Corporate Systems in Emerging Market Economies

A Comparison of China and Eastern Europe

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Chapter 1

Ownership Structure and Firm Performance

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1 Ownership Structure and Firm Performance

1.1 Introduction

With the separation between ownership and management becoming more evident in recent years, we are faced with the classic question proposed by Berle and Means (1932): how can we discipline company managers to maximize firm value? This remains an important issue for developed economies in Europe and the United States, where sophisticated ownership systems, advanced capital markets, and fierce inter-firm competition work to enable effective managerial discipline. The question has even greater significance for emerging markets under development.[1] The less the ability of the various institutions and market environments surrounding firms to discipline corporate executives, the greater the need for company owners to assume a stronger disciplinary role in their firms. This is exactly the case in emerging markets.

It is, therefore, only natural that many studies of emerging markets focus on the effect of ownership structure on firm performance because their authors believe that, if company owners as principals are capable of properly guiding managers as agents down the path to maximize firm value, these companies are expected to perform well (Shleifer and Vishny, 1986). If ownership structure is indeed closely associated with firm performance in this sense, it proves that company owners play an important role in compensating for the shortcomings of the legal and market systems in emerging markets. Considering this question is quite valuable.

Furthermore, in emerging markets, ownership structure is not something that arises spontaneously; rather, it is a product of political action. It is precisely one of the main reasons why researchers of emerging markets pay close attention to the ownership structure of firms. In fact, company owners in Eastern Europe and Russia came into existence as the result of the nationwide privatization of socialist enterprises (Iwasaki and Mizobata, 2018). In China, firm owners represent a new class created politically by the Communist Party of China (CPC) in pursuit of the so-called "socialist market economy" advocated by Deng Xiaoping (Goodman, 2008).[2] Do these politically and exogenously generated company owners in former socialist states and China play a role similar to those created endogenously over long periods of

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time in advanced capitalist countries? The answer to this question can serve as an important barometer for assessing the functionality and advancement of the economic systems in emerging markets.

The two questions mentioned above imply that the empirical verification of the effect of ownership structure on firm performance is as important to researchers of emerging markets as it is to those of developed economies. Hence, countless emerging market studies have addressed this topic to date. An overwhelming majority of the previous studies, however, treat only a specific country or region in their empirical analysis, thus failing to show the complete picture of the relationship between corporate ownership and performance in emerging markets. Actually, there are various restrictions in this research field, including data limitations, which are difficult to deal with in a standard empirical analysis.

To overcome such difficulties, we approach this issue by conducting a meta-analysis of the literature. More concretely, this chapter attempts to provide a big picture of the association between ownership and performance in emerging market firms by synthesizing and comparing empirical findings reported in the studies of Eastern European Union (EU) member states, Russia, and China using the advanced techniques and guidelines of meta-analysis proposed by Stanley and Doucouliagos (2012) and Havránek et al. (2020).

As Megginson and Netter (2001), Estrin et al. (2009), and many other survey articles of the transition literature have repeatedly argued, there exists remarkable heterogeneity between Central and Eastern Europe (CEE) and Russia in the methods and outcomes of privatization policies. Needless to say, the Chinese way of enterprise reform is far different from that in CEE and Russia (Xu, 2011). At the same time, it is also important to stress that eastern enlargement of the EU has greatly advanced institutional convergence within the new member states (Åslund, 2013). Therefore, valuable insights are highly expected from the derivation of mutually contrasting hypotheses on the relationship between ownership structure and firm performance in East EU member states, Russia, and China and their meta-analytic testing. To this end, we have organized the meta-analysis in this chapter to examine whether a series of expectations derived from the standard agency theory that has been repeatedly validated in studies of developed economies would be supported by empirical results of emerging market firms.

The results of meta-analysis of a total of 4,425 estimates collected from 204 previous studies indicate that, as the standard theory predicts, state ownership exerts a negative impact on the performance of firms the state invests in, while the presence of domestic outside investors and foreign investors as company owners positively affects firm performance. This finding was noted not only when all of the emerging market studies were included in the meta-analysis but also when individual countries/regions were examined. Furthermore, although the standard theory fails to produce reliable expectations concerning the effect of managerial ownership on firm performance, we found that ownership by managers tends to have a positive impact on

the performance of their owned firms in emerging markets. Overall, however, the linkage between corporate ownership and performance in emerging markets is weak. This finding implies that, in comparison with advanced economies, management discipline by investors is less sufficient in emerging market economies.

The remainder of this chapter is structured as follows. The next section discusses the process of economic transition and enterprise reforms in East EU member states, Russia, and China and presents a set of testable hypotheses concerning the association between corporate ownership and performance in these emerging markets. Section 1.3 describes the literature search procedure and overviews the selected studies for meta-analysis. Section 1.4 first conducts a synthesis of the collected estimates, then performs a meta-regression analysis (MRA) of literature heterogeneity, and lastly tests for publication selection bias. Finally, Section 1.5 summarizes and interprets the results of meta-analysis and concludes.

1.2 Ownership Structure and Firm Performance in Emerging Markets: Hypothesis Development

In this chapter, we focus on four types of company owners in examining the relationship between ownership structure and the performance of emerging market firms: (1) the state, (2) domestic outside investors, (3) foreign investors, and (4) managers.[3] Based on the standard theory, these four types of owners, who represent widely differing positions and attitudes concerning company management, are expected to exert the following impacts on the performance of the firms in which they invest.

The state as a firm owner tends to negatively impact the performance of the firms in which it invests mainly for the following four reasons (Lin et al., 2020): First, state-owned enterprises (SOEs) are often consumed excessively by various interest groups—including the government, managers, and employees—who treat the firms as a kind of public property, which damages firm value (Jefferson, 1998). This phenomenon is referred to as the "tragedy of the commons." Second, the state tends to prioritize political objectives (including providing public services, keeping employment rates up, and protecting specific industries and communities) over business objectives (Estrin and Perotin, 1991; Shleifer and Vishny, 1994), which causes SOEs to stray from the path and the goal of profit maximization. In this circumstance, the state either pursues the maximization of social well-being (Shirley and Walsh, 2000) or overlooks the pursuit of personal benefits by politicians (Shleifer and Vishny, 1998). In either case, the state bears not only agency costs but also political costs of covering the subsidies and bribes paid to firm managers to persuade them to accept the political objectives (Shleifer and Vishny, 1994; Qian, 1996). The prioritization of political objectives is often accompanied by the softening of budget constraints, which distorts the incentive structure of top management (Lin et al., 1998; Lin and Tan, 1999). Third, a state can

have a conflict of interest with minority shareholders and managers, which, in turn, can give rise to a serious agency problem (Fama, 1980; Clasessens et al., 2002). The agency problem, which commonly arises in the presence of large shareholders, can be even more serious for SOEs due to the conflict of interest that arises between the state and private investors and the limited ability of the state to monitor management. Fourth, because SOEs are often afflicted by bureaucracy, information asymmetry between top management and the state tends to be pronounced. This makes SOEs more susceptible to various problems, including lack of transparency in the decision-making process related to firm management and increased monitoring costs, which can conspire to undermine firm performance (Groves et al., 1994; Huang et al., 2017).

Domestic outside investors as firm owners, on the other hand, have a strong interest in recovering their investments and earning fair returns, which motivates them to work harder to discipline managers, thereby exerting a positive impact on the performance of the firms in which they invest. Pension funds, insurance companies, investment trusts, and other domestic institutional investors, which have the important responsibility to protect the assets entrusted to them, particularly tend to place great emphasis on the growth potential of the firms in which they invest and are known to play an important role in the governance and management activities of investee firms through aggressive and systematic monitoring activities (Ferreira and Matos, 2008). However, one cannot rule out the possibility that even domestic outside investors might prioritize their own interests in pursuit of profits from other business dealings, especially when they are the parent company of the investee firm or the financial institution or non-independent institutional investors that have dealings with the investee firm. This is why the presence of domestic outside investors does not necessarily imply a positive impact on the performance of their owned firms (Ferreira and Matos, 2008; Iwasaki and Mizobata, 2018).

Foreign investors who take the risk of transferring their own funds across borders for investments are more strongly motivated than any other investor to seek to maximize returns on their investments. Naturally, this type of firm owner tends to be particularly sensitive to the performance of the firms in which they invest. Furthermore, because external investors are more likely than domestic outside investors to confront pronounced information asymmetry, they try to avoid it through careful monitoring of top management and by openly expressing their opinions about the state of corporate governance systems (Aggarwal et al., 2011). Foreign investors thus tighten their grips on firm management through their activist-like governance activities, consequently improving the performance of the investee firms. Foreign investors also bring advanced production technology, management know-how, and other uncoded/tacit knowledge to their owned enterprises; this is another factor contributing to the improvement of firm performance, particularly in emerging market economies (Iwasaki and Mizobata, 2018).

The standard theory fails to provide a unified perspective as to how managerial ownership affects firm performance. According to the alignment hypothesis, managers who hold stock in their own firm tend to share a mutual interest with regular shareholders, which makes them manage their company in a way that maximizes the firm's value, thereby contributing positively to firm performance. However, according to the entrenchment hypothesis, when managers hold stock in their own firm, it could become more difficult for shareholders or the board of directors to exert any significant influence on the status and earnings of the managers, which in turn could motivate corporate executives to behave in an opportunistic manner and lead to lax managerial discipline, gravely undermining firm value (Jensen and Meckling, 1976; Stulz, 1988; Lins, 2003; Iwasaki and Mizobata, 2020). Thus, managerial ownership can cut both ways, and researchers agree on the mixed effect it can have on firm performance.

Based on the standard theory described above, the following subsections present our hypotheses individually for East EU member states, Russia, and China, taking into consideration the process of economic transition and enterprise reforms in these countries.

1.2.1 East European Union Member States

Economic transition in East European countries is characterized by the establishment of a corporate law system that resembles those of industrialized countries, the nationwide and thorough privatization of SOEs, and the promotion of new private firms' entry into the market; its goal is to develop a business sector based on private ownership (Djankov and Hoekman, 2000; Kočenda and Svejnar, 2003). By and large, these countries were quick to introduce a legal system necessary for firms to operate on market principles and in an environment in which certain levels of transparency and openness in firm activities were ensured. They promoted the privatization of firms by involving foreign investors and strategic investors in the process, which encouraged the entry of various new private firms from both inside and outside the country (Åslund, 2013).

In particular, East European countries that successfully joined the EU achieved great success in creating a market-oriented corporate sector, thanks to their tremendous efforts to transition from a planned system to a market economy. In fact, Hungary and Poland, where the authority of government and firms were separated, and individuals were allowed to run private businesses even during the socialist era, achieved prosperous reform from the early stage of economic transition. Around that time, these two countries also began to harmonize their laws with EU legislation, which entitled them to support from the EU. In Hungary, for example, the 1959 civil code, which was based on the monopoly of the means of production by the state, underwent several revisions during the transition period and was eventually replaced completely by the civil law and corporate law that are compliant

with *acquis communautaire*, the accumulated body of EU laws. This legislative measure was one of the prerequisites for Hungary's accession to the EU in 2004 (Iwasaki et al., 2012). The same path was followed by ten other East European countries, including Poland, the Czech Republic, Slovakia, Slovenia, and the three Baltic States, which joined the EU in the same year as Hungary; Bulgaria and Romania, which were additionally allowed to join the EU in 2007; and Croatia, which was formally granted EU membership in 2013 (Radwański, 2006; Iwasaki and Suganuma, 2009).[4]

"[A] privatization plan for Eastern Europe must, on one hand, provide a clear avenue for the entry of foreign capital and expertise, but, on the other hand, must place this entry in a setting that makes it acceptable for the point of view of the East Europeans' own perception of their interests" (Frydman and Rapaczynski, 1994, p. 16). For this reason, various methods were used to privatize firms. Among them, the sale of SOEs to strategic investors was attempted by many East European countries, a process in which multinational corporations and foreign investors from developed countries played a crucial role. On the other hand, unlike Hungary, Bulgaria, and Estonia, where many SOEs were sold directly to strategic investors, Poland, with its history of "Solidarity," witnessed a large number of management and employee buyouts (MEBO). Furthermore, in the Czech Republic, Slovakia, Latvia, and Lithuania, where the emphasis was on the political objective of winning support from the general population, the voucher scheme (so-called "mass privatization") was used for the large-scale transfer of state-owned assets to citizens at no cost (Iwasaki and Kočenda, 2017; Iwasaki and Mizobata, 2018). Although the methods used for the privatization of SOEs differed widely among East EU member states, these states all undeniably achieved their political objectives by successfully transferring most SOEs to private hands.

However, the use of different privatization methods by East EU member states inevitably resulted in considerable differences in political outcomes in terms of firm ownership structure among these nations. In fact, in Hungary, where many of the major SOEs were sold off to multinational corporations, a new corporate sector dominated by foreign firms emerged (Iwasaki et al., 2012). On the other hand, in the Czech Republic, where voucher privatization was virtually dominated by investment funds whose ultimate owners were state banks, enterprise privatization meant nothing more than the reorganization of SOEs, as pointed out by Stark and Bruszt (1998). However, these differences among East EU member states in terms of post-privatization ownership structure and state–business relationships were considerably diminished due to the changes that occurred in all of these countries following their accession to the EU; these differences included the thorough privatization of remaining state-owned companies and financial institutions, increased foreign direct investment, the free movement of enterprises across borders within the EU market, and hard work by firms to join global supply chains. Based on these observations, we propose four hypotheses regarding

the relationship between ownership structure and firm performance that capture some noticeable trends that can be commonly observed in East EU member states.

First, East EU member states are expected to behave in a manner that closely resembles the model proposed by the standard theory. According to this model, the remaining SOEs in these countries are unlikely to be able to prevent politicians and bureaucrats from using them as a tool to achieve their political objectives. Managers of these SOEs are not necessarily required to pursue good performance. In fact, according to Hanousek and Kočenda (2008), governments in East European countries use ordinary shares with voting rights, golden shares, and other indirect means of control to force so-called "strategic firms" to exploit their special position to behave in a manner that serves the interests of the state. However, in East EU member states, state ownership is dominant in only certain industrial sectors, such as energy and transportation, which makes it difficult for researchers to find statistically significant differences in firm performance between ordinary private firms and strategic state corporations (Szarzec and Nowara, 2017). With this in mind, we propose the following hypothesis:

> **Hypothesis H1.1:** *In East European Union member states, state ownership of a firm has a negative but limited impact on the performance of that firm.*

In East EU member states, including Hungary, which focused on selling off firms to strategic investors, and other countries, which used the voucher scheme to widely distribute the shares of privatized firms to citizens at no cost, the trading of shares in the stock market afterward quickly led to a concentration of ownership in the hands of specific investors (Åslund, 2013; Iwasaki and Mizobata, 2020). In these countries, domestic outside investors consisted mostly of institutional investors and wealthy private individuals. These groups of investors acquired certain levels of ownership in many of the domestic firms and are intent on disciplining top management of the firm in which they invest to maximize investment returns. Their attitude today compares favorably with that of private investors in Western Europe (Tamowicz, 2011; Draženović et al., 2019). Furthermore, no particular concerns have been raised with regard to the downsides of the governance activities undertaken by domestic investors. In view of these facts, we propose the following hypothesis regarding domestic outside investors in East EU member states:

> **Hypothesis H2.1:** *In East European Union member states, ownership of a firm by domestic outside investors has a positive impact on the performance of that firm.*

As mentioned earlier, foreign investors are outstanding figures in the enterprise privatization conducted in East EU member states. In particular, European

multinationals greatly expanded their presence in these countries as strategic investors. For these foreign firms, East EU member states were like hinterlands in the EU economic bloc that can serve as a bridgehead to markets in the former socialist block that have attracted a great deal of attention from around the world as promising emerging markets (Dabic and Lamotte, 2017). These foreign firms from Europe and other developed countries were, therefore, focused on direct investments rather than portfolio investments; once they acquired ownership of the firm that interested them, they kept buying shares of that firm to become controlling shareholders (Telegdy, 2011; Åslund, 2013). This kind of strategic investment by foreign investors can not only reduce information asymmetry between owners and top management of the firm but also serve as an effective deterrent against the opportunistic behavior of managers. Foreign investors in East EU member states have, in fact, been just as successful as domestic outside investors in governing the firms in which they invest. Furthermore, as far as the standard theory is concerned, foreign investors active in East EU member states have a strong tendency to react sensitively to the performance of the firms in which they invest (Sass and Vlčková, 2019). In view of these facts, we propose the following hypothesis:

> **Hypothesis H3.1:** *In East European Union member states, the ownership of a firm by foreign investors has a positive impact on the performance of that firm.*

In East EU member states, there have been quite a few cases where managers and/or rank-and-file employees become owners of the companies for which they work. State promotion of MEBO has also resulted in many managers becoming owners of the firms to which they belong (Iwasaki and Mizobata, 2018). Generally, in an immature market environment, managers tend to focus on gaining short-term returns. Because the status of company managers in East European countries depends on their loyalty and support from employees, managers who want to protect their status and avoid conflicts with staff are unlikely to behave in a manner that would compromise their relationship with the state or be taken as disrespecting the interests of employees (Frydman and Rapaczynski, 1994). However, as progress was made in achieving political and economic harmonization with EU requirements and improving corporate laws, and as more and more funds came in from capital markets, company executives in Eastern Europe became strongly disciplined toward respecting laws and promoting corporate governance. Furthermore, significant improvement has been noted in ethics among managers in East EU member states (Mickiewicz, 2006). In view of these facts, we concluded that the alignment hypothesis more accurately reflects the reality in East EU member states than does the entrenchment hypothesis. This conclusion gives rise to the following hypothesis:

> **Hypothesis H4.1:** *In East European Union member states, managerial ownership has a positive impact on the performance of the firm.*

1.2.2 Russia

A similar trend was observed in Russia during the period of economic transition, where the injection of market principles into the corporate law system and the implementation of privatization measures exerted a significant impact on Russian firms in terms of their ownership structure and relationship with the state. The corporate law system in Russia is composed of the provisions of Part I of the 1994 Civil Code supplemented and elaborated by federal laws for different types of incorporations, including the 1995 Law of Joint-stock Companies and the 1998 Law of Limited Liability Companies. The integrity of the corporate law system is determined by the degree of protection of minority shareholders. If minority shareholders are not guaranteed fair ownership, investors avoid holding stocks for a long period of time, which limits the firm's ability to secure adequate funds in a stable manner (La Porta et al., 1999). The Corporate Governance Code, issued as a resolution of the Federal Market Securities Committee of Russia in 2003, played a certain role in protecting the rights of minority shareholders by strengthening the corporate governance of Russian firms (Iwasaki, 2007; Muravyev et al., 2013). By the mid-2000s, corporate laws in Russia were improved to the point of being comparable to those in developed countries (Iwasaki, 2018), and are no less sophisticated than the equivalent laws in East EU member states (Settles et al., 2011). For example, listed firms in Russia are strongly required to comply with international corporate governance standards, a fact that has contributed to the gradually increasing presence of foreign and female executives on boards (Muravyev, 2017).

In terms of corporate ownership structure and the state–business relationship, what most set Russia apart from East EU member states are the process of privatization and its political consequences. A large-scale privatization of SOEs in Russia took place in the early 1990s, during which time privatization vouchers distributed to all citizens were exchanged free of charge with the new shares issued by SOEs. During this mass privatization phase, most of the privatized firms ended up in the hands of insiders (Mizobata, 2005). During the subsequent cash privatization phase, shares of big businesses were sold off to a handful of commercial banks as security for fiscal loans, which in turn gave rise to oligarchs (Pappe and Galukhina, 2009). This so-called "loan-for-share privatization" involved blue-chip firms active in strategic industries, including the energy and non-ferrous metal sectors. At one time, almost all big businesses fell under the ownership of oligarchs and other wealthy capitalists. Afterward, however, many loan-for-share privatization transactions were identified as being illegal, and firm assets in strategic industry sectors were returned to the state in the 2000s (Guriev and Rachinsky, 2005; Mizobata, 2008; Chernykh, 2011). At the same time, many of the oligarchs and their new financial groups, which had enjoyed prosperity during the 1990s and the early 2000s, virtually vanished from the business world (Adachi, 2010).

Russia as a state has been far from friendly in its political attitude toward not only domestic private investors but also foreign investors. The foreign investment law that took effect in 2008 is a typical example. This law either prohibits or tightly restricts the inflow of foreign capital into not only important industries that are vital to national security (e.g., the defense industry, nuclear industry) but also underground resource-related industries, the transportation industry, mass media, construction, and financial industries. It explains why the cumulative foreign direct investment per capita during the period of economic transition in Russia falls far behind that of East EU member states (Iwasaki and Tokunaga, 2020). Today, Russian SOEs, including unitary enterprises and national corporations, are active mainly in strategic industries from which both domestic private investors and foreign investors were forcibly removed and have gained considerable status in Russia in terms of both employment and financial revenue (Abramov et al., 2017).

To sum up, while the corporate law system in Russia is mostly comparable to that in East EU member states, the presence of the state as a firm owner is much bigger in Russia than in its East European counterparts. Based on these understandings, we propose hypotheses regarding the relationship between ownership structure and firm performance in Russia as follows:

In the 1990s, firms excluded from privatization were demanded by the state to meet the business challenge of ensuring job security, which meant that the pursuit of business interests had to take a back seat (Commander and Jackman, 1997; Gimpelson and Kapeliushnikov, 2013). From the 2000s onward, SOEs have been forced to comply with the political objectives set forth by the Putin Administration, which include national control of strategic industries, resource nationalism, and political emphasis on securing budget revenue (Chernykh, 2011). This state–business relationship in Russia is making it difficult for SOEs to avoid the harmful effects of state ownership suggested by the standard theory. This notion leads us to the following hypothesis:

> **Hypothesis H1.2:** *In Russia, state ownership of a firm has a negative impact on the performance of that firm.*

There are no reasons why domestic outside investors in Russia should behave differently from their counterparts in East EU member states. In fact, many private and institutional investors in Russia bought shares from citizens after mass privatization and became actively involved in the management of the firms in which they invested as major shareholders (Iwasaki, 2007). Furthermore, so-called "financial-industrial groups," holding companies, and other types of investment firms played an extremely positive role in restructuring and improving firm value (Perotti and Gelfer, 2001; Avdasheva, 2007). According to Åslund (2003), the aforementioned oligarchs also deserve credit

for helping the former SOEs recover from serious financial difficulty, despite the harmful effects they could have had on firms as businessmen with political affiliations. Based on these observations, we expect that:

> **Hypothesis H2.2:** *In Russia, the ownership of a firm by domestic outside investors has a positive impact on the performance of that firm.*

As mentioned earlier, the presence of foreign investors in Russia is quite limited as compared to that in East EU member states due to the state's unfriendly political attitude toward them. However, many researchers have repeatedly demonstrated that, once foreign investors and companies enter the Russian market, it is highly likely to bring positive effects to the market in which they invest. Foreign investors also have a reputation for being good at enterprise restructuring. For example, according to Ledyaeva et al. (2013), AvtoVAZ, a major automobile manufacturer in Russia, reduced excessive employment and achieved a remarkable increase in management efficiency as a result of having foreign investors as its owners. Furthermore, in terms of technology transfer, the entry of foreign capital is expected to bring great benefits to Russia, just as it did to East EU member states (Iwasaki and Suganuma, 2015). In view of these facts, we expect that:

> **Hypothesis H3.2:** *In Russia, the ownership of a firm by foreign investors has a positive impact on the performance of that firm.*

Opinions have long been divided over the significance of managerial ownership in Russia and its effects on firm performance (Iwasaki, 2007). In the 1990s, the majority of researchers supported the entrenchment hypothesis because many believed that, taking into consideration the harmful effects of insider control, managerial ownership in Russia was highly likely to damage firm value (Filatotchev et al., 1999). From the 2000s, however, managers in Russia began to behave more in line with the alignment hypothesis and, being acutely conscious of their status as firm owners, they began to show high levels of interest in investment returns. This led the majority of researchers to agree that these managers are strongly motivated to seek good firm performance (Iwasaki et al., 2018). This is supported by Kapeliushnikov et al. (2013), who claim that, as the uncertainties surrounding ownership protection grow, competent managers in Russia try harder to stabilize the management of their firm by expanding their ownership. The improvement and enactment of laws during the same period, including the revision of corporate laws and the promulgation of the Corporate Governance Code, also have contributed to increasing awareness about firm management among the executives of listed firms and owner-managers (Iwasaki, 2008, 2018; Muravyev, 2017). In view of these observations, we conclude that firm managers in Russia resemble their counterparts in East EU member states in that their behavior is more accurately described by the alignment hypothesis than

by the entrenchment hypothesis. This conclusion gives rise to the following hypothesis:

> **Hypothesis H4.2:** *In Russia, managerial ownership has a positive impact on the performance of the firm.*

1.2.3 China

China, which politically maintains the one-party rule of the CPC but economically pursues the establishment of a socialist market economy, has gone through a process of economic transition that is completely different from those of Eastern Europe and Russia. Two points should be noted, as follows. First, China's basic pattern of economic transition differs greatly from that of Eastern Europe and Russia, which is referred to as "gradual market-oriented reform" or "increased quantity reform" (*Zengliang Gaiger*). In this sense, China chose to maintain and reform the state sector while at the same time gradually promoting the growth of the private sector (Lin et al., 1996; Zhang, 2009; Ma, 2018). This is in sharp contrast with the transformation of SOEs into privately owned companies or the replacement of the state sector with the private sector that occurred in Eastern Europe and Russia by big-bang radical reforms.

Enterprise ownership reform in China can largely be categorized into three phases (Zhang, 2009). During phase I (1978 to 1992), China tried to maintain the planned economy while granting a certain level of management autonomy to SOEs. In July 1979, the State Council issued rules to expand management autonomy in state-run firms and, at the same time, implemented a tax reform called *Ligaishui* (transforming firm profit extraction into tax submission), which required firms to pay taxes, instead of their profits, to the government. Another great achievement made during this phase was the introduction of the contract management responsibility system; 93% of SOEs had implemented the system by the end of 1988 (Lin et al., 2020).

Phase II (1992 to 2003) is characterized by the government-led effort to introduce a modern corporate governance system in SOEs. In response to the Southern Tour Speeches given by Deng Xiaoping, the 14th CPC National Congress adopted a new reform policy in November 1992 that aimed to establish a socialist market economy system. In the following year, the Third Plenum of the 14th CPC Central Committee adopted the "Decisions Made by the CPC Central Committee about Some Issues on the Establishment of a Socialist Market Economy System" and stated two points to be prioritized in SOE reform: restricting the state's interference in company management and resolving corporate governance problems in SOEs. Some of the major accomplishments of phase II of enterprise ownership reform include the enactment of the 1993 corporate law that permits the establishment of stock corporations and limited liability companies, the establishment of the Shanghai Stock Exchange and the Shenzhen Stock Exchange and the listing of some SOEs on these stock markets,

performing the "*zhuada fangxiao* (grasp the big, let go of the small)" policy that is aimed at relaxing control over small and medium-sized SOEs while maintaining control of large ones, and enforcing a "three-year poverty relief" policy aimed at eliminating the deficits of SOEs within the period of 1998–2000.

Phase III (beyond 2003) is characterized by the removal of systematic and institutional barriers that existed between the state and non-state sectors based on the basic policies set out in the "Decisions on Some Issues Associated with the Improvement of the Socialist System," which was adopted by the Third Plenum of the 16th CPC Central Committee in 2003. These policies include the "thorough modification and revision of laws and regulations as well as policies that restrict the growth of non-state-owned firms and the removal of systematic barriers" and the "entitlement of non-state-owned firms to the same treatment as SOEs in terms of investments and loans, taxation, land use, and foreign trade." The achievements made so far include the establishment of the State-owned Assets Supervision Commission that acts as the shareholder of SOEs, drastic deregulation to enable private firms to engage in business activities, and the removal of barriers to foreign direct investment; together, these achievements are referred to as "mixed-ownership reform," which is aimed at allowing SOEs and private firms to coexist and co-prosper (Lu and Zhu, 2020). These facts point to the truth that the Chinese government has tried to implement various policies and deregulate to create a modern and competitive firm sector. However, China has consistently placed SOEs at the core of the economy.

The second feature of economic transition that sets China apart from Eastern Europe and Russia is the extensive and powerful interference of CPC organizations in firm management (Brodsgaard, 2012; Cheng and Leung, 2016; Ma, 2019). Policies such as the "decentralization of power and transfer of profits" and the "separation of government functions from firm management," which were implemented from 1984 to 1992 to empower state-run firms and to separate ownership from the control of firms, respectively, significantly expanded the management autonomy of state-run firms. At the same time, they restricted interference by CPC organizations in firm management. After the 1989 Tiananmen incident, however, the CPC again tightened its political reins, and party organizations began to exert a greater influence on SOEs. As symbolized by the political slogan that states "the top manager is a leader, the general secretary of the Communist Party of China is the core," the power relationship between company managers and party organizations in terms of governance of SOEs remains quite obscure even today. In fact, the 18th CPC National Congress, held in November 2012, ruled that executives on the boards of SOEs need to hear the opinions of their firm's party organization before making important decisions. Furthermore, Article 32, Paragraph 3 of the Regulations of the CPC requires that even in the non-state sector, the party organization in a firm must satisfy the following requirements: "Ensure that the party's policies are carried out in their entirety, guide and supervise firms to ensure compliance with national laws and regulations, provide guidance to

people's organizations such as labor unions and the Communist Youth League of China, unite laborers and preserve/protect their interests, and promote the sound development of firms." This regulation signifies that, while the economic system has become increasingly more marketized in China, the system of political control over firms enforced by CPC organizations in firms is still rigidly maintained at the firm management level (Ma and Iwasaki, 2021).

In view of the aforementioned facts, we propose four hypotheses regarding the ownership structure and performance of firms in China as follows.

No matter what policies were implemented and how much deregulation materialized, in China, large-scale SOEs that are still industry cores would remain under the control of the state as long as the national policy requires that one-party rule is maintained and China is performing gradual market-oriented reform (Yan and Huang, 2017; Ma, 2018). Formally, in China, SOEs belong to the state and the people. Virtually speaking, however, control over the ownership and management of firms lies in the hands of the government and the CPC. Under this circumstance, managers of SOEs have no choice but to obey state authorities and are forced to prioritize achievement of political and social objectives established by the government and the CPC (Bai et al., 2005; Bai and Xu, 2005; Chang and Wong, 2009). Furthermore, although many of the large SOEs became listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange, the majority of the issued shares still belong to the state, which enables the government and the CPC to rule over those listed firms as controlling shareholders (Xu and Wang, 1999; Lin et al., 2020). Considering these circumstances surrounding SOEs in China, it would not be surprising to see the harmful effects of state ownership predicted by the standard theory manifested prominently in the country. This observation leads us to the following hypothesis:

> **Hypothesis H1.3:** *In China, state ownership of a firm has a negative impact on the performance of that firm.*

There is no reason why private investors and private institutional investors in China should not have a strong interest in the performance of the firms in which they invest. However, because the state not only has powerful control over the management of SOEs and listed firms but also exerts a certain level of impact on privately owned firms through in-house CPC organizations, domestic outside investors in China have little voice in the management of the firms in which they invest (Kang and Kim, 2012). Thus we predict that:

> **Hypothesis H2.3:** *In China, ownership of a firm by domestic outside investors has a positive but limited impact on the performance of that firm.*

Foreign investors entering the Chinese market face an investment environment that is similar to the one encountered by domestic outside investors. As far as foreign-owned companies in China are concerned, foreign investors are expected to exert a certain level of impact on the management of these

firms as major shareholders. However, even today, the presence of foreign-owned firms is limited in China as compared to East EU member states, where multinational corporations from developed countries and other foreign investors are actively involved in company management (Shapiro et al., 2015; Teng and Yi, 2017; Meng et al., 2018). Therefore, it is quite difficult to assume that the ownership of firms by foreign investors might affect the performance of Chinese firms greatly, which enables us to propose the following hypothesis:

> **Hypothesis H3.3:** *In China, ownership of a firm by foreign investors has a positive but limited impact on the performance of that firm.*

In China, the majority of managerial ownership consists of either company executives in SOEs (most of them listed), who receive firm shares as part of their performance-based pay, or the manager, who is the owner of a privately owned small business or a member of a family that owns a firm. In the former case, because the proportion of stock-option shares is quite limited, the number of shares and the position held by the managers are insufficient for them to control the firm. The latter case is free from the agency problem that occurs as a result of a separation between ownership and management. Neither of these cases seems to be in line with the entrenchment hypothesis. Rather, they seem to exert a positive impact on firm performance, as suggested by the alignment hypothesis. We therefore expect the effect of managerial ownership in China to be as follows:

> **Hypothesis H4.3:** *In China, managerial ownership has a positive impact on the performance of a firm.*

In a subsequent section, we will perform a meta-analysis to verify these hypotheses.

1.3 Literature Search and Overview of Selected Studies

As the first step to verifying the hypotheses presented in the previous section by meta-analysis, this section describes the procedure for the literature search and an overview of the selected studies.

To search out relevant studies that empirically examined the relationship between ownership structure and the performance of firms in East EU member states, Russia, and China, we first used the EconLit and Web of Science, the electronic databases of scientific papers, as well as the websites of major scientific journals. When searching in these electronic databases, we used one of the terms "*privatization*," "*ownership*," "*restructuring*," and "*firm performance*" in combination with one of the terms "*transition economies*," "*Central Europe*," "*Eastern Europe*," "*former Soviet Union*," "*Russia*," "*China*," and the name of one of the East EU member states.

This mechanical search yielded more than 1,500 studies. We have collected as much of these publications as we could within our budget and technical capabilities.

Next, we carefully examined each of the above collected articles to select those that addressed the countries of interest (i.e., East EU member states, Russia, or China). Those selected were then further examined to determine whether they provided estimates that could be subject to meta-analysis. In the end, we selected a total of 204 studies.[5] Of these 204 studies selected, 91 are studies that empirically analyzed firms operating in 11 East European countries that joined the EU in 2004, 2007, or 2013 (hereafter referred to as Eastern EU studies), 32 are studies that addressed companies in Russia (Russian studies), and the remaining 85 are studies of Chinese corporations (Chinese studies). Four of the selected studies covered firms in both East EU member states and Russia. For studies that addressed firms in multiple countries, only those in which over 90% of the firms analyzed belonged to either East EU member states, Russia, or China were included in our meta-analysis. However, most of the selected papers present single-country studies, and all studies that treated Chinese firms focused exclusively on China.

From the 204 selected studies, we extracted a total of 4,425 estimates.[6] Of them, 2,005 estimates (45.3% of the total) were obtained from Eastern EU studies, 794 (17.9%) from Russian studies, and 1,626 (36.7%) from Chinese studies. The mean (median) of collected estimates per study were 21.3 (12) for all studies, 22.0 (12) for Eastern EU studies, 24.8 (15) for Russian studies, and 19.1 (12) for Chinese studies. Hereafter, K denotes the total number of collected estimates ($k = 1, 2, \ldots, K$). In the coding work of the selected studies, along with the estimates of ownership variables and their characteristics (ownership types, continuous/dummy variable, non-lagged/lagged, estimation with and without an interaction term(s)), we also recorded a series of study conditions, including firm performance variable types (efficiency/productivity/firm value/restructuring/others), target industries (various industries/mining and manufacturing industries/service industry), estimation periods, data types (cross-sectional data/panel data), estimators (OLS/non-OLS, with and without control for endogeneity by IV/2SLS/3SLS method), control for location-, industry-, and time fixed effects, and proportions of sample firms in total observations by country (hereafter, sample proportions by country). This supplemental information will be utilized in MRA as meta-independent variables.

For each study type described above, Panel (a) of Table 1.1 presents the number of studies included in meta-analysis, the number of collected estimates as well as the estimation period covered, and the breakdown of collected estimates by ownership variable type. As shown in this panel, a total of 204 selected studies covered a period of 33 years from 1985 to 2017. In this respect, there are no significant differences among the three study types. The number of collected estimates per ownership variable type shown for

Table 1.1 Overview of collected estimates and descriptive statistics of their partial correlation coefficients

(a) Overview of collected estimates by study type

				Breakdown by ownership variable type							
				Number of estimates				*Proportion (%)*			
Study type	*Number of studies*	*Number of collected estimates (K)*	*Estimation period covered*	*State ownership*	*Domestic outside ownership*	*Foreign ownership*	*Managerial ownership*	*State ownership*	*Domestic outside ownership*	*Foreign ownership*	*Managerial ownership*
All studies	204	4425	1985–2017	1589	1204	1338	294	35.9	27.2	30.2	6.6
Eastern EU studies	91	2005	1986–2015	401	744	775	85	20.0	37.1	38.7	4.2
Russian studies	32	794	1985–2014	213	279	142	160	26.8	35.1	17.9	20.2
Chinese studies	85	1626	1985–2017	975	181	421	49	60.0	11.1	25.9	3.0

(*Continued*)

Table 1.1 (Continued)

(b) Descriptive statistics of the partial correlation coefficients of collected estimates by study type and ownership variable type

Study type/ownership variable type	*K*	*Mean*	*Median*	*S.E.*	*Max.*	*Min.*	*t-test*[a]	*Shapiro–Wilk normality test (W)*[b]
All studies								
State ownership	1589	–0.004	–0.002	0.118	0.743	–0.475	–1.456	0.830†††
Domestic outside ownership	1204	0.021	0.017	0.094	0.555	–0.614	7.928***	0.913†††
Foreign ownership	1338	0.040	0.012	0.093	0.555	–0.555	15.620***	0.849†††
Managerial ownership	294	0.076	0.063	0.119	0.583	–0.259	10.905***	0.975†††
Eastern EU studies								
State ownership	401	0.011	0.004	0.084	0.315	–0.297	2.579**	0.933†††
Domestic outside ownership	744	0.014	0.012	0.078	0.353	–0.314	4.886***	0.935†††
Foreign ownership	775	0.042	0.017	0.092	0.491	–0.307	12.998***	0.906†††
Managerial ownership	85	0.024	0.017	0.104	0.556	–0.201	2.150**	0.894†††
Russian studies								
State ownership	213	–0.024	–0.024	0.061	0.148	–0.227	–5.630***	0.991†††
Domestic outside ownership	279	0.040	0.047	0.108	0.337	–0.382	6.140***	0.973†††
Foreign ownership	142	0.054	0.022	0.077	0.362	–0.109	8.327***	0.853†††
Managerial ownership	160	0.111	0.151	0.113	0.331	–0.259	12.412***	0.937†††
Chinese studies								
State ownership	975	–0.006	–0.002	0.137	0.743	–0.475	–1.435	0.815†††
Domestic outside ownership	181	0.024	0.015	0.122	0.555	–0.614	2.632***	0.754†††
Foreign ownership	421	0.029	0.006	0.099	0.555	–0.555	6.018***	0.702†††
Managerial ownership	49	0.051	0.034	0.128	0.583	–0.253	2.803***	0.688†††

Notes: Among 204 selected studies, four works report empirical results for both Eastern EU states and Russia. **Online Appendix 1.1** lists the selected studies, and **Appendix 1.2** provides their bibliography.

[a] ***: Null hypothesis that the mean is zero is rejected at the 1% level; **: at the 5% level.

[b] †††: Null hypothesis of normal distribution is rejected at the 1% level.

all studies indicates that while the numbers of estimates of the state ownership variable (1,539, or 35.9% of the total), the domestic outside ownership variable (1,204, or 27.2%), and the foreign ownership variable (1,338, or 30.2%) are similar to each other, that of the managerial ownership variable is considerably smaller (294, or 6.6%). Although the same trend can be noted in the estimates collected from Eastern EU studies, this is not the case with Russian and Chinese studies. In fact, of all estimates collected from Russian studies, estimates of the managerial ownership variable account for 20.2%, and of all estimates collected from Chinese studies, estimates of the state ownership variable amount to 60.0%. Such gaps among the three study types in terms of the composition of collected estimates explicitly reflect differences in the research focus across countries/regions as discussed in the previous section.

In order to correspond to the difference in the units of estimation results reported in the selected studies, we employ the partial correlation coefficient (PCC) of a corresponding estimate in the meta-analysis. As the evaluation criteria of the correlation coefficient, Doucouliagos (2011) proposed 0.05, 0.10, and 0.16 to be the lowest thresholds of small, medium, and large effects, respectively, as the general standards for the microeconomic study of firm performance. Hereinafter, we evaluate the impacts of ownership structure on firm performance in accordance with this standard.

1.4 Meta-analysis

As described in Section 3 of the introductory chapter, meta-analysis consists of three components: (1) meta-synthesis of collected estimates, (2) MRA of literature heterogeneity, and (3) testing for publication selection bias. The most fundamental objective of meta-analysis is to synthesize the results available in the existing literature to identify the effect size of the event in question (in our case, the ownership effect on firm performance). Meta-synthesis can directly fulfill this objective. We must bear in mind, however, that the results to be synthesized come from studies conducted under different conditions and with varying degrees of precision. Furthermore, published results are not free from the preferences of editors and reviewers or arbitrary selection by the researchers themselves. There is a solid consensus among experts that one cannot blindly accept synthesis results without testing for the effect of literature heterogeneity and publication selection bias on the findings of existing articles (Iwasaki, 2020a, b). We will, therefore, carry out all three components of meta-analysis to examine the effect of ownership structure on the performance of emerging market firms. Namely, Subsection 1.4.1 synthesizes 4,425 estimates outlined in the previous section. Then, Subsection 1.4.2 performs an MRA of heterogeneity across studies. Lastly, Subsection 1.4.3 tests for publication selection bias.

1.4.1 Meta-synthesis

Panel (b) of Table 1.1 shows the descriptive statistics of the collected estimates and the results of the *t*-test and the Shapiro–Wilk normality test by study type and ownership variable type, while Figure 1.1 exhibits the corresponding kernel density estimations. The statistics for all studies in this panel reveal that while the mean and median of the state ownership variable are both negative, those of the domestic outside ownership variable and the foreign ownership variable are both positive. This is in agreement with the prediction of the standard theory. However, the *t*-test of means cannot reject the null hypothesis for the state ownership variable, indicating that, in emerging markets in Eastern Europe, Russia, and China as a whole, state ownership seems to have either a negative but very weak impact or no effect at all on firm performance. The mean and median of the managerial ownership variable are both positive, with the *t*-test rejecting the null hypothesis at the 1% significance level. This implies that managerial ownership generally exerts a positive impact on the performance of emerging market firms. However, as clearly indicated by other

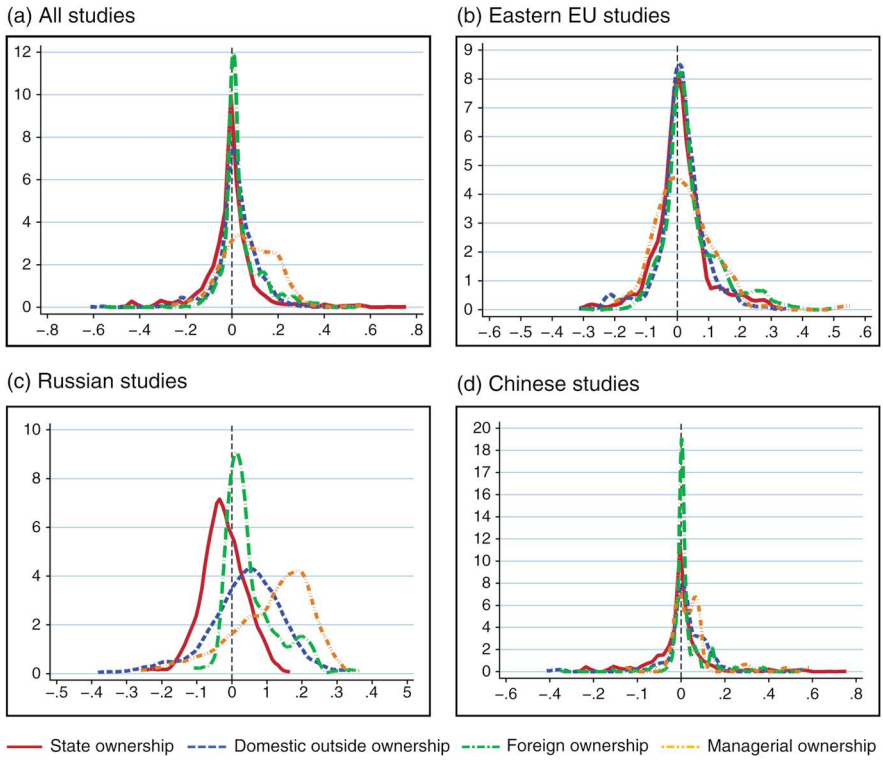

Figure 1.1 Kernel density estimation of collected estimates

Notes: The vertical axis is the kernel density. The horizontal axis is the variable value.

descriptive statistics in Table 1.1 and the kernel density estimation in Panel (a) of Figure 1.1, the distribution of the four types of ownership variables closely resemble each other in that many of the estimates are distributed in close proximity to zero. Therefore, it is unlikely that there could be a remarkable difference in the effect sizes of these ownership variables.

A similar trend can be observed in studies of East EU member states and China as well, as indicated by the descriptive statistics and test results shown for these two study types in Panel (b) of Table 1.1 and the kernel density estimates drawn in Panels (b) and (d) of Figure 1.1. One exception is state ownership in East EU member states, which can have a positive impact on firm performance. On the other hand, as shown in Panel (c) of the figure, estimates collected from Russian studies stand in marked contrast to those collected from Eastern EU studies and Chinese studies, in that the distribution of estimates varies greatly with ownership variable type. Specifically, it is quite evident that the estimates of the state ownership variable are negatively skewed, while those of the managerial ownership variable are positively skewed.

Keeping the above points in mind, we now look at the results of meta-synthesis using the fixed-effect and random-effects models and the heterogeneity test and measures in Table 1.2.[7] As shown in Column (b) of the table, since the Cochran *Q* test of homogeneity rejects the null hypothesis at the 1% level in all 16 cases, and the I^2 and H^2 statistics also strongly suggest the presence of heterogeneity across studies, we adopt the estimates of the random-effects model as reference values of the synthesized effect size.

Synthesis results for all studies indicate that the presence of domestic outside investors and foreign investors as corporate owners affects the performance the firms they own in line with our expectation. According to Doucouliagos' standards, however, their effect sizes are less than small, meaning that they have only a weak effect on firm performance. On the other hand, although state ownership has a negative impact on firm performance, its synthesized effect size is not statistically significantly different from zero. In other words, state ownership has a negative but weak effect or no effect at all on firm performance. Lastly, the synthesized effect size of managerial ownership suggests that managerial ownership has a positive and small effect on the performance of emerging market firms. Synthesized effect sizes derived from studies of different countries/regions differ from those derived from all studies in several respects. First, in East EU member states, state ownership and managerial ownership both have a positive and weak effect on firm performance. Second, in Russia, managerial ownership has a medium-sized positive effect on firm performance. Third, although managerial ownership positively influences firm performance in China also, its effect size is less than small, as is the case with managerial ownership in East European member states.

Overall, the meta-synthesis results reveal that studies of the three emerging markets, either as a whole or individually, do not deviate substantially from the standard theory in terms of the effect of ownership structure on

Table 1.2 Meta-synthesis

Study type/ownership variable type	*Number of estimates (K)*	*(a) Synthesis of PCCs*		*(b) Heterogeneity test and measures*		
		Fixed-effect model (z value)[a]	*Random-effects model (z value)*[a]	*Cochran Q test of homogeneity (p value)*[b]	*I^2 statistic*[c]	*H^2 statistic*[d]
All studies						
State ownership	1589	0.002*** (16.18)	–0.001 (–0.29)	38678.55*** (0.00)	99.98	4296.62
Domestic outside ownership	1204	0.004*** (14.89)	0.020*** (9.61)	9139.77*** (0.00)	93.77	15.06
Foreign ownership	1338	0.006*** (48.97)	0.037*** (16.87)	62743.14*** (0.00)	99.98	4480.65
Managerial ownership	294	0.020*** (11.08)	0.067*** (10.47)	1578.58*** (0.00)	97.47	38.46
Eastern EU studies						
State ownership	401	–0.010*** (–16.46)	0.012*** (2.85)	7687.35*** (0.00)	99.88	853.15
Domestic outside ownership	744	0.013*** (22.53)	0.014*** (6.27)	3660.87*** (0.00)	84.46	5.43
Foreign ownership	775	0.020*** (59.05)	0.041*** (13.28)	24559.55*** (0.00)	99.94	1753.25
Managerial ownership	85	0.008*** (2.80)	0.015* (0.01)	379.76*** (0.00)	89.47	8.49
Russian studies						
State ownership	213	–0.056*** (–52.91)	–0.029*** (–8.06)	747.20*** (0.00)	97.06	32.96
Domestic outside ownership	279	0.034*** (8.96)	0.039*** (6.39)	648.16*** (0.00)	99.38	161.04

(*Continued*)

Table 1.2 (Continued)

Study type/ownership variable type	*Number of estimates (K)*	*(a) Synthesis of PCCs*		*(b) Heterogeneity test and measures*		
		Fixed-effect model (z value)[a]	*Random-effects model (z value)*[a]	*Cochran Q test of homogeneity (p value)*[b]	I^2 *statistic*[c]	H^2 *statistic*[d]
Foreign ownership	142	0.031*** (72.34)	0.055*** (8.45)	10264.58*** (0.00)	99.93	1465.37
Managerial ownership	160	0.095*** (19.68)	0.110*** (12.88)	455.86*** (0.00)	96.27	25.82
Chinese studies						
State ownership	975	0.005*** (28.95)	–0.002 (–0.48)	26596.90*** (0.00)	99.88	804.97
Domestic outside ownership	181	0.001*** (3.97)	0.026*** (4.38)	4448.91*** (0.00)	99.78	443.89
Foreign ownership	421	0.001*** (4.74)	0.020*** (7.01)	21574.23*** (0.00)	99.64	279.18
Managerial ownership	49	0.008*** (2.97)	0.043*** (2.69)	461.75*** (0.00)	97.83	45.18

Notes: ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

[a] Null hypothesis: The synthesized effect size is zero.

[b] Null hypothesis: Effect sizes are homogeneous.

[c] Ranged between 0 and 100%, with larger scores indicating heterogeneity.

[d] Takes zero in the case of homogeneity.

firm performance. However, the synthesized effect sizes are either weak or close to zero, with the exception of managerial ownership in Russia. These results suggest that the linkage between corporate ownership and performance in emerging markets could generally be considered weak. The MRA presented in the next subsection examines whether these implications can be reproduced even when variations in study conditions other than ownership variable type are taken into consideration.

1.4.2 Meta-regression Analysis

As the second step of meta-analysis, we examine differences in the effect sizes across four types of ownership variables while controlling for the possible impact of literature heterogeneity on the empirical results of the selected studies. To this end, we perform a multivariate regression estimation that takes the PCC of collected estimates as the dependent variable.

As meta-independent variables, we adopted a total of 24 variables, including not only those representing differences in ownership variable types and standard errors of PCC, but also those capturing differences in study conditions as mentioned in Section 1.3.[8] In models of multiple countries, we also control for sample proportions by country to deal with possible heterogeneity across emerging markets.

Table 1.3 shows the estimation results derived from MRA using all 4,425 of the collected estimates. As shown in this table, the estimates are quite sensitive to the choice of the estimator. In particular, there are some notable gaps in estimation results between the weighted and non-weighted specifications. This means that differences in precision and sample size, as well as study size across the selected studies, strongly affect their reported empirical results. Thus, we will interpret the estimation results, assuming that meta-independent variables that are statistically significant at least at the 10% level and have the same sign in at least three of the five models constitute statistically robust estimates.

According to the above criteria, of the ownership variable types, only the foreign ownership variable has robust estimates assigned to it. In fact, the regression coefficients of this variable are positive and significant in four of five models. Recall that the coefficients of ownership variable types show the effects relative to state ownership, which is treated as the default category in the regression equation. In other words, other conditions being equal, the effect sizes of the foreign ownership variable in terms of the PCC are significantly larger than those of the state ownership variable that is set as a reference category by, on average, 0.0124–0.0594. On the other hand, although the coefficients of the domestic outside ownership variable and the managerial ownership variable are also estimated to be positive, they are not statistically robust. In other words, taking into consideration differences in other study conditions, no statistical differences are observed between the ownership effects of domestic outside investors and

Table 1.3 Meta-regression analysis: Baseline estimation

Estimator (Analytical weight in brackets)[a]	*Cluster-robust WLS [Precision]*	*Cluster-robust WLS [Sample size]*	*Cluster-robust WLS [Study size]*	*Multilevel mixed-effects RML*	*Cluster-robust random-effects panel GLS*
Meta-independent variable (default category)/model	*[1]*	*[2]*	*[3]*	*[4]*	*[5]*[b]
Ownership variable type (state ownership)					
Domestic outside ownership	0.0020	0.0025	0.0230	0.0005	0.0003
	(0.007)	(0.005)	(0.016)	(0.010)	(0.010)
Foreign ownership	0.0124*	0.0028	0.0594***	0.0263**	0.0259**
	(0.007)	(0.007)	(0.013)	(0.010)	(0.011)
Managerial ownership	0.0300	0.0043	0.0382**	0.0469	0.0468
	(0.022)	(0.016)	(0.019)	(0.033)	(0.033)
Other characteristics of ownership variables					
Dummy variable (ownership share)	–0.0119**	–0.0180***	–0.0177	0.0016	0.0028
	(0.005)	(0.004)	(0.013)	(0.010)	(0.011)
Lagged variable	–0.0046	–0.0140	–0.0011	–0.0099**	–0.0106***
	(0.011)	(0.012)	(0.018)	(0.005)	(0.004)
With an interaction term(s)	0.0022	0.0049	–0.0100	–0.0246**	–0.0251**
	(0.014)	(0.016)	(0.014)	(0.010)	(0.011)
Firm performance variable type (sales/output)					
Efficiency	0.0028	0.0047	0.0013	–0.0042	–0.0044
	(0.010)	(0.010)	(0.014)	(0.010)	(0.010)
Productivity	–0.0035	–0.0019	0.0083	–0.0131	–0.0135
	(0.008)	(0.007)	(0.017)	(0.015)	(0.015)

(*Continued*)

Table 1.3 (Continued)

Estimator (Analytical weight in brackets)[a]	*Cluster-robust WLS [Precision]*	*Cluster-robust WLS [Sample size]*	*Cluster-robust WLS [Study size]*	*Multilevel mixed-effects RML*	*Cluster-robust random-effects panel GLS*
Meta-independent variable (default category)/model	*[1]*	*[2]*	*[3]*	*[4]*	*[5]*[b]
Firm value	0.0127	–0.0038	0.0185	–0.0101	–0.0113
	(0.012)	(0.011)	(0.018)	(0.015)	(0.015)
Restructuring	–0.0156	–0.0273*	–0.0232	–0.0186	–0.0187
	(0.012)	(0.015)	(0.019)	(0.013)	(0.014)
Other firm performance	0.0110	0.0099**	0.0141	–0.0074	–0.0088
	(0.007)	(0.005)	(0.025)	(0.014)	(0.014)
Target industry (various industries)					
Mining and manufacturing industries	0.0055	0.0154*	–0.0010	–0.0016	–0.0016
	(0.009)	(0.008)	(0.016)	(0.010)	(0.010)
Service industry	–0.0034	0.0067	0.0091	0.0035	0.0040
	(0.011)	(0.010)	(0.042)	(0.016)	(0.015)
Estimation period					
Average year of estimation period	–0.0030***	–0.0035***	–0.0014	–0.0018*	–0.0014
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Length of estimation period	0.0008	0.0007	0.0003	0.0004	0.0005
	(0.001)	(0.001)	(0.002)	(0.001)	(0.001)
Data type (panel data)					
Cross-sectional data	0.0213*	0.0227	0.0199	0.0221**	0.0226**
	(0.012)	(0.021)	(0.015)	(0.010)	(0.010)
Estimator					
OLS (non-OLS estimator)	–0.0037	–0.0058	0.0003	–0.0064	–0.0066
	(0.004)	(0.004)	(0.010)	(0.004)	(0.004)

(*Continued*)

Table 1.3 (Continued)

Estimator (Analytical weight in brackets)[a]	*Cluster-robust WLS [Precision]*	*Cluster-robust WLS [Sample size]*	*Cluster-robust WLS [Study size]*	*Multilevel mixed-effects RML*	*Cluster-robust random-effects panel GLS*
Meta-independent variable (default category)/model	*[1]*	*[2]*	*[3]*	*[4]*	*[5]*[b]
IV/2SLS/3SLS	0.0001	0.0168*	0.0040	–0.0107	–0.0107
	(0.009)	(0.009)	(0.012)	(0.007)	(0.007)
Control variable					
Location fixed effects	0.0106	0.0084	0.0070	0.0029	0.0020
	(0.008)	(0.012)	(0.017)	(0.008)	(0.007)
Industry fixed effects	–0.0066	–0.0070	0.0020	0.0057	0.0066
	(0.009)	(0.013)	(0.012)	(0.007)	(0.007)
Time fixed effects	0.0007	–0.0065	0.0160	0.0070	0.0060
	(0.007)	(0.005)	(0.014)	(0.011)	(0.011)
Standard error of partial correlation coefficient					
S.E.	–	0.3642	0.5234	0.0935	0.0897
	(–)	(0.246)	(0.484)	(0.175)	(0.180)
Intercept	6.0611***	7.0285***	2.6616	3.0276	2.8999
	(1.601)	(2.566)	(2.608)	(1.881)	(1.964)
Sample proportions by country	Yes	Yes	Yes	Yes	Yes
K	4425	4425	4425	4425	4425
R^2	0.118	0.233	0.075	–	0.041

Notes: Figures in parentheses beneath the regression coefficients are robust standard errors. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. See **Online Appendix 1.3** for the definitions and descriptive statistics of meta-independent variables.

[a] Precision: inverse of the standard error; Sample size: degree of freedom; Study size: inverse of the number of reported estimates.

[b] Hausman test: $\chi^2 = 14.77$, $p = 0.996$.

managers and that of the state. Most importantly, one must take note of the contradictory findings between the MRA described here and the meta-synthesis of all studies reported in Subsection 1.4.1. When no consideration is given to literature heterogeneity, the effect of foreign investors on firm performance falls behind that of managers. However, when a series of study conditions are simultaneously controlled for, the results are reversed. Specifically, based on the results of the aforementioned MRA, foreign investors in emerging markets have a greater impact on the performance of the firms in which they invest than the state and domestic outside investors as well as company managers.

Table 1.4 presents the estimation results by country/region. As shown in this table, the relationship between different ownership variable types varies widely with each country/region. In fact, as shown in Panel (a) of the table, although the estimates derived from Eastern EU studies resemble those from all studies in that the effect sizes of the foreign ownership variable are statistically significantly larger than those of the other three types of ownership variables, the estimation results focusing on the Russian studies in Panel (b) indicate that all types of private firm owners exhibit a greater positive impact on firm performance than state ownership, and that foreign investors and company managers surpass domestic outside investors in terms of the ownership effect on firm performance. In contrast, Panel (c) does not show any statistically robust differences across the four types of ownership variables in the Chinese studies. While the results obtained from MRA using the estimates collected from Eastern EU studies and Russian studies shown in Panels (a) and (b) of Table 1.4 are consistent with the results of meta-synthesis for these study types as reported in Table 1.2, those from the Chinese studies somewhat disagree with the corresponding synthesis results.[9]

1.4.3 Testing for Publication Selection Bias

As the final step of meta-analysis, this subsection assesses the likelihood of publication selection bias and the presence of genuine empirical evidence in the selected studies.

Figure 1.2 presents funnel plots of the collected estimates by ownership variable type. All of the plots display more-or-less symmetrical funnel-shaped scatter diagrams, with findings reported by existing studies evenly distributed around zero in both the positive and negative directions and the width of the funnel plot narrowing with improvements in precision. The funnel plot of the estimates for the foreign ownership variable in Panel (c), however, is skewed somewhat excessively on the positive side. Overall, these funnel plots suggest that publication selection bias is unlikely in this research field, with the exception of the ownership effect of foreign investors, which is expected by many researchers to have a strong positive impact on firm performance.

Table 1.4 Meta-regression analysis: Estimation by study type

(a) Eastern EU studies

Estimator (Analytical weight in brackets)[a]	*Cluster-robust WLS [Precision]*	*Cluster-robust WLS [Sample size]*	*Cluster-robust WLS [Study size]*	*Multilevel mixed-effects RML*	*Cluster-robust random-effects panel GLS*
Meta-independent variable (default category)/model	*[1]*	*[2]*	*[3]*	*[4]*	*[5]*[b]
Ownership variable type (state ownership)					
Domestic outside ownership	–0.0017	0.0048	0.0088	0.0010	0.0011
	(0.011)	(0.010)	(0.014)	(0.015)	(0.015)
Foreign ownership	0.0315***	0.0303***	0.0554***	0.0305***	0.0304***
	(0.008)	(0.008)	(0.014)	(0.010)	(0.010)
Managerial ownership	0.0134	0.0323**	0.0223	–0.0077	–0.0078
	(0.015)	(0.016)	(0.019)	(0.016)	(0.016)
Other study conditions, sample proportions by country, and intercept	Yes	Yes	Yes	Yes	Yes
K	2005	2005	2005	2005	2005
R^2	0.227	0.337	0.200	–	0.091

(*Continued*)

Table 1.4 (Continued)

(b) Russian studies

Estimator (Analytical weight in brackets)[a]	*Cluster-robust WLS [Precision]*	*Cluster-robust WLS [Sample size]*	*Cluster-robust WLS [Study size]*	*Multilevel mixed-effects RML*	*Cluster-robust random-effects panel GLS*
Meta-independent variable (default category)/model	*[6]*	*[7]*	*[8]*	*[9]*	*[10]*[c]
Ownership variable type (state ownership)					
Domestic outside ownership	0.0490***	0.0585**	0.0497**	0.0195**	0.0156*
	(0.014)	(0.023)	(0.018)	(0.010)	(0.009)
Foreign ownership	0.1133***	0.1386***	0.1070***	0.0524**	0.0440
	(0.027)	(0.033)	(0.034)	(0.026)	(0.029)
Managerial ownership	0.1255***	0.1345***	0.0270	0.0942**	0.0923*
	(0.045)	(0.042)	(0.028)	(0.046)	(0.046)
Other study conditions and intercept	Yes	Yes	Yes	Yes	Yes
K	794	794	794	794	794
R^2	0.376	0.676	0.254	–	0.041

(*Continued*)

Table 1.4 (Continued)

(c) Chinese studies

Estimator (Analytical weight in brackets)[a]	*Cluster-robust WLS [Precision]*	*Cluster-robust WLS [Sample size]*	*Cluster-robust WLS [Study size]*	*Multilevel mixed-effects RML*	*Cluster-robust random-effects panel GLS*
Meta-independent variable (default category)/model	*[11]*	*[12]*	*[13]*	*[14]*	*[15]*[d]
Ownership variable type (state ownership)					
Domestic outside ownership	0.0095	0.0053	0.0147	0.0049	0.0044
	(0.006)	(0.005)	(0.031)	(0.011)	(0.011)
Foreign ownership	0.0004	–0.0015	0.0407	0.0193	0.0188
	(0.007)	(0.009)	(0.027)	(0.018)	(0.018)
Managerial ownership	0.0048	–0.0298	0.0484	0.0327*	0.0324*
	(0.023)	(0.023)	(0.034)	(0.018)	(0.018)
Other study conditions and intercept	Yes	Yes	Yes	Yes	Yes
K	1626	1626	1626	1626	1626
R^2	0.144	0.406	0.066	–	0.022

Notes: Figures in parentheses beneath the regression coefficients are robust standard errors. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. See **Online Appendix 1.3** for the definitions and descriptive statistics of meta-independent variables.

[a] Precision: inverse of the standard error; Sample size: degree of freedom; Study size: inverse of the number of reported estimates.

[b] Hausman test: $\chi^2 = 30.76$, $p = 0.478$.

[c] Hausman test: $\chi^2 = 31.21$, $p = 0.038$.

[d] Hausman test: $\chi^2 = 6.87$, $p = 0.976$.

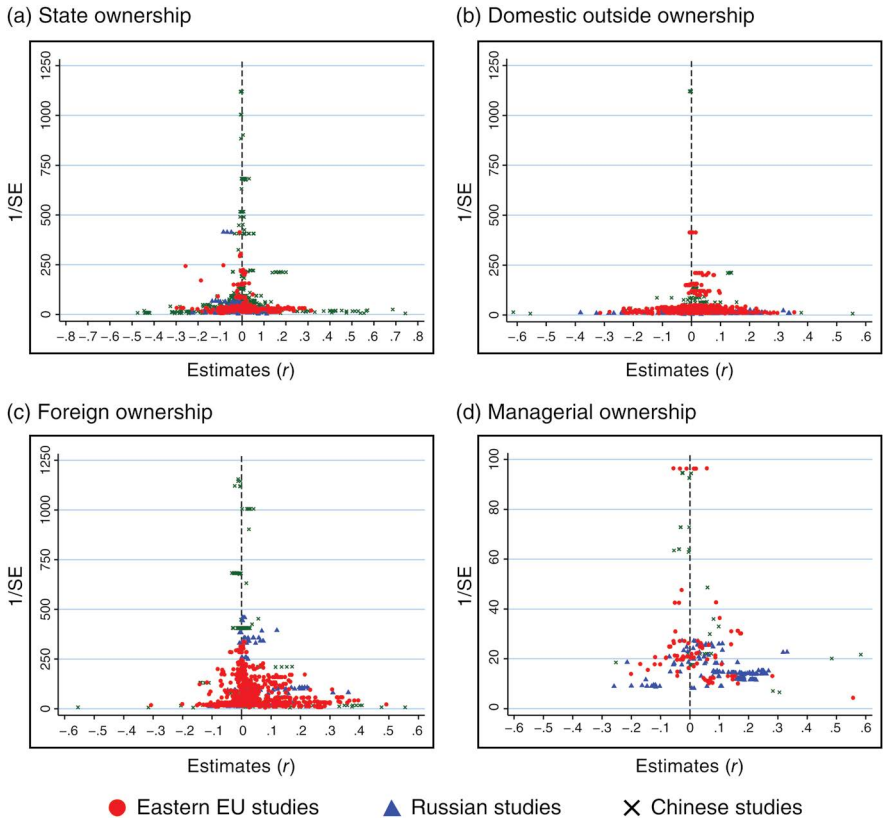

Figure 1.2 Funnel plots

The test results for publication selection bias in all studies focusing on the state ownership variable using the FAT-PET-PEESE procedure are shown in Table 1.5. According to Panel (a) of the table, the funnel asymmetry test (FAT) does not reject the hypotheses that the intercept (γ_0) is zero in all five models. This result is consistent with the examination by the funnel plot in Panel (a) of Figure 1.2 and confirms that it is unlikely that the estimates of the state ownership effect provided by emerging market studies are arbitrarily manipulated.

The next step is to ascertain the presence of genuine empirical evidence. The precision-effect test (PET) rejects the null hypothesis, $\varphi_1 = 0$, in three of the five models in Panel (a) of Table 1.5; furthermore, the precision-effect estimate with standard error (PEESE) approach generates a non-zero publication-selection-adjusted effect size in three models in Panel (b). These PET-PEESE results together suggest that the estimates of the state ownership variable extracted from all studies do contain genuine empirical evidence of a non-zero true effect size that may range between 0.0025 and 0.0039.

Table 1.5 Meta-regression analysis of publication selection in all studies: The case of the state ownership variable

(a) FAT–PET test (Equation: $t = \gamma_0 + \gamma_1(1/SE) + v$)

Estimator	*Unrestricted WLS*	*WLS with bootstrapped standard errors*	*Cluster-robust WLS*	*Cluster-robust random-effects panel GLS*	*IV*
Model	*[1]*	*[2]*	*[3]*	*[4]*[a]	*[5]*
Intercept (FAT: H_0: $\gamma_0 = 0$)	–0.0495	–0.0495	–0.0495	0.2326	–0.2150
	(0.100)	(0.105)	(0.274)	(0.453)	(0.190)
1/*SE* (PET: H_0: $\gamma_1 = 0$)	0.0026*	0.0026*	0.0026	–0.0042	0.0046***
	(0.001)	(0.002)	(0.004)	(0.003)	(0.002)
K	1589	1589	1589	1589	1589
R^2	0.006	0.005	0.006	0.006	0.002

(b) PEESE approach (Equation: $t = \varphi_0 SE + \varphi_1(1/SE) + w$)

Estimator	*Unrestricted WLS*	*WLS with bootstrapped standard errors*	*Cluster-robust WLS*	*Random-effects panel ML*	*IV*
Model	*[6]*	*[7]*	*[8]*	*[9]*	*[10]*
SE	–2.9734**	–2.9734**	–2.9734	1.8246	–10.4646
	(1.397)	(1.407)	(4.105)	(5.315)	(11.288)
1/*SE* (H_0: $\varphi_1 = 0$)	0.0025*	0.0025*	0.0025	0.0039***	0.0193
	(0.001)	(0.001)	(0.004)	(0.001)	(0.024)
K	1589	1589	1589	1589	1589
R^2	0.008	0.008	0.008	–	–

(*Continued*)

Table 1.5 (Continued)

(c) Alternative estimates of publication selection bias-corrected effect size

Method	*Top 10*[b]	*Selection model*[c]	*Endogenous kink model*[d]	*p-uniform*[e]
Model	*[11]*	*[12]*	*[13]*	*[14]*
Publication selection bias-corrected effect size	0.0093** (0.004)	0.0026*** (0.001)	0.0041*** (0.001)	0.0036** (0.002)
K	158	1589	1589	1589

Notes: Figures in parentheses are standard errors. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

[a] Hausman test: $\chi^2 = 0.27$, $p = 0.603$.

[b] Arithmetic average of the top 10% most precise estimates.

[c] Test for publication selection bias using the conditional probability of publication as a function of a study's results.

[d] Piecewise linear meta-regression of estimates on their standard errors, with a kink at the cutoff value of the standard error below which publication selection bias is unlikely.

[e] Method based on the statistical theory that the distribution of *p*-values is uniform conditional on the population effect size.

The alternative estimates of publication selection bias-corrected effect size in Panel (c) support this finding.

In Table 1.6, in addition to the above results, test results for the remaining three types of ownership variable are summarized. This table also presents the outcomes of FAT-PET-PEESE procedures conducted by study type. As shown in the table, the FAT detected publication selection bias in eight

Table 1.6 Summary of publication selection bias test

Study type/ownership variable type	*Test results*[a]		
	Funnel asymmetry test (FAT) (H_0: $\gamma_0 = 0$)	*Precision-effect test (PET) (H_0: $\gamma_1 = 0$)*	*Precision-effect estimate with standard error (PEESE) (H_0: $\varphi_1 = 0$)*[b]
All studies			
State ownership	Not rejected	**Rejected**	**Rejected (0.0025/0.0039)**
Domestic outside ownership	**Rejected**	Not rejected	Not rejected
Foreign ownership	**Rejected**	Not rejected	**Rejected (0.0058/0.0102)**
Managerial ownership	**Rejected**	Not rejected	Not rejected
Eastern EU studies			
State ownership	**Rejected**	**Rejected**	**Rejected (–0.0241/–0.0152)**
Domestic outside ownership	**Rejected**	Not rejected	**Rejected (0.0081/0.0133)**
Foreign ownership	**Rejected**	Not rejected	**Rejected (0.0139/0.0187)**
Managerial ownership	Not rejected	Not rejected	Not rejected
Russian studies			
State ownership	**Rejected**	**Rejected**	**Rejected (–0.0602/–0.0579)**
Domestic outside ownership	Not rejected	Not rejected	Not rejected
Foreign ownership	Not rejected	Not rejected	**Rejected (0.0278/0.0304)**
Managerial ownership	Not rejected	**Rejected**	**Rejected (0.0556/0.1264)**
Chinese studies			
State ownership	Not rejected	Not rejected	Not rejected
Domestic outside ownership	Not rejected	Not rejected	Not rejected
Foreign ownership	Not rejected	Not rejected	Not rejected
Managerial ownership	**Rejected**	**Rejected**	Not rejected

Notes: The test results denote that the null hypothesis is rejected when more than three of five models show statistically significant estimates; otherwise not rejected. Figures in parentheses are PSB-adjusted estimates. If two or more estimates are reported, the left and right figures denote the minimum and maximum estimates, respectively.

of 16 cases, indicating that Eastern EU studies seem more prone to bias than those of Russia and China. Furthermore, the PET confirmed the presence of genuine empirical evidence in five of 16 cases; in these five cases, the PEESE successfully generated a non-zero effect size corrected for publication selection bias. To sum up, the results shown in Table 1.6 demonstrate that, in most cases, the empirical evidence accumulated by studies of emerging markets in Eastern Europe, Russia, and China is not sufficient to detect the true effect of ownership structure on firm performance. Thus, based on the results of meta-synthesis and MRA presented in this section, some caution is needed when discussing the causal relationship between ownership structure and firm performance in these economies.

1.5 Conclusions

In this chapter, we conducted a meta-analysis using a total of 4,425 estimates collected from 204 preceding research works to estimate and compare the impact of ownership structure on the performance of the firms operating in Eastern Europe, Russia, and China. Based on the results of meta-synthesis and testing for publication selection bias presented in the previous section, we evaluated the ownership effect of the state, domestic outside investors, foreign investors, and managers in the emerging markets as a whole as well as in each of the studied countries/regions.

Our results reveal that state ownership has a negative effect on firm performance, not only in emerging markets in general but also when the meta-analysis was performed individually for East EU member states, Russia, and China. The presence of domestic outside investors and foreign investors, on the other hand, exerts a positive impact on the performance of the firms in which they invest. These results are consistent with both the standard theory and our theoretical expectations. The estimated effect sizes of state ownership and foreign ownership, however, with the exception of foreign ownership in Russia, suggest that these company owners have only a weak effect on firm performance, according to Doucouliagos' standards. On the other hand, although it is generally understood that the prediction of the managerial ownership effect can be extremely challenging due to the presence of opposing views between the alignment hypothesis and the entrenchment hypothesis, our results indicate that managerial ownership in emerging markets is likely to positively impact firm performance, which is in agreement with our hypothesis. In particular, it deserves special mention that the effect size of managerial ownership in Russia turned out to be much larger than that of private outside investors.

Overall, the results of meta-analysis presented in this chapter demonstrate that the standard theory that has been repeatedly tested and confirmed by studies of developed economies is effective in examining the relationship between ownership structure and firm performance in emerging markets. However, the estimated effect sizes are generally weak, and no significant differences can be found among the state, foreign investors, and firm managers

in terms of their impact on firm performance. How should we interpret the results of meta-analysis in this chapter, which demonstrate a weak linkage between ownership structure and firm performance in emerging market firms? There are five important points to stress in this respect.

First, our meta-analysis covers a period of 33 years from 1985 to 2017; during this long period of time, changes in the relationship between ownership structure and firm performance may not have always occurred in the same direction. In Eastern Europe and Russia during the initial phase of economic transition in the early 1990s, maximizing firm value and profits was not necessarily the top priority of corporate owners or managers for several reasons (Åslund, 2013). However, the EU's expansion to the east and the advancement of globalization in the 2000s have led to not only the harmonization of legal systems in East European countries and Russia with those of developed nations but also a successful innovation of the corporate governance system. In view of these facts, one cannot deny the possibility that the empirical results from the studies included in our meta-analysis may be affected by such dynamic changes in historical currents.[10] The same could be said about the findings from studies of China, the country that has witnessed several twists and turns during its process of economic transition.

Second, as discussed in Section 1.2, although East EU member states, Russia, and China have come a long way toward improving their corporate law systems and implementing enterprise reforms, we cannot rule out the possibility that the mechanisms of corporate governance in these countries are still underdeveloped. The legal enforcement of private ownership, in particular, seems problematic. Even in East EU member states, company managers seem generally reluctant to share their management information with the public, despite the fact that information disclosure is essential to protecting the rights of investors. In fact, managers tend to regard information disclosure as a kind of management cost rather than as a means of reducing fundraising costs (Berglöf and Pajuste, 2005). Furthermore, de-democratization and the wave of populism that has swept through Hungary, Poland, and other countries in recent years have undermined the neutrality of policymakers as regulators, increasing the risk of political intervention in firm management. This recent trend has likely exerted a negative impact on the relationship between managers and owners of firms in East EU member states.

The situation in Russia is much more serious in this respect. Until a series of legal revisions were implemented in the 2000s, the rights of minority shareholders were barely protected, and firm managers repeatedly and blatantly treated shareholders with disrespect, taking control of company assets by exploiting flaws in the legal system (Mizobata, 2008). In fact, a firm takeover, which is referred to as a "raid," "means the acquisition of business assets by means that involve manipulation and distortion of the law, albeit often with the active involvement of law-enforcement officers and the courts" (Hanson, 2014, p. 3), and can even involve illegal acts. In such a circumstance, the ownership of stakeholders is easily violated.

On the other hand, SOEs in China are defined as "a very unique entity in the world that is guided and controlled by the Communist Party" (Nakaya, 2019, p. 45). Even after the stock corporation system was formally introduced and corporate governance was legalized in China, SOEs have basically continued to be guided by the CPC; even private and foreign firms are not free from this scheme. Considering this unique institutional environment in China, no one can be sure that the mechanisms of corporate governance in this country can function well enough from the standpoint of the international standard.

Third, the immaturity of capital markets can also contribute to weakening the causal relationship between ownership structure and firm performance in emerging market economies. The instability of capital markets in Eastern Europe was revealed when the region was hit by the global economic crisis (Marer, 2010). It is also argued that the capital market in Russia is characterized by a state monopoly of key industries and the vulnerable management base of financial institutions that give rise to high political risks and instability (Fox and Heller, 2006; Kuznetsov et al., 2011). Similarly, the stock market in China does not function properly as a capital market due to the overwhelming presence of the state, which acts as a controlling shareholder of listed companies. The World Economic Forum (2019) has, in fact, highlighted a series of limitations of capital markets in emerging market countries. It is highly likely that the underdevelopment of capital markets in Eastern Europe, Russia, and China is restricting the ability of investors to voice their opinions to company managers.

Fourth, in Eastern Europe and Russia, which underwent mass privatization, rank-and-file employees who have become powerful stakeholders may be exerting a certain degree of negative impact on the relationship between firm ownership and performance even today. Employees in Eastern Europe have a strong "voice," and they have a kind of agreement with the government and managers regarding the allocation of profits (Iankova, 2002). As long as employees act as powerful stakeholders, drastic restructuring is no longer an important priority for managers. Employees want their firm to cover their cost of living, and unless managers fulfill the implicit promise they have made to their employees, they are unable to maintain the firm (Fox and Heller, 2006). In order for them to be able to protect the interests of investors by maximizing firm value at the cost of violating the promise they have made to their employees, either someone independent of the employees must assume the managerial post or managers must somehow deprive their employees of a position as powerful stakeholders. This process takes time, as it requires generational change on the part of both managers and employees.

Fifth and last, when discussing corporate governance in emerging markets, we may have to consider the impact of the psychological barriers and behavioral conventions of the people involved. People in Eastern Europe understand the necessity of introducing a market economy and agree that this

transition would improve their living standards in the long run; however, they also feel that it would require a great deal of social sacrifice, such as unemployment in the short term, which forces company managers to prioritize social acceptance over the maximization of firm value and profits for investors (Frydman and Rapaczynski, 1994). Russian culture, on the other hand, is characterized by legal nihilism and a blatant disregard for the law (Kurkchiyan, 2012), which makes the country an ideal hotbed for violations and the abuse of private ownership. Ethics that have arisen in the course of history can also impact the agency relationship. For example, under the *bao* ethic in China, investors in an uncertain business relationship entrust their investment funds to the manager, and this concept is believed to have given rise to a unique principle–agent relationship in Chinese firms that is quite different from the one seen in Western countries (Kato, 2013).[11] If such social values, culture, and sense of ethics particular to the studied emerging market economies are exerting a strong influence on the management activities of firms, they could pose a major barrier to instituting a corporate governance system in accordance with international standards.

Some caution is needed when interpreting the findings of the present study set forth above because research findings from the existing literature seriously lack genuine empirical evidence of the causal relationship between ownership structure and firm performance. Further research is needed to get an accurate picture of management organizations and firm performance in emerging market companies.

Notes

1 Emerging markets mean markets moving to the advanced economy; they can be characterized as immature institutions with a high level of risk, higher volatilities, and transition character (Mody, 2004).

2 The *socialist market economy* refers to the policy set by the CPC, which aims to introduce market principles into the economy while politically maintaining one-party rule. It was first proposed by Deng Xiaoping during the 14th CPC National Congress, held in the fall of 1992; in the following year (1993), it was incorporated into the Constitution of the People's Republic of China as the basic principle governing China's economic policy (Iwasaki, 2020a).

3 While studies of Eastern Europe and Russia regard rank-and-file employees as important firm owners who exert a certain impact on firm performance, studies of China rarely consider employees in this context. For this reason, we excluded employees from our analyses. Iwasaki and Kočenda (2017), Iwasaki and Mizobata (2018, 2020), and Iwasaki et al. (2018) looked closely at how employees as firm owners impact the performance and governance of East European and Russian firms.

4 The EU itself was undertaking a reform of its legal system concerning corporate governance at that time, which culminated as rules concerning the rights and obligations of shareholders, internal audits, and information disclosure enacted in the 2000s. Other systemic reforms undertaken at a global level, as represented by the OECD Principles of Corporate Governance, also had a certain impact on the corporate law systems of East European as well as other EU member states.

5 A list of the 204 selected studies and their bibliographic information is provided in **Online Appendixes 1.1** and **1.2**. As indicated, in order to align the observation periods for China and Eastern Europe, the literature was limited to works published until 2020. This is because after 2021, the number of Eastern European studies addressing this topic has drastically decreased.
6 This includes the estimates of not only the ownership share variable but also the dominant ownership dummy variable and the control ownership dummy variable, while estimates of the minority ownership dummy variable were all excluded from the meta-analysis.
7 We are unable to conduct UWA and WAAP syntheses due to the lack of adequately powered estimates in the literature subject to the meta-analysis in this chapter.
8 **Online Appendix** Table 1.3 lists the names and definitions of these meta-independent variables and presents their descriptive statistics.
9 To address the issue of model uncertainty in MRA, we also estimated a model with moderators selected by a Bayesian model averaging (BMA) analysis and weighted-average least squared (WALS) estimation, as seen in **Online Appendix 1.4**. **Online Appendix 1.5** shows that the estimates of ownership variable types in the models with the selected moderators are quite similar to those in Table 1.3. We confirmed that the same applies to the results in Tables 1.4 as well.
10 In fact, Muravyev (2017) claimed that among different periods of time in Russia, i.e., from 1998 to 2001, 2002 to 2008, and 2009 to 2014, marked differences can be seen in the impact of board composition on firm performance.
11 "*Bao*," which is an ethical discipline that provides higher certainties to contracting performed between two undependable parties, permeates every aspect of the Chinese economic society. In China, the capitalist–manager relationship is not that of the hirer and the hired. Rather, capitalists entrust their funds to the company manager in a *bao* manner. This kind of relationship is quite different from an agency relationship that requires monitoring and stimulation costs. Under the logic of *bao*, even laborers who are employees can be regarded as contractors who undertake jobs (Kato, 2013).

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