TITLE: PRIVATIZATION, CORPORATE GOVERNANCE, AND HUMAN RESOURCE MANAGEMENT PRACTICES: EVIDENCE FROM THE BALTICS AND RUSSIA

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1. The Project Title Page

2. The Title of each Report

3. The Abstract of each Report, with total number of pages.

4. The Titles of Tables from each Report
PRIVATIZATION, CORPORATE GOVERNANCE, AND HUMAN RESOURCE MANAGEMENT PRACTICES: EVIDENCE FROM THE BALTICS AND RUSSIA

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SUMMARIES OF PROJECT REPORTS


Abstract

Using new panel survey data for 1992-1996 for a sample of firms in St. Petersburg we present some of the first micro evidence on changes in ownership structures for a transitional country. We find that while ownership by insiders remains very strong, the importance of managerial insider ownership is also growing. At the same time, in many firms, ownership by outsiders was increasingly significant. An important determinant of differences in ownership appears to be the form in which privatization was introduced. Compared to firms privatized by vouchers, there are more rigidities in ownership structures for firms which initially were leased by employees. (14 pages)

Tables
Table 1: The Sample Firms: Descriptive Characteristics
Table 2: Ownership: at Time of Initial Privatization and at the Start of 1996
Table 3: Transition Matrices According to Extent of Insider Ownership
Table 4: Transition Matrices: Classified by Dominant Owner

* * * *


Abstract

This paper reviews empirical evidence for key matters concerning new patterns of corporate governance and the determinants of economic performance in transitional economies. Many findings reported draw on new and unusual data for large samples of firms in the Baltic Republics, Russia and Bulgaria, and sometimes the data are in the form of panels. In Russia and Bulgaria we find that privatization and early transition typically have not produced fundamental changes in inherited patterns of corporate governance but rather have served to strengthen managerial control. Econometric evidence for Russia, the Baltic Republics and Bulgaria points to the beneficial effects of structures that provide for some degree of employee participation and/or employee ownership. For both managerial pay systems and compensation schemes for other workers, econometric evidence of the beneficial effects of schemes which provide for earnings being related to firm performance is reported. In examining restructuring and
the search for packages of policy measures that facilitate enhanced enterprise performance, consistent
with theory we find evidence of the existence of positive feedbacks -- for example between different
ownership structures and forms of compensation. However, in attempting to uncover broad bundles of
restructuring initiatives to date empirical work has made only limited progress.

Our findings point to the importance of microeconomic factors in determining economic
performance and suggest that specific institutional features are an important influence of economic
outcomes in different transitional countries and that widely differing ownership structures may be most
appropriate when institutional contexts vary. (53 pages)

**Tables**

Table 1: Typology of Participation in Control and in Return Rights
Table 2: Employee Ownership in St. Petersburg
Table 3: Distribution of Ownership in Privatized Russian Firms
Table 4: Control and Employee Influence in St. Petersburg
Table 5: The Effects of Ownership and Control: Results from Cobb-Douglas Production
Function Estimates

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**III. Privatization and Restructuring in Russia: A Review and Micro Evidence from St. Petersburg.**

**Abstract**

By using small data sets for firms and union leaders in Russia, fresh evidence on several issues
relating to employee ownership, employee participation and trade unions is provided. While in many
firms, insiders are the predominant owners, there are substantial differences in ownership patterns. Non-
 managerial (employee) ownership typically has not been accompanied by much employee influence on
enterprise decision-making (to the extent that this can be judged by employees' own perceptions). We
find similarly that there is not much (non-managerial) employee influence in state firms yet to be
privatized. There does not appear to be much support for the claim that either state-owned firms or
employee-owned firms are worker-controlled. Our findings suggest that in transition economies
privatization does not produce fundamental changes in inherited patterns of corporate governance but
rather has served to strengthen managerial control. In firms that have been privatized, during early
transition there is mainly weak evidence that different structures of ownership and control have resulted
in patterns of enterprise adjustment and performance that are basically different. There is no strong
evidence that the key obstacle to enhanced performance is employee ownership.

Our finding on union leaders suggests movement away from the profile of leaders in the old
unions. In particular, the role of membership in the communist party (and its successors) had diminished considerably. Many changes point to greater decentralization and democracy within the autonomous organizations that have succeeded the old Russian unions that were subordinate to the Communist Party. There is evidence that much new blood has appeared in leadership positions in successor unions and that the average tenure of union leaders has fallen. Past or present membership in the Communist Party is not related to the likelihood of a leader being newly elected. No evidence is found of a relationship between a union leader's status concerning the Communist Party and political beliefs. Furthermore, the picture that emerges concerning union functions and priorities clearly indicates movement away from the old, dual function model. In terms of formal union structures, there is also evidence of considerable change. Unlike the homogeneity that characterized the past, there is evidence of significant variation in compensation and effort among union leaders. In sum, these data suggest that the hypothesis that successor unions in Russia are incapable of reform is not supported.

However, there are also examples of "institutional inertia." In some ways (e.g., age and education) the typical leader in successor unions resembles his precursor. The branch (industrial)-based nature of formal union structures also indicate strong and enduring links with the past. But the facts that those who have never belonged to the Communist Party have lower levels of tenure in union office, and that individuals once or currently affiliated with the Communist Party have higher compensation, suggest the persistence to some degree of patterns of privilege. (55 pages)

* * * *


Abstract

By using rich new panel survey data for 1992-1996 for managers and union leaders in privatized Russian firms, empirical evidence is provided on key aspects of industrial and Labor relations. Privatization (and other reforms) have been accompanied by significant reductions in union density, employment, the importance of trade unions as a channel for worker voice and significant rises in management power, the incidence of flexible pay for both managerial and non-managerial workers, and the incidence of new institutions governing labor-management relations, though alternative unions and disputes continue to be unimportant.

The dynamics of ownership structures are very complex and the form of ownership is associated with the structure of board level representation, employment, payment systems and the incidence of new forms of labor management institutions. However, for many characteristics, notably the distribution of influence between managers and employees, there are no significant differences by form of ownership.

Our findings provide more support for the institutionalist hypothesis that privatization is
expected to be accompanied by much path dependence and heterogeneous outcomes as opposed to the hypothesis that there will be predictable patterns of change that varies by type of ownership. Findings also have implications for debates over the nature and effects of the new unions, the extent of change in the managerial labor market, corporate governance, links between changes in industrial relations at national and enterprise levels and the role of policy. (51 pages)

Tables

Table 1: The Sample Firms: Descriptive Characteristics
Table 2: Industrial Relations 1992 - 1995
Table 3: Trade Union Functions
Table 4: The Relative Importance of Different Channels of Employee Voice
Table 5: The Degree of Management Influence in 1993 and 1995
Table 6: Ownership Dynamics: Transition Matrices
Table 7: Mean Characteristics by Ownership at the Start of Privatization
Table 8: Characteristics and Dominant Ownership in 1996
Table 9: Mean Characteristics by Degree of Insider/Outsider Ownership
Table 10: Mean Characteristics by the Degree of Employee Influence based on Ownership by Employees

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V. Ownership Patterns and Dynamics in Privatized Firms in Transition Economies: Evidence from the Baltics (with Niels Mygind).

Abstract

To provide evidence on patterns of and changes in ownership structures both at the start and during early privatization, we develop different typologies of enterprise ownership and use new data for more than 1500 firms in the Baltic Republics. We find that: (i) by international standards, insider ownership is very common in all Baltic countries; (ii) ownership patterns differ much across the Baltic Republics with a much higher incidence of foreign ownership in Estonia and of non-managerial ownership in Lithuania; (iii) ownership patterns are quite heterogeneous within all countries (e.g., by sector and by size); (iv) changes in ownership categories are relatively infrequent in all countries -- averaging about 16% over three years; (v) while for firms that do change ownership regime, typically levels of employee ownership fall and managerial/outside ownership rise, there is also great heterogeneity across firms in ownership dynamics. These findings are consistent with an institutionalist perspective that predicts variation across and within countries and points to roles for factors both at societal and firm level in accounting for such differences and changes. (36 pages)
Abstract

Most recent theory argues that the most efficient form of privatization is outside ownership and that management ownership is the preferred form of insider ownership. To provide evidence for these (and competing hypotheses) we assemble and analyze new and unusual data sets for large samples of firms in Estonia, Latvia and Lithuania. Diverse patterns of enterprise ownership have emerged in all of the Baltic Republics, including many situations in which insiders are the dominant owners. By estimating production function, in all countries we find that insider ownership has either no, or more often, a positive effect on enterprise productivity. While the pattern of the effects is usually quite consistent across different specifications, the size of these effects are sometimes quite large. However, the effects vary according to ownership structure in these countries. Thus for Estonia we find that the effect of insider ownership on productive efficiency is especially strong in firms in which insiders have a minority share and where managers own more than do other employees. However, in Lithuania it is the rate of managerial participation in ownership and the size of non-managerial ownership stakes that most enhances productivity. (33 pages)
VII. The Effects of Employee Ownership on Enterprise Profitability: Evidence from the Baltics (with Niels Mygind).

Abstract

To provide some of the first multivariate evidence on the determinants of profitability in transition economies we analyze new, large and unusual data sets -- for more than 1400 firms in Estonia, Latvia and Lithuania. Diverse patterns of enterprise ownership have emerged in the Baltics, including many situations in which insiders are the dominant owners. For each country we estimate logit regressions, which include several measures of ownership structure and diverse controls (e.g., for market power and capital structure). Our findings provide partial support for much recent theory which argues that the most efficient form of privatization is outside ownership and that management ownership is the preferred form of insider ownership. Relative to firms in which the state has majority ownership, in all countries we find that firms with majority insider ownership typically have a higher probability of being in the better performing group. However it is ownership by non-managerial employees (rather than managers) which is found to be associated with higher profitability. Relative to state ownership, ownership by outsiders is also found to enhance the probability of higher profits. However, this is never the case for foreign ownership which in some cases is associated with a higher probability of lower profitability. The sizes of the probability effects are generally quite plausible. (27 pages)
VIII. The Effects of Employee Ownership on Employment Adjustment: Comparative Evidence from the Baltics (with Niels Mygind and Nahid Rahman).

Abstract

Most recent theory argues that employment adjustment in firms in former communist countries is best facilitated by privatization; that the most efficient form of private ownership is by outsiders; and that management ownership is the preferred form of insider ownership. To provide tests of these (and competing) hypotheses we analyze new and unusual data sets for more than 1,400 firms in Estonia, Latvia and Lithuania. Diverse patterns of enterprise ownership have emerged in the Baltics, including frequent dominance by insider owners. By estimating various specifications, including some derived from a dynamic framework that captures the employment effects of different forms of ownership, we find: (i) large variations in the rate of adjustment (ranging from 27% in Estonia to 3% in Latvia), (ii) rates of adjustment that usually are faster when the majority owner is not the state; (iii) significant impacts of ownership structures on employment with insider owned firms typically adjusting more slowly than outsider owned firms. Cross country differences in the nature and extent of employment adjustment are consistent with differences in legislative conditions, privatization programs and macroeconomic policies. (32 pages)

Tables

Table 1: Descriptive Statistics
Table 2: Employment Adjustment in Estonia
Table 3: Employment Adjustment in Latvia