the main role in the short and medium term will be played by the dominating owner rather than by the managers.

Separation of ownership and control and demand for corporate governance

Within different existing micro models with insider domination, one can differentiate between two types of companies based on the fundamental characteristic of separation of ownership and control This separation is in no way connected with business' origination (as a start-up or by privatization). The separation is supported by the development of large integrated business groups or holding companies that are actively employing new managers to run their subsidiaries. Also the gradual withdrawal of 'old' director-owners from operating business (including due to age restrictions) leads to inflow of hired managers in the JSCs.

An intuitive understanding of separation of ownership and control is difficult to formalize. We will use this working definition: ownership and control are separated when the director of the enterprises is not a shareholder, while the other top managers are either hired employees or minority shareholders. This definition provides the necessary (but not sufficient) conditions for separation of ownership and control. It is obvious that even such companies where

[2] It should be stressed that the situation is defined by phenomenon of 'team' organization of private business in Russia vs. 'family' organization in European and Asian countries. This organization is typical both for large businesses and SMEs. Detailed discussion of determinants of this phenomenon is out of this paper.

Table 3. *Models of Corporate Control on Micro Level (based on in-depth interviews in open JSCs conducted in Summer 2003)*

NN	Type of business	Origin of business	Integration activities in 1997—2003	Size (employees)	Concentration of property**	Dominating owners	Model of corporate control	Separation of property and control
1	Group of companies	Privatized	Restructuring and creation of the group	501—1000	Highly concentrated	Managers	I (possible it will move to III)	Non-separated
2	Independent enterprise	Privatized	No	501—1000	Highly concentrated	Director	I (from II)	Non-separated
3	Independent enterprise	Privatized	No	1001—5000	Concentrated	Managers	II	Non-separated
4	Independent enterprise	Privatized	No	200—500	Moderate concentrated	Managers, the company — partner	II (with elements of III)	Non-separated
5	Group of companies	Privatized	Bankruptcy, then creation of the group	1001—5000	Concentrated	Managers	I or II (from I)	Non-separated
6	Independent enterprise	Privatized	No	200—500	Highly concentrated	Director	I	Non-separated
7	**Member of the group**	**Privatized**	**Joining vertical holding, mergers**	**More then 5000**	**Concentrated**	**Group**	**III**	**Separated**
8	Independent enterprise	Privatized	No	200—500	Moderate concentrated	Managers	II	Non-separated
9	Independent enterprise	Privatized	No	501—1000	Concentrated	Managers	II	Non-separated
10	**Member of the group**	**Privatized**	**Joining vertical holding**	**More then 5000**	**Highly concentrated**	**Group**	**III**	**Separated**

Continuation of the table 3

NN	Type of business	Origin of business	Integration activities in 1997—2003	Size (employees)	Concentration of property**	Dominating owners	Model of corporate control	Separation of property and control
11	Independent enterprise (joining the group)	Privatized	Takeover (friendly) is in progress	1001—5000	Concentrated	Director	I (now it goes to III)	Non-separated
12	**Member of the group**	**Privatized**	**Joining vertical holding**	**More then 5000**	**Highly concentrated**	**State — owned holding**	**III (from IV)**	**Separated**
13	**Member of the group**	**Privatized**	**Takeover by the group**	**More then 5000**	**Highly concentrated**	**Group**	**III (from IV or II)**	**Separated**
14	**Independent enterprise**	**Privatized**	**Takeover**	**501—1000**	**Highly concentrated**	**Investment company**	**III (from I or II)**	**Separated**
15	Group of companies	Privatized	Restructuring, creation of the group	1001—5000	Highly concentrated	Managers	I (from II)	Non-separated
16	Independent enterprise	Privatized	No	200—500	Dispersed	N/A	IV	N/A
17	Group of companies	Privatized	Reorganization of the group	More then 5000	Highly concentrated	Group	I (from III)	Non-separated
18	Group of companies	De novo	Mergers	More then 5000	Concentrated	Group	I	Non-separated
19	**Joint venture/ subsidiary**	**De novo**	**No**	**200—500**	**Concentrated (as 50:50)**	**Two firms**	**III**	**Separated**
20	**Member of the group**	**De novo**	**Joining the vertical holding**	**501—1000**	**Concentrated (as 50:50)**	**Group (2 owners)**	**III (in long-run it may move to I)**	**Separated**

* Property concentration was defined as: dispersed (nobody owns more then 10% of shares); moderate (the largest shareholder has more then 10% but less or equal to 25% of shares); concentrated (the largest shareholder has more then 25% but less or equal to 50% of stock); highly concentrated (the largest shareholder owns more then 50% of stock).

ownership and executive management are separated can show other forms of the dominating owner's control over the operations of the enterprise (creation of and participation in the Board of Directors, direct participation of the owner in the management of the 'higher-level' holding company, and other mainly informal ways including direct instructions by phone).

The sample was split into two clusters (except for one enterprise with dispersed ownership where dominating owner was not created). The cluster with separated ownership and control has 7 enterprises (of which one is a company where the controlling stake belongs to a concern with 100% government participation). The cluster with no separation of ownership and control has 12 enterprises (one of them, at the time of the interview was actually on the verge of a friendly takeover by a business group who kept the old management team which had sold its shares).

If we compare the two clusters (Table 4) we will see some clear differences between the types of business. Separation of ownership and operational control is characteristic of enterprises which are business group members (there's only one case where the outside owner is an investment company and it is unknown whether or not it belongs to a group). Combination of ownership and control is a feature of independent enterprises and groups of companies (first of all, relatively small groups). If the business group is big the owners of the holding companies are executives themselves and they control the business as a whole. Operational control over enterprises in a large group is given to hired managers. Their loyalty is ensured by high salaries and by imposing special corporate behavior rules.

Big integrated business groups have already turned over operational management of their companies to hired managers. At the same time, strategic issues still lie in the competence of business groups' owners. Separation of ownership and control correlates with a higher degree of ownership concentration, with replacement of top managers, with creation of modern management teams. Boards of Directors of these companies are strictly controlled by the dominating owner (business group). Sometimes the executive management is not even represented on the Board. It is in these companies that the Boards perform the decision making and monitor the executive management performance (in the biggest business groups). It is obvious, however, that there are formal ('phony') Boards, too, which only formally sign or 'register' the real decisions made by the owner(s) as required by legislation. And the decisions are worked out outside the framework of the formal corporate procedures (it was directly mentioned by several respondents). On the contrary, a combination of

Table 4. *Comparison of the Main Types of Corporate Control*

Indicators of business state and activities	Clusters of companies divided by corporate control features: TYPE 1: Separation of property and control — 7	TYPE 2: Non-separated property and control — 12
Type of business interviewed	Independent enterprises — 1 Members of groups/subsidiaries — 6 Groups of companies — 0	Independent enterprises — 7 Members of groups/subsidiaries — 0 Groups of companies — 5
Size of business interviewed	From 200 up to 1000 employees — 3 More then 1000 employees — 4	From 200 up to 1000 employees — 6 More then 1000 employees — 6
Strategic (planning) horizon	Short-term — 0 Mid-term — 2 Long-term — 5	Short-term — 4 Mid-term — 4 Long-term — 4
Investments	Regular — 7 Irregular or no investments — 0	Regular — 8 Irregular or no investments — 4
Investments funds	Own funds — 6 Bank credits — 5 State subsidies or credits — 1	Own funds — 10 Bank credits — 5 State subsidies or credits — 2
Management team	New — 4 Mixed — 3 Old — 0	New — 1 Mixed — 4 Old — 7
Replacement of top-managers	Yes — 5	Yes — 1
Level of equity concentration	High concentration — 4 Medium concentration — 3 (incl. 2 as 50:50) Moderate concentration — 0	High concentration — 5 Medium concentration — 5 Moderate concentration — 2
Need for further concentration	Need — 3 No need — 4	Need — 3 No need — 6 No data — 3

Continuation of the table 4

Indicators of business state and activities	Clusters of companies divided by corporate control features: TYPE 1: Separation of property and control — 7	TYPE 2: Non-separated property and control — 12
Threat of capture	Yes — 2	Yes — 3
Divergence of interests among large and minor shareholders	Yes — 3 N/A — 2	Yes — 3 No data — 1
Divergence of interests among managers and owners	Yes — 2	Yes — 0 N/A — 8
Regular dividends policy	Yes — 1	Yes — 3
Dominating opinion in a Board of Directors	Groups' or owners' — 7	Managers' — 9 Groups' or owners' — 2 No data — 1
Role of a Board of Directors in a company	Nominal — 2 Monitoring, decision making — 5	Nominal — 8 Monitoring, decision making — 0 Expert — 4
Facts of corporate conflicts	Yes — 2	Yes — 3
Preferable ways of settlement corporate conflicts	Negotiations — 5 Courts — 5 Business associations — 0 Authorities — 0	Negotiations — 11 Courts — 4 Business associations — 2 Authorities — 0 No data — 1

ownership and control turns the Boards over to the managers and it is difficult, therefore, to distinguish between shareholders, directors and executive top managers. A special 'expert' type of the Board is often used in such enterprises as a palliative: issues and possible solutions are discussed using outside expertise.

The basis of corporate conflicts and the driver of demand for legal resolution mechanisms is differences in the interests of corporate governance stakeholders. In our qualitative survey there is no mention of differences in the interests of major owners and managers (in most cases these notions just coincide). Also, it should be kept in mind that our respondents are usually managers (and it was the owner of the enterprise who pointed to such a difference). One other special case was observed in an JSC where the government temporarily lost control and reorganized the company replacing the director. At the same time, a difference in the interests of minor and big shareholders was registered in 6 cases, and it was observed relatively more often where ownership and control were separated. Corporate conflicts or corporate blackmailing were observed rarely in both clusters. However, separation of ownership and control was accompanied by a relatively higher evaluation of the court as a corporate conflict resolution mechanism. This mechanism was ranked as high on the priority list as negotiations.

Concluding Remarks and Prospects of the Study

The prevailing feature of Russian corporate ownership is concentrated property of insiders, including large external shareholders. Formally, dominating owners are company managers and non-financial enterprises, behind which stand the same managers or business groups, finally owners thereof. It can be well-known large 'oligarch' groups, or regional groups founded by domestic business, often with latent support and participation of regional and municipal administrations.

High consolidation of an ownership and the control of a dominating shareholder (be they "old directors" or "new outsider stockholders") against the background of strong incentives for property integration became the most important feature of corporate governance in Russian companies. The prevailing type of corporate control is the control by the dominating owner who takes a direct part in management or controls hired managers. The corporate governance procedures at micro-level are based on internal

mechanisms captured by dominating shareholders. Minority shareholders are very often kept away from corporate decision-making.

Today Russian corporate governance exists in a condition of weak stock market. The main property redistribution processes and corporate control acquisition transactions are going on outside organized markets. In Russia, with a larger number of companies with attractive assets and, accordingly, higher stakes in the fight for their control, ownership consolidation proceeded at a faster rate then in other East European countries and is, for the most part, completed (see comparison of Russia and Poland in (Woodruff, 2003); and Russia and Bulgaria in (TTPP, 2004)). Consolidation of property serves as a substitute of the market and stabilizing tool in the national corporation governance supporting motivations of dominating owners to business restructuring. The micro-models of corporate control are developing and pushing out models with dispersed or moderate concentrated property.

Separation of ownership and corporate control is a rare case in Russian companies. But integration is promoting gradually separation of control in a number of Russian companies. On the whole, as regards Russia, we can evidently speak of the emergence of two main types of company management: one in which day-by-day management is concentrated in the hands of the owners, and another in which ownership and day-by-day control are separated.

A logical consequence of the tendency to the separation is the demand for an improved system of relations within the chain of "dominant owner – board of directors – executive bodies of a joint-stock company." Demand is generated for legitimate institutions used to exercise shareholders' corporate control over executive managers (Boards of Directors, civil contracts, courts).

Further transformations of corporate governance will be determined by decisions of controlling shareholders. They will define their participation in a company's management and responsibilities of executive management. Investment demands of businesses will influence on a company's transparency and use different tools of attracting financing including securities. Probably in mid-term prospects one can observe three types of formally public companies in Russian corporate sector: private, family firms with joined ownership and control using self-financing or bank loans; integrated (in fact closed) companies with separated management and control using internal groups' financing mainly; and public JSCs attracting small and medium-sized investors (including foreign) and preserving a dominating role of a controlling shareholder.

The most important research of corporate governance in Russia at present is to analyze the changing motivations and relations among dominant owners and managers against the background of integration. For quantitative study of corporate governance features in Russian companies (including separation of ownership and property and its influence on internal corporate procedures) the large survey of 822 JSCs in industry and communications was conducted in March-June 2005. This survey is a part of joint project of SU HSE, 'Projects-for-future' think tank and the Institute of Economic Research (Hitotsubashi University, Japan). Fieldwork was implemented by well-known sociologic organization 'Analytical Center of Yurii Levada'. Funds for implementation of the survey were granted by Moscow Public Scientific Foundation and Ministry of Education of Japan.

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