Centre for
Economic
and Financial
Research
at
New Economic
School

June 2007

A Survey of Corporate Governance in Russia

Olga Lazareva
Andrei Rachinsky
Sergey Stepanov

Working Paper No 103

CEFIR / NES Working Paper series

A Survey of Corporate Governance in Russia

Olga Lazareva, Andrei Rachinsky, and Sergey Stepanov*

June 2007

Abstract

In this survey, we describe the current state of corporate governance in Russia and discuss its dynamics and prospects. We review the main mechanisms of corporate governance in the country and relate them to firms' ownership structures, financial market development and government influence. Finally, we discuss the current trends in Russian corporate governance and its prospects.

Keywords: corporate governance, ownership, expropriation, predatory state, property rights
JEL Classifications: G32, G34, G38

---

* Olga Lazareva: Centre for Economic and Financial Research (CEFIR) and Stockholm School of Economics, olazareva@cefir.ru; Andrei Rachinsky: CEFIR, arachinsky@cefir.ru; Sergey Stepanov: New Economic School and CEFIR, sstepanov@cefir.ru

We thank Sergei Guriev for very valuable comments

1. Introduction

In this survey we describe the current state of corporate governance in Russia and discuss its dynamics and prospects. Corporate governance has become an important topic in Russia once again, and there is a clear trend among the largest Russian companies to adhere to good corporate governance standards by increasing disclosure, complying with international accounting standards, placing "independent directors" on boards, and adopting corporate governance codes, for example.

There have also been initiatives to improve corporate governance from the government, regulators and various private agencies. The government is adopting new laws and amendments to the existing laws. The Federal Financial Markets Service (formerly the Federal Commission for Securities Markets) introduced the Code of Corporate Conduct. Private agencies are proposing their own initiatives and publishing their own corporate governance ratings.

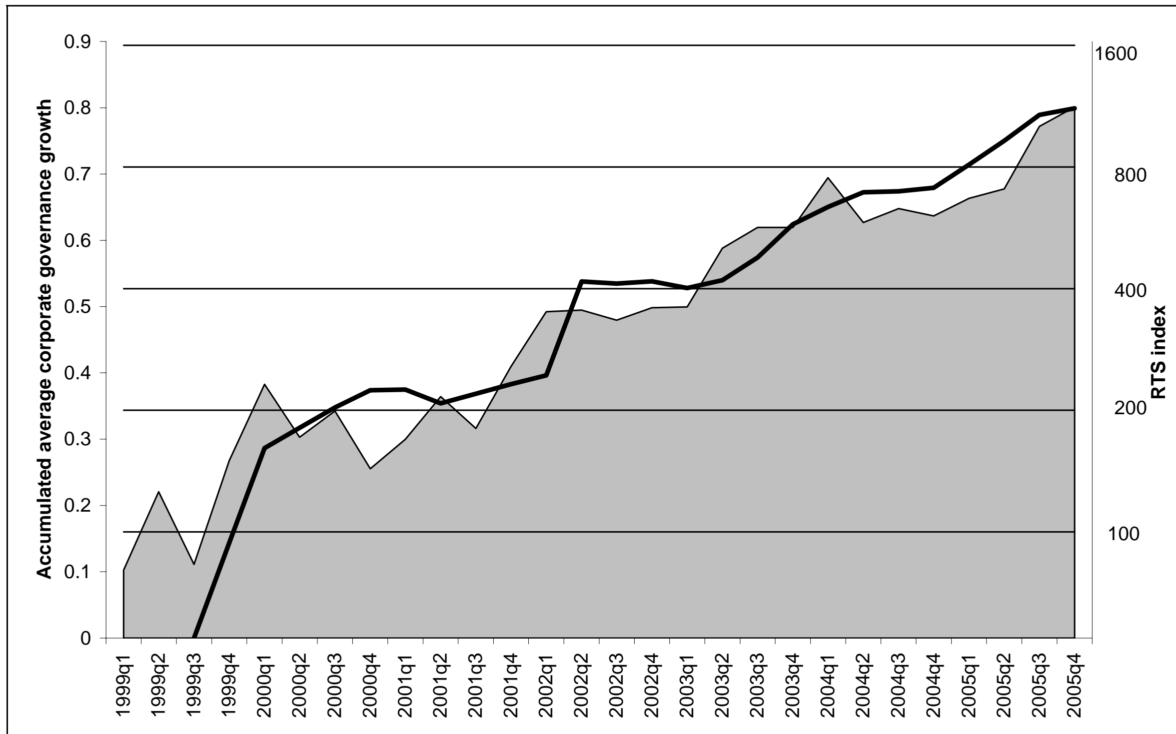
What lies behind these changes, and what real effects will the changes have? After years of repeated, grave malfeasances against minority shareholders and fierce battles for assets, controlling owners of Russian firms have begun to understand that the only way to sustain the development of their companies is by attracting external funds. Alternatively, some of the large owners simply want to exit their businesses by selling their assets at a good price.

Both of these goals call for increasing the value of companies. Russian corporations are severely undervalued compared to their Western counterparts.[1] A substantial increase in a company's valuation can be achieved through building reputation and adhering to the standards of good governance; this is where the demand for good corporate governance comes in. A study of about 100 of the largest Russian companies by Black, Love and Rachinsky (2006) finds a substantial and statistically significant positive impact of the quality of corporate governance on a firm's market valuation. It is unlikely to be simply coincidental that both the stock market and the quality of corporate governance in Russian listed firms have remarkably increased over the last few years (see Figure 1).

[1] For example, *Gazprom*, the world's largest oil and gas company based on reserves, had a market capitalization in October 2005 of only about $1 per barrel of proven reserves, compared to $18 for major Western oil companies such as *Exxon Mobil* and *Royal Dutch Shell* (Economist, 2005)

Figure 1: Cumulative increase in the average governance score in a sample of 100 largest Russian companies (left scale).

The score for each company was obtained on the basis of corporate governance scores provided by five different agencies that evaluate corporate governance in Russia (for details see Black, Love and Rachinsky (2006)). Shaded area shows the RTS (Russian Trading System) index value (right scale).



Source: Black, Love and Rachinsky (2006)

At the same time, recent international empirical studies show that efforts of companies to improve their corporate governance will have only a limited effect unless the country-level legal environment is strong and favorable to protecting investor rights (Durnev and Kim (2005), Klapper and Love (2004)). Therefore, initiatives from "above" directed to the general improvement of the legal system in the country are crucial for building an environment that would help Russian companies attract external finance.

The classical definition of corporate governance refers to the "ways in which suppliers of finance to corporations assure themselves of getting a return on their investment" (Shleifer and Vishny (1997, p. 737)). In this study we take a broader perspective of corporate governance by taking into account the roles of various stakeholders, other than investors, in corporate governance (Tirole (2001)). This approach is more appropriate for Russia since stakeholders, primarily governments of different levels and workers play an important role in a firm's decisions.

The Russian corporate environment is characterized by high ownership concentration in firms, especially in the hands of insiders, weak legal institutions that lead to high private benefits of control, underdeveloped capital markets, a segmented labor market, and significant involvement of the state in business.

These features make the focus of the debate on Russian corporate governance substantially different from the one in the developed market economies, especially the Anglo-Saxon countries. The main conflicts of interest in Russian firms are between large and small shareholders, rather than between a manager and a large number of dispersed shareholders, as in the US or UK. On top of that, large owners are often in conflict amongst themselves, and with outside raiders who are attracted by possibilities to seize assets. Yet, there is another "layer" of conflict: the one between the state and private business, whose objectives may diverge substantially. Recently, government intervention into business has become very significant. A number of large companies moved under state control, others have been accused of tax avoidance and received large claims for unpaid taxes from the tax authorities; and the government has also tried to exclude foreigners from participation in large profitable businesses, such as oil extraction.

Our survey proceeds as follows. We first describe how the initial conditions and general environment have affected the evolution of ownership and financial markets in Russia. Then, we describe the main conflicts and mechanisms of corporate governance in Russian firms. Finally, we review the current changes and trends in corporate governance. The appendix contains a brief description of Russian corporate law as well as recent and proposed changes in the law.

2. Privatization and evolution of ownership

The objective of privatization in Russia was to quickly create demand for the institutions of private property. According to the ideologists of Russian privatization, the initial distribution of assets was not a crucial issue. They relied on the "coasian" type of argument that the property would *eventually* be distributed efficiently. Russian privatization created tens of thousands of firms in which significant shares were distributed among insiders (both workers and managers). As a result, privatization led to insider dominated ownership structures, with a significant managerial control as managers have normally been able to convince or coerce workers to either vote with the management or sell their shares to the management. In fact, redistribution of ownership in the years after privatization was

characterized by two main parallel trends (see Table 1): (i) further concentration of control in the hands of managers and (ii) an increase in the shares of outside blockholders. Overall, as surveys Biletskiy et al (2001), Guriev et al (2004), CEFIR and IET (2006) and IFC (2003, 2005) find, ownership became very concentrated.[2]

Not only has the ownership become concentrated at the company level, but also on the aggregate. Russian assets have ended up in the hands of a small group of people. According to Guriev and Rachinsky (2005), about 40% of the Russian industry belongs to 22 largest business groups, controlled by "oligarchs". The IFC (2005) study as well as a study by CEFIR and IET (2003) finds that legal entities prevail among Russian controlling owners, which is consistent with the wide-spread participation of firms in business groups. About a third of companies in the IFC and CEFIR and IET studies are members of groups of firms. According to Lazareva and Rachinsky (2006), in 18% of firms having large outside blockholders, these owners were the firm's suppliers – and in another 18% of firms, their customers.

Table 1. Distribution and dynamics of ownership in Russian firms.

Panel 1a. Data from Biletskiy et al. (2001), survey of 530 industrial firms in 20 regions

Type of owner	1994		1999		1994 - 99
	Mean share	Conditional mean	Mean share	Conditional mean	Mean change
State	33.0	59.8	22.6	61.6	-8.8
Private	67.0	85.9	77.4	91.3	+8.9
Insider	49.1	65.5	44.4	55.3	-5.1
Manager	10.6	15.3	14.8	19.8	+2.8
Worker	35.9	51.6	29.2	39.7	-6.4
Outsider	17.5	38.5	32.7	52.9	+14.2
Legal entity	11.1	25.1	19.6	39.4	+7.1
Individual	4.1	17.7	9.2	24.3	+4.3
Foreigner	1.5	25.2	3.2	25.8	+1.8

[2] Dolgopyatova (2003) summarizes several other studies which reveal similar tendencies: growing concentration of ownership and emergence of controlling owner in a large share of firms.

Panel 1b. Data from Guriev et al (2004) and CEFIR and IET (2006)[3], surveys of several hundred Russian large and medium size companies

	2002			2006		
	average stake, %	median stake, %	# of companies	average stake, %	median stake, %	# of companies
Management	19.3	6.0	641	21.5	3.0	659
Largest outside blockholder	23.9	15.0	642	35.3	20.0	661
All small shareholders (< 5% stakes)	23.6	12.0	581	16.5	10.0	641

Panel 1c. Data from IFC (2003, 2005), surveys of several hundred large and medium size companies

Share of the largest shareholder in the company	2002 % of firms.	2004 % of firms.
50% +	19	48
25% - 50%	23	27
0 – 24.99%	58	25
Number of firms	307	442

3. Capital market development

Despite substantial growth in recent years, the Russian financial market remains underdeveloped. Although in 2005 the stock market capitalization relative to GDP in Russia was about 44% of GDP, which is comparable to about 43% in Germany and Italy (though substantially lower than 75% in Japan, 83% in France and 135% in the US), the volume of traded shares relative to GDP was only about 25%, compared to 57% in Germany, 81% in Japan, 72% in France and 182% in the US. The volume of private sector credit as a share of

[3] Guriev et al (2004) is based on the surveys conducted by CEFIR and IET in 2003 and 2002. The design of the surveys was almost identical to the one used in CEFIR and IET (2006), the target sample of companies was also very similar.

GDP in 2005 was only 21% compared to about 75% in Japan, 90% in France, 116% in Germany and 222% in the US.[4]

Most firms have to rely on internally generated funds to make investments rather than on bank credit, bond or equity issues. Markets for stocks and bonds are still small, illiquid and are plagued by information asymmetries. These aspects raise the cost of external funds for companies, which in turn makes self-dealing a relatively more attractive strategy for controlling shareholders. In addition, the absence of reliable market signals about a firm's performance and prospects renders conditioning managerial compensation on stock price ineffective (if possible at all), hampers evaluation of capital budgeting decisions and impedes the emergence of an efficient market for corporate control.

3.1. Stock market

Russia's stock market is dominated by the natural resources sector (see Figure 4). Since 1998 the stock market has grown substantially (see Figure 2). The number of firms traded on a regular basis is very small; a few traded firms comprise most of the market capitalization (see Figure 3).

A positive trend is that more and more firms are considering going public and the number of IPOs, though still small, is growing fast. However, most firms prefer to list their shares abroad via depository receipts[5], which have been worrying Russia's financial market regulator, the Federal Financial Markets Service (FFMS). In order to force companies to list their shares in Russia, FFMS has introduced a rule that at least 30% of any new issue must be placed in Russia. The agency is planning to increase this share to 50%.[6]

---

[4] Source: Beck et al (2006)

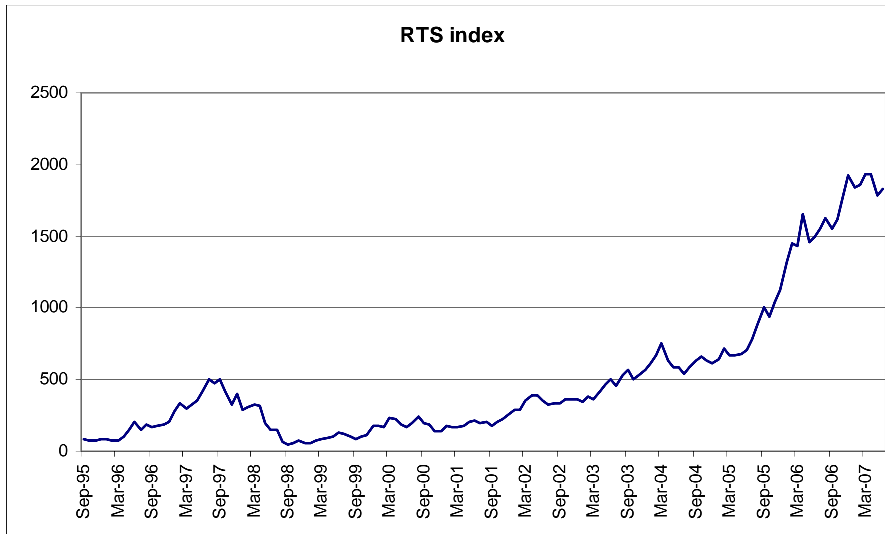
[5] In all of the 10 largest Russian IPOs the companies listed their shares on LSE. Some of them did simultaneous listings on Russian exchanges as well.

[6] The opponents of this view say that restrictive measures are not the best way to keep firms listing in the country. They suggest that reforms directed towards ensuring higher stock market integrity (e.g. adopting a law on insider trading and creation of the Central Depository) and strengthening enforcement are better ways to convince firms to list on Russian exchanges. FFSM agrees that such steps are crucial for the stock market's development, but views them as part of a longer term program. Meanwhile, keeping firms from only listing abroad is intended to prevent the market from leaving Russia now.

At the same time, companies and underwriters find ways to bypass the FFSM's rule. For example, the LSE-listed *Pyaterochka Holding N.V.* (now *X5 Retail Group N.V.*) and *Evraz Group S.A.*, despite having most of their assets in Russia and being controlled by Russian residents, were incorporated abroad and, thus, did not

Figure 2. RTS (Russian Trading System) index.

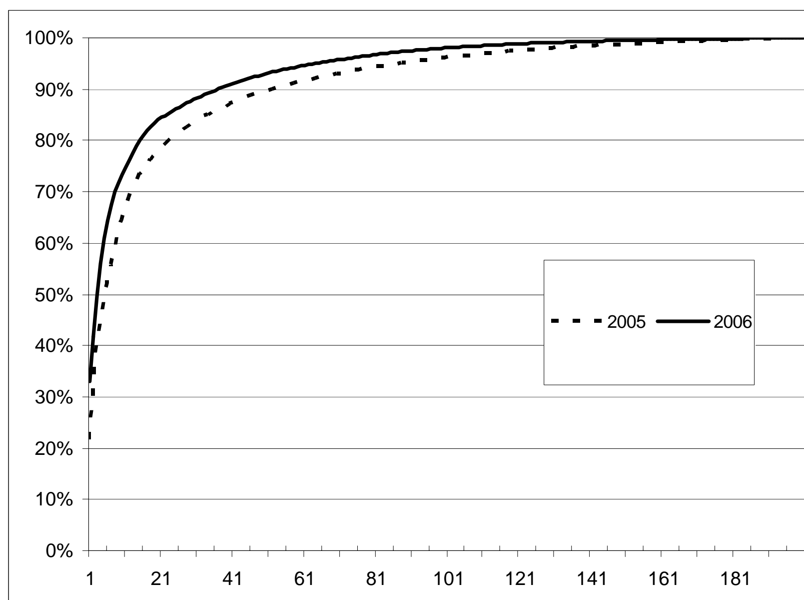
RTS index is one of the main indicators of Russian stock market development. After the August '98 financial crisis, the RTS index has shown fast growth.



Source: RTS

Figure 3. Distribution of the market capitalization of the 200 largest companies.

The total capitalization of the 200 largest companies as of 1 September 2006 was $832.7 bn. 33% of this was the capitalization of Gazprom, the state-controlled natural gas monopoly. The biggest 20 companies represented 84.0% of the total capitalization compared with 78.8% in 2005.



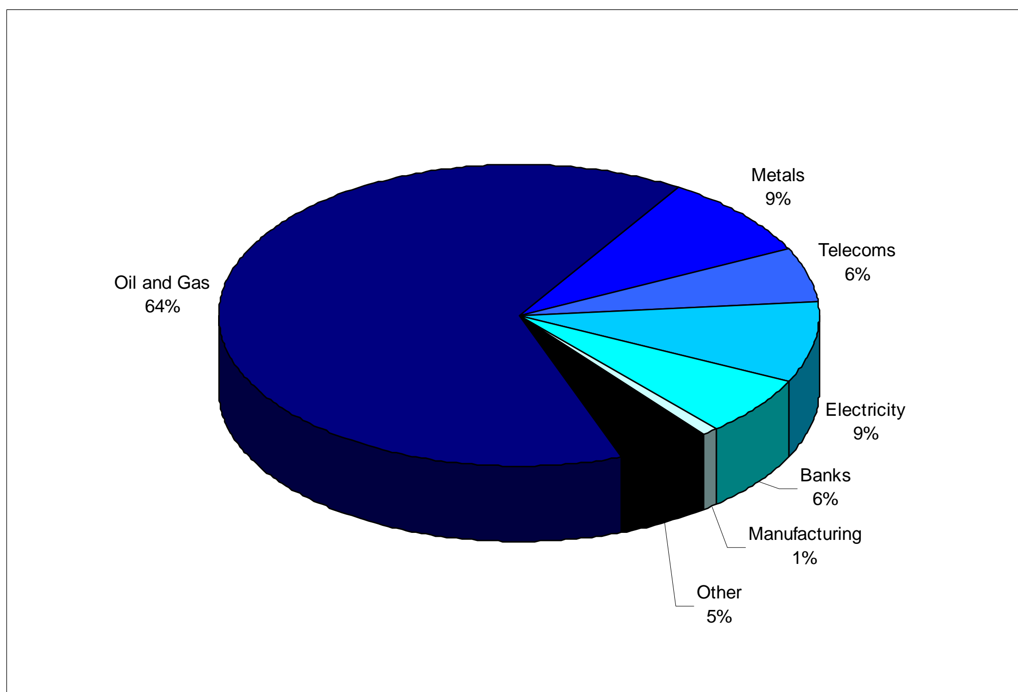
Source: Expert-RA, own calculations

---

have to conform to the rule. Underwriters also contribute to bypassing the rule by purchasing stakes at IPOs and then issuing depository receipts on these shares abroad.

Figure 4. Capitalization breakdown by sector as of 1 September 2006.

Russia's stock market is dominated by the natural resources sectors. The weight of the oil and gas sector increased by 5% in the last year, mostly due to the *Gazprom* capitalization growth and the successful IPO of the state-controlled oil company *Rosneft*.

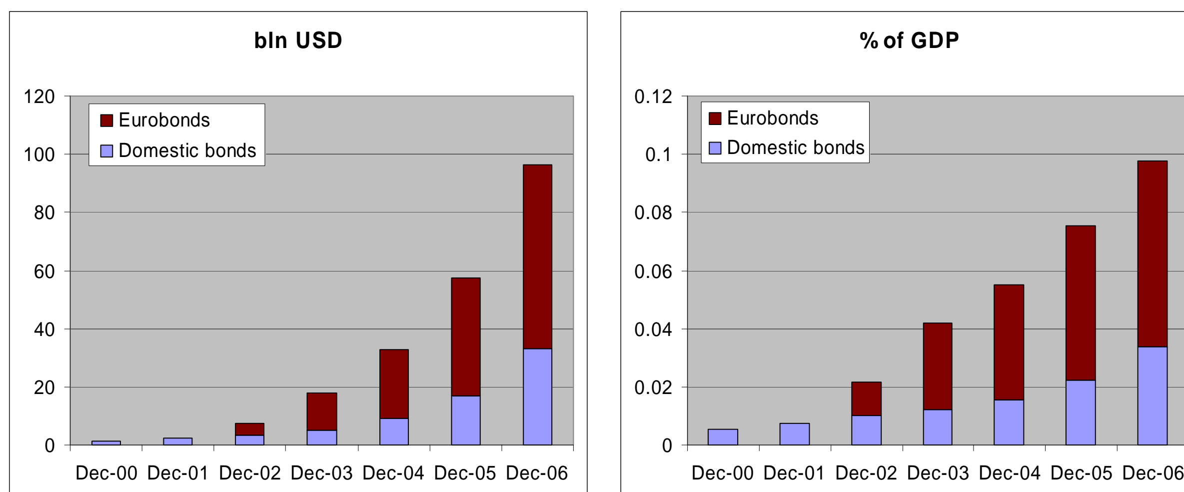


Source: Expert-RA, own calculations

3.2. Bond market

The domestic bond market has developed much more compared to domestic IPOs (though the current IPO boom may change this). The last 5-6 years saw a rapid growth of the volume of corporate bond issues. More and more, companies use bond issues to finance M&A transactions, the number and the volume of which has also grown in recent years. Figure 5 demonstrates the dynamics of the bond market over the last years.

Figure 5. Volume of the Russian bond market.



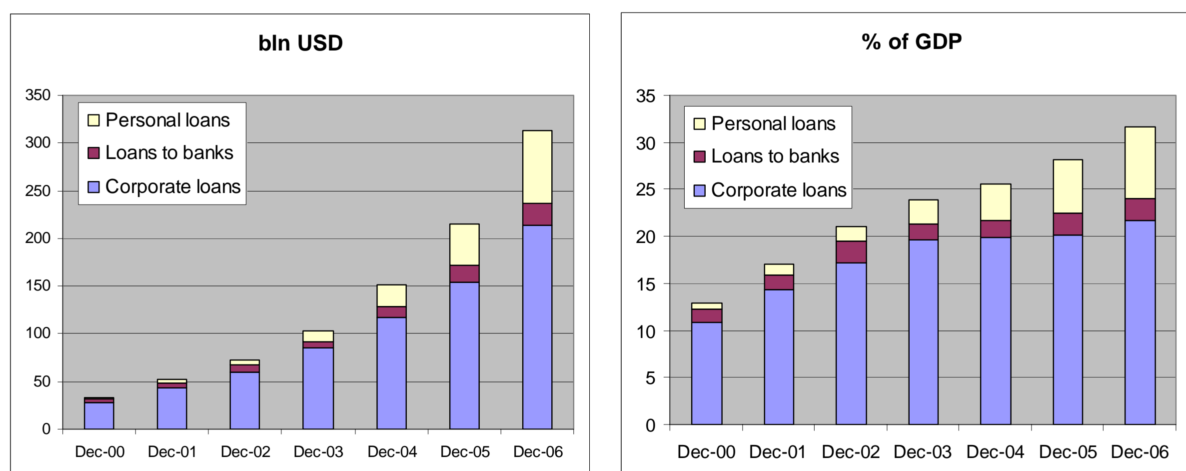
Source: www.cbonds.ru, own calculations

(Note: data on eurobonds prior to 2002 were unavailable)

3.3. Banks

Due to the dominance of the state-owned banks, Russia's banking sector is highly concentrated. By far the largest player in the Russia's banking sector is the state-owned *Sberbank*, holding almost 32% of the total assets of the banking sector (Figure 7). It is followed by a few other state-controlled banks. The largest private bank by the size of total assets is *Alfa-Bank* with a share of only 3%. Since 1999 the amount of bank credit to firms, banks and individuals has been steadily growing (Figure 6).

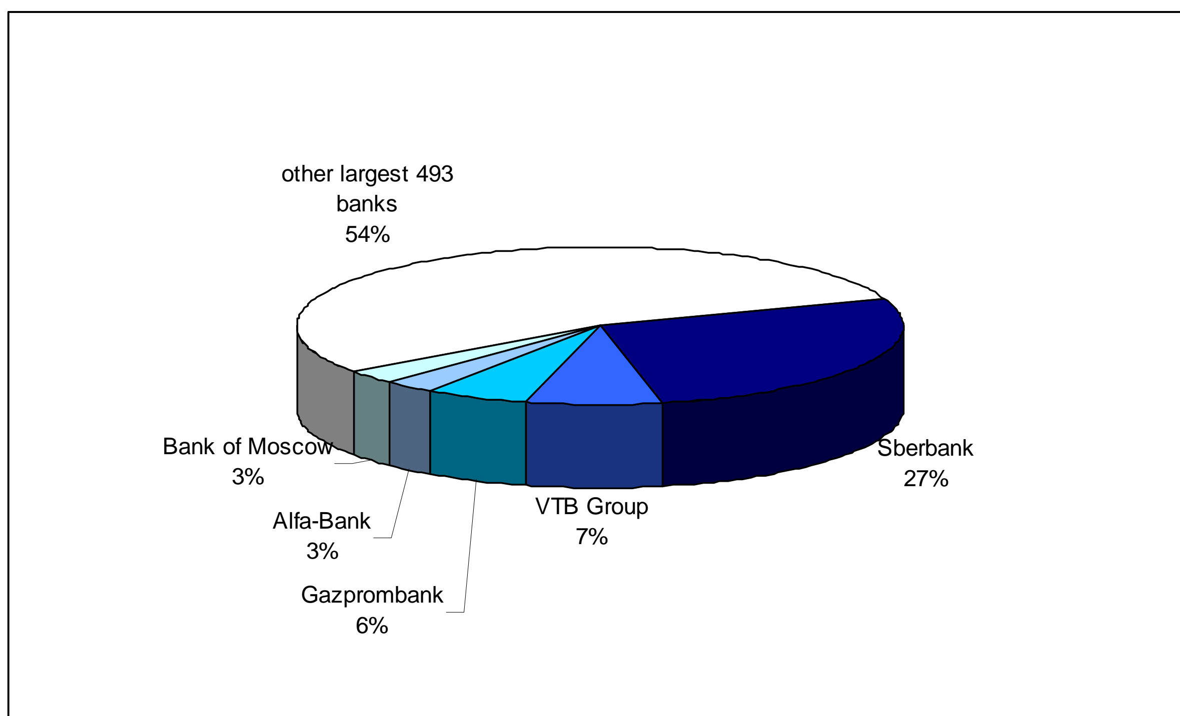
Figure 6. Volume of outstanding bank loans to firms, banks, and households.



Source: Central Bank of Russia, own calculations

Figure 7. Largest banks' shares in the total net assets of the Russian banking sector.

Total net assets of 500 largest banks as of 1 January 2007 were almost US$500 bn. Sberbank dominates the banking sector with 27% of total net assets. The largest 5 banks cover almost half of total net assets of the banking sector.



Source: Expert RBC, own calculations

3.4. Sources of outside finance

The need for outside financing is one of the key motives for establishing good corporate governance practices, especially when a firm decides to turn to public equity markets.

The table below shows the breakdown of outside financing by sources and years. The amount of outside financing has grown substantially over the last years. While bank loans remain the main source of outside funds, bond financing has been growing faster and its volume is becoming comparable to the volume of bank loans. Public equity has dramatically risen in the past 3 years thanks to the IPO boom and is expected to grow rapidly in the coming years.

Table 2. Sources of outside finance in Russia[7]

Year	*Bank loans*		*Bonds*		*Public Equity: IPO, SPO*		*Private equity*		*Total*
	bln. USD	***%***	***bln. USD***	***%***	***bln. USD***	***%***	***bln. USD***	***%***	***Bln. USD***
2001	15.5	92.3%	1	6.0%	0	0.0%	0.3	1.8%	16.8
2002	16.1	73.9%	5.3	24.3%	0.3	1.4%	0.1	0.5%	21.8
2003	21.9	66.8%	10.5	32.0%	0.3	0.9%	0.1	0.3%	32.8
2004	34.6	65.8%	14.3	27.2%	2.6	4.9%	1.1	2.1%	52.6
2005	41.2	57.4%	24.7	34.4%	4.9	6.8%	1	1.4%	71.8
2006	65	52.6%	38	30.8%	19.1	15.5%	1.4	1.1%	123.5

Sources: Central Bank of Russian Federation, www.cbonds.ru, Renaissance Capital, Russian Venture Capital Association, own calculations

4. Legal environment

The concentration of ownership and poor development of financial markets are consequences of Russia's weak legal environment. Recent research has shown that it is strong law enforcement, rather than the mere content of the laws, that is crucial for the ability of firms to attract external finance (see e.g. Pistor et al (2000)). While Russia quickly caught up with the West in adjusting their company and bankruptcy laws to Western standards, law enforcement remains poor (Pistor et al (2000)). This is primarily due to widespread corruption in courts, regulatory bodies and law enforcement agencies.[8]

Importantly, the high income inequality stemming from weak legal institutions has precluded demand for good institutions (i.e. ones that ensure strong enforcement of property rights). The rich have favored low protection of property rights, keeping the country in a "bad" institutional equilibrium (Sonin (2003), Glaeser et al (2003)).

[7] The numbers in the table should be view as approximate as they come from several different sources. In addition, public equity figures are gross, i.e. disbursements to stockholders (such as dividends or stock repurchases) are not subtracted, while the figures for the other sources are net of disbursements to investors. However, this difference should not affect the qualitative picture as dividends and stock repurchases have been rather small compared to equity issues in Russia.

[8] According to the Transparency International Corruption Perception Index, Russia is ranked 121th out of 163 countries in 2006 (a higher number corresponds to higher corruption).

When the law does not protect minority shareholders, the value of control becomes extremely high (Dyck and Zingales (2002)). Strong control both insures against expropriation by others and provides the possibility of expropriating minority shareholders (Bebchuk (1999)). This explains the fierce wars for assets and the increase in ownership (and control) concentration observed in Russia in late 1990s – early 2000s.

5. Corporate conflicts and mechanisms of corporate governance in Russia

In this section we discuss the main mechanisms of corporate governance in Russia, focusing on their benefits and costs. Our discussion is based on a survey by Becht, Bolton and Röell (2002) which summarizes existing theoretical and empirical work on a variety of corporate governance mechanisms, and a paper by Berglöf and Claessens (2004), which reconsiders the Becht, Bolton and Röell's framework for developing and transition economies.

The weakness of Russia's legal institutions and the resulting high ownership concentration in companies and underdeveloped stock market have predetermined the types of corporate conflicts and the mechanisms of corporate governance that prevail in Russia today.

In contrast to the Anglo-Saxon model, the conflict between a professional manager and a large number of uncoordinated small shareholders is irrelevant in Russia – managers are either controlling shareholders themselves or tightly controlled by/affiliated with large shareholders. Instead, the main conflict of interest in Russian firms is between controlling/large blockholders and minority shareholders. Weak legal institutions together with underdeveloped financial and corporate control markets lower the cost of opportunistic behavior towards minority shareholders. As a consequence, Russia has had numerous cases of abuses of minority shareholder rights by controlling owners. The methods that have been used include transfer pricing, dilution of shares, asset stripping and even outright theft.

On top of the conflict between controlling shareholders and minority shareholders, there have been numerous wars for control amongst large shareholders and between firms' insiders and outside raiders.

Yet, there is another "layer" of conflict: the one between the state and private business, whose objectives may diverge substantially. Overall, the current trend of state intervention in business is getting more and more pronounced, while abuses of minority shareholder rights by controlling shareholders are becoming less frequent.

5.1. Ownership concentration as a mechanism of corporate governance

Despite all the costs of discretional behavior on the part of controlling shareholders, it is important to understand that ownership concentration is nothing but a second-best response to the problem of weak institutions of property rights, and is the main mechanism of corporate governance in Russia. Concentration of ownership serves as a substitute (however imperfect) to the poor legal protection of shareholders. Under weak legal protection only a large owner has enough power and incentives to ensure that he is not expropriated by the management or other large owners.

The main benefit of ownership concentration is that it reduces the separation of ownership and control, typical for firms in Anglo-Saxon countries. Since a controlling owner has a large stake, his interests are better aligned with those of other shareholders, i.e. with the shareholder value maximization. When a controlling shareholder is not the manager himself, by virtue of his power and thanks to strong incentives provided by his stake, he monitors the manager, exerts tight control over managerial discretion and can fire him relatively easily. According to Rachinsky (2006), cases of managerial turnover are frequently related to a change of the controlling shareholder in a firm. In this situation, executive compensation schemes as a mechanism of corporate governance lose importance, especially given poor development of the stock market, which does not allow for a system that effectively conditions managerial compensation on the company's stock price.

Ownership concentration, however, comes at a cost. As we have mentioned, too much control opens up possibilities for controlling shareholders to expropriate minority shareholders (see Box 1). Another possible cost is excessive monitoring of managers, which may destroy valuable private benefits of the manager and kill his initiative (Burkart, Gromb, Panunzi (1997), Pagano and Röell (1998)). Still other costs of concentrated ownership are low liquidity of a company's stock (Bolton and Von Thadden (1998)) and reduced possibilities for diversification (Admatti, Pfleiderer, and Zechner (1994)).

The above discussion may lead to the conclusion that strengthening protection of minority shareholders' rights would no doubt be desirable, as it would eliminate the need for the costly mechanism of concentrated ownership. This logic, however, has serious flaws when applied in a country with weak legal institutions. The dangers of empowering minority shareholders are increased opportunities for abusive use of minority shareholders' rights by large players in corporate wars, in particular by greenmailers and raiders. In fact, corporate aggressors have

been making extensive use of the minority protection provisions in the Russian law on joint stock companies. In order to stop this practice, the government is now proposing amendments to the law that are supposed to make abuses of the JSC law more costly for corporate aggressors without simultaneously reducing minority shareholder protection (see subsection 7.2 for details).

Box 1. Expropriation of minority shareholders in Russia

In the late 1990s expropriation of minority shareholders by controlling owners was very widespread. For example, controlling shareholders of many oil companies used transfer pricing to divert the companies' profits to intermediaries owned by them. Desai et al (2005) provide the example of *Sibneft* whose production subsidiary would sell a large fraction of the produced oil to a "third party intermediary" called *Runicom* at just $2.20/barrel; *Runicom* would resell then the oil abroad at market prices that were several times as high (part of the reason for doing this was tax evasion). *Runicom* was associated with the then controlling shareholder of *Sibneft*, Roman Abramovich, but *Sibneft* was not a significant *Runicom* shareholder. After the government took a number of serious steps in 2000 and 2001 towards stopping the transfer pricing by *Sibneft*, returns to minority shareholders rose well above the industry trends. Some other famous cases of minority shareholder expropriation in the 1990s involving *Yukos*, *Sidanco*, *Gazprom* and *Sibneft* are well described in Black et al (2000).

The wave of abuses of minority shareholders' rights has substantially weakened by now, but conflicts between controlling and minority shareholders still are not infrequent. In June 2006 a group of institutional investors, minority shareholders of two subsidiaries of the *Mechel Steel Group*, publicly accused the Group of unfair shares swap ratio in the process of consolidation of *Mechel's* subsidiaries initiated by the management, transfer pricing and a failure to disclose information to minority shareholders. The investors appealed to NYSE with a request to suspend trading in *Mechel's* ADRs on NYSE and filed several lawsuits in Russia. NYSE did not satisfy the investors' request, while the court proceedings are currently under way.

5.2. Multiple large shareholders

In a world where controlling owners have large discretion, one potentially effective mechanism of corporate governance is sharing control between several large blockholders.

Some Russian companies do have several large owners of a comparable power. For example, *Alfa Group* (through its subsidiary *Altimo*) has abstained from holding majority stakes in the telecom companies it has invested in, preferring to have just a blocking stake

(above 25%). In these companies there are other (one or two) large blockholders, holding no majority stake either.[9]

While, acting as a group, large blockholders can expropriate small shareholders, such ownership distribution can also create conflicts *among* large owners. These conflicts can be both value-destroying and value-creating.

On the one hand, multiple large owners provide checks and balances against each other. By mutual monitoring and control they restrict each other from opportunistic behavior. By having the power to block proposed policies, they may help ensure that projects that benefit one blockholder at the expense of the other shareholders do not go through (Gomes and Novaes (2005)). Also the necessity to gain support of small shareholders when it comes to voting on important decisions (like the election of directors or changes in a corporate charter) can make blockholders compete with each other for votes which eventually benefits small shareholders (Bloch and Hege (2001)). It is in such situations that the presence of several large owners can benefit corporate governance.

On the other hand, the same power to block proposed decisions may lead to inefficient deadlocks (Gomes and Novaes (2005)). Perhaps, more seriously, in the Russian institutional environment, presence of more than one large shareholder sometimes results in fierce wars for control that can involve substantial costs.

Empirical literature on various countries suggests that multiple large owners can both create and destroy value. It thus remains ultimately an empirical question whether multiplicity of blockholders in Russian firms is on average beneficial.

[9] These companies include *Vimpelcom* (44% of voting shares - *Alfa*, 29.9% - Norwegian mobile operator *Telenor*) and *Golden Telecom* (26.9% - *Alfa*, 18.4% - *Telenor*, 11.1% - state controlled long-distance telecommunications operator *Rostelecom*). Abroad *Alfa* has been following a similar strategy: it controls 43.5% in a GSM operator *Kyivstar* (Ukraine), which is below *Telenor's* share of 56.5%, and 13.2% in a GSM operator *Turkcell* (Turkey). Currently *Alfa* is also disputing over a blocking ownership stake in a telecom company *Megafon* with an investment fund called *IPOC*.

Box 2. Conflicts between large shareholders in Russia

A recent example of such a conflict is the ongoing collision between *Alfa* and *Telenor,* regarding *Vimpelcom*, extensively covered in the media. The principal shareholders of *Vimpelcom*, *Altimo* (*Alfa's* subsidiary) and *Telenor* (see footnote 7) cannot agree on the strategy of the firm in the Ukrainian market.

Altimo and *Telenor* share the ownership of a Ukrainian mobile operator *Kyivstar*, where 43.5% of equity belongs to *Altimo* (through a subsidiary called *Storm*) and 56.5% belongs to *Telenor*. In November 2005 *Vimpelcom* acquired a Ukrainian GSM operator *Ukrainian Radio Systems* (*URS*) despite *Telenor's* opposition to the deal. *Telenor* did not want the appearance of a competitor to *Kyivstar* in the Ukrainian market and blocked the deal in the board, arguing that the price paid for *URS* was too high. However, the general shareholder meeting approved it.

The origin of the conflict seems to lie in the initial desire of *Alfa Group* to merge *Kyivstar* and *Vimpelcom*. Such plan was resisted by the Norwegians as that would make *Altimo* the largest shareholder in the merged company, hence depriving *Telenor* of its control over the *Kyivstar* assets. Moreover, *Telenor* would no longer be able to consolidate its very successful Ukrainian business (accounting for about 10% of total revenues) in its financial statements. Thus, the *URS* deal can be viewed as a tactical move by *Altimo* to exert pressure on *Telenor*.

The conflict has already lasted for a couple of years, involving several court proceedings and the failure of the board to approve *Vimpelcom's* annual budget for 2006. Over the recent months *Altimo* has been accumulating shares in *Vimpelcom* through open market purchases. As a result, *Altimo's* current share allows it to increase the number of its representatives in *Vimpelcom's* board of directors, which strengthens *Altimo's* position in the conflict.

Another example of a collision between large shareholders was a conflict between *RENOVA Group* and the managers of a titan manufacturer *VSMPO-Avisma*. *RENOVA* held 13.4%, while the managers held 57.8% of the shares. At some point *RENOVA* decided to be the sole controlling owner. The two parties had a shareholder agreement called "Russian roulette: if one of the parties offers its stake to the other party, the latter should either buy the stake at the proposed price or sell its own stake to the former party at this price. *RENOVA* offered its stake to the managers of *VSMPO-Avisma* at a below market price in a hope that the latter would not be able to raise funds for the purchase and *RENOVA* would then buy the managers' share on attractive terms. However, the managers found the necessary amount and bought *RENOVA's* stake. *RENOVA* claimed that the raised funds were collateralized by the managers' equity share, which was prohibited by the shareholder agreement. Until recently *RENOVA* had been challenging the deal in court. With the appearance of the *Rosoboronexport*, a 100% state-owned company that recently decided to acquire control over *VSMPO-Avisma*, the conflicting parties finally came to a settlement.

5.3. Boards of directors

With ownership being very concentrated in Russia, companies' board members cannot be considered as truly independent players. Normally, boards are simply one of the channels through which large shareholders, management and the government influence a firm's decisions. A joint study by the Higher School of Economics and the Bureau of Economic Analysis (2004) (Table 3) as well as the recent study by Standard & Poor's (2007) (Table 4) find that boards are dominated by management and large shareholders' representatives. Lazareva and Rachinsky (2006) show that the fraction of insiders on boards is positively related to the management's share, and negatively related to the share of the largest outsider (Table 6). It is also positively related to the share of small owners. This might be due to the fact that many small owners in Russian companies are actually employees who usually vote along with the management. Regional and local authorities turn out to be quite influential stakeholders even if they do not own shares; there is a tendency to include their representatives on boards.

The fraction of independent (unaffiliated) directors on boards is small (IFC (2005), S&P (2007)). Nevertheless, recent observations show that some firms are trying to keep pace with Western companies in following good board practices. They are taking certain steps towards building the independence of boards and strengthening oversight over the managers.[10] At the same time, there seems to be a lack of proper understanding of what "independence" means (IFC (2005)). Moreover, it may be relatively easy to name directors who are formally independent, but in reality have close ties with the management or the controlling shareholder.

As for the functions performed by boards, Lazareva and Rachinsky (2006) document that these are linked with the ownership and board structure, which is not surprising. Their main results concerning board functions are:

- on average, boards spent too much time on tactical issues (Table 5), which is consistent with the insider domination in Russian firms (such concerns normally should be performed by management);
- as the regression analysis shows (Table 6), controlling for other variables, the bigger the management share, the more time the board devoted to tactical issues;

[10] As you can see from tables 4 and 5, in the boards of largest listed firms insiders' power is decreasing. Firms that are listed abroad have a significantly larger proportion of independent (unaffiliated) directors. The studies also document some improvements in the number and independence of audit committees.

- the aggregate time spent on control of management and on analysis of company financial statements, on the contrary, decreased with the management's share;
- the time spent on strategy increased with the share of the largest outsider.

Table 3. Board composition in 1998 and 2002, data from the study by HSE and BEA (2004) of almost 300 Russian enterprises.

Representatives of shareholders and stakeholders	Share in a board at the end of 1998, %	Share in a board at the beginning of 2002, %
Employees	60.3	56.0
Including: managers	38.5	35.4
Large individual shareholders	16.5	17.9
Government (all levels)	5.1	6.7
Commercial organizations (including financial)	12.0	12.7
Non-commercial organizations	1.6	1.5
Other directors, including independent	4.5	5.2
Number of firms	278	294

Table 4.Board composition in 2005 and 2006, data from the study by S&P (2007) of 75 largest Russian public companies.

	75 public companies	17 LSE-listed companies	7 NYSE/NASDAQ-listed companies
	2006		
Insiders	**66.3**	**62.5**	**38.0**
Outsiders	**33.7**	**37.5**	**62.0**
Representatives of minority shareholders	13.9	6.6	28.9
Representatives of strategic noncontrolling investors	10.9	6.1	27.6
Representatives of portfolio investors	2.9	0.5	1.3
Unaffiliated directors	19.9	31.0	33.0
	2005		
Insiders	**70.1**	**75.0**	**39.3**
Outsiders	**29.9**	**25.0**	**60.7**
Representatives of minority shareholders	13.9	5.8	33.7
Representatives of strategic noncontrolling investors	9.4	3.5	31.0
Representatives of portfolio investors	4.5	2.3	2.7
Unaffiliated directors	16.0	19.2	27.0

Table 5. Board structure and functions. Source: Lazareva and Rachinsky (2006).

Variable	mean	median	min	max	# of firms
Number of BoD members	6.6	7	0	23	558
Number of BoD members – employees of the firm	3.4	3	0	15	560
Number of board meetings in 2002	8.3	7	0	52	525
% of time spent on discussion of company statements	27	20	0	100	288
% of time spent on control over management	18	15	0	85	288
% of time spent on strategic management	27	25	0	80	288
% of time spent on tactical issues	22	20	0	100	288

Table 6. Board structure and functions regressed on firm size and ownership structure. Source: Lazareva and Rachinsky (2006).

	(1)	(2)	(3)	(4)	(5)	(4)+(5)	(6)	(7)
	Size of BoD	Share of inside directors	Number of meetings in 2002	Time spent on statements, %	Time spent on control of management, %	Time spent on control of management and on statements, %	Time spent on strategy, %	Time spent on tactics, %
Log employment 2001	0.88***	-3.55***	1.51***	-3.89**	1.88	-2.01	1.90	2.09
Share of management 2003	1.24**	44.11***	0.32	-11.35	-5.31	-16.66**	2.18	19.53***
Share of largest outsider 2003	1.00**	-33.67***	-2.67*	-9.50	3.22	-6.28	13.24**	-3.69
Share of small owners 2003	1.73***	16.19***	2.60	6.35	-1.82	4.52	1.69	3.85
Constant	-0.03	54.20***	2.16	65.62***	4.70	70.32***	7.25	1.63
Observations	326	307	307	198	198	198	198	198
R-squared	0.24	0.50	0.13	0.11	0.10	0.10	0.12	0.14

Regional and industry dummies included;

* significant at 10%; ** significant at 5%; *** significant at 1%

5.4. Market for corporate control

In recent years Russia has experienced a wave of hostile takeovers. Hostile takeovers exist in any market economy, and even in developed countries the public attitude towards them is controversial. In Russia, however, the methods that corporate raiders use are often not only ethically questionable, but also pseudo-legal or illegal, i.e. “grey” and “black” schemes (involving bribing courts and regulatory agencies, falsification of documents, using so-called “administrative resource”, “black” PR, and even direct threats and violence). The consequences of weak legal enforcement allowing the use of such schemes are amplified further by the poor financial market development, which hampers “civilized” redistribution of assets. Social distrust in the outcomes of privatization is also playing an important role. Many takeover schemes are conceived based on reviews of privatization deals.

In the eyes of the public, raiders and greenmailers are often demonized as aggressors that ruthlessly destroy normally functioning companies. Setting aside the moral issues, takeovers bring about economic costs. First of all, the outcome of many takeovers results in a substantial redistribution to shareholders from other stakeholders of a firm (e.g. workers). Sometimes this redistribution is ex-post inefficient because the parties fail to bargain efficiently over the outcome of a takeover due to either informational asymmetries between them or the free-rider problem on the part of stakeholders. Moreover, the mere prospect of a takeover undermines the value of long-term implicit contracts between shareholders and other stakeholders, as shareholders cannot be trusted to uphold these contracts when faced with an opportunity to profitably sell their shares to a raider (Shleifer and Summers (1988)). This leads to ex-ante inefficiencies.

Secondly, even when stakeholders are left out of the picture, a takeover driven by the raider’s private benefits of control rather than by efficiency improvement considerations may be value-reducing (Grossman and Hart (1988)). Third, the parties to a conflict spent large recourses on offense and defense respectively, sometimes comparable to the assets’ value. Fourth, there are costs associated with the interruption in the normal business conduct and stripping the firm of its assets. Yet probably the most important cost of hostile takeovers in the Russian context is that *insecurity of property rights* reduces incentives to invest in the first place, and forces the owner to spend resources on preventive measures against potential takeover attempts. Finally, due to the fear of losing control, controlling owners prefer to hold large shares in their firms, a practice which implies low diversification of their holdings and results in low liquidity of firms’ stock.

There exists, however, a positive view that raiders are also a necessary element of the market, forcing managers to work better (Scharfsein (1988)) and improve corporate governance (Guriev et al (2004)) and helping the transfer of badly managed companies to more efficient hands (Manne (1965)). Indeed, many Russian enterprises suffer from bad governance and management and sorely need restructuring. At the same time, it is often remarked that it is precisely these firms that are more likely to be attacked by raiders.

Arguably, a threat of a takeover may lead to worse, rather than better, corporate governance, since good minority shareholder protection makes it more difficult to take quick decisions after your firm has been attacked (e.g. to quickly divert assets from the company, making it thereby unattractive for the raider). Moreover, raising the transparency of a firm's ownership structure and financial flows can attract raiders and make a takeover easier.

Overall, the net effect of takeovers in Russia is unclear and is ultimately an empirical question. Serious empirical research is needed to understand which are the characteristics of firms that are being taken over, what happens to such firms after a takeover, and how a takeover threat affects managers' and controlling shareholders' behavior.

Regardless of the aggregate effect of hostile takeovers in Russia, it is obvious that illegal methods of acquiring control bear large social costs. Illegal methods undermine the property rights institutions and cause distrust in the legal system. Fortunately, the problem of hostile takeovers has recently attracted much attention among government officials of various ranks, including some ministers and the president. The legislators have begun to introduce amendments in the laws aimed at stopping the practices of "black" and "grey" takeover schemes, while investigation and enforcement agencies have started to scrutinize "strange" court rulings, punish some judges for unjust decisions, and file criminal charges against some raiders.[12] However useful these actions are, it is important to recognize that unless corruption and the attitude both from the public and the state towards the privatization outcome change, legislative reforms only offer a partial solution to the problem.[13]

---

[12] See subsection 7.2 for a description of recent legislative changes and proposed reforms. For example, according to the proposals of the Russian Ministry of Economic Development and Trade, any dispute between shareholders should only be considered by an arbitrage court located in the place where the company is situated. This change is intended to stop the practice of using distant courts by raiders for obtaining all kinds of "strange" rulings against current owners of a company (sometimes these rulings turn out to be passed by non-existing judges).

[13] Both the strength and weakness of simply changing legislation can be demonstrated by the introduction of the new Bankruptcy Code in 2004. Prior to this, raiders used loopholes in the code extensively to take over

Box 3. Hostile takeovers in Russia.

One of the most famous takeover wars of the last 10 years demonstrating the role of courts and regulators was the conflict between *Bazovy Element* and *Ilim Pulp Entreprise* over pulp assets. *Bazovy Element* acquired 61% from 88% of shares of *Kotlassky TsBK* (*Kotlas Pulp and Paper Co.*) owned by *Ilim Pulp Enterprise* in the process of executing court decisions based on claims from individual minority shareholders. Later on, these court decisions were abolished. In order to avoid manipulations with the shareholder registry, IPE transferred the registry from *St-Petersburg Central Registration Company* to *Energoregistrator* and then to *Energoregistrator's* affiliate – the *Central Moscow Depository*. *St-Petersburg Central Registration Company* did not transfer the complete set of documents properly; the registry and relevant documents were transferred to *Energoregistrator* in two stages. Due to this procedure two registrars kept the company's register simultaneously and both registrars recorded operations with shares of *TsBK* in its register. The Federal Commission for the Securities Market accused *Energoregistrator* for recording operations without shareholders' orders and recalled its license, which was soon restored by the court.

A more recent well-known hostile takeover case involves a GSM operator *SMARTS* and a well-known raider intermediary *Sigma*. *SMARTS* is a "closed joint-stock company", meaning that any shareholder has a preemptive right on buying shares when another shareholder wants to sell his shares to a third party. In the summer of 2005, the controlling shareholder of *SMARTS* (who was also its CEO) decided to further consolidate his share by buying 20% of the shares from minority shareholders. The shares were bought on his behalf by a newly established fund (who was not previously a *SMARTS*' shareholder). Just before this occurred, *Sigma* secretly acquired 5 shares of *SMARTS* in a dubious deal and later claimed its right on this 20% block on the ground that *Sigma's* preemptive rights were ignored in the process of consolidation of shares by the CEO. Furthermore, few months later, *Sigma* bought a claim on an overdue credit from *Vnesheconombank*, collateralized by 25% minus 1 share of *SMARTS*. That allowed *Sigma* to claim its right on another 25% minus 1 share of the *SMARTS*' stock. There have constantly been rumors that Sigma is acting in the interest of one of the three dominant GSM operators in Russia, but none of the rumors has ever been confirmed. A fight between *Sigma* and *SMARTS*' management is still going on in a number of courts. There have been numerous suits filed by *Sigma* and various individuals that led to rulings favoring *Sigma*. Many of these decisions were later abolished by other courts. It seems that now the *SMARTS*' management is gaining the upper hand as it has recently achieved a number of important favorable court rulings, in particular, the decision invalidating the deal that allowed *Sigma* to acquire the initial 5 shares of *SMARTS*.

---

companies by means of the forced bankruptcy procedure. The new code substantially reduced the possibility to make use of this mechanism. However, raiders simply turned to the loopholes in the Law on Joint Stock Companies instead.

Another example is a reduction of the length of the statute of limitations on revising privatization deals from 10 to 3 years, enacted in 2005. While, at first sight, this change can substantially impede the use of the mechanism of revising privatization deals for acquiring control over a company, a number of commentators argue that there exist relatively easy ways to bypass this restriction.

5.5. Employees

Employees (excluding executives) are generally passive in calm times, but may become an instrument of a corporate conflict resolution. A distinctive feature of Russian firms is that workers still possess significant amount of shares. These shares can become an important instrument of defense in the hands of the management in periods of corporate conflicts. Managers have often succeeded in obtaining workers' support by either convincing or coercing them to either vote with the management or sell their shares to the management.

Employees' shares, however, can also be a target for raiders. If the workers are unhappy with the current management (or are convinced that the raider's management will bring them more benefits) they are more likely to sell to the raider.

Nevertheless, employees are generally on the incumbent management side, because a change in control often implies layoffs (even if actual layoffs are unlikely, it may be relatively easy for the management to convince the workers that they will lose their jobs with the new owner). Sometimes workers have been even used as a "live shield" against raiders. There have been a number of examples when workers would actively participate in the defense of their "home" enterprise by physically blocking the entry of the "new management" into the territory of the enterprise.[14]

When, in addition, a regional government is concerned with employment in the region, enterprises with large number of workers may receive additional support against raiders from the regional authorities.[15]

5.6. State involvement (government as a stakeholder)

One of the characteristics of the Russian economy has been substantial interference of the state in business. Governments of different levels can in fact be considered as companies' stakeholders, whose goals may significantly diverge from the firm value maximization.

When the government has a stake in a company it is naturally interested in defending its interests as a shareholder. It also has a claim on any firm as a tax collector. However, the events of recent years have demonstrated the federal government's strong tendency to increase substantially its intervention in private business, as witnessed by a series of dubious

[14] The use of workers as protection against hostile takeovers is not unique to Russia; see Pagano and Volpin (2005).

[15] See more on the role of regional governments in subsection 5.7.

claims to large companies for unpaid taxes and acquisitions of firms in core industries (some of them below market prices). Aggressive tax enforcement policy can actually reduce controlling shareholders' opportunism towards minority shareholders (Desai et al (2005)). If, however, it is just a manifestation of the state predatory behavior, it is more likely to worsen the investment climate in the country.

The most egregious case of the government's expropriation was the (in)famous *Yukos* affair (see Box 4). It has become apparent now that the state is pursuing a strategy of re-nationalization of large companies in core industries in order to reestablish control over them. After the years of accumulation of capital, Russian oligarchs are seeking to exit. The best way for them to do so would be to sell their assets to foreigners. However, the government opposes such sales as it is afraid to yield control over the key industries.[16] The illegitimacy of the privatization and grave malfeasances by Russian oligarchs towards the state (tax evasion) and minority shareholders in recent years have made it possible for the state to both find legal arguments and secure public support for the renationalization. The price for the assets acquired so far seems to have been set according to political connections (e.g. close to 100% of the market price for *Sibneft* and *Power Machines*, almost 0% for *Yukos*, and below market price for *United Heavy Machinery*).

Does government predation influence firm's corporate governance? In recent papers, Stutz (2005) and Durnev and Fauver (2007) argue that the risk of expropriation by the state reduces controlling shareholders' incentives to maximize the shareholder value and

---

[16] Apparently, Kremlin authorization is needed for any transaction that is big on a national scale. *TNK* has managed to sell half of its business to *BP*, but the plans of *Yukos* to sell to *Chevron*, and of *Power Machines* to sell to *Siemens* failed (only after establishing control over *Power Machines* through *RAO UES*, the government allowed *Siemens* to buy a block of 25% + 1 share). The recent well-known unsuccessful attempt of Alexei Mordashov (the controlling shareholder of *Severstal*) to merge with *Arcelor* was authorized by the Kremlin apparently because Mordashov convinced the Kremlin to view the deal not as foreigners' invasion into the Russian industry, but as expansion of Russian business abroad.

The foreigners' exclusion from the key Russian industries is best manifested in the *Gazprom's* acquisitions of controlling stakes in *Sakhalin Energy* and *Rusia Petroleum*, the operators of oil extraction projects in *Sakhalin-2* oil and gas field and *Kovykta* gas field respectively. In the first case, *Gazprom* bought a controlling stake from *Shell* at 20-30% discount to the market price according to various estimations. In the second case, *Gazpom* is buying a controlling stake from *TNK-BP*, and the price is still to be agreed. Currently the government and the Duma are discussing the drafts of two laws (the "Law on Earth's Interiors" ("Zakon o Nedrah") and the law on limiting foreign investors' access to strategic industries), which will set restrictions on foreign participation in the key Russian industries. These drafts are becoming increasingly restrictive.

encourages them to divert corporate profits in order to protect them from seizure by the state. Thus, the predatory state leads to a greater expropriation of minority shareholders by the corporate insiders. Durnev and Fauver (2007) support this conclusion with empirical evidence. They find that firms, located in countries with a more predatory state, practice weaker corporate governance and disclose less information.

Another, more classical, manifestation of the government's intervention in business is its vulnerability to lobbying by large but depressed industries that would not survive without state support. Probably the best example in the Russian case is the automotive industry, which has long sought a number of measures to protect the national producers from foreign imports.[17]

[17] For example, Oleg Deripaska, whose business empire *Bazovy Element* controls a part of Russian automotive assets, has been constantly lobbying for high import tariffs for used foreign cars and opposing Russia's WTO accession. A Russian concern *AvtoVaz* has been doing similar things; after a recent change of management, the new management tried to obtain several billions of subsidies to the company for capital investment.

Box 4. The market side of the *Yukos* affair.

While the actions of the law enforcement agencies against *Yukos* were covered extensively in the media, Goriaev and Sonin (2005) looked at the market side of the *Yukos* affair. Their work shows a strong statistically significant negative reaction of *Yukos'* stock price to the charges brought against its top management. More interestingly, the *Yukos* events involving the law enforcement agencies had a generally negative statistically significant impact on other large private companies, especially on non-transparent companies and those privatized via the infamous loans-for-shares auctions. Curiously, the authors show that the stock returns of *Gazprom*, a state-controlled gas monopolist, *rose* in response to negative *Yukos* company-related events, which is consistent with the expectation of re-nationalization of *Yukos*' assets via state companies in the oil and gas sector. These findings suggest that investors considered the likelihood of tax and privatization reviews as rather high for Russian companies.

The table below (from Goriaev and Sonin (2005)) presents the reaction of other Russian stocks to *Yukos* events – the results of a pooled cross-sectional regression of stock returns during the event days on the company-specific political risk proxies as well as *Yukos*' returns interacted with the proxies during the period from January 1, 2003 to November 27, 2003. *Gvt* denotes the government's common stock ownership; *TD* is Transparency and Disclosure score provided by S&P; *Oil* is the oil industry dummy; *LS* is the fraction of company's shares sold at the loans-for-shares auctions; *RY* is *Yukos*' return. Columns 2 to 7 report results of the regression estimated in different subsets of the events: positive, negative, negative employee-related involving the law enforcement agencies, negative company-related involving the law enforcement agencies, negative company-related with the non-law-enforcement agencies, and major negative (with *Yukos*' return below -2%). The *t*-statistics are in italics.

	Positive events	Negative events				
		All	Pers-Law	Comp-Law	Comp-Other	Major
Const	-2.4**	1.15**	1.42**	1.09	1.4**	2.98***
Gvt	7.15**	-2.07	-3.74	-1.13	-4.29	-10.09***
TD	3.07**	-1.78**	-3.17**	-1.21	-2.25**	-4.86***
Gvt*TD	-12.9	6.21	11.64**	2.14	13.69**	26.49***
Oil	0.51	-0.17	-0.17	-0.17	-0.52	-0.5
LS	1.79	0.84	0.56	-0.15	2.55**	-0.93
Ry	0.71***	0.69***	0.9***	0.51***	0.46*	0.91***
Ry*Gvt	-0.54	-0.71	-1.33***	0.08	-0.34	-1.65***
Ry*TD	-0.49	-0.93***	-1.42***	-0.4	-0.68	-1.36***
Ry*Gvt*TD	1.61	3.36***	4.89***	1.18	3.01	5.85***
Ry*Oil	0.01	0.08	0.04	0.09	0.28**	0.05
Ry*LS	0.47	0.86***	0.9**	0.78***	0.4	0.68**
# observations	214	788	345	340	257	366
Adjusted R^2	0.33	0.38	0.46	0.29	0.25	0.45

* significant at 10%; ** significant at 5%; *** significant at 1%

5.7. Regional governments

Regional governments can play various roles. First, they may care about employment in the region and, thus, support large distressed firms and oppose their efficient restructuring. The example of the car manufacturer *AvtoVaz* is probably the most telling. Roughly one-fifth of the population of Toliatti, the city with more than 700 thousand inhabitants where *AvtoVaz* is located, are employees of *AvtoVaz*. The enterprise has been producing LADA cars which for years have been of substantially lower quality than even second-hand foreign cars. Despite protection via high import tariffs on used foreign cars, *AvtoVaz* has been steadily losing market share, but the necessary restructuring simply has been politically unfeasible as it would involve massive layoffs.

The adverse effect of restructuring on employment is reinforced by the low geographical labor mobility and segmentation of Russian labor market (Andrienko and Guriev (2004)), which substantially increase the social cost of layoffs.

Regional governors have also engaged in provincial protectionism: extracting rents from large enterprises in exchange for protection from creditors or federal tax authorities (Ponomareva and Zhuravskaya (2004), Lambert-Mogiliansky et al (2006), Sonin (2005)) or from foreign competitors trying to enter the local market.

At the same time, like the federal government, regional governors may behave in a predatory way towards regional firms and participate in ownership redistribution. Having close ties with business, regional governments are frequently involved in corporate conflicts as an "administrative resource" for one of the parties in the conflict.[18]

5.8. Shareholder activism and media

Shareholder activism is a much less important mechanism of corporate governance in Russia than it is in the US or UK. The reason is that it requires high transparency of companies, strong courts or regulators and independent reputable media. On all these criteria, Russia scores low. However there have been a number of successful actions,, mostly by

---

[18] For example, while taking over the *Nevinnomyssk Oil Extraction Plant*, Pavel Svirsky (the CEO of *Sigma* corporate control intermediary, mentioned earlier) encountered a strong opposition from the regional authorities, which resulted in his arrest on the charges of fraud at the request of Stavropol Region prosecutors. Later Svirsky was released.

foreign institutional investors, who managed to make some significant changes in companies' corporate governance and to reverse corporate governance abuses in a number of firms.

The most remarkable examples of shareholder activism in Russia are associated with the actions of the *Hermitage Fund*, the fund that is specialized in investing in Russia and that has been consciously playing a "media strategy". As regulators are weak, courts easily corruptible and the Russian media lacking in credibility, the Fund has taken action through generating news about corporate governance abuses in reputable international business newspapers, such as *The Financial Times* and *The Wall Street Journal*.

A study by Dyck, Volchkova and Zingales (2007) convincingly demonstrates the success of this strategy. Foreign investors and the foreign public rely on reputable international outlets in forming their opinion about a certain company or person. Therefore, a controlling shareholder who cares about its international reputation (e.g. because it plans to attract foreign investors or gets personal satisfaction from being accepted in the international community, such as by joining the World Economic Forum at Davos) should be more responsive to criticism in the international media. Moreover, recurrent exposure in the international press is likely to attract the regulator's attention to a corporate malfeasance and make him take steps towards stopping it.

Hermitage success in reverting corporate governance abuses was remarkable in several cases, including the wars against *Gazprom*, *Sidanco* (an oil holding company), *Sberbank* and *RAO UES*. [19] The regression analysis of Dyck, Volchkova and Zingales (2007) confirmed the effectiveness of the media strategy. The authors found that coverage in the Anglo-American press increased the probability that a corporate governance violation was reversed. Furthermore, to avoid endogeneity problems, the authors verified that the *Hermitage Fund* used media extensively and instrumented media coverage with the stake of the *Fund*. The results remained unchanged.

5.9. Reputation, self-enforcement and self-regulatory organizations.

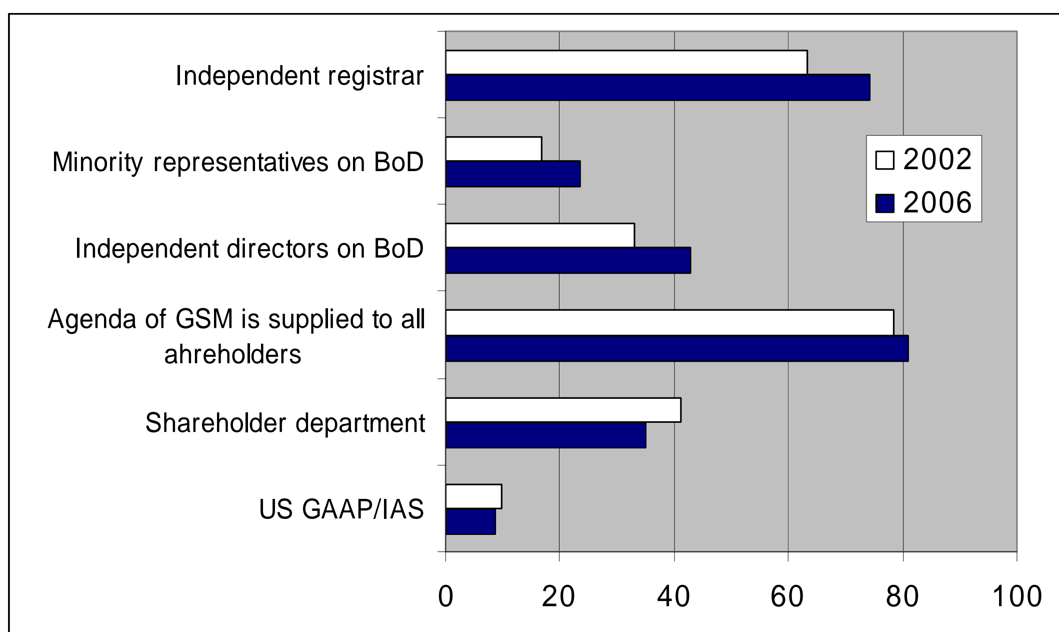
Given weak formal enforcement, alternative mechanisms of commitment to proper governance are becoming important, especially as firms start tapping international financial markets. Though country-level institutional environment does matter (Durnev and Kim

[19] Examples of activism by other minority investors include actions of *Prosperity Capital Management* against *Surgutneftegaz*, *UES* and *TNK-BP*, and those of *Vostok Nafta* against *Slavneft*.

(2005), Klapper and Love (2004)), a company can substantially raise its valuation by voluntarily adhering to standards of good corporate governance. All recent studies find a tendency among the largest Russian companies to improve their corporate governance practices and increase transparency (see e.g. S&P Transparency and Disclosure survey (2006), Russian Institute of Directors study (2006), Black, Love and Rachinsky (2006)). For these firms, such efforts seem to be related to their desire to access international capital markets as well as to attract strategic foreign investors.

However, despite the improvements, for most companies there is still a long way to go to catch up with their OECD counterparts. The variance in firms' levels of corporate governance is significantly higher in Russia than in most developed countries, a situation that is the norm for developing economies (Durnev and Kim (2005)). Small and medium-sized companies that are not listed are very slow in improving their corporate governance (see Figure 8).

Figure 8: Changes in corporate governance practices in Russian large and medium-sized non-listed enterprises. Percentage of firms that answered positively to 6 different questions about their corporate governance practices in 2002 and 2006.



Source: Guriev et al (2004), CEFIR and IET survey (2006)

Public initiatives, as well as regulation by stock exchanges and various professional organizations, can reinforce the effects of firms' unilateral actions. In 2002 the FCSM (now FFMS) introduced a code of corporate conduct, based to a large extent on the OECD

principles of good corporate governance. The regulator *recommended, but did not oblige* companies to adopt the code's recommendations, and to disclose which parts of the code they follow (and to explain if they do not). However, the FFMS required the stock exchanges to enforce compliance with the code or certain parts of it for the firms in the higher tiers.

As the study by the Russian Institute of Directors (2003) has shown, both disclosure of corporate governance practices and the quality of corporate governance itself improved after the introduction of the Code. However, it is not clear whether the introduction of the Code was the reason, or whether the improvement was a manifestation of a general tendency. Guriev et al (2004), after conducting a survey of several hundreds of firms, have concluded that firms that had incentives to implement corporate governance norms introduced by the Code had already done so. Thus the real effect of the Code is far from being clear. In any case, the Code can serve as a blueprint, offering guidance for firms in establishing their own governance systems, and it can play an important educational and informational role.

In addition to the Code, there are various non-governmental organizations that have created the rules and codes for their participants. Stock exchanges' listing requirements is an example of such rules.

Another important contribution to establishing standards of good governance is made by rating agencies and other organizations that produce rankings and scores of corporate governance[20]. Corporate governance and transparency scores provide valuable information on both the current state of corporate governance in firms and the benchmarks of good governance. Most importantly, they allow firms to signal about their corporate governance quality, which helps "good" firms to raise their valuations.

6. Conclusion. Challenges and prospects of Russian corporate governance.

The evidence shows that the largest Russian companies gradually are improving their corporate governance as they move into international financial markets and want to raise their market valuation and establish good reputations. However, overall, corporate governance in a typical Russian company remains at a rather low level. Firms' ownership structures are still very concentrated and companies attract little external funds. The unwillingness of

[20] Corporate governance rankings of Russian firms are currently provided by *Standard and Poor's*, an investment bank *Troika Dialog*, and two nonprofit entities: the *Russian Institute of Directors* and the *Institute of Corporate Law and Governance*. *S&P* also produces the Transparency and Disclosure index.

controlling shareholders to sell part of their stakes in exchange for external finance seriously hampers economic development.

The challenges facing the Russian system of corporate governance are poor law enforcement, growing state intervention in business, and public distrust in the outcomes of privatizations. Overall, as property rights remain poorly protected, the "tradition" of expropriation – both by private parties and by the state – remains very strong in Russia. This discourages any kind of investment in developing private businesses, undermines incentives to improve corporate governance, and leads many firms to prefer obscure control and financial structures.[21]

Recent and proposed legal reforms can alleviate the problem of insecure property rights. However, fighting corruption and changing public and government attitudes towards privatization deals are crucial steps in the development of a sound corporate governance system.

7. Appendix. Legal framework and legal reforms.

The laws that are relevant for corporate governance are: Law on Joint-Stock Companies, Civil Code, Law on Securities Market, Law on Investor Protection, Bankruptcy Law and Tax Law.

The most relevant law is the Federal Law on Joint-Stock Companies (JSC Law). A recent important initiative of the FFMS is the introduction of the code of corporate conduct (the Code hereafter), which is supposed to serve as a complement to the JSC Law. Though compliance with the Code is voluntary, Russian stock exchanges require compliance with either the whole code or a part of it, depending on the Tier.

First, we outline the main features of the JSC Law.

7.1. Law on Joint Stock Companies.

Russia's "Federal Law on Joint Stock Companies" was transplanted from the Anglo-Saxon system with adaptations made in consideration of the Russian environment (Black et al

---

[21] One of the ways in which this problem manifests itself is the phenomenon of pre-IPO greenmail that sometimes happens in Russia. Preparations for going public include making the firm transparent, but once there is transparency, greenmailers make use of the revealed information to attack the company.

(1999)). It was introduced in 1995. The law defines the legal status of joint stock companies, procedures for establishing and liquidation of JSC, rights and liabilities of shareholders, and the governance structure of JSCs. The Law on JSC was amended in 1996, 1999, 2001, 2002, 2003, 2004 and 2006. Initially, the emphasis of the law was on minority shareholder protection, and the law had continued to develop in this direction until recently. However, recent abuses of the minority protection provisions in corporate conflicts have led the legislators to develop proposals that limit certain rights of minority shareholders. At the same time, these proposals are accompanied by plans to increase the liability of directors/managers, demand more transparency and control of self-interested transactions, institute class-action suits, and encourage paying dividends (see subsection 7.2 below).

The most important provisions protecting minority shareholders are:

a) protection against dilution:

- decisions on large issuances of ordinary shares (more than 25% of the already placed ordinary shares) placed under open subscription are under the competence (jurisdiction?) of the general shareholders' meeting (Art. 39); according to the amendments of 2002, such decisions should be approved by ¾ of voices (votes?) (instead of simple majority in previous version);
- provision of shareholders with the pre-emptive right of purchasing additionally issued shares to be placed under open subscription and in some cases (e.g. a shareholder did not participate in the shareholders' meeting or voted against the decision) under closed subscription (Art.40);
- introduction of "partial" shares, allowing to avoid dilution of minority shareholders' stakes in case of reorganization of a company or consolidation of shares (Art. 25);
- provision of shareholders who did not vote or voted against a split-up or spin-off decision with the right to obtain proportionate stakes in companies resulting from reorganization (Art.18 and 19);

b) rights of minority shareholders in governing the company:

- provision of 2%-shareholders with the right to propose any number of questions for the annual shareholders' meeting agenda (Art. 53);
- provision of 2%-shareholders with the right to include their candidates into the list of candidates for the election of governing bodies at both the annual and extraordinary shareholders' meetings (Art. 53);

- provision of 10%-shareholders with the right to demand that an extraordinary shareholder meeting is called and to call the meeting in case the board of directors ignores or refuses the demand (Art. 55).

c) election of directors and protection against self-dealing transactions:

- cumulative voting for the election of members of the board of directors (Art. 66);
- provision of any shareholder with the right to demand a buyout of his share by the company in the case of reorganization, large transaction, or changes in the company's charter that diminish their rights, if the shareholder voted against or did not participate in voting (Art. 75);
- any transaction in which a manager, director or a large shareholder (20% +) has "interest" must be approved by the majority of either non-interested directors (the majority of non-interested independent directors if the number of the company's shareholders is greater than 1000) or the majority of non-interested shareholders depending on the type and size of the transaction (Art. 83);

d) access to courts for obtaining redress for a director's/manager's misconduct:

- provision of any shareholder with the right to appeal in court against a decision of the shareholder meeting that was taken in violation of the law or the company's charter in case the shareholder did not participate in the meeting or voted against the decision and this decision infringed upon his rights and interests;
- provision of 1%-shareholders with the right to sue a director/manager on behalf of the company for damages caused to the company by the director's/manager's misconduct or inaction (Art. 71);
- provision of any shareholder with the right to sue a director/manager for damages caused to the shareholder by the director's/manager's misconduct or inaction in the situations described in Art. 84 of the new redaction of the Law on JSC ("acquisition of more than 30% of a company's stock", see subsection 7.2 below) (Art. 71).

<u>Competence of shareholder meetings:</u>

Apart from decisions on additional issues of 25% of shares, other decisions that require 75% of votes at shareholder meetings are: introduction of changes in the corporate charter, decisions on reorganization or liquidation of a company, and decisions on major transactions in excess of 50% of the balance sheet value of current assets of a company. Other decisions, placed by the Law under the competence of shareholder meetings, require

50% of votes for approval. These include: election and dismissal of the members of the board of directors, increase (if less than 25%) and reduction of the charter capital, establishment of the management body, approval of financial reports of a company, and others.

7.2. Recent and planned amendments to the legislation.

On July 1, 2006 a number of amendments to the Law on JSC took effect. There are two principal amendments (both are introduced by Art. 84 of the new redaction (revision?)). The first introduces detailed rules that describe the procedures and set out the rights and obligations of parties in a situation where an acquirer of a firm crosses ownership thresholds of 30, 50, and 75% of voting shares and preferred shares with vested voting rights. In short, if a person is willing to acquire more than 30% of such shares he may make a voluntary tender offer to other shareholders with a price set at the acquirer's discretion. If the 30% threshold was crossed, but (OK?) *not* in the process a voluntary tender offer, the acquirer is obliged to make a mandatory tender offer to all the other security holders. To ensure that they are treated fairly, the price of shares set by the acquirer in such an offer must not be lower than the maximum of two values: the average market price of shares over the last 6 months[22] and the price at which the acquirer has bought or committed to buy shares during the last 6 months (if this is the case).[23] (For clarity, can you add a summing-up sentence here as you do at the end of the next paragraph?)

The second amendment introduces the mechanisms of buyouts of securities from minority shareholders. Upon crossing a threshold of 95% of shares by a controlling shareholder, the remaining security holders may require the acquirer to purchase their voting shares and securities convertible into voting shares (minority put option) or the acquirer may require the remaining security holders to sell such securities to him (minority squeeze out). This amendment also contains minimum price requirements that are supposed to ensure that "squeezed out" minority shareholders receive adequate compensation. The amendment, thus, allows controlling shareholders to get rid of potential conflicts with greenmailers and raiders by simply becoming a sole owner of the firm.

In addition to the reforms already enacted, the Ministry for Economic Development and Trade has developed a thorough plan of reforming Russian corporate law called "The

[22] If the shares of the company have not been traded on a stock exchange for the last 6 month, the market price is to be determined by an independent appraiser.

[23] The same applies to crossing 50 and 75% thresholds.

conception of developing the corporate legislation for the period until 2008". This plan contains a number of proposals that form a basis for legislative changes that are supposed to be enacted mostly during 2007. The plan includes four broad areas for reform that are presented and detailed in Table 5.

Table 5. MEDT's plan of reforming corporate legislation

Area of reform	Main planned changes
Prevention and resolution of corporate conflicts	- restricting any judicial resolution of corporate disputes only to arbitrage courts located in the place where the company is situated; - limiting the use of guaranteeing arrangements by courts; - ensuring disclosure of information about a court hearing that is planned to be or has been initiated; - introducing preliminary judicial control of extraordinary shareholder meetings, initiated by minority shareholders; - reducing the length of the statute of limitations on invalidating decisions of a company's governing bodies; - reducing the length of the statute of limitations on invalidating registration of legal entities and changes in their constituent instruments; - limiting the scope for registration of legal entities based on of false documents; - limiting the scope for manipulations with a shareholder registry;
Improvement of the structure, sharing of responsibilities and liabilities of companies'	- providing companies with the choice between a one-tier and two-tier board of

governance bodies	directors; - limiting the maximum term of office for boards of directors to 3 years; - clarifying the notion of an independent director and criteria of independence and establishing the procedure for electing independent directors; - introducing the concept of *fiduciary duty*, increasing liability of members of governing bodies, introducing the possibility of a director to pass liability to a person whose directions the former had to follow; - instituting class-action shareholder suits; - At the same time, in order to prevent abuses of rights by minority shareholders, increasing requirements for bringing derivative suits (e.g. through setting a minimal ownership requirement); - preventing participation of individuals in taking decisions on transactions in which they have conflicts of interest, mandatory disclosure of the nature and degree of any interest in a transaction; - mandatory disclosure of individual managerial remuneration and managerial ownership; - qualifying principles according to which a self-interested transaction or a large transaction can be invalidated; - clarifying rules that determine whether

	a person has to be considered "interested" in a transaction; - stimulating dividend payments through reducing taxes on the part of profits that is allocated for dividends, eliminating taxation of dividends paid by a company to another company belonging to the same business group.
Amendment of the system of legal forms of business and non-for-profit organizations	- instituting a single legal form of a joint-stock company (instead of two that currently exist: closed and open joint-stock company), joint-stock companies should only differ in whether their shares are available for public trading or not; - instituting shareholder agreements; - relaxing regulations regarding chartered capital;
Developing legislation regulating reorganization and functioning of business groups	- a number of changes regarding reorganization of companies; - renunciation of the principle according to which a parent company can exert no influence on its subsidiary (unless specified in a formal agreement or the subsidiary's charter) and bears no liability in case of the subsidiary's bankruptcy (except if there was intent in the parent company's actions that led to the bankruptcy); - limiting cross-holding of shares between companies in a group; - introducing consolidated accounting statements for business groups

	(satisfying IAS); - considering a business group as a single taxpayer regardless of the number of firms belonging to the group; - qualifying criteria according to which a person can be considered “affiliated”, depending on a particular situation.

7.3. Brief description of the Code of Corporate Conduct

The introduction to the Code states: “*Corporate governance* is a term that encompasses a variety of activities connected with the management of companies. Corporate governance affects the performance of economic entities and their ability to attract the capital required for economic growth. Improvement of corporate governance in the Russian Federation is vital for increasing investment in all sectors of the Russian economy from both domestic sources and foreign investors. One means to foster such improvement is to introduce standards that are based on an analysis of best practices of corporate governance.”

“These standards of corporate governance apply to all economic entities, but are most important for joint stock companies. This is because it is in joint stock companies that the separation between ownership and management is the greatest, and thus conflicts related to corporate governance are most likely. Therefore, this Code has been developed primarily for joint stock companies seeking access to capital markets. This consideration, however, does not rule out the possibility of its use by other economic entities.”

“Standards of corporate governance should be applied to ensure adequate protection of the interests of all shareholders, regardless of the size of their holdings. The greater the level of shareholders' protection achieved, the more investment capital will be available to Russian joint stock companies (hereinafter referred to as "companies"), which will favorably influence the Russian economy as a whole.”

“Standards of corporate governance should be instrumental to the attainment of high ethical standards in relations between market participants.”

The Code establishes the following principles of corporate governance:

1. Corporate conduct practices should effectively enable shareholders to exercise their rights associated with participation in a company.

2. Corporate conduct practices should secure equal treatment of shareholders owning equal numbers of shares of the same type (category). Equal protection should be secured for all shareholders if their rights are infringed upon.

3. Corporate conduct practices should secure strategic management of company operations by the board of directors and efficient control by the board of directors over the activities of executive bodies of a company, as well as accountability of the members of the board of directors of a company to shareholders thereof.

4. Corporate conduct practices should enable executive bodies of a company to exercise efficient management of company operations in a reasonable manner, in good faith and solely in the interests of a company, and should secure accountability of executive bodies of the company to the board of directors of a company and shareholders thereof.

5. Corporate conduct practices should secure timely disclosure of full and accurate information about the company, including its financial position, performance, ownership and management structures in order to enable shareholders and investors of a company to take reasonable decisions.

6. Corporate conduct practices should take into account statutory rights of parties concerned, including company employees, and encourage active cooperation between the company and the parties for the purpose of increasing the net worth of the company, the value of its shares and other securities, and of creating jobs.

7. Corporate conduct practices should secure efficient control over business and financial operations of a company for the purpose of protecting rights and lawful interests of shareholders.

In addition, the code provides detailed recommendations on the following issues:

- A general meeting of shareholders: calling and preparation of a meeting, agenda, procedures for conducting a meeting, voting procedures;
- A board of directors: its responsibilities, formation, members, independent directors, organization of board of directors' activities, remuneration of directors;
- Executive bodies of the company (management board, general director), authority and responsibilities, members, formation, organization of activities, remuneration, answerability;
- Major deals, reorganizations: definition, procedures;
- Disclosure of information about a company: goals, forms, provision of information to shareholders, auditing, an auditing committee;

- Dividends: setting the amount, distribution procedures;
- Settlement of corporate disputes.

REFERENCES

Admati Anat R., Paul Pfleiderer, and Josef Zechner, 1994, "Large shareholder activism, risk sharing, and financial market equilibrium," Journal of Political Economy, 102: 1097-30.

Andrienko, Yuri, and Sergei Guriev, 2004, "Determinants of Interregional Labor Mobility in Russia: Evidence from Panel Data," Economics of Transition, 12(1), 1-27.

Bebchuk, Lucian Arye, 1999, "A rent protection theory of corporate ownership and control," NBER Working Paper No. 7203.

Becht, Marco, Patrick Bolton, and Ailsa Roell, 2002, "Corporate Governance and Control," ECGI - Finance Working Paper No. 02/2002.

Beck, Thorsten, Asli Demirguc-Kunt, and Ross E. Levine, 2006, "A New Database on Financial Development and Structure (updated in 2006)," The World Bank.

Berglöf, Erik, and Stijn Claessens, 2004, "Enforcement and Corporate Governance," World Bank Policy Research Working Paper No. 3409.

Biletsky, Sergiy, David Brown, John Earle, Julia Khaleeva, Ivan Komarov, Olga Lazareva, Klara Sabirianova, and Carsten Sprenger, 2001, "Inside the Transforming Firm," mimeo.

Black, Bernard S., Inessa Love, and Andrei Rachinsky, 2005, "Corporate Governance and Firms' Market Values: Time Series Evidence from Russia," Emerging Markets Review, Vol. 7: 361-379.

Bloch, Francis, and Ulrich Hege, 2001, "Multiple Shareholders and Control Contests," unpublished manuscript.

Bolton, Patrick, and Ernst-Ludwig von Thadden, 1998, "Blocks, Liquidity, and Corporate Control," Journal of Finance, 53: 1-26.

Burkart, Mike, Denis Gromb, and Fausto Panunzi, 1997, "Large Shareholders, Monitoring, and the Value of the Firm," Quarterly Journal of Economics, 112: 693-728.

CEFIR and IET, 2006, "Survey of Corporate Governance in Russian Companies in 2005 and 2006," unpublished.

Desai, Mihir, Dyck, Alexander, and Luigi Zingales, 2006, "Theft and Taxes," Journal of Financial Economics, forthcoming.

Dolgopyatova, Tatiana, 2003, "Stanovlenie korporativnogo sektora i evolyutsiya aktsionernoi sobstvennosti (in Russian)," Higher School of Economics WP1/2003/03.

Durnev, Art, and Larry Fauver, 2007, "Stealing from Thieves: Firm Governance and Performance when States are Predatory," working paper.

Durnev, Art, and E. Han Kim, 2005, "To Steal or Not to Steal: Firm Attributes, Legal Environment, and Valuation," Journal of Finance, 60: 1461-1493.

Dyck, Alexander, and Luigi Zingales, 2004, "Private Benefits of Control: An International Comparison," Journal of Finance, 59: 537-600.

Dyck, Alexander, Natalia Volchkova, and Luigi Zingales, 2007, "The Corporate Governance Role of the Media: Evidence from Russia," Journal of Finance, forthcoming.

Federal Financial Markets Service, "Corporate Governance Code." ("Kodeks corporativnogo povedeniya.")

Glaeser, Edward, Jose Scheinkman, and Andrei Shleifer, 2003, "The Injustice of Inequality," Journal of Monetary Economics: Carnegie-Rochester Series on Public Policy, January.

Gomes, Armando R., and Walter Novaes, 2005, "Sharing of Control versus Monitoring as Corporate Governance Mechanisms," PIER Working Paper No. 01-029; U of Penn, Inst for Law & Econ Research Paper 01-12.

Goriaev, Alexei. and Konstantin Sonin, 2005, "Is Political Risk Company-Specific? The Market Side of the Yukos Affair," EFA 2005 Moscow Meetings paper.

Guriev, Sergei, and Andrei Rachinsky, 2004, "Ownership Concentration in Russian Industry," CEFIR Working Paper No. 45.

Guriev, Sergei, Olga Lazareva, Andrei Rachinsky, Serguei Tsoukhlo, 2004, "Corporate Governance in Russian Industry," CEFIR Working Paper No. 32.

Higher School of Economics and Bureau of Economic Analysis, 2004, "Structural changes in Russian industry."

IFC, 2003, "A Survey of Corporate Governance Practices in Russia's Regions", compiled and drafted by the Interactive Research Group (IRG) in cooperation with the Independent Directors Association.

IFC, 2005, "A Study of Corporate Governance Practices in Russia's Regions," a study conducted by the Centre for Economic and Financial Research on behalf of the International Finance Corporation and Independent Directors Association.

Klapper and Love, 2004, "Corporate Governance, Investor Protection and Performance in Emerging Markets," 2004, Journal of Corporate Finance, 10: 703-728.

Lazareva, Olga and Andrei Rachinsky, 2006, a study on Russian boards (in progress), CEFIR.

Manne, Henry G., 1965, "Mergers and the Market for Corporate Control," Journal of Political Economy, 73: 110-120.

Ministry for Economic Development and Trade of the Russian Federation, "Kontseptsia razvitiya korporativnogo zakonodatelstva na period do 2008 goda."

Pagano, Marco, and Ailsa Röell, 1998, "The Choice of Stock Ownership Structure: Agency Costs, Monitoring, and the Decision to Go Public," Quarterly Journal of Economics, 113: 187-225.

Pagano, Marko, and Paolo F. Volpin, 2005, "Managers, Workers, and Corporate Control," The Journal of Finance, 60 (2): 841–868.

Pistor, Katharina, Martin Raiser, and Stanislaw Gelfer, 2000, "Law and Finance in Transition Economies," The Economics of Transition, 8: 325-368.

Rachinsky, Andrei, 2006, a study on managerial turnover in Russia (in progress), CEFIR.

Russian Institute of Directors, 2003, "Raskrytie rossiyskimi aktsionernymi obschestvami informatsii o praktike svoego korporativnogo upravleniya I soblyudenie rekomendatsiy kodeksa korporativnogo povedeniya," RID, Moscow.

Scharfstein, David, 1988, “The Disciplinary Role of Takeovers,” The Review of Economic Studies, Vol. 55, No. 2: 185-199.

Shleifer, Andrei, and Robert Vishny, 1997, “A Survey of Corporate Governance,” The Journal of Finance, Vol. LII, No.2: 737-783.

Shleifer, Andrei, and Lawrence H. Summers, 1988, “Breach of Trust in Hostile Takeovers,” In Alan J. Auerbach, editor, Corporate Takeovers: Causes and Consequences. Chicago: University of Chicago Press.

Sonin, Konstantin, 2002, “Why Rich May Favor Poor Protection of Property Rights,” William Davidson Institute Working Paper No. 544.

Standard & Poor’s, 2006, “Corporate Governance: Transparency and Disclosure by Russian Companies 2006: Modest Progress amid the IPO Zeal”, Standard & Poor’s Governance Services.

Standard & Poor’s, 2007, “Portrait Of Russian Corporate Boards Mirrors Their Concentrated Ownership Structure And Highlights Hindrances To Stronger Governance”, Standard & Poor’s Governance Services.

Stulz, René M., 2005, “The limits of financial globalization,” Journal of Finance, v60(4): 1595-1638.

Tirole, Jean, 2001, “Corporate Governance”, Econometrica, Vol. 69, No. 1: 1-35.