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Insider-Led Privatization in Poland, Russia and Lithuania: a Comparison[1]

1 Introduction

Privatization lies at the core of the transition in Eastern Europe. As has been shown many times, communist state enterprises were manifestly inefficient. It is hoped that efficiency can be restored by clarifying property rights and separating enterprises from state control[2]. However, not just any kind of transformation of state property into private hands can be regarded as successful. If the incentives of the new owners are not in accord with effective market behaviour and profit maximization, privatization may even distort enterprise behaviour further. A popular form of ownership in Eastern Europe, *insider ownership*[3], has been blamed for having this kind of effect. For instance, the authors of the one of the most famous books on privatization in Eastern Europe, professors Roman Frydman and Andrzej Rapaczynski, argue that without effective control mechanisms (takeovers, bankruptcy, managerial markets) managers will promote their own interests rather than those of the firm[4]. But insider ownership has it supporters, not only among enterprise managers but also among professional economists and politicians in countries in transition. Insider ownership is also preferred by the workers. This has been verified in Poland, where there have been several alternative paths to privatization available.

It has been stated that corporate governance in insider-owned companies in Eastern Europe is dominated by managers rather than by workers[5], although at least in Poland such companies are often called "employee-owned companies". The differences between managerial capitalism in the Anglo-American world and Eastern Europe are striking. In United States and in Great Britain, managerial capitalism is based on wide dispersion of assets among many shareholders. Therefore shareholders control management weakly; but the above-mentioned control mechanisms are present, and this causes enterprises to behave (relatively) efficiently[6]. In Eastern Europe, control mechanisms are either absent or weak. Moreover, managers had previously gained their position not through competition but because they initially had the control rights. And perhaps most importantly, in the western model well-

[1] The author is thankful to Dr. Pekka Sutela and Mr. Vesa Korhonen for comments.

[2] Shleifer (1995).

[3] We define insiders as managers and workers.

[4] Frydman and Rapaczynski (1994, pp.117-119).

[5] Blasi (1994a, p.138), Sutela (1995, pp.47-48), Gardawski (1995, p.68).

[6] Grosfeld (1994, p.6).

functioning equity markets provide capital to enterprises, whereas in Eastern Europe the lack of capital is one of the most serious problems facing enterprises[7].

A fundamental choice in privatization policy is that between rapid and selective privatization. In rapid privatization, the stress is on abrupt denationalization of the economy: state property is transferred as quickly as possible to the private domain. In selective privatization, more stress is put on obtaining budget revenues from privatization and strong owners for the enterprises. The early reformers in the beginning of the 1990s generally favoured rapid privatization; they were also strongly against insider ownership[8]. In post-communist countries probably the only way to achieve rapid privatization is through give-aways, usually by means of vouchers. Almost textbook example of this type of privatization took place in the Czech Republic. Of the countries in our survey, Russia and Lithuania opted for rapid privatization, give-aways and insider control; Poland opted for selective privatization.

Before going into detail, it should be noted that the enterprises analyzed in this study are of different types in the different countries. Very small enterprises which were privatized are excluded from the study. This paper focuses on the dilemmas which arise when insiders are the owners of the company. It is only natural that insiders should own a small enterprise[9].

Another issue which the author decided to exclude is so-called "nomenclature" or "spontaneous" privatization. These terms refer to enterprise managers, in cooperation with state bureaucrats, converting their controlling position into legal titles. Although this can be labelled "insider privatization" because it is based on misuse of insider information and power, we do not discuss it here. The concept of "insider privatization" in this article is restricted to legal activities[10].

The purpose of this study is to compare insider privatization in three countries. Two problems the author faced should be noted. First, whereas in Russia and in Lithuania insider ownership was an important element in all privatization, in Poland it was in practice limited to relatively small enterprises[11]. The second problem was that the material the author obtained on Lithuanian privatization did not allow for far-reaching comparisons. Lithuanian privatization is dealt with separately, but many of the findings in section 3 are probably applicable to Lithuanian privatization as well.

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[7] It should be reminded that inadequate mechanisms for corporate control is a problem which affects all kind of enterprises, not only those with high level insider share holding. See Phelps *et al.*(1993, pp.18-23).

[8] See, eg, Blanchard *et al.* (1991), p.31-39.

[9] A paper which discusses over ownership and incentives in small privatized enterprises in Russia, is Barberis *et al.* (1995).

[10] A preliminary discussion of spontaneous privatization is contained in Frydman *et al.* (1993a, p.183 and 1993b, p.75). Effects of nomenclature privatization on incentives are described in Shleifer (1995, pp.106-108).

[11] Studying employee-owned companies, Maria Jarosz and her research team had a sample in which one-third of the companies had less than 100 employees and only ten per cent had more than 500 employees (Jarosz 1994, p.16). These figures are from June 1993 and can be considered representative of enterprises privatized through liquidation.

In section 2 we evaluate privatization policies in the countries in our survey and examine how insider participation was arranged in these countries. In section 3 insider control is evaluated in more detail. Section 4 concludes the study.

2 Privatization Policies and the Role of Insiders

2.1 Poland

In Poland workers have held a strong position since the 1980s. The years 1980-1981 were in Poland a time of revolution. Solidarity, an independent trade union, struggled for improvement of working conditions. One improvement was employees' self-governance, which was introduced in the 1981 law on state enterprises. The law introduced a supervisory body, the employees' council, which was to be elected by the employees. The employees' council supervises the directors and has the authority to hire and fire them, approves production plans, and has many other important functions. Nonetheless, self-governance never developed as fully as one might have expected on the basis of the text of the law. Enterprise managers, thanks to their good relations with the communist party, preserved much of their power[12].

In 1989 fundamental change occurred in Poland. The communist party lost its previous political dominance. A Government was formed with non-communist ministers in the majority. This development was largely seen as a triumph for Solidarity. The new Prime Minister, Tadeusz Mazowiecki, was a Solidarity veteran, and the Finance Minister, Leszek Balcerowicz, was an advisor to Solidarity. However, the Government adopted a very liberal economic policy, which was not well received by most Solidarity supporters. Disagreements on economic policy were a major reason for the subsequent split in Solidarity.

The Government advocated highly market-oriented methods for privatization, such as public offers and trade sales. In reality these methods were not sufficient because of a lack of investor interest. Another method was already introduced in the law on privatization of state-owned enterprises of July 1990: privatization through liquidation. This method opened the way to insider ownership. A former state enterprise is liquidated and its assets are sold, contributed or leased to private company(s). The employees are given the opportunity to establish a successor company, which leases the assets of the enterprise. Half of the shareholders of the new company must be employees of the former state enterprise, and the new company must be capitalized to the extent of twenty per cent of the book value of the liquidated enterprise[13].

The position of the employees is strengthened further by the requirement that the transformation of the company takes place only if a majority of the employees agrees. This gives the employees the possibility to bargain for position before the transformation takes place. In the other method of privatization, privatization through corporatization, the employees also have certain advantages. They have the opportunity to buy company shares up to 20 per cent of the total at a 50 per cent discount when the enterprise is corporatized.

Due to political discord, Poland has not yet implemented its own mass privatization programme. Such a programme was proposed already in the late

[12] Federowicz (1994).

[13] For details of liquidation privatization and leasing in Poland, see Frydman *et al.* (1993a, pp.187-193).

1980s[14] and a programme for mass privatization was approved by the Polish Government in 1991, but its implementation has been delayed repeatedly. At the moment, it seems that the programme is finally materializing, but after four years of delay it will not have the same kind of impact it could have had at the beginning. For five years, Poland has employed other methods. Capital privatization (through trade sales and public offer) has proceeded very slowly, only 134 enterprises had been privatized in this way manner by the end of 1994. More successful quantitatively has been liquidation privatization, 913 enterprises being privatized by the end of 1994[15].

2.2 Russia

Part of the Russian economic reform under Gorbachev was the attempt to reorganize enterprise management. The experiment started in the mid-1980s and ended with the Law on State Enterprises, effective in 1987. The law reduced the role of ministries in enterprise governance. It gave employees the authority to elect their managers and directors. The employees also elected a work council, which confirmed enterprise plans. Managers also gained significant power, over output decisions[16]. This law created the institutions which proved to be an important source for insider's claims after the collapse of the communist system.

The framework for Russian privatization was created by a series of laws in 1991-1992[17]. State property was parcelled among municipal, regional or federal authorities. State enterprises were also divided into three categories: small enterprises employing less than 200 employees, middle-sized enterprises employing between 200 and 1000 employees and large enterprises employing more than 1000 employees. Small enterprises were to be sold by tender or auction, targeted mainly at local entrepreneurs or enterprise insiders. Municipal authorities were usually responsible for their privatization. Large enterprises were taken into the mass privatization programme, where enterprises are first corporatized[18] and later privatized. For middle-sized enterprises, joining the mass privatization programme was voluntary. Large and middle-sized enterprises are owned by regional or federal authorities. Moreover, privatization was made mandatory for certain enterprises[19]. Some state enterprises were excluded from the privatization programme, and their privatization would take place only with government approval. These enterprises included some very large manufacturing enterprises as well as strategic industries. For certain enterprises, privatization was forbidden. According to Boycko *et al.* (1995, p. 74),

[14] Lewandowski and Szomburg (1989).

[15] The figures are from GUS (1995).

[16] Åslund (1989, pp.104-105), Lieberman and Rajuha (1994, p.8).

[17] For an extensive discussion of the Russian privatization programme, see Lainela and Sutela (1993), Frydman *et al.* (1993b), Bornstein (1994), Lieberman and Nellis (1994) and Boycko *et al.* (1995).

[18] Transformed into a joint-stock company with a legal identity.

[19] This is a difference as compared to the Polish programme, where privatization of enterprises was voluntary. (Although it is true that enterprises which had been corporatized and privatized got preferential tax treatment).

these restrictions were a compromise: Political control was maintained in some key enterprises, in order to persuade politicians to give up control rights in other enterprises.

Insiders got preferential access to the shares of corporatized enterprises. The shares of the enterprises were to be distributed in three rounds. In the first round, managers and employees were entitled to acquire enterprise shares in closed subscription. Before corporatization, the employees had chosen among three options, according to which they are entitled to buy shares. In the first variant, insiders are able to acquire 25 per cent of the shares in the form of non-voting stock cost-free and to purchase 10 per cent more, carrying full voting rights, at a 30 per cent discount. management is able to buy 5 per cent more. In the second variant, insiders can purchase up to 51 per cent of the shares at a price 1.7 times the par value. The third variant, which granted special privileges for a small group of insiders, remained practically unused. Originally the government preferred the first variant, but in practice the second variant became the most popular. It was chosen by approximately 70 per cent of the enterprises[20].

In the second round, investors were able to purchase enterprise shares at market prices, as determined in auctions. Typically 29 per cent of the shares were reserved for the second round. Shares were sold for vouchers and for cash. At least 20 per cent of the shares were reserved for the third round, where the remaining shares in state ownership are sold for cash only.

Voucher privatization started in autumn 1992 and ended in June 1994. Quantitatively the programme was a great success. The original goal was to privatize 5 000 enterprises. In the end of 1993 already over 8 000 had been privatized through voucher auctions. When the voucher programme ended, over 12 000 enterprises had been privatized through vouchers[21]. The securities markets began to develop and millions of Russians became shareholders. A special institution emerged in the voucher markets, the voucher fund. The citizens could exchange their vouchers for shares in these funds. The funds were supposed to develop so as to become an important factor in corporate governance, but their ownership stake in companies remained limited. For citizens, the funds provided the opportunity to diversify their shareholding.

The next phase in Russian privatization is to sell enterprises for cash. In April 1995 the Russian government published a list of over 7000 enterprises to be privatized in auctions and tenders. In autumn the government will start to sell state-owned shares in some major companies. Privatization for cash is expected to raise budget revenues and to bring enterprises money to finance restructuring.

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[20] Lieberman and Rajuha (1994, p.16).

[21] Moscow News 8-14 July 1994.

2.3 Lithuania

Lithuanian privatization started very soon after the state gained independence in 1991. The programme was based from the very start on the use of vouchers[22]. Vouchers were distributed to citizens only, and at first they were not transferrable. This may be explained by the desire to restrict the participation of the foreigners, notably Russians. Later the vouchers became transferrable, subject to certain restrictions. Vouchers could be sold to investment funds. Foreigners were still excluded.

In Lithuania, four types of vouchers were used. One type was for any citizen, one was to compensate for the loss of real value on savings because of inflation, one was for agricultural workers and one was for victims of Soviet rule. Whereas in Russia vouchers were used only to buy shares in corporatized companies, in Lithuania virtually all types of assets were privatized through vouchers, housing and land included. The aid was for vouchers to cover two-thirds of the total value of property slated for privatization.

Another method of privatizing enterprises was hard currency sales. These enterprises were targeted mainly at foreigners. However, the programme turned out to be a failure. Of 114 enterprises originally slated for this type of privatization, only three had attracted a foreign investor by the end of 1994. Thirty-nine had been sold to Lithuanian investors[23].

The initial privatization programme included certain benefits for enterprise insiders. Thirty per cent of the company's shares were reserved for employees to purchase at par. In late 1992 the government changed, and the new government introduced further benefits for employees. Since early 1993 the employees have been entitled to purchase company shares up to 50 per cent at par value[24]. There is anecdotal evidence that managers are buying employees' shares[25], a phenomenon common also in Poland and Russia[26]. As in Russia, the investment funds are important owners, along with the insiders. Usually they form a cooperating controlling block with the managers rather than act as a counter-force to insider ownership[27].

Lithuanian voucher privatization was finally completed in July 1995, after a one-year delay. Approximately 6 700 enterprises were privatized, which is 82 per cent of the former state enterprises. Eighty-five per cent were privatized by vouchers, and the remaining ones by tender or hard currency sales. At the moment, the Lithuanian parliament is considering starting the second stage of privatization, in which enterprises will be sold for cash only[28].

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[22] The Lithuanian Initial Privatization Programme is described in Frydman *et al.* (1994b).

[23] The Baltic Observer 2–8 March 1995.

[24] The Baltic Observer 5/93.

[25] The World Bank (1995, p.4).

[26] See section 3.2.

[27] The World Bank (1995, p.5).

[28] Baltic Business Weekly 31 July–6 August 1995.

In Lithuania, political factors greatly affected the outcome. It seems that the privatization programme was originally meant to be a true mass privatization programme, with the aim of de-politication without special grants for insiders, but the government constantly amended the programme *ex post*[29]. The result was something which Hirschhausen and Hui characterize as post-socialist industrial holdings (1995, pp. 10-11). Enterprises are controlled by managers, state bureaucrats and investment funds, and it is very difficult for them to raise new capital[30].

[29] Frydman and Rapaczynski (1993b, pp.267-273), Hirschhausen and Hui (1995, p.10).

[30] See also The World Bank (1995, pp.3-6).

3 Insider-Owned Companies

3.1 How Insiders Acquired Shares

The aim of insiders is to acquire at least 51 per cent of the voting stock, which guarantees them a controlling interest in the enterprise. In Poland the way to achieve this is privatization through liquidation. After the enterprise has been liquidated, the insiders can acquire it either through an employee buy-out[31] or leasing. In both cases the employees must pay the money from their own pockets. The sum is considerably large. In Poland, unlike in Russia, the enterprises are valuated at close to their market value. In nearly all cases, Polish employees pay out of their personal savings. Enterprises obtain additional funds from their profits or from the enterprises' housing fund, created in the communist period. Bank credits are rarely used, due to the high interest rates[32].

In Russia both variant 1 and 2 seem to lead to insider majority shareholding. Insiders need not acquire a majority of the shares, because the stock which the local property fund (a governmental body) holds carries voting rights only to the amount of 20 per cent of the total stock; otherwise it is non-voting[33]. The employees purchase shares in closed subscriptions with privatization accounts, which are part of the former social funds of the enterprise, and with personal savings. In the second round insiders acquire more shares with vouchers and cash, with the aim of getting a controlling stake in the enterprise. Usually the insiders succeed in gaining the controlling stake.

The procedures for enterprise valuation differ in Poland and Russia. Insiders, of course, have a strong incentive to underestimate the value of the enterprise, because the price they must pay for enterprise shares (in Poland the leasing payments) depends on this valuation. In Poland valuation is done by a consulting firm hired by the enterprise's founding body (branch ministry), and a preparatory team, nominated by the founding body, approves the valuation. That means that the valuation is done in principle independently of insiders, although the insiders can affect the availability of information from the enterprise. In Russia, valuation was done under a privatization commission, which was dominated by enterprise management[34]. This may have led into differences in outcomes. In Russia valuation of assets is typically too low, and the highly inflationary environment still reduced real asset prices[35]. In Poland valuation of assets was often too high, which caused difficulties to the enterprise to pay leasing payments[36].

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[31] Although the sale of an enterprise must be publicly announced, the employees' bid has priority, even though it is not the highest bid.

[32] Gardawski (1994, p.95).

[33] Lieberman and Rajuha (1994, p.14).

[34] *ibid.*, p.13.

[35] *ibid.*

[36] Szomburg *et al.* (1994, p.53).

3.2 Dynamics of Ownership Change

The dilemma the insiders face relates to the acquisition of new capital; they must issue either equity or debt, but both mean that they have to trade their controlling rights for capital[37]. The desire to keep control in one's own hands has led to a situation where in the sale of the enterprise's shares is restricted and hampered and bank credit is rarely obtained[38]. Insiders gained a very strong initial position in the enterprises. In Poland, in enterprises privatized through liquidation insiders were initially almost the sole owners. In Russia and Lithuania closed subscriptions ensured that insiders would get majority stakes.

A clear trend both in Poland and Russia is that employees are selling their shares to managers and outsiders. In a sample of Polish employee-owned companies at the end of 1991 almost 90 per cent of the employees were shareholders of their enterprise. In June 1994, only 72 per cent of the employees were shareholders. Employees are selling their shares to managers, whose stake has grown during the period from 12 to 17 per cent. Despite the restrictions on transferring shares to outsiders, outside ownership is growing the fastest, from 8 to 18 per cent[39]. In Russia, managers own between 15 and 25 per cent of enterprise assets. Outsiders' share rose in 1994 from approximately 20 per cent to almost 30 per cent. The significance of voucher funds in the stock markets increased considerably in 1994[40].

Managers' power in Russian enterprises is still greater than what would be expected in light of their shareholding stake. Management usually controls both the shareholders' meeting and the supervisory board. Members of the supervisory boards have customarily been elected in voting by slate. Whoever controls 51 per cent of the shares could elect a slate of his choice to the company's supervisory board[41]. Using this method the management usually gets its own candidates on the board, because employees usually vote in accord with management's wishes. In supervisory boards there seldom is an employees' representative, according to Blasi (1994a, p. 133). In his sample such representation was present in only 5 per cent of the boards. Observers of the Russian transition have frequently reported abuses concerning

[37] Debt and equity have different implications, when considered in terms of controlling rights. These implications differ depending on institutional patterns. For example, in Russia the banking sector has been passive in monitoring enterprises. See Berglöf (1995).

[38] The latter is to be explained also by high interest rates and deficiencies in the banking system.

[39] Gardawski (1995, p.68). The decline in the number of employee-shareholders is also due to lay-offs; see next section.

[40] Rossiyskaya ekonomika (1995, pp.160-162). It is questionable whether investment funds can always be considered as "outsiders". In many cases they operate in close cooperation with management. See *ibid.*

[41] In 1 January 1994 President Yeltsin issued a decree on minority shareholders rights which mandated that no more than one-third of the members of the board can be employees of the firm. The decree also introduced cumulative voting which guaranteed that board members were to be elected individually, and each share was to carry one vote. However, according to Blasi (1994b, p.6) the decree was simply ignored.

minority shareholders' rights. Outsider shareholders are simply not invited to a shareholders meetings, if one is held.

In Poland, employees usually had strong representation in supervisory boards, although in 25 per cent of the boards employees had no representation. On average employees held three-fifths of the places on the supervisory board[42]. But according to one study, supervisory boards usually are passive and support the company president and company management[43]. Manager dismissals are rare[44].

3.3 Employees' Position in Insider-Owned Companies: The Polish Example[45]

We concluded in section 3.2 that despite their significant shareholdings employees do not use their formal power to attempt to change the management, for instance. However, through their shareholding they can apply pressure on management. Let us first examine the objectives of the employees.

The difference between non-employee and employee shareholding is clear. Whereas the non-employee shareholder is interested only in his shares' value, the employee shareholder is also interested in his wages, because they are part of his cash flow. That gives the employee shareholder an incentive to maximize wages instead of the company's value. If we consider employees to act as a collective, then it is possible that employees will consider job security more important than wages. We assume that there is a negative relation between employment and nominal earnings growth. Whether there is a preference for wage increases or job security depends on employees' hierarchial relations and ownership stakes between employees, managers and outsiders.

According to these assumptions, a high ratio of earnings to total costs should indicate that employees hold a powerful position in enterprises. Szomburg *et al.* (1994, pp. 41, 86) found that in employee-owned companies this ratio was much higher than in enterprises privatized through capital privatization. We must, of course, be careful when making this kind of comparison, because these ratios are different in different branches of industry. Still, some evidence of employee power may be found in the fact that the ratio has been rising constantly, and this rise is not even dependent on the financial situation of the enterprise. At the same time, employee-owned enterprises financial situation as a group has not improved, quite the contrary[46].

In the beginning of 1990s, when depression plagued the Polish economy, employee-owned companies showed great flexibility in adapting employment to

[42] Bednarski and Wratny (1995, p.23).

[43] Gardawski (1994, p.99).

[44] Szomburg *et al.* (1994, p.68).

[45] The reason why only Poland is discussed is because it seems that only for Poland the empirical evidence reliable and consistent enough for analysis. The results are not directly applicable to Russia and Lithuania.

[46] Szomburg *et al.* (1994, pp.51-53, 63-64, 86).

falling sales. According to a survey, the employment of monitored enterprises fell 25 per cent in two and half years[47], which was more than in Polish enterprises on average[48]. Although some observers interpreted this as counter-evidence for the general assumptions regarding employee-owned companies, too hasty conclusions should not be drawn. The reductions should be seen as part of a necessary reorganization of labour in a painful transition from socialist enterprise to a market environment. Seen in this light, the reductions are quite independent of privatization or even of the ownership pattern[49]. Enterprises which did not undertake this type of reorganization early enough had to do it later, and the delay right have increased the costs[50]. Besides, if we forsake the idea that employees act as a collective and adopt the (perhaps more realistic) view that there are hierarchies among employees, we end up with the result that some groups benefit from lay-offs. The less people sharing the pie, the better for the lucky ones. Empirical evidence supports this conjecture. When employment in a sample of employee-owned companies fell by one-fourth between the beginning of 1992 and the beginning of 1994, the number of production workers fell by one-half[51].

The assumption stated above that employment reductions and earnings growth are positively correlated may not hold in the short run. If shareholders prefer to use the profits of the enterprise for wages rather than for investment, it may be possible go on for some time without lay-offs. However, this strategy is untenable in the longer run. Empirical studies show that in enterprises with a higher ownership stake in the hands of outsiders and managers the strategy is to reduce employment and raise wages, while companies with high employee ownership stakes prefer to protect employment[52]. This is consistent with the theory, of course, and raises doubts about the possibility of employee shareholding in transition economies.

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[47] From the first quarter of 1991 to the third quarter of 1993.

[48] Dąbrowski (1993, pp.34-35).

[49] On this see also Szomburg *et al.* (1994, p.23). Even state-owned enterprises reduced employees significantly in the same period. See Dąbrowski *et al.* (1992, p.27).

[50] Pietrewicz (1995, p.31).

[51] *ibid.*, p.28.

[52] *ibid.*, pp.32, 36.

4 Concluding Remarks

Insider control in enterprises is a legacy of the communist era and the reformist attempts of the time. It was avoided only where the initial control of insiders was weak, as in Czech Republic[53]. If insider control is strong and if the aim is to deprive politicians and state bureaucrats control, coalition building between enterprise insiders and policy reformers becomes necessary. By giving control rights to insiders, politicians' and bureaucrats' share in control is reduced, which has been the main strategy in Russian privatization[54].

Insider privatization has led to managerial control rather than worker control, although differences in workers' power probably exist between Poland and Russia. However, there are two kinds of threats to insider control. The first kind is macroeconomic in nature. Hard budget constraints and import competition force enterprises to behave efficiently. Under market pressure, no firm can afford wasteful behaviour, no matter who is the owner. Restructuring becomes necessary. And here is the problem: Closing themselves off to outside investors, insider dominated enterprises are unable to find sufficient funds for the necessary restructuring. Facing the real threat of bankruptcy, these enterprises are forced to open up. In Poland the hardening of budget constraints probably worked in this direction, in Lithuania and Russia much work remains to be done.

The second type of threat is microeconomic: the changing institutional environment. In the future it may be easier for outsiders to gain majority stakes in enterprises. Corporate governance mechanisms are evolving. First, corporate take-over was already been attempted in Russia[55]. The further development of the stock market and better protection of property rights may lead to the transfer of shares to outsiders on a larger scale. This year, when the state is auctioning off the shares it is holding, new possibilities will arise to reorganize corporate shareholding.

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[53] Phelps *et al.* (1993), p.8.

[54] See Boycko *et al.* (1995) and Shleifer (1995).

[55] See Transition (OMRI), 11 August 1995, p.32.

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