Ownership Changes and Corporate Governance in Ukraine 1995-1999

Saul Estrin*, Adam Rosevear**

Abstract. The authors investigate ownership changes and corporate governance in Ukraine. The key problem with all mass privatization methods is therefore that they may fail to create effective forms of corporate governance. We conclude that no ownership form had managed to change corporate behaviour in Ukraine before 1999, and if still true, underlines the need for radical policy changes and capital market development to make external ownership more effective.

Key words: ownership structure, privatization, corporate governance.

Introduction

In this paper, we use the results from an enterprise survey to document the changes in ownership in Ukraine between 1995 and 1999. We commence with a discussion of the conceptual issues[1] and then turn to the results from the survey, before drawing policy conclusions. It was expected that privatization in Ukraine would improve company performance as well as bringing much-needed resources to the state coffers. The state owned sector produced virtually all of industrial output in the communist bloc as recently as 1991. This meant that the shift back to private hands had to be more diverse in character than previous privatizations in the West, for example in Britain, which is what we found in the survey.

The role of privatization in the transition process is a critical one. However, while it raises particular problems and dilemmas, it remains only one of many elements in the process of transition from a socialist to capitalist economy. The other major components in a successful reform programme are macroeconomic stabilisation following price liberalisation; opening the economy to foreign trade and competition; developing effective and liquid capital markets and institutional reform, including of the legal system and to the functioning of the state[2]. Several of these have proved particularly difficult in Ukraine

Private ownership of firms is, nonetheless, pivotal to the success of market reforms. High on most lists of explanatory factors of the slow pace of Ukrainian economic development during the 1990s was the inefficiency of the state-owned enterprise sector, which failed to invest, innovate or produce rationally, which squandered material inputs, labour and energy. It is widely believed that the economy cannot be turned around until new managers, and new systems to motivate both workers and managers, have been established, and privatization is an important input to this.

In the following section, we outline the privatization debate. We consider in detail the main options for privatization, summarise the various routes chosen in Ukraine and the outcome for market structures. We use this framework to motivate our discussion of the findings on ownership changes, before drawing policy conclusions.

Why Privatise At All?

Almost all observers take the need for privatization, and indeed rapid privatization, for granted. Given that privatization has proved both difficult and slow in Ukraine[3], with progress also

[*] Deputy Dean, London Business School, sestrin@london.edu
[**] Chargé d'Affaires, SOFRECO, adamrosevear@hotmail.com
[1] See Vickers (1988), Estrin (1994)
[2] See World Bank (1996), Stiglitz (1999)
[3] See Estrin and Rosevear (2003)

limited in many other NIS countries,[1] it is worth reminding ourselves of the reasoning behind this conclusion.

The primary argument for privatization concerns incentives; in particular the potential dissonance between the task of restructuring state-owned firms and the motivation of management[2]. In all firms where owners do not directly control decision-making themselves, mechanisms of governance are required to ensure hired managers maximise profits. In the West, these issues are addressed through the disciplines of the capital market. The share price, which itself reflects a market-based evaluation of the future profitability of the firm, is publicly available information upon which to evaluate the performance of one management team against another. Share prices can also form the basis for takeovers, where alternative management teams replace poorly performing ones. Another `solution' for managerial deficiencies is bankruptcy or associated financial restructuring. Perhaps most importantly people monitoring the companies' performances are motivated to get it right by the prospect of their own financial gain if they can guess better than the market a firm's future prospects.

By contrast, state firms have no market based evaluation of their performance. Management is aware that governments are not particularly interested in profits, but in a variety of objectives, many political and social. They can exploit this lack of focused purpose to their own advantage, for example enjoying an "easy life" or failing to keep a tight grip on costs, especially labour costs.

Similar arguments apply in an extreme form in Ukraine. The main task of management in state enterprises during transition is usually restructuring. One example is financial restructuring, including the stripping away of social assets such as housing, health clinics and crèches as well as the more conventional disposal of peripheral activities. There may be many of these because planning made firms wasteful of all resources, including plant and land. Another example is reducing the labour force. A third task is developing new products and finding new markets, especially in the West. The interest of the state as owner in these matters is mixed. Politicians may be under pressure to prevent restructuring to avoid unemployment or a deterioration in social provision.

In short, the state as owner in countries like Ukraine had neither the interest nor power to impose a profit orientation on managers in the early years of transition. This hindered effective change because the former socialist managers were still in charge in most places, and their most likely interest in the face of all the changes was to attempt to preserve the status quo, especially with respect to employment and the local community. Even if they had had the appropriate skills and experience, such managers did not have the incentive to restructure their organisations for competition on world markets. They instead probably worked for the interests of major stakeholders - the labour force as a whole (including management); the local community to which the firm may be a major supplier of public goods, services and housing as well as jobs; and perhaps even to networks of suppliers of intermediate inputs. There is no one in this list concerned to defend the return on capital, which probably took a relatively low priority as a consequence.

There are occasions when state ownership and the absence of effective governance could have even had more serious consequences for the transition process, namely when the players within the firm were motivated to play an endgame. For example, consider the situation in an enterprise, where the relative price changes or a decline in demand had left clearly non-viable; for example a supplier of defence components whose market had disappeared. Managers and workers in such companies might realise that, once capital market forces were operating effectively, the company would be closed. In the interregnum, they have incentives to decapitalize the company, and to use its (possibly not insignificant) credit lines in effect to absorb assets from more productive uses.

In addition, there is a further practical reason for privatization to take place prior to restructuring in state-owned firms. Restructuring involves investment, and the Ukrainian govern-

[1] See EBRD Transition Report, 2001)
[2] See Estrin (1994)

ment has had few resources to make available to the enterprise sector. Privatization, at least in principle, holds out the promise of access to relatively cheap new funds from the new owners. Perhaps even more enticing is the hope that the new owners will be foreign firms, in part or in full, bringing simultaneously capital and access to Western design, technology, markets and managerial expertise[1].

Who Will Own the Firms?

The reasons for privatization are clear; as a symbol of reform and as a way to address the manifest lack of international competitiveness of the Ukrainian enterprise sector. But in Ukraine, domestic private savings are scarce, capital market institutions are weak and existing stakeholders in state-owned firms are powerful. Traditional modes of privatization by the state divesting its assets through capital markets to individual and institutional private owners are hard to implement.

Our discussion of the alternative methods of privatization and the resulting ownership structures revolves around Table 1, which presents the main options available to reforming governments in all transition economies. The debate has focused around two closely related issues. The first is whether to attempt to sell state-owned firms for something approaching their market price, or to distribute the ownership rights in the enterprise for free (or for nominal sums). The second issue is whether to seek owners from existing (or previous) stakeholders or from interested parties outside the firm. The latter must effect corporate governance through capital markets and therefore it may be sensible to ensure that ownership is concentrated, by seeking so called "strategic owners".

The arguments in favour of selling firms rather than giving them away seem in abstract convincing. Most importantly, the new owners are established via a process of financial exchange. Hence the people who obtain control are those who are willing to bid the most, presumably because they believe they can achieve the highest return from the assets. Selling also has the advantage of bringing revenues to the government coffers, which would be an advantage in the Ukrainian context.

Table 1

How to Privatise and to Whom: To Whom

	Existing Managers and Workers	General Population	Previous Owners	Foreign and Domestic Private Firms
By Sale	Employee management buy-outs	Stock market flotation	-	Joint ventures, foreign direct investment
By Free Distribution	Employee Management buy-outs at subsidised prices	"Voucher privatization"	Restitution	

These efficiency arguments in favour of selling ownership rights to the highest bidder are strong when capital markets function well, but transitional economies like Ukraine actually have poorly developed and illiquid capital markets. Hence the people best able to use the assets may not be able to enter the auction at all and selling may end up inefficient or infeasible. It will certainly be very slow. Even in the United Kingdom, with a technically competent civil service and sophisticated capital markets and where the privatization revenues were only a modest proportion of domestic capital formation in any year, each privatization project took several years to bring to fruition. In a decade of privatization activity in the United Kingdom, the volume of output that was transferred from the state to the private sector was only in the order of 7% of the industrial total.

[1] Recent evidence suggests foreign owned firms have been particularly effective at improving company performance in transition economies; see Djankov and Murrell (2002) for a survey.

In contrast, Ukraine has sought to transfer ownership of a much higher proportion of industrial output in a comparable period of time.

A major practical problem for privatization by sale has been in the valuation of companies. It is very hard to value firms in countries like Ukraine. Most socialist enterprises did not keep the kind of accounting information necessary to establish a track record of profitability as would be required for valuation in the West. Moreover, even if such information was available, its predictive power in the fundamentally different economic environment post-reform is highly questionable. Reform has meant major changes in input prices, especially for energy and material inputs, and for output prices as well as a collapse of old trading relations. These changes made estimates of future profitability in the early years of transition rather speculative.

The idea of free distribution of the states assets to outsiders has provided an apparently simple and appealing solution to these intractable problems in many transition countries. With “mass” or voucher privatization there is no need to find domestic buyers, or to develop capital market institutions prior to privatization. In principle there is no requirement to value the assets. Moreover mass privatization offers the prospect of a fast transfer of assets from state to private hands. If the issue of speed is important, then the appeal of a free distribution scheme is particularly strong to reforming governments that want to avoid becoming bogged down in the detail of case-by-case privatization. It can also be constructed to be egalitarian or serve to reward key agents in the reform process (See Boycko, Shleifer and Vishny (1995)).

One serious drawback of mass privatization is that the government will fail to realise the value of its portfolio at a time when revenues are sorely needed. But the most significant danger of the mass privatization strategy is that it may not ensure adequate corporate governance for the newly privatised companies (See Coffee (1996), Estrin and Rosevear (2003)). It is unclear whether free distribution to the population as a whole can ensure the emergence of real owners dedicated to the interest of profit. Mass privatization may therefore lead to a change in the legal form of ownership rights while leaving the substance of managerial motivation and enterprise performance unchanged (See also Stiglitz (1999, Estrin and Wright (1999), Megginson and Netter (2001), Djankov and Murrell (2002)). This is a crucial issue which we want to explore in detail in Ukraine, which went down the mass privatization route.

The actual impact of voucher privatization on company performance depends on who the beneficiaries of the mass privatization are (See Estrin (1994)). As can be seen in Table 1, there are two categories of people to whom the authorities could sell, or freely distribute, shares. The first are "insiders" to the firm; managers, workers and both. The second are members of the general population, either as a whole or those specifically discomforted by the previous nationalisation and who seek redress from the new regime. In Ukraine, there were serious attempts to ensure significant outsider stakes, though insider privatization has in fact predominated (See Estrin and Rosevear (2003)).

One needs first to consider who would in principle make better owners of firms - outside capital holders exercising their influence through the stock exchange and financial institutions along Anglo-Saxon lines, or the existing stakeholders in the firm - managers and workers. The arguments in favour of allocating dominant or majority shareholdings to insiders in the Ukrainian environment were very clear. Such an approach is easy to administer, since the target group of buyers is already identified. It could even raise some revenue, since managers and workers might be willing to make some contribution towards the value of the assets that they are receiving. The insider approach also ensures that the existing scarce managerial experience, and this is a severe constraint in Ukraine, continues to be exploited.

However, there are three major problems with insider privatization which have important implications. In the first place, insider ownership raises numerous questions of enterprise motivation and performance, especially if there are significant employee shareholdings (See Earle and Estrin (1996)). Many regard employee ownership as inextricably linked to the consumption of assets by workers in the form of higher wages. In Ukraine, worker ownership is usually taken to imply managerial control, however, and the dangers from managerial ownership and control are considered to be less dramatic in most situations. However, in the absence of a capital market that would allow managers to withdraw their equity, the motivational impact on company performance are not as positive as one might hope.

Management may be forced to consume capital at the end of their life cycle in order to recoup previous investments. There is also the danger, if the government does press to sell the assets, that the fledgling private firms will carry excessive debt.

Most importantly however, managerial or employee-managerial ownership is not the most suitable form of ownership for enterprises about to embark on major restructuring. Decision-making authority would be given to groups who might be removed, or at least find their position fundamentally altered, by more dispassionate analysts of restructuring needs. Thus workers in over manned plants might be loath to vote themselves out of job, while former socialist managers, now owners of the firm, would be unlikely to countenance choices that increase the importance of colleagues in the finance, accounting and marketing divisions. Moreover, privatization to insiders brings no direct new funds to the company, at a time when additional resources are the crucial ingredient for deep or "strategic" restructuring (See Roland (2001)). If the new owners are external to firm, they may have both the instruments and the control to bring in additional funds if they consider them to be required.

The key problem with all mass privatization methods is therefore that they may fail to create effective forms of corporate governance. The difficulty is that any attempt to distribute shares widely to the general public, must imply that ownership rights will become widely diffused among the population as a whole. But highly diffused ownership rights, and the absence of any dominant block of shares, means that control over managers will necessarily be weak. One of the distributional objectives of voucher privatization - to spread the new ownership rights as widely as possible among the population - therefore conflicts with the aim of bringing effective external capital market pressures to bear on managerial decision-making.

When ownership rights are widely diffused, so that managers do not need to fear the dissatisfaction of a controlling block of shares acting in unanimity to remove them from their jobs or to enforce, for example, more radical restructuring policies, they may feel empowered to resist threatening changes, including the prevention of outsiders from building dominant stakes.

Results from the Ukrainian survey

We start by considering the Ukrainian ownership structure in 1999 categorised by sector, region and type of enterprises. The sample was constructed to ensure that enterprises where the state has a majority share holding are relatively few. The pattern of ownership is presented in Table 2. Because the sample is not representative, this does not imply the state share is this small throughout Ukraine. However, some interesting differences appear when the pattern of ownership is broken down according to various criteria, as can be seen in Tables 3 to 5. Firstly, we find in Table 3 that state-dominated enterprises are particularly important in the South and West of the country. In the West, the comparatively smaller share of joint stock companies which are mainly privately owned is explained by the importance of collective enterprises, which represent 13% of the total surveyed. This implies strong regional variation in the application of privatization policy. In practice, a mix of mass privatization and sales (auction) techniques were used for privatization in Ukraine (See Estrin and Rosevear (2003)). In the remainder of this paper, we explore the consequences of this policy combination for Ukrainian ownership structures from the start of privatization process in the 1980's until 1999. We also explore how the pattern of dominant ownership has been changing since the start of the process. We will follow the theory in focusing in particular on the balance of insider and outsider ownership, and the emergence of "blockholders", or strategic outside owners.

When we consider sectoral variation in Table 4, we find that state-dominated enterprises account for a significant part of metallurgical enterprises (around 14% of the total). Textile and food processing are the only other branches where majority state-owned companies have a noticeable presence. However, collectives are also quite important in these sectors. Finally, the distribution of ownership by size class is reported in Table 5.

Table 2

Enterprises by ownership (%)

Joint-Stock company (mainly privately owned)	85.6
Co-operative	0.4
Joint-Stock company with majority State Ownership	6.1
Leasehold	0.4
Other	7.4
Total	100

Table 3

Ownership by region (%)

	Central	East	North	South	West
Joint stock company (mainly privately owned)	96.4	90.2	94.6	89.2	60.9
Co-operative	-	-	-	-	2.2
JSC with majority state ownership	-	5.9	2.7	10.8	13.0
Leasehold	-	-	-	-	2.2
Other form	3.6	3.9	2.7	-	21.7

Table 4

Ownership by industrial branch (%)

	Metallurgy & engines	Chemical & pharm.	Construction materials, wood pr.	Food processing	Textile
Joint Stock company	84.6	95.2	81.8	89.2	82.9
Co-operative	-	-	-	1.4	-
JSC with majority state ownership	13.9	-	-	4.1	5.7
Leasehold	-	-	3.0	-	-
Other form	1.5	4.8	15.2	5.4	11.4

Table 5

Ownership by enterprise size (number of employees)

	Less than 100	100-200	200-500	500-1000	1000-3000	More than 3000
Joint stock company (JSC)	71.4	93.3	86.8	86.3	89.5	60.0
Co-operative	4.8	-	-	-	-	-
JSC with majority state ownership	9.5	2.2	5.9	3.9	7.9	40.0
Leasehold	-	-	1.5	-	-	-
Other form	14.3	4.4	5.9	9.8	2.6	

Unsurprisingly, we confirm that the state has retained majority ownership primarily in large firms. However, somewhat surprisingly, the state share is also comparatively high in small enterprises with less than 100 workers. It is unclear whether this represents a specific government policy to support SMEs.

Table 6 gives a breakdown of the ownership structure of the sample as a whole and also by insider-dominated companies and outsider-dominated companies. We define companies as insider-owned when more than 50% of shares are owned by managers, workers and former workers and also when these groups hold more than 40% of the shares while the next largest shareholder holds less than 40%. Outsider-owned companies are defined in the same way except that the qualifying groups of shareholders are Ukrainian banks, Ukrainian firms, Ukrainian investment funds, Ukrainian citizens, foreign individuals, foreign companies and agricultural producers. Table 6 reports the ownership structure now and at the time of the first shareholders meeting. It allows us to ask if ownership patterns, and more importantly changes in ownership patterns since the time of the first shareholders meeting, are affected by ownership type.

Just after privatization, when firms held their first shareholders meetings, ownership was concentrated in the Workers' Collective. Some 56% of shares were held in the hands of managers and workers, in the proportions 10% to 90% (some 90% of shares held by insiders were held by current workers and around 10% by former workers). This tremendous concentration of shareholding in the hands of insiders is consistent with the findings from the previous LBS Survey of Enterprises in 1997, and other studies (see Estrin and Wright (1999) for a survey). Of the remaining 44% of shares not in insider hands, on average, around a quarter were retained by the state and a further quarter were in the hands of citizens. Only around 9% of other shares were in the hands of investment funds, and a further 8% in the hands of Ukrainian firms, potentially fairly concentrated external owners. Foreign ownership was negligible at around 0.2% of the total holding.

When we disaggregate first by category of shareholdings at the time of the First Shareholders' Meeting into insider-dominated and outsider-dominated firms, some interesting patterns emerge. Firstly, the predominant shareholders in outsider-owned firms are citizens (19%), firms (17%) and Investment Funds (16%). Thus external ownership, even when it occurred, was rather widely dispersed. Foreign individuals held on average a very small stake, even in outsider dominated firms (0.4% of the total shares on average). Interestingly, the state retained on average a higher stake in outsider than insider-owned firms (12% as against 5% of the total, on average). It is unclear whether this was a policy decision. It would also appear that potential strategic owners were aware of the dangers of excessive insider ownership in Ukraine, even at the time of the First Shareholders Meeting. Thus we find the non-state outsiders' stake to be only on average 16% in insider-dominated firms, with more than one third of these shares owned by citizens, and less than 20% by Investment Funds, Ukrainian firms or agricultural producers. Almost no foreign firms held shares in insider-dominated firms. Once again this strongly suggests that from the outset, possible outside owners, including foreigners, were well aware of the potential corporate governance problems with investing in insider dominated firms. The predominance of insider ownership may therefore explain the later unwillingness of strategic investors, domestic or foreign, to intervene in Ukrainian firms.

The survey allows us to explain how the ownership structure has changed since the first shareholders meeting until the spring of 1999, a period which includes the Russian crisis of August 1998. The argument in our previous section would lead us to search for considerable movement in the ownership structure post-privatization, with workers selling to outsiders and managers; insiders selling to outsiders, the state; reducing its share by selling to outsiders, and finally some clear emergence of concentrated majority outsider ownership as strategic blocks of shares changed hands. It can be seen that there is little evidence of this in Ukraine. Insider ownership remains on average virtually constant at 55%, though there is some evidence that workers are either selling their shares to managers or keeping their shares as they change job (hence becoming "former workers"). However, there is no overall shift from insider to outsiders or from workers to outsiders and only a very small shift from the state to outsiders. The predicted evolution in ownership structure in Ukrainian firms had therefore hardly begun by 1999.

Table 6

Shareholding by Ownership (%)

Shareholder type	Now			First shareholders meeting		
	All firms	Insider owner firms	Outsider owner firms	All firms	Insider owner firms	Outsider owner firms
State	7.6	2.7	7.1	10.1	5.3	11.7
Workers Collective	55.1	82.2	22.6	55.8	78.9	27.2
Of which: Managers	7.5	10.3	3.8	5.8	7.5	3.6
Workers	34.1	50.4	13.9	44.0	61.8	21.5
Former workers	13.2	19.7	4.8	6.8	8.7	4.4
Ukrainian firms	10.8	2.3	23.4	8.0	2.2	16.9
Ukrainian banks	0.8	0.4	1.7	0.5	0.0	1.1
Ukrainian investment funds	7.3	1.7	15.5	8.8	3.0’	15.9
Ukrainian citizens	12.7	7.2	21.6	10.8	5.8	18.8
Foreign individuals	0.2	0.7	0.4	0.2	0.0	0.4
Foreign companies	3.2	1.9	4.7	2.0	1.5	2.6
Agricultural-producers	2.1	1.6	3.1	2.7	2.3	3.5

Moreover, there is little evidence of increasing concentration of ownership by outside owners. In fact, Investment Funds on average had fewer shares than at the time of the first shareholders meeting, though other firms and citizens increased their share. There is however some increase in the average shareholding of foreign firms, which is an encouraging sign, though only from 2% to 3.2% on average. The very limited role played by Ukrainian banks in corporate governance is also highlighted by the Table 6; their share increased slightly but remained on average below 1 %.

Table 6 also suggests that the evolution of ownership structure may be different in insider and outsider- owned firms. This may be a crucial factor in indicating the likely future path of ownership and restructuring. In insider-owned firms, which of course represent a majority of all firms in our sample, the Workers’ Collective has actually been increasing its shareholdings since the first shareholders’ meeting; the insider stake has increased from around 79% to 82% on average, through an increase in the shareholding of managers. Managers’ shareholdings increased (by 30% of their original holding on average) as they bought shares from workers, and probably from Investment Funds and agricultural producers. Thus, far from gradually evolving towards the traditional structure of an outsider-owned firms, our survey suggests that Ukrainian firms were actually retrenching into managerial ownership and control, at least in the majority of cases where insiders already had a dominant stake.

However, in outsider-owned firms, the picture was different. Here insiders were selling their shares; notably workers who reduced their stake on average by 7.5 percentage points. The shares were not bought by managers nor held by former workers, as we have seen occurred in insider owned firms. Rather they were sold to outsiders, notably other Ukrainian firms and foreign companies (who almost doubled their share in outsider-owned Ukrainian firms since the first shareholders' meeting). Thus in outsider-owned firms we do find evidence of reducing insider stakes, increasing ownership concentration and rising (though modest) foreign investment.

The survey also provides additional evidence on corporate governance and strategic ownership. We find that, in the average firm, the number of managers holding shares is around 15, while the number of workers is 599 and former workers is 302. Holdings by Ukrainian citizens and firms are also highly dispersed, at 1065 and 616 shareholders on average respectively. However, the typical number of shareholders which are banks, foreign individuals and foreign companies is one, and Investment Funds is two.

Finally, if we regard changing senior management as an element in effective corporate governance, Table 7 provides important evidence. As we might have expected, outsider ownership yields more effective governance than insider, with a considerably higher proportion of firms having changed their general managers since 1994. The state also appears to impose effective control over the firms it continues to own, with the vast majority of general managers having been changed since 1994.

Conclusions

Ukrainian privatization, like the Russian, appears to have delivered the bulk of shares from state owned firms to insiders, primarily workers. Moreover, our survey shows that this pattern has not changed to any great degree in the period to 1999, and this is likely to be slowing restructuring. The survey also suggests that there has actually been some retrenchment in insider controlled firms, with managers gradually buying shares from workers and outsiders. However, in the relatively few outsider-controlled firms we are beginning to see some ownership concentration and more foreign investment.

The key policy issue is how to encourage outsider ownership and effective governance in a wider range of Ukrainian firms, with new owners bringing with them new skills, technologies and especially capital. The process seems to be already under way in outsider-controlled firms, though it is progressing slowly. To accelerate it, the government may need to strengthen the legislation protecting minority shareholders and foreign shareholders, and to improve and facilitate enforcement of this legislation. It will also need to assist in the development of secondary markets, to facilitate in particular the sale of shares by citizens and former workers to strategic outside investors. The survey highlights the very disappointing role played by both Investment Funds and Ukrainian banks in ownership changes up to 1999. Government policy could usefully turn to encouraging capital market institutions which would play a more effective governance role. The State also needs to consider carefully what it will do with its remaining small but not insignificant shareholding, and should seek to sell it to strategic investors, if at all possible. Finally, the State needs to devise a clear policy for governance in the firms where it still retains a significant stake.

The policy implications for insider-owned and controlled firms are less clear. We have seen that up to 1999 managers were retrenching their ownership in these firms, while workers were retaining their shares even after losing their jobs. This suggests that insiders have considerable faith in the prospects for these firms. The evidence on performance by ownership, however, is decidedly mixed. The survey contained a number of questions about the extent of restructuring activity (see Estrin and Rosevear (2003)). We have data on 26 restructuring activities reported on a scale from 1 (no change) to 5 (everything has changed) by ownership. Overall restructuring in Ukrainian firms is found to be very modest in the period up to 1999. Only in three activities of the 26 possible did firms on average report that there had even been a moderate amount of change, and none reported a lot of change for better. In 12 activities of the 26, Ukrainian firms responded by saying on average that they were doing less than "a small amount of change".

Table 7

Change of General Manger by Ownership since 1994 (%)

State owner dominated	83.33
Private owner dominated	45.83
Insider owner dominated	39.20
Outsider owner dominated	57.95

Against this remarkable background of inactivity in restructuring, it is a striking contradiction of the theory at the start of this note to find no significant difference in restructuring activity between insider and outsider-owned firms. In fact, the average scores reported for insider, outsider and state-owned firms across the 26 areas are surprisingly similar. This suggests that no ownership form had managed to change corporate behavior in Ukraine before 1999, and if still true, underlines the need for radical policy changes and capital market development to make external ownership more effective.

References

1. Boycko, Maxim, Andrei Shleifer and Robert Vishny (1995), *Privatizing Russia*, Cambridge, Mass., and London: MIT Press.
2. Coffee, John C. (1996), 'Institutional Investors in Transition Economies: Lessons from the Czech Experience,' in Roman Frydman, Cheryl Gray and Andrzej Rapaczynski (eds.), *Corporate Governance in Central Europe and Russia*, vol 1, Budapest: Central European University Press, 111-186.
3. Djankov, Simeon and Peter Murrell (2002), 'Enterprise Restructuring in Transition: A Quantitative Survey,' *Journal of Economic Literature*, 40, 3, 739-792.
4. Earle, J., and Estrin, S. (1996), 'Employee Ownership in Transition Economies,' in (eds.) R, Frydman, C. Gray and A. Rapaczynski, *Corporate Governance in Transition*, vol 2, Budapest: Central European University Press.
5. Estrin, Saul (1994), *Privatization in Central and Eastern Europe*, London: Longman.
6. Estrin, Saul and Adam Rosevear (2003), 'Privatization in Ukraine,' forthcoming in David Saal and David Parker (eds.) *Handbook on Privatization*, Cheltenham, UK, and Northampton, USA: Edward Elgar.
7. Estrin, Saul and Mike Wright (1999), 'Corporate Governance in the Former Soviet Union, An Overview,' *Journal of Comparative Economics*, 27, 3, 398-421.
8. European Bank for Reconstruction and Development (EBRD) (2001), *Transition Report*, London.
9. Megginson, William L. and Jeffry M. Netter (2001), 'From State to Market: a Survey of Empirical Studies of Privatization,' *Journal of Economic Literature*, 39, 2, 321-389.
10. Roland, Gérard (2000), *Transition and Economics*, Cambridge, Mass., and London: MIT Press.
11. Stiglitz, Joseph (1999), 'Whither Reform? Ten Years of Transition,' keynote address at the Annual Bank Conference on Development Economics, World Bank, Washington.
12. Vickers, John and George Yarrow (1988), *Privatization: An Economic Analysis*, Cambridge Mass.: MIT Press.
13. World Bank (1996), *World Development Report: From Plan to Market*, Washington, DC: Oxford University Press.