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# **The Corporate Governance Role of the Media: Evidence from Russia**

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## **Abstract**

We study the effect of media coverage on corporate governance outcomes by focusing on Russia in the period 1999-2002. Russia provides a setting with multiple examples of corporate governance abuses, where traditional corporate governance mechanisms are ineffective, and where we can identify an exogenous source of news coverage arising from the presence of an investment fund, the Hermitage fund, that tried to shame companies by exposing their abuses in the international media. We find that the probability that a corporate governance abuse is reversed is affected by the coverage of the news in the Anglo-American press. The result is not due to the endogeneity of news reporting since this result holds even when we instrument media coverage with the presence of the Hermitage fund among its shareholders and the “natural” newsworthiness of the company involved. We confirm this evidence with a case study.

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In September 2003 Richard Grasso, the then chairman of the New York Stock Exchange, lost his job because his lavish compensation was exposed and vilified in the press. This is just one of many examples where media pressure seems to have an impact on corporate governance.<sup>1</sup> This conjecture is also supported by the evidence that countries with more diffuse press have better corporate governance outcomes, even when legal differences are accounted for (Dyck and Zingales (2002) and (2004)). Is this just a coincidence or is it indeed true that the press (and media in general) play an important role in corporate governance? If so, why is it the case? And since the media are more likely to cover a piece of news if they perceive it as extraordinary, can we really say that media reporting triggers a change of action? Or is it instead that media are more likely to report extreme episodes that are bound to trigger a reaction anyway?

These are the questions we address in this paper. We start by arguing that the media can matter by impacting the reputation of the agents involved. Reputation is an effective constraint only if the audience that we care about for our reputation becomes informed. Very often, however, the relevant audience does not find it in its interest to collect information about the behavior of corporate managers and/or politicians, unless this information is provided them for free or it is packaged in a way that makes it entertaining. Only when this occurs do corporate managers find it worthwhile to develop a reputation of acting in the interests of shareholders. The same is true also for the regulators who are supposed to enforce corporate governance rules: they are more likely to enforce these rules when they know a large audience is watching.

To document the empirical relevance of these effects we use Russian data, which are very suitable for three reasons. First, during the late 1990s corporate governance abuses in Russia were very extreme, very common, and very visible, providing a wide field of inquiry. Second, in Russia the standard mechanisms to readdress these abuses were either non-existent or completely ineffective (for example, courts were easily corruptible), allowing us to identify whether media has an independent effect on outcomes. Third, and most important, in Russia there exists an investment fund that consciously plays a media strategy

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<sup>1</sup> For a richer set of examples, see Dyck and Zingales (2002).

and this allows us to identify an exogenous component in news coverage and thus to test whether the effect of the media is causal.

Founded in 1996 as a generic hedge fund with a Russian focus, the Hermitage Fund found itself drawn into corporate governance battles. As the largest foreign investor in Russian equities, it could not remain passive in front of major corporate governance abuses (Dyck (2002)). But the legal remedies at its disposition were extremely weak. To protect its investments, thus, the Hermitage fund chose to actively shame Russian companies in the international press, hoping to hurt their reputation and that of the government officials who regulated these firms. But the Hermitage fund has an incentive to act only for companies it owns shares in. This is also borne out in the data: companies that make significant corporate governance abuses are more likely to be exposed in the international press if they have the Hermitage fund as a shareholder. It follows that whether the Hermitage fund owned a stake in a company is a valid instrument for the exogenous component in news reporting.

To understand the relation between the Hermitage fund and press coverage and between press coverage and outcomes, we start by analyzing in detail two companies -- Sidanco and MGTS – that committed similar corporate governance abuses in 1998, but differed in their owners: Hermitage had a significant stake in Sidanco, and no stake in MGTS. In this case we also know from Hermitage that they got actively involved in trying to generate coverage.

We find that Sidanco's actions were reported in 23 news articles, 14 of which in credible international publications (9 in the Financial Times, 4 in various editions of the Wall Street Journal and 1 in the Economist). By contrast, MGTS had only 3 articles in credible international press mentioning the corporate governance violation (all in the FT). In the Sidanco case, the dilution was reversed, in MGTS it went through quickly.

A single case is hardly convincing. For this reason we conduct more systematic analysis. We collected all the major corporate governance abuses occurring in Russia in the period 1999-2002 and studied whether they were somehow readdressed. We find that the probability of a reversal is significantly affected by the exposure of the news in the foreign press, even after controlling for other potential determinants of the outcome, such as the degree of foreign ownership and the involvement of international organizations such as the

European Bank of Reconstruction and Development (EBRD). By contrast, exposure in the local press has no impact. Between the two main foreign newspapers, the *Wall Street Journal* seems to have more impact than the *Financial Times*, this could be a result of a higher credibility of the former or of the different importance of the two types of audiences these newspapers have. To separate the effect of audience from that of credibility we use a Russian-language publication called *Vedemosti*. Since this publication is a joint venture between the *Wall Street Journal* and the *Financial Times*, it probably has credibility similar to that of the two owners. But being in Russian, it only reaches Russian businessmen and politicians. Our finding that coverage by *Vedemosti* has no significant effect suggests that all the leverage is provided by the reputation vis-à-vis the Anglo-American community.

We also show that foreign press coverage of major corporate governance abuses is driven by the intrinsic newsworthiness of a company and by the presence of the Hermitage fund among its shareholders. We then use these two factors as instruments for foreign press coverage and we find that the effect of press coverage is robust, suggesting that the link is causal.

Finally, we look at what is the main mechanism through which the press had an effect and we find that in roughly half of the cases media pressure leads a regulator or a politician to intervene, while in the remaining half it is the company itself that relents, realizing the reputational costs of continuing the battle.

The rest of the paper proceeds as follows. Section I outlines the theoretical framework. Section II explains why we focus on the Russian market. Section III presents a brief case study that motivates our statistical analysis. Section IV describes our research design and data. Section V presents our main results on the effect of media coverage on the outcome measure of whether corporate governance abuses are addressed. Section VI identifies some exogenous determinants of media coverage and uses these to re-estimate the basic regression using instrumental variables. Section VII discusses the mechanisms through which media affect outcomes. Section VIII concludes.

## **I. What role can the media play in corporate governance?**

### *1.1 The role of the media in information diffusion*

The role of the media is to collect, select, certify, and repackage information. In doing so they dramatically reduce the cost economic agents face to become informed. When the Wall Street Journal reports a table with the quarterly performance of mutual funds, for instance, an investor does not have to spend time collecting all the pieces of information herself, but she can glance at them in a second for the price of a dollar. Furthermore, if there exists a strong complementarity between news and entertainment, as it is often the case for hot or titillating topics, the media can make the cost of absorbing information negative by packaging news appropriately (Becker and Murphy (1993) and Dyck, Moss, and Zingales (2005)).

This dramatic reduction (if not elimination) of the cost of collecting information is very important since in many situations individual agents face a rational ignorance (Downs, 1957) paradox: the cost of becoming informed exceeds the benefit they can personally gain from that information. Hence, the media have the power to overcome the “rational ignorance” result (Dyck, Moss, and Zingales, 2005). By doing so, the media increase the number of people who learn about the behavior of other people, increasing the effect of reputation. In the words of Justice Brandeis: *“Publicity is justly commended as a remedy for social and industrial diseases. Sunlight is said to be the best of disinfectants; electric light the most efficient policemen.”*<sup>2</sup>

### *1.2 The role of the media in corporate governance*

Consider a manager who has to decide whether to make a decision that might benefit her personally, but might hurt her reputation and trigger some legal punishment. A simple application of Becker (1968) model has that a manager will be dissuaded from such an action if and only if

$$(1) \quad \text{Private benefit} < E(\text{Reputational cost}) + E(\text{Punishment}) = \\ = \sum_i p_i * RC_i | i \text{ learns about it} + \pi P$$

where  $RC_i$  is the reputational cost of this action vis-à-vis group  $i$ ,  $p_i$  is the probability group  $i$  will learn about it,  $\pi$  is the probability of enforcement and  $P$  is the punishment in case of

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<sup>2</sup> Louis D. Brandeis, 1933, *Other People's Money*, National Home Library Foundation: 62.

enforcement. Note that all the terms on the right hand side are *ex ante* estimates. In particular a manager is not sure if a certain audience will learn about her decision, or how hard it will judge it.

The media influence the right hand side of this equation in four ways. By publishing the news they can change  $p_i$ , i.e., the probability that a given action is known to a certain audience and so it carries a reputational cost. Of course, different media have different audiences, so each medium has a special impact on its own audience's  $p_i$ . If, for instance, a company is planning to raise new finance and it cares about the capital markets' perception of its own action, it will be very sensitive to coverage in outlets that are read by the financial market community.

The second way in which the media can affect the decision is by increasing the reputational cost  $RC_i$ . In the Grasso case, for instance, all the directors initially voted in favor of his lavish compensation, but when it became public many of them changed their position not only because the news became known to a large audience, but also because even the most pro-business newspapers characterized this decision in a very negative way, increasing their reputation cost.

Third, the media can have an impact by changing expected enforcement costs. This comes most directly as the media influence the probability of  $\pi$ . The enforcer herself faces a trade-off (very similar to equation (1)) between personal cost of enforcement and reputational cost of not enforcing.

Finally, the media can change the size of the penalty  $P$ . This is definitely the case if a case goes to trial, because media can impact the mood of a jury. But it is also the case whenever the enforcer has any discretion in the size of the punishment.

These two latter channels suggest an interesting determinant of legal enforcement. The large literature on law and finance has emphasized the importance of legal enforcement as different from the law on the books (La Porta et al. , 1998; Bhattacharya and Daouk, 2002), but has not explored what drives enforcement. Our simple framework suggests that media pressure can play an important role in it.

### *Which reputation?*

Starting with Fama (1980), the finance literature has recognized the importance

reputation plays in disciplining corporate managers. The early literature, Fama (1980) and Fama and Jensen (1986), emphasized managers' reputation vis-à-vis potential employers, who will determine future jobs and wage. CEOs, however, do not hop from job to job frequently. Especially for CEO of large companies, the probability of reentering the labor market (and thus the importance of their reputation vis-à-vis future employers) is minimal. By contrast, career concern might lead directors to act against the interest of shareholders. Since they are appointed by managers, they should care about their reputation vis-à-vis them.

More important, instead, is the role played by a manager's (or a company's) reputation vis-à-vis financial markets, as modeled by Diamond (1989) and (1991) and Gomes (2000). To the extent a company needs to access financial market repeatedly, its reputation will affect the term of future financing. Since these terms affect the profitability of a company and its ability to exploit future investment opportunities, they will be important even for self-interested managers.

Managers, however, seem to care not only about their reputation vis-à-vis future the financial market, but also vis-à-vis society at large. As we discuss in Dyck and Zingales (2002), managers often bow to environmental pressures not because these are in the interest of shareholders, but because they do not want to face the private cost of being portrayed as "the bad guys".

### *1.3 Effect on the reputation of the enforcers*

The second term on the right hand side of (1) is a function of enforcement. But what does drive enforcement? An enforcer compares her personal cost of acting with the reputational cost of not acting in a way not dissimilar from (1). As in the case of corporate managers, the reputational cost of not acting are affected by media reporting. The SEC, for example, started to ask the NYSE board about its compensation practices after the first news of Richard Grasso's compensation was published in the *Wall Street Journal*. The publication of that news informed many people about the lack of activism of the SEC, forcing this agency to show some action.

This effect can be driven by two separate forces. The first one is a simple extension of Fama's model to politicians: they care about their future employers, i.e. the voters. The

second force is the role played by the media in the battle between public interest and vested interests. A major reason why vested interests have so much power in political decisions is because of the “rational apathy” of voters (Downs, 1957). As Dyck, Moss, and Zingales (2005) argue, however, this rational apathy can be overturned by the media. By making political news entertaining, the media can overcome voters’ cost to become informed and, in so doing, reduce the power of vested interests. Once again Richard Grasso’s very large compensation became an entertaining news and made a much larger group of people aware of the potential conflict of interest intrinsic to the position of the NYSE chairman, who is in part a defender of the interests of the NYSE seat owners, and in part regulator. This new awareness substantially weakened the position of the NYSE lobbying effort to maintain its monopoly position.

Finally, politicians do not care only about reputation vis-à-vis voters, but also their reputation (and their country’s reputation) vis-à-vis foreign countries. Russian President Putin, for example, cares also about his own reputation vis-à-vis the Western world and, in particular, the United States. Any news (especially if reported in the international press) that makes him appear weak or not in control of the situation undermines his credibility in the international circle. Therefore, he will be more likely to take an action to address a problem if this problem is visible to the international community.

#### *1.4 When are the media most effective?*

If we look at (1) the impact of media is greater when the media reach a larger number of relevant groups (i.e, groups with whom managers care to maintain a good reputation) and when the news reporting generates a greater increase in  $p_i$ . In the language of the media these two characteristics are diffusion and credibility. *Ceteris paribus*, the more people a medium reaches, the broader will be the reputational impact of its reports. Similarly, to increase in  $p_i$ , the news must come from a credible source, otherwise it is not believed. If we receive an e-mail coming from a unknown organization that accuses a famous professor of plagiarism, we are unlikely to believe it. If the same news were reported in the *New York Times*, we would be much more likely to believe it because the NYT has developed a good reputation (some recent incidents notwithstanding).

Finally, the effectiveness of the media depends upon the magnitude of the



reputational punishment. If the punishment occurs in the labor/product market, its magnitude depends upon the frequency of repeated buyers in that market and the ratio between future and current benefits. In a market where repeated buyers are rare, then the reputational penalties are limited. Similarly, if the future benefits from having a reputation are small (for example a company that is cashflow positive and does not expect to raise additional funds in the future) relative to the current benefit of deviating, then the media cannot have much of an effect.

If the punishment occurs through social pressure, then its magnitude depends upon the strength of the social norm. For example, when a former CEO of Fiat was convicted for false financial reporting, the major Italian newspaper published a letter of solidarity of the most important business leaders. Thus, in this case the social sanction associated with the news appears to have been minimal, because in Italy there is not a strong social norm that this law should be obeyed. By contrast, in the United States there is a well-developed set of business publications that share the view that managers should maximize shareholders' value. Hence, executives fear being exposed as villains in these publications. Hence, the media can only be as affective as the moral norms shared by a certain community and its media.<sup>3</sup>

Many of these factors suggest that when we examine governance violations in Russia, as we will do shortly, we have to distinguish between three categories. Russian media in Russian, which have access to the Russian public but have limited credibility; foreign-owned media in Russia, which have access to the Russian public but enjoy greater credibility; Anglo-American media, which has access to the international centers of economic and political power, where English is the *lingua franca*, and enjoy of great credibility.

Russians might care about their reputation vis-à-vis the international community for two reasons. First, they might want to access international markets (for financing, joint ventures, and even sale contracts). Second, for personal satisfaction. After becoming rich executives in many developing countries seek broader acceptance in the international community by joining the World Economic Forum at Davos, seeking positions on the

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<sup>3</sup> Business publications, for instance, are more powerful in shaping the reputation of an executive than non-business press because they are more effective in reaching business people who will interact with him/her in the future.

boards of trustees of prominent international institutions, and so on.

Negative news reported in international media can have the effect of ostracizing the executives from these desired social circles. While the Russian oligarch Vladimir Potanin was successful in his efforts to join the trustees of the Guggenheim Museum in April 2002, oligarchs such as Oleg Deripaska were “disinvited” from participating in the Davos meeting, and Deripaska was stripped of his designation as “one of the global leaders of tomorrow” following negative press coverage of civil lawsuits alleging bribery, money laundering, and worse (*Financial Times* 2001; Wagstyl 2002).<sup>4</sup>

## **II. The Russian Case**

### *II.1 Why Russia?*

If enforcement is very effective and/or legal punishments are extremely severe, the manager’s expected cost of violating minority shareholders’ rights is such that managers will never do so. For this reason, it would be helpless to try to identify any effect of the media in a country with very effective corporate governance rules.

The same is true, however, if the media have a long established track record to castigate managers with a poor corporate governance record. Managers will be so scared of the reputational penalties that will abstain from committing any abuse.

Ideally, thus, we would need a country that has very little or no legal enforcement and where, at the time a decision is made, the reputational costs of a decision are not well understood by the decision maker.

Russia during the period late 1990s-early 2002 scores “well” on both dimensions. During this period the standard instruments to readdress corporate abuses were either non-existent (derivative suits) or completely ineffective (for example, courts were easily corruptible). As a result, corporate governance abuses were very extreme, very common, and very visible. Hence, we can relatively easily assemble a sample of objective bad governance decisions and follow them over time.

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<sup>4</sup> One way to reconcile this effect with the traditional reputation effect is to posit that every manager has the option to start a political career and, thus, she cares about her general reputation. But since a political career is not a source of large monetary gains, the existence of such an interest can be justified only with an extra term in the utility function. It is simpler, then, to posit from the beginning that managers care about their reputation in this broader sense.

At the same time, Russian managers were just starting to learn how to deal with the press, in particular with the foreign press. Having being raised in an environment (Soviet Russia) where the media were reporting only what the party establishment wanted, they were unlikely to factor in their decisions the reputation loss some media could inflict.

In addition to these two factors, Russia is the ideal laboratory environment because there exists a fund that consciously plays a media strategy: the Hermitage Fund (Dyck (2002)).

## *II. 2 The Hermitage strategy*

Founded in 1996 as a generic hedge fund with a Russian focus, the Hermitage Fund changed its strategy and focus after the 1998 Russian crisis. In the words of its chairman:

Our basic approach is to thoroughly research and understand where the corporate malfeasance is taking place and then go to great pains to simplify the story so the average person can understand what is going on. One of the reasons that certain companies have gotten away with various abuses in the past is that no one really understood what was happening because the stories were so complicated. We then share the stories with the press. By doing so, we want to inflict real consequences – business, reputational and financial.

A lot of our value is communication – packaging what happens in a clear way. Fund managers have little training in this. I couldn't get investors riled up unless I could package the story. Here is where my BCG training was helpful. You have to understand that the press doesn't know about the stories, have the ability to understand some of these complicated activities, or can't afford to do research. We have a lot of money invested. We are affected. We can devote the resources to do what it takes to truly understand what is going on. Our goal is to frame the issue so that it is clear to everyone what has happened. We do talk to the Russian press, but our focus is on the international press. (Dyck, 2002).

Since the Hermitage fund tries to generate more coverage only for companies it owns shares in, the presence of the Hermitage fund among the shareholders of a company should represent an exogenous shift in news coverage, which can be used to identify the causal mechanism between news coverage and governance outcomes.

## *II.3 How Does Hermitage Generate News?*

### *Being a Helpful Source*

One mechanism whereby Hermitage generates news is to conduct research and then present and document this information to a select group of reporters. Becoming a source for information has the immediate effect of providing the specific news Hermitage wants to present and determining the time of the release of the news.

To illustrate the impact of Hermitage on news coverage, consider the coverage of corporate governance violations at Gazprom, Russia's largest company. There had been widespread concerns about deals between related parties. But this only became a focus of attention, and was only addressed seriously, when Hermitage made this a focus of a media campaign. One mechanism whereby Hermitage claims it generates news is to conduct research and then present and document this information to a select group of reporters. This occurred in fall of 2000, as reported by Bill Browder, head of the Hermitage fund,

As Bill Browder described it,

My head of research was able to buy the entire Moscow registration database from a hawker on a street corner. With the securities commission database, we knew the names of the companies that stole assets from Gazprom, and with the registration chamber data, we knew which individuals owned the companies. From that we were able to piece together exactly how much was stolen and by which members of management. ... [We] decided to share our findings with the world by selectively releasing different examples of the graft to the major Western newspapers in Moscow.

By October of 2000, Hermitage had put this information together in a 41 page powerpoint presentation that laid out the story they want told, and presented the underlying information including the sources for this information. As Table 1 shows, there is a clear overlap between their information and resulting stories, more evident in the Financial Times than the Wall Street Journal reporting.

Not only did Browder present new information, they also worked hard to time the presentation of information, and to ensure continued coverage of stories they cared about.

Originally, we would give one reporter the whole story. They would want to check every bit of it out, get the other side's point of view, or ignore it, seeing this as too complicated and time consuming to pursue. Now we give a small piece of the story to a journalist and let them know that we'll give it to someone else in three days if they don't write anything. It seems that journalists are more concerned about losing the story to a competitor than almost anything else.

Suggestive of the success of this strategy, we also see continued coverage of these allegations in the international news, as well as successful outcomes, with concrete steps to limit such dilutions of Gazprom, including new requirements for board approval, new audits of these related party transactions, and the removal of the chief executive at the center of these allegations. Panel B of Table 1 provides a timeline of these outcomes, as well as importantly showing that this story, like so many other allegations of shareholder abuse in Russia, did not die, but rather was repeated again and again over the next 6 months. Interestingly this is a much more prominent issue in the Financial Times, which relied more heavily upon this source, than in the Wall Street Journal.

### *Becoming news*

Another channel through which Hermitage generates news is by becoming news. One illustration of this effect is the use of lawsuits filed by the company. Hermitage has found that by filing lawsuits, this generates news that repeats their allegations. As Bill Browder argues,

We also go to courts. We've been involved in 32 lawsuits. And we win in terms of public attention regardless of the outcome, where we've lost 31 times. I think the proportion of number of words written in the press when a lawsuit is initiated to when it is dismissed is 50 to 1. The court of public opinion is much more effective than the Russian legal system and much fairer.

The case of Sberbank illustrates this channel. The Sberbank board announced plans to go forward with a new share issue that would dilute stakes of existing shareholders. Ordinary shareholder methods to fight this decision would be ineffective as there were no representatives of minority shareholders on the board. To generate continued coverage of this event, Hermitage launched 12 different lawsuits against Sberbank and the Central Bank, losing every one of them. Although the lawsuits were all dismissed, the lawsuits generated a large amount of publicity, which came at a time when the Russian Duma was debating a new law on investor protection.

### **III. Case Study**

To illustrate the causal link between media reporting and corporate governance outcomes and the mechanisms through which this causal link operates, we introduce a small case study. We chose two companies whose corporate governance abuses predate our sample period: Sidanco (a little known but important holding company in the oil and gas sector) and MGTS (the Telecom company for Moscow).

In both of these companies, insiders attempted to dilute other shareholders by issuing shares well below the prevailing market price to parties linked with insiders. Sidanco announced a convertible bond issue at a 95 percent discount to the market price in December 1997.<sup>5</sup> MGTS proposed to issue shares to the Moscow city government for par value of \$0.17 per share (one rouble), almost nothing next to the prevailing market price of \$900 per share, in January 1998. Not surprisingly, in both of these companies the share price plummeted on news of the dilution, with an approximate 66% and 50% loss around the event for Sidanco and MGTS.

Despite these similarities, the coverage of the two events was dramatically different. The Sidanco case generated significant coverage in the international business press (which Factiva defines to include the Financial Times, the Wall Street Journal, the New York Times, and the business weeklies of Business Week and Fortune).<sup>6</sup> By contrast, in the MGTS case, there was very little coverage, with only 3 stories in the credible international press, and one of these stories focusing more on Sidanco than MGTS.

The extent of news coverage could simply reveal that some events are more interesting for the press or that there is greater fundamental interest for some companies. We address this concern in a number of ways. First, we note that by design we have chosen very ‘similar’ events, both being significant dilutions initiated around the same point in time, and that both companies have foreign ownership, with MGTS having a higher proportion of foreign shareholders. Second, and more importantly, to investigate the possibility of differences in newsworthiness, we collected information on the coverage of the respective companies in the wire stories around the same time. Wire stories tend to

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<sup>5</sup> The Payment for the convertible bonds was expected to be made through the swap of shares in 7 daughter companies for the convertible bonds. The calculation in the text assumes that these shares in daughter companies were valued based on their price on the exchange on July 29, 1998. The discount would be close to 98% if instead the price used was the price per share BP paid in December of 1997 of \$25 per share.

report information released from companies with little value-added. By this metric, we would predict more coverage of MGTS for we have more than 50 wire stories, whereas only 7 stories about Sidanco.

Finally, we have additional evidence that the news was generated to raise reputational penalties, and that the news coverage helped to produce the outcomes we observe. This evidence comes from the fact that Hermitage had a sizable stake in Sidanco and not in MGTS, and that Hermitage had a determined and concerted policy to use the press to protect their interests.<sup>7</sup>

William Browder, manager of Hermitage describes the events leading up to this media strategy and how it was conducted:

I arranged a meeting with an investment banker from Renaissance Capital, their investment bank, and was told, “We’re going to dilute you, and there is nothing you can do about it.” I said, you don’t understand, I’m going to have to fight you, which didn’t scare them at all. I didn’t want to have any conflicts, but at the same time I was about to lose \$60 million of my investors’ money. I called my partner, Edmond Safra, and said I didn’t think we have any choice, I suggested that we had to go to war. Safra backed me 100%. I hired bodyguards and went to work. (Dyck (2002))

Browder tried to use whatever leverage he could over the controlling shareholder group. He did not go on the legal offensive immediately because he did not think that would work, given the impotence of the security regulator and the corruption in the courts. Instead, “We set out to shame those who had anything to do with the controlling group, to tell their agents to stop doing this.” Browder contacted BP and the Harvard University endowment, Unifund. Safra personally called up financier George Soros. And Browder contacted reporters, being careful to focus on reporters from credible and influential Western papers such as *The Financial Times* and *The Wall Street Journal*. Since Uneximbank and Renaissance Capital were involved in capital markets, there was a variety of potential pressure points.<sup>8</sup>

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<sup>6</sup> It is possible to use this larger set of papers in this individual case study, but time and resource limitations required us to limit our news outlets to just the Financial Times and the Wall Street Journal for our larger sample.

<sup>7</sup> Hermitage had invested early in 1996, spending roughly \$12 million to buy 4 million shares at \$3 a share, a 2% stake. At the same time, allies held another 2%, with the remainder held by a controlling group headed by Uneximbank (controlled by Russian oligarch Potanin) and Renaissance Capital.

<sup>8</sup> “Certainly, Mr. Potanin, whose Uneximbank controls Sidanco, is keen to bring western partners into his business empire and is therefore sensitive to criticism from foreign investors such as Mr. Soros, a co-investor

The angle newspapers picked up on was BP's inaction in the company. On February 9, readers of *The Financial Times* found reported on the front page that "BP said it was coming under 'moral pressure' from minority investors in Russian oil group Sidanco to intervene in a row over shareholder rights." On the 10<sup>th</sup>, the LEX column in the paper suggested that BP "should use its forthcoming seat on the Sidanco board to improve corporate governance."

As Browder recalled, "This caught management's attention and Boris Jordan's, the CEO of Renaissance Capital. The next day Boris Jordan called me and said, 'You're not playing by the rules, Bill.'" The response to the story was for Uneximbank and Jordan to go on the offensive. They wrote a letter to Safra complaining about Browder. They organized their own press conference to respond. As *The Wall Street Journal* reported, "Hermitage was notified of the precise terms of the bond issue before it bought Sidanco shares." Browder saw these efforts as benefiting him, by keeping the story alive and generating more reputational penalties.

The media campaign helped with Browder's legal strategy. Dimitri Vasiliev, head of the Russian securities regulator (FSRC), was now interested in the case. So the chief counsel of Republic National Bank came to Moscow and with a team of foreign and Russian lawyers wrote a brief to the securities commissioner. In two weeks, by February 26, the issue had not only been suspended but also cancelled, something far from market expectations.<sup>9</sup>

Browder argued:

The reason he made this decision is that I was screaming bloody murder. He had a great scandal on his hands. Nobody had ever taken such a visible and outspoken position. I was shooting from the trenches, and this gave him cover to take his own steps. You have to remember that, as has become clearer since then, oligarchs owned the government and Vasiliev was worried about terrible things happening to him, professionally or even worse.<sup>10</sup> By not initiating but responding to an attack, he felt more empowered to act. He

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in Svyazinvest," reported *The Financial Times* ("Fighting with Sword and Shield," *Financial Times* (London), Survey Edition 1, April 15, 1998, p. 4).

<sup>9</sup> "The toothless Federal Securities Commission has launched an investigation, but few expect it to force Sidanco to change its attitude to small shareholders. The problem is not that laws to protect minority investors have not been passed in Russia but that the will to enforce them is weak," reported *The Financial Times* ("Russian Equities—the LEX column," February 10, 1998, p. 14).

<sup>10</sup> Vasiliev resigned from FSCR in October 1999 complaining about a lack of support to address governance abuses.



asked us on a number of occasions to raise specific points in the press because he couldn't go on the offensive until something came out publicly. He was clear that he couldn't be seen as initiating but responding.

Consistent with our hypothesis, the final outcomes differed dramatically in the two cases. Sidanco canceled the dilutive issue and its shareholders recovered some of their losses, while MGTS went through with its issue.

#### **IV. Data Description**

The case presented above is just an example, with all the limitations an example has. We now try to address the same problem in a more systematic way.

##### *IV.1 The Sample*

Ideally, we would like a complete sample of corporate governance abuses during a certain period. Fortunately, between 1998 and 2002 Troika Dialog, the most prominent Russian investment bank, published the "Bulletin on Corporate Governance Actions." In this bulletin, specialists at Troika provided a one to three paragraph description of corporate actions that came to their attention over the previous week.

We read all sections in each issue between December 1998 until June 2002 (when this publication was ceased) and identified an initial sample of potential governance violations. This sample was based primarily on all the events reported in a sub-section titled "Reported Governance Violations", as well as events in other sub-sections such as "New Share Issues/Conversions" where the paragraph description raised concerns that the proposed action was prejudicial to the rights of shareholders or creditors. This search resulted in a sample of 407 events involving 141 companies. After dropping events that update previously reported governance abuses (157) we are left with an initial sample of 250 unique events.

We then read the English and Russian press to learn more about these events. We first used this information to more accurately date the first announcement of the event. When we found an earlier news report than the weekly Troika report date, we changed the date. We also used these additional news searches to refine our sample so that we were

focusing only on events that identified new evidence of actions that had the potential to significantly harm the interests of minority shareholders, and where the proposed action could, in principle, be limited through actions by minority shareholders and allies.

Specifically, we used this additional qualitative information to eliminate those events where one or more of the following applied: (a) we could not clearly identify that the action was prejudicial to minority shareholders (131 events), (b) there was no feasible redress that could be introduced by shareholders so we could not code an outcome (54 events), (c) there was confounding information at the same time as the governance violation, making share price an unreliable indicator of governance abuses (8 events). After this screening we are left with a final sample of 57 events. Only for 24 of these events do we have reliable stock price information (i.e., price associated with some positive volume) from Datastream.

Across the 57 events we see at least five different methods whereby insiders appropriate minority shareholders. One method (e.g. Sberbank) involves dilutive share issues where new shares are issued and insiders find ways to dramatically increase their stakes, often through closed subscriptions at discounts to the market price. A second method (e.g. Norilsk Nickel, Surgutneftegaz) consists in a share swap between companies and subsidiaries on terms that are viewed as hurting the interests of minority shareholders. A third method (e.g AvtoVAZ, UES) involves a reorganization of the firm and its subsidiaries that provides increased scope for self-dealing transactions. A fourth method involves debt holders using bankruptcy proceedings to reallocate assets to themselves, and in so doing diluting minority investors (Chernorgorneft, KamAZ). A fifth method involves selling assets or business opportunities to companies closely affiliated with management (e.g. Gazprom).

For the 24 events for which we have a reliable stock price, we confirm the correctness of our assessment of the events by looking at the stock price reaction. As a measure of the short-run impact we use the cumulative excess return from ten days before the event to three days after. We use a longer-than-usual window because of the possibility of information leakage and trading before the events (Bhattacharya et al., 2000). To the extent that the corporate violation is a surprise, it should have a negative impact on stock prices. Table 3, column 4 describes how the market responded to these events using this

metric. As expected the response was overwhelmingly negative, with a mean decline in cumulative excess returns of 15.3 percent.

#### *IV.2 Performance Measures*

To measure the impact of media pressure on the ability to contain or overturn the corporate decisions that violated minority shareholders' rights we look at the actual outcomes. After reading the Russian and the English Language press over the subsequent year, we coded an outcome as 0 if the violation went through as planned and there were no subsequent changes in the firm linked to the (possible) furor surrounding this event. We coded an outcome as 2 if the violation led to a significant response in the firm, including undoing of the event, significant change in the terms of the transaction, a structural change that makes further such actions unlikely (e.g. change in CEO, change in charter, change in number of independent board members, change in national law). We code an outcome as 1 if there is a partial redress of the shareholder concerns. There was a positive outcome of significant redress or partial redress in 17 of these 57 cases.

We thought to use, but later discarded the idea of using, the long-term performance of the stock price as a measure of the outcome. First, the paucity of actively traded companies dramatically reduce the sample. Second, the timing of the possible reversal (stretching over months) make it difficult to identify outperformance, especially in an environment, such as the Russian one, characterized by high volatility in stock prices. Last but not least, if the market is so rational to anticipate the impact of media, the stock price performance will underestimate their effect.

#### *IV.3 News Measures*

Table 4 reports the news coverage of the 57 companies in our sample, before, at the time, and after the corporate governance abuse. We measure the coverage in both the Russian-language and foreign-language press. For the Russian-language press we focus on three large and/or prominent newspapers: *Kommersant*, *Izvestia*, and *Vedemosti*. For the English language news we focus on the Financial Times and the Wall Street Journal as credible western news outlets. We measure short-run news coverage of the violation in a window surrounding the announcement of the event (t-1 to t+2 months), and longer-run

news coverage in a longer window (t+2 to t+6 months). For the most part we focus on the combined coverage in the English (Russian) press, although we also break down coverage by publication.

One factor that determines the volume of news about a company is the intrinsic interest this company generates in the press. As a measure of intrinsic ‘newsworthiness’ we count the number of references to this company in the 6 month period from January to end of June 1998, a time preceding our sample period and prior to the unique period surrounding the Russian default. We present this data in column 11 and 12 of Table 4.

#### *IV.4 Reputation measures*

Since in Russia all legal remedies are very weak and the large shareholders are widely considered the villains rather than the monitors, the only source of restraint is given by the reputation these companies have vis-à-vis foreign investors. We try to capture reputation concerns through three proxies: the percentage of foreign ownership, the presence of the European Bank of Reconstruction and Development (EBRD) among the company’s lenders, and the number of joint ventures between a company and foreign partners, computed as the sum of the number of existing joint ventures with foreign companies at the time of the event and the ones that are completed in the year following the revelation of the corporate governance violation. This variable may suffer of a reverse causality problem (only if the corporate governance violation was readdressed the joint venture is signed), but dropping it only strengthens our results, so we conservatively keep it in. All these variables are reported in Table 5, while Table 6 presents the summary statistics of the variables used in the subsequent regression.

### **V. The Effect of Media on Outcomes**

The first question we try to address is whether press coverage has any impact on the probability that a corporate governance violation is partially or completely addressed.

In Table 7A (column 1) we present our basic specification. In a country where legal remedies are not available, the only source of leverage against these violations is international reputation, which we try to capture through our three proxies. Since our dependent variable is the outcome (which can be either two, or one, or zero) we run an

ordered logit. Of our three reputation proxies, only the presence of the EBRD as a creditor seems to have a significant impact on outcome. The presence of EBRD among the creditors increases the probability of full redress (outcome =2) by 18 percentage points. Also the number of joint ventures has a positive effect on outcomes, but it is not statistically significant. Surprisingly, the effect of foreign ownership is negative, but is not statistically significant.

To this basic specification, in column 2 of Table 7A, we add a measure of foreign press coverage (number of articles published in the FT and WSJ in the two months following the event). As we expected, press coverage has a positive and statistically significant effect. One standard deviation increase in the number of articles published in foreign newspapers increases the probability of full redress (outcome =2) by 10 percentage points. Interestingly, now the percentage of foreign ownership not only has a negative sign, but it is also statistically significant. Since foreign ownership is positively correlated with coverage by foreign media, these estimates seem to suggest that if not for the impact of foreign media, companies owned by foreigners are less likely to readdress the corporate governance abuse they perpetrated.

Columns 3-4 of Table 7A test the robustness of this result to different measures of press coverage. In column III we use a shorter window (only one month after the event), while in columns IV and V we use longer windows (from one to six months and from two to six months). The results are very consistent. The coefficients are smaller for the longer windows, but also the average number of articles is bigger. Hence, to assess the overall impact we need to calculate the economic impact of a one standard deviation increase in the number of articles in the two periods. It turns out that a one standard deviation increase in the number of later articles increases the probability of a good outcome by only 7 percentage points. Hence, earlier articles matter more.

Since the distinction between partial redress and full redress is subjective and hence questionable, in the last column of Table 7A we code all positive outcomes as 1 and estimate a logit model of the probability that the corporate governance abuse be redressed in any way. The effects are similar to the ones obtained before.

In Table 7B we try to probe deeper into which articles are more important for a positive outcome. Column 1 simply reports the results of column II in Table 7A for comparison purposes.

Column 2 inserts as an additional explanatory variable the coverage in Russian newspapers. The effect is negative but economically and statistically indistinguishable from zero. By contrast, the effect of the Anglo-American press coverage is virtually unchanged.

Column 3 decomposes the effect of foreign press coverage between the Financial Times and the Wall Street Journal. The coefficient of the WSJ is seven times bigger than that of the FT and it is statistically different from zero (unlike the FT's one). Even correcting for the higher mean and standard deviation of FT articles, the WSJ has more impact: one standard deviation increase in the number of WSJ articles increases the probability of a good outcome by 10 percentage points versus 1 percentage point of FT articles.

One of the Russian newspapers, *Vedemosti*, is a joint venture between the *Financial Times* and the *Wall Street Journal*. As such, it should enjoy a reputation similar to that of its two owners. On the other hand, by being in Russian, it only circulates in Russian. This allows us to distinguish whether the difference in the impact of Anglo-American newspapers and Russian ones is due to differences in their credibility or in the audiences they have access to.

In Table 7C (column I) we re-estimate the basic specification using, as a measure of press coverage, just the number of articles in *Vedemosti*. The coefficient has a positive sign, but it is not statistically significant. The same occurs in column II, where we control also for the coverage in other Russian newspapers. In fact, the coefficient on *Vedemosti* is almost numerically identical to the one of the other, less credible, Russian newspapers. Hence, keeping the audience constant, differences in credibility do not seem to have a major effect. Finally, in column III we insert also the coverage in Anglo-American newspapers. While the coefficient on Anglo-American newspapers is positive and significant, the coefficient on *Vedemosti* coverage turns negative (albeit insignificant).

In sum, newspapers in Russian, even when credible, do not seem to play much of a role. Hence, we have to infer –consistent with the views of Hermitage's chairman-- that the main source of leverage is the access to an international audience.

## **VI. Addressing the causality problem**

### *VI.1 What Determines News*

There is a potential objection to the results presented in Table 7: more severe abuses are likely to trigger more news stories. If it is also true that more severe abuses are more likely to be redressed, then our result may be spurious.

To confront this potential criticism in Table 8 we try to determine what drives press coverage. As a dependent variable we use the number of articles that appeared in the FT and WSJ during different event windows. Columns I and II focus on the shorter window (- 1 month, +2 months). Columns III, IV, and V on longer windows, while columns VI and VII break down the articles between the Wall Street Journal and the FT.

To explain a company's coverage by Anglo-American newspapers we need to capture the intrinsic interest Anglo-American readers have for these companies. Oil companies, for example, attract much more interest than domestic car manufacturers. Similarly, larger companies tend to have more following than small ones. To capture this level of "newsworthiness" we compute the number of articles present in the foreign press during a quiet period before the Russian crisis (i.e., between January first and June 30 of 1998). A second potential driver of coverage in the FT and WSJ is the percentage of a company owned by foreigners.

In column 1, we regress coverage at the time of the events on these two factors. As expected, newsworthiness has a positive statistically significant impact on coverage. A one standard deviation increase in newsworthiness more than doubles the number of articles appearing at the time of the corporate governance violation. The percentage of foreign ownership also has a positive impact on coverage, but this impact is not statistically different from zero.

In column 2 of Table 8 we add to this basic specification a dummy variable equal to one if the Hermitage fund had a stake in the company at the end of 1998. If our conjecture (and the claims of the Hermitage Fund chairman) is correct, the level of coverage should be higher when the Hermitage Fund owned a stake, because it has an incentive to intervene and prompt journalists to write stories. The Hermitage dummy enters in a positive way and it is

statistically significant at the 1% level. The presence of Hermitage among the shareholders increases the number of articles by 2.3 units, more than tripling the average coverage.

In columns 3-5 we test the robustness of the “Hermitage effect” to different measures of press coverage. The effect appears quantitatively bigger when we measure coverage over longer event windows. If we measure the impact relative to the total number of article, however, the effect is rather constant: the presence of the Hermitage fund among the shareholder of a company triples the number of articles it receives in the Anglo American press when a corporate governance violation takes place. So the Hermitage fund is not only effective in planting the news, but also in sustaining the foreign press interest. We will return on this topic later.

Finally, in columns 6 and 8 we test whether the Hermitage has more of an effect on the WSJ or on the FT. The estimate of the impact of the Hermitage on the FT is twice as large as the one on the WSJ, but – given the paucity of data—this difference is not statistically significant.

One shortcoming of these estimates is that we are unable to control for the importance of the news. Theoretically, it is possible that more “newsworthy” companies or companies where Hermitage fund was invested experience more significant corporate governance violations. If this is the case, the estimate effect is spurious. While we cannot address this problem for the whole sample, we can for the subsample for which we have reliable stock price data. The announcement return at the time the corporate governance abuse is announced is a pretty good measure of the magnitude of the news. In Table 8B, we re-estimate all the specification estimated in Table 8A on this reduced sample and we can control for the announcement return. The coefficients of both newsworthiness and the Hermitage dummy are virtually unchanged, suggesting the estimated effect is not spurious.

## *VI.2 Instrumental variable estimation*

Having identified some exogenous determinants of press coverage, we can now verify whether the effect of coverage on outcome is spurious or not by using these exogenous factors as instruments. Before doing so, however, we need to ascertain that these have sufficient explanatory power, i.e. technically are not “weak”. This is done in the last row of Table 8, where we test the exclusion restrictions for the two instruments. In all the



cases the F-test is above 10. In particular, in column II, which is the first stage of our instruments, the F-test is 19.

Hence, we can use these two variables as instruments for news coverage. This is what we do in Table 9. For comparability reasons, in column 1 we reproduce the estimate of the basic specification using OLS. In column 2 we instrument foreign press coverage with newsworthiness and the presence of the Hermitage fund. The IV estimates are almost identical to the OLS ones, suggesting that the reverse causality is not a major issue.

One possible objection is that while we have a convincing case for the exogeneity of one instrument (the presence of the Hermitage fund), we do not have it for the other. Fortunately, we can test for it by using the Hausman test. Under the assumption that A newsworthiness is exogenous both the IV estimates with one instrument and with two are consistent. But under the alternative, only the estimate obtained with one instrument (the presence of Hermitage) is consistent. The p-value of the Hausman test is 0.54, hence we cannot reject the hypothesis of exogeneity of both instruments.

## **VII. How press coverage leads to better outcomes?**

The question we have not addressed yet is how press coverage succeeds in changing outcomes. In the Gazprom example the coverage given to the corporate governance violation had several effects. First, the government officials on the Gazprom board felt compelled to side with minority shareholders and pass a motion that required board approval for any subsequent dilutions. Publication of this news also helped coordinate the actions of small institutional shareholders, who demanded an audit of these transactions. These stories inflamed the investment community and helped Hermitage to convince other investors to sign their proxies to get the necessary 10% required to demand an independent audit of these and other transactions in December of 2000. The revelations also provided additional motivation for the government to change the CEO of Gazprom in May of 2001.

As this example illustrates, the mechanism through which media coverage affect outcomes is very complex. It is difficult to identify one single force. All the factors that played a role in the Gazprom case seem to have gained strength as a result of news

coverage. Nevertheless, we can say that in this Gazprom case the final difference was made by a political intervention.

With this logic (and caveat) in table 10 we try to group the positive outcomes according to the main force behind reversal. Roughly 30% of the cases reach a (at least partially) positive outcome as a result of the intervention of a regulator. What does press coverage have to do with the decision of a regulator to intervene? By overcoming Downs' (1956) rational ignorance result, press coverage makes more people aware of the issues involved, increasing the reputation costs of non acting (Dyck, Moss, and Zingales, (2005)).

Another 18% of the cases get resolved because of political intervention. If Russia were a typical democracy the reasoning would be very similar. Politicians feel compelled to intervene on issues that are highly visible, because their political reputation is on the line. Being Russia (and being press coverage in a language not read by most of the voters), the reasoning might be different. The important factor here is the reputation vis-à-vis foreign (and in particular Anglo-American) investors. Albeit his reputation vis-à-vis the Western world, it is not Putin's only concern, it did play a role. In the case of UES, for instance, Putin took advantage of the foreign press to reduce the power of his political challenger, Anatoli Chubais. Had foreign media not attacked Chubais, Putin might have been more reluctant to intervene for fear of the repercussions his actions might have on his reputation in the West. The negative press campaign on Chubais allowed Putin to kill two birds with one stone: reduce the power of his political challenger and enhance his reputation in the West.

In another 24% of the cases, a more positive resolution is due to the fact that press coverage strengthened the existing opposition. For example, in the Kamaz case, the EBRD was fighting the share dilution approved by the company. Press coverage strengthened the EBRD case because it increased the awareness of investors as to the behavior of Kamaz and in so doing increased the reputation cost of misbehavior.

In the remaining 24% of the cases, it looks like the company voluntarily changed its course of actions. In these cases it is more difficult to establish what role did press coverage play.

In sum, it looks like the primary mechanism through which media coverage has an effect is by increasing the reputation cost of misbehavior vis-à-vis a relevant audience (in

this case Anglo-American investors). Obviously, the success of this strategy is highly dependent on the importance the key actors attribute to their reputation vis-à-vis this constituency. Thus, our findings might be contingent to the particular period Russia was living shortly after the default on its public debt, when it was particularly concerned of restoring its international credibility.

If this result is confirmed by future studies, it has very important policy consequences. It means that by interacting with developing countries the United States can exert a very positive influence not only in public governance, but only in corporate governance. Since politicians and businessmen are eager to “look good” in the face of the Anglo-American public opinion, they can be levered into improving their governance standards.

## **VII. Conclusions**

In this paper we argue that press coverage can be an important source of pressure to redress corporate governance abuses. We show this relationship to be present in Russia, even when we instrument for the level of press coverage with its exogenous determinants.

Two important questions remain open. First, what is the degree of complementarity between media pressure and other—more traditional—corporate governance mechanisms. Since other mechanisms are almost completely ineffective in Russia, this question will have to be addressed using a different sample.

Second, our finding that media coverage is important and can be effectively manipulated by the parties involved raises the question of how widespread manipulation is and what are its welfare consequences.

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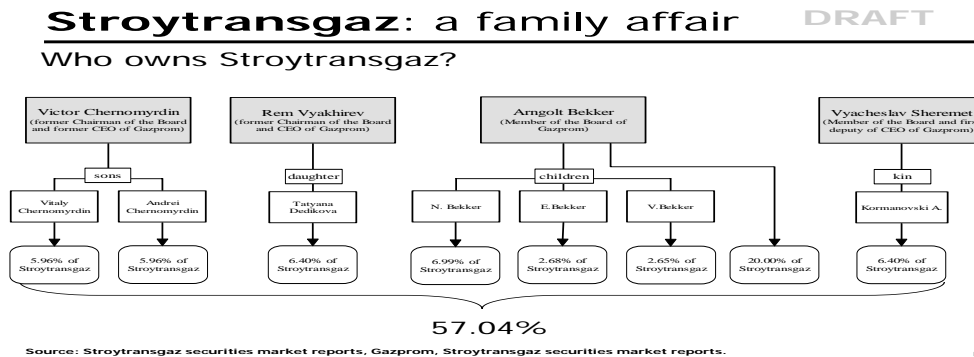
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# Table 1: How Does Hermitage Generate News?

## Panel A - Generating Initial News

Below we present slides from a 41 slide Hermitage powerpoint presentation produced in early 2000 that detailed a series of self-dealing actions by company management involving Stroytransgaz, Itera, Rospan, Zapsibgazprom and other entities. This information was provided to journalists at the Financial Times and Wall Street Journal. We follow the slides with newspaper coverage in the Financial Times and the Wall Street Journal that picks up on this news.



5

### Financial Times reporting, October 25, 2000

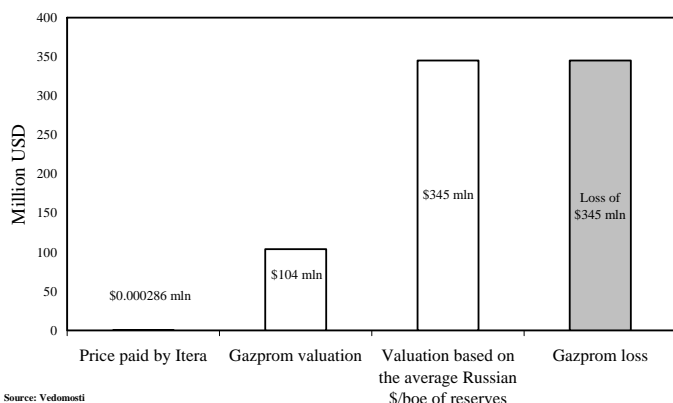
“The FT has learned of one case in which Gazprom has been awarding large contracts to a company which is majority owned by the relatives of Gazprom’s past and present management. Stroytransgaz documents from 1999 show that over 50 percent of the pipeline construction company is owned by people close to Gazprom’s senior management. These include 6 per cent each by Vitaly and Andrei Chernomyrdin, the sons of the former prime minister, and former head of Gazprom Viktor Chernomyrdin, and a further 6.4 per cent by Tatyana Dedikova, the daughter of Gazprom’s chief executive Rem Vyakhirev. A further 20 per cent is held by Arngolt Bekker, Stroytransgaz’s chief executive and a Gazprom director, and three of his relatives hold another 12.3 percent between them...”

### Financial Times reporting, October 28, 2000

“The Federal Securities Commission, the market regulator, yesterday confirmed it had asked for an explanation from Gazprom following the publication of an article in Wednesday’s Financial Times on relations between the group and Stroytransgaz, a construction company in which present and past senior managers of Gazprom and their relatives are significant shareholders.

### Wall Street Journal, October 30, 2000

“Revelations that top Gazprom managers and their family members own a big chunk of Gazprom main pipeline-building contractor, OAO Stroytransgas, also caused concern among investors last week. Gazprom has awarded many lucrative contracts to Stroytransgaz...”

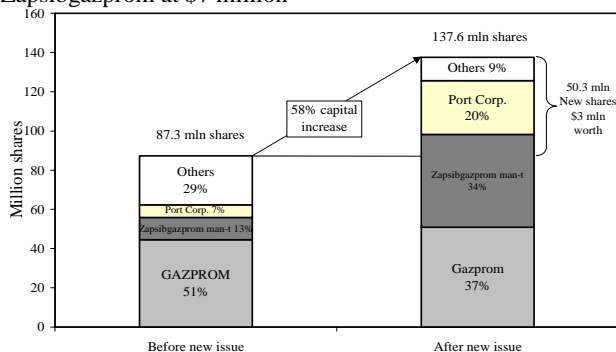


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**Wall Street Journal reporting, October 24, 2000**

Investors holding about 20% of Gazprom complain that Itera has been allowed to gobble up valuable Gazprom assets on the cheap. Take Rospan, a joint venture holding licenses to two fields with reserves of 230 billion cubic meters of natural gas and 80 million metric tons of gas condensate. In 1998, Gazprom decide it couldn't afford to invest in Rospan production and sold its 51% stake to two shell companies founded and owned by Itera: ZAO STI-Sigma and OOO Lanka-Promkomptekt. Despite Rospan's rich gas reservers, MR. Vyakhirev ordered the stake sold at its nominal price, or par value, of 4,258 roubles -- \$284 at the time. Gazprom's minority shareholders value the lost gas and gas condensate reserves at \$345 million.

Valuation arrived from placement price valued the whole Zapsibgazprom at \$7 million



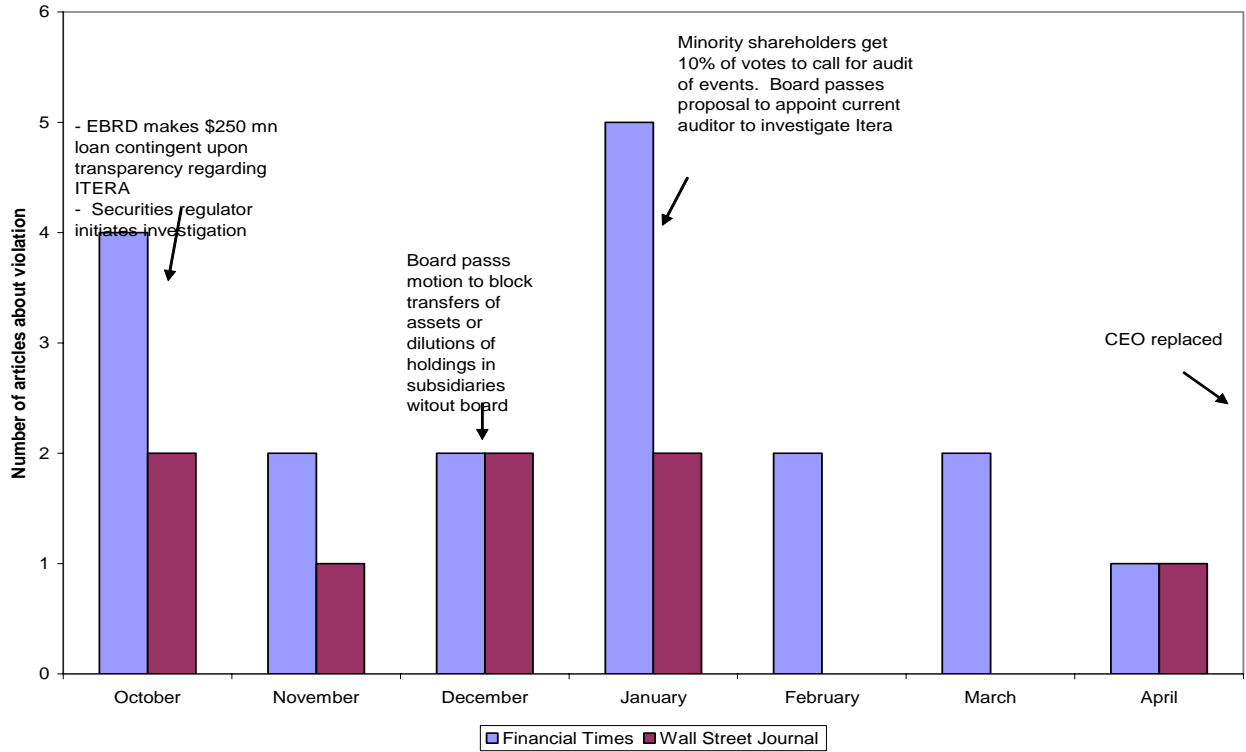
36

**Wall Street Journal reporting, October 30, 2000**

“the board briefly discussed the erosion of Gazprom’s stake in Zapsibgazprom, A Siberian firm whose 700 billion cubic meters of gas reserves are valued at about \$600 million. Gazprom didn’t take up its rights in a recent share issue, allowing its stake to fall to 37% from 51% according to securities commission documents. Two shell companies of unknown ownership acquired 21% of the company during the issue. The price of the new stock issued puts the company’s market capitalization at just \$12 million.”

## Panel B – Continued Reporting of Allegations

One potential way in which sources can get rewarded is with coverage that favors their perspective and/or extra attention to issues a source views as important.





## Table 2: Sample of Reported Governance Violations

Company	Date of reported violation	CER around event (t-10 to t+3)	Reported governance violation (Date of Troika Dialog Corporate Governance Bulletin)
Aeroflot	12-Aug-99	-0.232	"An Aeroflot spokesman has said that the company may increase the number of outstanding shares by 185%..." (Aug 12, 1999)
Alpha Cement	8-Dec-99		"Shareholders will be asked to increase both the authorized share capital and the number of outstanding shares. It is proposed to place the new shares with Alpha Cement- related structures via pre-arranged subscription." (Jan 20, 2000) In the end, 31% of shares were placed with designated related party with no disclosed sale price.
Amursvyaz	28-May-01		As part of a plan for consolidation of regional telecom companies, shareholders were asked to approve a swap with Urals Telecom. The terms of the swap are viewed as detrimental to the interest of minority investors.
Avtosvet	30-Dec-99		"On December 30, Avtosvet BoD approved a 50% share capital increase. .... In essence, this means a prearranged subscription, allowing a small group of insiders to increase their control over the company and barring other shareholders from taking up the new shares. The decision was passed by the directors, one day after a proposal to increase the share capital by 100% had been voted down at the EGM on December 29." (February 2, 2000)
AvtoVAZ	23-Jun-00	-0.202	"AvtoVAZ management has revealed a reorganization program calling to split the company into 9 business divisions arranged under a management company...AvtoVAZ may simply end up with R1.2 bn (\$78mln) in debt, while its assets may be transferred to these same subsidiaries. If this happens then shareholders will be left with little more than the parent company debt and the likelihood of the company's subsequent bankruptcy and liquidation should not be ruled out." (June 23, 2000)
AvtoVAZ	26-Apr-02	-0.081	"AvtoVAZ preferred shareholders may soon lose their title to dividends worth 10% of the company's net profits, without recompense or even a chance to cash out...some shareholders visited the AvtoVAZ HQ, 1000 km from Moscow, to study the full AGM materials and reported that the unpopular proposition was indeed on the agenda, lumped together with other, mostly technical amendments...Why...Possibly because it hopes to have all changes, damaging and innocuous, approved en bloc. This is clearly against the law..." ( May 20, 2002.)
Babayevsky Confectionery	22-Feb-00		"Babayevsky Confectionery 51% shareholder, Inkombank, reported plans for a court appeal over the legality of the February 22 EGM which voted to increase the number of outstanding shares by 33%. The EGM decision means a 13% decrease in the bank's stake, reducing it from a majority to a blocking stake, Inkombank said. .... At present, 27.8 mln new shares are to be issued to three obscure outside investors, SeptStroi, Bimish Investment and Endora."(March 1, 2000)
Chernogorneft	17-Jun-99	-0.588	TNK, a holder of Chernogorneft debt, publicly proposes a buyout of Chernogorneft's business. This raises fears that this auction of assets will not be conducted fairly and will result in a dilution of existing stakes of shareholders in Chernogorneft including Sidanco shareholders who hold a 73% stake.
FESCO	23-Jun-99	-0.085	"Andrew Fox, a British investor in the Far Eastern Shipping Company, or FESCO - Russia's largest shipping concern, with 112 ships and over \$350 million annual turnover - says he was threatened with imprisonment in early June by Yevgeny Nazdratenko, governor of the Primorye region. Fox says Nazdratenko paired his threat with a demand that seven percent of the foreign investors' 42 percent stake in FESCO be turned over in trust to his administration, and that his man be elected FESCO's chairman of the board. " Moscow Times, November 2, 1999
GAZ	21-Dec-00	-0.311	News of eventual special GM that gave management increased powers to issue up to 3 billion new shares, against 4.5mn shares outstanding raises concerns about dilution

<b>Company</b>	<b>Date of reported violation</b>	<b>CER around event (t-10 to t+3)</b>	<b>Reported governance violation (Date of Troika Dialog Corporate Governance Bulletin)</b>
Gazprom	12-Aug-99	na	"Allegations that Gazprom would transfer revenues away from the gas producer and quietly give ITERA super-profitable contracts intensified last week in the mass media. Gazprom's top managers denounced allegations of doing illicit business with ITERA and enriching themselves at the company's cost..." (August 12, 1999)
Gazprom	25-Oct-00	0.113	Reports of extensive transactions between Gazprom and companies linked to company management including transactions involving ITERA, Rospan and Stroitransgaz.
Gazprom	11-May-01	-0.047	Stakes of significant vehicle for minority shareholding in Gazprom (UFG) are restricted from voting in upcoming AGM, making it very unlikely that most active minority shareholder voice on board will not be reelected, and in so doing strengthening position of incumbent management.
Irkutskelctrosvyaz	23-Sep-99		"Although the Irkutskelctrosvyaz (ESIR) BoD had recommended skipping dividends for 1998, which the company finished in the red, ESIR's majority shareholder Svyazinvest (38%) pushed through a nominal dividend of R0.01 per preferred share, payable from the company's special reserve. A group of preferred shareholders, led by Energia-Invest, is now seeking to prove in court that the nominal dividend infringes upon their rights, as preferred shareholders would enjoy voting rights at the next AGM if no dividend had been paid." (September 23, 1999)
Kaluganefteproduct	11-Mar-00		"TNK subsidiary, Kaluganefteproduct, is poised to increase its share capital hundreds fold from R4,835 to R6.6 mln. Although the shares will be offered to the general public and current shareholders will enjoy their pre-emptive right to buy into the issue, many of the latter are likely to be diluted, as few will want to pay R66 (\$2.3) for an illiquid share." (March 15, 2000) Extra shares are to be swapped for shares in refinery, so essentially diluting minority shareholders of these oil product suppliers so that TNK can control the refinery.
KAMAZ	2-Sep-99	-0.172	Company announces plans to pay debt holders through the new issuance of 600 million company shares with a par value of 50 rubles, to be distributed among company creditors. While the company argued, "this would allow the company to avoid its debt increasing due to penalties and fines" minority shareholders which included KKR with a 26% stake and EBRD as creditor, raised concerns about dilution.
Khantyanskiokr-telecom	25-Jul-01	-0.391	As part of a plan for consolidation of regional telecom companies, shareholders asked to approve a swap with Urals Telecom. The terms of the swap are viewed as detrimental to the interest of minority investors.
KrAZ	7-Jun-99		"The AGM voted to approve an additional share issue which will raise \$110 mln and double KrAZ's capital. The state, which owns 20% of the company, and small shareholders face a 50% dilution, as the new issue will be placed via closed subscription." (July 15, 1999)
KrAZ	3-Feb-00		"KrAZ has announced plans to place 15 mln new shares, representing a 53% increase in the share capital, with shareholders which control at least 9.8% of existing equity. .... The intricate scheme favors shell companies, registered in the Seychelles, Virgin Islands and in Cyprus, ostensibly related to Tanako and KrAZ management, which control 90% of KrAZ equity capital." (February 9, 2000)
Kuznetsk Ferrous Alloys	22-May-01		"MDM Bank, the new owner of Kuznetsk Ferrous Alloys (KFA),... (proposed) to float 29 mln new shares, which would have increased the number of shares outstanding by 600%. The shares were to be issued to MDM_controlled structures, diluting the KFA management stake from 44% to 6%." (November 12, 2001)
Lakokraska	7-Sep-00		New share issue at a 31% discount to the current market offer price, designed to dilute preferred shareholders, as the program gives them no right of first refusal. Lakokraska has never declared, nor paid dividends which means that preferred shares, by default, have had voting rights. And it is these votes which seem poised to be diluted by new issue.

<b>Company</b>	<b>Date of reported violation</b>	<b>CER around event (t-10 to t+3)</b>	<b>Reported governance violation (Date of Troika Dialog Corporate Governance Bulletin)</b>
Leningrad Metal Plant	5-Oct-99		"The new share issue aimed to clear outstanding debts was approved by the November 1 EGM and represents a 114% increase in share capital. This program will dilute existing LMZ shareholders by at least 54%." (November 24, 1999)
Leningrad Metal Plant	3-Apr-00	-0.072	Holder of firm debt forces firm into bankruptcy proceedings and while in proceedings initiates a new share emission that dilutes existing controlling shareholder and other shareholders.
Lukoil	8-Jul-99	-0.029	Lukoil announced a distribution of convertible preferred shares as part of takeover of Komitek. Later, on August 26, when share issue was registered with FCSM, it was revealed that large owners of Komitek can buy additional convertible preferred shares in Lukoil at substantial discount to market. Troika Dialog reports this price at \$5 per share when market price is \$7 a share. (Sept 23, 1999)
Moscow Refinery	3-May-00		Amendment to charter - instead of paying 10% of net profit to preferred shareholders it was approved to pay 10% of nominal value of shares as dividends.
Mosenergo	9-Feb-99	0.000	Firm announces plan to acquire two power plants from major shareholder UES in exchange for the issuance of new shares. This share issue moves UES from less than 50% to more than 50%. Concerns raised about dilution of existing minority shareholders, value of the acquired plants, and increased scope for transactions that could hurt minority shareholder interests.
Nizhnevartovsk Oil and Gas Production Company	6-Sep-01		Nizhnevartovsk Oil and Gas Production Company "will now be offering its shareholders the opportunity of a swap into a parent company single share, leaving them with no option but to exit their companies." (Sep. 17, 2001) Viewed as swap at poor terms.
Norilsknickel	15-Jun-00	-0.083	Export trading arm Norimet is bought with shares of production subsidiary, Norilsk Mining. Shareholder raise concerns on terms of swap, ("valued 37.9% of NMC at a ludicrously small R83.9 mln (\$2.9 mln at the exchange rate prevalent in April)" (Jan 25, 2001) particularly as trading arm linked with controlling shareholder in Norilsk Nickel, and while transfer may have met all legal rules, it was not put to shareholders for approval.
Norilsknickel	18-Sep-00	-0.240	Announce plans to wind up holding company, Norilsk Nickel, by swapping shares with production subsidiary, Norilsk Mining. "We are negative about the effect of the NMC-Norimet-Norilsk Nickel consolidation, which would dilute the publicly owned stake in the NMC, and particularly about the way in which insiders have steamrolled the restructuring through, without consulting outside shareholders." (Nov 23, 2000)
Northwesterntelecom	18-Feb-02	-0.055	"At their Feb 15 meeting, NWT directors voted to sell off the company's 43% stake in Delta Telecom (24% of the votes) to an obscure offshore company, TELCO Overseas, for just \$2.9 mn." "The latest decision by North Western Telecom to sell off assets below their market value raises a question mark over the management's commitment to increasing the shareholder value and turns a spotlight on the inadequate accountability of the board... The recent deal cannot be anything but detrimental to NWT' outside minority." (March 4, 2002)
Novolipetsk Metal	27-Jan-99		Management attempted hostile take over through \$100m share issue in closed subscription to large shareholders. "CCM which manages 29% of Novolipetsk share capital, has said that Novolipetsk management is using Russia's crises as an excuse to "hijack the business" and disenfranchise minority shareholders." (February 10, 1999).
Novolipetsk Metal	13-Jul-00		Management refused to allow the large shareholder access to financial information pertaining to the sale of its business unit, the Stinol factory.
Noyabrskneftegaz	1-Dec-98		Sibneft consolidated daughter companies (Noyabrskneftegaz and Noyabrsknetegasgeophysika) using the transfer to a single share scheme at what are viewed as unfair swap ratios.
Noyabrskneftegaz	27-Dec-00		Sibneft asks subsidiary Noyabrskneftegaz for further consolidation through reverse share split.

<b>Company</b>	<b>Date of reported violation</b>	<b>CER around event (t-10 to t+3)</b>	<b>Reported governance violation (Date of Troika Dialog Corporate Governance Bulletin)</b>
Orenburgneft	28-Apr-00		"YUKOS, which owns at least 16% (or 31%, according to some accounts) of this Onaco subsidiary, claims that the company did not send it an AGM notice (and called) ...for a revision of the authorized capital... (May 25, 2000)
Petmol Dairy	1-Feb-00		"Two Petmol shareholders, ... sold a 47% stake in Roska Dairy, ... to three outside individual investors without allowing its fellow shareholders to exercise their right of first refusal. Even worse, it flouted the UPD articles of incorporation, signed in November 1999, which stipulated that equity contributions could not be disposed of for at least five years." (March 15, 2000)
Purneftegaz	6-Jul-01	0.137	"(Purneftegaz) EGM approved the sale to Rosneft of a total of 18 mln tons of crude at an average price of \$5 /bbl (\$36.5/ton) which barely covers Purneftegaz' production costs. ...Purneftegaz shareholders also agreed to transfer \$273 million worth of equipment to the holding company, to repay R 8.2 bn (\$273 mln) in debt...Shareholders were never told what the equipment being transferred was. Yes, and is it really worth only \$273 mln?" (August 3, 2001)
Purneftegaz	18-Feb-02	-0.389	"Rosneft has been a mediocre parent to Purneftegaz: last year it snatched away its value-creating assets and is now poised to dilute dissenting shareholders by forcing them to buy stock of empty subsidiaries at a premium to their net value." (March 4, 2002)
Sakhalinmorneft	14-Mar-00	-0.297	"Rosneft subsidiary Sakhalinmorneftegas will hold an AGM on April 26. Shareholders will ... be asked to waive their statutory right to have their stakes redeemed by a shareholder which has accumulated more than 30% of the company's equity...The mere fact of waiving their major right, combined with the general lack of transparency, should be enough to put small shareholders, which control at least 10% of the company, on their guard." (April 12, 2000)
Sakhaneftegaz	16-Feb-00		It is proposed to place 3 mln new shares with the Sakha government, which increases its control up to 59%, to reimburse it for R26.6 mln (\$930,000) in capital investment. The implied market capitalization is therefore only \$3.99 mln, with the shares priced at a 30% discount to their current market value (\$1)... Shareholders will vote by correspondence, which increases the scope for potential corporate governance abuse. (March 15, 2000)
Samaraneftegas	24-Feb-99		"Samaraneftegas has announced plans to issue 67,490,280 additional common share. The issue represents a 238% increase in SNGs charter capital (Threat: capital dilution). The company proposed to place the issue via closed subscription...Shareholders will be asked to approve all Samaraneftegas BoD decisions made through 1997 and 1998 ... Furthermore, Samaraneftegas directors believe that it will do no harm to get carte blanche for future restructuring deals and ask shareholders to authorize any spin-offs and asset stripping that the BoD may at any time consider appropriate. They will therefore ask shareholder to okay future deals "in bulk." (February 24, 1999) "On March 23, a bailiff opened the Samaraneftegas EGM by reading out a court ruling barring four companies ... from voting their shares. By "excommunicating" its four major critics Yukos secure 95.7% of votes. (March 24, 1999)
Samotlorneftegas	6-Sep-01		"will now be offering its shareholders the opportunity of a swap into a parent company single share, leaving them with no option but to exit their companies." (Sep. 17, 2001) Viewed as swap at poor terms.
Sberbank	27-Dec-00	-0.105	"On December 27, Sberbank BoD reportedly discussed 1999 financial results and a new share issue program...if the bank decides to fill in the authorized cap, by issuing a further 4.99 mln share, then this will lead to a 36% increase in the voting shares...we assess the exposure to potential dilution of outside shareholders as "vulnerable to high." (Jan 25, 2000)
Sibneftegazpe-rerabotka	22-Jun-99		SIBUR pushed through the reorganization of the Sibneftegazpererabotka, whereby its crown jewels (ten gas refineries) were transferred to SIBUR-Tyumen and the parent company was left with debt and little else.

<b>Company</b>	<b>Date of reported violation</b>	<b>CER around event (t-10 to t+3)</b>	<b>Reported governance violation (Date of Troika Dialog Corporate Governance Bulletin)</b>
SibUr-Neftekhim	3-Aug-00		CEO of the company transferred shares he controls in two transactions to allies of prominent investor, giving them enough voting shares to put through transactions that allow stripping out of assets.
Slavneftmegion	6-Jul-00	-0.017	"TNK, a 12.8% shareholder in Slavneft, got no seat on the the new board...Ahead of the Slavneft AGM, the adamant Slavneft won a court indictment, barring TNK from voting on its stake." July 6, 2000
Surgutneftegas	24-Jan-00	-0.149	"In early January Surgutneftegaz crafted a consolidation program, which, if approved by the EGM called for February 10 would increase management's holding of voting share to 40% and give it control over "treasury stock" (33%). Outside shareholders would see their combined stake decline from 31% to less than 25%, less than a blocking minority...There are several reasons for concern. (1) The swap rates remain unknown...(2) ...there may be no way to verify interested-party transaction requirements...(3) The company has yet to confirm that preferred shareholders will be allowed to vote...(4)... the shares which the company currently owns in the subsidiary, rather than being cancelled...management will have the proxy to vote them." Feb 2, 2000
TNK-Nyagan	6-Sep-01		TNK initiated reverse share split
Tomsk Refinery	24-Jun-99		The decision of a 25% dilution was accompanied by a generous proposal from the BoD to all existing shareholders to take up the new shares at R848 (\$35) each and a dubious offer to buy shares from dissenting shareholders at R21 (\$0.86) per share.
Tomskneft	24-Feb-99		Tomskneft... will hold an EGM... The agenda of the meeting includes the approval of a 41% increase in of Tomskneft share capital, and the authorization of 82 mln new shares issued to five Yukos-affiliated offshore companies... It is also proposed that all structural changes made by the BoD from 1997 until the EGM be approved i.e. the creation of 32 daughter companies and the transfer of \$159 mln in Tomskneft assets to subsidiaries. Shareholders will be asked to vote on amendments to the charter...(that) would give the BoD unbridled powers, leaving shareholders defenseless.(March 10, 1999) "When shareholders arrived that morning to the address announced in the EGM notice, they discovered a note, on a sheet of paper stuck to the wall, saying that the meeting would take place at a different location, the now well-known town of Mosalsk (a 2-3 hour drive from Moscow). By doing so YUKOS, which had so far been selective in barring shareholders from general meetings ( keep the 'undesirables' out and let 'good old boys' in), has displayed unusual impartiality by leaving all outside shareholders out of the action..." (June 17, 1999)
Transneft	8-Jul-99		"At the Transneft AGM, the government, which owns 100% of voting stock, voted to slash preferred dividends to R0.5 (compared with R56.6 in 1997). Transneft still owes about R133.6 mln (\$5.5 mln) in 1997 preferred dividends. Preferred shareholders have not received any dividends, but because dividends were announced, they could not vote at the AGM. The state has pushed through an amendment whereby the company, instead of 10% of net profit, will pay fixed preferred dividends of only R0.5." July 8, 1999
Tulanefteproduct	8-Dec-99		"Tulanefteproduct, a Transnefteproduct subsidiary, has announced plans to increase its share capital by 59% via additional share issue. It is proposed to place the new shares with insiders via closed subscription. The proposal will be discussed at the EGM, scheduled for January 8." (December 8, 1999)
Tyumenneftegaz	6-Sep-01		"will now be offering its shareholders the opportunity of a swap into a parent company single share, leaving them with no option but to exit their companies." (Sep. 17, 2001) Viewed as swap at poor terms.
UES	5-Apr-00	-0.058	UES proposes restructuring plan for industry that minority shareholders contend opens up ample opportunities for self-dealing by company insiders.
Ust-Ilimsk Timber Concern	27-Aug-01		A prominent investor in Rospom (RusAl) forces production subsidiary (Ulsk Timber) into bankruptcy and in process transfers assets to themselves.

<b>Company</b>	<b>Date of reported violation</b>	<b>CER around event (t-10 to t+3)</b>	<b>Reported governance violation (Date of Troika Dialog Corporate Governance Bulletin)</b>
Viksunsk Pipe	26-Jan-99		Dilution is proposed and the terms of share redemption are very poor: redemption price 4 times lower than the price of new shares.
Yuganskneftegaz	24-Mar-99		“Approval of oil sales by YFGA to Yukos-controlled entities at R250 per ton for the next three years. Retroactive approval of the establishment of 59 daughter companies and prospective approval of 60 more subsidiaries to be created over the next three years. Transfer of \$1bn in assets from the parent company to 119 subsidiaries. Shareholders that do not attend the meeting or vote against the proposals, will be bought out for as little as R7.5 per share(33 cents), which values Yuganskneftegaz’s oil reserves at just \$0.0003 per barrel. (March 24, 1999)

### Table 3: Outcomes of Governance Violations

Company	Date of governance violations	Date of event resolution	Outcome description	Outcome: 2= full recovery 1=partial redress 0=no redress
Aeroflot	12-Aug-99		Share increase introduced.	0
Alpha Cement	8-Dec-99		Goes through.	0
Amursvyaz	28-May-01		Goes through.	0
Avtosvet	30-Dec-99		Goes through.	0
AvtoVAZ	23-Jun-00		Reorganization introduced.	0
AvtoVAZ	26-Apr-02	14-Mar-03	Reverted on 3/14/2003, by court	2
Babayevsky Confectionery	22-Feb-00		Goes through.	0
Chernogorneft	17-Jun-99	22-Dec-00	TNK got control but later sold back to BP in exchange for shares.	1
FESCO	23-Jun-99		Foreign shareholders lose representation.	0
GAZ	21-Dec-00	no exercise of the power to issue new shares	Provision passed at AGM. But no exercise of this power to issue new shares.	1
Gazprom	12-Aug-99		No action to redress significant self-dealing, even suggestions that intensify in this period.	0
Gazprom	25-Oct-00	28-Oct-00	Significant movement to redress transactions including removal of management in spring 2001, recovery of some assets transferred to ITERA.	2
Gazprom	11-May-01	6-Jun-2001	CEO replaced in advance of AGM, followed by removal of restriction on UFG shares, with Fyodorov gaining seat at AGM.	2
Irkutskselectrosvyaz	23-Sep-99	1-Mar-00	On March 1, 2000, Irkutsk Region arbiters ruled the Irkutskselectrosvyaz EGM decision to announce 1998 preferred dividends illegal.	2
Kaluganefteproduct	11-Mar-00		Goes through.	0
KAMAZ	2-Sep-99	6-Apr-00	Share issue goes through. EBRD challenges case, initiating lawsuits, but to no avail until April 6, when come to agreement whereby transform half of debt into equity (4-5%) and remaining half into rescheduled debt backed by the government.	1
Khantyanski-okrtelecom	25-Jul-01		Original proposed swap ratio goes through.	0
KrAZ	7-Jun-99		Goes through.	0
KrAZ	3-Feb-00	19-Feb-00	Shareholders declined the agenda of EGM.	2
Kuznetsk Ferrous Alloys	22-May-01	26-oct-2001	On October 26, 2001 FCSM refused to register new issue	2
Lakokraska	7-Sep-00		Goes through.	0
Leningrad Metal Plant	5-Oct-99		Goes through.	0

<b>Company</b>	<b>Date of governanc e violations</b>	<b>Date of event resolution</b>	<b>Outcome description</b>	<b>Outcome: 2= full recovery 1=partial redress 0=no redress</b>
Leningrad Metal Plant	3-Apr-00		On July 10, 2000 Federal Arbitrage ruled in favor of Interros, recognizing the legitimacy of share issue by creditor (Interros) during bankruptcy procedure of Leningrad Metal Plant.	0
Lukoil	8-Jul-99		Goes through.	0
Moscow Refinery	3-May-00		Goes through.	0
Mosenergo	9-Feb-99		Goes through.	0
Nizhnevartovsk Oil and Gas Production Company	6-Sep-01		Goes through.	0
Norilsknickel	15-Jun-00		Goes through.	0
Norilsknickel	18-Sep-00		Protracted battle ensues led by Russian securities agency that pursues multiple court challenges to transaction.	0
Northwesterntelecom	18-Feb-02		Not reversed.	0
Novolipetsk Metal	27-Jan-99		Goes through.	0
Novolipetsk Metal	13-Jul-00		Goes through.	0
Noyabrskneftegaz	1-Dec-98		Goes through.	0
Noyabrskneftegaz	27-Dec-00		Goes through.	0
Orenburgneft	28-Apr-00		Goes through.	0
Petmol Dairy	1-Feb-00		Goes through.	0
Purneftegaz	6-Jul-01		Goes through.	0
Purneftegaz	18-Feb-02		Goes through.	0
RAO UES	5-Apr-00	20-Jun-01	Reorganization plan radically altered in face of protests and publicity.	1
Sakhalinmorneft	14-Mar-00		Goes through.	0
Sakhaneftegaz	16-Feb-00		Goes through.	0
Samaraneftegas	24-Feb-99		Goes through.	0
Samotlorneftegaz	6-Sep-01		Goes through.	0
Sberbank	27-Dec-00	27-Jun-01	dilutive issues goes through, but minorities get board seat and later law passed limiting future issues.	1
Sibneftegazpererabotka	22-Jun-99		Goes through.	0
SibUr-Neftekhim	3-Aug-00		Goes through.	0
Slavneftmegion	6-Jul-00		blocked	0
Surgutneftegas	24-Jan-00		Goes through.	0
TNK-Nyagan	6-Sep-01		Goes through.	0
Tomsk Refinery	24-Jun-99	4-Oct-1999	On October 4, 1999 FCSM cancelled the new issue	2
Tomskneft	24-Feb-99	17-Jan-00	On January 17, 2000 the FCSM suspended the Tomskneft share issue prospectus.	2
Transneft	8-Jul-99	3-July 3-2000	On July 3, 2000 GM approved to pay dividends for 1997	1



<b>Company</b>	<b>Date of governance violations</b>	<b>Date of event resolution</b>	<b>Outcome description</b>	<b>Outcome: 2= full recovery 1=partial redress 0=no redress</b>
Tulanefteproduct	8-Dec-99		Goes through.	0
Tyumenneftegaz	6-Sep-01		Goes through.	0
Ust-Ilimsk Timber Concern	27-Aug-01	23-Nov-01	The bankruptcy proceedings were ceased and assets was returned to Rospom	1
Viksunsk Pipe	26-Jan-99	21-June-1999	Shareholders applied to NAUFOR that helped them to fight. FCSM indicated that it supports their efforts. The agreement was achieved between shareholders and managers	1
Yuganskneftegaz	24-Mar-99	11-Aug-99	Conflict between FCSM and Yukos. FCSM stop trading of Yukos shares on RTS and Yukos was forced to switch to another stock exchange. Yukos doubled the swap ratio.	1

**Table 4: News Coverage of Governance Violations and Firms**

Company	Date of governance violation	# of articles in English newspapers: WSJ and Financial Times				# of articles in Russian newspapers: Kommersant, Izvestia and Vedomosti				Newsworthiness-coverage in newspapers January-June 1998	
		Date – 1month Date + 1month	Date – 1month Date + 2months	Date + 1month Date + 6months	Date + 2months Date + 6months	Date – 1month Date + 1month	Date – 1month Date + 2months	Date + 1month Date + 6months	Date + 2months Date + 6months	English language	Russian language
Aeroflot	12-Aug-99	0	0	0	0	0	0	0	0	11	97
Alpha Cement	8-Dec-99	0	0	0	0	0	0	0	0	0	2
Amursvyaz	28-May-01	0	0	0	0	0	0	2	2	0	0
Avtosvet	30-Dec-99	0	0	0	0	0	0	1	1	0	0
AvtoVAZ	23-Jun-00	0	0	0	0	3	3	6	6	5	92
AvtoVAZ	26-Apr-02	0	0	0	0	2	2	1	1	5	92
Babayevsky Confectionery	22-Feb-00	0	0	0	0	4	5	1	0	0	6
Chernogorneft	17-Jun-99	1	5	22	18	3	4	16	15	0	5
FESCO	23-Jun-99	0	0	0	0	2	3	1	0	0	8
GAZ	21-Dec-00	0	1	1	0	2	5	4	1	5	35
Gazprom	12-Aug-99	0	0	0	0	1	1	0	0	133	381
Gazprom	25-Oct-00	12	16	18	14	5	6	5	4	133	381
Gazprom	11-May-01	5	7	4	2	18	21	3	0	133	381
Irkutskelectrosvyaz	23-Sep-99	0	0	0	0	0	0	0	0	0	0
Kaluganefteproduct	11-Mar-00	0	0	0	0	0	0	1	1	0	0
KamAZ	2-Sep-99	0	0	1	1	0	0	2	2	0	94
Khantyanskiisk-okrtelecom	25-Jul-01	0	0	0	0	1	2	1	0	0	0
KrAZ	7-Jun-99	1	1	0	0	1	1	0	0	1	21
KrAZ	3-Feb-00	0	0	0	0	3	3	0	0	1	21
Kuznetsk Ferrous Alloys	22-May-01	0	0	0	0	0	0	1	1	0	0
Lakokraska	7-Sep-00	0	0	0	0	0	0	0	0	0	0
Leningrad Metal Plant	5-Oct-99	0	0	0	0	0	0	1	1	0	4
Leningrad Metal Plant	3-Apr-00	0	0	0	0	2	4	6	4	0	3
Lukoil	8-Jul-99	0	0	0	0	0	1	1	0	75	175
Moscow Refinery	3-May-00	0	0	0	0	1	1	0	0	0	11
Mosenergo	9-Feb-99	0	0	0	0	0	0	0	0	8	39
Nizhnevartovsk Oil and Gas Production	6-Sep-01	0	0	0	0	0	1	7	6	0	0
Norilskii Nickel	15-Jun-00	0	0	3	3	5	5	8	8	10	45
Norilskii Nickel	18-Sep-00	7	8	8	7	16	18	17	15	10	45
North Western Telecom	18-Feb-02	0	0	0	0	2	3	4	3	0	0
Novolipetsk Metal	27-Jan-99	0	0	0	0	1	1	0	0	2	25
Novolipetsk Metal	13-Jul-00	0	0	0	0	1	1	7	7	2	25
Noyabrskneftegaz	1-Dec-98	0	0	0	0	2	3	1	0	2	15
Noyabrskneftegaz	27-Dec-00	0	0	0	0	1	1	1	1	2	15
Orenburgneft	28-Apr-00	0	0	0	0	8	10	3	1	0	4
Petmol Dairy	1-Feb-00	0	0	0	0	0	2	4	2	0	4
Purneftegaz	6-Jul-01	0	0	0	0	1	1	1	1	0	5
Purneftegaz	18-Feb-02	0	0	0	0	1	3	3	1	0	5
RAO UES	5-Apr-00	2	5	15	15	12	16	38	34	38	230
Sakhaneftegaz	16-Feb-00	0	0	0	0	0	0	0	0	0	1
Samaraneftegas	24-Feb-99	2	3	6	5	0	1	3	2	1	6
Samotlorneftegaz	6-Sep-01	0	0	0	0	1	3	5	3	0	0
Sberbank	27-Dec-00	3	3	8	8	1	3	24	22	6	212
Sibneftegazpererabot	22-Jun-99	0	0	0	0	0	0	0	0	0	0
SibUr-Neftekhim	3-Aug-00	0	0	0	0	3	5	3	1	0	0
Skhalinmorneft	14-Mar-00	0	0	0	0	1	1	0	0	0	8
Slavneft	6-Jul-00	1	1	0	0	5	6	1	0	2	14
Surgutneftegas	24-Jan-00	5	5	0	0	10	12	8	6	1	41

Company	Date of governance violation	# of articles in English newspapers: WSJ and Financial Times				# of articles in Russian newspapers: Kommersant, Izvestia and Vedomosti				Newsworthiness-coverage in newspapers January-June 1998	
		Date – 1month Date + 1month	Date – 1month Date + 2months	Date + 1month Date + 6months	Date + 2months Date + 6months	Date – 1month Date + 1month	Date – 1month Date + 2months	Date + 1month Date + 6months	Date + 2months Date + 6months	English language	Russian language
TNK-Nyagan	6-Sep-01	0	0	0	0	1	1	0	0	0	0
Tomsk Refinery	24-Jun-99	0	0	0	0	0	0	0	0	0	0
Tomskneft	24-Feb-99	2	4	7	5	1	1	3	3	3	5
Transneft	8-Jul-99	0	0	4	4	0	0	0	0	3	7
Tulanefteproduct	8-Dec-99	0	0	0	0	0	0	1	1	0	0
Tyumenneftegaz	6-Sep-01	0	0	0	0	1	2	2	1	0	1
Ust-Ilimsk Timber	27-Aug-01	0	0	0	0	1	5	5	1	0	2
Viksunsk Pipe	26-Jan-99	0	0	0	0	0	0	0	0	0	0
Yuganskneftegaz	24-Mar-99	3	3	3	3	1	1	3	3	0	10
<b>Average</b>		<b>0.77</b>	<b>1.09</b>	<b>1.75</b>	<b>1.49</b>	<b>2.18</b>	<b>2.95</b>	<b>3.6</b>	<b>2.82</b>	<b>10.39</b>	<b>45.14</b>

## Table 5: Control Variables

Number of joint ventures is the sum of the number of existing joint ventures with foreign companies and the ones that are completed in the year following the revelation of the corporate governance violation. Foreign ownership is the proportion of stock held by foreign investors. EBRD is a dummy variable equal to 1 if the EBRD has financed the company. Hermitage is a dummy variable equal to 1 if the Hermitage fund owned a stake in the company six months prior to the revelation of the governance violation.

Company	Date of governance violation	Reputational concern proxy		Foreign debt holder proxy	
		Number of completed Joint Ventures	Foreign ownership stake	EBRD stake	Hermitage had stake in company
Aeroflot	12-Aug-99	0	0.2	0	0
Alpha Cement	8-Dec-99	0	0.5	0	0
Amursvyaz	28-May-01	0	0	0	0
Avtosvet	30-Dec-99	0	0.216	0	0
AvtoVAZ	23-Jun-00	3	0	0	0
AvtoVAZ	26-Apr-02	3	0	1	0
Babayeovsky Confectionery	22-Feb-00	0	0	0	0
Chernogorneft	17-Jun-99	0	0.1842	1	0
FESCO	23-Jun-99	1	0.4	1	0
GAZ	21-Dec-00	2	0.4	1	0
Gazprom	12-Aug-99	3	0.058	0	1
Gazprom	25-Oct-00	3	0.1	0	1
Gazprom	11-May-01	3	0.11	0	1
Irkutskelectrosvyaz	23-Sep-99	0	0.026	0	0
Kaluganefteproduct	11-Mar-00	0	0	0	0
KamAZ	2-Sep-99	0	0.26	1	0
Khantymansiiskokrtelecom	25-Jul-01	0	0.065	0	0
KrAZ	7-Jun-99	0	0.14	0	0
KrAZ	3-Feb-00	0	0.14	0	0
Kuznetsk Ferrous Alloys	22-May-01	0	0	0	0
Lakokraska	7-Sep-00	0	0	0	0
Leningrad Metal Plant	5-Oct-99	0	0.1	0	0
Leningrad Metal Plant	3-Apr-00	0	0.1472	0	0
Lukoil	8-Jul-99	2	0.372	0	1
Moscow Refinery	3-May-00	0	0	0	0
Mosenergo	9-Feb-99	0	0.35	1	1
Nizhnevartovsk Oil and Gas Production	6-Sep-01	0	0	0	0
Norilskii Nickel	15-Jun-00	1	0.2	0	1
Norilskii Nickel	18-Sep-00	1	0.2	0	1
North Western Telecom	18-Feb-02	0	0.2864	0	0
Novolipetsk Metal	27-Jan-99	0	0.4	0	0
Novolipetsk Metal	13-Jul-00	0	0.4	0	0
Noyabrskneftegaz	1-Dec-98	0	0	0	0
Noyabrskneftegaz	27-Dec-00	0	0	0	0
Orenburgneft	28-Apr-00	1	0	0	0
Petmol Dairy	1-Feb-00	1	0.37	0	0
Purneftegaz	6-Jul-01	0	0.404	0	0
Purneftegaz	18-Feb-02	0	0.404	0	0
RAO UES	5-Apr-00	0	0.33	0	1
Sakhaneftegaz	16-Feb-00	0	0	0	0
Samaraneftegas	24-Feb-99	0	0.15	0	0
Samotlorneftegaz	6-Sep-01	0	0	0	0
Sberbank	27-Dec-00	1	0.119	1	1
Sibneftegazpererabotka	22-Jun-99	0	0	0	0
SibUr-Neftekhim	3-Aug-00	0	0	0	0
Skhalinmorneft	14-Mar-00	2	0.1063	1	0

Company	Date of governance violation	Reputational concern proxy		Foreign debt holder proxy	
		Number of completed Joint Ventures	Foreign ownership stake	EBRD stake	Hermitage had stake in company
Slavneft	6-Jul-00	2	0.126	0	0
Surgutneftegas	24-Jan-00	0	0.31	0	1
TNK-Nyagan	6-Sep-01	0	0	0	0
Tomsk Refinery	24-Jun-99	0	0	0	0
Tomskneft	24-Feb-99	0	0.2	0	0
Transneft	8-Jul-99	1	0	1	0
Tulanefteproduct	8-Dec-99	0	0	0	0
Tyumenneftegaz	6-Sep-01	0	0	0	0
Ust-Ilimsk Timber	27-Aug-01	0	0	0	0
Viksunsk Pipe	26-Jan-99	0	0	0	0
Yuganskneftegaz	24-Mar-99	0	0.15	0	0
<b>Average</b>		<b>0.53</b>	<b>0.139</b>	<b>0.16</b>	<b>0.18</b>

**Table 6: Summary Statistics**

	<b>Mean</b>	<b>Standard Deviation</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Number of obs.</b>
Announcement effect	-0.14	0.16	-0.59	0.14	24
Newsworthiness	10.38	32.20	0	133	57
Number of articles highlighting violation					
in the Financial Times	0.70	1.84	0	11	57
in the Wall Street Journal	0.38	0.98	0	5	57
in the FT and WSJ	1.09	2.75	0	16	57
Ownership, debt and JV					
Dummy for Hermitage Funds ownership	0.18	0.38	0	1	57
Foreign share	0.14	0.15	0	0.5	57
Dummy for EBRD stake	0.16	0.37	0	1	57
Number of JV	0.53	0.96	0	3	57

## Table 7: The Effect of Press Coverage on Outcomes

In all the regressions in Panel A but the last one (and all the regressions in panel B) the dependent variable is a variable equal to 0 if the corporate governance violation was not readdressed at all, 1 if partially readdressed and 2 - seriously addressed (e.g. change in CEO, change in charter, change in number of independent board members, change in national law) and the estimated are obtained using an ordered logit. In column VI of panel A we club outcome 1 and 2 and we run a simple logit. Foreign ownership is the proportion of stock held by foreign investors. EBRD is a dummy variable equal to 1 if the EBRD has financed the company. Number of joint ventures is the number of existing joint ventures with foreign companies and the ones that are completed in the year following the revelation of the corporate governance violation. All the measures of coverage are the number of articles published in the mentioned newspapers in the specified window. Standard errors are reported in brackets, \* means 10% significant, \*\* 5% and \*\*\* 1%.

### Panel 7A: Coverage in different windows

	I	II	III	IV	V	VI
Foreign ownership (%)	-3.108 (2.35)	-5.885 * (3.14)	-4.888 * (2.86)	-4.356 (2.70)	-4.591 * (2.75)	-12.397 *** (4.50)
EBRD as an investor dummy	1.294 * (0.72)	1.722 ** (0.81)	1.827 ** (0.80)	0.869 (0.77)	0.916 (0.78)	3.842 ** (1.59)
Number of Joint Ventures	0.293 (0.31)	-0.04 (0.36)	-0.034 (0.36)	0.332 (0.32)	0.309 (0.32)	-0.922 (0.56)
# of articles in FT and WSJ						
Date – 1month , Date + 2months		0.426 ** (0.17)				0.642 ** (0.28)
Date – 1month , Date + 1month			0.429 ** (0.19)			
Date +2months , Date + 6months				0.168 ** (0.07)		
Date +1month , Date + 6months					0.15 ** (0.06)	
Number of observations	57	57	57	57	57	57

### Panel 7B: Different types of coverage

	I	II	III
Foreign ownership (%)	-5.885 * (3.14)	-5.697 * (3.18)	-6.689 ** (3.38)
EBRD as an investor dummy	1.722 ** (0.81)	1.604 * (0.88)	2.028 ** (0.89)
Number of Joint Ventures	-0.04 -0.365	0.018 (0.40)	-0.023 (0.37)
# of articles in FT and WSJ			
Date – 1month , Date + 2months	0.426 ** (0.17)	0.477 ** (0.24)	
# of articles in FT			0.087 (0.35)
Date – 1month , Date + 2months			
# of articles in WSJ			1.081 * (0.65)
Date – 1month , Date + 2months			
# of articles in Russian newspapers		-0.036 (0.11)	
Date – 1month , Date + 2months			
Number of observations	57	57	57

**Panel 7C: Audience vs. Credibility**

	<b>I</b>	<b>II</b>	<b>III</b>
Foreign ownership (%)	-3.217 (2.417)	-4.284 (2.776)	-6.435* (3.554)
Ebrd as an investor dummy	1.487** (0.750)	1.658** (0.784)	1.603** (0.892)
Number of Joint Ventures	0.153 (0.343)	0.112 (0.353)	0.087 (0.412)
Number of articles in Vedemosti Date – 1month , Date + 2months	0.188 (0.180)	0.103 (0.193)	-0.167 (0.236)
Number of articles in other Russian papers Date – 1month , Date + 2months		0.114 (0.097)	0.004 (0.123)
Number of articles in WSJ and FT Date – 1month , Date + 2months			0.501** (0.243)
N	57	57	57



## Table 8: The Determinants of Press Coverage

In all the regressions the dependent variable is a measures of coverage (number of articles published in the mentioned newspapers in the specified window). Newsworthiness is measured as the number of references to a company in the 6 month period from January to end of June 1998. Foreign ownership is the proportion of stock held by foreign investors. Hermitage is a dummy variable equal to 1 if the Hermitage fund owned a stake in the company six months prior to the alleged corporate violation being revealed. The announcement excess return is the cumulative excess return between t-10 to t+3 days around the day of the first revelation of the corporate governance violation. All the estimates are obtained by OLS. Standard errors are reported in brackets, \* means 10% significant, \*\* 5% and \*\*\* 1%.

*Panel A: Whole sample*

	# of articles in FT and WSJ between				# of articles in		
	Date-1 month , Date+2 months	Date -1 month , Date +1 month	Date+1 month , Date+6months	Date+2months, Date+6months	FT between Date-1 month , Date+2 months	WSJ between Date-1 month , Date+2 months	
Newsworthiness	0.05 *** (0.01)	0.027 ** (0.01)	0.02 ** (0.01)	-0.01 (0.02)	-0.015 (0.02)	0.018 ** (0.008)	0.01 ** (0.004)
Foreign ownership, %	1.403 (2.07)	-0.38 (2.01)	-0.458 (1.58)	-1.24 (3.64)	-1.307 (2.97)	-0.511 (1.37)	0.122 (0.73)
Hermitage dummy		2.88 *** (0.96)	2.042 *** (0.75)	7.406 *** (1.73)	6.571 *** (1.41)	1.92 *** (0.65)	0.952 *** (0.35)
Constant	0.38 (0.42)	0.301 (0.39)	0.23 (0.31)	0.63 (0.71)	0.56 (0.58)	0.22 (0.27)	0.08 (0.14)
Observations	57	57	57	57	57	57	57
R-squared	0.33	0.43	0.39	0.35	0.36	0.41	0.40
F-test:							
Newsworthiness=0	25.77	19.29	16.48	13.70	14.45	18.07	16.95
Hermitage dummy=0							

*Panel B: Sample with reliable stock prices*

	# of articles in FT and WSJ between				# of articles in		
	Date-1 month , Date+2 months	Date -1 month , Date +1 month	Date+1 month , Date+6months	Date+2months, Date+6months	FT between Date-1 month , Date+2 months	WSJ between Date-1 month , Date+2 months	
Announcement returns	-2.83 (4.25)	-1.72 (3.93)	1.19 (3.23)	-11.47 (7.84)	-8.55 (6.51)	-0.61 (2.78)	-1.11 (1.39)
Newsworthiness	0.07*** (0.02)	0.05 ** (0.02)	0.03 * (0.02)	0.03 (0.03)	0.02 (0.03)	0.03 ** (0.01)	0.019 ** (0.007)
Foreign ownership, %	-2.22 (5.24)	-4.65 (4.94)	-4.51 (4.06)	-4.17 (9.84)	-4.04 (8.17)	-4.05 (3.49)	-0.59 (1.74)
Hermitage dummy		2.95 ** (1.37)	2.22 * (1.13)	7.25 ** (2.74)	6.52 ** (2.27)	1.94 * (0.97)	1.00 * (0.48)
Constant	0.87 (1.68)	0.68 (1.54)	1.11 (1.26)	-1 (3.07)	-0.57 (2.55)	0.79 (1.09)	-0.11 (0.54)
Observations	23	23	23	23	23	23	23
R-squared	0.5	0.6	0.55	0.45	0.45	0.56	0.6
F-test:	16.33						
Newsworthiness=0		12.01	8.35	7.09	6.85	9.74	12.68
Hermitage dummy=0							

## Table 9: The IV Estimates

The dependent variable is a variable equal to 0 if the corporate governance violation was not readdressed at all, 1 if partially readdressed and 2 seriously addressed (e.g. change in CEO, change in charter, change in number of independent board members, change in national law). Foreign ownership is the proportion of stock held by foreign investors. EBRD is a dummy variable equal to 1 if the EBRD has financed the company. Number of joint ventures is the number of existing joint ventures with foreign companies and the ones that are completed in the year following the revelation of the corporate governance violation. Coverage are the number of articles published in FT and WSJ between one month before the revelation of the corporate governance violation and two months after. Column I is estimated by OLS. Column II by IV, where the instruments for coverage are newsworthiness (number of references to a in the 6 month period from January to end of June 1998) and the Hermitage dummy. Standard errors are reported in brackets, \* - means 10% significant, \*\* - 5% and \*\*\* - 1%.

	I	II
Foreign ownership, %	-1.16 * (0.59)	-1.13 * (0.60)
EBRD as an investor dummy	0.476 * (0.23)	0.47 * (0.24)
# of articles in FT and WSJ between Date – 1month , Date + 2months	0.111 *** (0.03)	0.097 * (0.04)
Constant	0.4 *** (0.12)	0.412 *** (0.12)
Number of observations	57	57
R-squared	0.25	0.25

**Table 10: Who Acts to Redress Reported Governance Violations?**

This table classifies the 17 (partially) successful outcomes based on the main mechanism involved in the resolution.

Mechanisms	Intervention by government actors		Private sector actors		Total
	Intervention of regulators/courts	Political intervention	Company relents when faced with significant opposition	Company relents	
	AvtoVAZ	Gazprom	KAMAZ	Chernogorneft	
	Irkutskelectrosvyaz	RAO UES	KrAZ	GAZ	
	Kuznetsk Ferrous Alloys	Sberbank	Ust-Ilimsk Timber	Gazprom	
	Tomsk Refinery		Viksunsk Pipe	Transneft	
	Tomskneft				
	Yuganskneftegaz				
<b>Number of cases</b>	6	3	4	4	17
<b>Percentage of cases</b>	35%	18%	24%	24%	