HOW PRIVATIZATION SHAPED THE CORPORATE GOVERNANCE OF RUSSIA AND UKRAINE IN COMPARISON WITH SOUTH KOREAN AND JAPANESE EXPERIENCES: SIMILITUDES, CONTRASTS AND LESSONS

by

Aureliu Sindila

THESIS

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ABSTRACT

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This paper aspires to motion an explicative correlation between similar patterns of privatizations and their effects on corporate governance and its performance. It aims to define historical and economic aspects of privatization in Japan, Korea, Russia and Ukraine; by comparing the initial background and reasons for process occurrence. The rationale behind selecting these specific countries lies within the shared history along with strong economic ties between countries in two by two formats that is Japan and Korea in contrast with Russia and Ukraine. The entire work fluctuates around two waves of privatization and three conjectures that target to enlighten both direct and indirect effects on corporate governance. The paper is divided into three fundamental parts that cover: i) privatization and ownership structure; ii) privatization and corporate financial performance and iii) discussions of presumed conjectures. The findings resemble the presumed conjunctures that privatization actually shaped higher ownership concentration that in result led to diverging corporate financial performance with positive outcomes in two of the aforementioned country cases and negative outcomes in others. Therefore, the difference might be explained by other factors within the institutional environment, policies for corporate governance systems and cultural and societal endowments present in the countries.

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INTRODUCTION

Corporate governance has been perceived as a vital area in numerous fields that incorporate functions vis-à-vis financial aspects, funding, law, and administration. The concept varies alternatively between the nations due to different legislations and institutional frameworks, financial settings, social distinctions and development levels around the world. This research aims to solidify the differences between privatization processes and their outcomes, basing the analysis on the past experiences from Russia, Ukraine, South Korea and Japan. In this connection, the corporate governance structure will be the main focus of study.

In fact, corporate governance in Japan and Korea has been widely researched by domestic and international scholars, emphasizing on relative effectiveness of change in terms of privatization. In contrast, Russia and Ukraine were mostly regarded as black boxes with relative ineffectiveness after the privatization period. In this regard, this paper seeks to analyze and structuralize the notion of privatization and how it has shaped corporate governance in four-country cases. Moreover, there is a distinctive line between Japanese and Korean privatization patterns, as well as Russian and Ukrainian; however, these two blocks are expected to give a deeper insight of similarities and differences in corporate governance formation. Pro-Asian and pro-Russian privatizations have happened due to diverging reasons, which shaped post-privatization corporate governance mechanisms differently.

According to previous studies, none of the academic papers discuss privatization patterns comparing these four countries. Therefore, this paper would be unique, in a sense that it combines two blocks of country cases in order to comprehensively understand how privatization stimulated an influential part in the corporate governance of large enterprises and business groups. In this regard, the primordial focus of this paper is on privatization, which should have influenced corporate governance structures through institutions and policies for corporate governance mechanisms. In order to better elaborate this argument, the paper utilizes a qualitative approach, in terms of historical and economic analysis of major events that caused current corporate governance structures in four country cases.

After careful examination of historical events that happened in Japan, Korea, Russia and Ukraine during different time periods, this paper highlights two areas, which are considered vital in the formation of corporate governance mechanisms. The front one provides attributes about the first wave of privatization patterns that shaped *ownership structures* and *concentration* of big corporations. The further one focuses on the second wave of privatization that hypothetically would have altered *corporate financial performance*, which later on reflected consequences of the first wave of privatization. On the basis of these outcomes, this paper excels to investigate underlying causes of corporate governance formation triggered by privatization practices in Japan, Korea, Russia and Ukraine. Therefore, this paper is organized as follows; firstly, it reviews historical aspects within major events of privatization that shaped ownership structures and affected corporate financial performance. Secondly, it analyzes some of the initial causes of such change by assuming that institutions and policies could explain the formation of corporate governance mechanisms in the selected four countries of our scope.

The analysis of this research is based on three conjectures. The prime conjecture assumes that during the first wave of privatization companies tend to have a higher ownership concentration, which influenced divergent paths of pro-Asian and pro-Russian country blocks. The second conjecture presumes that due to diffused ownership structures, on average, firms perform worse, i.e. productivity is decreased. Finally, the third conjecture argues that mass privatization has shaped the diffused ownership structures, which led to poor corporate governance performance. In order to explain objectively the occurrence of these outcomes, a detailed historical and economic analysis is presented in this research, so that to assess whether institutions and policies for corporate governance are major triggers for shaping corporate governance through privatization, notably in countries such as Japan, Korea, Russia and Ukraine.

Further sections of this paper are organized in the following manner: literature review of country cases; rationale behind choosing these particular countries; theoretical framework; additional sections analyze the privatization and ownership structures; corporate financial performance; and policies for corporate governance systems. Finally, discussion and conclusions are presented respectively.

This research utilizes qualitative data analysis of secondary data from different sources, e.g. companies' official web-sites, historical repositories, previous research studies in the area, opinion of recognized scholars and etc. The study distinguishes two waves of privatization in all four cases, i.e. first and second waves, which hypothetically have shaped corporate governance in Japan, Korea, Russia and Ukraine through differences in institutional environment and policies for corporate governance. The core aspiration of this research comparison is to understand "*How privatization shaped corporate governance in Russia and Ukraine in comparison with Japanese and South Korean experiences*."

LITERATURE REVIEW

Studies presented by Gompers et al (2003), Durnev and Kim (2005), Black et al (2005), Black et al (2006), Klapper and Love (2004) and numerous alternative researches prove that in many countries enhanced corporate governance is connected with a larger company's estimated listed and de facto worth. Conclusively, robust corporate governance proceedings comfort directing private supports into beneficial programs contributing to the country's economic development (Claessens, 2006).

In a substantial number of countries, massive publicly traded companies and firms are commonly not widely held, but slightly have dominant shareholders (La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1999), who are entrenched at the control and can assign and screen corporate administrators. Moreover, these particular shareholders have the power to expropriate minority shareholders, and in addition lenders, within the constraints imposed by the law and this tendency have mainly been observed in countries that recently have encountered privatization processes. In *The Modern Corporation and Private Property*, Adolph Berle and Gardiner Means (1932) view consideration towards a vast "managerialist" compositions on the objectives of such managers, counting the essential research of Baumol (1959), Marris (1964), Penrose (1959), and Williamson (1964), as well as Galbraith's (1967) well known and compelling explanations.

The problem of firms and/or corporations in such countries is not the failure of professional managers serving a minority of shareholders (Berle & Gardiner, 1932), but rather the–often legal–expropriation of aforesaid minorities, conjointly of the creditors, by regulating shareholders (Shleifer & Vishny, 1997). More importantly, this is the case of some emerging ex-USSR countries, which recently have started to become more independent, with some of them still being in the midst of transition. By the other side, this is the case of Asian tigers with the rest of neighbor countries in the continent.

Japan

In contrast, Japanese management styles are more disciplined than western and eastern counterparts in pursuing focused development that expands on well-established competitive advantages. The recognizing attributes of the Japanese economic structure is the noticeable eminence of keiretsu, which are vast corporations that form groups centered on a dominant commercial bank. Although driving Japanese organizations have tended to accumulate cash and ignore the significance of shareholder distribution, this is hardly a shortcoming limited to Japanese companies. Nowadays, the contemporary abundance of keiretsu (large corporations) perceives corporations or groups of corporations all centered on a bank, having every company commanding abundantly close and convenient cross-shareholdings. For this reason, Japan is famous for being a nation where shifts are occurring gradually. Consequently, as a general rule, persistence is vital with respect to any presence trying to modify the nation's status quo. However, disregarding the exertion at establishing a corporate governance amendment for Japan would conditionally produce its declared goals or not, some of the dynamics appears to have prospered in no less than one thing: modifying the discussion.

Korea

In Korea, a major reform in 1983 strongly defragmented political assignments at public enterprises, that offered managers exceeding autonomy, and offered incentives based on meticulous concept of performance evaluation. Furthermore, Korea exalted the reforms and pushed ahead with a full-fledged privatization program in the wake of the 1997 economic crisis(Lim, 2003). Since early 1998, large-scale administrative transformations for corporate governance have changed, not only the way that Korean firms and financial markets function, but also with regards to the fundamentals and dynamics of the Korean society and culture. Corporate governance has been a standout amongst the most petulant and effectively examined economic, social and legal issues in Korea since the outbreak of privatization. The analysis of the chaebols (family owned conglomerates) structure in South Korea is particularly important when contrasted to the keiretsu structure in Japan. It is also important to mention elective corporate governance instruments in deciding top executive turnover ratios in South Korea, such as the importance of firm's performance, top chaebols connection, fundamental bank ties and ownership structure.

Russia

An analysis of the Russian corporate governance might provide effective guidance for corporate governance theories because the Russian economy manifested poor performance ever way back from privatization. In this regard, a vast amount of research on transformation economies disclose this low performance primarily in the virtue of a complex scheme of bureaucratic interfering, relatively low tax policy regimes, and low human capital development. Issues in corporate governance are regularly considered as well, yet less frequently took into consideration for further analysis. The affluent array of irregular behavior observed in Russia echoes out a structure of distinct pathologies that shows direct linkages between corporate governance deficiency and de facto economic effects. In this sense, a study concentrating around 100 of the biggest Russian companies by Black, Love and Rachinsky (2005) links a considerable and statistically significant positive effect of the condition of corporate governance on a firm's market valuation. Therefore, a strong control both safeguards against confiscation by others and grants the possibility of expropriating minority shareholders (Bebchuk, 1999). This clarifies the wild conflicts for resources and the escalation in ownership concentration that was gradually witnessed in Russia during the period starting from late 1990s to early 2000s.

Ukraine

Contextually, the Ukrainian economy provides an interesting case study to analyze. In further support of this finding, a big cluster of company operation problems exists, deriving from the approach and agility of privatization process; political benefits and availability or absence of oligarchic structures; ownership structures along with the existence of minority shareholders; etc. Although, there is an augmenting number of companies with concentrated ownership, there is an also a vast number of firms and companies with a dominant number of minority shareholders. In addition, Zheka (2007) reported in his study, that about 20-30% of companies did not have a shareholder, with at least 50%-shareholding in 2000-2002. Another argument that makes Ukrainian economy interesting to study is the unprecedented low levels of leverage in the late 1990s (Demirguc-Kunt and Maksimovic, (1999); Myroshnichenko, (2004)).

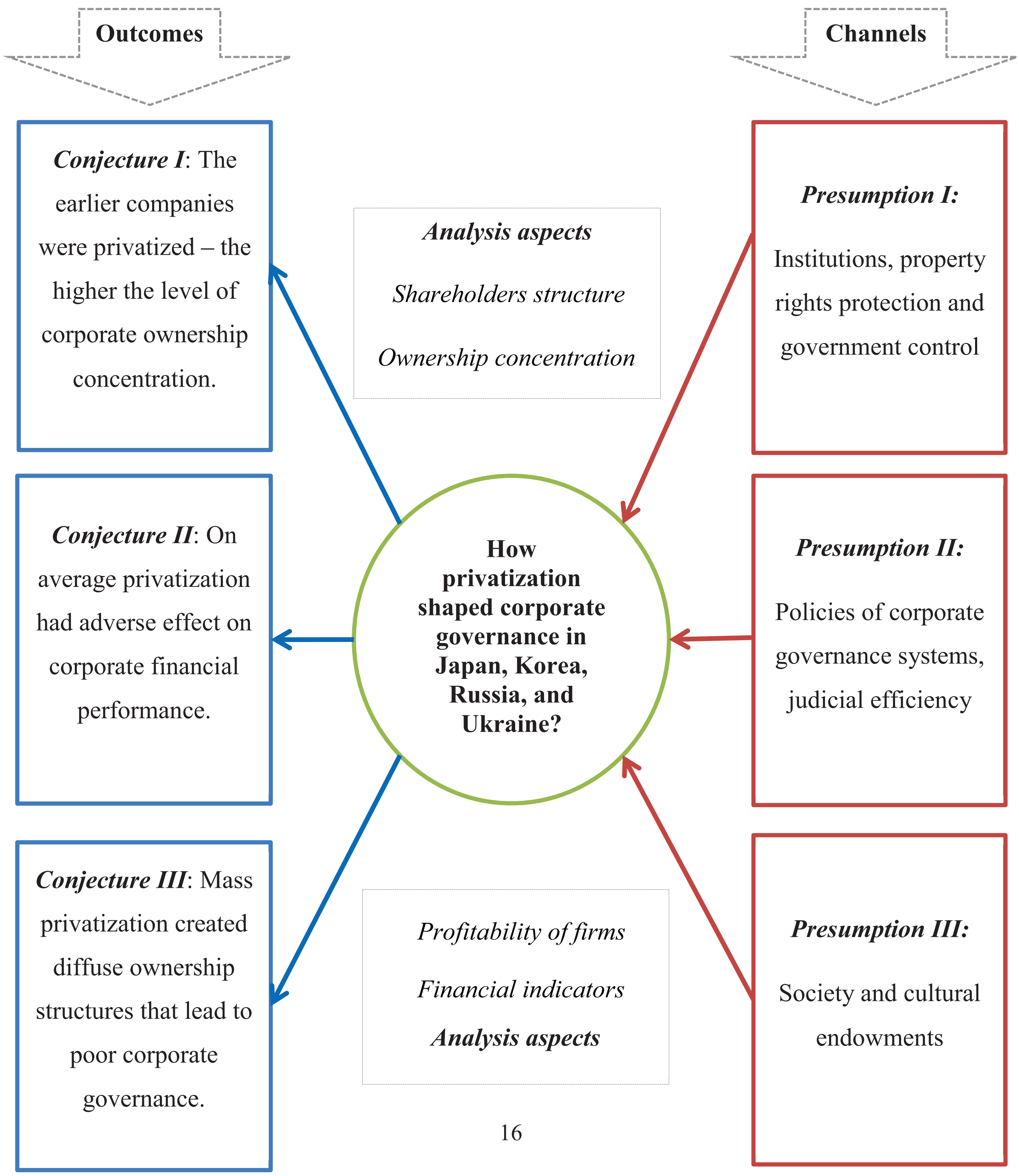
THEORETICAL FRAMEWORK

The theoretical framework of this paper incorporates findings from previous research studies, which emphasize major historical events that shaped corporate governance mechanisms through two privatization waves. Therefore, the analysis is grounded on three conjectures, which describe the consequences of privatization in Japan, Korea, Russia and Ukraine. To elaborate, the first wave of privatization has affected corporate ownership structure and ownership concentration, so that *ownership concentration was higher than before privatization*. Thus, to support the prime assumption, the first section analyzes ownership structures by focusing on major and minor shareholders' concentration of shares in the corporations. Additionally, it considers shareholders' relations, dynamics and trends of privatization and involvement of the state. Another focus is on the second wave of privatization, which supports the assumption that there is *on average adverse effect on performance*. In order to acknowledge this idea, the second section examines financial indicators of big companies, compares before and after privatization periods in terms of financial performance of firms, inspects effects of privatization on profitability and number of liquidations and cases of bankruptcy (if applicable). Finally, the third assumption implies that *mass privatization has shaped diffused ownership structures that lead to poor corporate governance*. Therefore, these focus areas are presented in order to give a background overview of situation in this four country cases.

The focal point of this paper is the analysis of underlying causes that can explain consequences of privatization waves in Japan, Korea, Russia and Ukraine. To emphasize the importance of institutions, policies and culture in corporate governance systems the third section of this paper discusses how institutional environment, policies and cultural endowments affected privatization, which shaped corporate governance systems in these countries. Specifically, this paper presents overview and analysis of state regulations and policies, government control, judicial efficiency, formal institutions and regulatory bodies, as well as state-business relations in four cases. In addition, it introduces cultural endowments and society's peculiarities that hypothetically could have influenced corporate governance formation in Japan, Korea, Russia and Ukraine. In this sense, theoretical framework in Figure 1 schematically presents the pathway of this paper.

Further analysis is structured as following. The paper analyzes historical notions of privatization and how it shaped ownership structures and ownership concentration, focusing on large corporations that passed through first wave of privatization. Thereafter, the paper examines corporate financial performance in the second wave of privatization and drives to the conclusions of mass privatization consequences that happened in four countries. The last section analyzes underlying causes of corporate governance formation, focusing on institutions, polices of corporate governance as well as society and cultural endowments. Discussion and conclusion sections summarize paper findings and outcomes.

Figure 1. Theoretical Framework



I. PRIVATIZATION AND OWNERSHIP STRUCTURE

The incidence of privatization has been prevalent throughout the history of corporate governance formation in Japan, Korea, Russia and Ukraine across different time frames. Thus, Japan, for example, witnessed large scale modernization throughout the second half of the 19th century; whereas, South Korea has moved toward restructuring and privatization during 1970s. Remarkably, mass privatization in Russia and Ukraine happened after collapse of the Soviet Union, in early 1990s. In fact, scholars have highlighted two distinctive waves of privatization in the history of corporate governance evolution. The first one is characterized by mass privatization patterns, which arguably, has resulted in a higher concentration of corporate ownership which this section aims to analyze. It would do so by first studying several notions of first wave privatization in four cases and conclude if the first conjecture: "***The earlier the companies were privatized – the higher the level of corporate ownership concentration***" has indeed held true.

Japan

A totally new era for the Japanese financial system had come into power during the *Meiji* Restoration in 1868. The development of the capital market had created an opportunity to finance both the public and business sectors. Thus, at the end of 19th century, the first long-term credit banks were established. One of the main objectives of these banks was to monitor and support the process of capital accumulation, as well as finance industry development by providing long-term loans. However, following the fiscal problems in the 1860s, the *Meiji* Government adopted a plan for aggregate privatization of state-held business enterprises. By the "Decree Concerning Factories Sale", authorized in 1880, it was announced that the firms and companies that were fully operational would be relocated for the usage of private investors, in order to encourage both domestic industry and capital reinforcement. In essence, this enabled the rise of *zaibatsu* (conglomerates). In this way, during 1874-1896, the central government realized a portfolio summing 26 projects by collaborating with *zaibatsu*, including: in metal extraction (coal, copper, silver, gold mines), cotton and silk spinning mills, shipyards, iron works, and so on. The preponderance of the enterprises were later bargained and sold off at preferential rates (Kobayashi, 1985, pp. 64-65).

At that time, the leading merchant families that promoted the economic transformation in *Meiji era* earned the name *"*political merchants*"* (*seisho*) (Morikawa, 1992, p. 4). The political merchants, which would become major *zaibatsu*, can be partite into three groups that corresponded to the nature of assistance, which contributed to the *Meiji* Government: (i) *Mitsui* and *Yasuda*, accredited to handle national tax revenues, (ii) *Okura* and *Fujita*, oriented in supply of goods and services demanded by the regime; and (iii) *Mitsubishi,* which received special subsidies for shipping operations (Appendix 1).

The discussion about governance and organization of z*aibatsu* is an integral part of this paper's focus, as their formation had a direct effect on the prospective corporate governance structure, ownership structure and concentration. In the technical aspect, the main feature of *zaibatsu* was the pyramidal structure, which guaranteed the control over the entire corporate network. At the very top of the company was the controlling company *(honsha),* decisions of which then influenced the supplier companies, subsidiaries and dependent firms below. In this case, massive trading families circulated stock, an operation that granted permission for financing of economic industrialization and establishment of large pyramidal *zaibatsu* groups (Okazaki, 2001, pp. 243-268). In different literature studies, these structures might be presented in distinctly designed models. One of the more known models, the Z Control Pyramid, was introduced by Morck and Nakamura in 2004 (Appendix 2).

In this pyramidal type of structure, the relationship between the actors is very complex. The use of this "polished model" was first used by Yoshisuke Ayukawa, the founder of the *zaibatsu,* Nissan. The main thrust of this model is that public and private investors could be excluded from the corporate governance mechanism (Morck & Nakamura, 2004). As *zaibatsu* developed, they became more and more complex, creating a strong demand for professional management. Historically, before the *Meiji* Restoration, the groups had been run by professionally-appointed managers *(banto).* In this regard, in order to become exclusive owners in joint-stock companies managers would buy disperse shares of the enterprises.

Table 1. Concentration of Fourteen Zaibatsu Subsidiaries in Heavy Industries
(Paid-in Capital, 000's Yen)

	1937				1947			
	*14 zaibatsu**		Total companies (within Japan)		14 *zaibatsu**		Total companies (within Japan)	
Manufacturing and mining	2 039 348	25.3	8 056 601	100.0	10 440 200	100.0	22 089 231	100.0
Heavy industries	985 504	27.3	3 612 502	100.0	7 919 585	54.9	14 430 619	100.0
Metal	174 478	19.1	911 752	100.0	1 655 406	43.2	3 829 681	100.0
Machinery	385 312	29.4	1 311 471	100.0	4 302 777	56.4	7 632 409	100.0
Chemical	425 714	30.6	1 389 279	100.0	1 961 402	66.1	2 968 529	100.0

* The fourteen *zaibatsu* are: *Mitsui*, *Mitsubishi*, *Sumitomo*, *Furukawa*, *Asano, Okura, Yasuda, Nomura*, *Ayukawa (Nissan)*, *Nitchitsu, Nisso*, *Mori, Riken, Nakajima*.
Source: Morikawa, 1992, p. 234

The reorganization of *zaibatsu* occurred during wartime; in 1937, time of the second Sino-Japanese war, which was followed by World War II in 1941 with the Pearl Harbor attack (Rice, 1979, pp. 689-706). During this time, a fast development of *zaibatsu* took place. This was made up of a certain group of *zaibatsu* who were associated with the development of heavy and chemical industries by injecting financial investment expansion directly to the group source or by the issue and distribution of shares. This basically allowed other conglomerates to finance new capital-intensive ventures while decreasing the prevalent position of current family clans in the corporate structure of ownership (Table 1).

The reforms and zaibatsu dissolution happened later in the postwar period, when Japan was governed under the auspices of American Occupation authorities. This opened up advanced and modern perspectives and created new channels for development. During this period, the *zaibatsu* family agglomerations modified their ownership structures through the eradication of massive private capital investments. This instrumentation profoundly modified the economic and firm structures along with the management style at the same time, stimulating the development of entrepreneurship and competition. At that time, the largest *zaibatsu (Mitui, Mitsubishi, Sumitomo, Yasuda),* together with large machinery and industry firms, including *Nissan, Hitachi, Toshiba* and *Toyota* were privatized. From 1928 to 1936, the numbers of firms in zaibatsu conglomerates were about the same amount of 18 to 20 firms, including other firms accounting for about 150 companies (Table 2).

Table 2. Number of Firms belonging to the Zaibatsu

Year	Zaibatsu	Others
1928	20	149
1929	20	150
1930	20	150
1931	21	148
1932	21	151
1933	19	149
1934	19	149
1935	18	148
1936	19	144

Source: Miyajima, Omi, & Saito, 2003, p. 18

With the process of *zaibatsu* dissolution, the large merchant families were replaced with individual investors; and in the 1950s, vast numbers of share packets were distributed to banks and financial institutions as well as companies of *kereitsu* groups. In the same period, after Japan regained independence and with effective support of the banks, the *kereitsu* groups *Mitsui, Mitsubishi* and *Sumitomo* were reorganized in *new kereitsu (Fuji, Sanwa and Dai-Ichi Kangyo Bank).*

Interestingly, the most common division, especially when the arrangement of partnership supervision is examined, is horizontal *keiretsu* (kinyu) and vertical *keiretsu* (shihon). Horizontal *keiretsu* are non-various leveled gatherings of the principal organizations from prewar *zaibatsu* conglomerates, like *Mitsui, Mitsubishi, Sumitomo, Yasuda*, which are associated with acknowledged relations for a typical primary bank, like *Dai-Ichi Kangyo, Fuji*; and different individuals from the gatherings that are business accomplices or joint-ventures.

Vertical *keiretsu* are systems of auxiliaries working inside vast organizations and subordinated to them by method of capital and long term generation appropriation relations (e.g. *Toyota, Toshiba,* Hitachi) (Grabowiecki, 2002, p. 81). In this sense, each large Japanese firm headed a vertical *keiretsu;* and in the 1950s, there were only six such horizontal *keiretsu*. Three of them are explicit descendants of the prewar *zaibatsu* (*Mitsui*, *Mitsubishi* and *Sumitomo*), and the other three were established with the ambition deriving from banks. It is important to mention that they also trace their origins, less directly, in the prewar *zaibatsu* (*Fuji*, *Sanwa*, and *Dai-Ichi Kangyo*). The horizontal *keiretsu* appear to be less tightly equalized in comparison with vertical *keiretsu*. Despite the fact that the vertical *keiretsu* resembles pyramidal system of shareholding and of personnel transfers (from the main company to first-category suppliers, from first-category to second-category, and so on); the horizontal *keiretsu* represents cross-shareholding amidst different member companies, thus personnel movements being much more constrained, as well as concentrated at the level of the board of directors. The preeminent systematization instrument is considered as the ‘president’s club’, which represents a meeting on a regular basis of the top managers of the group’s companies. It is mirrored by sets of parallel, and less frequent, meetings of functional managers from finance, personnel, and R&D departments (Okabe, 2002).

Vertical *keiretsu* appears as an essentially distinctive method of grouping in comparison with horizontal *keiretsu*. Oppositely to a comparably looser grouping of different sizes and different types of branch enterprises, which are prominent in horizontal *keiretsu*, vertical *keiretsu* consists of a compact pyramidal relation style with well-defined consolidated executive managers. One of the central companies possesses controlling shares in the primary category of crucial subsidiaries. Furthermore, each of them holds major controlling shares in its subsidiaries, which possess additional segments of controlling shares in another category of subsidiaries, and so on. Additionally, this structure is represented by a great intensity of branch specialization.

Shareholder relations and ownership concentration in Japanese corporations is an interesting case of how shareholders are independently classified. In spite of the fact that organizations are not formally and lawfully associated, those, which have a place with *keiretsu* bunches, enter entangled frameworks of reliance on interlocking shareholding, intra-group exchanges and individual relations. For instance, Japanese shareholders are gathered into independent classifications, including *monetary establishments* (principal banks and other types of banks, trust and disaster protection organizations, and stock specialists), *mechanical partnerships*, *and singular speculators* and *outside institutional financial specialists*, and also *remote speculators*. Common trade of stock capital (intra-group shareholdings) inside *keiretsu* is of critical significance for corporate governance, as it secures the organizations against the threat of takeovers, permits the organizations' to observe processes and makes conditions possible for the stable improvement of long-term generation of exchange and individual relations (Okabe, 2002, pp. 37-39).

W.C. Kester (1989) accentuates that by rejecting unfriendly takeovers, dangerous capital cross-shareholding relations reinforce the position and self-rule of the Boards of Directors of the organizations, making a danger of their deft unpredictable, threatening the interests of different shareholders of the enterprise. In addition, solid intra-group relations diminish exchange expenses. Also, Kester (1989) highlights that the most vital outcomes of capital cross-shareholding, inside the keiretsu groups, are assorted qualities and a common blend of various sorts of corporate possession (claims against an organization), held by different partners of the company. The financial advantage, coming from the propensity to keep up money-related contrasts and other legally-binding rights towards the partnership, is the abatement of grating that may show up in different circumstances between the organization shareholders, in light of the fact that each of them holds particular and distinctive rights (Kester, 1989, pp. 24-44).

Another view on cross-shareholding is expressed by Nakatani (1984) that intra-group money and intra-group capital business sector enhancement or "disguise" are shaped. This "disguise" in the capital business sector by method of intra-bunch financing and equal shareholding is viable in protecting gathering firms from the risk of rivalry in the capital business sector. As a result, rates of gainfulness and deals development became lower for organizations with broad cross-shareholdings, which meant that the variability of these benefits were likewise lower. In this way, cross-shareholding is meant to serve as a commonly-accepted protection plan, "in which firms are back-up plans and safeguarded in the meantime" (Nakatani, 1984, p. 243).

R.J. Gilson and M.J. Roe (1993) accentuated a twofold capacity played by cross-shareholding in the Japanese organizations, which is checking and generation-supporting. They propose to treat *keiretsu* cross-shareholding relations as a component of checking chiefs, as well as creation of structure. Creation of adequacy forms requires groups to significantly put resources into connection with specific resources, which are hard to use in another financial transaction without an impressive loss of their value. That type of mechanical association is to ensure the development of such structures, which gives its associated gatherings the jolts actuating them to ideal interest in simply such resources. The circumstances in which the gatherings make long term venture of this right, in any case, makes the danger of artful conduct of alternate gatherings of the exchange.

Table 3. Cross-Shareholding of Major Horizontal *Keiretsu*

(On Unit and Value Basis, Percent)

Group*	**1987**	**1999**	**2000**	**Change** ** **1987-2000**
Mitsubishi	11.16	11.62	9.15	-18.01
Mitsui	6.35	6.95	4.78	-24.72
Sumitomo	10.95	9,43	8.46	-22.73
Sanwa	4.75	4.79	4.07	-14.31
Fuji	5.27	4.31	3.70	-29.79
Dai-Ichi Kangyo	6.99	6.32	5.87	-16.02
Cross-shareholding ratios of the six corporate groups (value basis)	28.01	20.36	16.71	-40.34
Cross-shareholding ratio of overall market (value basis)	18.4	10.6	10.2	-44.56
Intra-group cross-shareholding ratio (value basis)	12.10	9.39	7.47	-38.26

*Group firms as identified by Nippon Life Insurance
**Percentage change in cross-shareholding from 1987-2000
Source: Grabowiecki, 2002, p. 47

The point of legally-binding corporate administration is, accordingly, aside from the generation productivity amplification, the minimization of advantage. By the reduction of the danger of advantage, cross-shareholding between the organizations does serve ventures checking as well as impacts the expansion of interest in particular resources (Gilson & Roe, 1993, pp. 871-906).

The Japanese example of shareholding is considerably more diverse now than in the mid-1990s; generally speaking, these are organizations that were recorded in all local securities exchanges and keiretsu bunches. Nippon Life Insurance Research Institute (2001) in an overview of cross-shareholding highlighted a decrease in cross-shareholding confronting *keiretsu*. The fundamental decisions are presented in Table 3, which uncover that somewhere around 1987 and 2000, there was a huge fall in *keiretsu* cross-shareholding both in unit and value premises. In terms of subtle element, cross-holding proportions fell 2.01 points to 9.15% for the Mitsubishi bunch, 1.67 points to 4.81% for the Mitsui bunch, 2.49 points to 8.46% to the Sumitomo bunch, 0.68 points to 4.07% for the Sanwa bunch, 1.57 points to 3.70% for the Fuji, and 1.12 points to 5.87% for the Dai-Ichi Kangyo bunch. In any case, the general cross-shareholding proportion on quality premise of the six corporate gatherings was higher than that of the general business sector until the end of 2000.

To summarize the Japanese first wave of privatization, it is essential to mention that the early wave of mass privatizations served to control chiefs and influential shareholders, so as to secure organizations from hostile takeovers and illegal actions against minor shareholders. Interestingly, the more concentrated ownership structure of Japanese *keiretsu* ensured stable improvements in the long-term generation and exchange of shareholders' relations. Moreover, it also reduced the danger of benefits being used inappropriately by major shareholders, through the cross-shareholding practice, which emphasized this kind of concentrated ownership structure as a double-check tool.

Korea

South Korea is abundantly defined in the existing literature as one of the Asia's giants. It has also remained as one of the world's rapidly growing industrial powers. In policy terms, it has always been characterized by a high degree of government interventions in the market economy, which resulted in the establishment of 92 public and quasi-public enterprises. The Korean government has taken part in the global movement towards open privatization during different time periods and in various economic and political circumstances. It has always been believed that a main driver of the South Korea's privatization strategy of public enterprises was the lust for the enhancement of productivity. During the first wave, which dates back to 1960-80 (varies from scholar) privatization of government-owned enterprises was perceived as supporting the organizational and managerial efficiency by transferring the operability to the private sector. This matter had its consequences. The economic growth, which characterized South Korea for the last decades, and the strategies used, which were subsidized by government, generated companies that dominated the market. South Korea's giant corporations – *chaebols* are the Korean equivalents of Japan's *zaibatsu*.

A vast majority of Korean enterprises were founded after the end of the World War II. In 1948, the Korean government established the process of nationalization of the former Japanese colonial industries. The nationalized sectors included the railroad, telecommunication, electricity, postal services and tobacco industries. The following years were very scarce in terms of new enterprise establishments due to the societal disorder and the Korean War of 1950. During this devastating period, only 7 public enterprises were established. However, following 1960, which was the period under military regimes and the implementation of the five-year plans, the economy seemed more stable, resulting in an establishment of 35 new public enterprises, including new sectors of energy, construction and banking (Appendix 3).

Later on, the financial liberalization period of the 1980s, would take place, backed by the government's realization that the *chaebols'* presence was excessively powerful. The only solution was an implementation of a national policy for financial liberalization. It was initiated form 1981 to 1983, a period when the government initiated the selling procedures of its shares of four commercial banks to the private sector. As a result, this process fostered economic growth for small and medium enterprises. It was the government, who emphasized credence towards market principles and many other private sector initiatives. Despite the fact that this liberalization did not solve any of the major problems, it balanced out the economic development and increased South Korea's economic competitiveness.

According to scholars, the privatization experience in South Korea did not make a considerable difference in terms of reducing monopolistic structures or enhancing competitiveness. By contrast, it created a beneficial environment for economic development and resulted in greater earnings for *chaebols*. This decade ended with a governmental initiative launched in the 1984 that was divided into two missions: (i) deregulating public enterprise by allowing them enhanced managerial autonomy, and (ii) allowing individual investors to purchase citizens' shares (Table 4). As a result of the new deregulation policy, the few remaining budget deficits in the government owned enterprises were eliminated, thus, generating a wave of investment positivism in employee attitudes, quality control and research & development.

Table 4. Privatization in 1980s

Sector	Enterprise	Year	Ownership Method
Monetary and Banking	Hanil Bank	1981	Sale of assets
	Korea First Bank	1982	Sale of assets
	Bank of Seoul & Trust Co.	1982	Sale of assets
	Chochung Bank	1983	Sale of assets
	Korea Stock Exchange	1988	Citizen shares
	Citizens National Bank	1988	Citizen shares
	Medium Industry Bank	1989	Citizen shares
	Korea Exchange Bank	1989	Citizen shares
Heavy Industry	Pohang Iron & Steel	1988	Citizen shares
Other	Korea Textbooks	1989	Sale of assets
	Korea Technology Development	1989	Sale of assets

Source: Kim, Kim, & Boyer, 1994, p. 161

The Korean government also attempted to commute the transfer of monopolistic government assets to citizens (Table 5). This was oriented towards widening the distribution of business ownership which had a direct effect on market competition. Direct citizen implication in the ownership of public enterprise ameliorated the inefficiencies that afflicted noncompetitive enterprises. The government plan to increase the number of individual shareholders in public and private enterprises had been ambitious. The government's 1988 projection was to increase the number of shareholders from 1.1 million or 2.6 percent of the population in 1986, to 10 million or 23 percent in 1992, so as to exceed the 1985 proportions of shareholders in Japan and the United States (Appendix 4). Regardless, citizen proportion of ownership is not likely to decrease the instruments of government control inasmuch as the government retains a majority of shares.

Table 5. The Government's 1990 Plan for Public/Citizen Ownership after Privatization

Industry	Public (Percentage)	Citizen (Percentage)
Korea Electric	70	30
Korea Telecommunication	51	49
Tobacco and Ginseng	51	49
Medium Industry Bank	51	49
Korea Exchange Bank	51	49

Source: Kim, Kim, & Boyer, 1994, p. 162

The financial crisis of 1997-1998 was the main driver of major privatization of the public-owned enterprises in Korea. This was considered as a time when the “big four”: Pohang Steel Co. (POSCO), Doosan Heavy Industries and Construction (Doosan H&C), Korea Tobacco and Ginseng (KT&G), and Korea Telecom (KT) were privatized. It happened under the Kim Dae-Jung administration and carries a historical significance for South Korea, as before this period only two types of ownerships had dominated the market- the *chaebols* and the government-owned enterprises. As a result of this wave of privatization, the state-owned enterprises (SOEs) ended up with a more dispersed ownership structure. This mainly happened because large portions of shares were sold to broad public, trying to ensure that no single shareholder could have a controlling interest in these firms.

Preceding 1998, the government and the Korea Development Bank (KDB), an entirely possessed bank by the government, held 33.6 percent of POSCO shares. By October 2000, the government and KDB had been stripped off of all their shares. The Government sold their POSCO shares primarily by issuing depositary receipts (DR) to outside speculators. The remaining shares were sold to POSCO as treasury stocks. As of December 2002, as a bank governmental owned bank, the Industrial Bank of Korea (IBK) possessed 2.34 percent of POSCO shares.

Another instance is the Korea Heavy Industries and Construction which used to be claimed by KEPCO and KDB, having owned 40.5 percent and 31.2 percent, respectively. The administration completely controlled Korea Heavy by utilizing its overwhelming position as a controlling part of the two open enterprises. In October 2000, the Korea Heavy was listed in the Korea Stock Exchange and sold 14 percent of its shares to the public. Ten percent of the shares were sold to the employee stock ownership association (ESOA). Later in December 2000, 36 percent of Korea Heavy shares were sold to Doosan Co., which turned it into the controlling shareholder of Korea Heavy.

Table 6. Ownership structure of Big Four

Name	Shareholders		Shares (%)
POSCO (Dec. 2002)	Largest Shareholder	Brandes Investment Partners	3.97
	Other Major Shareholders	Pohang University	3.34
		SK Group	3.34
		Nippon Steel	3.19
		Industrial Bank of Korea	2.34
		National Pension Fund	2.34
		Sub-total	14.55
	Other Shareholders	Foreign	54.30
		Domestic	16.48
		ESOA	0.74
		Sub-total	71.52
	Treasury Stocks		9.96
	Total		100.00
Doosan Heavy Industries & Construction (Dec. 2002)	Largest Shareholder	Doosan	38.20
	Other Major Shareholders	Korea Exchange Bank	15.74
		Korea Development Bank	12.60
		Sub-Total	28.34
	Other Shareholders	Foreign	1.00
		Domestic	15.57
		Sub-total	16.57
	Treasury Stocks		17.89
	Total		100.00
KT&G (Dec. 2002)	Largest Shareholder and its related parties	Industrial Bank of Korea	10.75
		Related parties	0.01
	Other Major Shareholders	Daehan Investment Trust	7.45
	Other Shareholders	Foreign	27.01
		Domestic	14.21
		ESOA	6.47
		Sub-total	47.69
	Treasury Stocks		34.10
	Total		100.00
KT (June 2003)	Largest Shareholder	Brandes Investment Partners	6.39
	Other Major Shareholders	National Pension Corporation	2.70
	Other Shareholders	Foreign	38.00
		Domestic	20.79
		ESOA	6.62
		Sub-total	65.41
	Treasury Stocks		25.49
	Total		100.00

Source: Nam & Kim, 2004, p. 34

The Government's offer in KT&G was near to 100 percent before the onset of the emergency. Its proprietorship continued diminishing after the emergency, as a consequence of a progression of government interests in the few banks that utilized the KT&G shares. The motivation behind such speculation was to build the BIS proportions of those banks. By October 2001, government sold all its shares through Initial Price Offering (IPO), issuing DRs, and exchange bonds (EB). As of December 2003, the Industrial Bank of Korea still held 10.93 percent of KT&G shares (Appendix 5).

Before 1999, the government held 71.2 percent of KT shares. It utilized an assortment of strategies to offer KT shares (Table 6). KT shares were sold to outside financial specialists by issuing DR, EB, and bonds with warranty (BW). Local delicate offers were additionally masterminded. An intriguing shock occurred in May 2002, when government orchestrated a residential delicate offer. SK Telecom procured 11.34 percent of KT shares and turned into the biggest shareholder of the company. KT clearly did not welcome the acquisition as it showed up as a potential takeover risk. The Government additionally contradicted the obtaining as it could intensify the business sector fixation by SK Telecom. The contention was settled when KT and SK Telecom occupied with two back to back value swaps in December 2002 and in January 2003.

The Korean wave of privatization is different from the Japanese situation, in the sense that the government distributed portions of shares to citizens, while still owning major shares. This was so it could diversify business structure and prevent the most influential shareholders from having full control. These actions were attempts to incentivize competition and encourage innovation in the market. In this sense, concentrated ownership structure of Korean conglomerates was still evident in the first wave of privatization, and refers to the formation of corporate governance mechanisms in South Korea.

Russia

The first wave of privatization in Russia refers to the period of after the demise of the Soviet Union. In the early 1990s, there were more than 133,000 entities privatized, while the income of the state constituted 65 billion rubles. In fact, the entire process of the reassignment of property and ownership, in the period following the privatization, was dominated by two major distinct but parallel directions (Table 7): (i) further concentration of control in the hands of managers and (ii) an increase in the shares of large external shareholders. On a bigger scale, Biletskiy et al. (2001), Guriev and Rachinsky (2004), CEFIR and IET (2006) and IFC (2003) and (2005), found that ownership was becoming more and more concentrated. Not only had that ownership become more fixed and concentrated at firm / company level, but also on individual level (one person controlling shares in multiple giant companies). Majority of Russian equity ended up being controlled by a small group of people. Respectively, Guriev and Rachinsky (2005) approximate that 40% of shares of the biggest companies belong to the Russian branch of the largest 22 businesses, run by “oligarchs”.

The IFC (2005) study, and a study CEFIR and IET (2006) found that firms that have the Russian-type control of ownership- which refers to a widespread participation of companies in the business community- is prevalent. About a third of companies in the IFC and the CEFIR studies and IET are members of such groups of companies. According to Lazareva and Rachinsky (2006), 18% of firms have large outsider shareholders, where the owners of the company are the suppliers and in 18% of the firms, they are also customers (Table 8).

Table 7. Distribution and Dynamics of Ownership in Russian Firms

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

*survey of 530 industrial firms in 20 regions
Source: Lazareva, Rachinsky, & Stepanov, 2007, p. 5

At the end of the 1990s, confiscation of minority shareholders' rights by controlling owners was a broadly spread phenomenon. A pattern is observed where the controlling shareholders of different oil companies' holders have used transfer pricing to reject the earning of company profit in intermediaries, hence, avoiding having to transfer them to subsidiaries.

Table 8. Shares of the Largest Shareholders in the company in 2002-2004

Shares	2002 % of firms	2004 % of firms
50%+	19	48
25%-50%	23	27
0-24.99%	58	25
No. of firms	307	442

Source: Lazareva, Rachinsky, & Stepanov, 2007, p. 6

Desai et al. (2007) provides an example of "Sibneft" whose production subsidiary company would sell a large fraction of the oil it produced, to "the mediators", named "Runicom" at only $2.20. Runicom would then resell the oil abroad at market prices, which have been slightly higher (part of the reason is due to tax evasion). Runicom is under the control of shareholders of "Sibneft", but Sibneft is not a significant Runicom shareholder. So once the government took many important steps in 2000 and 2001 to stop Sibneft's transfer pricing, the income earned by minority shareholders started to rise well above industry trends.

From the other side, cases of confiscation from minority shareholders in the 1990s, including Yukos, Sidanko, Gazprom and Sibneft has been well described by Black et al. (2005). Though the wave of abuse of rights of minority shareholders has significantly weakened their power, but conflicts between controlling shareholders and minority shareholders were still very frequent. A group of private institutional ventures and minority shareholders of two subsidiaries of Mechel Steel Group, publicly denounced and then accused another group for an illegal exchange ratio of shares during the process of merger of subsidiaries of Mechel, which had been proposed and executed by the management, tossing transfer pricing and a deficiency to publish the information to minority shareholder (Table 9).

Table 9. Board composition in 1998 and 2002

Shareholders and stakeholders	Share in a board at the end of 1998, %	Share in a board at the beginning of 2002, %
Employees	60.3	56.0
Including managers	38.5	35.4
Large individual shareholders	16.5	17.9
Government (all levels)	5.1	6.7
Commercial organization (including financial)	12.0	12.7
Non-commercial organizations	1.6	1.5
Other directors, including independent	4.5	5.2
No. of firms	278	294

Source: Lazareva, Rachinsky, & Stepanov, 2007, p. 19

After vast incidences of hostile takeovers, clashes and conflicts, board composition by insiders and outsiders changed significantly in 2005 and 2006. Interestingly, publicly-owned enterprises went through much less of an effect of change in composition than privately-owned companies. Although, the composition of insider to outsider ratio has shifted in 2006, the shares of insiders are still greater than of outsiders (Table 10).

Table 10. Board composition in 2005 and 2006

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

Source: Lazareva, Rachinsky, & Stepanov, 2007, p. 20

The case of Russia emphasizes that ownership structure of largest corporations has become highly concentrated not only on a company level, but also on an individual level. This notion has brought up more effective mechanisms of corporate governance along with issues in distribution of power among major and minor shareholders. In fact, individual shareholders who held major shares were powerful enough to exercise their power on minor shareholders. During that period, a lot of hostile takeovers took place, which led to many distorted corporate governance mechanisms.

Ukraine

Throughout the contemporary history of Ukraine, ever since its independence in 1991, privatization has always gained a spot in the public eye. It is quite natural, if privatization is to be considered the basic instrument of social order change- in the transition from Soviet-era socialism-witnessing transformations of property of the state into the active capital, forming new wealth and repartition of property.

It is appears quite complicated to capture a quantitative sense of privatization of state assets in Ukraine. Statistical data were not compiled comprehensively, nor organized, and centralized. The Ministry of Statistics has not held or issued any inventory on Ukraine medium and large enterprises, thus officials of State Property Fund and Western consultants do not even know how many medium and large enterprises there are in the Ukraine. There is a list of more than 6,000 medium and large enterprises, which were subject to mandatory privatization and there was also a list of more than 6,000 companies, for which privatization was prohibited (usually enterprises of national interest). It is unclear how many other thousands of enterprises that may exist, are not included in the list. It also seems that while some companies are double included in both lists, some companies on the list may not really be enterprises nor even exist. Similar problems exist in the small businesses lists, with estimates of the total number of small businesses, ranging from the dozens to the thousands.

Prior to 1991 and to the beginning of 1992, privatization strengthened legislatively, starting first with the concept of de-statization and privatization of state enterprises. The first law was adopted in December 1991, and was then followed by another three laws on privatization in early 1992: “Law on privatization of state enterprises”, the “Law on privatization”, the “Small state-owned enterprises” (small privatization law) and the “Law on privatization certificates”. According to this classification, the enterprises are grouped as follows (Snelbecker, 1995, p. 6):

- **Group A**[1] - small businesses with the cost of assets less than 33 billion *karbovantsi*, special coupons.

[1] The limits for categories often were made to re-index to make high inflation. These limits used here come from the draft of Privatization in 1996 and the program of the autumn of 1995. In autumn 1995 the exchange rate was approximately 170,000 coupons to U.S. dollar

- **Group B** - medium-sized enterprises, with assets between 33 billion and 2150 billion *karbovantsi*, and assets per employee ratio *not higher than* 1.5 times the cost of a privatization.
- **Group C** - medium-sized enterprises, with assets between 33 billion and 2150 billion *karbovantsi*, and assets per employee ratio is *higher than* 1.5 times the cost of a privatization.
- **Group D** - Companies that have value of assets, more than 2150 billion *karbovantsi*, and if a company was declared a monopoly, or in the military-industrial complex, or will be privatized by foreign investors.
- **Group E** - The objects of unfinished construction or liquidated enterprises.
- **Group F** - State-owned shares in companies that have a mixed ownership (e.g., partially owned by the state and partially private).

Table 11 demonstrates the privatization of enterprises by grouping in 1992-1995. Privatization has been motivated by several macroeconomic stabilization and economic liberalization factors. The lack of credit as a result of the government stabilization has considerably reduced the incentives for managers to stay in the public sector. Much greater financial discipline was required to push the large number of enterprises to private ownership. This is particularly true for the agricultural industrialist complex, which continued to draw inflationary loans from the state budget. Ukrainian privatization was substantially similar to the other schemes in the mass privatization in Czech Republic, Russia, Bulgaria and other countries. Different blocks and vouchers were distributed to employees on a systematic basis within organized tenders or money auctions, and so on, making it so that there are several particular features of privatization in Ukraine that are different from privatization in Russia.

Table 11. Privatization of enterprises by group in 1992-1995

	All SOEs	SOEs owned at national level	SOEs owned at municipal level
Privatized in all groups (1992 – 1 July 1995)	14856	5735	9121
Of which, by %:			
Group A	74.6	44.3	93.5
Group B, C, D	25.0	55.4	5.9
Group E	0.4	0.3	0.6
Planned priv. in 1995	30450	10120	20330
Of which actually priv. in 1st half 1995, %	10.7	13.3	9.4
Of which:			
Group A planned	22450	3720	18730
Group A actual, %	9.6	10.8	6.8
Group BCD planned	8000	6400	1600
Group BCD actual, %	13.4	14.7	8.1
Group E planned	1200	-	-
Group E actual, %	-	-	-

Source: Snelbecker, 1995, p. 19

First of all, the ***(i) pace of privatization has been relatively slow***. However, it did not improve the situation. It was not unusual for the privatization to take two or three years from the sale of the first block to the latter, which increased inefficiency and created inevitable management problems. Second, ***(ii) privatization plans were not fixed*** as they were in Russia. Distribution between staff members and shareholders (insiders) of cash auctions and tenders were politically processed which usually allowed the insider to adapt it to benefit them the best. It was a particular characteristic of the privatization, during which company plans could change several times.

Another interesting feature is attributed to the fact that ***(iii) vouchers were not transferable***, as they were in Russia. Ukrainian citizens could only fill in vouchers justifying their investment funds in exchange for the certificates of the fund. These were the only transferable certificates. Brokers, however, set up elaborated schemes and purchased vouchers through investment funds. As a result, virtually all investment funds were real vehicles for investors, who bought shares through the accumulation of vouchers. Since the final owners of the majority of shares in investment funds were not known, it was arguably not a good idea to rely in any way on the funds for partnership in any program of corporate governance. Furthermore, there were a ***(iv) variety of tenders***: commercial, non-profit, international. Although foreigners were allowed to participate in all types of tenders, the Ukrainians still seemed to somehow have the best approach in winning the majority of these tenders. In addition, the ***(v) government was also in the process of selling large stakes in major enterprises***. The new official policy at that time, focused on foreign strategic investors for these shares. Thus, there was only one major sale: an unfinished hydroelectric station to DnisterEnergo acquired by American Energy Systems (AES), a public US corporation. Finally***, (vi) agricultural enterprises were privatized*** as well. For the most part, the farm employees received shares in the combined farms and / or vouchers of land and property distribution of collective farms.

According to the data provided in Table 12, it is possible to conclude that the proportion of insiders' corporate ownership structure has increased remarkably in Ukraine (from 44 to 57 and later 64 percent), whereas, the share of outsiders remained almost unchanged. This means that the "industrial" privatization has led the transfer of corporate ownership from the state to insiders.

Table 12. Structure of corporate ownership in Ukraine and Russia

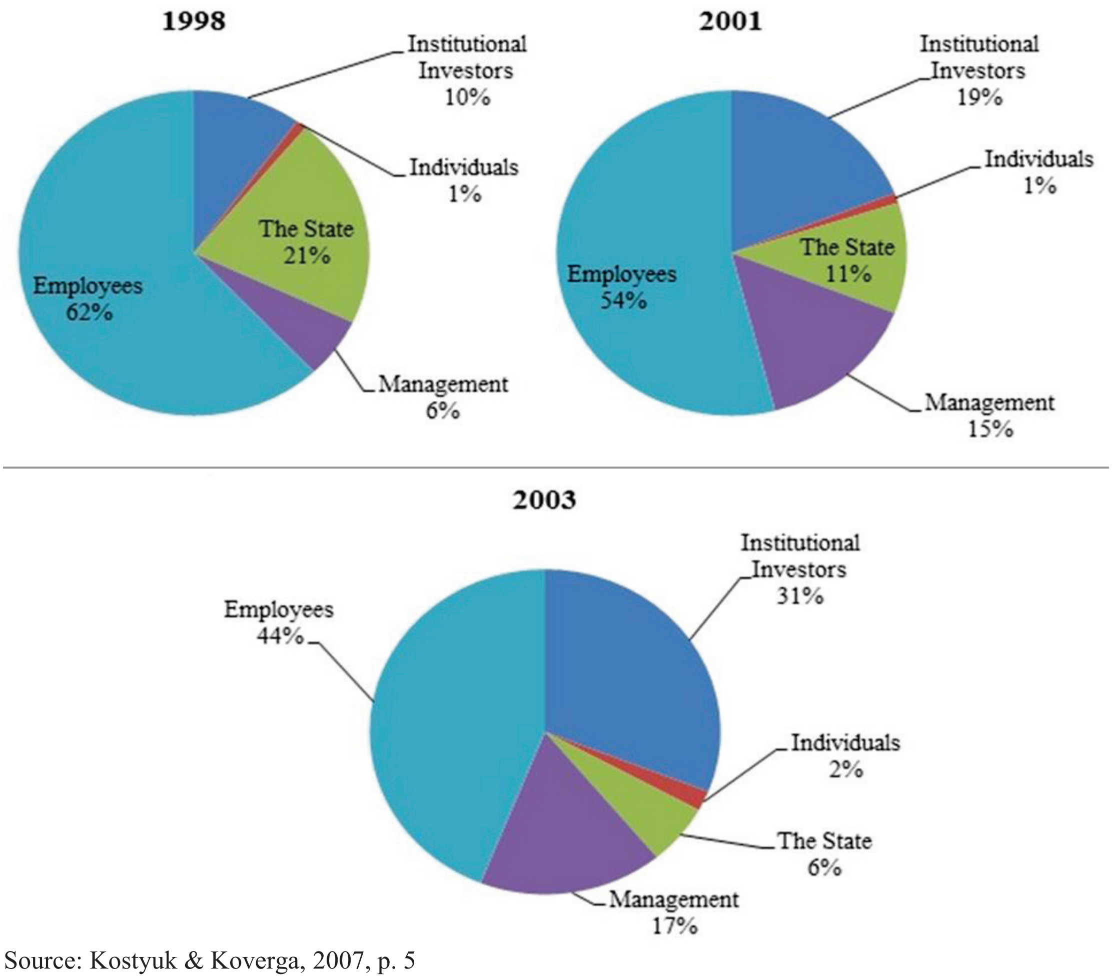
Owners	Russia			Ukraine		
	1999	**2000**	**2001**	**1999**	**2000**	**2003**
Insiders	58	45	34	44	57	64
Outsiders	33	48	55	36	35	30
State	5	7	6	20	8	6

Source: Kostyuk & Koverga, 2007, p. 4

Increasing the share of insiders in the corporate ownership structure in Ukraine is explained not only with the activities of institutional investors, but also with the desire and the leaders of the

Ukrainian companies to concentrate corporate control in their hands through the purchase of shares by employees. According to Figure 2, the dominant activists structures involved in retrieving corporate control were private investors and the leaders of the existing Ukrainian firms. As a result, the proportional fraction of managers' equity in the corporate ownership framework during the period of 1998-2003, increased from 6 to 17 percent. Compared with private investors, who retrieved the right for corporate control of government, heads of Ukrainian companies used leverage private pressure on the employees of companies to make them sell their shares to company managers.

Figure 2. Distribution of corporate control in Ukraine



Source: Kostyuk & Koverga, 2007, p. 5

Therefore, the evolution of specific mechanisms of corporate ownership structure consolidation in Ukraine was influenced by two distinct groups of investors. These are the management (managers) and company institutional / private investors. It appears to a relatively dynamic component in the market evolution for corporate control in Ukraine. Simultaneously, the employees were retiring from the corporate ownership network as well. This fact reflects a conclusive result of the improvement of the market for corporate control as well, considering that the employees in general show less competence in corporate governance.

This statement might be considered as a conclusion; though only in a limited perspective for paths that are used by management to force employees sell their shares. For instance, when the executive of the company requires the corporation to gain control through the purchase of shares, they would force employees to sell their shares to them. If employees refused to do so, they would be fired. Employees were accustomed to keep their jobs, but not their possession. In addition, during 2001-2003, the Ukrainian company management began to use another mechanism to grab the corporate control-proxy voting. Consistently, the executive comes to the general meeting of the works council, which is the primary one, and amend employees who are shareholders, to give them power of attorney and control. By doing this way, management received corporate control without any investments or costs.

II. PRIVATIZATION AND CORPORATE FINANCIAL PERFORMANCE

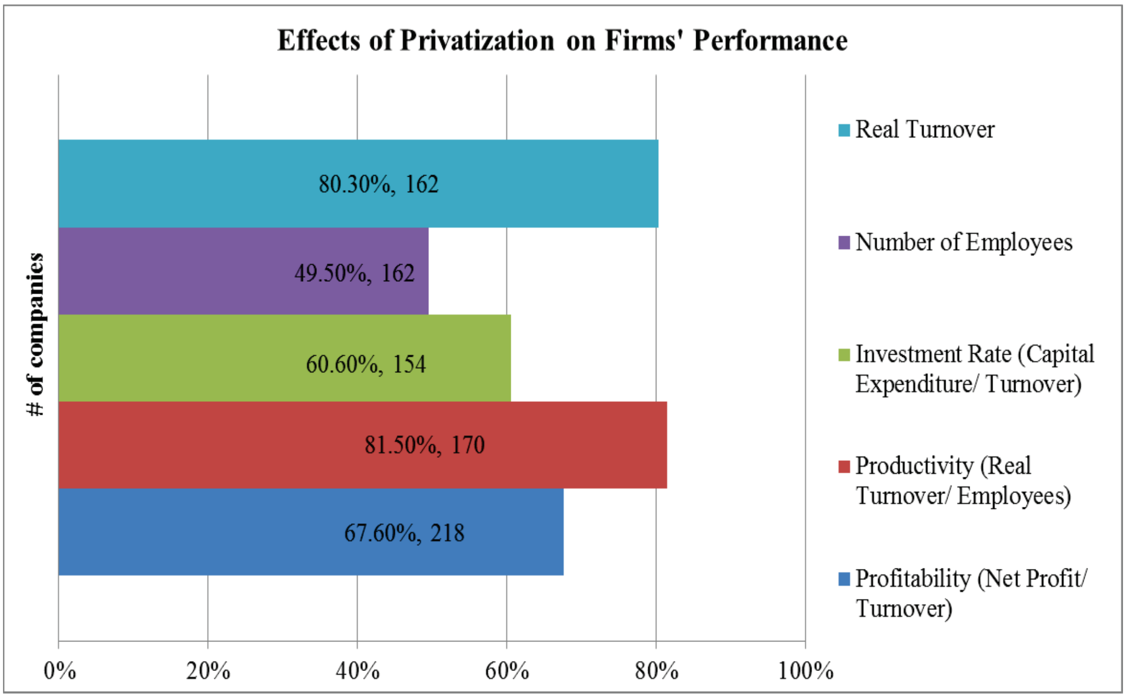
The most vivid perspectives on corporate governance is how privatization shaped the corporate financial performance in four country cases like Japan, Korea, Russia and Ukraine. Previous literature suggests that privatization had adverse effect on performance, claiming that corporate governance effectiveness was deteriorated (Klapper & Love, 2004) (Shleifer & Vishny, 1997). This was mainly explained by the fact that ownership concentration was high and usually in the hands of major shareholders, who were insiders, thus they had extensive power over corporate resources that could be used for the sake of their benefits. Of course, it is hard to generalize, however, in case of Russia and Ukraine; privatization played a negative role on corporate governance performance. In contrary, Japan and Korea were able to improve the efficiency of corporate governance through developing more concentrated ownership structures. Therefore, this section aims to highlight the effects of privatization on corporate financial performance, assuming that "***privatization on average had adverse effect on corporate financial performance***."

Japan

The concentration of ownership is holds the top surprising attributes of the Japanese corporate framework, commonly agreed by many, showing the most compelling instance of partition of ownership and control of recorded organizations in the world (Hugh, 2003). In this sense, control is for the most part under the influence of administration and shareholding is scattered. The shareowners of Japanese firms and companies can be classified into four fundamentally distinct groups. The first group is the arrangement of financial institutions, comprising the core bank, other center banks, and life and causality insurance agencies, along with different securities organizations. When analyzed, collectively they would most likely amount up 20 to 30 percent of the shares and exercise a huge function, albeit diminishing in time, as direct supervisors for corporate governance direction. The second group incorporates other industrial organizations, with smaller rates in possession; yet altogether, summing up to additionally between 20 to 30 percent. The third group takes in stock close to 25 percent of an organization's shareholding. It constitutes a combination of individual and outside private institutional financial specialists. The last group is made up of outside institutional shareholders and the responsibility for shares of Japanese companies possessed by this particular group has increased forcefully to around 20 percent in late period.

After duly examination of financial figures, the impacts of privatization on profitability, efficiency, and investments are evaluated as *positive* (Figure 3). Regardless if in fact privatization has these beneficial outcomes on the advancement of privatized organizations and/or the development of the capital business sector, it is another question whether it affects consumer benefit, social welfare, or total scale macro-economic performance. Irrespective these impacts are evident or not, it appears to rely upon economic conditions of the concerned business sector and country.

Figure 3. Effects of privatization on firms' performance in Japan



Source: Tetsuzo, 2006, p. 160

Observational outcomes from previous works demonstrated a pattern that *keiretsu* manifested on average lower profitability than non-keiretsu firms and that there are contrasts in the governance mechanism and structure among keiretsu and non-keiretsu firms. As indicated, in Japan, the dominant part of substantial firms belongs to *keiretsu*, together constituting a large extent of the Japanese economy. These particular associations of organizations demonstrate a business bond with a primary bank, which is additionally independent from the *keiretsu* itself. Within this incorporated structure, the biggest and most notorious *keiretsu* is the Big Six group of *keiretsu* (in particular, the Mitsui, Mitsubishi, Sumimoto, Fuyo, Sanwa, and Daiichi Kangyo bunch).

Korea

The common perception of the Korean government, in respect to the public enterprises, was that they tend to be less efficient than private ones. Moreover, by producing inefficiently public goods they would threat the development of the private sector. Initially, the vast majority of government-owned enterprises were invaded by deficits, prior to after privatization, when the companies started producing profits (Table 13). The only exception was shipbuilding, since it still remained unprofitable. However, after privatization, most enterprises achieved higher returns on investments as well as greater sales per employee.

Table 13. Deficits/Profits before/after privatization

Industry	Return on Capital (Deficit/Profit)	Year of Privatization	Beginning Year of Profitability
Korea Shipping Corp.	Deficit	1968	1969
Korea Shipbuilding Corp.	Deficit	1968	Still in deficit
Inchon Machinery	Deficit	1968	1977
Korea Iron Mining	Deficit	1968	1971
Korea Machinery	Deficit	1968	1976
Korea Aviation Corp.	Deficit	1969	1975
Korea Mining and Refinery	Deficit	1970	1972

Source: Kim, Kim, & Boyer, 1994, p. 159

The main problem of the improved performance, driven by the privatization, was the inequity in the economy and, subsequently, the distribution of wealth. The South-Korean c*haebols* encountered tremendous economic growth, being fueled by advantageous bank loans and protecting government policies. Unfortunately, other firms faced trouble competing with them in the market thus by taking advantage of the current situation, *chaebols* expanded their total sales and assets. In this context, privatization during the 1970's was achieved through state interventions by credit allocation from the public commercial banks. In this case, transfer of ownership after privatization maybe considered as beneficial for the enhancement of productivity of *chaebols* monopolies; yet, their vast performance can barely be attributed to market principles. Alternatively, it was rather based on government privileges in taxation and loans, as well as government control and regulation. In conclusion, the 1970's privatization did not contribute to the improvement of competition and equitable distribution of wealth; instead it rather fostered the inequitable ownership.

Profitability of the Big Four Korean conglomerates is shown in Table 14. It illustrates Earnings before Interest and Tax (EBIT)/Asset measure of "Big Four" from 1996 to 2002. EBIT is utilized rather than net profit, as EBIT is a superior marker of operational productivity. Since this information is not accessible amid the period they were unlisted, there are various missing perceptions in prior periods. Industry midpoints are figured by similarly weighting the EBIT/Asset measure of those organizations with the same 6-digit industry code as per the Korea National Statistical Office's industry classification. The "Big Four" are excluded when processing industry midpoints. Likewise firms are dropped, when there is an adjustment in the financial year, as it would bend the EBIT measure. In addition, year-end book resource qualities are utilized as opposed to start of-the-year book resource values.

Table 14. Profitability of Big Four in Korea

	1996	1997	1998	1999	2000	2001	2002
POSCO	8.82	10.36	9.57	10.56	11.82	8.11	10.63
Industry	4.15	4.39	4.63	5.42	3.29	3.24	6.32
No. of firms	21	21	21	21	21	20	18
Doosan H&C	-	-	-	-	2.32	3.02	4.85
Industry	7.30	6.04	1.44	3.24	5.55	5.41	9.32
No. of firms	9	10	9	9	8	10	11
KT&G	-	-	-	7.06	11.13	12.24	13.46
KT	-	-	-	2.97	4.08	6.37	8.24
Industry	9.76	9.33	8.55	2.77	9.09	12.31	12.22
No. of firms	2	2	2	2	2	2	2

Source: Nam & Kim, 2004, p. 35

For instance, POSCO demonstrates that it has kept up its high productivity even after its full privatization in October 2000. POSCO's correlation bunch, firms in the assembling of fundamental iron and steel industry, demonstrates a poor execution compared against POSCO through the entire period. In the event of Doosan Heavy Industries and Construction, the picture is reverse in this scenario. The cases of Japan and Korea have illustrated that privatization was followed by improved corporate governance performance; therefore, the financial performance of conglomerates was rather improved than deteriorated. This is an interesting observation compared to cases of Russia and Ukraine, which experienced a significant downfall of their corporate financial performance.

Russia

The main question is whether the privatized entities are performing better in Russia after privatization. The answer is presented in figures and facts in the following sections. The observations are based on careful investigation containing the sample of Russian manufacturing firms, conducted in 1999 and 2000, with reflections looking back to the privatization at the beginning of 1990s. The total amount results in 497 firms that evolved from the Soviet planned economy and potentially went through the process of privatization during different periods.

Information on the condition of sample of firms is provided in Table 15. According to this information, 57.6% of selected firms remained active and another 2.5% have also remained active but were in the process of bankruptcy at the point of data collection (the beginning 2013). All other firms have been liquidated as legal entities during the period between 2000 and 2012. The most frequent cause of liquidation (27.1% from the selected firms) was bankruptcy. Similarly, for 7% of cases accession to holding company or merger was the cause of liquidation. The majority of cases of accession have resulted from the restructuration of power industry sector (mainly electricity) in 2005-2008.

Table 15. Activity status of Russian firms after privatization period

Status	Frequency	Percentage
Active	281	57.58
Liquidated as a result of bankruptcy	132	27.05
Legal entity dissolved due to accession or merger	34	6.97
Liquidated due to other reasons	29	5.94
In the process of bankruptcy	12	2.48
Total	488	100.00

Source: Sprenger, 2014, p. 49

In addition, Table 16 shows the number of liquidations and initiations of bankruptcy for every year from 1995 to 2012. The liquidations and bankruptcies rates were amounted as share of firms, which were bankruptcies or were liquidated during that year compared to all active firms, at the beginning of that year. We noticed that elimination rates have reached the peak in 2006 this year more than for 8% still of the existing selection firms have been liquidated. More importantly, the rate of bankruptcies was the highest for 2001-2005 (from 3% to 5%). It might be observed that liquidations and bankruptcy were present, approximately in the same degree among the privatized and not privatized entities. Nevertheless, it can be the result of other effects, such as industry accessory, profitability, or borrowed funds, in such a way that only a well-conducted multidimensional analysis can answer about the relationship and influence of privatization on survival rate.

Table 16. Number of liquidations and bankruptcies by year

Year	Liquidations	Liquidation rate (%)	Initiations of bankruptcy	Bankruptcy rate (%)
1995	0	0.00	1	0.20
1996	0	0.00	2	0.41
1997	0	0.00	4	0.82
1998	0	0.00	4	0.83
1999	0	0.00	8	1.68
2000	1	0.20	13	2.77
2001	3	0.62	21	4.61
2002	8	1.65	13	2.99
2003	18	3.78	20	4.74
2004	18	3.93	13	3.23
2005	19	4.32	17	4.37
2006	34	8.08	2	0.54
2007	23	5.94	8	2.16
2008	19	5.22	1	0.28
2009	12	3.48	1	0.28
2010	8	2.40	5	1.39
2011	14	4.31	5	1.41
2012	5	1.61	2	0.57
2013	2	0.65	1	0.20
Total	184		140	

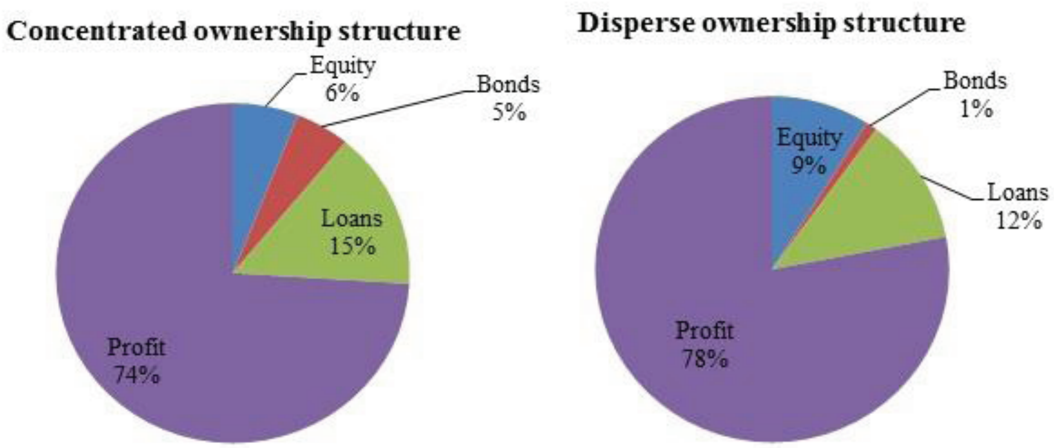
Source: Sprenger, 2014, p. 50

The wave of privatization in Russian companies had an effect on financial performance of firms in a way that it resulted in bankruptcies and companies closures. This is, again, explained by the high concentration of ownership structure, which worsened corporate governance and poor financial performance. It was noticeable that after privatization many companies experienced losses and were on the edge of bankruptcy while some decided to close because of that. Therefore, we do observe a poorer corporate financial performance of Russian firms after privatization.

Ukraine

The increasing share of corporate ownership structure and management of institutional investors in Ukraine was accompanied by different transformations in the capital structure of Ukrainian firms and companies. In the period from 1998 to 2003, in companies that manifested concentrated ownership structure and were lament in the process of the issue of equity, resulted in a share of only 6 percent of companies with concentrated ownership structure issuing equity. In contrast, companies that were inclined towards dispersed ownership structure brought approximately 9 percent of financial resources appearing as issuance of equity (Figure 4).

Figure 4. Structure of financial resources, attracted by companies with concentrated and dispersed ownership structures



Source: Kostyuk & Koverga, 2007, p. 6

Among the 270 enterprises in the study, the stocks owned by the management amounted around 25 percent of shareholders' assets in a sample of 42 companies. At the same time private institutional investors were possessed similar amount of shares in 49 companies, while the executive and private institutional investors were holding shares amounting not less than 25 percent of shareholders' equity of the same company in only 9 cases. Aforementioned circumstance confirms the hypothesis that management blocking part of the large shareholders' stocks in corporate governance is vital (Morck, Shleifer, & Vishny, 1988). Besides, companies' top executives were trying to maximize the amount of assets but not the company's income.

Table 17. Corporate performance with respect to dominant owner

	Owner				
	Managers and employees	**Individuals**	**Foreign outsiders**	**Domestic outsiders**	**State**
Average no. of employees	1,018	723	2,600	880	4,404
Average ownership concentration, %	50.17	1.99	49.63	32.52	60.37
Average sales per employee 1998, UAH	23,289	5,478	59,072	19,840	39,130
Average wage per year, UAH	1,860	1,159	2,968	1,729	2,393
Bad receivables change 1997-1998, %	61.97	82.95	286	1,216.33	130.8
No. of companies	105	6	35	86	86

Source: Repeii, 2000, p. 22

In the incidence of changes in the corporate structure and ownership concentration, financial performance of Ukrainian firms went through degradation. It has been observed that state's control over the largest enterprises still has lower financial advancement compared to corporations led by foreign investors. The lowest financial performance is observed in companies with individual shareholders (Table 17). It is quite noticeable to observe that foreign investors are controlling the most efficient enterprises in Ukraine. This is explained by two reasons: first, foreigners are prone to acquire more efficient enterprises from the beginning. Therefore, maintaining proper level of corporate performance would be a question of continued effort of management. Although, a second reason may be attributed to the fact that foreign investors are performing better, in terms of utilization of corporate governance mechanisms. As a matter of fact, enterprises led by foreigners tend to be more effective financially.

In case of Ukraine, the dominance of insider shareholders in the after-privatization period is associated with better performance than state and individually owned companies. Interestingly, the pay-out ratio in companies where executives are shareholders was not high since 1998 (Table 18). This was accompanied by the fact that executives would suspend measures for increasing net income, in order to keep dividends payable without transfer to other shareholders. Other than this, changes in the corporate ownership structure along with capital structure in Ukraine, amid the period of 1998-2003, was a passive pace of equity issuing by companies. To emphasize once more, executives aimed to maintain corporate control rather than supporting the issuing finance projects by issuing equity which resulted in poor corporate financial performance among Ukrainian privatized companies.

Table 18. Pay-out ratios of Ukrainian companies

Shareholders group	**Pay-out ratios, %**			
	1998	**1999**	**2000**	**2001**
Executives	21	25	24	22
Commercial banks	-	-	32	35
Domestic investment companies and funds	34	37	36	41
Foreign institutional investors	26	24	27	28
Domestic financial-industrial groups	35	36	48	57

Source: Kostyuk, 2005, p. 7

In sum, privatization in Ukraine has led to weaker corporate governance mechanisms followed by poorer financial performance. In this sense, it has been recognized that privately-owned enterprises performed better than state ones, however, the most efficient cases of financial performance were present in the companies with foreign outside shareholders. As a result, the high concentration of ownership structure in Ukraine has resulted in poorer economic performance of firms accompanied by weak property rights and formal institutions.

III. DISCUSSION OF PRESUMPTIONS

The previous two sections discussed extensively about the two waves of privatization in four country-cases. To begin with, all four countries Japan, Korea, Russia and Ukraine went through privatization cycles, which altered corporate governance mechanisms. Factually, the decisive role has been played by the government, which had its own goals, the benefits for which could be derived either in the long-term or in the short-term. Therefore, Japan and Korea made a decision to privatize large conglomerates, i.e. *keiretsu* and *chaebols*, in order to improve efficiency and performance of major businesses. In fact, Japanese and Korean government aimed to weaken powerful major shareholders and to minimize their autocratic influence on corporate governance mechanisms, and hence, increase operational efficiency of enterprises. In contrary, Russian and Ukrainian cases illustrate how political and economic shock led to privatization decision of big enterprises. In the incidence of collapse of the Soviet Union, governments accounted huge losses along with inability to repay debts. As a result, the decision about privatization of enterprises in Russia and Ukraine conduced to poor corporate governance performance. The goal of deriving profits in the short-term to cover losses was achieved; however, it led to financial performance problems. This section starts from the discussion of similarities and differences of four cases, and aims to conclude upon conjectures.

The prime conjecture concentrates on the first wave of privatization, and claims that *earlier privatized companies tend to have higher level of corporate ownership concentration.* The analysis of economic history of four cases suggests that this conjecture is viable. For example, Japanese *keiretsu* had cross-shareholding ownership structures, which were highly concentrated and served to protect minor shareholders from hostile takeovers. In case of Korea, concentrated ownership structure put control over major shareholders, as government had influential portion of shares. This decision was made in order to increase efficiency, incentivize innovation and technology development. Further, the case of Russia suggests that higher concentration of ownership was prevalent in the first wave of privatization, which led to more concentrated control over major shareholders and protection of minor shareholders from hostile takeovers. Interestingly, in Ukraine the first wave of privatization also resulted in highly concentrated ownership structure, nonetheless, major shares were concentrated in the hands of inside managers, who used their power to acquire shares from employees with or without their pure consent. To emphasize once again, early waves of privatization in all four cases resulted in higher degree of corporate ownership concentration, which led to different performance outcomes that are discussed later in this section.

The second conjecture is related to the post effects of privatization on corporate governance mechanisms and corporate financial performance. It states that *privatization on average had adverse effect on corporate financial performance*. In this regard, the four country cases demonstrate different observations. Especially, Japan and Korea has demonstrated improvements in productivity and profitability of privatized enterprises. These cases have shown that better corporate governance structures resulted in better financial performance of conglomerates. Oppositely, Russian and Ukrainian companies went through painful process of bankruptcy and financial downfalls. In fact, poorer financial performance of Russian and Ukrainian companies was partially a result of highly concentrated governance structures and political and economic shocks that happened in 1990s, which government could not handle as to minimize effects of the

Soviet Union crisis. In this sense, government-business relations were another interesting and important feature of corporate governance formation in Japan, Korea, Russia and Ukraine that are discussed further.

Referring to the third conjecture of this paper, it states that *wholesale privatization created diffuse ownership structures that lead to poor corporate governance*. The observations from two previous conjectures ought to give an idea if this is the case of four country cases. It is interesting to note that mass privatization like the ones that happened in Japan and Korea have led to better concentrated ownership structures, improved efficiency of corporate governance mechanisms and increased profitability of enterprises. Nevertheless, mass privatization in Russia and Ukraine has demonstrated opposite consequences, which led to poorer corporate governance and lower profitability and, in some cases, even to bankruptcy. To conclude unilaterally, the acceptance of this assumption seems doubtful, as two Asian cases and two post-soviet countries had manifested divergent results. Therefore, an exploration of this conjecture should be reframed and investigated in future research.

The main questions arising from previously discussed conjectures, would be "***How privatization shaped corporate governance structure in these countries?***" or "***What are underlying causes or presumptions that led to divergent outcomes of privatization waves in four country cases?***" In order to extensively analyze causes, this paper focuses on three main actors: *institutions, policies of corporate governance systems, society and cultural endowments*. In this regard, further discussion focuses on hypothetical causes that shaped corporate governance, through privatization and utilizes analysis of economic history in Japan, Korea, Russia and Ukraine.

Japan

In Japan, as well as in South Korea, the state played an important role in reforming the corporate governance system. Thus, the policy of the government was directed to encourage flexibility and incentivize Japanese firms to be more competitive in the world markets. The development of policy generated very fragmented political actors, where ministries and politicians promoted their own interests by focusing on the agenda from the prime minister and his office. In this sense, corporations played a significantly important role, pushing officials for reforms, and experimenting with new practices. The increase in the number of foreign investors in the Japanese financial markets was also an important incentive for carrying out reforms, although foreigners and the state kept careful distance from each other. In Japan, the term "corporate management" in itself has been understood from a different perspective than in Korea. To elaborate, officials in Korea perceived corporate management as a tool for strengthening the rights of minority shareholders and weakening ruling power of family-founders of *chaebols*. In contrary, Japan saw "corporate management" as a dilemma between the alteration of Japanese style relations with foreigners and the deferment of long-term relations with majority shareholders for the benefit of minority shareholders.

In the late eighties and the beginning of nineties, Japan has plunged into the period of economic crisis and stagnation. Asian financial crisis has not stopped Korea from financial difficulties as well; nevertheless, the Japanese economy has been shaken from crisis well before it reached to the neighbor countries. In this regard, corporate governance was a focal point of discussions, which brought changes to the corporate law, finance, financial reporting and management of firms. To illustrate, the revision of the *Commercial code* was one of the most important changes in corporate governance system in Japan, which mostly focused on the relations between management and shareholders. Following this event, the *Accounting reform* has been proclaimed in 1996 with "Big Bang", which describes the number of steps in order to open financial markets for a country and how to become a leading financial center. In turn, some politicians were supporters of large business interests. It was especially noticeable in disputes over an occasion of restructure and role of boards of directors. Even though politicians supported innovative businesses, they have lobbied for the cancellation of accounting rules. More precisely, in 2003 politicians pushed to detain part of the overall accounting compliance guidelines, particularly to confine the reporting of costs of assets estimated by market value.

Korea

Interestingly, in the case of Korea, the IMF and the World Bank explained that diffused corporate governance was the initial reason of Korea's economic crisis. These organizations required resolute reforms in corporate structure and business practices, in compliance with the "global standard" (Ahmadjian & Song, 2004, p. 5). In the memorandum of economic reforms program, the IMF and the government of Korea agreed to increase the ceiling for foreign property of the listed firms from 26% to 55% by the end of 1998. Both parties also agreed that Korea shall liberalize hostile takeovers and inflow of foreign direct investment (FDI). Hence, it was suggested that the government should not to interfere with credit decisions of banks, not to cease salvage of corporations' problems and to pursue policy of decreasing corporate debt to equity ratio of the company. In addition, the IMF recommended developing capital markets, reducing importance of bank credits in corporate financing and obliging *chaebols* to reduce debt guarantees of affiliated companies. Thus, the World Bank and the government of Korea have signed the agreement with the statement of key policy measures for strengthening principles of financial accounting and boards of directors.

At the beginning of 1998, during the meeting of elected president Kim Dae-Jung and five largest *chaebols'* chairmen, five principles were affirmed and accepted: 1) adopting accounting reforms increase transparency of management and independent directors, and protect rights of minority shareholders; 2) specify debt guarantees among *chaebols* branches, to forbid new and require existing to be cleared by March, 2000; 3) improve financial structure by decreasing debt to equity ratio, and removing of not profitable and small entities; 4) concentrate attention on core competencies; 5) increase accountability of shareholders of controlling stocks.

Beside these reforms, Korean government has pursued policies for stimulation of FDI inflows. Moreover, in 1998 it liberalized mergers and acquisitions by foreigners, currency transactions and introduced Foreign Direct Investment Facilitation Law. By 2002, practically all industries, except for broadcasting, have been open for direct foreign investments (Ahmadjian & Song, 2004, p. 7). Inward FDI has increased from 3.2 billion in 1996 to $15.5 billion US dollars in 1999 (Ahmadjian & Song, 2004, p. 7). One of the most essential changes is obligation to introduce independent directors in large listed corporations. Two years prior to crisis, the government tried to oblige the listed firms to appoint at least 25% of independent directors, but it had to abstain from it due to strong opposition from large corporations (Lee & Oh, 2001). However, since 2000 conglomerates have been obligated to have at least half of committee members to be independent directors. Later on, in 2001 this requirement was expanded to large KOSDAQ market and its listed firms.

The reform of corporate management in South Korea and Japan has been dispersed in process and outcomes. During the finalization process, Korea received more controlled-type legal framework along with a set of drastic modifications in financial and ownership structure, while Japan received laws which offered firms larger resilience for work in an international setup.

The Korean reform of corporate governance comprised of tough and centralized state with the disputable relation with major companies and active and aggressive movement of the shareholder. Additionally, the reform of corporate management has been arranged around ideology of easing *chaebols* and encouragement of the rights of minority shareholders. In Japan, the reform of corporate governance has been perpetuated by a set of firms operating at the international level and the government ministries aimed to provide the Japanese firms more flexibility for work in global markets also to react to requirements of global investors. Corporate governance has been arranged as a disputable and divisive concept, including a compromise between shareholders and employees. The cases of Korea and Japan show as similar categories of subjects, the state, corporations, and activists of joint - stock companies, foreigners that have interacted with global pressure differently, and led to various trajectories of globalization.

After considering the differences in formation of corporate governance, a key factor determining discrepancies amidst Korea and Japan is the construction of corporate governance framework. In Korea, corporate governance centered around the issue of the rights of minority shareholders and democracy within the economic structures. In Japan, corporate governance is considered as a disputable compromise between shareholders and workers, and also collision between the Japanese and American systems. This discrepancy in understanding of corporate governance manifested certain consequences. In Korea, frames of corporate management as encouragement of the rights of minority shareholders, easing *chaebols* and promotion of economic democracy was leveled reform of corporate governance from the fundamental essence of the government policy. Besides, this frame resulted in close coordination in interests between the governments, activists of shareholders and foreign investors. In Japan, frames of corporate management as compromise could cause damage to the estimated organizations and also it has been connected with slower fragmentary approach from the state, as well as to vigilance between the state, activists of shareholders and foreign investors.

On the other hand, a large distinction on large scale accepted beliefs in Japan and Korea in opposition to big businesses. The idea that *chaebols* have gained excessive power that had to be weakened was quite widespread in Korea while there was much less opposing direction in respect to large businesses in Japan. It was impossible to tell if there was no anger against large business: the Japanese public was shocked by corporate offenses in the 1990s, especially after incidents with deception of consumers. Nevertheless, it seemed that there was not enough sense of discomfort for the system to be radically changed.

Russia

The concentration of ownership and backward development of the financial markets are a consequence of the weak legal environment in Russia. Recent researches have shown that it is rather strong law enforcement agencies, but not contents of laws that have a crucial importance for the firm's capability to attract external financing (Lazareva, Rachinsky, & Stepanov, 2007, p. 12). While Russia has quickly caught up with the West in the adjustment of the companies' acts and bankruptcy incidences to the western standards, law enforcement agencies remain at a low level (Lazareva, Rachinsky, & Stepanov, 2007, p. 12). This is due to widespread level of corruption in courts, monitoring bodies and law enforcement agencies. It is important to note that the high inequality of the income, following from weak legal institutes, interferes with the demand for good institutions (i.e. those which provide strong observance of the property rights). Interestingly, the rich people showed preference towards low protection of the property rights, keeping the country in "bad" institutional balance (Glaeser, Scheinkman, & Shleifer, 2003).

When the law does not protect minority shareholders, the cost of control becomes extremely high (Lazareva, Rachinsky, & Stepanov, 2007, p. 13). In addition, a strong control also insures protection against expropriation by others and provides a possibility of expropriation by minority shareholders (Bebchuk, 1999). Even more, it explains the cruel wars of assets and the increase in concentration of property (and control), observed in Russia in the late nineties and the beginning of 2000s.

Ukraine

In case of Ukraine, for quite a while, the Law “On Economic Companies” (1991) was the fundamental administrative regulatory law, under which JSCs functioned. With regards to these records, general shareholders’ meetings, the supervisory board, the official body (administration) and the review advisory group were the fundamental collections of corporate governance. General shareholders’ meeting was perceived as the supreme body of JSCs having the capability and interests for the organization sanctions that may elude different issues supporting the occurrence of general shareholders’ meeting with the exception of those stipulated in Article 41. Changes and amendments acquainted with the law “On Economic Companies” in 1997, resolved the circle of angles containing selected permissions of general shareholders’ gatherings and these issues cannot be assigned for thought and determination in different assortments of JSCs.

In 2004, the Civil Code presented a novel tenet managing irreconcilable circumstance exchanges between the organization and the shareholder. This tenet required that a shareholder does not have the privilege to vote at the general shareholders’ meeting on choices as to exchange or debate between the organization and those shareholders. Similarly, these records establish the legitimate framework for sorting out and working entrepreneurial subjects as substances directed by private law. They additionally characterize the particular qualities of stock organizations. The need to actualize uncommon law, which could control every part of JSCs' action was brought on by the way that "On Economic Companies" law in 1991 didn't give the insurance for both major and minor shareholders. Thus, this tenet proved unable to successfully direct matters emerging in the corporate administration preparation that created various corporate clashes.

In fact, government-businesses interaction throughout the process of privatization was backed up with policies and institutions that formed corporate governance systems in Japan, Korea, Russia and Ukraine. These policies have actually formed corporate governance mechanisms in large businesses that influenced the efficiency of corporate governance systems and hence enterprises' financial performance. From the state initiatives and initiation of decisions, the corporate governance formation has started accompanied by the privatization in two distinctive waves, which had different effects in both long-term and short term corporate performances.

In attempt to answer why corporate governance mechanisms might differ across selected country cases, it is important to mention cultural and societal endowments present in the country. For example, Japanese and Korean society and culture have different from the West values, norms and unspoken rules. In contrast, Ukraine and Russia are following more Westernized patterns of societal and cultural formation. To understand why corporate governance mechanisms are different in selected countries, it is vital to highlight differences in culture.

Japan has been influenced by Confucianism, which advocates for societal well-being as a primary value, rather than individual welfare (Pejovic); (Nam & Kim, 2004). Following the path of Japan, Korea, as well, has adopted cultural values of Confucianism society represented in group mentality approach. Could the societal approach for building common welfare be reflected in corporate governance structures in Japan and Korea? In the process of privatization, government tried to consider all parties involved in the process, so that the consequences of this process would lead to improved corporate financial performance of big corporations. Even though the distribution of shares was highly concentrated at the end of privatization process, corporate financial performance in Japan and Korea has been significantly improved showing more efficient patterns of productivity and profitability.

In contrary, cases of Russia and Ukraine are oppositely different from Japanese and Korean cases. Shevchenko (2016) mentioned in his work that Russian companies lack the system of cultural norms and rules, which would bring cohesion and consistency to corporate governance mechanisms. Shevchenko (2016) has noticed that cultural and societal norms and rules directly influence corporate governance performance. In this regard, cultural endowments in Russian firms are less sophisticated that in Japan and Korea, and that may explain the difference in divergent paths of corporate financial performance in selected countries. Russia and Ukraine have been mostly following Western cultural values and that probably have shaped the society, which is more individualistic and might sacrifice societal norms for individual benefits. This is exactly what happened during privatization in Russia and Ukraine, when individual shareholders used their power to take over corporations at the expense of minority shareholders.

To conclude, corporate governance formation in Japan, Korea, Russia and Ukraine has been shaped by different channels through privatization, which happened during different periods. To understand how privatization influenced corporate governance mechanisms, two areas are identified by historical and economic analyses: privatization and ownership structure and ownership concentration as well privatization and corporate financial performance. In all four country cases after privatization period was characterized by highly concentrated ownership structures. However, in the process of analyzing corporate financial performance after privatization, results are diverging. Thus, Japanese and Korean firms have significantly improved their corporate financial performance, while Russia and Ukraine experience significant downfall in the later. These divergent results should be explained by other factors, like institutional environment, policies for corporate governance mechanisms, cultural and societal endowments discussed in this section

CONCLUSION

It is difficult to explain why the relationship between ownership and corporate governance manifests different patterns across countries. One of the factors that might be relevant to consider is the impact of the privatization period and the recurrent Asian financial crisis on ownership distribution. Additionally, the differences may be related to legal frameworks and country's institutional environment; therefore, analyzing the effects of these factors is a subject meant to fill the gap in the current research literature. Nonetheless, the existing literature does not particularly examine the contrast between ex-USSR and Asian countries, which might provide solid and significant explanations and contribute with additional valuable lessons.

The Russian case is centered around two distinct initial conditions closely related to uneconomic company boundaries that acted in competition with different groups of inside owners. This fact offers a large span for further research. It is also important to mention that Russian progress within corporate governance frameworks is unique, in a sense that in offers a great deal of creative corporate governance pathologies combined with unusual boundaries within the competing insiders for firms' control.

Nevertheless, the lessons that Russia provides are meant to be used for improvement our essential comprehension of how executive management and corporate governance functions. When analyzed in parallel perspective, ownership structure delivers an important causation of corporate governance in Russia and Ukraine, thus, ownership concentrations, rather than the need for outside liquidity, appear to influence corporate governance decisions of firms. As for the Asian case, compared to Japan's keiretsu, direct government policy seems to have played a considerable decisive part in the rise of Korea's chaebols.

The aforementioned differences appear to be playing a critical role in on risk sharing in the credit market. In Japan, it is the main bank that invigilates borrowers as a quasi-insider to keiretsu affiliate firms, whereas in Korea, it is the government that controls the stream of credit and, therefore, acts as the de facto monitor of corporate borrowers. There are indications of detaching ties in between rather than within the keiretsu firms in Japan, mainly caused by the drastic internationalization of the financial frameworks that reshaped in a negative manner the role of the core banks. Oppositely, Korea will tend to manifest an impressive development strategy aimed to promote selected enterprises within industries.

At the firm level, corporate governance seem to play an important role when determining: the access to finance, expenses of capital, valuation and management execution. Better corporate governance prompts higher profits on equity and greater efficiency. Amidst the mentioned countries the contractual and legal frameworks have been perceived as underscored by corporate governance and financial literature.

With overall significance of corporate governance being instituted, the general expertise on divergent and distinct channels of influence is still week. The general significance of corporate governance has been instituted; expertise on distinct issues or channels is still weak. Similarly, an important general caveat to the literature is that there is still some way to go to address causality. In this regard, this also applies to the following three areas: (i) ownership structures; (ii) the relationship with performance and governance mechanism corporate governance and stakeholders' roles; and (iii) enforcement, both public and private, and related changes in the corporate governance environment as well as cultural and societal settings. Furthermore, this issue might be addressed by reviewing the main mechanisms of corporate governance in these countries and relate them to firms' ownership structures.

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APPENDICES

Appendix 1

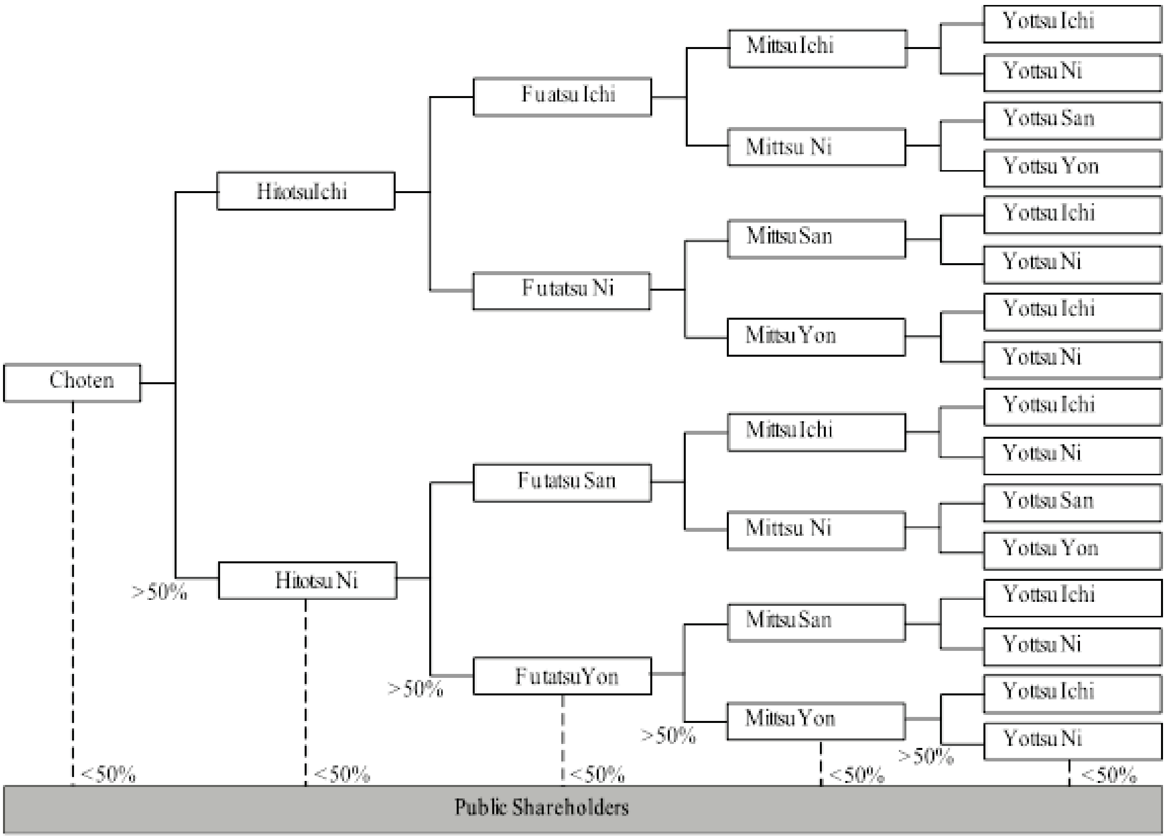
Group-specific Origins in 19th Century Japan

	Origins	Growth and relations with government
Mitsui*	Dates back to 1673; “political merchants” who provided financial services to the Tokugawa regime since the late 17th century	Historically close ties to various governments. Growth and diversification through acquisitions, in part through establishment of new business, in part through government privatization and contracts
Mitsubishi*	Founded by a former Samurai after the Meiji Restoration	Initially investment in shipping enjoyed government protection, subsidies, loans etc. Subsequent growth and diversification patterns broadly similar to Mitsui’s
Sumitomo*	Dates back to the late 16th century with ties to the Tokugawa regime	Diversified from mining into trading, finance, and industry. Diversification and growth through both acquisitions and through the establishment of new business, with government support
Yasuda*	“Political merchants” from the Meiji Restoration period. Mainly provided financial services (including the establishment of the third national bank in 1876)	Less diversified than the other large groups more focused on banking and finance. Again, both acquisitions and new business as mechanism of growth
Asano	Around 1870, no previous political ties	Initial fortune out of various investments. Growth through cooperation with separate financial institutions
Fujita	Origins: supplier of good and engineering works to the new government (with contacts to major figures in the Meiji government)	An internal family feud led to the dissolution of this group and its reorganization as the Kuhara zaibatsu
Okura	Merchant (groceries) before the Meiji restoration; converted into gun production in 1860s and then into overseas trading starting 1873	Growth mainly through acquisitions. Despite substantial operations overseas, government contracts remained major sources of income

*the “big four” zaibatsu groups
Source: R. Morck, M. Nakamura (2004, p. 116)

Appendix 2

A Stylized Representation of a Z Control Pyramid



Source: R. Morck, M. Nakamura (2004, p. 116)

Appendix 3

Establishment of Public Enterprises, 1951-1969

Sector	Number of Enterprises	
	1951-1960	1961-1969
Transportation and aviation	2	3
Energy		3
Mining	1	3
Heavy and chemical	2	7
Construction		2
Monetary and banking		11
Other	2	6
Total	7	35

*All newly established enterprises including those merged or reorganized under different firm names.
Source: In Chul Kim, Mahn-Kee Kim and William W. Boyer (1994, p. 159)

Appendix 4

Shareholders in the Populations of South Korea, Japan and the US

	South Korea		Japan	United States
	1986	1992	1985	1985
Millions of people	1.1	10.0	20.4	47.0
Percentage of population	2.6	23.0	17.0	20.0

Source: In Chul Kim, Mahn-Kee Kim and William W. Boyer (1994, p. 162)

Appendix 5

Divesture of Government Shares of Big Four

Name	Divested Shares	Divesture Method
POSCO (Oct., 2000)	Government 3.1% KDB 23.6%	18.5%, DR (Dec. 98, Jul. 99, Sep. 00) 8.2%, stock repurchase (Dec. 99, Jun. 00, Oct. 00)
Korea Heavy (Dec., 2000)	KDB 31.2% KEPCO 40.5%	24%, IPO (Sep. 00) 36%, tender offer to Doosan group (Dec. 00) 11.7%, divesture of KEPCO shares (Dec. 01)
KT&G (Oct., 2001)	Government 28.8% KDB, IBK, KEXIM 52.8%	18%, IPO (Sep.00) 10%, EB (Dec. 00) 19.8%, DR, EB (Oct. 01) 19%, public offering, EB (Jun. 02) 9.9%, DR (Oct. 02) 4.6%, stock repurchase (Oct. 02)
KT (May, 2002)	Government 71.2%	32.3%, DR (May 99, Jun. 01) 29.5%, public offering (Jan. 01, May 02) 11.8%, EB, BW (Dec. 01)

Note: The month in the parenthesis in the first column indicates the month when government shares were fully divested.
Source: Il Chong Nam and Woochan Kim (2004, p. 33)