



Russian Corporate Governance Roundtable Meeting

Moscow, 27 – 28 October 2008

Meeting co-hosted by the Ministry for Economic Development, Russia

Legal forms of SOEs

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Topics to be discussed:

1. Legal form of JSC: is there need for harmonization?
 - 1a. Is there need for improvement of legal forms of incorporations in Russia?
2. State corporations in the framework of general trends in corporate governance
3. State as an owner and regulator: is there conflict of interests?

Harmonization-1: legal rules for state ownership

- Only one legal form of SOEs in Russia:
 - Is this available?
 - Is this desirable (from normative and positive point of view)?
- Obstacles to achieve 'harmonization' in this sense:
 - Path-dependency
 - Search for new organizational form that would allow to achieve the specific goals
- Comparative (dis)advantages of the harmonization of legal forms
 - Different goals of the state as an owner
 - Different instruments those state needs to achieve these goals
 - Different sets of rights and responsibilities on the level of SOE
 - Higher cost of monitoring

Harmonization-2: JSC regulations for SOEs

- On the one hand, YES: since SOEs are joint-stock companies they need to be regulated on the basis of the general rules for JSC
- Code of corporate conduct may be even more important in SOEs than in private JSCs
 - Management is separated from ownership
 - State is able to enforce Code of corporate conduct and to protect property rights of minority (outside) shareholders
- On the one hand, IT IS NOT ENOUGH:
 - If the state has special goals in SOE . It is better to inform about this special goals:

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• **Managers of SOEs** (in order to employ incentive contracts)

• **Shareholders in SOEs** (in order to inform them about strategy)

State corporations (SC) and corporate governance

- State corporations are not corporations at all
- Standard corporate governance tools cannot be applied
- It is possible however to think about state corporations in the context of corporate governance since *there is classical agency problem there*
- Legal form of state corporations makes managers extremely powerful with almost no responsibilities *in daily management decisions*
- At the same time the liquidation of SC is easy so there is discipline device for the managers (at least potentially)
- The form of SC can be employed *only* if we want to achieve a goals *at any cost*

Conflict of interests

- It is inevitable: if state has no specific goals of SOE operations then state should privatize it
- If there are specific goals state needs a tools to achieve them
- The contradiction (conflict of interests) is possible between these specific tools and corporate governance instruments
- The degree of conflict of interests depends on the nature of the specific goals
 - In “strategic” industries the goals of the owner coincide with the goals of industrial policy
 - In network (natural monopoly) industries the interests of the owner contradict the goals of regulator (since regulator tries to restrict the tariffs and monopoly profit)
- Is there possibility to work out legal framework to resolve conflicts of interests?

Thank you for your attention

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October 27-28