

## **Marina Burmistrova: Corporate Governance and Corporate Finance: A Cross-Country Analysis**

### **Abstract**

This paper presents a review of the modern tendencies in corporate governance and legislation in Russia. First, by focusing on the American and German models, the paper tries to establish the ideal analytical model of corporate governance against which one can then compare the existing body of corporate legislation in Russia. In developing this comparative analysis, we explicitly account for some key historic drivers of corporate growth which strongly influenced the development path of national corporate governance systems. We demonstrate that the prevailing way of corporate financing, its historical background, and the convergence of national legislation due to of the economic globalization are among the key factors to consider. We also show that behind the signs of economic growth triggered by the positive macroeconomic fundamentals and sky-high government oil revenues, one can also discern persistent signs of economic weaknesses in the Russian financial sector. The banking sector and the national stock market remain by and large underdeveloped and overregulated. Both are highly volatile, mainly due to their large dependence on international capital flows and the excessive government regulation. The Russian model of corporate finance is neither “debt-based” nor “equity finance based” as the government budget and retained earnings still remain the key sources of corporate financing. The government’s role as a key financier of corporate development only adds to the increasing influence of the government on private business. The brunt of government regulation however is borne by largest Russian companies. Smaller corporations, most of which are tightly held closed private companies, are left out of the government regulatory net. The “top-down” approach to corporate governance actively pursued by the state often translates into problems with the quality of government regulations and difficulties with their practical implementation.

Similar to the German corporate law, the Russian corporate legislation has chosen the “ex ante” way of regulation, aimed at preventing potential violations of shareholders’ rights. This highly rigid approach was chosen in the early 1990s as a response to the rising tide of violations of fundamental principles of corporate governance which at that time could not be dealt with by the undeveloped system of commercial courts. On our opinion, the best system of corporate legislation Russia can have is the one that relies on best corporate practices and provides enough legislative flexibility for catering to real legislative concerns of various categories of companies. The current Russian legislation gravely suffers from the lack of flexibility which has become the result of the government “top-down” approach to regulate the corporate relations by imperative legislative norms. In the absence of a major regulatory reform or changes in the prevailing mode of corporate financing, corporate governance, although in its current highly prescriptive form, is likely to remain the topic of concern for only few large listed companies.