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Corporate Control in the Russian Industry: Actors and Mechanisms

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Abstract

This paper analyses both the emergence of relations of ownership, models of corporate control in Russian industrial enterprises, and the underlying mechanisms of corporate governance that are used by owners to overcome managers' opportunism on the one hand and by managers to oppose owners' control on the other. The analysis was performed with due consideration to the processes of stock concentration and redistribution between insider and outsider owners. It is based on the results of about 300 formalized and 19 in-depth interviews with top managers of joint-stock companies conducted by the Bureau of Economic Analysis and the State University - Higher School of Economics in 1999-2001.

KEYWORDS: industry, enterprise, corporate governance, property rights

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Introduction

This paper analyses both the emergence of relations of ownership, models of corporate control in Russian industrial enterprises, and the underlying mechanisms of corporate governance that are used by owners to overcome managers' opportunism on the one hand and by managers to oppose owners' control on the other. The analysis was performed with due consideration to the processes of stock concentration and redistribution between insider and outsider owners. It is based on the results of in-depth interviews, made in 1999, in Russia, with top managers of 19 enterprises, based in 5 different regions, and formalized interviews with top managers of over 300 joint-stock companies, based in 39 different regions, conducted under the author's guidance in summer of the same year.

This paper is based on the results of a number of projects implemented by the Bureau of Economic Analysis and the State University - Higher School of Economics in 1999-2001.

Over the last few years, ownership and corporate governance in Russian economy have been the topic of lively discussions in the Russian and international literature (see, for example, Radygin and Entov, 1999). Quite often the focus of attention is put on two aspects; establishing the extent of similarities between Russian corporate practices and the main models of corporate governance in other countries, and determine the possibilities of Russia gravitating towards one in particular. A number of studies have covered the issues of quantitative analysis of the relationship between ownership and performance (see comprehensive overview of Western papers in Bevan, Estrin and Schaffer, 1999; also see recent Russian papers including Aukuctionek and Batyaeva, 2000; Basargin and Perevalov, 2000; Guriev, Manaenkov and Tsukhlo, 2001; Kapelushnikov, 2001; Kusnectov and Muraviev, 2001; Yudaeva, Kozlov, Melentieva and Ponomareva, 2001).

We believe that an adequate interpretation of quantitative data requires that closer attention be paid to the processes within enterprises and to understanding the emerging interactions at the qualitative level. Building on the tradition of empirical studies of enterprise behaviour (Dolgopiatova, 1995; Dolgopiatova, 1996) we analyzed the trends in the evolution of ownership relationships and corporate governance since the 1998 crisis. The empirical data then obtained seem to show the dominance of conventional manufacturing enterprises rather than that of unique corporations of the "GAZPROM" or "NORILSK NICKEL" caliber. Normally, relationships between ownership and corporate control in such enterprises are formed outside the established stock markets.

In late 1980s state-owned enterprises de facto fell under control of their managers in coalition with the employees. Voucher privatization resulted in the legalization of control within the primary structure of share capital. By the end of the mass privatization process corporate property in Russian industrial firms could reasonably be considered as dispersed and insider–owned. Radical changes have taken place since that time. However it is too early to talk about the predomination of any one type of corporate governance. Various models of corporate control emerge at micro-level (We define a model as frequent and *stable* according to the distribution of control over a joint-stock company (JSC) between its owners and managers relative to insignificant changes in the ownership structure).

The main trends in corporate ownership structure

The quantitative data give some insight into the main trends in ownership redistribution over the last few years. First of all, the available evidence points to show a *reduction in the share of insiders* (employees and managers) while outsiders only partially take their positions. In 1995, on the basis of a sample of 277 comparable JSCs (see Table 1) insiders accounted for almost 50% of the share capital but by the end of 1998 their share dropped by almost 10 %. It should be noted that the respondents did not expect any serious changes of the ownership structure in 2000. When looking at the changes in ownership structure by sector, differences between the average insiders stakes appear significant, the biggest one being registered in machine–building (39%) and the smallest – in the light industry (51%).

In 1995 insiders obviously dominated (owning over half of corporate property) with 45% of the enterprises in the sample. However, in three years the share dropped to 29%. The reduction of the insider stake was accompanied by a significant fall in the number of shares owned by individual investors, investment funds and companies, and industrial enterprises. The share of insider property was underestimated though, considering that part of outside shareholders had become affiliated with enterprise management. The formalized survey failed to provide clear evidence of relations of affiliation and coalition between shareholders. But, indirect estimates suggest that on average insiders control at least half of the share capital.

In industry, in the same period, *share capital concentration was increasing* too (see Table 2, data for comparable 242 JSCs). In 1998, the total stake owned by the biggest shareholder increased almost to 28%, and when considering only the top three shareholders – to 45%. As this took place, a significant increase in concentration was forecast for 2000. The survey demonstrated that in 1998 the biggest shareholder controlled less then 10% of the share capital only in 15% of all the cases. This shareholder had a controlling block of shares in one of every fifth enterprise. By the Western standards corporate ownership in Russia can therefore be viewed as a concentrated one. At the same time the disagreement between the mean and median testifies to the fact that a high concentration of one part of the corporate property is accompanied by a high dispersion of the other part. It should be stressed that a formalized survey also helps identify the lower limit of the corporate property concentration.

Table 1. *Ownership structure by shareholder groups (by a sample of comparable JSCs)*

Shareholder group	**Stake size (%)**		
	1995	**1998**	**2000**
Employees *	42.0	31.1	29.8
Management	7.8	9.0	9.5
Federal authorities	5.1	4.6	4.3
Regional and municipal authorities	4.6	3.8	4.6
Foreign shareholders	1.8	3.7	3.3
Russian banks	1.6	1.3	1.2
Russian investment companies, funds	9.0	11.8	11.2
Industrial enterprises	12.0	13.9	14.9
Outside individuals	13.5	18.6	19.0
Others	2.6	2.2	2.2

* *Many enterprises provided aggregate information on employee ownership without differentiating between employee and managerial ownership. That is why we relate to the stake belonging both to the employees and management of the JSCs when performing the analysis.*

Among sectors, the food processing industry was the leader, with its owner having a controlling block of shares in one of every third enterprise. In the machine-building sector the owner had such a stake in one of every fifth enterprise, while in the light industry sector – only at one of every tenth JSC.

The combination of increasing ownership concentration and the maintenance of high insider stakes is an indirect evidence *of ownership concentration in the hands* *of managers*. For obvious reasons there is no hard evidence to support the statement. The survey data show that contraction of the employee stake is accompanied by an insignificant growth of the managerial one. This contrasts with the materials of the interviews and other data, which demonstrate that in reality managers control significant stakes hidden as property of affiliated entities. Most frequently the chief executive officer (top managers) is a medium-sized or a large shareholder in such an entity, thus having a say in corporate governance in the industry.

Table 2. *Indicators of the degree of ownership concentration (by a sample of comparable JSCs)*

	Stake size (%)					
	1995		**1998**		**2000**	
	Mean	**Median**	**Mean**	**Median**	**Mean**	**Median**
Biggest shareholder	26.3	22.0	27.8	23.0	28.8	24.2
Three biggest shareholders	40.5	40.0	45.1	44.5	46.5	46.3

The main feature of the established ownership structure in the Russian industry is *the owner and the manager being the same person*. That is why the standard problem of the corporate governance theory – relations between owners and managers – should in this case be modified. One of the owners enjoys a considerable advantage derived from his position within the management system but not from the property rights. As a result, for outside owners the costs of overcoming opportunistic behaviour by managers become relatively higher. While, for managers the owner status could reduce the costs of defense of their positions.

Conditions of corporate ownership emergence

The following reasons underlie the above trends: path-dependency, i.e. the development processes determined by historical conditions (both pre-reform and those that came into existence in the first years of the reforms); formally and informally established rules regulating relations of ownership in the interests of the main stakeholders. Privatization procedures adopted by the coalition of the state and employees in combination with the informal institutions of the Russian economy in transition resulted in insiders coming to dominate the initially dispersed ownership structure. The final stage of the privatization processes and the subsequent ownership redistribution were carried out, to a large extent, under the control of managers and the one actor playing an increasingly important role in business – regional authorities.

Managers had a number of obvious advantages. In the course of privatization and the secondary sale of shares they often used the information they possessed about the production situation and the property rights distribution, in their own interests. They also used the administrative and financial resources of the enterprises to increase their own stake. Most of the time, they usually established close alliances with regional and local administrations and could manipulate the employees' opinion. After the completion of the voucher privatization managers became less dependent on employees and not always needed their support. Being owners, managers could easily initiate reorganization processes, additional emission of shares, and participate in them. To tighten their control over enterprises managers also used the form of a closed JSC.

Managers had access to financial flows and assets of enterprises and used them to acquire property and to prevent invasion by outside investors. Quite often such activities had hidden forms with application of «gray» mechanisms of funds accumulation. Thus in fact ownership concentration in the hands of insiders was carried out at the expense of the enterprise and the state (as the tax recipient); funds being diverted from investment.

Outsiders had only limited opportunity to participate in the privatization processes: this depended on decisions made by employees and management and on the position taken by the organizers of the voucher auctions – the federal and regional governments. Furthermore, banks and voucher investment funds were under statutory limitations of their stake ownership in any given company. Outsiders that were not affiliated with management used their own resources and paid additional costs to overcome administrative barriers. For outside investors the voucher privatization was a cheap way of buying small blocks of shares but the costs of acquiring a controlling block were prohibitive. However, later on the ownership redistribution made this possible.

For outsiders the costs of corporate property acquisition – both the direct costs of buying, and the transaction costs – related to getting acquisition rights, happened to be many times higher than those for insiders. Moreover, outside investors became actively involved in the struggle for control over an enterprise if the production was highly effective (or if they saw other benefits for their business that would offset the buying costs). In such cases they had to incur costs to overcome resistance of the incumbent management, employees, executive authorities and/or to invest in establishing coalitions with them.

Emergence of corporate control models at micro-level

Under these conditions of unequal access to ownership distribution specific features of sectors and markets and business scales affect the process of establishing corporate control. In effective sectors the benefits of ownership control bring about competition between insiders and potential outsiders, providing incentives for the latter to pay additional costs in order to establish corporate control over enterprises of every size. As a result control over effective enterprises is concentrated in the hands of their management or outside owners. Whereas ownership of ineffective enterprises is concentrated in the hands of their management (the concentration costs are insignificant) or remains dispersed. It is enterprise size that determines the minimum level of costs to buy the property, and to establish control affects the degree of capital concentration. Irrespective of the ownership structure control, over ineffective enterprises goes over to the management that derives benefits from the situation of crisis.

Drawing upon the interview results we will now attempt to identify the basic models of corporate control in the Russian industry (see Dolgopiatova, 2001 for more detail). In-depth interviews cannot obviously bring representative results but do illustrate the relationship between enterprises' main characteristics of activities and model features (see Annex 1).

1. *«Private enterprise model»,* where the functions of owners and managers are combined. Under this model the chief executive officer is the biggest owner, while the other managers, rank and file employees, and executive authorities, are minority shareholders with whom a balance of interests is maintained. The model could be formed in effective sectors oriented firstly towards the consumer market or narrow segments of other markets. Due to the specific management features of such enterprises tend to fall within the small and medium-sized categories.

The model is characterized by internal stability and can in the future be transformed into a family business. However, such enterprises face increasing risks of poor management and – in case of business expansion – the risks of a mismatch between the new production scales and the old management styles.

2. *«Collective managerial ownership model,* where the functions of owners and managers are also combined. In such «cooperatives of managers » a group of top managers – four to six persons – normally accumulates a controlling block of shares. As a rule none of the biggest shareholders has a controlling block of shares, but the director owns a stake bigger than any of the team members'. The model

was formed in enterprises of various sizes: it is characteristic of small and medium-sized enterprises, and to a lesser degree of large ones. The enterprises can belong to both effective and ineffective sectors (in the latter case relatively small enterprises are involved). This model is more widespread in industry than the «private enterprise» model.

The model is not free from the risk of destroying the team control structure. An important feature of the model is a deferred conflict between the owners. Disintegration of their coalition will result in the revival of the painful and costly process of ownership redistribution. Besides, even in the short-term perspective other risks related to the functioning of the management system are obvious: difficulties with replacement of managers-owners, problems for the setting up a united management team combining the efforts of the shareholders and employees working under a contract. As far as small enterprises are concerned this model can be gradually transformed into a model of private enterprise.

3. «*Concentrated outsider ownership model,* where an outside owner has a controlling block of shares, while managers are employees working under contracts, or owners of small stakes (3-5%). This type of control is characteristic of enterprises of every size in the effective sectors.

The model is internally stable. Changes are possible in case of the enterprise restructuring upon a decision by the outside owner. Some risks for the enterprise are rooted in the owner’s motivation defined by the general interests of his business. Other risks are related to opportunistic behaviour of the management. Owners often make use of widely accepted mechanisms in order to overcome such behaviour (see below).

For the most part the model was formed in the course of the secondary ownership redistribution. Over the last few years, bankruptcy procedures have been applied to establish it.

4. *"Dispersed ownership model,* where enterprises are in fact controlled by management. Under this model the chief executive officer (a team of managers) is normally the owner of a mid-size stake (5-10%) while the rest of the shares are partially dispersed as micro-stakes among insiders and outside individuals, partially in the form of small stakes belonging to the state, institutional investors, and other owners. The dispersed model is formed in large and very large enterprises in ineffective sectors that are burdened with substantial social infrastructure. They often depend on government procurement orders, operate within narrow market segments, have considerable arrears in respect of creditors

and employees, and use extensively barter and other non-monetary means of payment.

At first sight, the model appears to be similar to the type of corporate management accepted by the Western economies, where its efficiency is supported by a number of internal and external mechanisms. First of which, it is supported by the well-developed stock market and the transparent corporate control market. Under the Russian conditions though it would be premature to talk about availability of such markets. The main features of this model are: a combination of lack of control over management, the managers' feeling of insecurity, and their inability/unwillingness to increase the stake that they own.

This model is also stable provided there are no long-term shifts in the economic situation that might change the perception of the business profitability and create a demand for the shares. If this takes place, management and regional authorities will resist any attempts to bankrupt large enterprises.

In such cases the enterprise size makes it difficult for any owner to obtain a significant stake. The unfavorable economic situation stimulates opportunistic behaviour by the managers, which might take the form of stripping the assets, or the use by shareholders of certain specific techniques to exercise their property rights. The assets thus stripped are applied in a more efficient way in other sectors. For outside owners the costs of capital concentration are higher than for insiders. That is why additional incentives exist for the preservation of the dispersed ownership model in the case of an enterprise having good prospects under the condition of restructuring.

The above models do not exhaust the multitude of forms of corporate control. The processes of ownership concentration have not yet been completed in many enterprises. It is safe to say they are still at the stage of transition. Moreover the enterprises where the state has a controlling block of shares or is a dominant owner have been left outside the scope of this analysis.

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

Mechanisms of corporate governance: defense of shareholder rights?

Within market economies the mechanisms of corporate governance are aimed to secure property rights and to form adequate structures of corporate control. Normally such mechanisms are divided into internal and external ones. In the Russian transition economy the mechanisms act as owners' tools of control over the enterprise management and at the same time as top managers' tools of self-defense. In practice, other influential stakeholders - authorities of various levels, large groups of employees - are involved in the corporate control processes. They defend their own interests by forming coalitions with the main actors – shareholders and managers.

The necessity imposes itself to review the mechanisms of corporate governance in relation to the dispersed ownership and concentrated outsider ownership models and to the cases where corporate ownership is still in the process of concentration. Both the two above models of manager control depend on the mechanisms of control of the most influential stakeholders.

The basic *mechanism of internal control* over realization of shareholders' rights are: setting up a Board of Directors or any other higher governing body, holding a general shareholder meeting, and putting up opposition.

Empirical data from over 270 JSCs testify (see Table 3) that representatives of management and employees dominate membership of an average Board of Directors – that was the case in almost every enterprise in the sample. Industrial enterprises ranking highest, with other structures far behind. In industrial enterprises, insiders accounted for 57% of the seats. In total, outside owners (minus executive authorities) occupied maximum one third of the seats.

Comparison between the structure of a Board of Directors and the structure of share capital by groups of shareholders (see Table 4 for details) demonstrated that if insiders are the dominant owners (with a stake higher than 50%) they practically always retain their control. For a small number of the JSCs (3% of the sample) insiders were in minority in the Boards of Directors, which was normally accompanied by a strong representation of the federal government. But, in half of the cases when insiders were not officially dominating Boards of Directors their representatives controlled them. This fact is evidence of both the management control over the property belonging to the affiliated outside shareholders and of a dispersed ownership structure.

To demonstrate comparative advantages of having a shareholder group represented in the Board of Directives we shall make use of the representation coefficient defined as the percentage of the Board membership per 1% of the share capital owned by each of the group (the coefficient was introduced in Basargin, Perevalov, 2000, p.124). Columns two and three in Table 3 demonstrate that in some enterprises representatives of regional and local authorities, banks, and to a lesser degree industrial enterprises make their positions stronger alongside the insiders. While individuals, investment funds and companies are loosing ground.

Table 3. *Structure of the JSCs Boards of Directors*

	% of the total number	Representation coefficient	
		Average value*	№ of JSCs
Average number of members	7.9	1.00	278
of which representatives of:			
-employees and management	57.4**	1.92	254
-federal authorities	3.2	0.97	48
-regional and municipal authorities	5.7	1.75	44
-foreign investors	2.1	0.55	43
-Russian banks	2.1	2.06	32
-investment companies, funds, etc.	9.1	0.74	124
-industrial enterprises	15.0	1.47	117
-big shareholders – individuals	5.4	0.25	207

** Calculated through division of the group of shareholders in the Board of Directors by its share in the stake where it exceeded 0.1%.*
*** Of which 38.0% are representatives of managers, and 19.4% - of employees.*

According to the information provided by some JSCs, representatives of regional and local authorities are often represented in Boards of Directors without then being shareholders. In this way the executive authorities aggravate the practices of administrative regulation, informal relations, and hidden contracts, by using direct corporate control over activities of joint stock companies.

Shareholder meetings can be manipulated by management or by the biggest shareholders. If the model of control has not been established yet or takes the shape of the dispersed ownership model, the probability of emergence of opposition is high. In developed economies opposition quite often takes the form of an information signal. Under the Russian conditions shareholders choose to face a conflict and to pay opposition costs only when chances to win and, consequently, to change management and/or to redistribute ownership are very high. The driving force behind opposition is not the stock market and the distribution of the relevant information but an internal mechanism of conflict, in which the employees are involved, and administrative, political, and criminal levers are applied. Additional mechanisms of ownership redistribution – emission of shares and reorganization are used to consolidate the victory.

Table 4. *Comparison of insiders dominating corporate ownership and a Board of Directors**.** (% of the total number of respondents)*

Insiders' share in corporate ownership	**N of JSCs**	**Insiders' share of seats in a Board of Directors**	
		More then 50%	**Equal or less then 50%**
- more then 50%	81	27,5%	2,6%
- equal or less then 50%	188	29,0%	40,9%
N of JSCs	269	152	117

This means that the Board of Directors is a vehicle for conveying the company executive bodies' ideas. In most of the cases it is even «taken over» by managers who use in their own interests the property that belongs to them, the affiliated entities, and the dispersed employees. As an owner having strong ties with the authorities and with employees management has advantages in putting up opposition.

Faced with difficulties in applying the main internal mechanisms, big outside owners must form coalitions with management in order to exercise their rights, to the detriment of the shareholders' interests. Owner and management deriving benefits from control over the enterprise financial flows is one of the popular form of coalition. Essentially this means paying «gray dividends» to big shareholders (for more information on paying dividends to big shareholders see (Dolgopiatova, ed. 1998, pp. 86-87) or colluding to strip the enterprise of its assets and to channel them to another business.

If the enterprise develops the model of concentrated outsider ownership outside owners control the Board of Directors. When this happens they also apply other internal mechanisms to overcome the managers' opportunistic behaviour. They resort to replacing top management with their own representatives and establish an additional control over the management's activities. Replacement of management does not remove altogether the problem of opportunistic behaviour but makes it possible to drastically reduce its scales. However, there are risks that the replacement will result in having a new leadership with no skills of production management and in cutting off the established informal business connections. Excessive control over managers' day-to-day activities brings about additional costs of delegation of powers and duplication of some of the functions of the company executive bodies. This method is usually applied on a temporary basis.

Position taken by the employees becomes a specific internal mechanism for large industrial enterprises, since they are interested in preservation of jobs, wage levels, and social guarantees – the areas outside the interests of managers and shareholders. Employees (many examples exist) put a restraint on owners' and managers' activities and even obstruct execution of court's rulings. The threat of an open conflict obliges managers and owners to establish and maintain friendly relations with employees in an attempt to win them over. This mechanism generates additional costs related to renunciation of the plans of workforce and social benefits reductions. In certain cases owners may even have to confirm their intentions by a formal contract.

External mechanisms of corporate control in developed economies include: bank control underpinned by the debt market, stock market control and the derivative corporate control market. In an economy in transition the above mechanisms function subject to certain limitations or in a specific way. The open stock market is accessible to a narrow range of the largest Russian enterprises. For the most part corporate control comes into being through unregistered operations outside the established financial markets with the use of «non-transparent» schemes of ownership redistribution. Given the widespread mutual debts in the industry the debt market cannot perform its control functions. Bankruptcy procedures are applied selectively and only reflect the intentions to redistribute ownership. Bank control takes the form of tightening lending conditions including those related to interest rates on the one hand and becomes weaker under the pressure of the regional or local authorities on the other hand.

To consolidate their positions biggest owners (both internal and external) use excessive concentration (up to 75% and above) of the share capital, which blocks the ways to legal participation of the other owners in the corporate control.

The influence of regional and local authorities promoting their own interests (social stability, low registered unemployment rates, viability of housing and social infrastructures, growing tax revenues) presents a specific external mechanism of corporate control. They use both formal mechanisms of exerting influence on enterprise development (participation in ownership schemes and in Boards of Directors, adoption of regional legislation), and informal ones (direct instructions, informal agreements, etc.). Regional and local authorities become an especially strong external power in the case of the dispersed ownership model characteristic of large enterprises.

Establishing friendly relations with authorities at various levels is one of the most important mechanisms for shareholders to exercise their ownership rights, and of control over management under the concentrated outsider ownership model. The costs incurred by outside owners to form a coalition with authorities are normally higher than those incurred by the previous management. This is especially true for a new business trying to gain a footing in a new territory. Such costs include payments for the access to the administrative market, current costs for the maintenance of the established relations, social support costs, costs for retaining employees, costs for implementing regional contracts with deferred or non-monetary payments.

Mechanisms of corporate governance: management's self-defense

Let us now consider the mechanisms used by managers to resist control by owners. Obviously, managers-owners apply all the mechanisms at their disposal discussed above. As for the «entrenched» management, their mechanisms of self–defense include firstly, taking control over the Board of Directors and organizing opposition to the other owners with the view of pushing them out of the enterprise. They can also establish close ties with the authorities, manipulate the employees position in order to win their support in the case of attempts to replace the enterprise chief executives. When making use of these mechanisms of self-defense managers actively promote ownership concentration.
At the same time, managers also apply methods based on their privileged access to the enterprise controls:

* Taking control over ownership redistribution. Limiting access to the process for outside owners through regulation of stock sales, keeping shareholder registers, setting up trusts, using closed JSCs. Well known is the practice of registering private limited companies that consolidate employees' shares for joint voting.

* Exercising control over the enterprise's financial flows and using them to build up property at their disposal, maintain relations with authorities and employees, or establish alliances with certain owners. This mechanism is closely associated with the practices involving non-monetary settlements, various tax evasion schemes, and transfer prices. The complexity of such schemes produces an illusion that current enterprise management is indispensable.
* Exploiting the information asymmetry that includes having recourse to «non-transparency» of business transactions, concealment and distortion of information, and even releasing distorted data on company's assets. In a transition economy asymmetry of information increases significantly, clear market signals lacking information is subject to distortion and is not yet disclosed in violation of the law.
* Maintaining business connections, networks and a positive image. Business connections and networks make a normal mechanism of relations within a market economy. Under the Russian conditions possibilities are high that they will be personified as business ties are regulated first of all through informal and hidden contracts. Russian economy follows unwritten rules (see for details Ledeneva, 2001). On the one hand, the hypertrophy of personified connections is the legacy of the past: it was characteristic of the Soviet economy and persisted in the first years of the reforms. On the other hand the system of connections today persists thanks to non-monetary settlements and tax evasion schemes.

The above methods of self-defense are used under the concentrated outside ownership and dispersed ownership models. However, in the latter case managers have much wider opportunity of evading owners' control as they take advantage of certain specific features of large enterprises where the multitude of transactions with partners is hard to control.

Conclusions

Various models of corporate control emerge in the Russian industry. All other things being equal, this process is affected by the quality of management, the individual qualifications of top managers, the interests of other stakeholders as much as it is by such objective parameters as the enterprise's size and sector. All the models of corporate control have common characteristics: they are aimed to guard business against new investors and to maintain «non-transparent» relations of ownership. In this respect, the insider models are the most representatives. Making use of enterprise assets by the managers in order to buy it out in their own interests is typical of the two models with concentrated managers' ownership (i.e. the private enterprise model and the collective managerial ownership model).

Where the dispersed ownership model of control makes it possible to drain assets in order to invest them into other types of business or to consume them.

The mechanisms of corporate control fail to provide an effective protection of the outside owners' rights thus making them incur additional costs of excessive concentration of share capital, establishing relations with important stakeholders, and excessive monitoring of managers' day-to-day activities. Whereas the mechanisms of managers' self-defense that ensure their status as owners make it possible to realize successfully their opportunistic behaviour. The unstable situation in the Russian industry and the established institutional environment contributed to the strengthening of managers' control over many enterprises. It can be clearly said that the way the corporate governance mechanisms function has been pre-determined by the ownership structure emerged in the course of the mass privatization.

Due to the economic growth of the last two to three years, potential attractiveness of many industrial enterprises has increased, inciting demand on their buy-out. As a result shareholders' ownership is becoming more concentrated. Processes of horizontal and vertical integration have intensified and stimulated redistribution of property and emergence of large diversified business groups based on joint property of a limited number of individuals and legal entities. Many industrial joint-stock companies have changed their model of corporate control from a diversified one to the model of concentrated outsider ownership. As a rule a new dominated shareholder (as usual the business group) dismisses old executives of a company and hires new top managers affiliated with the group. Very often in these cases one of the new owners participates in the management of the company (as a CEO or a chief/member of a Board of Directors).

Emergence of corporate control models in the Russian enterprises
(based on in-depth interviews)

	Branch of industry	Number of enlisted employees at the moment of:		Legal form	Model of privatization*	Bankruptcy, reorganizations	Outside shareholders, state property	The model of corporate control
		Privatization	the survey					
1	Machinery building	About 4000	3700	Public JSC	Third	-	Individuals - 39%, legal entities -about 8%	II is emerging
2		About 1000	350	Public JSC	Leasing (buyout)	-	Minor block of share was sold to outsiders	II, likely will transform into I

3		More then 10000	7150	Public JSC	First	-	Institutional (including foreign) investors - more then 30% in sum	IV
4		More then 1000	300	Public JSC	First	Bankruptcy proceedings	15 businessmen are buying the bankrupt's estate	(probably IV)**
5		About 10000	3600	Public JSC	Special conditions of privatization	Will take over by the public JSC with state ownership	State - 44%, institutional (including foreign) investors - about 30% in sum	-
6		About 400	110	Public JSC	Second	Threat of bankruptcy	Outsider (most likely affiliated with top management) - 25%	II
7		More then 10000	4500	Close corporation	Leasing (buyout)	-	One of the main suppliers, one of the main customers and the bank serving the company - 30% in sum	IV
8	Wood processing and furniture	About 1500	500	Public JSC	Second	Bankruptcy proceedings	More then 20 businessmen are buying the bankrupt's estate	(Had not been emerged)
9	Construction materials	More then 700	370	Public JSC	Second	-	State -8%, There are about 10 minor outsiders too	II
10	Light	More then 1200	740	Public JSC	Leasing (buyout)	-	A bank - 10%, there are minor outsiders affiliated with top management	II
11		More then 600	200	Close corporation	Leasing (buyout)	Threat of bankruptcy	There are outsiders (there are no clear data)	Has not been emerging
12		About 800	200	Close corporation	Leasing (buyout)	After external administration***	The main supplier bought controlling block of shares	III (probably IV)
13		More then 400	200	Close corporation	Leasing (buyout)	-	There are no outsiders	II

14		60****	140	Close corporation	New private business (co-operative)	Reorganized in 1992 from a co-operative	One of founders of the closed company (former manager) - about 15%	II
15	Food processing	About 500	450	Public JSC	Second	After external administration***	Wholesale company - 52%, supplies of raw materials - 40% in sum	III (probably IV)
16		About 800	740	Public JSC	Leasing (buyout)	-	A group of affiliated legal entities has controlling block of shares	III
17		More than 200	190	Public JSC	Second	Probably will be reorganized (take-over)	A group of affiliated individuals and legal entities owner the firm	III
18		600	600	Public JSC	Second	-	State -12%	I
19	Pharmaceutics	1250	1300	Division of close corporation	First	Reorganized from the public JSC	Private firm (wholesale and retail seller of medicines) - 79%	III

** The first model allowed a minority insider control, the second a majority insider control and the third a contractual management of the enterprise by a group of employees with the possibility the buy or to sell it at the end of the contract.*
*** Types of corporate control just before the beginning of bankruptcy procedure (see in brackets).*
****The enterprise went successfully through the procedure of "Vneshnee upravlenie". According to this procedure established by the Russian legislation an external manager tries to ameliorate the situation of the enterprise using different possibilities. Sometimes he\she can buy the enterprise with its debts.*
***** The data illustrate situation at the moment of changing legal form in 1992.*

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