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# The Role of Informal Institutions in Corporate Governance: Brazil, Russia, India and China Compared[1]

*CGR Working Paper 31 (February 2010)*

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## Abstract

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**Keywords:** institutions (informal and formal), corporate governance, shareholder rights, suppliers of finance, emerging markets

**JEL Classification:** M21, L21, P52

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*CGR Working Paper Series*

# The Role of Informal Institutions in Corporate Governance: Brazil, Russia, India and China Compared[1]

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This paper argues that the role of informal institutions is central to understanding the functioning of corporate governance. We focus on the four largest emerging markets; Brazil, Russia India and China – commonly referred to as the BRIC countries. Our analysis is based on the Helmke and Levitsky framework of informal institutions and focuses on two related aspects of corporate governance: firm ownership structures and property rights; and the relationship between firms and external investors. We argue that for China and some states of India, 'substitutive' informal institutions, whereby informal institutions substitute for and replace ineffective formal institutions, are critical in creating corporate governance leading to positive domestic and foreign investment. In contrast, Russia is characterized by 'competing' informal institutions whereby various informal mechanisms of corporate governance associated with corruption and clientelism undermine the functioning of reasonably well set-out formal institutions relating to shareholder rights and relations with investors. Finally Brazil is characterized by 'accommodating' informal institutions which get round the effectively enforced but restrictive formal institutions and reconcile varying objectives that are held between actors in formal and informal institutions.

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Feb 21st 2010

[1] The authors would like to thank Ruta Aidis, Sumon Bhaumik, Nauro Campos, Simon Commander, Lihui Tian for discussions during the initial development of these ideas. Our thinking was advanced at the APJM conference on Corporate Governence, October 8th and 9th 2009 in Vancouver, and especially by discussion of comments from Mike Peng, Danny Shapiro, Phil Phan and Steve Globerman. Any remaining errors are our own.

## 1 Introduction

This paper sets out to integrate the role of informal institutions into the debate about 'good' governance infrastructure and corporate governance for China, India, Russia,and Brazil, often referred to as the BRIC economies (Goldman Sachs 2003). We use a case study approach to contrast the interaction of formal with informal institutions for two key aspects of corporate governance – corporate ownership structures and relations between the firm and external investors. We build on the Helmke and Levitsky typology of informal institutions which considers the relationship between formal and informal institutions to be dependent on whether formal institutions are effective and on how compatible are the goals of agents in formal and informal institutions. This interaction of formal with informal institutions is argued to condition these key aspects of corporate governance.

The connection between corporate governance structures and institutional development has been emphasized for emerging markets. Thus Steier (2009) argues that in emerging and developing market economies, family ownership is the predominant mode of governance combined with the remnants of state ownership and financial industrial groupings. The weakness of markets and legal and judicial infrastructure make family ties highly significant and the state also can play an important role in firms' governance. Similarly in transition economies such as Russia, there remains poor definition and enforcement of ownership rights: 'changing the law on the books does not guarantee corporate governance improvement' (Licht *et al* 2005:230, in Steier 2009). Steier emphasizes the role of corruption and black or grey markets and family or ethnic ties to manoeuvre through complex and corrupt institutions.

Globerman and Shapiro (2002) argue that the strength of governance infrastructure, such as the functioning of a range of formal institutions including property rights, regulation, transparency of information and accountability, are important in attracting foreign direct investment (FDI) to developing and transition countries. By governance infrastructure, they mean attributes of legislation, regulation, transparency of government and legal processes that determine the security of property rights and transparency of government and legal processes. Numerous other papers have identified the importance of national governance infrastructure for growth, investment and new firm entry eg (Acemoglu *et al* 2000, 2001, 2002, 2003; La Porta *et al* 1999; Djankov *et al* 2002). These studies are largely based on formal measures of institutions, for example the number of procedures necessary to start a business. These measures are necessarily coarse as a consequence of the need for cross-country comparability across more than 80 countries. While considerable insight has been derived from this approach, it tends to understate informal institutions and the ways they interact with and may either improve or undermine formal institutions. These informal institutions are of potential significance in emerging economies where the functioning of formal corporate governance institutions such as corporate ownership rights or relations with external investors are not transparent or well-enforced. Aguilera *et al* (2008) recognize the need, in order to understand the effects of corporate governance on the performance of firms, to contextualize and specify the linkages in their open systems perspective between different aspects of the organizational environment. They do not include however specifically 'informal institutions' in their consideration of costs, contingencies and complementarities. Peng and Heath (1996) emphasize the larger role that informal constraints play in emerging markets where formal institutions are weak. Peng (2002) recognizes the importance of the interaction between formal constraints and informal constraints and their effects on organizations in the context of emerging markets in Asia.

In the paper, we develop a framework to model explicitly the way in which formal and informal institutions interact and to highlight two aspects of institutions: whether formal institutions are effective in what they claim to do; and whether the goals of agents in the formal and informal institutions are compatible and mutually reinforcing or incompatible and in conflict with each other. We follow Helmke and Levitsky (2003) in placing informal institutions centre-stage; these range from bureaucratic and legislative norms to various forms of clientelism or reliance on business or familial networks rather than formal access to banks. Neglecting these informal institutions risks ignoring many of the real incentives and constraints that underlie the functioning of firms in emerging markets. We use the Helmke and Levitsky framework to classify the way in which informal institutions relating to corporate governance function in China and India as compared with Russia and Brazil and to contrast the effects of these informal-formal institutional interactions on corporate governance.

In Section 2, we outline the framework and classification of different types of informal institutions, before discussing in Section 3 formal institutions of corporate governance in the BRIC countries. Section 4 assesses the effectiveness of formal corporate governance institutions and examines the role of informal institutions in corporate governance and contrasts their functioning between China, India, Brazil and Russia. Section 5 summarises our findings on a grid that places the BRIC countries' institutions according to the role of their informal institutions in corporate governance. We go on to discuss how stable these positions are and the possible directions of movement following institutional reform.

## 2 The Helmke-Levitsky typology of informal institutions

Helmke and Levitsky call informal institutions 'the actual rules that are being followed', unwritten rules that often shape incentives in systematic ways. Informal rules have long been of interest but have not been rigorously conceptualized or theorized into mainstream studies of institutions which have focused rather on the formal rules of the game. Formal institutions refer to state bodies such as courts, legislatures, bureaucracies and state-enforced rules such as constitutions, laws, regulations. They are openly codified in that they are established and known through official channels. Informal institutions are usually unwritten and are created and enforced outside the official channels.

Helmke and Levitsky argue that informal institutions can work either positively or negatively to boost or constrain formal institutions. For example in the sphere of political science, informal institutions may limit presidential power; despite Chile's 1980 Constitution creating one of the most powerful presidencies in the world, in practice Chilean presidents are constrained by a complex network of informal institutions that push for executive consultation and power-sharing. Informal devices in Costa Rica lead legislators to perform constituency services that parties need for electoral campaigns. Informal institutions can also undermine formal regimes: clan networks and politics in the Kyrgyz Republic and Uzbekistan subverted formal institutions in the post- Soviet era after 1990 such that "informal mechanisms of network-controlled exchange and norms … became the rules of the game". Helmke and Levitsky argue that informal institutions need to be distinguished not only from formal institutions but also from weak institutions. We are grouping under informal institutions a variety of structures which have significance in the economy but whose power does not stem from *de jure* rights.

The focus of the Helmke-Levitsky framework , is on the interaction between formal and informal institutions. There are two strands of the literature. In the first, informal institutions have a problem-solving role in assisting social interaction and coordination and improving the efficiency or performance of complex formal institutions. In the other, informal institutions have a problem-creating role, for example via corruption, clientelism or clan politics that undermine markets, states and democratic regimes. Peng (2001) stresses the role of institutional frameworks rather than national cultures and specifically the positive role of market-supporting institutions, both formal and informal, in giving rise to entrepreneurship in China. Steier (2009), Morck and Steier (2005) and Morck (2005) highlight the rent-seeking behaviour and stifling of new entrants that can occur when large family business groups entrench themselves, particularly in emerging markets.

The Helmke-Levitsky typology is a systematic framework which models how under certain conditions informal institutions will reinforce failing formal institutions whereas under other conditions informal institutions will undermine formal institutions. They identify four distinct types of informal institution in terms of the way they interact with the formal: complementary, accommodating, competing and substitutive. This typology is based on two characteristics. The first is the effectiveness of  formal institutions. There are two aspects to effectiveness: the first is whether there are laws and codes of governance which exist *de jure* and are market-supporting. The second depends on whether these *de jure* laws and codes of conduct are enforced. If, due to judicial inefficiency or corruption, formal rights are not matched by enforcement, then those formal institutions are said to be ineffective. Informal institutions can operate in a context of effective formal institutions where good rules exist and are enforced , or informal institutions can   work in a context of non-existence of clear rules or rules which are not enforced. Only when legal rights on paper are matched by *de facto* enforcement, which can come about through formal or informal institutional means, can we argue that those formal institutions are effective.

In this framework, it is argued that informal institutions are never ineffective in themselves. Instead they emerge in response to an institutional void in the formal sphere, to a demand for a particular job to be done and therefore, by definition, cannot be classed as ineffective themselves. If they were not necessary, they would not have emerged. However informal institutions do their 'job' in different ways and can operate with goals that are compatible or incompatible with those of formal institutions.

Thus the second characteristic of informal institutions in this typology concerns the degree of compatibility between the goals of the actors relevant to formal and informal institutions. Goals are compatible if the aims of the formal laws and the agents working within informal institutions – be they business groups, familial networks, the state through the local Party, bureaucratic elites – are working towards the same ends, for example the financing of companies or the reinforcement of corporate ownership rights. Incompatible goals means that the aims of formal and informal agents are hostile or, more weakly, are not mutually reinforcing. To give an example, where shareholder rights are contested by the state or where minority investor rights are threatened by expropriation, the goals of investors or shareholders are pitted against those agents in informal institutions such as the state or local Party or oligarchic shareholder which are threatening expropriation.

**Figure 1 Typology of informal institutions**

| | Ineffective formal institutions | Effective formal institutions |
|---|---|---|
| Compatible goals between actors in formal and informal institutions | Substitutive | Complementary |
| Conflicting goals between actors in formal and informal institutions | Competing | Accommodating |

Source: Helmke and Levitsky (2003)

The Helmke-Levitsky typology of informal institutions is shown in Figure 1 where complementary informal institutions are defined by having a context of effective formal institutions and compatible goals between formal and informal. Informal institutions fill in the gaps left by formal institutions, are compatible and complementary to them and assist them in functioning more effectively; they  address problems not dealt with by formal rules yet without violating them. Hence they tend to enhance the performance or efficacy of the formal institutions. Helmke and Levitsky give examples of such complementary informal institutions in the variety of norms and routines that allow bureaucracies to function efficiently such as the folkways of the US Senate. They are most commonly found in OECD countries where formal institutions function effectively. This is in some ways similar to the Varieties of Asian Capitalism literature (Carney *et al* 2009) which discusses institutional complementarities depending on the extent to which institutions [in several sectors] are compatible with one another. Liberal market economies and Coordinated market economies are characterized as having high levels of complementarity with mutually supportive interconnected institutions. In contrast hybridized or mixed models of capitalism, such as more nearly describe those in emerging markets in Asia, have non-cohesive institutions that work against one another.

Accommodating informal institutions arise in situations where where there are effective formal institutions but the goals of formal and informal actors are in conflict. Such informal institutions act to reconcile the interests of the key actors with the formal arrangements, getting  around formal rules when they are not in line with the aims of all actors.  Thus, they violate the spirit rather than the letter of formal rules and provide a second-best solution where the rules cannot be challenged directly. They do not necessarily enhance performance but they can create stability and enable the functioning of the formal institutions.

Substitutive informal institutions occur where formal institutions are ineffective but goals between formal and informal are compatible. Thus they subvert the formal rules and there is connivance between actors in formal and informal institutions in getting round what are commonly perceived to be inadequate formal institutions providing alternative methods of institutional functioning. In doing so, they can improve performance and create vested interests in those substitutive informal institutions. Again parallels can be drawn with the Varieties of Capitalism literature; Carney *et al* (2009) argue that the organization of firms into business groups in many Asian countries is due to the absence of formal institutions that can assure business transactions; business groups trading repeatedly with one another establish quasi markets for capital, talent, technology and other resources that are costly or inaccessible through market contracting. These groups are acting as substitutes for market institutions and their actions fill these institutional voids.

Competing informal institutions exist where there are ineffective formal institutions and conflicting goals between formal and informal actors. Here the informal institutions actually challenge formal institutional structures; those acting through informal institutions have differing goals from the actors within the formal institutions. These kinds of informal institutions can include corruption networks such as mafias, clientelism or various forms of clan-like networks, arbitrary inspection teams which can extort rents and work on a differently functioning system of power and incentives from those actors operating within formal institutional frameworks. In doing so they can undermine those formal institutions and would tend to diminish or reduce measures of performance such as entry of new firms or levels of FDI, measures which rely on a level playing field between incumbent firms and new firms or between domestic entrepreneurship and foreign entrepreneurship. Carney *et al* (2009) and Steier (2009) also point to the scenarios of oligarchic capitalism where business groups may become so large and powerful within their national economies that they inhibit the ability of new firms to form or independent firms to grow. This would constitute an example where the informal institution of the business group is replacing the ineffective formal institution (capital markets which are insufficiently developed to give firms access to finance) but where the goals of the large and powerful business group are incompatible with the formal institutional goals of providing access to all firms, small as well as large and new as well as incumbent ones. Steier (2009) contrasts the characteristics of an oligarchies dominated system, with little entrepreneurship, wealth preservation and rent-seeking and the perpetuation of weak institutions with an entrepreneurial dominated system where business groups act for wealth creation and where institutional voids are bridged by such groups and the institutional environment is developing. As Steier says 'whether familial capitalism contributes to or inhibits the prosperity of an economy depends largely on the institutional context'. (Steier 2009:531) and 'we need to develop better theories of how organizations, institutions and economies co-evolve'.

### 3 Formal institutions of corporate governance

Shleifer and Vishny (1997) in their survey of corporate governance highlight the main issues for corporate governance in emerging markets as being 1) the nature of legal protection for investors, particularly small minority investors where they exist, and 2) the concentrated ownership of firms and the presence of large investors in firms that are the norm for developing country ownership structures and the consequences of concentrated ownership and influence of large investors. As Broadman (1999) argues, we need a broader prism to assess control and corporate governance in emerging markets than simply the relationship between providers of equity capital and those running firms; the Berle and Means (1932) model of entrenched management and weak dispersed shareholders is not the issue. In emerging markets there is frequently concentrated ownership and a dominant shareholder, be they an individual, family, institutional investor or a bank. The problem for closely-held firms is not one of shareholder protection and boards of directors but of cross-shareholdings, holding companies and pyramid mechanisms which the dominant shareholders use to exercise control, namely the principal-principal issue, (Young *et al*, 2008). In other words the dominant shareholder is often over-powerful and exploits the other stakeholders in the firm. Broadman has termed this for Russia 'unchecked insider control' in a corporate governance vacuum without well-protected property rights. The related problem of insider control is that of transparency of information – it is often highly unclear who are the ultimate owners of, for instance, Russian corporate shares in the rise of the closely held firm. This is true also for China. As Peng (2002) points out, firm boundaries in many Asian economies (as well as in Russia) are often blurred by the existence of large conglomerates, permeated by personal connections, partial ownerships and board interlocks. The ownership patterns of such business groups are therefore more opaque than in Western firms.

The BRIC countries, as most emerging economies, are characterized by corporate governance structures with high concentration of ownership and inside investors (Gerlach

1992; Heugens *et al* 2009). The consequences of the potential principal-principal problems that follow from concentrated ownership depend largely on the way the institutions in the country work. In particular, as discussed above, the formal legal protection of minority shareholders is critical in protecting against self-dealing by dominant shareholder-executives. It is also a question of the extent, in practice, that the country's institutions allow dominant shareholders to extract benefits from the firms that they own and control. As Heugens *et al* (2009) argue, there are three ways that inside investors who combine a substantial ownership stake with direct managerial control over a company might adversely affect firm performance. They might be more risk averse than more diversified investors and hence less profit-generating; they might appoint family members whom they trust or can exert influence over rather than outsiders with more managerial experience and talent; and they may exploit minority shareholders by tunneling funds out of the corporation. The quality of a country's institutions, formal and informal, will affect the extent to which these problems occur; both the formal legal protection of minority shareholders and also the extent to which dominant shareholders are able to extract benefits from the firm in practice.

The Helmke-Levitsky framework applies at the level of the particular institutions and agents within those institutions. The analysis depends on which institutions are being considered and who are the agents in those institutions in each country. When analyzing ownership structures of firms, the appropriate level of analysis is the security of property rights for those owners in each particular country, for example owners of firms in the context of an Indian family-held business group or Russian Financial-Industrial Group or a Chinese formerly state-owned firm. When looking at the assurance of returns to investors and its interplay with access to finance, the appropriate point of view is that of the firms themselves and the institutional mechanisms that are available to ensure those returns and thereby to raise capital. In other words, how do capital markets and banks operate in each country, which kinds of firms have access to them, what are the alternative informal institutions that function to provide such finance and what is their relationship to the formal institutions, as looked at from the perspective of those firms in each country. In each case, we specify who those agents are; how the goals of agents in the specific formal and informal institutions are compatible or incompatible; and whether the formal institutions are effective or ineffective in relation to the goals of those formal institutions. We find some consistency within countries in terms of the way informal and formal institutions interact, although not in all cases.

*Formal corporate governance structures in BRIC countries*

There are a number of ways in which China's formal legal corporate governance structures are ineffective as market-supporting institutions: the legal private ownership of property is relatively recent. In 1977 private firms were illegal and negligible in numbers; by 2005 there were 29.3 million private businesses, employing over 200 million people and accounting for almost 50% of GDP (China Daily 2005 in Tsai 2006). This is despite the fact that property rights in China were not formally recognized until 2004 and legal independence of the judiciary has been poor (New York Times 2005). There is a lack of legal infrastructure, shaky Intellectual Property Rights (IPR) and weak contract enforcement (Cao 2004). There is considerable state ownership of privately listed companies and the state or its agents carry out shareholder functions which would otherwise be performed by private owners in market economies (Tian and Lau 2001). There are studies of the state's incapability as a shareholder (Broadman 1999; Chen 1997). In various other ways, corporate governance codes do not conform to those of the West: there is frequent CEO- chairman duality with no independent chairman of boards of directors and directors on boards tend to be affiliated and not independent of management. Overall, formal ownership governance structures do not seem to be particularly conducive to effective corporate governance.

India's formal corporate governance institutions have improved since the 1991 liberalization: capital markets have been liberalized, a takeover code adopted in 1994 paving the way for a rudimentary market in corporate control, and steps have been taken to improve corporate governance norms and disclosure practices. Foreign capital has increased (see Goldman Sachs 2003). A distinctive feature in India is prevalence of business groups entailing common ownership and management by family members; firms are separate legal entities, listed separately with their own set of shareholders, but the family controls the strategic direction and regulates firm transfers (Douma, George and Kabir 2006). It has been argued that business groups have filled institutional voids such as imperfections in markets for capital, products and managerial talent (Khanna and Palepu 2000). Peng and Jiang (2006) provide evidence that concentrated ownership is beneficial for firm performance in cases where there are weaker or less developed legal and regulatory institutions to protect shareholders. Using La Porta *et al* (1998) we can classify India and Brazil according to their formal codes of legal/regulatory institutions and different levels of investor protection; these are formal measures of investor protection. We can conclude that India's formal shareholder and creditor rights are relatively well formulated within a well-established legal framework.

Table 1 Formal shareholder rights and creditor rights (La Porta *et al* except where indicated)

| | Shareholder rights Index | Creditor rights index |
|---|---|---|
| India | 5 | 4 |
| Brazil | 3 | 1 |
| US | 5 | 1 |
| Average across sample | 3 | 2.3 |
| China | low* | low* |
| Russia | high* | high* |

Source: La Porta *et al* 1998; * author estimation

However India has marked differences between regions; although national legal structures and policies apply in all states, there are marked variations in the implementation of the legal system at the state level . Thus high-performing states such as Gujarat or Maharashtra have 8% per annum growth rates in state gross domestic product compared with 4% pa and lower rates in Bihar or Orissa. In poorly-performing states, security of property, ownership rights and enforcement of the rule of law are poor and formal legal codes are ineffective.

This contrasts with Russia and Brazil where formal property rights and codes of corporate governance have been improving markedly since the mid 1990s in Russia and since 2000 in Brazil. Russian laws on corporate governance and property rights were constructed from the late 1980s. Puffer and McCarthy (2003) list the laws affecting corporate governance including the legalization of private companies (1986), through to the 1991 Law on Property and 1992 Law on Privatization of State Enterprises, the 1996 Joint Stock Company Law strengthening shareholder rights, the 1996 Law on the Securities market strengthening corporate governance including the protection of minority shareholders and the separate roles for the CEO and Chairman. However, serious issues remained in practice because of lax enforcement and failure to protect minority shareholder rights, creditor rights and the balance between debtors and creditors in bankruptcy hearings, plus a lack of transparency in bankruptcy and company law (Puffer and McCarthy 2003, 2006). A new Russian Bankruptcy law was introduced in 1998. Reforms in 2000 led to improvement in transparency and the implementation of international accounting standards for many firms and competition law in 2002 strengthened norms and rules governing contracts (McCarthy, Puffer and Naumov 2000). The independence of the judiciary was strengthened through a law of 2001 on the status of judges removing judicial appointments from control by regional legislatures, and there was a new Criminal Procedure Code of 2002 increasing the power of judges. The security of property rights was scrutinized by parliament in 2003 and minority shareholder rights were strengthened in 2004 (Granville and Leonard 2007). The Russian Federation is now classified as a 'high compliance country' in terms of level of compliance with international standards for corporate governance, indicating a sound legal framework in line with OECD principles (EBRD 2005).

In Brazil formal corporate governance structures have also improved markedly since 2000 (Lubrano 2007). The negative consequences of poor governance were apparent with considerable legal uncertainty, and an overhang of non-voting shares and poor company performance. There was a legal reform initiative, a World Bank and IFC study and an Investor Task Force in 2000. Since then there have been some milestones: an OECD Roundtable launch, a companies/investors meeting and the launch of the Novo Mercado all in 2000, approval of legal reforms in 2001, the taking off of the Novo Mercado in 2004, an International Corporate Governance meeting in 2004, a Banco Real Corporate Governance Credit Line also in 2004, a Companies Circle in 2005 and the 100th Novo Mercado listing in 2007. By 2007 there were demonstrable consequences of improved corporate governance.; most new shares now go out on the Novo Mercado, and there is greater legal certainty in changes of control but some obstacles to takeovers. There are public and private sector champions for good governance and leadership in most elements of the private sector amongst companies and investors. The legal framework including enforcement infrastructure is in place and there is also the private infrastructure in terms of education and monitoring; more recent offerings by restructured firms would not have been possible without these reforms. (Lubrano 2007 IFC/World Bank Corporate Governance Department)

*Formal institutions for external investment*

Access to equity markets is relatively low across all the BRIC countries, with a greater reliance on internal funds and insider investment than on external investors. Reliance on equity markets is particularly low in Brazil at around 3-4% of firms compared with 12-16% of firms in India and China and access to long term finance through international capital markets is restricted to larger firms. This is the consequence of the underdeveloped nature of capital markets as much as poor governance structures.

The greatest sources of external finance are from banks through overdraft facilities or bank loans, with much greater access for larger firms than SMEs across all our BRIC countries. In Brazil in particular, terms are more severe for SMEs with low volumes of credit given, higher interest rates and high default rates and terms are more favourable to incumbent, established firms in older industries than newly created firms (Campos and Iootty 2007). More than half of Brazilian firms that need loans do not apply, according to a World Bank report (2003) because of the complex requirements, compared with a figure of 32% for China and 16% for India. The problem is particularly severe for micro firms where the Brazilian level is three times that of Chinese or Indian firms (Table A).

In China, state-owned firms have preferential access to finance from state-owned banks compared with private firms; there are severe restrictions to bank loans for certain types of businesses, especially privately owned and riskier enterprises. In India, the position is more favourable for smaller firms, with over half of small businesses having active bank credit lines or overdraft facilities and a lower reliance on retained earnings than in China or Brazil. Russia's position on formal access to finance is poor. Russian companies in the early 2000s obtained only 3-5% of capital from banks, compared with 15-30% in more advanced market-based countries. The reason is that banks controlled very little of the country's banking deposits, with Alfa Bank for example holding only 2-3% of Russia's ruble deposits.

Sberbank, owned by the Central Bank, controlled 72% of the country's ruble deposits in 2002 and favoured larger and state-owned firms. (Puffer and McCarthy 2003). Use of external finance for SMEs is low: the OPORA survey of SMEs stated that only 16% of small businesses across Russia use bank loans (OPORA 2005). Formal external investor rights in all the BRIC countries are therefore weaker than in the West because of less reliance on external investment. This in turn is due to the historical legacy of state-owned banks which do not themselves have a market-supporting legacy as institutions.

## 4 The role of informal institutions in corporate governance structures in the BRIC countries

This paper develops from the idea that informal institutions have a greater role in corporate governance in emerging markets than in OECD economies (Peng and Heath, 1996). However, this role is ambiguous: informal institutions can improve the functioning of corporate governance or they can undermine the formal corporate governance institutions and we see both patterns across the BRIC economies. Our objective is to provide a framework to analyze this variation, based on the Helme-Levitsky framework. Helmke and Levitsky point out that OECD countries have complementary or accommodating informal institutions, whereas emerging or transition countries are more likely to have substitutive and competing informal institutions.

In the BRIC economies, a more complex picture emerges. In China and India the informal institutions for corporate governance are largely substitutive in that they compensate for ineffective formal corporate governance institutions but the goals are not in conflict with those of the formal institutions. However Russia has competing informal institutions for corporate governance in that the effectiveness of the formal institutions is undermined through corruption and lack of enforcement and the goals of the agents in informal institutions conflict with the goals of formal institutions. Interestingly Brazil has accommodating informal institutions for corporate governance in that the effectiveness of the formal institutions is largely good, but informal institutions have different goals from the formal institutions and are used to get round what are seen to be overly restrictive formal institutions.

In terms of overall effectiveness of their formal corporate governance institutions, there is a distinction between India, China and Russia where effectiveness is low due to weak rule of law, poor enforcement and high corruption; and Brazil where effectiveness overall is high, apart from the inefficiency of its judiciary, with a strong rule of law, strict enforcement, medium levels of corruption and a low risk of expropriation.

Table 2 How effective are formal corporate governance institutions

Enforcement measures

| | Judiciary | Rule of law | Corruption | Risk of expropriation |
|---|---|---|---|---|
| India | 8 | 4.17 | 4.58 | 7.75 |
| Brazil | 5.75 | 6.32 | 6.32 | 7.62 |
| China | weak* | weak* | poor* | low* |
| Russia | weak* | weak* | poor* | high* |
| US | 10 | 10 | 8.63 | 9.98 |
| Average of sample | 7.67 | 6.85 | 6.9 | 8.05 |

Source: La Porta *et al* 1998 and * author estimation

China

In the light of ineffective formal institutions particularly protecting property rights noted above, we find that a favourable environment for firms and creating supportive goals between owners and local states and government officials (Ahlstrom *et al* 2008) has been constructed via informal institutions in a variety of ways. The informal institutions that compensate for unclear corporate ownership and rights of investors are those that build the legitimacy of private firms in the face of uncertain legal rights (Ahlstrom *et al* 2008). As Ahlstrom *et al* quote " There's nothing to keep the [Chinese] Government from taking those private assets back… One year things are open and everyone can prosper; the next year the Government decides to collect everything for the state". Cao Si-yuan, senior adviser to former People's Republic of China General Secretary Zhao Ziyang (South China Morning Post, June 16 1999 p1). The perceived governance danger in China is therefore not misappropriation or tunneling by concentrated owners vis a vis minority shareholders (although this may be an issue). Instead it is establishing private ownership rights as against the state, where the default position is that the state may assume ownership and control of all assets. For instance, many private businesses in China were founded before it was legal to possess private property,  or when it was legal but bypassed many of the bureaucratic regulations for such businesses, combining state and private assets.  The owners of private companies fear that the government might challenge their right to exist and appropriate assets.  In the light of this, Ahlstrom *et al* (2008) emphasise the various types of informal institutions that are used to establish legitimacy and to protect the firm in the light of unclear or ineffective formal institutions . These include cultivating relations with government officials, taking over ailing state-owned enterprises, donating services to the local community, and concealing the private nature of ownership (Ahlstrom *et al* 2008).

Tipton (2009) argues that the Chinese state since the 1980s has the attributes of fairly high state direction (although lower than in the earlier period) alongside low state capacity, the ability to enforce the legal regime.  According to Wang Hongying (2000) Chinese legal institutions have been either ineffective or irrelevant. Private ownership of companies has only relatively recently been made legal and has remained politically less favoured than state or collective ownership and there remain ambiguities in enforcement of private ownership rights, which are susceptible to government intervention and expropriation. As Heugens *et al* (2009) argue, China combines a situation of weak ownership protection and weak rule of law, in which concentrated ownership ceases to substitute and be an effective corporate governance strategy.

However, this ignores the role of the informal institutions which can neutralize or even compensate for the weakness in both shareholder protection and rule of law.
Tsai (2006) emphasizes 'adaptive informal institutions and endogenous institutional change in China' in the area of private ownership of companies. Informal interactions between the local state and private entrepreneurs have underpinned and legitimized formal institutional reforms in favour of private property rights. The formal institution of state ownership has remained in place in many cases whilst the substantive role has changed dramatically. There has been 'institutional conversion' where actors "quietly appropriate formal institutions to serve their own ends" (Tsai 2006) when there is a gap between the original intentions of the formal institutions and the aims of local actors. This institutional adaptation or conversion

can only occur when there is a convergence of aims and incentives between the enforcers of formal institutions and the creators of informal adaptations, in this case the local state and private owners of companies. Both local state and private owners mutually benefit from arrangements that transgress the formal institutional rules, and have ignored or not enforced those rules, creating substitutive institutions of private company ownership. For example, this has been done through disguising private ownership – wearing a red hat (dai hongmaozi) – where a business is registered as a collective enterprise whereas in practice it is privately owned and managed; or registering a private enterprise as an appendage to a state-owned one, so called hang-on enterprises (guahu qiye). Red hat enterprises were particularly prevalent in the first decade of reform when privately-owned enterprises with more than eight employees were illegal. In many localities over 90% of collective enterprises were privately-owned but with disguises of red hats. Local party officials have been complicit in sanctioning this arrangement. In the eastern provinces of Fujian and Zhejiang, large numbers of private firms were registered as collectives to avoid stifling regulations and have remained registered as such (Wank 1996, Huang 2005), whereas in Guangdong province, with its longer acceptance of private enterprise, these concealment strategies have not been so necessary.

Formal regulation of private enterprise has adapted to these informal arrangement by legalizing their existence. From 2001, private entrepreneurs were invited to join the Chinese Communist Party. However Party members continued to use the disguise of wearing a red hat as there remained political criticism of private entrepreneurs' 'spiritual pollution' and 'bourgeois liberalization' and harassment by tax collectors and bureaucrats. Tsai gives an example of a furniture manufacturer in Hebei province who had run a state-owned enterprise as a Communist Party member for 12 years; he set up his own business in 1991 under the disguise of a red hat, registering it as a collective enterprise. He continued in the local People's Congress and was heralded as an "upstanding red capitalist".

Other strategies that firms have taken to build the legitimacy of their private enterprise include choosing geographical localities where it is known that private enterprise is more acceptable; by taking over ailing state-owned enterprises especially in poorer regions of the country in order to gain approval from both the provincial government and from the central government; through using very long-standing relations or clan ties which confer legitimacy; through reciprocal relation-building including giving gifts and holding receptions (Peng and Luo 2000); allying with foreign firms whose legitimacy was already accepted and whose presence was welcomed; through establishing guanxi with local officials, party cadres, village committees, and the judiciary. (Ahlstrom *et al* 2008) For example, visits by senior government officials have been seen as conferring approval and have lead to preferential terms for bank loans and government support.

In terms of relationships between investors more generally and the firm, Chinese capital markets are under-developed and banks continue to be state-owned and dominated by local state funding priorities. Chinese family-owned firms rely heavily on informal sources of finance such as family networks (Table A1), particularly small private firms with lack of access to bank finance. Entrepreneurs go to unofficial and illegal credit institutions, not qualifying for credit from state-owned banks which favour strategically important firms at the expense of SMEs. Private credit and underground credit institutions have flourished, relying on personal connections and reputation and SMEs have to borrow from such illegal institutions at very high rates (Tian 2007). Again these informal institutions are countenanced officially and are seen not to conflict with the aims of formal legal institutions.

India

In India, despite shareholder and creditor rights formally having been well set up, there are issues in terms of how effectively these rights are enforced. This is in part a regional issue, with some states having effective legal rights and in others (such as Bihar) the rule of law not being well established. Overall, as Table 2 shows, in terms of effectiveness, India fares poorly on the rule of law and corruption indices compared with the average in the sample, although the efficiency of the judiciary is good and the risk of expropriation is low. Lee and Oh (2007) distinguish between the pervasiveness and arbitrariness of corruption, arguing that pervasive corruption without arbitrariness does not detract from growth and investment, in that it is predictable and can be built into firms' calculations of cost. Arbitrary corruption on the other hand, even with fairly low levels of pervasiveness, is offputting to investors, especially foreign investors, in that its uncertainty and unpredictability makes dealings more hazardous. They place China and India as both having pervasive corruption, but India having arbitrary corruption in addition, which would tend to undermine formal institutions and place greater onus on the role of the informal institutions in the governance of firms.

In India, the informal institutions that can bolster on the one hand or undermine formal institutions on the other, are those associated with corporate business groups. As Khanna and Palepu (2000), Peng and Jiang (2006) and others (Phan 2001, Carney and Gedajlovic 2002, Ahlstrom *et al* 2004, Morck 2005) argue, there is extensive ownership and control of firms by families and business groups in many Asian countries, including India. The debate is about what role these business groups play – whether they fill an institutional void giving access to resources through informal, private networks, or whether family-controlled firms discriminate against outside shareholders, have more difficult agency conflicts within the family and lead to worse performance of firms from the point of view of shareholders. Douma, George and Kabir (2006) find positive effects on performance of concentrated corporate ownership by foreign and domestic corporations (as distinct from foreign or domestic financial institutions), in particular when affiliated to a business group. Peng and Jiang (2006) find that the net balance of benefits and costs of family ownership and control in large firms depends on the legal and regulatory institutions for investor protection: that high family ownership concentration is beneficial when formal legal institutions are weak. Heugens *et al* (2009) supports this finding – that when there is less than perfect legal protection of minority shareholders, ownership concentration is an efficient corporate governance strategy. But they also find that a certain threshold level of institutional development is necessary to make concentrated ownership effective. Where owners can extract private benefits from the corporations they control, then such concentration is not beneficial to firm performance.

Li *et al* (2006) argue that the business group structure is a horizontal strategy of diversification that is particularly suited for dealing with the market failures associated with failures in capital markets and in the managerial labour market. Capital markets in India fail because they are weak and shallow and limit any company's potential to obtain money to fuel expansion and growth (Khanna *et al* 2005). In most emerging economies, equity is a small part of capital raised and access to debt capital is controlled by a handful of banks which act according to government priorities in the industrial sector. Usually access to foreign capital is relatively limited as well, due to weak governance norms. (Li *et al* 2006). Large business groups overcome financing obstacles, creating an internal capital market, enabling the different firms within it to compete for funds.

This summary leads us to conclude that the informal institutions of corporate governance in India are substitutive – that they replace the largely ineffective formal legal framework and capital markets but have non-conflicting aims or goals with those of formal institutions. This applies mainly in those states where the rule of law, crime and corruption are not so arbitrary as to create conflicting goals between the business groups and the formal legal framework.

Russia

Although Russia's formal corporate governance codes on paper are comparable to OECD standards, its corporate governance in practice is characterized by competing informal institutions. Its formal institutions are ineffective through lack of enforcement and there is a gap between the 'virtual' economy (Maddy and Ickes 1998) reflected in official statistics and company reports and reality. In practice, the concentrated Financial Industrial Groups (FIGs) have been rent-seeking and stifling of entrepreneurship (Aidis *et al* 2008) and have conflicting aims with the formal rules of the legal framework and institutions.

As Heugens *et al* (2009) argue, for ownership concentration to be beneficial for the performance of firms, there needs to be a certain degree of institutional development as measured by the rule of law in the absence of strong legal protection of minority shareholders. In the case of Russia, the formal rule of law and protection of minority shareholders is undermined by lack of enforcement and arbitrary corruption. The identity of the concentrated shareholder also matters; Heugens *et al* (2009) distinguish between market (arms length) investors, stable investors such as affiliated firms or banks with multiple ties to the firm, and inside investors who combine concentrated ownership with managerial control. They find that different kinds of concentrated owners have different effects on performance. If there are strong formal institutions in the form of effective rule of law, then even if there is low protection for minority investors, there is a spread of returns between market and other investors as market investors can nevertheless rely on recourse to the courts to enforce their rights against tunneling. This is not the case in Russia, with insider investors, ineffective rule of law and a weak judiciary. It is argued that even with a clear legal claim, there is a danger of losing assets through the corruption of the judicial system and administration. The Yukos affair illustrated the selectiveness of the the application of the law and insecurity of shareholding rights (Yadong Luo 2007).

The private benefits (tunneling) of concentrated shareownership and control can come in various ways: formal legal protection can be circumvented by dominant shareholders through the lack of capacity or willingness to monitor corporate governance. There may be opportunities for tunneling through corruption in enforcement of codes, in the recognition of formal ownership rights, in the operation of the courts, in the ability of the government to take on the dominant owners or through transfer prices of assets being negotiable, or providers of assets or products being negotiable (Heugens *et al* 2009).

Russian companies are characterized by inside investors, combining concentrated ownership with managerial control in part as a result of the way in which privatization occurred.
The failure of the rule of law in the 1990s, primarily due to non-enforcement, gave rise to enormous freedom for enterprise managers to conduct business. This allowed managers to enrich themselves by legitimate but also illegitimate means – through dishonestry, manipulation and criminality. (Puffer and McCarthy 2003) Accountability for enterprise directors broke down in the 1990s and excesses and abuses have stemmed from that period. Privatization was carried out in 1993 and 1994 – initially through a voucher system that was manipulated in favour of existing enterprise directors (Estrin and Wright 1999) and managers were able to buy shares from workers and others at low prices which did not reflect the potential value of such ownership. Newly entrenched manager-owners were able to use their concentrated ownership to abuse minority shareholder rights and rights of joint venture partners, through asset stripping and capital flight. These managers combined dominant ownership positions with managerial control and hence no constraints either on managerial behaviour nor on dominant inside shareholder power existed. There was privatization but with no supporting institutions to create a culture or mentality of accountability (Earle, Estrin and Leshchenko 1996). What Puffer and McCarthy call the

nomenklatura stage in the late 1990s depicts the control over the economy going to the business-government elite with a number of privileged players enriching themselves and the emergence of a number of leading oligarchs. This consisted in a reciprocally lucrative alliance between bureaucrats and businessmen and the creation of powerful financial industrial groups including Menatep, Onexim, Inkombank and Alfa (see Estrin *et al*, 2009).

Core shareholders have disproportionate influence on management and both are able to take advantage of minority shareholders. The abuses of shareholder rights have occurred in primitive ways such as not allowing shareholders to come to meetings,  taking shareholders' names off registers and forcing them to fight it out in the Russian courts (Fyodorov 2001), diluting capital by issuing stock to majority shareholders, non-compliance with disclosure requirements, unfair transfer pricing, unlawful transactions, fictitious bankruptcies (Puffer and McCarthy 2003). The loans-for –shares scheme in 1995 was a further abuse whereby leading oligarchs gained further shareholder power in exchange for supporting Yeltsin's reelection. This is described as an incestuous relationship between top businessmen and government officials with no transparency, accountability or disclosure (Puffer and McCarthy 2003). Since the crisis of 1998, there has been increasing state involvement in business affairs.It is argued by Buck (2003) that this marks a return to centuries-old involvement and direction by the State in Russian business affairs and that the hostility to outside investors, especially foreign investors, also has long historical roots. It is rare for any company to have more than 20% of its shares in free float and available for purchase. State influence has consisted in strong personal links between private owners of the blue-chip mainly non-manufacturing companies and the government; the Ministry of State Property still remained a majority shareholder in over 12,000 SOEs and a minority shareholder in over 3.800 companies in 2002; the State held 38% of shares in Gazprom valued at 8% of Russia's GDP in 2002, and assets are managed via state boards composed of members of ministeries and agencies (Buck 2003).

Despite some signs of Putin attempting to restore greater accountability and protection of minority shareholders, since the early 2000s there has been a movement of additional government involvement as a solution to corporate governance abuses. However government involvement in business affairs, despite passing a new code of corporate conduct in 2002, has led to further abuses of power and lack of independence of the judiciary from the state. The entanglement between the government and Yukos has increased the impression of corruption in corporate governance.

The distinctive similarity between China and Russia lies in the role of the state considered in both cases as a type of informal institution in the sense that its (the state's) rules are not clear, stable, codified, transparent in either case. But the difference between them lies in the non-conflicting complementary goals that the state has vis a vis company owners, in China – both company owners and local states are more interested in fostering economic growth and both will do or not do whatever is necessary to gain legitimacy to achieve this. This in large part means a *de facto* enforcement of ownership rights and various types of regulation. The Russian state does not have mutually complementary goals with most large concentrated owners of firms – its enforcement of laws is seen as arbitrary and hostile to the independent running of companies; there is an antagonistic relationship between the government and oligarchs and corruption takes the form of arbitrary inspections, asset stripping, lack of independence of the courts and their use for going after business leaders out of line with government policies. Moreover large concentrated owners do not have complementary goals with minority shareholders. Corporate governance abuses therefore come from both the concentrated inside ownership with abuse of minority shareholders through asset stripping, capital flight, tunneling of benefits out of the firm, and through abuses by the Russian government in its involvement in business affairs and in its use of the rule of law vis a vis large oligarchic shareholders.

Brazil

Tables 1 and 2 indicate good formal corporate governance indices for Brazil comprising quite good shareholder rights, strong rule of law and low risk of expropriation. There has been an improvement in corporate governance codes. However there is a weak judiciary and weaker investor rights than the average for the sample. Nevertheless, corruption is not arbitrary although the judiciary is inefficient: Brazil's laws allow many appeals so that even fairly trivial cases end up in high courts, with enormous backlogs and huge delays . Life is difficult for companies that pay taxes and comply with labour laws so Brazil has a large black economy. Companies in the formal economy are forced to abide by expensive and enforced rules (Economist November 14 2009).

All measures of regulation of firms and its enforcement place Brazilian firms as very highly regulated in the formal economy (Table A2), especially with regard to regulations over hiring and firing labour. This forms part of a wider corporate governance picture of tightly enforced formal laws and regulations leading to the rise of the informal economy with the aim of getting round those rules. The World Bank Doing Business survey ranked Brazil 150th out of 183 countries in ease of paying taxes, hiring and firing is complicated, and on ease of starting and closing a business Brazil is placed 37 out of 43 countries surveyed by the World Bank. Dyck and Zingales (2004) estimate the value of private benefits extracted by dominant shareholders across a sample of countries. Their estimates range from close to zero for most OECD countries (but not all) to 65% of firm equity in Brazil.

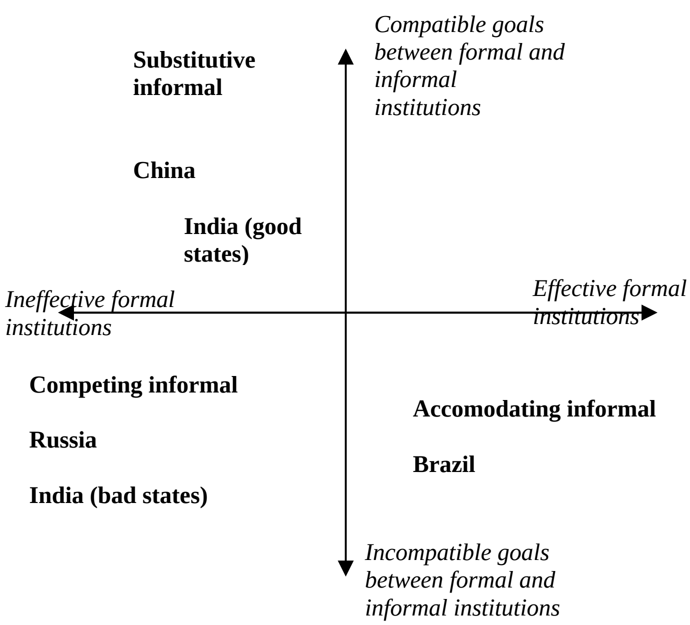
We conclude that the effectiveness of formal institutions in corporate governance in Brazil is high in that the rules are good and they are enforced. Our argument is that they are too tightly enforced and that this gives rise to the informal economy – both companies opting out of formal legal obligations and entering the black economy and tunneling out of formal companies by shareholders in a position to do so. Thus the character of Brazil's informal institutions derives from its large black economy and the role of informal institutions is to get around formal rules. Brazil therefore has accomodating informal institutions in that there are effective formal but incompatible goals between formal and informal institutions. What we mean by this is that informal institutions – of corruption, of the black economy - are engaged in getting round the formal rules that are perceived to be overly enforced and over-tight. They do not undermine the formal rules but find ways of reconciling the conflicting aims of one group with another.

## 5 Conclusions and Policy Implications

Corporate governance structures in the BRIC countries are complex. In all our countries there are relatively concentrated ownership structures and not much in the way of protection of minority shareholders. In Brazil and Russia however, the legal framework for corporate governance looks quite good on paper whereas in China and India the legal framework does not look clear-cut. Ownership rights in China particularly are not protected nor transparent; it is advantageous to disguise an enterprise's ownership as being state-owned or collectively-owned when in fact there is a private entrepreneur or family behind the scenes. India's formal legal framework is more transparent, but less so in terms of family or group control of firms and pinning down where actual control resides. The solution to this diversity in corporate governance ownership-control structures is also varied, and here the role of informal mechanisms comes to the fore. In practice ownership structures function in China and India due to the compensating ways whereby there is *de facto* recognition of ownership rights by the state and government, and particularly in China, encouragement to foreign investors and assurance that ownership rights will be respected. In contrast, in Russia, despite formal legal protection for all shareholders, including minority ones, in practice there is poor law enforcement, arbitrary corruption and undermining of minority rights in particular by leading shareholders and managers and an unclear relationship between large corporate owners and the government. This means that there is fear of expropriation, of arbitrary enactment of laws in retrospect, and of no redress for grievances through the courts and it is unclear what mechanisms exist to control managerial behaviour.

This leads us to summarise the relationship between the formal and informal institutions in terms of their effects on these aspects of corporate governance in the following way. Figure 2 gives an overall picture of where we would place the corporate governance institutions of the BRIC countries in terms of type of informal institutions they possess. China and some states in India, despite ineffective formal institutions, have informal mechanisms that compensate and replace them – substitutive informal institutions in the Helmke-Levitsky parlance – that promote positive investment outcomes both domestically in terms of entrepreneurship and in relation to foreigners leading to strong flows of FDI particularly in China. We have placed emphasis on differing types of substitutive informal institutions that operate in India compared with China – the role of business groups in India and that of the relationship with the state and local government in China. Business groups operate as well in China (Carney, Shapiro, Tang 2008), but the role of the state in organizing them around state-owned enterprises and the role of government policy in promoting them as substitutive institutions, brings out the state role in China as the most important type of substitutive institution in this period. Brazil, with largely effective formal institutions has an accommodating informal framework that works in parallel, with incompatible goals, to the formal institutions and subverts the nature of regulation as upheld by the formal rules. Russia is in the worst position as regards investment outcomes, where despite formal institutions and governance codes being respectable on paper, in practice informal institutions of networks between leading shareholders, the business groups and the State compete with the formal arrangements.

**Figure 2 Corporate governance institutions in BRIC countries in the Helmke-Levitsky framework**




*Policy implications*

The policy implications relate to working either on the effectiveness of formal institutions or on the compatibility of goals between agents in formal and informal institutions. It is not clear what the dynamics of each country's corporate governance institutions are: whether they are moving towards greater effectiveness of formal institutions through better enforcement and through improvement in the quality of the rules themselves, or whether they are being pushed towards greater compatibility between the goals of different groups in society.

For substitutive informal institutions such as those in China and India, the route to increasing performance for instance through domestic and foreign investment would be in legitimating informal institutions and integrating them into the formal framework. To some extent this is the way that things have been going – to accommodate substitutive informal institutions rather than squeeze them out and in doing so to recognize why the existing formal institutions were ineffective rather than try to reform them directly without reference to what has tacitly taken their place. This is in line with Peng (2002) who also points to the failure of formal institutions in China and the reliance on informal constraints. This leads to calls for the strengthening of formal institutions in China, pushed by the interaction between institutional development and organizational choices.

For Brazil's accommodating informal institutions, the policy reforms must be to try to align the goals of informal and formal institutions to a greater extent. This is tantamount to trying to bring informal firms, outside the legal framework, into the formal economy. To some extent this is happening: between 2003 and 2007 the number of formal sector jobs grew by just over 5% a year. It is also accelerated by policies to make life in the informal economy less comfortable. For example informal pharmacies have been hit when suppliers rather than retailers were made responsible for paying tax on their goods. A new law allows a small business to have formal status at the cost of 50 reais a month. (Economist November 14 2009). But the rules should also be made easier to follow and taxes on firms be made less onerous. For competing informal institutions such as in Russia, reform must consist in strengthening the enforcement of formal institutions such that they become effective; and diminishing the power of informal institutions such as the corrupt elites, judicial and business group networks that undermine the effectiveness of formal legal frameworks.

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## Appendix

**Table 1 Access to finance measures (proportion of firms with access to that type of finance 2003)**

| | Brazil | India | China | Russia |
|---|---|---|---|---|
| Access to overdraft or bank credit lines or bank loans | 35%-75% average High end of spectrum for larger firms | 35% - 58% average 76% for SME 60% for micro firms | 25% - 30% average 14% SME 6% micro | 42% large firms 16% SMEs |
| Reliance on internal funds or retained earnings | 43-53% | 30% | 53% | n.a. |
| Reliance on Equity | 3%-4% | 16% | 11%-12% | n.a. |
| Informal sources of finance | 2%-4.5% | 15-17% | 15%-27% 8% for large firms | n.a. |
| External finance as severe obstacle | 85% | 27% | 29% | n.a |
| Interest rate spreads | 45% | n.a. | 3.3% | 8.5% |

Sources: Various World Bank ICAs and EBRD Transition Reports

**Table 2 Various Regulation measures (2002)**

| | Brazil | India | China | Russia |
|---|---|---|---|---|
| Management time spent dealing with regulation | 8.1% | 14.2% | 8.1% | 9.5% |
| Labour regulations perceived as obstacle to growth | 57% | 17% | 19% | n.a. |
| Overstaffing ie exit restrictions | 3% | 11% | 19% | n.a. |
| Number of inspections per year | 7.8 | 6.7 | 26.7 | n.a. |
| Hiring indices | 67 | 33 | 11 | 0 |
| Firing indices | 70 | 90 | 40 | 2 |

Sources: World Bank Doing Business data and Investment Climate Assessments

**Table 3 Corruption measures (2003-04)**

| | Brazil | India | China | Russia |
|---|---|---|---|---|
| % of sales given to secure government contract | 12.2% | n.a. | 2.2% | 1.5% |
| Losses due to crime as share of sales | 0.6% | n.a. | 0.3% | 3% |
| % firms seeing Corruption as obstacle to growth | 67% | 38% | 27% | n.a. |
| Transparency International 2004 corruption perception index rank | 59 | 90 | 71 | 90 |

Sources: Various World Bank ICAs and EBRD Transition Reports