1. Introduction

1.1 Introduction

Corporate Governance has become a buzzword amongst policy makers, journalists and students of political economy worldwide. Issues such as shareholder protection and the continuous struggle between management and shareholders have made headlines in business newspapers all over the world and this is no different in postsocialist Europe. In particular since the late 1990s, corporate governance issues have taken over the role privatization issues had during the first half of that decade: they became widely regarded as the recipe for a successful completion of the transition towards a market economy. Corporate governance became one of the central foci with regard to the complete economic restructuring process that was taking place in those countries. A good corporate governance framework that protected the rights of the newly established private owners was to bring multiple benefits. It would successfully attract foreign investments essential to the process of economic restructuring and upgrading, it would end the illegal appropriation of former state owned enterprises by a small economic elite and would enhance the establishment of effective stock markets in the region (see for instance Groh et al 2008, Estrin et al 2007, Federowicz and Aguilera 2003, Grosfeld and Roland 1996).

And indeed corporate governance plays an important role when it comes to the introduction of a capitalist market system. It is one of the economic policy fields where the differences between a planned economy and a market economy are the largest. The question of how corporations are governed lies at the heart of the economic transformation in Eastern Central Europe (ECE). As a consequence of the transformation towards a market economy, new actors and venues were introduced. Shareholders, independent supervisory agencies and stock markets were hardly known under communist rule and subsequently they fundamentally changed the power balance between the different stakeholders within the corporation. The dominant role of the state in economic life and the notion that it is the workers of a company who are to exercise control over the management constitute a corporate governance system that is now widely regarded as outdated. Since the end of state socialism in many parts of the world, it has been replaced by a market oriented system.
that, however, is fundamentally different from the one that had existed since the end of World War II in Western Europe and the US.

This study deals with these newly established corporate governance systems in ECE. It aims to broaden our understanding of the political dynamics that were behind their emergence. Two decades after the collapse of state socialism, the different ECE corporate governance systems look surprisingly similar, both with regard to the underlying formal regulation, as well as with regard to the position of different stakeholders in the companies, such as shareholders, employees, the state and foreign investors. Moreover, the particular corporate governance system that came into being reflects a distribution of power between different stakeholders that is unprecedented. This is surprising given the fact that the different states in the region initially opted for alternative paths (Stark 1992). The following research question therefore guides the analysis:

\textbf{Why did the different corporate governance systems in East Central Europe converge after the mid 1990s despite their initial divergence and how did this process take place?}

As I will point out further on in this chapter, the developments that are discussed in this study pose a problem for the two dominant research paradigms on postsocialist economic transformation, as they are unable to account either for the process of convergence nor for the distinct corporate governance system that has emerged in the region. This introduction sets the scene for addressing this research problem by providing a brief overview of the general corporate governance developments that lead to this question. To do so, this introductory chapter proceeds as follows. First, the core subject of this study, the politics of postsocialist corporate governance regulation is addressed. Section three contains a specification of the empirical domain that is studied in this dissertation. Subsequently I turn to the developments in ECE, arguing that the corporate governance systems in the region have converged after initial divergence. In section five, I point out why this constitutes a research problem, and in section six I outline the way in which this dissertation seeks to address this puzzle. This section also provides an overview of the various chapters in this dissertation.
1.2 The politics of postsocialist corporate governance regulation

The core subject of this study is the development of soft and hard regulation regarding the division of authority amongst the various social actors in the firm after the collapse of state socialism, or more concretely, the politics of postsocialist corporate governance regulation. In this section I will touch upon various dimensions of this subject.

Let me start with the concept of corporate governance. Although Berle and Means already identified some of the major problems that come along with the division between ownership and management in 1932, it was not until 1977 that the words 'corporate' and 'governance' were used in their current connotation (Frentrop 2002: 11). The term 'corporate governance' is experienced a high flight only after the mid 1990s. It refers to the social relations within a firm focusing on the question how corporations are governed (O'Sullivan 2003: 23). Although there is still some conceptual debate relating to the term, the 1999 definition provided by the OECD captures most of its core elements. The OECD (1999) defines corporate governance as

the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance.

Corporate governance thus deals with the distribution of rights and obligations across the various social actors that constitute a firm. In this study I will focus on a variety of these actors: shareholders, Supervisory Boards and – not explicitly mentioned in the OECD definition but of key importance for understanding the politics of corporate governance regulation – employees and the state. In this respect, it is important to stress that the firm refers to more than the place where goods are produced; firms are primarily social relationships between the different actors that are active within it (Jackson and Aguilera 2003: 450). Corporate governance deals with formal arrangements such as the attribution of shareholder rights, and informal rules and
practices such as different aspects of corporate cultures that apply to the relations between these different actors. It affects the power relations between the various stakeholders within the network that constitutes the corporation (following Aguilera 2005a).

Whereas this study ascribes to the idea that firms consist of social relations that are the key subject of corporate governance analysis, it takes a somewhat more specific approach. Whereas the concept of corporate governance pertains to both rules and practices, the focus on corporate governance regulation implies that the main objects of study are those external rules that formally or informally influence the behaviour of the collective of stakeholders within the corporation (Van Apeldoorn et al 2007: 5). Regulation enables and/or constrains the behaviour of the various stakeholders in the firm. They are bound to these external rules or at least constrained by them without having the possibility of directly altering them. In this respect corporate governance institutions relate to both the formal and informal mechanisms that structure the socio-economic policy field of corporate governance (following Keman 1997’s definition of institutions). These key mechanisms include the way in which capital is being raised, corporate decisions are being made and how control over decisions is organised. Corporate governance regulation shapes these mechanisms to an important extent though mismatches between regulation and practices can indeed lead to a substantial gap between the intention of corporate governance regulators and the way in which corporate governance institutions are shaped in practice. A study with an interest in corporate governance regulation only partly touches upon corporate governance practices that take place within the firm. These practices are often based upon corporate governance regulation but simultaneously tend to move beyond them, leading to a gap between rules and practices (Wymeersch 1998). Whereas these practices as such are beyond the scope of this study, they are included in so far as they influence the process of corporate governance regulation.

With its emphasis on the politics of corporate governance regulation this study’s key object is even more specific, as it concerns the question of ‘who gets what, when and how’ (Lasswell 1936) when it comes to the formal distribution of authority between the various stakeholders within the firm. This study ascribes to the idea that ‘like other decisions about authority, corporate governance structures are fundamentally the
result of political decisions’ (Gourevitch and Shinn 2005: 3). Political decisions however are not restricted to decisions made by parliaments or other public institutions, but also refer to decisions made by private bodies on behalf of public institutions and decisions made by public-private partnerships. Moreover, it is important to recognize that not all political decisions have the same status; they vary from ‘soft regulation’, such as best practices, to ‘hard regulation’, in the sense of binding legislation. Along similar lines, political decisions are not restricted to national bodies, but can be made at various levels both below and above the national level. In this respect, corporate governance regulation must be regarded as the outcome of the interaction between different state agencies, domestic and transnational think tanks and interest groups, and a wide set of transnational organisations such as the European Commission (EC), International Monetary Fund (IMF), the World Bank (WB), the International Labour Organisation (ILO) and transnational corporations (TNCs). This political process of corporate governance regulation is truly multi-level in the sense that it is not restricted to the nation state but is embedded in different geographies including the global economy and the political realm of the European Union.

1.3 Region selection

In this study I will focus on four East Central European countries: Poland, the Czech Republic, Slovakia and Hungary, also referred to as the Visegrád Four. These four countries in Central Europe provide an excellent opportunity to study the politics of corporate governance regulation. The collapse of state socialism at the end of the 1980s and the subsequent political and economic transformation of these states towards democratic market economies required the introduction of a completely new corporate governance system. Its emergence consisted of a complete overhaul of rules and actors in only fifteen years and took place in a rapidly globalising environment where states were losing substantial parts of their former sovereignty (Kolodko 2000). As Aguilera (2005b: 41) has pointed out, such an economic transformation provides ‘an excellent laboratory to analyze the diffusion and innovation of corporate governance practices.’ The countries exhibit important similarities; they share a joint state socialist heritage and started their process towards a market economy around the same time. At the same time, the region demonstrates substantial deviation with
regard to issues such as presocialist legacies and types of postsocialist governments. This allows for analyses according to the logic of difference (Lijphart 1971) as there is co-variation between the dependent and independent variables. The countries in the region therefore provide the researcher with substantial variation on important variables whereas at the same time these variables are not so different that they become incomparable (following Beliaev 2006: 376). Or to put it differently, the internal comparability of the countries in this study increases the internal validity of the empirical results.

A second reason to study the postsocialist politics of corporate governance regulation is that the corporate governance systems in postsocialist countries are remarkably different from the ones we are used to seeing in established capitalist systems. As this study will document the process of establishing a market economy within/upon the ruins of state socialism -as Stark and Bruszt (1996) have put it- it focuses on corporate governance issues that are hardly known in established market economies. Political controversies about the high level of foreign ownership and the substantial gap between corporate governance regulation and corporate governance practices are issues that are as such not completely unknown in established market economies but have a qualitatively different dimension in the postsocialist context. In this respect, a study on the politics of corporate governance regulation in postsocialist states can cast a different light on what we already know from existing research on this topic that has focused on established market economies. In this respect, it provides the opportunity to test the external validity of current theories that have hardly been put to the test in other contexts than Western Europe and the US.

Finally, the four ECE states that are studied in this dissertation were amongst the first postsocialist states to introduce corporate governance regulation and have been amongst the forerunners in the region ever since (Kozarzewski 2007). Of all postsocialist states they have come closest to introducing a complete corporate governance system at the end of the 1990s (Estrin 2002). In this respect, the four countries have served as an example for corporate governance reforms in other postsocialist states (Dzierzanowski and Tamowicz 2003). A special focus on Poland, the Czech Republic, Slovakia and Hungary might therefore also inform us about the kind of corporate governance arrangements other postsocialist states have opted for.
Although the economic transformation in the Commonwealth of Independent States (CIS), which used to constitute the Soviet Union, has its own internal dynamics, some of the mechanisms that will be brought to the fore in this dissertation might also apply to the countries east of the Visegrád four.

1.4 Corporate governance developments in East Central Europe

Despite initial divergence with regard to the institutional set-up of their corporate governance systems, the systems in the Visegrád four have been converging towards a distinct corporate governance model since the second half of the 1990s. This is empirically interesting, and theoretically puzzling. As I will point out in this section, with regard to corporate governance developments in the postsocialist Europe neither of the two leading theories can explain this development. This therefore constitutes a scientific research problem.

Diverging trends during the early years of economic transformation

Corporate governance issues are embedded in wider discussions on postsocialist economic transformation such as economic liberalization and the privatisation of formerly state owned enterprises (Dobák and Steger 2003: 228). Especially the privatisation process has deeply impacted on the development of ECE corporate governance systems. Not only did it shape postsocialist ownership structures but it also determined the role of stock exchanges, the role of employees and the prominence of foreign capital in the postsocialist economies (Jelic et al 2003: 909-912). It is therefore not surprising that many scholars have discussed corporate governance issues in the light of the privatisation process (see for instance Filatotchev 1997, Frydman et al 1999, Dyck 2001, Estrin 2002).

Yet the fact that privatisation dominated the policy discussions does not imply that there has been a single method through which this process has taken place. There is a wide variety of ways in which a privatisation process can be conducted. Privatisation can be done either by 1) restitution, 2) direct sales of state property either to 2a) domestic owners or 2b) foreign owners, 3) management and employee buy outs (MEBO) or 4) free distribution through a voucher system, or a combination of these
strategies (see Andreff 2007). In terms of ownership concentration these strategies lead to different outcomes. Whereas the first two options result in highly concentrated ownership, option three can lead to either dispersed or concentrated ownership depending on the extent to which employees are being turned into shareholders of their enterprise; while option four leads to a dispersion of ownership.

Throughout the region, policy makers have opted for different strategies. There are important differences between the privatisation strategies adopted by the various countries, also with regard to the pace in which they were introduced. Table 1.1 sums up the most important corporate governance elements of the different privatisation projects of the early 1990s.

<table>
<thead>
<tr>
<th>Country</th>
<th>Main method of privatisation</th>
<th>Private share in GDP exceeds 60%</th>
<th>Responsible institutions</th>
<th>Initial results in ownership concentration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Czech Republic</td>
<td>Voucher</td>
<td>1994</td>
<td>Ministry of Privatisation and Finance</td>
<td>Highly Dispersed</td>
</tr>
<tr>
<td>Hungary</td>
<td>Direct Sales</td>
<td>1995</td>
<td>State Property Agency (Minister without portfolio), Ministry of Finance</td>
<td>Highly Concentrated</td>
</tr>
<tr>
<td>Slovakia</td>
<td>MEBO’s</td>
<td>1996</td>
<td>Ministry of Finance</td>
<td>Dispersed</td>
</tr>
<tr>
<td>Poland</td>
<td>Direct Sales</td>
<td>1995</td>
<td>Ministry of Privatisation, Finance and Industry</td>
<td>Dispersed</td>
</tr>
</tbody>
</table>
Convergence after the mid 1990s

As the first years of the transformation passed, the initial divergence with regard to the corporate governance systems of the region waned and the different systems started to converge. Around the mid 1990s a second wave of corporate governance regulation was introduced, which was primarily aimed at the institutional underpinnings of the emerging market economies. Politically, these new regulations were the result of the fact that the privatisation process did not turn out to be the panacea many had hoped for. During the early 1990s, regulation beyond the strict organisation of property rights was widely considered harmful for economic growth. Most policy makers in and outside the region neglected the importance of a stable environment for economic enterprise and restructuring. As a result, many of the initial reform initiatives encountered serious problems and by 1997 none of the postsocialist countries, except for Poland, had reached its 1989 GDP level. Due to institutional uncertainties the transformation had primarily focused on the downsizing of production, assets and employment. This defensive strategy was not accompanied by deeper restructuring aimed at investments and innovative business strategies (World Bank 1996: 47).

In an attempt to overcome these problems, many postsocialist governments turned their attention to institutional mechanisms ‘to remedy problems identified through the experience of the initial legislation, to improve the quality of law-making and law-enforcement, but also to offer more effective and forward looking solutions’ (Dragneva and Simons 2001: 94). Strikingly enough the ECE countries, though suffering from different problems, opted for highly similar kinds of regulation or as Katharina Pistor (2000: 107-108) concludes, there is ‘a strong trend towards convergence of statutory law’ across the ECE states.
Table 1.2 Main corporate governance features in ECE

<table>
<thead>
<tr>
<th>ECE</th>
<th>Czech Republic</th>
<th>Poland</th>
<th>Hungary</th>
<th>Slovakia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ownership</td>
<td>Concentrated</td>
<td>Initially dispersed, now concentrating</td>
<td>Initially dispersed, now concentrating</td>
<td>Concentrated</td>
</tr>
<tr>
<td>Control</td>
<td>Insider</td>
<td>Insider</td>
<td>Insider</td>
<td>Insider</td>
</tr>
<tr>
<td>Dominance of 1 or 2 tier system</td>
<td>Two Tier</td>
<td>Two Tier</td>
<td>Two Tier</td>
<td>Two Tier</td>
</tr>
<tr>
<td>Primary source of funding investments</td>
<td>FDI</td>
<td>FDI</td>
<td>FDI</td>
<td>FDI</td>
</tr>
<tr>
<td>Representation of employees</td>
<td>Hardly</td>
<td>Hardly</td>
<td>Hardly</td>
<td>Hardly</td>
</tr>
<tr>
<td>Market capitalisation as % of GDP (2003)</td>
<td>Low</td>
<td>16.5</td>
<td>17.2</td>
<td>18.7</td>
</tr>
</tbody>
</table>


Table 1.2 gives the most prominent features of the different ECE corporate governance systems. As we can see the different models have converged substantially, both with regard to their institutional organization and with regard to their function. Simultaneously we can observe that the ECE model is quite distinct from the other corporate governance models the literature has identified (see for instance Hall and Soskice 2001a). In contrast to the Anglo-Saxon model, stock markets play a subordinated role in the ECE model, and a Supervisory Board controls the Board of Directors. In contrast to the Continental model, it is not domestic credit that is the primary source for finance corporate investments, but foreign capital. At the same time, the ECE model diverges from the Continental model with regard to the influence of employees upon corporate decision-making. Overall, we can conclude that the convergence in ECE has led to a distinct corporate governance model that is hardly discussed in any of the corporate governance literature (but see Andreff 2007).

1.5 Constituting the research problem

The converging developments of the last fifteen years and the emergence of highly similar corporate governance systems that are quite distinct from the ones that we know from Western Europe and the US, are an empirical finding that cannot be explained on the basis of the two dominant theories of postsocialist development: historical institutionalism and neoclassical economics.
**Historical Institutionalism**

The historical institutionalist framework stresses the importance of path dependency and continued diversity amongst nation states (see for instance Bebchuck and Roe 1999, Groeneveld 1995, Frentrop 2002, Roe 2003). In this strand of literature the existing historical, juridical and cultural context is taken as a starting point for analyzing and explaining corporate governance systems. Its major findings point at continuity within a system and differences between national systems. Historical institutionalists argue that diversity between national systems is not likely to disappear as these differences tend to reproduce themselves as part of distinct national trajectories.

In the context of the economic transformation in ECE, historical institutionalists emphasise the importance of initial social and economic conditions and stress the importance of governmental choices during the late state socialist years and the early years of the transformation (Whitley 1999, Grabher and Stark 1997, Stark 1992, 1996, Stark and Bruszt 2001). David Stark (1992: 2) for instance argues that ‘the institutional legacies of diverse paths of extrication from state socialism shape the possibilities of transformation.’ Another prominent contributor to this field, Richard Whitley, argued that the transformation actually further strengthened the differences that already existed during the communist era. ‘The command economies of Eastern Europe varied sufficiently in their political and economic structures to generate significant differences in how they introduced political and economic liberalization and in the resulting patterns of enterprise and market organization’ (Whitley 1999: 209).

Because of its emphasis on continued divergence, historical institutionalist approaches on ECE fall short of explaining the converging tendencies pointed out in the previous section. On the basis of an extrapolation of this theory we would expect to find continued diversity, which is not the case. Although historical legacies do matter for understanding ECE corporate governance systems, they do not provide us with a convincing account for the converging tendencies in the field of corporate governance regulation.
Adherents of neoclassical economics do predict convergence with regard to corporate governance systems throughout the world. In their analysis, these systems will eventually converge towards the only mode that is sustainable in the light of economic internationalisation; the neoclassical model in which the (stock)market plays a prominent role. With regard to this latter point, the literature often adds normative ideas to the empirical claim in the sense that this convergence to a single model is also desired. In the context of ECE we also find adherents to this single ‘best’ model, both in their empirical and normative sense. Normatively, Allsopp and Kierzkowski (1997: 21) for instance argue that corporate governance in the region ‘needs to support radical change towards the best international practice’, whereas empirically others have argued that we ‘can expect at least gradual convergence’ (Sachs 1996: 133) with regard to levels of income after the region has converted to market economies.

Although neoclassical economics argues for convergence, the theory also runs against the findings of the previous section. Whereas we can indeed observe convergence towards one single ECE model, this model is remarkably different from the models elsewhere. It deviates substantially from the dominant models in the literature on corporate governance, for instance the corporate governance systems that are part of the Liberal Market Economy and Coordinated Market Economy (Hall and Soskice 2001a). Instead of convergence on a ‘best’ model, we rather witness the clustering of ECE states around a distinct and certainly not universal model. At the same time this model seems rather stable and there are no signs of the system changing radically in the near future. Therefore, also this literature runs short of explaining the current corporate governance developments in ECE.

1.6 Main findings and outline of dissertation

In the light of this failure of both the historical institutionalist and neoclassical accounts to explain the corporate governance developments in postsocialist Central Europe, this dissertation sets out to provide a different kind of explanation for the observed convergence amongst the ECE states. It does so by using two different
theoretical lenses: the varieties of capitalism approach and the notion of the transnationalisation of the state that is rooted in transnational historical materialism.

On the one hand, it uses the varieties of capitalism approach (following Hall and Soskice 2001b and Bohle and Greskovits 2007a, 2007b for an application on ECE) in order to capture the position of the corporate governance system within the postsocialist economic order. Such an approach is especially useful in providing a synchronic picture of the postsocialist corporate governance system. Drawing on the notion of institutional complementarities, this approach stresses the importance of analysing the relationship between various socio-economic institutions, i.e. the way in which the corporate governance structure relates to other core economic policy fields such as industrial relations (Jackson 2005) and strategies towards foreign investment. Such an approach is also extremely appropriate to characterise the distinct nature of the Central European corporate governance systems and allows for an international comparison of Central European model and systems elsewhere.

The varieties of capitalism approach also has its weaknesses. Whereas it is especially suitable to discuss the Central European corporate governance system as it is today, it is rather weak in explaining its development. To do so, we need a theoretical lens that is able to provide a more diachronic account of the developments that occurred since –especially– the mid 1990s. Here I will draw on the notion of the transnationalisation of the state (Cox 1987, 1992, Drahokoupil 2008, Djelic and Andersson 2006) to explain the emergence of the ECE corporate governance system. Drawing on the idea that policies in a globalising world are no longer only constructed at the national level, but are the outcome of a continuous interplay between various actors at different levels, such an approach stresses the importance of analysing state policies in their wider context. This account takes stock of the interplay between various kinds of public and private actors at the national and international level, and is therefore appropriate to explain the emergence of the postsocialist corporate governance systems.

This dissertation consists of a collection of articles and book chapters that have either been published or are under review. Together these different chapters tackle the puzzle that has been outlined in this introduction. The first two chapters elaborate on the two theoretical perspectives, providing a general account of the postsocialist
socio-economic structures through the varieties of capitalism approach and the transnationalisation of the state paradigm.

Chapter two is based on an article that has been written together with Andreas Nölke. The chapter draws upon one of the large research questions for postsocialist studies, the question of what kind of capitalism is emerging in this part of the world. Whereas scholars have argued that most countries in the region have opted for a mix of the liberal market economy and the coordinated market economy, we argue that the ECE countries witness the emergence of a variety of capitalism that is not similar to any of the existing varieties in Western Europe or the US. Rather, the region has seen the rise of a kind capitalism that is highly dependent on foreign capital and is therefore identified as a Dependent Market Economy (DME) type of capitalism. DMEs have comparative advantages in the assembly and production of relatively complex and durable consumer goods. These comparative advantages are based on institutional complementarities between skilled, but cheap labour, the transfer of technological innovations within transnational enterprises and the provision of capital via foreign direct investments.

With regard to corporate governance issues more specifically, we conclude that major corporate decisions are often taken in headquarters that do not reside in the region itself and that these decisions are not only influenced by the developments in the region but are part of a global intra-firm process. Corporate managers in ECE are often not accountable to shareholders or domestic banks but rather to internal supervisors. Whereas some of these developments also take place within Western Europe and the US, this process is more pronounced in postsocialist Europe, where transnational firms are not only dominant in important economic sectors but also serve as an important role model for domestically owned firms, which are connected to them through supply and buyer chains.

Chapter three, which is co-authored with Henk Overbeek, then turns a closer eye on the emergence of the ECE corporate governance systems. Despite a superficial resemblance to the coordinated market system of corporate governance, they have their own distinct institutional set-up and functioning that is remarkably different from
the CME model of corporate governance. As is also argued in chapter two, central to these ECE corporate governance systems is the high penetration of foreign ownership. At the same time, the chapter seeks to identify/clarify the kind of foreign ownership that has emerged in the postsocialist context. It concludes that, whereas FDI is very important, the role of foreign capital in GDP and in capital formation is on average no higher than in the rest of the EU, with the important exception of the banking sector, where foreign ownership exceeds the levels of other EU states. Because of the importance of the banking sector to the entire ECE economies, the dominance of foreign ownership has led to the introduction and the spread of corporate governance mechanisms that are alien to the system itself.

Subsequently, I argue that transnational actors have actively pushed for the introduction of such a system that subscribes to the ideas of neoliberal economic and political theory, and have pushed for a rapid integration of the region into the world economy. In this respect, the chapter draws on the notion of a comprador class to explain the interaction between transnational and internal forces. This concept, originating from dependency studies on Latin America, seeks to enlarge our understanding of why a non-propertied class in Central Europe lined up with transnational neoliberal actors in an attempt to restructure the institutional set-up of the region along neoliberal lines. This coalition has embarked upon a strategy of accumulation by dispossession, that is a process in which collectively owned means of production are transferred to private hands. In the case of postsocialist Europe, without endogenous capital to facilitate such a transfer, this process has led to the inflow of surplus capital from other parts of the world, especially from other European countries, resulting in an externally dependent mode of production.

The four countries under study have seen profound policy discussions on corporate governance developments that are representative for the kind of processes that have taken place in the postsocialist context since the early 1990s. These discussions are in many respects a fair representation of the kind of postsocialist policy discussions on issues such as minority rights’ protection, the role of the state in corporate governance affairs and the discussions with regard to the position of foreign capital. The second part of this dissertation consists of three in-depth studies that further illustrate these fundamental debates. They are carefully selected snapshots or in the words of
Drainville (2004) emblematic cases, i.e in-depth illustrations of developments that occur not only in the discussed context but are representative for broader tendencies. In the selection of the cases, I have opted for a maximum of variation between the studies on four key issues. First, the three studies focus on different countries in the region. Second, they deal with different corporate governance issues and subsequently introduce different actors on the national level. Third, the studies have considerable variation with regard to the kind of transnational involvement that is being discussed and finally, there a variation in time with regard to the developments discussed. Although all three studies focus on developments since the second half of the 1990s, they capture different phases of corporate governance development in the region.

In chapter four, which is co-authored with Laura Horn, I focus on the interplay between the European Union and Czech policy makers during the second half of the 1990s with a specific focus on how the European Commission influenced the Czech process of corporate governance institution making. The process of European enlargement has not been restricted to the Czech Republic but has dominated the policy debate, also with regard to corporate governance, throughout the whole of postsocialist Europe. Therefore this study more broadly exemplifies many of the mechanisms through which the European Union, and more specifically the European Commission, has influenced the process of postsocialist corporate governance institution making between the late 1990s and early 2000s.

Central to this analysis is the role of the European Commission, which as a transnational actor has played a major role in promoting and advocating regulatory policies conducive to further embedding socio-economic structures in CEE into the transnational political economy of neoliberal capitalist restructuring. Based on the evaluation of developments in the field of corporate governance, it is argued that securing foreign investors an equal opportunity to invest has been a key issue on its agenda and that the successful attempt to influence the lock-in of newly established property rights through corporate governance regulation is an important illustration of this political project. The European Commission continuously –and eventually successfully- argued in favour of foreign capital as a means to revitalise the Czech economy (see also Vliegenthart 2008a) whereas it simultaneously financed Czech attempts to create an institutional environment in which these investments would be
protected. As a result, the Czech corporate governance system does not resemble the kind of corporate governance models that exist in Western Europe and the US, but is characterised by a high penetration of (European) capital in the banking sector that is of key importance to the Czech corporate governance system.

Chapter five deals with the transnational political economy of corporate governance regulation in postsocialist Poland. This study is a clear representation of the gradual development in postsocialist Europe towards a corporate governance system in which there is a clear separation between owners and management. At the same it illustrates the defeat of other (non-neoliberal) endogenously rooted corporate governance models that date back to the state socialist era. More concretely, it explores why Polish policy makers opted for an external ownership model, whereas two other corporate governance concepts also featured in the Polish debates since the early 1980s, a state socialist concept and an employee ownership concept, were not chosen. The choice for the external ownership model, which is characterised by the separation between ownership on the one hand and management and employees on the other, has not gone unchallenged. In particular the employee ownership concept enjoyed substantial support amongst the Polish population and leading oppositional forces during the socialist era. During the first postsocialist years, neither the advocates of the external ownership model nor the adherents of the employee ownership model were able to put their distinct model into practice. After the mid-1990s however, partly as the result of Poland’s attempts to enter the EU, the outside ownership model gained ground at the expense of possible alternatives. At the turn of the millennium it had become the dominant policy compass in designing corporate governance regulation.

The choice for the external ownership model cannot be adequately understood without taking the transnational context of the postsocialist restructuring process into account. Various transnational forces, including the IMF, the World Bank, the European Commission and various private actors, have tried to encourage the adaptation of an outside ownership model. Although their influence has always been politically contested and on occasions effectively blocked, they have been able to impact upon the internal balance of power. It is therefore concluded that the process of postsocialist state restructuring is deeply impacted upon by transnational forces and
that the postsocialist corporate governance system is a result of the interplay between domestic and transnational actors, where transnational forces have pushed the Polish system towards an external ownership model.

Chapter six then introduces a third case study, this time on the evolution of employee representation in postsocialist Hungary. Employee representation in Supervisory Boards constitutes one of the primary elements of labour involvement in any corporate governance system. It focuses on the Hungarian case and looks at regulatory developments with regard to the position of employees in Supervisory Boards since the early 1990s. It concludes that the resemblance to the Continental model of co-determination is only superficial and that the legal position of employee representation has been under continuous pressure. It refutes the proposition that this can be explained solely by the socialist heritage or other domestic explanations. Rather, the emergence of a distinct East Central European corporate governance system, including the position of labour in it, is a truly transnational process that is shaped in the interaction between national and transnational forces.

This study illustrates a more general discussion in Europe on the flexibilisation of corporate governance systems. In East Central Europe, this debate started in the early 2000s after the basic system of corporate governance regulation in the region was in place. Since then policy discussions tend to move to the fine-tuning of the corporate governance system, allowing for more organisational variation at the further expense of the groups that have been amongst the losers of postsocialist restructuring process, for instance (organized) labour.

Chapter seven concludes this dissertation. Here I will come back to the initial research question and discuss to what extent the two theoretical lenses that are used throughout this dissertation help us understand the way in which the postsocialist corporate governance systems in Central Europe have evolved since the collapse of state socialism and how we are to understand the politics of postsocialist corporate governance regulation. The chapter summarises the empirical and theoretical contribution of this dissertation and suggests avenues for further research.