COMPETENCIA Y GOBIERNO EMPRESARIAL EN LAS ECONOMÍAS EN TRANSICIÓN

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RESUMEN:

El proceso de reformas ha supuesto la aplicación de un abanico de políticas, entre otras políticas de privatización y de gobierno de las empresas, de fomento de la competencia a través de la liberalización comercial y de ruptura de relaciones financieras entre el Estado y el sector empresarial. Por lo general, las políticas a favor de las reformas y la competencia se han aplicado de forma más consistente y efectiva en los países de Visegrado, los países Bálticos y Eslovenia que en otras partes, y sobre todo en la antigua Unión Soviética. En cualquier caso, la amplia diversidad de políticas aplicadas proporciona suficientes experiencias para testar el impacto de determinadas medidas sobre la reestructuración y los resultados de las empresas.

PALABRAS CLAVE: Privatización, gobierno empresarial, economías en transición propiedad estatal, reestructuración empresarial.

COMPETITION AND CORPORATE GOVERNANCE IN THE TRANSITION ECONOMICS[1]

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SUMMARY:

The reform process has seen an array of policies applied, with policies to privatisation and corporate governance, encouragement of competition through entry, exit and trade liberalisation, and breaking the financial relationship between the state and enterprise sector. In general, pro-reform and pro-competition policies have been applied more consistently and effectively in the Visegrad countries, the Baltic States and Slovenia than elsewhere, especially in the rest of the former Soviet Union. Even so, the variation in policies is large, providing an important laboratory to test the impact of particular packages on enterprise performance and restructuring.

KEYWORDS: Privatisation, corporate Governance, transition economies, state ownership, enterprise restructuring.

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1. INTRODUCTION

The process of transition has been progressing[2] for more than a decade, so this is a useful time to take stock of what we have learnt. The focus of the paper is the interplay between the forces of competitive rivalry unleashed by liberalisation - competition between incumbents, entry and exit - and by the corporate governance mechanism established through privatisation. As others have noted (see Earle and Estrin (1997), Djankov and Murrell (2000)), the transition economies make a particularly good "laboratory" for understanding the dynamics of market evolution and for evaluating the impact of alternative policy frameworks.

In the early 1990's, a "Washington consensus" emerged about the transition path, based around price (and trade) liberalisation, privatisation and macro-economic stabilisation (see e.g. Dornbusch et al, 1990). This prescription has appeared to work fairly well in Central Europe with the leading economies such as Poland and Hungary being established on a relatively fast long term growth path and with EU accession being negotiated. It has been much less successful in the Balkans and the former Soviet Union, where, growth has yet to be proved sustainable (see EBRD (2000)). Moreover a number of studies suggest that, while privatisation has improved company performance in almost all developed and middle income countries, the record is less convincing in transition economies, and notably in the former Soviet Union (see e.g. Estrin and Wright (1999), Nellis (2000)). Improved company performance, which must be at the heart of any successful transition, appears to have been highly sensitive to the institutional environment in which the transitional policies were introduced and the nature of the policies enacted, as well as initial conditions in transition economies. To quote Djankov and Murrell (2000, pp 69) "privatization, hardened budget constraints and product market competition all appear to be important determinants of enterprise restructuring in non-CIS countries, while they are less effective in the CIS. We hypothesise that the difference in impact is due to varying degrees of institutional development between the regions."

Our aim in this paper is to understand the elements of institutional development critical to the enhancement of company performance in transition economies. These include the initial conditions; the forms of privatisation; the institutional and legal framework, especially the corporate governance structure; the relationship between the private sector and the state; and the competitiveness of product markets, including the impact of international trade. The paper is therefore structured as follows. We commence with a brief summary of the enterprise sector under planning, to pinpoint the common heritage and the variance in initial conditions and institutional arrangements. We then outline the variety of reform paths followed in the main areas of enterprise sector reform - privatisation and corporate governance; the encouragement of competition including trade policy; and the ease of entry and of exit, influenced by direct or implicit government subsidy. The impact of alternative policy bundles on various aspects of enterprise performance is summarised in the fourth section; while

2 It has been pointed out to me by Mario Nuti that it is probably inappropriate to regard the "laggards" in Belarus or Uzbekistan as being "in transition" at all. Rather they have created their own corporatized quasi-market economy

conclusions concerning the complementarity or substitutability of policy initiatives in the three areas are drawn in the fifth.

2. THE REFORM AGENDA AT THE ENTERPRISE LEVEL

Though the functioning of the centrally planned economy was well understood (see e.g. Ellman (1988), in retrospect the implication of this heritage for subsequent enterprise behaviour was probably underestimated. It is therefore useful briefly to summarise the key characteristics of the enterprise sector under planning. In most communist countries, the allocation of resources was primarily through quantity -based planning. There was no market in the supply of goods, either for final products or intermediates. Since planners provided the mechanism whereby supply and demand were intermediated, firms rarely had direct contact with suppliers, purchasers or final consumers. These relationships, which form the glue for a market economy, were therefore largely non-existent when planning was suddenly abolished, and there were significant transaction costs in their creation. In the interim, the disappearance of planners exacerbated a major contraction on the supply side, the depth of which depended on the complexity of supply chains (see Blanchard and Kremer (1998)). The planning system also encouraged persistent excess demand for labour and capital, with capital being allocated centrally and, in the former Soviet Union, labour being partially rationed via an internal passport system. There were no capital market institutions other than a monobank, and no experience in decentralised investment allocation. Soviet-type planning was not of the Lange sort, in which planner's sought to replicate the market equilibrium. Rather, the structure of output followed planners' preferences, focused to heavy industrial production. This implied the need for major restructuring post-reform to bring supply in line with the pattern of consumer demand3.

Firms were therefore not autonomous decision-making units; it is better to conceive of them as production units within an economy which was run as a single giant firm. They were not financially independent and did not have the responsibility for sales or pricing. Managerial incentives were focused on production targets, and rewards for innovation or quality enhancement were weak or perverse. Moreover, though it had no impact on enterprise behaviour until prices were liberalised, market structures were highly imperfect and barriers to entry high. This was partly because, to ease the informational demands of planning, firms were often gigantic and vertically integrated in ways that would not have emerged in a market economy (see Ellman (1988)). On the other hand, small state owned firms were rare and privately owned ones non-existent; the "black hole" in the size distribution of the enterprise sector. Entry was effectively impossible (except if the state wanted to create a new firm) and the political objectives of full employment, supported by a system of government subsidies to loss-making enterprises, prevented exit (see Schaffer (1998)). Moreover since the communist countries operated a policy of autarchy within the CMEA, competition from trade was prevented4.

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3 Evidence from restructuring the military sector post-war in market economies suggests that this might rely disproportionately on entry rather than reorientation of existing suppliers.

4 The political system also fundamentally favoured incumbent firms at the local level relationships were very close between politicians and senior management (see e.g. Aslund (1999)).

The emergence of structural budgetary deficits from as early as the 1970's in some countries took the form, in this fixed -price environment, of shortages and the accumulation of monetary balances (see Bennett (1988)). As a result, the black economy developed with the associated rise of corruption and organised crime which has persisted into the transition period (see e.g. Johnson, Kaufman and Shleifer (1997)).

We focus on two aspects of micro-economic transition; the restructuring of existing activities and the reallocation of resources (see Commander, Dutz and Stern (2000)). Restructuring entails enhanced performance within existing firms through changes in objectives, incentives and constraints on managers as a consequence of ownership changes. The reallocation of resources depends on whether the market structure is competitive and on the rules and institutions affecting entry, exit, bankruptcy and the interactions between incumbents, as well as the trade regime and government policy with respect, for example to enterprise subsidy and social safety nets5. The two forms of restructuring are related because success in the development of institutional and legal frameworks for corporate governance and capital market regulation is likely to be associated with success in promoting competitive entry and exit, as well as effective competition and trade policy.

There are three areas in which variance of initial conditions might impact upon enterprise restructuring and the reallocation of resources; the extent and effectiveness of the planning system, the degree of openness of the economy, and the institutional and legal traditions. Not all-communist countries were centrally planned in the Soviet-type mould. Yugoslavia6 had abandoned planning from 1952, Hungary from 1968 and Poland from the early 1980's. These reforms had a number of important consequences for these countries, relative to the rest of the Balkans and the former Soviet Union. Firstly, the inconsistency between the pattern of domestic demand and the structure of supply was arguably less serious because consumer preferences were allowed to a limited extent to guide production decisions. For example, industrial production represented 55% GDP in Armenia, 48% in Russia and 59% in Czechoslovakia in 1989 (all planned economies) but only 36% in Hungary and 44% in Slovenia. Moreover, some progress was made in establishing enterprises as autonomous units, with responsibility for employment, sales, exports and even investment decisions, as well as production. However, there had been only limited progress in incentives for managers or the imposition of financial disciplines7. In some countries, there was also some relaxation of the high barriers to entry of small private firms (e.g. Poland) and the first tentative steps towards an autonomous financial sector (Hungary). Market structures remained everywhere highly concentrated however (see Newberry and Kattuman (1992)).

Counties also varied significantly in their degree of openness to international trade, and especially trade with the West. A few countries like Albania or Romania were virtually autarchic (5% and 12% GDP exported respectively). Others had higher trade shares in 1989, but did not export to the West, e.g. Russia (28% export shares but 64% of exports within (CMEA), or Ukraine

5 However, it has been argued that product market competition can substitute for effective corporate governance mechanisms, at least in developed market economies (see Nickell (1996)).

6 And its successors states (Slovenia, Croatia, Serbia-Montenegro, Macedonia, Bosnia).

7 To some extent the converse was true. The notion of "soft budget constraints" was invented to describe post-1968 Hungary (see Kornai (1980)).

(30% and 82% respectively). Though traditionally a trading nation, Czechoslovakia in 1989 only exported 24% of GDP, though 59% went to the Western countries. Finally some countries like Poland, Slovenia and Hungary had established higher trade shares (33%, 24% and 28%) and exported most of their output to the West (50%, 81% and 65% respectively).
Finally, there were other important differences between Central Europe and the former Soviet Union in terms of preconditions to transition. The Soviet economy was much larger and more complex, in the sense of degree of vertical integration, than most countries of Central Europe. This was almost certainly a factor in the deeper and more sustained output decline in Russia and the CIS, (see Blanchard and Kremer (1998), Bevan *et al* (2000)). Moreover, the size, population dispersion and the poor transport infrastructure of Russia (and many of the other CIS countries) made it harder for trade to play a pivotal role in introducing competition (outside a few conurbations). This was compounded by the fact that most Central European economies sought speedy admission to the European Union (EU) which led to accelerated trade reform, price liberalisation and enhanced competition policy8, while, with the exception of the Baltic states, the former Soviet Union did not. Finally, macro-economic imbalances were particularly severe in the Soviet Union, with a large forced savings and monetary balances, and a deeply entrenched black economy.

3. REFORM PATHS

Privatisation was widely regarded as the most significant element of reform at a micro-economic level. To quote the Czech privatisation minister, Dusan Triska "Privatisation is not just one of many items on the economic program. It is the transformation itself". (Triska (1992) in Nellis (2000)). Moreover, it was felt that privatisation needed to be speedy and this could only be attained via mass privatisation. The question of sequencing reforms - an appropriate ordering for the creation of supporting institution and legal frameworks, restructuring firms and privatisation - had been discussed in the early 1990's (see e.g. Blanchard *et al*, 1990, Portes et al, (1993)) but was supplanted by a debate about modes of mass privatisation (see e.g. Boyko, Shleifer and Vishny (1995), Aghion and Blanchard (1998)). It was only with the increasing evidence about the impact of privatisation on enterprise performance (see Estrin and Wright, (1999), Djankov and Murrell (2000)) that the debate about the necessary conditions for effective privatisation was reopened. Empirical work highlighted the unfortunate ownership and performance consequences of mass privitisation, via insider ownership (e.g. Russia or Ukraine) or dispersed outside ownership (e.g. Czech republic) (see Earle and Estrin (1997), Weiss and Nitikin (1997)). Observers such as Stigtitz (1999a) and b)) argued that successful privatisation required an institutional infrastructure that supported markets and stressed the role of effective corporate governance. In this section, we provide a brief summary of the alternative policies towards privatisation in the transition countries, before outlining different paths followed with respect to market supporting institutions, notably the

8 EU accession meant that the 10 aspiring members had to accept the EU legal framework "off the shelf". This may have disadvantages in certain fields e.g. competition policy (see Estrin and Homes (1999)) but overall provided a driver to more effective institutional and legal reform.

encouragement of product market competition, trade regimes and government subsidy to the enterprise sector.

3.1 Privatisation

Privatisation is expected to focus enterprise objectives on profits and efficiency and to sharpen managerial incentives to attain these objectives. Firms under state ownership may be less efficient because they have different objectives, for example being required to satisfy the political ambitions of their owners. But even if the state owned firms (SOEs) are required to maximise profits, there are agency problems between owners and managers, which create the opportunities for managerial self-aggrandisement at the expense or efficiency of profitability. This is because owners, state or private, do not have costless access to full information on corporate prospects and performance. Hence it is hard to establish whether poor results are the consequence of unforeseen circumstances or managerial abuses.

3.2 Private Versus State Owned Firms

Owner - managed firms, private firms and state firms are all significantly different in this respect. Under owner management, the prospects for accumulation and dissipation of firm specific rents through inefficiency, by managers or the labour force, are likely to be significantly lower. When ownership and control are separated and hired managers have different objectives to owners, they will use firm specific rents to satisfy their own objectives - i.e. low effort, or seizure of assets. In firms where workers have significant ability to share in company specific rents, via for example formal collective bargaining structures, focus towards higher wages or reduced effort can also lead to lower efficiency or profitability (see McDonald and Solow 1986)). However, a private ownership system can place significant limits on insider discretionary powers, both through capital markets and through constraints imposed via statutes, transparent accounting procedures and monitoring mechanisms.

An important mechanism is the stock market. The quality of managerial decision-making and the extent of managerial discretion are an input in the choice of competing equity market traders, whose judgement on company performance is summarised in the share price. If the managerial team is thought to be incompetent, the share price will decline, putting pressure on managers to improve their performance. These pressures can operate in part via direct managerial incentives from shareholding and bonus payments. They can also derive from the functioning of a managerial market, with job prospects and pay assessed via share price information. A persistently poor corporate performance can also encourage an alternative managerial team to make a take over-bid.

Alternatively, outsider private competitive ownership may be concentrated into the hands of banks, funds or families who undertake monitoring of enterprise performance directly. Given that there are free rider problems associated with effective monitoring when ownership is dispersed, concentrated ownership blocks are very important. Such constraints on managerial discretion are particularly effective when the enterprise needs to raise additional funds; poor previous performance, opaque arrangements for withdrawing funds and insufficient accounting information for effective monitoring will discourage investment.

It is very hard for the state to replicate these pressures. Ambiguity in the objectives of the state as owner can lead to the setting of inconsistent targets which, in the context of inadequate performance monitoring and governance structures, increases managerial discretion (Estrin and Perotin (1991)). If resource allocation is politicised, the state may need to subsidise firms to ensure their desired outcome, implying soft budget constraints that further dilute managerial incentives (see Kornai (1980)). SOE's are not subject to private capital market disciplines so the competitively driven monitoring systems and the threat of take-over or bankruptcy is absent. Moreover, though the government ownership stake is concentrated, the authorities rarely have the resources or people with sufficient skills to enforce constraints on insiders. Such arguments have particular resonance in Central and Eastern Europe. Under socialism, the monitoring of management was typically weak or non-existent after the collapse of central planning and the absence of external constraints acted to give management almost total discretion to follow their own objectives - asset stripping, rent absorption or employment maintenance.

3.3 Privatisation Methods in Transition Economies

Choosing the best methods of privatisation has not been a major issue in developed economies. Some form of auction has typically been used, so that the state can seek the highest attainable price the market will bear and potential purchasers value the assets according to their ability to generate returns from them. In most Western countries, the scale of privatisation has been modest relative to the flow of domestic savings, capital markets are relatively liquid and sophisticated, the legal and institutional framework is well developed and the authorities are relatively honest and competent. However, attempts to organise public sales in Central and Eastern Europe on a scale sufficient to privatise the bulk of firms in the industrial sector faced considerable practical problems. At the aggregate level, the stock of private savings was too small to purchase the assets being offered and the administrative capacity of transition governments - many of them ruling newly created countries - to organise such large scale auctions, or to ensure the establishment of a suitable legal and institutional environment, was also open to question (see EBRD Transition Report, (1999), (Estrin and Wright, 1999)). Foreign direct investment has rarely been available on the scale required (see UN World Investment Report (2000)).

Transition governments did use auction or public tender methods to sell a few selected firms in most CEE countries and even sometimes in the CIS. Such sales could in principle be to domestic or foreign purchasers but, in practice, only Hungary and Estonia were willing or able to sell an appreciable share of former state owned assets to foreigners[9]. Sales have mainly been to nationals - both external capital owners and via Management Employee Buyouts (MEBOS). However, managers and workers (insiders) have been

9 Even here, the preponderance of foreign ownership in the viable parts of Hungary's industrial sector has given rise to considerable public disquiet (foreign capital supplies around 20% of investments in Hungary and up to 50% in Estonia).

the more common buyers, presumably because of the scarcity of private savings10.
Some countries also experimented with restitution to former owners11. This method immediately created a property owning middle class and re-established "real ownership". However, it is regressive and entails legal complexities, which slowed the procedure12. Restitution raises the deep question of how the assets accumulated during the communist era, when consumption levels were held down for national capital accumulation, should be distributed. Since the taxes were imposed on everyone, the argument that the distribution of assets should be egalitarian has been a powerful one.
Problems in implementing a sales or restitution strategy have led the transition countries to innovate a new privatisation method; "mass privatisation". This entails placing into private hands nominal assets of a value sufficient to purchase those state assets to be privatised. To avoid the inflationary consequences of such wide scale "money" creation, the savings must be non-transferable and not valid for any transaction other than the purchase of state assets, usually via "privatisation vouchers or certificates". Three policy decisions allow us to categorise forms of mass privatisation. First, there is the issue of to whom the vouchers or certificates were allocated. The arguments of equity above suggest that they should be distributed to the population as a whole. In Russia, however, (imitated elsewhere in the former Soviet Union), mass privatisation also involved highly subsidised distribution of shares to insiders. Policy makers also need to determine how the vouchers were to be used. In the Czech and Slovak republics and in Russia, vouchers could be exchanged directly for shares in companies. Though in the former Czechoslovakia, by the end of the process, financial intermediaries controlled a majority of shares, these emerged in the market place by offering their services to voucher holders in the selection of share portfolios (see Estrin, 1994 and Coffee, 1996). In the Polish scheme, citizens' vouchers were exchanged for shares in government created funds that jointly owned former state owned enterprises. This raises the issue of who monitors these intermediaries (see Simonetti, Estrin and Bohm (1999)). Finally, the authorities needed to specify the mechanism whereby the vouchers would be traded for ownership rights in firms. In the Czech and Slovak scheme, shares in enterprises were transferred in waves comprising hundreds of firms simultaneously. The Czechs and Slovaks set up a computerised system to mimic a general equilibrium market clearing process13. In Ukraine, as in much of the former Soviet Union, firms were privatised singly or in groups, at a time chosen by management.
The methods of privatisation used in Central and Eastern Europe are reported in Table 1. Of the 25 countries in transition included in the EBRD Transition Report, nineteen used some form of mass privatisation as either a primary or secondary method (see also Estrin and Stone, 1997). A further nine used

10 Some governments, e.g. in Romania, actively encouraged the emergence of insider owned firms with ownership centred upon Trusts controlled by managers and or workers (see Earle and Estrin, 1996).
11 Restitution has been important in several Central European countries with a shorter period of communist rule e.g. former East Germany, Hungary, the former Czechoslovakia and Bulgaria.
12 For example, suppose that a factory has been built on a plot of land formerly owned by a farmer. Does she receive the land, and therefore rental for the factory? Or should she be compensated for the value of the property at the time of its seizure, and if so how is such an evaluation to be made some fifty years later?
13 In the first wave it was planned to allow up to seven biding rounds, but in practice fewer were needed to achieve approximate market clearing (see Frydman, Rapaczynski and Earle, 1993).

MEBOs as their primary methods, with six more using them as their secondary method. While almost half the countries studied did use direct sales as well, it was the primary privatisation method in only five countries - all of these being among the most developed and advanced transitional economies.

The emphasis on mass privatisation has permitted an extremely speedy ownership change in most transition economies. The results are summarised in Table 2. Few countries contained a private sector of any significance in 1990[14]. The first phase of mass privatisation led by Czechoslovakia and Russia took place in the period 1992-94, while countries like Poland and Hungary used more traditional privatisation methods. The resulting transformation is extraordinary; private sector shares of GDP in excess of 50% were established by 1994 in nine countries of the twenty five though, reform had hardly begun in a further eight, (all in the former Soviet Union,) each with private sector shares of less than 20% GDP. By the end of the first decade of transition (2000), four countries had private sector shares in excess of 75%, a further 14 in excess of 50% and only a handful of laggards (Belarus, Turkmenistan) had kept private sector activity below 25% GDP.

This remarkable performance should not divert us from real concerns about the extent and quality of privatisation and therefore its consequences for enterprise restructuring. First, there remains a lot of privatisation to be done, especially of large-scale firms in the industrial sector and utilities. According to EBRD (2000), when one looks at privatisation of assets in large-scale enterprises, five countries had not privatised 25% of these assets and fifteen countries had not privatised up to 50%. Thus in only five of the 25 countries - Bulgaria, Czech republic, Estonia, Hungary and Slovakia - were more than half of the assets in large scale enterprises in private hands by 2000.

Moreover, as Bennett, Estrin and Maw (2000) note, the state in transition economies had continued to hold significant shareholdings in companies that it had privatised. Thus, according to Earle and Estrin (1997), the state retained more than a 20% share in 37% of privatised firms in Russia, and more than a 40% share in 14%. Only in half of privatised firms did the state sell its entire holding. In Table 3, we report the findings from a survey of privatised firms undertaken in every transition country in 1999 as background for the EBRD *Transition Report*. It can be seen that the state has retained some shares post-privatisation in 20 of 23 countries. On average, the state retained some shares in around 20% of privatised firms, with more than a 20% shareholding in around 12% of the firms. According to the survey, retained state shareholdings are negligible in some of the leading transition economies (e.g. Czech Republic, Hungary, Estonia) but surprisingly high in some others (e.g. Poland and Slovenia), as well as Russia and most of the former Soviet Union.

Mass privatisation was an excellent solution to the problem that state ownership was omnipresent and there were no domestic wealth holders available to buy the assets. However it did not really resolve the ownership issue, because rarely did it lead to the establishment of effective corporate governance mechanisms. Stiglitz (1999a,b) has argued that the long agency chains implicit in mass privatisation are unlikely to incentivise appropriate

14 Exceptions were Hungary, Poland, and parts of former Yugoslavia which had some private sector service and agricultural activities. In the economies which had been centrally planned, the private contribution to GDP was usually less than 20%, and primarily in the co-operative sector.

corporate governance. Voucher privatisation led to ownership structures that were highly dispersed. Typically the entire adult population of the country or all insiders to each firm, were allocated vouchers with which to purchase the shares of the company (see Estrin (1994)). The desire for politically acceptable and equitable outcomes dominated the need to create concentrated external owners who would have a large enough stake to be motivated to maintain oversight of management15. The issue of ownership dispersion was addressed explicitly in a few countries e.g. Czech Republic, Poland, Slovenia and Slovakia (see Simonetti, Estrin, Bohm (1999)), where shares ended up in the hands of concentrated intermediate agents rather than the general public. While the resulting holdings could in principle have supported effective monitoring of management, it was not always clear who was monitoring the monitors. To quote Stiglitz, "The voucher investment funds provided a vehicle for high power abuse" (Stiglitz (1996)).
The way that mass privatisation was carried out in most countries in fact led to dominant insider ownership, primarily worker ownership. The situation in Central Europe in 1993-1994 can be inferred from Table 4, which uses enterprise level surveys to outline the composition of ownership in firms privatised to different dominant owners. Unfortunately we do not have information on the proportion of privatised firms in each dominant owner category. However discursive evidence suggests that Investment Fund ownership would have predominated in the Czech Republic; insider and foreign ownership in Hungary; and insider and *de novo* ownership in Poland. Residual holdings are in state hands. Investment Fund ownership was rare at this time outside the Czech Republic, and foreign holdings also infrequent. Employee shareholdings were typically mostly in the hands of workers, except in *de novo* firms, though Hungarian insider owned firms had large managerial stakes.
Table 5 indicates that the situation was very different in Russia. Almost every study suggests that insider ownership predominated in the bulk of firms. According to Earle and Estrin (1997), insiders held a majority shareholding in 75% of firms in Russia immediately post-privatisation (1994) and outsiders only 9%. Insider ownership was predominantly in the hands of workers and therefore highly dispersed, creating problems for effective oversight over management. Indeed Blasi *et al* (1997) argue that control was effectively in the hands of management in Russian employee owner firms, a hypothesis supported in Kutznetsov, Bevan *et al* (2000). Outsider ownership is also typically highly dispersed, with much of it in the hands of banks, suppliers, other firms and an assortment of investment funds.
These figures seem broadly consistent with the evidence for other CIS countries. For example in Ukraine , Estrin and Rosevear (1999) report that insiders owned 51% of shares in all privatised firms in 1997, (managers 8% and workers 43%) while outsiders held 38% and the states residue share is 11%. As in Russia, there was only a slow decline in the pattern of insider domination. In Russia, outsider shareholding appears to have increased at the expense of the state and insiders (Table 5), but the ownership is becoming increasingly dispersed and may largely represent the fact that voucher owners have left the firm but retained their shares. In Ukraine, the Estrin - Rosevear

15 There was also a desire to exclude foreigners in the early phase of privatisation in most economies, on the grounds that the assets accumulated through the socialist era belonged to the population as a whole.

survey indicates that insiders have actually increased their shareholdings from the time of the first shareholder meeting, while managers have been buying shares from workers. Thus, rather than evolving towards the structure of a concentrated outsider owned firms, as was hoped by the reformers (see Boycko, Shleifer, Vishny (1995)), enterprises in the CIS appear to have remained primarily owned by dispersed groups of employees or outsiders.

3.4 Institutional Developments Supporting Private Ownership

Privatisation is only the first stage in ensuring improved corporate governance. The issue of corporate governance concerns the ways that owners can influence managers to act in their interest, rather than to expropriate surpluses for themselves. We have noted that the perceived political need to privatise quickly led to the widespread use of privatisation methods which failed to ensure the emergence of "a strategic owner"; a single shareholder with sufficient stake to be motivated to monitor effectively16. With dispersed ownership, one needs to see the rapid evolution of effective securities market and clear protection of shareholder rights (see Stiglitz (1999b)).

The situation in transition economies in these areas is perhaps best summarised by the EBRD's indicators on the securities market and non-bank financial institutions. The EBRD provides a five category classification of transition economies, reproduced for the years 1999 and 2000 in Table 6. The scales are as follows: 1 represents little progress and 2 indicates a rudimentary exchange and legal framework. Countries classified as 3 have made some progress - securities are being issued by private firms, there is some protection of minority shareholders and the beginnings of a regulatory framework. Class 4 countries have relatively liquid and well functioning security markets and effective regulations while 4+ countries have reached the standards and performance norms of advanced industrial countries.

Table 6 makes uncomfortable reading for protagonists of speedy privatisation or those who believe that capital market development will be demand led after privatisation. By 1994, when most countries had attained significant private sector shares (see table 2), only 5 had made any real progress in developing matching capital market and corporate governance mechanisms. These were the Central European countries which had commenced transition in a relatively advanced situation - Czech Republic, Hungary, Poland, Slovakia and Slovenia. Perhaps even more strikingly, the situation had not improved markedly by 2000. Ten countries had not altered their category in the five years, (including the Czech Republic) and the situation in financial institutions had actually deteriorated in three countries; Russia, Slovakia and Slovenia. Only Poland and Hungary had begun to converge to Western norms.17

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16 Black (2000) outlines the institutions that he considers to be important to permit effective monitoring is this situation; namely:

1 Effective regulation of the securities market in the context of an honest judicial system and procedural rules permitting broad civil disclosures.
2 Extensive financial disclosure from firms on the basis of independent audits. Accounting rules drawn up to meet investors needs for information.
3 A sophisticated accounting and banking profession subject to liability in cases of fraud.
4 A stock exchange with meaningful listing standards and willingness to enforce them.
5 Company and insider liability for providing false or misleading information, backed by criminal sanctions.

Rules to ensure market transparency and banning the manipulation of prices.

17 though there were sharp improvements in the three Baltic states, perhaps under pressure for EU accession.

4. COMPETITION AND TRADE

We have noted that the transition economies, especially those in the former Soviet Union, entered the reform era with highly imperfect product market structures. Newberry and Kattuman (1992) report that in Poland in 1990, the leading firm had a market share in excess of 30% in more than 60% of all three digit markets, and more than 60% in 25% of markets. Concentration was lower in Russia because the economy is much larger; but Earle and Estrin (1999) find four firm concentration ratios in 1994 have a mean of around 27% with a standard deviation of 21.6% and ranged from around 3% to 100% across the 40 industries in the sample. Moreover, 25% of the firms surveyed reported that they have no major competition in their primary market. Brown and Earle (2000) report a relatively high Herlindahl index across 264 (approximately) four-digit Russian sectors of 0.3, with a standard deviation of 0.156. They note that their figures understate market power in Russia because of the regional fragmentation of product markets.

There were also very few small firms in transition economies in 1990, and despite the success of small scale privatisation programs in most countries (see Earle, Frydman, Rapacyzynski 1994) their impact has remained relatively slight in much of the region. Thus we find in Table 7 that the employment shares in small and middle sized firms (SMEs, with fewer than 200 employees)18 was typically low, and always well below that found in advanced Western economies. However there seems to be a sharp distinction in this respect between the countries of Central Europe - Croatia, Czech republic, Poland, Hungary, Romania and Slovakia - and those of the CIS, including Russia. However, this may in part be explained by the larger scale of the informal sector and illegal activities.

The weakness of product market competition may be particularly serious in the transition economies because monopoly power yields firm specific rents that distort resource allocation. Moreover, product market competition can also exercise discipline on management to improve efficiency that would otherwise result from capital market pressures (see Nickell (1996)). It is therefore important to explore the dynamics of market evolution in the early years of transition, to investigate whether barriers to entry were high, entry rates low and resource re-allocation towards high value added activities was occurring through entry and exit.

It is generally believed that the process of entry of new firms has been weak in most transition economies, with the exceptions of the Visegrad countries, notably Hungary and Poland. Poland is frequently held up as the economy which has nurtured rapid *de novo* growth (see Johnson and Loveman (1995)). Dabrownski et al (2000) cite the international study by Blanchflower and Oswald (2000) which indicates that "latent entrepreneurship" (e.g. individual preference for self-employment as against employment) is globally highest in Poland (80% respondents) as against 70.8% in US, 64% in Germany and 45% in UK. While some transition economies do have very low latent entrepreneurship scores (i.e. Russia at 33.2%, Czech Republic at 36.8%),

18 The OECD definition is fewer than 500 employees but there were few firms in Central and Eastern Europe in the 200-500 employee range at this time.

even these are compatible with a few Western countries e.g. Norway (26.9%). They conclude that "one cannot distinguish between ex-Soviet and mature Western market economies on the basis of the willingness of their population to undertake self-employment" (Dabrownski et al (2000) p.14).

Evidence on the rapid pace of new entry in Central Europe can be derived from data on the number of firms, and the size distribution of firms in the early years of transition. We report in Table 9 on the number of economic organisations in the Czech Republic, Poland and Hungary 1989-94, and the size distribution in the first two. The Czech Republic had few firms initially and was not characterised by massive net entry; even so total firm numbers increased from around 1600 in 1990 to more than 7,100 in 1994 and the size distribution altered considerably with the share of firms employing fewer than 300 workers rising from 25% to 56%. Changes in the early years of transition were much more dramatic in Hungary and Poland where the number of limited liability companies increased from 19,000 to 91,000 and from 36,000 to 95,000 respectively. SMEs represented 83% of the industrial enterprise population in Poland by 1993.

Entry barriers in transition economies are nonetheless significantly higher than in the West. Djankov, La Porta, Lopéz dé Silanes and Shleifer (2000) address this issue in a study on the regulations for *de novo* firms in 75 countries. We reproduce their findings on the cost of entry for the transition countries covered in their survey, in comparison with the US, Germany and Sweden. It is significantly harder, takes longer and is relatively more costly to set up a new firm in all the transition economies than in Western Europe or North America. However, there is considerable variation, with costs and delays surprisingly low in Romania, Ukraine and Bulgaria, and highest in Hungary, Czech Republic and Russia. The authors find that entry costs are correlated with higher corruption and larger unofficial sectors.

It is unsurprising given the low levels of latent entrepreneurship and high entry costs that official entry of new firms has been much slower in the CIS than in Central Europe. Russia continues to have few firms; there were 2.7 million legally registered enterprises in Russia in 1997; one enterprise per 55 Russians compared with a ratio of around 1 in 10 in Western countries and in Poland or Hungary (Aslund (1999)). Though there is some evidence that the number of firms, and by implication competition, in each sector is increasing, and that the market structure is tending on average to become slightly less concentrated (see Brown and Earle (2000)), domestic competitive forces have developed more slowly than in Central Europe.

It was recognised at the outset that trade policy could be an important countervailing force to domestic monopoly power, with unification of exchange rates, current account convertibility and low tariffs facilitating import competition to substitute for relatively weak competitive pressures from domestic markets (see Estrin and Holmes (1999)). This has been one of the most successful aspects of transition policies, as can be seen from Table 10 which reports the EBRD scores on trade and foreign exchange liberalisation in 1994 and 2000. These scores vary on a five point scale (1,2,3,4,4+), with 1 representing widespread import and export control and limited access to foreign exchange and 4+ the benchmark of advanced industrial economies. Already by 1994, we find that there were relatively few trade or exchange controls[19] in Central Europe, the Balkans and the Baltic states. Trade liberalisation was less advanced in the CIS, but even in Russia the current account was convertible and there were few import restrictions. Trade liberalisation had spread even more widely by 2000; 11 transition countries had attained the standards of advanced industrial economies and a further six had removed all restrictions on trade as well as abolishing discretionary tariffs and introducing current account convertibility. Russia had slipped somewhat however and several CIS countries remained at the start of trade liberalisation.

This liberalisation has heralded an extraordinary growth in trade share in many transition economies, as well as a reorientation of trade from within COMECON to Western Europe. For example, trade shares in Poland increased from 32.7% in 1991 to 43.6% in 1999, in Hungary from 54.9% to 93.8%, and in the Czech republic from 66.9% to 104.2%. However in Russia the trade share dipped between 1993 and 1997 (61.7% to 36%), though with the oil price rise it has recovered to 62.7%.

5. ENTERPRISE EXIT AND HARD BUDGET CONSTRAINTS

Exit of firms with negative long run profitability is another crucial element in the reallocation of resources in transition. Given that the reform process entailed a major shift in the pattern of demand - from industry to services, from domestic (CMEA) demand to world demand, from intermediates to final products - exit is the mechanism whereby scarce labour, capital and managerial talent is reallocated between uses. However, exit relies on the existence and enforcement of bankruptcy laws, and on the existence of hard budget constraints so that firms which are unable to survive in the market place cannot stay afloat through direct or indirect subsidy. This has been a particular problem in much of the region.

EBRD Reports suggest a significant gap between the formal arrangements for bankruptcy, which were in most cases adequate, and enforcement (see EBRD(2000)). But there is surprising little formal evidence on exit rates, though Balcerovic, Gray and Hoshi (1998)) look at the Czech Republic, Hungary and Poland. They find that subsidies were withdrawn from firms fairly rapidly in all three countries. In the face of large monetary and trade shocks, however, all three countries found mechanisms for financial accommodation. Poland relied on trade restrictions, the Czech Republic on increases in bad debts and Hungary on a large budgetary deficit and bad debts in the banking system. The Czechs responded to the recession in the early 1990s by postponing the implementation of its 1991 Bankruptcy law, while Hungary saw an enormous increase in bankruptcies in 1992 following its new bankruptcy law and automatic trigger mechanism.

Most countries therefore found ways to cushion the impact of the macro-economic shocks on the enterprise sector at the start of reform. However in some countries, budget constraints on firms were made hard almost immediately, while in others they have never been properly hardened. We first consider the pattern of formal subsidy before considering the effects of informal financial flows from the government to the enterprise sector. The

19 The EBRD scale in 1994 ran from 1 to 4 and does not include a 4+.

most important reason for failure to reallocate resources through bankruptcy in the transition economies arises through the softness of budget constraints rather than legislative weaknesses *per se*. Table 11 reports the share of direct budgetary subsidies to firms (as a percentage of GDP) in a selection of transition countries from 1991-99. Subsidies were already very low (less than 2%) in a few countries in Central Europe and the Baltics in 1991 though they exceeded 5% of GDP in some leading reformers e.g. Czech Republic and Hungary as well as in the CIS. Subsidies had been largely eradicated outside the CIS by 1999, (though surprisingly the direct subsidy share remained in excess of 5% in the Czech Republic).

However, while measures of formal subsidy may be relatively accurate indicators of the softness of budget constraints in Central Europe, they significantly understate the extent of indirect government support in CIS counties where enterprise survival was permitted in situations that, in market economies, would have presaged bankruptcy because of weaknesses in the legal system that gave little recourse to creditors. Among the most important unpaid creditors were employees and suppliers; wages arrears in Russia rose to an average of six months by 1997. (see Earle (1998)). One of the most significant non-payers was the Russian government itself, which allowed significant arrears to accrue in state owned firms and with pensions. Another important indicator of soft budget constraints was the remarkable growth in barter payments, which reached in excess of 40% of enterprise sales in 1997 in Russia, and only marginally less in Ukraine (see Estrin and Rosevear (1999)). Ickes and Gaddy (1998) argue that barter is a mechanism whereby the state provided large enterprises with tax subsidies. Barter also facilitates tax avoidance and evasion, for example VAT, and enterprises were able to trade tax debt for product orders.

6. POLICIES AND ENTERPRISE REFORM: EMPIRICAL FINDINGS

There is now an enormous literature on the determinants of enterprise restructuring in transition economies. The most complete recent survey (Djankov and Murrell (2000)) cites 89 studies on the impact of privatisation; 29 analyses of managerial turnover; 17 on product market competition and 10 on hard budget constraints. Other summaries include Carlin and Landesmann (1997), Estrin and Wright (1999), Nellis (2000) and Commander, Dutz and Stern (1999). In the light of this, we merely survey the main results established so far in the literature.

The impact of privatisation on the performance of firms in transition economies has for the most part been positive. The privatisation effect is significantly stronger however in Central Europe than in the CIS countries; in most cases the impact is around twice the size (see Djankov and Murrell (2000)). The economic effects of privatisation are found on average to be large; for example in Poland the difference in sales growth rate between private and state owned firms is estimated to be between 5.4 and 8.7%; and in Central Europe of productivity to be 4.3%. In contrast, the findings for Russia and CIS are more mixed, with some studies indicating positive performance effects from privatisation and other zero or even a negative effect (see Estrin and Wright (1999)).

These positive findings were not apparent in early studies (see Carlin and Landesmann (1997)), which suggests that the impact of privatisation on company performance was no -where immediate. Moreover, while the weight of the evidence has clearly shifted in favour of positive privatisation effects in Central Europe (see e.g. Frydman, Gray, Hessel and Rapaczynski (1999), Claessens and Djankov (2001)), there have been few positive effects identified yet in Russia or CIS (see Earle and Estrin (1999), Estrin and Rosevear (1999)). It is worth underlining however that these results may not be robust, because of inherent issues of enterprise selection through the privatisation procedure and endogeneity.

The privatisation methods employed in transition has led to a wide variation in the structure of ownership, with large scale insider ownership (worker and manager), diffuse private ownership, or ownership concentrated in Investment Funds, as well as a few traditional "strategic owners", and foreign investors. Djankov and Murrell (2000) collate the findings for 23 studies. They conclude that differences in enterprise performance between different owners are very important. "Privatisation to workers is detrimental, privatisation to diffuse individual owners has no effect and privatisation to Funds or foreigners has a large positive effect". (Djankov and Murrell (2000) p.33).

The variation in the performance effect by ownership type is large. They find that privatisation to Investment Funds is five times as productive as privatisation to insiders, and privatisation to foreigners or blockholders is three times as productive as privatisation to insiders. Banks and blockholders on average improve company performance about as much as foreign owners. One interpretation is that the crucial issue is ownership concentration, since blockholders, funds, foreigners and banks all have concentrated holdings. This is also significant in individual studies e.g. Claessens and Djankov (1999) who show that a 10% increase in the percentage of shares held by the largest five shareholders is the Czech Republic raises labour productivity by 5%.

The relatively poor performance of CIS countries in the impact of privatisation can therefore be explained by two factors. The first is the preponderance of relatively less effective private ownership (dispersed worker ownership). The second is the relatively worse functioning of corporate governance mechanisms cited above. This has meant that worker owners have been less effective in improving performance than they might have been in countries with a stronger institutional framework, such as Poland (see Dabrowski *et al* (2000)).

It is hard to test the impact of corporate governance differences on enterprise performance because many of the independent variables vary by country rather than by firm. However, some studies have focused on the effects of managerial turnover on performance (e.g. Claessens and Djankov (1999), Barberis et al (1998)). These studies suggest that managerial turn over and incentives are an important determinant of enterprise restructuring - for example new managers lead to higher productivity, (6.2% in Czech Republic, 7.3% in Central Europe) while managerial bonus schemes raises TFP; a doubling of the manager's bonuses increases TFP growth by 7.4% (see Djankov and Murrell (2000)).

Product market competition has been another important factor in raising company productivity in transition. The results across 67 analyses in 17 papers focus on the relationship between TFP, productivity growth, or price-cost-margins and domestic competition. The studies suggest that both domestic and import competition play a significant role in improving company performance. However, once again the effects are established more robustly for Central Europe; the findings for Russia and CIS are typically not significant. (but see Brown and Earle (2000)).

Hardness of budget constraints is also a very important factor in stimulating enterprise restructuring. Early studies of Poland (e.g. Pinto et al (1993)) found that restructuring occurred in state owned firms prior to privatisation, provided budget constraints were hard. Ten papers have explored the issue econometricaily, and they confirm the positive impact on TFP, productivity or sales growth. The effect is highly significant in the studies in the non-CIS countries but less consistent for CIS.

It is harder to measure the impact of soft budget constraints that do not come via direct subsidies. However policies which break the links between important economic institutions and the state, e.g. the privatisation of utilities or the banking sector, probably act to enhance enterprise performance. Hence overall private sector shares may be an important influence on of the impact of privatisation.

7. CONCLUSIONS

The countries of Central and Eastern Europe entered the transition process with very different initial conditions and have since employed a variety of policies with respect to privatisation, price and trade liberalisation, competition and enterprise support. A few clear conclusions emerge from this brief survey of the determinants of enterprise performance.

Initial conditions in the sense of the degree of central planning or the extent of structural macro-economic imbalances do not appear to have been a fundamental determinant of either reform paths chosen or of subsequent economic performance. Relatively more reformed economies, like Hungary and Poland, relatively less reformed ones like the Czech Republic and some countries of the former Soviet Union (Estonia, Latvia and Yugoslavia (Slovenia)) are among the current leaders among transition economies (see EBRD transition rankings (EBRD (2000)). However, there does appear to be a sharp distinction in terms of both the clarity and effectiveness of policies followed impact between Central Europe on the one hand and the CIS countries, including Russia, on the other.

The reasons for these divergences are complex, and may stem from fundamental political differences towards reform (see Aslund (2000)). The economies of Central Europe were led by legitimate governments elected on platforms of reform, while the reformers in Russia and much at the CIS represented a small but powerful political group advising the President but opposed by much of the parliamentary and civil service structure. Moreover, we have seen that governments in Russia and other CIS countries introduced policies which were less conducive to improved enterprise performance and restructuring, notably with respect to privatisation methods, corporate governance, competition and subsidy. Privatisation was focused to insiders, corporate governance and institutional arrangements to prevent asset stripping were weak; competition at home or from abroad was relatively more limited and budget constraints were softer. Taken together, these factors would imply inferior restructuring performance.

The paper also makes clear that transition policies underlying enterprise restructuring must be complementary rather than substitutes. Privatisation alone will not be enough; it requires effective corporate governance and hard budget constraints. Product market competition can enhance productivity, but probably would not do so if budget constraints were soft, or in state owned firms. Findings on enhanced performance were strongest in countries like Poland and Hungary, where policies were applied across the range of transition policies.

Table 1: Methods of privatisation in Central and Eastern Europe

	PRIMARY METHOD			***SECONDARY METHOD***		
COUNTRY	Direct sales	MEBOs*	Vouchers	Direct sales	MEBOs*	Vouchers
Albania		+				+
Armenia			+		+	
Azerbaijan			+	+		
Belarus		+				+
Bulgaria	+					+
Croatia		+				+
Czech Republic			+	+		
Estonia	+					+
FYR Macedonia		+		+		
Georgia			+	+		
Hungary	+				+	
Kazakhstan			+	+		
Kyrgyzstan			+		+	
Latvia			+	+		
Lithuania			+	+		
Moldova			+	+		
Poland	+				+	
Romania		+		+		
Russia			+	+		
Slovak Republic	+					+
Slovenia		+				+
Tajikistan		+				+
Turkmenistan		+		+		
Ukraine			+		+	
Uzbekistan		+		+		

Source: Transition Report 1998, European Bank for Reconstruction and Development
* Management employee buyouts

Table 2: Trade and Foreign Exchange Liberalisation

COUNTRY	1991*	1994	2000
Albania	-	50	75
Armenia	24.2	40	60
Azerbaijan	-	20	45
Belarus	6.8	15	20
Bulgaria	16.6	40	70
Croatia	25.2	40	60
Czech Republic	17.3	65	80
Estonia	17.7	55	75
Georgia	27.3	20	60
Hungary	41.0	55	80
Kazakhstan	12.2	20	60
Kyrgyzstan	-	30	60
Latvia	-	55	65
Lithuania	15.4	50	70
Moldova	-	20	50
Poland	45.3	55	70
Romania	23.6	35	60
Russia	10.1	50	70
Slovak Republic	-	55	75
Slovenia	15.7	30	55
Tajikistan	-	15	40
Turkmenistan	7.8	15	25
Ukraine	-	30	60
Uzbekistan	-	20	45

Source: EBRD (1994, 1995, 2000)
Including Co-operatives

Table 3: Retained State Shareholdings in Privatised Firms in Transition Economies, 1999 (% Firms)

Country	0%	1-9%	10-19%	20-29%	30-39%	40-49%	>50%	n
Albania	83.9	0	0	0	9.7	0	6.5	31
Armenia	97.1	0	2.9	0	0	0	0	34
Azerbaijan	94.1	0	5.9	0	0	0	0	17
Belarus	80.4	3.6	0	7.1	1.8	7.1	0	56
Bulgaria	30.8	30.8	23.1	7.7	7.7	0	0	26
Croatia	59.1	15.2	12.1	6.1	6.1	1.5	0	66
Czech Republic	100	0	0	0	0	0	0	10
Estonia	92.3	0	3.9	0	0	0	3.9	26
Georgia	79.3	3.5	0	3.5	0	13.8	0	29
Hungary	100	0	0	0	0	0	0	24
Kazakhstan	93.6	0	2.1	0	2.1	2.1	0	47
Kyrghstan	91.2	1.8	0	0	0	1.8	5.3	57
Latvia	100	0	0	0	0	0	0	25
Lithuania	80.8	11.5	3.9	3.9	0	0	0	26
Macedonia (FYR)	92.9	0	0	0	7.1	0	0	14
Moldova	87.7	1.8	1.8	1.8	1.8	5.3	0	57
Poland	71.7	3.8	3.8	5.7	11.3	1.9	1.9	53
Romania	80.0	0	6.7	6.7	0	6.7	0	15
Russia	82.6	0.4	3.5	4.8	2.6	6.1	0	230
Slovakia	92.3	7.7	0	0	0	0	0	26
Slovenia	63.0	3.7	9.3	11.1	1.9	11.1	0	54
Ukraine	83.6	2.7	1.4	5.5	0	2.7	4.1	73
Uzbekistan	69.2	0	3.9	23.1	0	3.9	0	52
Total	80.9	3.3	3.7	4.8	2.5	3.8	1	1048
N	848	35	39	50	26	40	10	1048

n=number of observations. Source: unpublished EBRD survey

Table 4: Composition of Ownership in Central Europe (by Dominant Ownership Type) (% Shares)

	Insiders		***Investment Funds***	***Dormant Outsiders***	***Foreign Owners***
Czech Republic 1994	Managers	Workers			
Insider owned firms	62	35	0	1	0
Outsider owned firms	2	0	2	57	
Investment Fund owned firms	0	0	51	25	2
Foreign owned firms	0	0	2	0	76
Hungary 1993					
Insider owned firms	35	46	0	6	3
Outsider owned firms	1	1	0	87	
Foreign owned firms	1	0	0	7	71
De novo firms	17	11	0	53	16
Poland 1993					
Insider owned firms	27	61	0	6	0
Outsider owned firms	4	6	8	71	0
Foreign owned firms	2	5	0	2	66
De novo firms	23	8	0	32	15

Source: Takla (1999)

Table 5: Equity Ownership in Privatized Russian Firms, 1993-97: A Comparison

Owners	*Earle et al.1 (%) (1994)*	*Buck Et al. (%)2 (1994)*	*Blasi et al3 (%) (1994)*	*Blasi Et al3 (%) (1995)*	*Blasi et al3 (%) (1996)*	*Jones4 (%) (1996)*	*Wright, et al5 (%) (1996)*	*Buck et al6 (%) (1997)*	*Aukutsionek et al7 (%) (1997)*
Insiders	69	66	65	55	58	59	59	55	52
Managers	21	19	25	16	18	13	12	16	15
Employees	48	47	40	39	40	46	47	39	37
Outsiders	20	14	21	32	32	27	31	39	39
Large	-	11		23	26	15	23	26	25
Small	-	3		9	6	12	8	13	14
State	11	20	13	13	9	14	10	6	7
Sample (no. of Firms)	214	171	142	322	357	111	314	105	139

Notes: Years in brackets refer to date of survey

Sources: 1. Earle et al . (1996).
2. Buck et al. (1996). Includes enterprises privatised through State Privatization Program and lease buy-outs.
3. Blasi et al (1997). p.193. Figures do not sum to 100 in original due to rounding errors and missing data. Includes enterprises privatized through State Privatization Program.
4. Jones (1998).
5. Wright, et al, (1998). Includes enterprises privatised through State Privatization Program and lease buy-outs.
6. Buck, et al. (1999). This volume.
7. Aukutsionek et al. (1998).

Note also that a small sample of 36 Russian privatized firms surveyed in 1992/93 by Pistor (1993) found insider ownership of 62%, Outsiders 19% and the State 19%. Radygin et al. (1995) estimate from a sample of around 1,000 privatized enterprises that in 1995 inside ownership accounted for 56% of equity (managers 13%, employees 43%), outsiders 33% (large 22%, small 11%), and the State 11%. Webster et al. (1994) survey 92 firms privatized through the State Privatization Program and through leasing in two oblasts of Russia in October 1993 and find inside ownership averaged 61% (of which managers 17%).

Table 6: Progress in Transition in Securities Market and Non-Bank Finacial Institututions, 1995 and 2000

Country	*1995*	*2000*
Albania	1	2-
Armenia	1	2
Azerbaijan	1	2-
Belarus	2	2
Bulgaria	2	2
Croatia	2	2
Czech Republic	3	3
Estonia	2	3
FYR Macedonia	1	2-
Georgia	1	2-
Hungary	3	4-
Kazakhstan	2	2+
Kyrghstan	2	2
Latvia	2	2+
Lithuania	2	3
Moldova	2	2
Poland	3	4-
Romania	2	2
Russia	2	2-
Slovakia	3	2+
Slovenia	3	3-
Tajikistan	1	1
Turkmenistan	1	1
Ukraine	2	2
Uzbekistan	2	2

Source EBRD (1995 and 2000)

Table 7: Percentage of Employment in SMEs, 1994

Country	*%Employment*
Belarus	6
Croatia	30
Czech Republic	37
Estonia	45
FYR Macedonia	37
Hungary	24
Kyrghstan	3
Poland	23
Romania	27
Russia	10
Slovenia	23
Slovak republic	19
EU 12	69
USA	53
Japan	76

Source EBRD (1995)

Table 8: Costs of Entry

Country	*Number of Procedures for entry*	*Time for entry (days)*	*Cost of entry (%GDP/Capital)*
Bulgaria	11	20	16.5
Croatia	14	77	86.8
Czech Republic	11	97	25.1
Georgia	12	70	28
Hungary	10	53	81
Kazakhstan	12	31	12.5
Kyrghstan	9	23	20
Latvia	7	20	27.7
Lithuania	13	66	42.4
Poland	10	26	28
Romania	11	68	11.4
Russia	16	69	37.8
Slovakia	12	110.5	13.1
Slovenia	9	35	7.1
Ukraine	11	21	19.7
US	4	7	9.6
Germany	7	90	8.5
Sweden	4	17	2.5

Source Djankov et al (2000)

Table 9: Number of Organisations and Size Distribution of Industrial Firms

Number of Economic Organisations	***1990***	***1992***	***1994***
Czech Republic			
SOEs	1576	3,737	1827
Companies	46	2541	5847
Hungary			
SOEs	2633	1733	821
Companies	18,963	42,276	90,853
Poland			
SOEs	8454	7245	4955
Companies	36267	69,907	95,017
limited liability companies			
Share of Industrial Enterprises by Number of Employees (%)			
	1990	1993	
Poland			
<100	14	37	
101-500	55	46	
501-2000	24	15	
>2001	7	2	
Czech Republic			
100-299	25	56	
300-2499	59	41	
>2500	16	3	

Source: Grosfeld (1998)

Table 10: Trade and Foreign Exchange Liberalisation

COUNTRY	1994	2000
Albania	4	4+
Armenia	2	4
Azerbaijan	1	3+
Belarus	1	2-
Bulgaria	4	4+
Croatia	4	4+
Czech Republic	4	4+
Estonia	4	4+
FYR Macedonia	4	4
Georgia	4	4+
Hungary	4	4+
Kazakhstan	2	3+
Kyrgyzstan	3	4
Latvia	4	4+
Lithuania	4	4
Moldova	2	4
Poland	4	4+
Romania	4	4
Russia	3	2+
Slovak Republic	4	4+
Slovenia	4	4+
Tajikistan	1	3+
Turkmenistan	1	1
Ukraine	1	3
Uzbekistan	2	1

Source: EBRD (1994, 2000)

Table 11: Budgetary Subsidies to Firms (%GDP)

Country	1991	1994	1997	1999
Azerbaijan	11.2a	5.4	0.7	0.1b
Belarus	8.7a	6.3	1.3	5.6b
Bulgaria	2.0	1.3	0.8	1.5
Croatia	3.9	2.0	1.9	2.4
Czech Republic	6.4c	7.1	7.8	7.7
Estonia	1.5	0.9	0.3	6.9
Georgia	-	13.8	1.5	2.1
Hungary	6.6	5.9	4.9	4.8
Latvia	-	0.2	0.4	5.5
Lithuania	1.4	1.7	0.9	-
Poland	3.3	1.2	0.8	0.4
Romania	13.0a	3.8	2.6	1.9
Russia	-	8.1d	8.2	5.3
Slovakia	4.0a	3.2	2.2	1.7
Slovenia	2.8	1.6	1.3	
Ukraine	-	13.3	5.0	-

a = 1992; b = 1998; c = 1993; d = 1996. Source: EBRD (2000)

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