

**INVESTING IN INSIDER-DOMINATED FIRMS
A STUDY OF RUSSIAN VOUCHER PRIVATIZATION FUNDS**

Abstract

The paper is based on a survey of 148 Russian privatization investment funds (PIFs) representing, in terms of size, 69 percent of the population of all PIFs created in connection with the voucher privatization of ca.14,000 state enterprises. The PIFs surveyed hold shares in some 4 to 5 thousand privatized enterprises, thus providing a window into the world of corporate governance of a substantial portion of Russian firms.

The paper argues that PIFs, like most other outside investors, have relatively small impact on the governance of Russian firms due to the firms' domination by corporate insiders, particularly management. Given high returns from shareholder activism, the PIFs attempt to influence the firms in their portfolios in a variety of ways (through obtaining board seats and providing them with a range of services), but have extremely poor access to information and are largely unable to prod the firms toward more radical restructuring. In particular, the PIFs are only rarely able to effect managerial changes, although a logistic equation model used shows that firms which do participate in more than one dismissal of top managerial personnel seem to be interested in fundamental restructuring.

The paper also describes the main features of the emerging capital market and presents an econometric analysis of the determinants of the trading activity of the PIFs.