

Fiedorczyk M., Grabowiecki J., *Current tendencies in corporate governance system in Russia*, „Ekonomia i Prawo. Economics and Law”, Polzakiewicz B., Boehlke J. (ed.), Vol. 13, No. 3/2014, pp. 341-357. DOI: <http://dx.doi.org/10.12775/EiP.2014.025>.

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## CURRENT TENDENCIES IN CORPORATE GOVERNANCE SYSTEM IN RUSSIA

### SUMMARY

The aim of this article is to analyze current selected tendencies in Russian corporate governance system that have been observed in the past few years. The corporate governance in Russia started formulating in the nineties of the 20th century as a result of the privatization process. It's principal mechanism is a concentrated ownership structure. On the basis of a research conducted by the leading Russian research centers, the authors analyze changes concerning the ownership structure of Russia's companies, including the model of companies' owners, the role of the state both in the ownership structure and in corporate control and capital markets. The authors also try to define the probable further changes in corporate governance system in Russia.

**Keywords:** Russia, corporate governance, ownership structure

**JEL Classification:** G32, G34, P26

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## INTRODUCTION

Corporate governance is one of the key elements of the economic system of a country. The operation of various mechanisms and institutions, both internal and external, enable efficient competition and performance of companies in various markets.

Main mechanisms of corporate governance emerged in Russia in the 1990s. For most Russian companies, the category of governance was at the time more of a popular innovation rather than an indispensable element of functioning on the market and attracting external capital. Corporate governance started playing an essential role for Russian companies in the middle of the previous decade, when such aspects as transparency of actions or obeying the rights of shareholders (including the minority ones) began bringing measurable benefits. When companies started expanding their activities, they needed capital markets for realization of big projects and that necessitated the increase of corporate governance standards.

The main aim of the article is to analyze the current selected tendencies in the area of corporate governance in Russia observed in the past few years and to assess their potential influence on further evolution of the Russian system of corporate control. The accomplishment of the set objectives was possible due to the studies of foreign, mainly Russian, scientific literature and data concerning Russian system of corporate governance. The authors form the hypothesis that the evolution of corporate governance system in Russia in the previous years is a natural process, which emerges from the development of market economy, capital markets, strengthening of market forces as well as the need for development of big enterprises, including capital groups. Moreover, it is the aftermath of financial crisis of 2008. The article has the following structure: the first part describes privatization as a main factor of the Russian corporate governance system emergence. Next, the article presents main mechanisms of governance. The essential part of this article constitutes the analysis of the selected trends in the area of mechanisms and institutions of corporate governance.

### 1. PRIVATIZATION AS A MAIN FACTOR OF THE RUSSIAN CORPORATE GOVERNANCE EMERGENCE

The favourable circumstances for development of corporate governance systems in Central and Eastern Europe countries emerged alongside with the process of economic transformation, which aimed at transition from centrally

planned economy (CPE) to market economy. In the context of changes that were to create the legal and institutional framework of the market economy and particular fields of economic policy, the reforms initiating the development of corporate governance systems as well as particular mechanisms and institutions of governance were introduced. The creation of governance systems was performed in two main stages<sup>1</sup>: the period of initial reforms concerning transition to market economy, i.e. privatization and building the preliminary forms of corporate governance systems, and fulfillment of the key reforms and strengthening market economy by introducing stable mechanisms of control.

The privatization of state-owned enterprises is considered to be the main factor initiating the creation and development of corporate governance systems in the economies of Central and Eastern European countries. The adoption of the law "On Privatization of State-Owned and Cooperative Enterprises in RFSRR" of 3 July 1991 by the Supreme Council of the Russian Federation is considered to mark the beginning of the privatization process.

Three methods of privatization of the state-owned companies were adopted in Russia: small privatization, big privatization and so called voucher privatization. Small privatization included companies dealing with wholesale and retail trade as well as construction, transport and food industry<sup>2</sup>. Its main objective was to create a group of private individual enterprises or limited liability partnerships. Big privatization included middle and big companies, which had to be transformed into joint-stock companies. The solutions adopted under big privatization resulted in providing managers and employees with special privileges, who acquired part of a company's shares free of charge or could buy them for vouchers. It gave them the opportunity to become owners of even about a half of the shares of the company they were employed in.

Under the voucher privatization, every citizen of the Russian Federation had the right to acquire a special gratuitous privatization voucher 10 thousand rubles worth. Vouchers could be sold for cash to other citizens or institutions in the open market, which then made use of them at the so called cheque auctions, where the vouchers could be used individually, transferred into shares

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<sup>1</sup> C. Mesjasz, *Corporate governance systems and codes of good practices in Central Eastern Europe*, [in:] M. Jerzemowska (ed.), *Współczesne problemy nadzoru korporacyjnego*, Prace i Materiały Wydziału Zarządzania Uniwersytetu Gdańskiego, 2/1/2011, p. 131.

<sup>2</sup> W. Jermakowicz, J. Pańków, *Prywatyzacja w Federacji Rosyjskiej*, Centrum Analiz Społeczno-Ekonomicznych CASE, Wydawnictwo Naukowe PWN, Warszawa 1995, p. 66, 77.

of so called cheque investment funds or into shares of any privatized company, including a place of work (it could be done in the closed offering of shares)<sup>3</sup>.

Studies analyzing the effects of Russian privatization highlight its quantitative success. Years 1993-1994 were the time when the 'critical mass' of privatization was achieved. Until January 1994, 70% of small businesses had already been privatized and 11,5 thousand out of 14,5 thousand of middle and big companies were transformed into joint-stock companies under the big privatization process<sup>4</sup>.

However, in the first years of privatization, its main objective - the search for an effective owner and investments needed for further development of enterprises - was not fulfilled<sup>5</sup>. The legal regulations and methods of privatization adopted in Russia formally passed the ownership rights to all citizens, but in reality they protected the rights and provided significant privileges for the so called 'insiders' (mainly top managers and, to a lesser extend, workers). Already about 2-3 years after the end of the voucher privatization program, most of the minority shareholders had sold their shares to managers, which resulted in gradual concentration of the ownership structure of companies. Managers purchased a lot more shares at auctions and from their workers than it was assumed in the privatization programs.

Already in the first years after its commencement, the privatization in Russia shaped the ownership structure of the Russian companies, the membership of the management boards and the relations between owners and managers, who in many cases were the same people. Moreover, it defined the further role of the state in the economy and initiated the growth of the capital market, which had yet been limited by the concentrated ownership structure established as a result of privatization.

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<sup>3</sup> A. Radygin, *Privatization in the Russian Federation*, Centre for Social&Economic Research, Warsaw, 1996, p. 5, [http://www.case-research.eu/upload/publikacja\\_plik/3696967\\_070.pdf](http://www.case-research.eu/upload/publikacja_plik/3696967_070.pdf) (19.07.2013).

<sup>4</sup> А. Радьгин, *Приватизация и формирование новой структуры собственности в России: инвестиционный аспект*, „Вопросы экономики”, No. 6/1994, p. 38.

<sup>5</sup> Н. Шмелева, А. Радьгин, *Приватизация и финансовая система в России: проблемы взаимодействия*, „Вопросы экономики”, No. 9/1993, p. 67.

## 2. THE CHARACTERISTICS OF CORPORATE GOVERNANCE IN RUSSIA

Using the taxonomy of the corporate governance model, designed by J. Weimer and J.C. Pape<sup>6</sup>, and fixed variables, which they adopted to differentiate national systems, we are able to identify predominant features of Russian governance system and compare them with the systems of highly developed countries (table 1).

Table 1. Taxonomy of the national systems of corporate governance

CORPORATE GOVERNANCE SYSTEMS	MARKET ORIENTED	NETWORK ORIENTED		
Countries	USA, Great Britain	Germany	Japan	Russia
Company concept	Instrumental, shareholder-oriented	Institutional	Institutional	Institutional
Governance system	One-tier (executive and non-executive directors)	Two-tier (board of directors and supervisory board)	One-tier	Optional, but very rare cases of two-tier
Dominant stakeholder (s)	Shareholders	Industrial banks (Germany), employees, oligarchs	Banks and other financial institutions, employees	Majority shareholders, oligarchs
Importance of capital market	High	Middle	High	Low
Occurrence and activity of mergers and acquisitions market	High	Very low	Very low	High
Ownership concentration	Low	Middle to high	Low to middle	High
Relations between managerial remuneration and company performance	High	Low	Low	Low
Time horizon of economic relations	Short	Long	Long	Long

Source: Own preparation based on J. Weimer, J.C. Pape, *A Taxonomy of Systems of Corporate Governance*, „Corporate Governance: An International Review”, Vol. 7, No. 2/1999; B. Tricker, *Corporate Governance. Principles, Policies, and Practices*, Oxford University Press Inc., New York 2009, p. 181-189; C.A. Mallin (ed.), *Handbook on international corporate governance: country analyses*, Edward Elgar, Cheltenham; Northampton, 2011.

The dominant mechanism of corporate governance in Russia is the ownership structure. According to the results of research conducted by every lead-

<sup>6</sup> J. Weimer, J.C. Pape, *A Taxonomy of Systems of Corporate Governance*, „Corporate Governance: An International Review”, Vol. 7, No. 2/1999, p. 2.

ing scientific research centre in Russia<sup>7</sup>, the ownership structure of companies in Russia is characterized by relatively high level of concentration, which results in exercising control over the company by the dominant owner or, which is less common, by a consolidated group of such owners. The concentration of ownership applies here to companies of various sizes, from different branches of industry and of different types of organization: open joint-stock companies, closed joint-stock companies and limited liability companies<sup>8</sup>.

Research from 2005-2006, conducted by members of the Institute for Industrial and Market Studies at Higher School of Economics in Moscow on a group of 822 Russian joint-stock companies from 64 regions of Russia, showed that almost 70% of them is in the hands of dominant shareholders, who hold more than 50% of shares<sup>9</sup>. In 48% of the companies there was a lack of a second significant shareholder, and 21% of the companies possessed more than one dominant shareholder. A significant aspect in the analysis of the ownership structure of companies in Russia is the participation of the state in this ownership. State companies function in every sector of the economy and prevail in industries such as<sup>10</sup>: infrastructure, extraction, arms, financial services and media. In 2007, according to Rosstat, 9% of Russian companies were wholly owned by the state and in further 2% the state was a dominant shareholder.

Russian legislation allows for a company to introduce the double-level model of control – the supervisory board and the board of directors, but in practice most companies are managed by the board. Dominant owners (in most cases the managers) participate directly in managing companies, which results in a combination of ownership and control<sup>11</sup>. The demand for ‘exter-

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<sup>7</sup> The research connected with the ownership structure in Russia was conducted, among others, by: Institute for Industrial and Market Studies at Higher School of Economics in Moscow, Centre for Economic and Financial Research at New Economic School in Moscow, Gaidar Institute for Economic Policy, Russian Economic Barometer.

<sup>8</sup> Т.Г. Долгопятова, *Концентрация собственности в российской промышленности: эволюционные изменения на микроуровне*, „Журнал Новой Экономической Ассоциации”, No. 8/2010, p. 80.

<sup>9</sup> Т.Г. Долгопятова, И. Ивасаки, А.А. Яковлев (ed.), *Российская корпорация: внутренняя организация, внешние взаимодействия, перспективы развития*, Издательский Дом Государственного университета Высшей Школы Экономики, Москва 2009, p. 38.

<sup>10</sup> К. Шпренгер, *Государственная собственность в российской экономике. Часть 1. Масштаб и распределение по секторам*, „Журнал Новой Экономической Ассоциации”, No. 6/2010, p. 120-121.

<sup>11</sup> T.G. Dolgopyatova, *Stock Ownership and Corporate Control*, [in:] T. Dolgopyatova, I. Iwasaki, A.A. Yakovlev (ed.), *Organization and Development of Russian Business. A Firm-Level Analysis*, Palgrave Macmillan, New York 2009, p. 39.

nal' managers who are not the owners is very much restricted. The aforementioned research by the Institute for Industrial and Market Studies indicates that in 40% of the studied companies the dominant shareholders were also holding managerial positions and the president of the board of directors was also a shareholder<sup>12</sup>. In as few as 30% of companies the dominant shareholders were not managers and the president of the board was not a shareholder.

In the Russian corporate governance system, the capital market and the market for corporate control perform a secondary role, mainly because of relatively slow development of individual market institutions, low standards of observing minority shareholders rights, difficult access to long-term bank loans for businesses. The capital market in Russia is considered to be relatively narrow in terms of sector diversification and variety. The market is dominated by industries in the following sectors: extraction, petroleum, gas and construction. The capital markets in the whole region of Central and Eastern Europe are still developing markets, which can be evidenced by, among others, the value of stock market capitalization and the number of listed companies<sup>13</sup>.

### 3. CHANGES IN RUSSIAN SYSTEM OF CORPORATE GOVERNANCE

The first decade of the 21st century brought an evolution of selected mechanisms of corporate governance in Russia. It was caused by the aftermath of financial crisis of 1998 and 2008 as well as by a general situation in the Russian economy, including the fast pace of economic growth, attractive prices of natural resources on international markets as well as the increase of interest of foreign economic entities in investing in Russia.

#### 3.1. CHANGES IN THE OWNERSHIP STRUCTURE

The basic tendencies that have been observed recently in corporate governance system in Russia include, among others, the changes in the ownership structure.

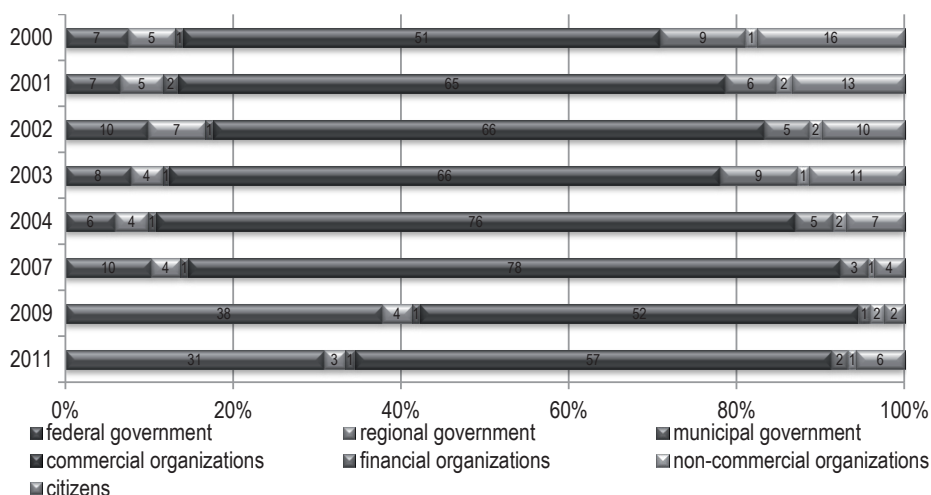
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<sup>12</sup> Т.Г. Долгопятова, И. Ивасаки, А.А. Яковлев (ed.), *op. cit.*, p. 46.

<sup>13</sup> At the end of 2011, the value of capitalization of Stock Exchange of the selected countries of the region was respectively: Warsaw GPW 138,2 bln USD, Budapest SE 18,8 bln USD, MICEX 770,6 bln USD. The capitalization of the biggest stock exchanges in the world was: NYSE Euronext (USA) 11,8 tln USD, Tokyo SE Group 3,3 tln USD, London SE Group 3,3 tln USD; World Federation of Exchanges, *Domestic Market Capitalization*, <http://www.world-exchanges.org/statistics/domestic-market-capitalization> (09.01.2013).

The increase of the participation of the state in the ownership of companies has accelerated since the middle of 2005. Rosstat data show a growing share of the state in the founding capital of the companies after the crisis of 2008. In 2009 it was 42.3% in total at all levels (including only the federal government - 37.8%, figure 1). Due to the economic crisis which commenced in 2008, many Russian companies afflicted by financial problems sought assistance from the state, which resulted in renationalization of assets. The state took over a part of the shares of companies which were in difficult financial situation.

Figure 1. The capital structure of the founding entities of Russia by shareholders in the years 2000-2011 (in %)



Source: Own preparation based on: Федеральная служба государственной статистики, Промышленность России 2002, 2005, 2008, 2010, 2012, [http://www.gks.ru/wps/wcm/connect/rosstat\\_main/rosstat/ru/statistics/publications/catalog/doc\\_1139918730234](http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/publications/catalog/doc_1139918730234) (20.02.2014).

Table 2 contains data on the degree of state participation in companies in which it had packets of shares- in 2011 it was almost 3 thousand of companies. There is a trend for increasing the share of companies in which the state holds 100% of shares (in 2005 approx. 12%, whereas in 2011 - 62% of the companies in which the state held shares).

A. Radygin estimates trend to increase state control in the corporate sector of the Russian economy in 2007-2008. After the crisis control was stronger than in the crisis of 1998 and the beginning of the last decade<sup>14</sup>. Ac-

<sup>14</sup> А. Радыгин, *Государственный капитализм и финансовый кризис: факторы взаимодействия, издержки и перспективы*, „Экономическая политика”, No. 6/ 2008, p. 88-92.



According to the ratings of Alfa-Bank, part of the shares of Russian companies, belonging to the state in 2006 amounted to 29.6%, in early 2007 35.1%. In contrast, in early 2008 depth of concentration of ownership in the owned by the state, determined on the basis of the list of Expert-400 (400 largest Russian companies according to the value of revenues) amounted to approx. 40-45%.

In the future, it is forecasted that the role of the state in Russia's economy and its control in strategic sectors, including the capital groups, will be strengthening. The increase of the state's influence on the policy of groups and big enterprises, even in cases when they are in private hands, is also greatly probable<sup>15</sup>.

Table 2. State ownership in corporate sector in Russia in 1999-2011 (Ministry of State Ownership of RF estimations)

YEAR	NUMBER OF COMPANIES WITH THE STATE CAPITAL	STATE PARTICIPATION IN THE SHARE CAPITAL OF COMPANIES (IN %)			
		< 25%	25-50%	50-100% MINUS 1 SHARE	100%
1999	3316	26,0	48,3	14,2	11,5
2001	3524	49,5	34,4	14,3	1,7
2004	3704	47,7	33,4	14,6	4,3
2005	4705	44,8	30,4	12,8	12,0
2006	3724	30,5	25,4	11,4	32,6
2008	3674	21,0	17,6	7,3	54,1
2009	3337	23,0	15,3	6,0	55,7
2010	2949	24,3	12,8	5,7	57,2
2011	2957	21,9	11,3	4,6	62,2

Source: Own preparation based on: Институт экономической политики имени Е.Т. Гайдара, *Российская экономика в 2012 году. Тенденции и перспективы* (Выпуск 34), Москва 2013, p. 412, <http://www.iep.ru/ru/rossiiskaya-ekonomika-v-2012-godu-tendencii-i-perspektivy-vypusk-34.html> (15.10.2013); Институт экономики переходного периода, *Российская экономика в 2007 году. Тенденции и перспективы* (Выпуск 29), Москва 2008, p. 482, <http://www.iep.ru/ru/rossiiskaya-ekonomika-v-2007-godu-tendencii-i-perspektivy-vypusk-29-2.html> (3.10.2013).

Since the middle of the previous decade, the first signs of reducing the level of ownership concentration in Russian companies have been observed<sup>16</sup>. The results of research conducted by T. Dolgopyatova, concerning years 2005

<sup>15</sup> Т.Г. Долгопятова, И. Ивасаки, А.А. Яковлев (ed.), *op. cit.*, p. 392-402.

<sup>16</sup> Researches Standard&Poors from 2006 г. on 70 biggest companies in Russia (Т.Г. Долгопятова, *op. cit.*, p. 81).

and 2009 indicate the tendency towards a gradual decrease in ownership concentration in the last years of the previous decade<sup>17</sup>. The research included all three types of companies (open and closed joint-stock companies, and limited liability companies). Businesses were divided into groups: with low level of concentration (lack of owner holding 25% of shares), medium level of concentration (dominant shareholder holds 25-50% of shares) and high level of concentration (dominant shareholder holds more than 50% of shares). The research results indicate that in 2005 almost 74% of businesses was in the possession of a shareholder holding more than half of the shares. In 2009 their participation decreased to almost 69% (table 3). The most considerable change includes the increase in participation of companies with medium level of ownership concentration – from 11 to 15%.

Table 3. Concentration of ownership in Russian companies in 2005 and 2009 (in %)

COMPANIES ACCORDING TO THE LEVEL OF OWNERSHIP CONCENTRATION	2005	2009
Low	15,4 (16,8)	15,7 (18,5)
Medium	11,0 (9,4)	15,0 (13,9)
High, including:	73,6 (73,9)	69,3 (67,7)
with a participation of the second dominant shareholder	33,2 (30,4)	28,7 (27,2)
without a participation of the second dominant shareholder	40,4 (43,5)	40,6 (40,5)
The number of companies	337 (405)	286 (368)

Information: The data in brackets concern a group of businesses including limited liability companies.

Source: Т.Г. Долгопятова, *Концентрация собственности в российской промышленности: эволюционные изменения на микроуровне*, „Журнал Новой Экономической Ассоциации”, No 8/2010, p. 86.

The analyzed period was characterized by many owners' intensification of the tendency to restructure and broadening the horizon of decisions taken by the owners and management. What started to dominate among them were the typical market motives of conducting business activity – the increase of profitability and value of the company, larger share of the markets, including the international ones. There was also an increase in motivation to enter international financial markets and gaining capital through issuing shares or taking loans. The tendency to lower the level of ownership concentration was released by transferring part of the shares to stock exchanges and by the increased participation of foreign investors in the ownership of companies<sup>18</sup>.

<sup>17</sup> *Ibidem*, p. 85.

<sup>18</sup> *Ibidem*, p. 93-94.

### 3.2. CHANGES IN THE MODEL OF COMPANIES' MANAGEMENT

Another tendency in managing big companies in Russia (including capital groups), which appeared in the second half of the previous decade and was continued in spite of the 2008 crisis, is the transition from one owner to partners alliance model<sup>19</sup>. While, in the nineties of the previous century, one dominant shareholder and owner was a typical phenomenon for Russian companies, in recent years, the number of businesses in which two or more shareholders cooperate actively in managing has been increasing. As a result of this, the process of transferring from entrepreneurs managing individually (предприниматели-одиночки) to the configuration of entrepreneurs-partners (предприниматели-партнёры) has been advancing. Groups of co-owners (сплоченные команды) consist of two to six people. The present configurations of partners had emerged until Autumn 2008, as a result of the development of businesses in the period of economic prosperity. Financial crisis of 2008 did not cause considerable changes in the existing groups of owners. The examples of groups managed by a group of co-owners are presently, e.g. Lukoil, Alfa-Grup, TNK-BP, Rusnifeft', Novatek, Grupa Evraz, Rossijskij aluminij, Norilskij nikel.

In the nineties, the situation where one company was owned by two or more partners possessing a considerable number of shares was either a result of privatization, or an effect of an unsuccessful hostile takeover attempt<sup>20</sup>. The change in the model of companies ownership began in 2006 due to an increasing number of businesses in which a couple of significant shareholders started expressing interest in management. Moreover, companies with two conflicted shareholders, where one was in the possession of controlling interest, and the other of blocking interest, started emerging.

The main causes of the described changes lie in the fact that the biggest Russia's companies, in the process of their both internal growth and the one resulting from mergers or takeovers, have become too expensive for individual entrepreneurs<sup>21</sup>. Secondly, Russia's entrepreneurs increase the level of diversification of the possessed assets, especially when the companies started being listed also on foreign stock exchanges.

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<sup>19</sup> Н.С. Антоненко, Я.С. Галухина, Я.Ш. Паппе, *Основные тенденции развития российского крупного бизнеса в 2000-е годы*, „Журнал Новой Экономической Ассоциации”, Vol. 17, No. 1/2013, p. 123-126.

<sup>20</sup> Я.Ш. Паппе, Н.С. Антоненко, *О новых конфигурациях собственников в российском крупном бизнесе*, „Вопросы экономики”, No. 6/2011, p. 124-125.

<sup>21</sup> *Ibidem*, p. 135-136.

### 3.3. CHANGES CONCERNING THE ROLE OF STATE IN THE EXTERNAL MECHANISMS OF CORPORATE GOVERNANCE

Market for corporate control is another mechanism of corporate governance in Russia, where the role of the state turns out to be significant and increase in recent years. The tendency to increase of direct state activity in the market for corporate control in Russia was caused by opting for a reassessment control over strategic companies, lost by the state as a result of privatization<sup>22</sup>. A manifestation of the increasing activity of the state in the market for control of corporations was<sup>23</sup>: activation of state holdings and companies that have taken steps to increase the size and diversification of its activities (Gazprom, Rosneft), pulling in a process of expansion of new actors (RAO JeEs Rossiji, Rosoboronexport), integration policies assets distributed state holding companies (Oboronprom), the output expansion beyond the boundaries of the fuel-energy complex.

According to Gaidar Institute for Economic Policy in 2009 state occurred as a direct participant in approx. 3% of transactions in the market of mergers and acquisitions in the value of quantity. In the expression value, the state was seller at 2.3% of the total value of the transaction, and the buyer in 6% of the transaction<sup>24</sup>. It should be consider that transactions involving companies with mixed ownership. Those in official statistics are treated as transactions by private operators, hence the official statistics on the state's participation in the market for corporate control should be considered as understated.

The role of the state in the capital market also is growing. According to the estimates of the investment bank Troika Dialog federal and regional authorities, in 2007 controlled approx. 40% of the capitalization of the Russian capital market (at 24% in 2004)<sup>25</sup>. At the turn of 2008 and 2009, the share

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<sup>22</sup> Г.Н. Мальгинов, А.Д. Радыгин, *Смешанная собственность в корпоративном секторе: эволюция, управление, регулирование*, ИЭПП, Москва 2007, p. 109, <http://www.iep.ru/files/text/cepra/smes.pdf> (23.02.2014).

<sup>23</sup> А. Радыгин, Г. Мальгинов, *Рынок корпоративного контроля и государство*, „Вопросы экономики”, No. 3/2006, p. 66, 71-72. The most significant examples are: in the oil sector takeover of certain assets in Yuganskneftegaz and their sale to the state company Rosneft, to get the state of a blocking stake in Gazprom, thereby securing control of the entire gas sector (transactions with a value of approx. \$ 20 billion).

<sup>24</sup> Институт экономики переходного периода, *Российская экономика в 2007 году. Тенденции и перспективы* (Выпуск 29), Москва 2008, p. 570, <http://www.iep.ru/ru/rossiiskaya-ekonomika-v-2007-godu-tendencii-i-perspektivy-vypusk-29-2.html> (3.10.2013).

<sup>25</sup> Институт экономической политики, *Российская экономика в 2011 году. Тенденции и перспективы* (Выпуск 33), Москва 2012, p. 111-112, <http://www.iep.ru/ru/rossiiskaya-ekonomika-v-2011-godu-tendencii-i-perspektivy-vypusk-33-2.html> (15.10.2013).

of the state enterprises in the trading value amounted to approx. 51%. It was mainly due to the fact that some market participants had financial problems and came under the control of state-owned banks. In 2011, the share of state-owned enterprises in stock trading estimated at approx. 36%. Of the 10 entities with the largest market capitalization in 2013 from the list of Expert-200<sup>26</sup>, accounting for 61.0% of the total capitalization of 200 Russian companies. In the case of the first three enterprises, the state is the dominant owner. The capitalization of the shares is represented at 230.4 billion dollars in 2013 (33.3% of the capitalization of the 200 largest companies in terms of capitalization and approx. 22% of the capitalization of the entire stock market in Russia in 2013.). State also plays a significant role in the corporate bond market. In 2009, state issuers are the five largest issuers accounted for 42.5% of the market value of ruble corporate bonds. In 2013, among the five largest issuers were only state-owned entities (market share 31.6%)<sup>27</sup>.

In recent years, increasing the role of the state as a regulator of the capital market. In 2012, the authorities have taken a decision to establish a so-called. mega-regulator of the financial market in the structures of the Central Bank of Russia – Service of the Bank of Russia for the Financial Markets (Служба Банка России по финансовым рынкам СФР). The fact is that the central bank is one of the largest participants in the capital market, a shareholder of the Moscow Stock Exchange and owns the largest bank (Sberbank), triggers a significant risk of conflict of interest and non-state risks for capital market participants<sup>28</sup>.

### 3.4. CHANGES CONCERNING LEGISLATION

Numerous studies highlight the valuable role of legislation as a tool for raising standards of corporate governance and attracting external capital. Recent years have revealed a possibility of improvement in the quality of legislation connected with corporate governance and some positive tenden-

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<sup>26</sup> Рейтинговое агентство RAExpert, *Топ-200 Капитализация 2013, Список крупнейших компаний по рыночной стоимости (капитализации)*, <http://www1.raexpert.ru/ratings/expert400/2013/part03/p07/> (19.08.2014).

<sup>27</sup> Институт экономической политики имени Е.Т. Гайдара, *Российская экономика в 2013 году. Тенденции и перспективы* (Выпуск 35), Москва 2014, p. 145, <http://ier.ru/publikacii/showbib/6735.html> (19.08.2014).

<sup>28</sup> Институт экономической политики имени Е.Т. Гайдара, *Российская экономика в 2012 году. Тенденции и перспективы* (Выпуск 34), Москва 2013, p. 143-147, <http://www.ier.ru/ru/rossiiskaya-ekonomika-v-2012-godu-tendencii-i-perspektivy-vypusk-34.html> (15.10.2013).

cies in this area<sup>29</sup>. In practice, the Corporate Governance Code introduced in 2002, did not provide a proper motivation for companies to improve the standards of control; hence the need for legal regulations which can influence the activity of businesses and their stakeholders.

Significant changes in legislation concerning corporate governance directly and indirectly occurred in 2009. Then the act "On Introducing Changes into Certain Legislative Acts of the Russian Federation" was introduced, which was directly connected with acts: "On Joint-Stock Companies", "On Limited Liability Companies" and the Arbitration Code of FR (so called *антирейдерский закон*)<sup>30</sup>. Their main objective was to improve judicial enforcement mechanisms used to solve corporate conflicts, which arise from disobeying the rights of particular stakeholders. From one point of view, a part of the adopted legal acts was a reaction of the state to the financial crisis of 2008. They regulated the relations between creditors, companies-borrowers and their owners. On the other hand, however, the period of crisis and overcoming it appeared to be favourable for adopting legal regulations which were earlier in a project phase.

The new Civil Code (*Гражданский кодекс Российской Федерации*) is being created to improve the protection of shareholders rights. Its aim is, among others, to introduce the principle of proportionality in the area of shares and voting rights<sup>31</sup>. Moreover, in 2008, at Moscow International Financial Centre, a special subgroup was created to analyze the drafts proposed by the ministries and other authorities, and to prepare recommendations for them in order to establish professional standards of corporate governance (*подгруппа по Правовому регулированию корпоративных отношений*). The activity of the subgroup improved relations between specialists on corporate governance in government agencies and investors, issuers or lawyers.

## CONCLUSIONS

The first decade of the 21st century changed the attitude of many Russian companies to the category of corporate governance and brought signif-

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<sup>29</sup> *Национальный доклад по корпоративному управлению*, Выпуск 5, Национальный совет по корпоративному управлению, Москва 2012, p. 118-119, 287-319.

<sup>30</sup> *Национальный доклад по корпоративному управлению*, Выпуск 3, Национальный совет по корпоративному управлению, Москва 2010, p. 107-108.

<sup>31</sup> *Национальный доклад по корпоративному управлению*, Выпуск 5, *op. cit.*, p. 119, 287-288.

icant changes in individual mechanisms and control institutions. From one point of view, it was the effect of intentional activities of companies, but on the other hand, it can be treated as a consequence of adjusting proper legal and regulatory frameworks. The described tendencies in selected mechanisms and institutions of corporate governance show that Russia is gradually shifting towards global standards in this field. On the other hand, however, they may indicate further strengthening of features characteristic to Russian economy, e.g. the central role of the state, and they may soon lead to the creation of corporate governance model typical only for this economy.

Observable tendencies in structure of ownership, especially those connected with participation of state in ownership and number of companies in which state possess 100% of shares, will probably effect in further intensification of the role of state in Russian economy and state's capability to control strategic sectors of economy, including business groups. Moreover, the informal influence of the state on decisions made in biggest companies will expand, significance of companies in which state possess majority of shares will grow and the value of states investment will increase.

Moreover state's significance on the capital market and its huge role in controlling corporations can effect in Russians corporate governance system inability to develop or become alike any high developed country's corporate governance system. In consequence Russian corporate governance system will continue to be typical insider model.

Decrease of the level of ownership concentration in Russia's businesses depends on the development of the capital market, including the increase in the number of public companies (open joint-stock companies) and in the interest in purchasing shares of Russia's companies by foreign investors. It can also occur when the state decides to acquire shares of private companies.

The transformations concerning the alliances of capital groups owners in Russia may be a sign of the development of a new mechanism of corporate governance, which can be described by personal connections, also among different groups. Previously, only financial connections existed within groups.

Without any doubts changes made in corporate law are profitable but they have to take effect in increasing standards in the field of law enforcement and minority shareholders rules adherence. Protection of investors rights is one of the biggest problems of Russian corporate governance system. In international reports Russia constantly obtains relatively bad marks in the field of investors right protection (for example in Doing Business or International Property Rights Index).

In the next years, there is a need for constant improvement in the quality standards of corporate governance in Russia in order to establish an attractive



investment climate, lower the costs of gaining capital and build transparent relations between companies and shareholders as well as the state. The major tasks include: obeying the rights of minority shareholders and limiting such activities as diluting share capital or fictitious bankruptcy, enabling freedom of access to information for various shareholders through insiders, establishing dividend policy of companies, making further changes in management board structure, including the increase in the number of independent members, lowering the number of authorities' representatives in committees and increasing the number of the committees. Additional factors that delay shifting to global standards of corporate governance in Russia are: active political lobbying influencing the legislation and administrative decisions, and problems connected with corruption and nepotism.

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