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A Comparison of Corporate Governance in Transitional Economies

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Abstract: The article examines the different paths taken by China and the former USSR to reform their economies from a centrally planned to a market economy. China embarked on a "Gradualist Policy" of trial and error to reform their economy while the USSR adopted the "Big Bang" approach. The results speak for themselves as China's economy increased fourfold between 1990 and 2000 whereas Russia's economy contracted by some 60 percent. Many of the Central and East European Economies who followed Russia in the Big Bang approach experienced the same dismal result. Today these countries including China have large segments of their economy marketised but nevertheless they still have the same problems of corporate governance

1 An Overview of Transitional Economies

Many former centrally planned economies are in transition to market economies. China was the first planned economy to make reforms but Central and Eastern Europe and the Soviet Union were not far behind. This article analyses corporate governance problems faced as they transited from planned to market economy. There were both similarities and differences: similarities in thetypes of corporate governance problems faced and differences in the transitional methodology adopted.

After World War II, the world was divided into two competing blocs, the Socialist Bloc countries led by the former Soviet Union and China and the capitalistic countries led by the USA. The Socialist Bloc included the Central and Eastern European countries while the Capitalistic Bloc included Western Europe and Japan. The Socialist Bloc countries had centrally planned economies while the Capitalistic Bloc had free market economies and both competed for economic and political influence on the world stage. By the late nineteen seventies, it was obvious that the free market economies were winning in the economic arena.

China was the first centrally planned economy to experiment with free market mechanisms. Economic reforms began in 1979 with privately rented farming plots being allowed to co-exist beside state owned lands. State Owned Enterprises (SOEs) and factories were allocated certain production targets with the excess production being sold on the free market. Profits earned were shared between the management and workers of the business enterprises. The result was dramatic. After a decade of economic dislocation and stagnation caused by the Cultural Revolution (1966-1976), the economy picked up and showed sustained and substantial growth over the next two decades. According to China's National Bureau of Statistics, Gross Domestic Product (GDP) growth for the period 1979 – 2004 averaged 9.6% pa. (*www.china.org.cn.Xinhua News* 10/1/2006).

The Soviet Union, after their debacle in Afghanistan and with a new leader, Gorbachev watched the economic reforms in China with interest. He implemented "Glasnost" and the "Perestroika" movement in 1987 (a series of political and economic reforms) which ultimately led to the fall of the Berlin Wall in 1989 and signaled the collapse of Communism in Central & Eastern Europe and the Former Soviet Union. (CEEFSU) Authorities in the CEEFSU economies had no doubt that they wanted to transit to free market economies, but the big question was - how to manage the transition? Should it be done gradually as in China or should a Big Bang approach be adopted?

We study the two models of economic transition – the Gradualist model of China and the Big Bangapproach adopted by CEEFSU. Why did the countries adopt different models? What was corporate governance like before and after the transition? Our study finds that there are broad similarities in the corporate governance problems. We study these problems and examine how these corporate governance problems are being resolved.

2. The Big Bang Approach vs the Gradualist Approach

When economic reforms started in the CEEFSU, most economists in the West favoured a Big Bang approach which recommended introducing free market mechanisms as quickly as possible (Blanchard, Dornbusch, Krugman, Layard & Summers, 1993; Lipton, Sachs, Fischer &Kornai, 1991, p.77). Economists from the USA, delighted with the fall of the Berlin Wall in 1989 and the collapse of Communism soon after, were only too happy to advise Russia and the former Soviet Bloc countries on the economic transition. This was the Washington Consensus (Williamson, 1993) and basically called for an instantaneous approach with the adoption of free market discipline, the introduction of strong property rights, privatization of SOEs, liberalization of the economy and the establishment of free market institutions. The model of corporate governance recommended was based on that of the USAie the Shareholder Value model. The result of the Washington Consensus was that most of the countries in CEEFSU adopted this approach.

When China began her road to economic reform, there were no economic theories to model on and no blueprints to follow. The reform process was gradual, piecemeal, incremental, experimental and without large scale privatization of the SOEs (Lin, Cai & Li; 1996b, p.1). China chose instead to corporatize the SOEs (the CEEFSU in contrast privatized the SOEs) and this process started in the late nineteen eighties and accelerated in the nineteen nineties when the two stock exchanges in Shanghai and Shenzhen were established in 1990/1.

China's reform process was gradual and incremental because it was the first centrally planned economy to attempt the transition to a market economy. By comparison, when the CEEFSU countries began their economic reforms, the Western economists had formulated a roadmap for them to follow. The Big Bang economic theory made sense and appeared perfectly feasible. The fact that the CEEFSU countries were ethnically, culturally and geographically close to Western Europe made it easier for them to follow what the Western economists recommended. Western economists explained that the Big Bang theory of economic transition would have a "J curve" effect i.e. the GDP of the country would fall initially but would within a short period of time experience strong recovery. Unfortunately, the strong recovery did not happen and most of the CEEFSU economies experienced continued declines of GDP with high inflation rates and high unemployment. In fact, during the period 1990-1999 the Russian GDP fell by almost 60%.(Leng 2009, p.6). Brada& King (1992), based on their study of what happened in Poland, Hungary and the Czech Republic, write that there is no such J Curve and attribute the steep declines in those three countries to incorrect macro policies. China in comparison not only did not suffer GDP declines but continued to attain strong economic growth.

3. Reasons for the Different Economic Results

Economists are at a loss to explain the success of China's Gradualist model of transition as it is not supported by any economic theory (Nolan, 1993, 1994). Why would a bottom-up incremental approach prove superior to a comprehensive, top-down model sanctioned by authorities? It has been argued that China's success is due to its unique conditions: high agrarian sector of the economy, low percentage of industry in the economy, low financial subsidies to the population and a rich *diaspora*of overseas Chinese (Sachs & Woo, 1994,1997, Qian & Xu 1993) – that these were special conditions which other economies of the CEEFSU could not emulate. Another explanationwhich is more plausible as to why China succeeded was that correct macro policies were implemented, fostering rural markets, encouraging private enterprises, reform of state enterprises, price reform, decontrol of consumer goods, an open-door investment policy and changes in the role of government planning (Chow, 1993).

The Big Bang transition model attempts to replace inefficient economic systems with a more efficient one based on free market forces which was to be implemented instantaneously. Unfortunately the privatization of SOEs in CEEFSU was slow and took much longer than expected (Muriel & Wang, 1993) with the result that it was effectively a Gradualist approach. However, the heavy costs of the shock treatment and dislocation to the CEEFSU economies outweighed subsequent gains; these were problems China avoided because of its Gradualist approach. China's Gradualist model was regarded by several economists as being superior to the Big Bang model (McMillan & Naughton, 1992; Murrell, 1993, Jefferson, Rawski& Zheng, 1992) but unfortunately the CEEFSU countries chose not to follow it.

4. Corporate Governance in Russia

The Russian corporate environment is today characterized by high ownership concentration (especially in the hands of insiders, see Table 1), weak legal institutions, underdeveloped capital markets, a segmented labour market and significant involvement of the state in businesses. (Lazareva, Rachinsky & Stepanov, 2008, p. 324).

What went wrong? Many Russians today see the bold moves in the early nineteen nineties to privatize the state property and end price control as unmitigated disasters for their country (Djatej, Sarikas, Senteney, 2008). Proponents of the Big Bang approach had hoped that the profit incentive unleashed by the privatization of the SOEs would soon revive faltering centrally planned economies. That revival did not happen in Russia and there are explanations. Firstly, mass privatization led to massive self dealing by managers and controlling shareholders, and secondly, profit incentives to restructure privatized enterprises were swamped by high taxes, corrupt officialdom, organized crime and an unfriendly bureaucracy (Black, Kraakman & Tarassova, 2000, p. 1731).

The capital market in Russia today remains relatively underdeveloped. Statistics in 2005 show that the stock market capitalization relative to GDP stood at 44% while comparable figures was 72% for France, 81% in Japan & 135% in the USA. The volume of private sector credit as a share of GDP was 21% in Russia compared to 90% for France, 75% for Japan and 222% for the USA (Lazareva, Rachinsky&Stepanov, 2008). Most Russian firms therefore have to rely on internally generated funds for expansion.

Russia, like most transitional economies has weak legal institutions and this has discouraged investors and negatively affected her ability to raise external finance. (Pistor, Raiser, Gelfer, 2000) There have been plenty of laws enacted; the Law on Joint Stock Companies, Law on Securities Markets, Law on Investor Protection, Bankruptcy Law and Tax Law. However, their enforcement is weak because of corruption, official interference and the tendency to resort to unofficial means. Nevertheless, progress in corporate governance has been made (Puffer & McCarthy, 2003a), as Russia's intention to join the WTO and the desire to attract foreign direct investments have been prime levers in raising corporate governance standards (Puffer & McCarthy, 2003b).

4.1. Corporate Governance Problems in Russia

Corporate governance problems in Russia arise mainly between controlling shareholders and minority shareholders.The ownership structure is thus very important and is studied in Table 3-1 of this chapter. These problems arose because weak legal institutions and under developed capital markets encourage controlling shareholders to behave opportunistically towards minority shareholders. These actions have included transfer pricing, asset stripping, share dilution and outright theft (Lazareva, Rachinsky & Stepanov, 2008).

Another problem relates to the conflict between the State as a shareholder and the controlling shareholders. During the early nineties, the Russian government under advice from American economists instituted the "voucher-for-share" and the "loan-for-shares" schemes and these have come to be viewed as state-sponsored theft of state property. According to Guriev&Rachinsky (2005) and Shekshnia, Puffer & McCarthy, (2004, p.74) about 40% of total Russian industry belong to 22 large business groups controlled by oligarchs. The Russian government is now aggressively pursuing a policy of re-nationalization of these industries with the Yukos case being the most famous example.(Yukos used to be the largest oil producing company in Russia.) This is due to the nationalistic view in Russia today that corporate governance should serve the objectives of the State rather than those of individual shareholders (Djatej, Sarikas,.Senteney, 2008 p.248).

4.2. Ownership and Corporate Governance

Table 1 below shows ownership structure of Russian industry: insiders comprising managers and workers own over 50% of the shareholdings. Such

Table 1
Ownership Structure in Russian Industry from Different Surveys

Survey Data	*Bureau of Economic Analysis 2000 %*	*Russian Economic Barometer 1999 %*	*Biasi 1996 %*	*Nottingham Sample 1995/96 %*	*World Bank Sample 1994 %*
Insiders	**62.3**	**46.2**	**58**	59.6	**66.1**
Managers	17.7	14.7	18	14	19.6
Workers	34.5	31.5	40	45.6	46.2
State	5.7	7.1	9	9.3	15
Outsiders	32.0	42.4	32.1	31.3	18.9
Individuals	)	18.5	6	6.5	5.9
Non-Finance	)	13.5	15.3	10.3	6.7
Firms	)	1.0	1.6	1.5	1.0
Banks	) 0	3.9	5	4.6	4.6
Investment firms	)	2.0	1.6	1.0	0.4
Foreigners	)				
Investment	)	3.5	2.6	5.4	0
Companies	)	4.3	0.9	1.7	0
Others					
Sample Size	364	139	357	314	235

Source: Carsten Sprenger: "Ownership & Corporate Governance in Russian Industry-A Survey" EBRD 2002 high concentration arose because of the mass privatizations of state-owned assets to the workers and managers, the "voucher-for-share" issue to workers/managers and the state-sponsored loans for the purchase of shares throughout the mid to late nineteen nineties. (Sprenger, 2002, p. 3).

Although the managers do not have majority control, their influence on the management is overwhelming as workers tend to vote with management. Together, the workers and managers have effective control of the company and they often make decisions that infringe on the rights and economic benefits of the state and outsiders. This happens because of weak legal institutions and corrupt bureaucracies. Hence the importance of building market supporting institutions in the transition to market economies and this applies equally to both Russia and China. (Leng, 2009) The foreign investment holding companies do not play an active role in promoting sound corporate governance at all. This is because they hold small stakes (average less than 5%, see Table 1 above) and do not participate in the management of the firms they invest in, using the international media to highlight gross abuses when it affects them.(Dyck, Volchkova& Zingales, 2007)

One of the results of insider control is the frequency of asset stripping, where the company's prime assets are transferred or sold at below market prices to an entity controlled by insiders. Another example of asset stripping is through the practice of transfer pricing, where goods/products are sold by the company to another entity controlled by insiders at below market prices which are then onsold into the market place for handsome profits. Both are common occurrences in Russia. (Fox & Heller, 1999) Yet another method is share dilution, where preferential shares or convertible bonds were issued to insiders or insider controlled companies which resulted in outside minority shareholders being disadvantaged. Share dividends were also delayed and non-transparent investment projects proposed instead of dividend payments. Minority shareholders depend on the company for information disclosure and transparency to be advised on the company's activities and dealings. These were often blocked or not performed at all. There was restricted access to annual shareholders meetings, barring outside investors from taking seats of the board of directors, voting irregularities and violations of laws relating to share issues (Sprenger, 2002).

4.3. What Role do Directors, Managers and Employees Play?

Russian companies show a heavy concentration of shareholdings and the controlling shareholders are the insiders, who together with management, exercise control over the board of directors. Independent directors do not play a significant role in Russia and much board time is devoted to investment strategies, warding off state encroachment and abusing outside minority shareholders. Worker employees are fairly significant shareholders in the company, but they are not represented on the board of directors. (Blasi &

Schleifer, 1996) Also as they are part of the insider group that control the company, they vote along the lines directed by the board.

There is a market for takeovers and acquisitions in post Soviet Russia but the players have different rules which are often unethical. Weak institutions like inefficient legal courts, weak property rights, corrupt bureaucracies and lack of free market forces result in bribery, coercion and mafia tactics to achieve predatory takeovers. These targets are often firms with bad corporate governance, but a successful takeover is no guarantee of future success. Often the takeover is motivated by the takeover benefits of personal control rather than the desire for efficiency. International media sometimes play a role in changing corporate governance when corporate governance violations arise (Dyck, Volchkova, Zingales, 2007). Overall the net effect of takeovers and acquisitions on corporate governance is unclear.

4.4. Transparency and Disclosure Levels in Russia

Traditionally, Russians have distrusted transparency because of their long years of Soviet dominated surveillance by the KGB (Russian Secret Police), when information was hidden and secrecy abounded. Company officials have also learned, early on, the value and reality of secrecy, opacity and obfuscation. (Dean, 2004b, p.389) In a Survey of Russian companies in 2007, Standard & Poor's found that the Russian companies had an average corporate governance score of 5.7 out of a maximum of 10. Scores of 7-10 indicate strong global standards of corporate governance, scores of 4-6 indicate basic corporate governance standards are in place but shortcomings exist and scores of 1-3 indicate that there are serious and fundamental weaknesses in corporate governance practices. Table 2 thus shows that Russian companies have basic corporate governance structures and mechanisms in place but that shortcomings still exist.

Table 2
Russian Companies Corporate Governance Scores: 2007

	Ownership Structure & External Influence	*Shareholder Rights & Stakeholder Relations*	*Transparency, Disclosure & Audit*	*Board Structure & Effectiveness*
Average	5.6	6.7	5.7	5.3

Source: Standard & Poor's: "Corporate Governance: Russia's slow march to global corporate governance standards" Jan 2007. Note: Maximum score of 10 per category.

Transparency and disclosure levels in Russian companies have been improving although government corruption in Russia remains high (Standard & Poor, 2007a). Another survey of the transparency index for Russia's thirty largest banks indicated that the level of transparency was 36% compared with 85% for international banks (Standard & Poor's 2005).

5. Corporate Governance in Central and Eastern European countries

Central and Eastern European countries underwent the same experiences as Russia, as most of them also adopted the Big Bang approach or a variation thereof for the transition to a market economy. Therefore their problems of corporate governance are similar to those of Russia. We will examine the corporate governance of several of those countries. Tables 3 to 6 contain data extracted from seven leading countries in Central & Eastern Europe who are more advanced in the corporate governance arena. We have omitted the smaller countries like Armenia, Azerbajian, Croatia, Georgia, Latvia, Macedonia, and Slovenia.

5.1. Shareholder Rights

Poland has the best corporate governance practices among the former Soviet dominated countries. It was the first country where radical market reforms were instituted and where strong economic performances were achieved. (Belka, Krajewska & Krajewski 1999) Table 3 shows that of the seven countries selected, only Poland has largely implemented the protection of shareholder rights. Bulgaria and Czech Republic mostly observe shareholder rights protection while Hungary, Romania, Slovakia and the Ukraine only partly observe such rights.

Table 3
Eastern Europe: Protection of Shareholder Rights

Country	*Observed*	*Mostly Observed*	*Partly Observed*	*Mostly Not Observed*	*Not Observed*
Bulgaria		X			
Czech Republic		X			
Hungary			X		
Poland	X				
Romania			X		
Slovakia			X		
Ukraine			X		

Source: Robert McGee: Corporate Governance in Transition Economies. Springer 2008 p. 22

5.2. Board Functions

Board of directors' duties and responsibilities and their fulfillment are crucial for the exercise of good corporate governance in any country, an area that is grossly lacking in Eastern Europe. Poland and the Czech Republic are leaders in this area but then fulfillment of board functions is only partially observed. The other five countries in the list mostly do not fulfill board functions.

5.3. Timely and Accurate Disclosure

Timely and accurate disclosure of all material matters is crucial to the establishment of sound corporate governance models, whether UK/USA or

Table 4
Eastern Europe : Fulfillment of Board Functions

Country	*Observed*	*Mostly Observed*	*Partly Observed*	*Mostly Not Observed*	*Not Observed*
Bulgaria				X	
Czech Republic			X		
Hungary				X	
Poland			X		
Romania				X	
Slovakia				X	
Ukraine				X	

Source: Robert McGee: Corporate Governance in Transition Economies. Springer 2008 p. 50

European (Boeva&Prohaska, 2002) and Table 5 shows that in Eastern Europe, only Hungary and Poland mostly observe this requirement. Bulgaria, the CzechRepublic and Romania partly observe while Slovakia and the Ukraine mostly do not observe it at all.

Table 5
Eastern Europe:Timely and Accurate Disclosure of all Material Matters

Country	*Observed*	*Mostly Observed*	*Partly Observed*	*Mostly Not Observed*	*Not Observed*
Bulgaria			X		
Czech Republic			X		
Hungary		X			
Poland		X			
Romania			X		
Slovakia				X	
Ukraine				X	

Source: Robert McGee: Corporate Governance in Transition Economies. Sprenger2008 p. 42

The timely and accurate disclosure of information refers to two main areas: the preparation of accounts for management and the lodgement of annual reports to the relevant stock exchanges. For accounts to be useful to management, they must be accurate, frequent and timely. Hence, company accounts must be prepared on a monthly basis and they must be made available to management a few days after the month end, not one to two months later. Similarly annual reports including annual accounts of the corporation must be lodged with the stock exchange within a limited time frame of the end of the financial year, not one year later on.For all this to happen, the company needs a high degree of computerization and fairly high tech information technology systems. Not many of the companies in the Eastern European countries have such up to date systems.

5.4. Independent Auditors

The concept of independent auditors is integral to good corporate governance in free market economies and we find that in Eastern Europe, the only country that practices this concept is Poland. The Czech Republic mostly observes it but Bulgaria, Hungary, Slovakia and the Ukraine only partly observe it while Romania mostly does not observe it at all. However Kosmala & Sucher (2006) have raised doubts as to the practicality of independent auditors as practiced in the Anglo-American context being applied to Central and Eastern Europe. This is because many of these Eastern European countries lack the free market mechanisms of the west and the concept and practice of independent auditors is completely new to these economies. Nevertheless, it is noted that Poland and the Czech Republic have implemented the recommendations of the International Federation of Accountants Code (IFAC) in regards to independent auditors.

Table 6
Eastern Europe : Independent Audits

Country	*Observed*	*Mostly Observed*	*Partly Observed*	*Mostly Not Observed*	*Not Observed*
Bulgaria			X		
Czech Republic		X			
Hungary			X		
Poland	X				
Romania			X	X	
Slovakia			X		
Ukraine					

Source: Robert McGee: Corporate Governance in Transition Economies. Springer 2008 p. 44

5.5. Corruption Index

Transparency International, a Non GovernmentOrganization (NGO) devoted to measuring transparency and corruption in major world countries conducted a survey in 2007 and found on a scale of 1-10 with 10 being the most transparent and least corrupt, that the Central and Eastern European countries had indices ranging from 2.6 for the Ukraine to 5.2 for both the Czech Republic and Hungary. The survey shows that the Ukraine is the most corrupt and least transparent of the 7 countries measured and is far behind the CzechRepublic and Hungary. These two countries may be considered to be fairly transparent and fairly free from corruption.

Table 7
Corruption Indicators

Country	*Bulgaria*	*Czech Rep*	*Hungary*	*Romania*	*Slovakia*	*Ukraine*	*Poland*
Corruption Index	4.0	5.2	5.2	3.6	4.8	2.6	4.2

Source: JG Lambstaff: Transparency International. "Corruption Perception Index Sept 2007

5.6. Summary of Corporate Governance in Central and Eastern Europe

The conclusion to be drawn from Sections 5.1 to 5.5 is that Corporate Governance in Central and Eastern Europe still has some way to go. While it has improved and is improving, it is not at a fast pace. The tables above indicate that after some two decades of economic transition, major indicators of good corporate governance show that most of these governance practices are either only "partly observed or mostly not observed." The above data are from the more advanced economies of Central and Eastern Europe and other smaller states are even more backward in their governance structures. Poland is the most advanced country in terms of its governance practices because it was the first Eastern European country to pursue radical economic reforms. The CzechRepublic and Hungary are also more advanced than the other countries surveyed.

6. Comparison of Corporate Governance in Russia with China

Russia and China are both large continental countries and former centrally planned economies in transition to market economies. There are both similarities and differences: similarities because of their socialist background and differences because of the different model each adopted for the transition. China in the nineteen fifties copied in large measure Russia's economic model, embracing centralized planning with an emphasis on heavy industries but she opted for the Gradualist approach to a market economy. It has proven successful (Trumpbour, 2007).Russia, in comparison adopted the Big Bangapproach with disastrous consequences.A strong prevailing view in Russia today is that America and the West shamelessly and deceitfully exploited the Russian people and the nation during the nineteen nineties when there was goodwill and trust in them. (Djatej, Sarikas, Senteney, 2008).

Standard & Poor's has compiled a Report "How Does Corporate Governance in Russia Stack up Against the BRIC countries (2008)?" The report used four parameters to measure corporate governance in the BRIC countries and while it is not comprehensive it is indicative. We use the information for Russia and China to make this comparison.

6.1. Market Infrastructure

This is an indication of the extent of the development of institutions which are normally associated with free market economies and would include stock and commodity exchanges, securities markets, the sophistication of the banking system, foreign exchange markets etc. China is ahead of Russia in this category because China started her economic reforms earlier than Russia and China has had relatively fewer problems in her transition to free market status than Russia.

Both Russia and China however, are similar in that they suffer from high concentrations of ownership. Standard & Poor's own disclosure research

(Transparency & Disclosure by Russian Companies 2007c) indicated that 71% of Russia's largest 80 public companies had a controlling shareholder of which 30% were held by the government. In China about 70% of public listed companies are controlled by the State.

Table 8
Comparison of Stock Markets in Russia and China

	Russia	*China*
Number of companies on domestic exchanges	320	1,507
Daily turnover Jan 2008 (blnsUS$)	4.49	40.38
Stock Market Capitalization (US$ blns)	1,298.8	5,424.4
Stock market capitalization (% of GDP)	106.7	167
Number of companies with USA listing	7	73
Number of companies with UK listing	51	73

Source: Standard & Poor Report "How Does Corporate Governance in Russia Stack up Against the BRIC countries" June 2008 p. 3

6.2. Legal Infrastructure

Standard & Poor's believes Russia maintains a relatively effective legal infrastructure for corporate governance with well defined minority shareholder rights, low holding thresholds required to nominate directors, annual board elections and universal cumulative voting for directors. China's legal infrastructure is notable for guaranteeing equality of voting rights at shareholder meetings. It also offers minority shareholders pre-emptive rights on new shares. On the whole China's legal infrastructure is adequate with a panoply of laws and regulations to supervise corporate governance.

A critique of the legal infrastructure is however the fact that legal enforcement in both countries is weak with the Russian legal enforcement being compromised by a corrupt judiciary (Zhuplev&Shein, 2004, p.123), and in China's case by a judiciary which tends to make judgments in favour of local parties.

6.3. Regulatory Infrastructure

Russia's regulatory infrastructure is not well developed. The Corporate Governance Code is voluntary for all public companies and touches only 22 out of a total of 320 public companies. (Standard & Poor's, 2008 p.6) Because it is voluntary and limited, corporate governance improvements have been slow. Other regulatory weaknesses include the independent directors who are not really independent at all. Many directors in SOEs are also executives in other SOEs; yet they meet the criteria for definition of independent directors. They are also other irregularities which exist in determining the rules of the independence of share registrars and also rules regarding the independence of internal auditors. Another result of Russia's lack of regulatory infrastructure is that NPLs tend to be on the high side. According to a senior central banking official, the share of NPLs in Russian banks may reach 12 percent by the end of 2009(Reuters,5-3-2009).

China has two important pieces of legislation relating to corporate governance - they are Rules Governing Listing of Stocks & Shares and the Code of Corporate Governance, both of which are compulsory for listed companies. The Code of Corporate Governance is based on the Anglo-Saxon model of corporate governance while the Shanghai Stock Exchange's Rules Governing the Listing of Stocks is based on the Hong Kong Stock Exchange. Apart from the above legislations, the Company Law and the Securities Law also impinge on corporate governance.

Unlike Russia, China has strong and adequate regulatory infrastructure in place. However enforcement is lacking as the judiciary is weak and the regulatory bodies lack sufficient resources.

6.4. Informational Infrastructure

Transparency and information disclosure are extremely important to investors and in Russia minority investors are especially concerned about this because of widespread abuses wielded by insiders. Unfortunately Russian corporate governance is sorely lacking on informational infrastructure. In terms of accounting standards, Russian standards are not useful for investors and Russian companies do not need to consolidate accounts. Russian accounting standards differ from Internationally Financial Reporting Standards (IFRS) in several key areas which make difficult interpretation of Russian company accounts. Russian corporate accounts are also prepared to minimize revenue and profits so that less tax is paid to the government. This results in skewed and inaccurate accounts. Only a small number (22) of Russian companies prepare their accounts according to US Generally Accepted Accounting Standards.

China, by comparison has made tremendous progress in transparency and information disclosure over the past decade. This was due to the strong regulatory regime and the desire by all parties involved in the corporate governance process to achieve better corporate governance. In 2007, China adopted new accounting standards which are close to IFRS (S & P Report 10 June 2008), and this has certainly helped in the inflow of foreign investments into Chinese stock markets.

Transparency International, an NGO devoted to measuring transparency and corruption in major world countries, conducted a survey (Lambstaff, 2007) and found, on a scale of 1-10 with 10 being the most transparent and least corrupt, that Russia had an index of 2.5 while China had an index of 3.5. Both indices are not good but Russia is lumped at the bottom end with Indonesia and Angola, both of which are notoriously corrupt countries while China is gauged to have similar standards as Brazil and India.

7. Conclusions

The conclusion to be drawn about corporate governance in transition economies is that many problems still exist. The last three decades have been tumultuous, as first China and then CEEFSU made the transition from planned to market economies. China adopted the Gradualist model while the CEEFSU mostly adopted the Big Bangapproach. All of them today have large portions of their economy functioning as market economies. These economies either privatized or corporatized their SOEs using their own chosen model of economic transition.

An interesting observation is that in the main, the problems of corporate governance are similar regardless of which model of economic transition chosen. Both Russia and China have corporate governance problems relating to insider dealing, controlling shareholders, abuse of minority shareholders, fraud and misappropriation. There are also NPLs, lack of transparency, lack of information disclosure and regulatory shortcomings which each has yet to overcome. The Central and Eastern European countries underwent the same experiences as Russia and manifest to a greater or lesser degree similar problems. The problems may vary slightly because of peculiar situational circumstances and because of differences in cultural legacies.

We can also make the assertion that China's Gradualist model of change to a market economy has been a success whereas the Big Bang transition to a market economy chosen by CEEFSU countries has been less successful. To call it a failure would be incorrect because those countries have functioning market economies today; they just paid a heavy price for that privilege.

We can conclude that in Central and Eastern Europe, Poland is the most advanced country in terms of corporate governance practices. Similarly when comparing the corporate landscape in Russia with China, China can be considered to be ahead of Russia. Nevertheless much remains to be done in all these countries.

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