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Post-privatisation Governance and Corporate Entrepreneurship in Transition Economies

Huong T. M. Nguyen[1]
VNUK Institute for Research and Executive Education, University of Danang, Vietnam

Abstract: Although the former communist countries that have been transitioning to market-oriented reforms share various common features (Peng 2000, World Bank 2002), they follow different paths and pursue the transition at different speeds. While countries in Central and Eastern Europe (CEE) and the Commonwealth of Independent States (CIS) have employed a "big bang" approach and democratic political reforms in their transformation toward a market economy (Nolan and Ash 1995, Buck, Filatotchev et al. 1998, Filatotchev, Buck et al. 2000), East Asian countries (including China and Vietnam) have adopted a longer-term evolutionary process. Accordingly, countries in the CEE/CIS region have experienced rapid mass privatisation, while China and Vietnam have pursued a gradual partial-privatisation policy. Given the significant benefits of entrepreneurial activities for economic growth and countries' competitive advantages, an understanding of how corporate governance enables entrepreneurial activities is crucial. This paper aims to provide a more systematic comparative understanding of corporate governance in the two groups of transition economies by looking into the relationship between board characteristics and corporate entrepreneurship in the context of gradual privatisation economies. To do so, it adopts a multi-theoretical approach to analyse the influence of board governance on corporate entrepreneurship in transition economies.

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1. Introduction

The privatisation of state-owned enterprises (SOEs) in transition economies has led to radical changes in firms' corporate governance (Uhlenbruck and Castro 1998, Zahra, Ireland et al. 2000). These changes have, in turn, influenced innovation and the creation of new ventures, and these trends have helped promote economic growth. Within privatised firms, the new mechanisms of corporate governance have resulted in different degrees of corporate entrepreneurship, in which the various owners jointly engage in entrepreneurial

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1. Contact details: Room 904, Building B, VNUK Institute for Research and Executive Education, University of Danang, 41 Le Duan Street, Danang City, Vietnam. Tel: +84 914165166. Email: huong.nguyen@vnuk.edu.vn

activities through the coordination of resources (Gartner and Shane 1995). Along these lines, Zahra, Wright et al. (2014) emphasise that entrepreneurial ventures place different demands on the nature of governance and the composition of the board of directors. However, the majority of studies on corporate governance and corporate entrepreneurship have been based on large, mature firms in developed economies (Daily and Dalton 1993), while little attention has been paid to this issue in the context of transition economies.

Corporate governance research continues to struggle to develop a theoretical basis for analysing the influence of the institutional environment (Meyer and Peng 2005). This paper makes a key contribution to this research area in relation to transition economies. The goals of this article are to analyse how institutional transition in CEE/CIS countries differs from the corresponding process in East Asian transition economies, and to determine how these two transition processes affect firm-level corporate governance and, thereby, the corporate entrepreneurship of the privatised firms.

This paper focuses on three elements of board governance – independent leadership structure, board composition and board size. The study investigates the roles these elements play in the two groups of transition economies and how they influence corporate entrepreneurial activities. The discussion highlights the importance of the historical context and cultural factors in shaping corporate governance characteristics in these economies. More importantly, the paper offers an analysis of the characteristics of principals and agents involved in the ownership of privatised firms in the two systems, and suggests theories that could be employed to investigate the effects of corporate governance mechanisms on the corporate entrepreneurship of these firms. In particular, given the fact that corporate governance mechanisms in these countries typically take a hybrid form, and as they are embedded in local cultural norms and unique political contexts, we argue for an integrative approach that combines stewardship theory, institutional theories, resource dependence theory and traditional agency theory. Such an approach is necessary if we are to achieve a comprehensive understanding of the influence of corporate governance on the corporate entrepreneurship of privatised firms in transition economies. This paper's contribution lies in its clarification of the applicability of different theories in examining the effects of the board of directors on corporate entrepreneurship.

The paper proceeds as follows. Section 1 clarifies how economic reforms in the CIS/CEE region differ from those seen in East Asian transition economies, and how these differences affect the corporate-governance mechanisms of privatised firms. Section 2 focuses on the theories suggested for use in this research context, while Section 3 presents the propositions which emerge from our adoption of an integrative approach. The final section provides our conclusions, highlights our contributions and offers suggestions for future research.

2. Mass Privatisation Versus Gradual Privatisation in Transition Economies

Despite certain similarities (Nolan and Ash 1995), the transition economies found in the CIS/CEE region on the one hand and East Asia, including China and Vietnam, on the other hand have not followed the same path in their transformation processes (Buck, Filatotchev et al. 2001). The political events of the late 1980s led to significant reforms in the Soviet system, including dramatic changes in the economic and institutional settings. The nations of the former Soviet Union had operated as centrally planned economies in which governments established prices and production levels (Kornai 1992). The fall of communism in these economies precipitated a period of intense political, economic, and institutional transformation (Newman 2000). As part of the political and economic changes, the newly independent states in Central and Eastern Europe began transitioning to market-based economic systems (Kornai 1990, Aghion and Blanchard 1994). The countries of the former Soviet Union and the CEE have decentralised political control and few centralized policies. However, as the decentralisation was rapid, it produced numerous new local policies and, thereby, "institutional chaos". This has introduced uncertainty for businesses (Puffer and McCarthy 2001). Moreover, in addition to the destruction of existing institutional entities, fundamental values, beliefs and assumptions have been significantly challenged in these countries (Roth and Kostova 2003).

In contrast, the reform process in East Asia started in China in 1978 with the introduction of an "open door" policy. This was followed by the launch of the "Renovation" (*Doimoi*) programme in Vietnam in 1985. The transitions of these two East Asian countries have differed from the transition evident in the ex-Soviet bloc countries – while the ex-Soviet countries have adopted a different political ideology, the East Asian transition economies still maintain a socialist system. Throughout the transition process, governments in East Asia have introduced institutional arrangements that promote effective macroeconomic policies; liberalise trade and finance; protect private-property rights; and privatise state-owned enterprises (SOEs) (Rondinelli and Behrman 2000). This approach has led to dramatic economic growth in these countries. In addition, a new "socialist market economy" has replaced the previous "command economy" (Nolan and Ash 1995). Notably, in contrast to the path of "overnight reform" followed by ex-Soviet countries (Popov 2007), Chinese and Vietnamese reforms have been gradual (Van Tho Tran 2000, Buck, Filatotchev et al. 2001). In East Asian transition economies, central governments have maintained political control, instituted some strong policies (Naughton 1996), and preserved the ability to reward and discipline managers for failures to adhere to governmental directives (Hitt, Ahlstrom et al. 2004). Therefore, the social norms and values in Asia's socialist countries have tended to change more slowly.

One of the key features of economic reform in transition economies is the privatisation of SOEs. Given the different paths to economic reform evident in the two aforementioned systems, their privatisation approaches also differ. In CIS/CEE countries, privatisation took place as the massive transfer of SOEs to private ownership. In these countries, various strategies and methods of privatisation were used, which relied on different methods and intensities, and different political conditions as well as the diverse backgrounds and experiences of the transition countries (Schöllmann 2001). The three main privatisation methods were voucher sales, management-employee buyouts and direct sales. Voucher schemes involved the allocation of vouchers to the public at large. These vouchers gave their holders rights to purchase shares of the SOEs to be privatised. In the second method, shares were distributed to managers and workers (i.e. insiders). In sales schemes, SOEs were sold to domestic or foreign investors. In contrast, in the ongoing privatisation in Vietnam (known as "equitisation") and in China (known as "corporisation"), the state's shares in SOEs are gradually transferred to other investors.

The effectiveness of these two approaches has long been debated (Lipton, Sachs et al. 1990, Sachs and Woo 1994, Havrylyshyn 2007). Although studies to date have failed to confirm the value of grouping transition economies together in research (Le, Kroll et al. 2011), Roland (2000) posits that different privatisation policies under different initial economic and political conditions can lead to divergence in the corporate governance of firms across transition economies. The countries within each group covered in this paper share numerous common cultural characteristics and common historical experiences, which naturally lead to the divergence of corporate governance characteristics between the two groups and reinforce the need to distinguish between them.

As vouchers and management/employee buyouts are the two main methods employed in many CIS/EEC countries, the most common corporate governance features in these countries are ownership concentration and the dominant position of insiders, who tend to prevent outsiders from gaining control (Aghion and Blanchard 1998, Filatotchev, Wright et al. 1999). Later, when the central governments increasingly sold the shares through divestments to outsiders, outside representation has increased in these countries, even though outsiders are often minority shareholders (Filatotchev, Wright et al. 1999). In the CIS/CEE countries, the "give away" method entails the transfer of the state's assets to managers, employees and members of the general public at a very low price. This method leads to managerial entrenchment and opportunism, as well as a lack of the incentives, commitment and resources needed to effectively restructure firms. In management buyouts, managers have more incentives to undertake restructuring (Filatotchev, Wright et al. 2003). Moreover, managers tend to entrench in an unstable environment. In such situations, they become less likely to diversify their portfolios (Filatotchev, Wright et al. 2003) and tend to adopt cautious strategic behaviour. They are also more likely to emphasize unrelated external diversification (Filatotchev, Dyomina et al. 2001). Moreover, even if they wish to restructure their businesses, they may lack the ability to do so owing to the challenges associated with gaining access to adequate capital (Bornstein 2001). In sum, management buyouts lead to restructuring with limited scope, and they are unlikely to promote innovation or entrepreneurship. In cases of divestment, large blocks of shares are divested to domestic and foreign investors. The resistance among inside directors to the presence of outside directors could restrict the role of governing boards. However, governance by outsiders enhances restructuring to some extent and encourages firms to pursue market opportunities.

In China and Vietnam, governments still hold decisive voting rights in many organizations. This is because the state still maintains controlling ownership in privatised firms in the initial stages of privatisation. Accordingly, ownership structures in these countries are often highly concentrated, and the state holds a strong position in the board of directors. Another notable characteristic of internal corporate governance in these countries are the inclusion of former executives and government staff on the board, and the fact that CEOs often serve as chairmen of the board. In most cases, the board of managers were not replaced by a new board after privatisation (Vu 2006), and no significant change occurred in their management style, especially those with a large state share. In addition, because of the hesitation of the government in transferring state capital to strategic investors, privatised firms generally lack these investors, and they are given little importance in the process of privatisation (Tran 2002). Most importantly, since the stock market is underdeveloped, managers of the privatised firms do not face any takeover threat. Finally, since the enforcement of regulations is, in general, very weak, minority shareholders are not well-protected.

3. A Multi-theoretical Perspective for Corporate Governance Research in Transition Economies Adopting a "Gradualist" Approach

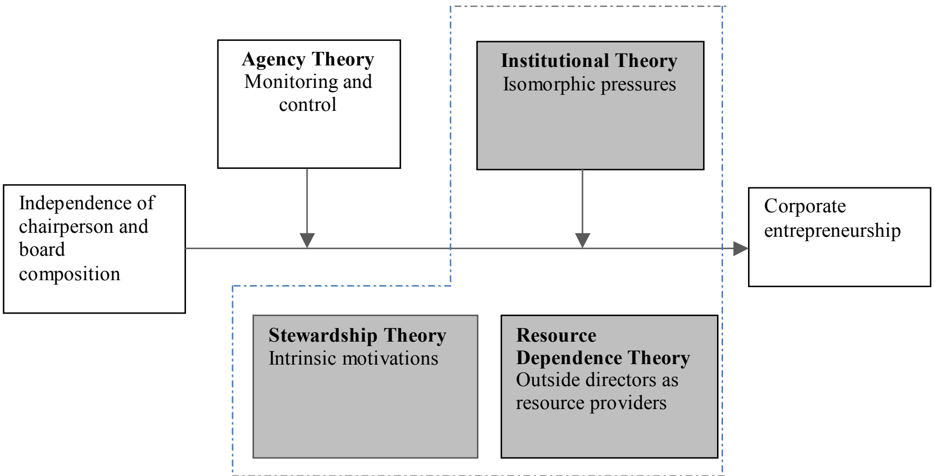
Prior studies show that corporate governance research is dominated by agency theory, and that it typically relies on samples from the US and the UK. However, in the presence of a weak governance structure and weak protection of minority shareholders of transition and emerging economies (Dharwadkar, George et al. 2000), several unique and significant agency problems arise (Zahra, Ireland et al. 2000). In the CIS/CEE countries, the corporate governance system appears to follow the Anglo-American model in the early stages of the transition, but agency theory fails when attempting to predict the effects of governance on organisational outcomes (Meyer and Peng 2005). Dharwadkar, George et al. (2000) contend that the use of agency theory alone in the context of privatised firms operating in transition economies is inappropriate. Along similar lines, Meyer and Peng (2005) emphasize the important role of institutional theory in explaining business and management phenomena in CEE countries. Similarly, Chung and Luo (2008) emphasise that organisations in East Asian economies tend to be particularly prone to relying on institutional logic. This argument is consistent with Hoskisson, Eden et al. (2000), who argue that institutional theory is most relevant for understanding strategy formation in transition economies. Institutional theory emphasises an organisation's legitimacy within a social community and argues that organisations may act in a way that empowers their legitimacy rather than improves their performance (DiMaggio and Powell 1983).

Although the East Asian transition economies initially aimed to improve corporate governance systems by following the Anglo-American model, the embeddedness of a collectivist culture in all social relations and the presence of a socialist political ideology made achievement of this goal unlikely, as least in the expected manner. Firms in these economies tended to rely on individual relationships and networks when conducting business (Peng 2004). Moreover, social harmony, rather than the formal contracts that are prevalent in developed economies, is viewed as key for relational exchanges. Consequently, the relationship between agents and principals is unlikely to be similar to corresponding relations in developed countries. Stewardship theory has been suggested as a more appropriate theory for explaining the phenomenon in these contexts. Contrary to traditional agency theory arguments, stewardship theorists propose that individuals are motivated not only by self-interest and economic considerations but also by self-actualisation through intrinsic rewards from work, the maintenance of personal values and the achievement of personal goals (Donaldson 1990, Davis, Schoorman et al. 1997). Stewardship theorists assume that agents may act as the organizations' stewards, that their behaviour is collective and that they seek to achieve the organization's objectives.

Notably, in East Asian transition economies, outside directors can do a better job in terms of bringing resources to the firm because the power of outside directors is normally weak in power or insufficient in the number. Furthermore, given the weak legal protection characterising transition economies, outside directors normally lack information. Therefore, they face certain difficulties in monitoring and controlling managers, and in influencing the firm's decisions. As a result, the control function is not effectively implemented. However, outside investors who have more market experience can provide firms with advanced technologies and sophisticated managerial know-how, which can help those firms approach new markets and new industries. Therefore, resource dependency theory cannot be ignored in research on corporate governance in transition economies. Resource dependence theorists posit that, in addition to overseeing executives with the aim of protecting shareholders' interests, the board of directors must also provide access to essential resources in the environment (Hillman, Cannella et al. 2000).

Figure 1 describes our theoretical approach to analysing the influence of board governance on corporate entrepreneurship.

Figure 1: Multi-theoretical approach to transition economies*



* Adapted from Peng (2004) and Peng, Zhang et al. (2007)

4. Corporate Governance and Corporate Entrepreneurship in Transition Economies Adopting a Gradualist Approach

In a transition economy, economic reforms are used to create the foundation for an entrepreneurial market economy (Verheul, Wennekers et al. 2002). Although the rapid reforms in CIS/CEE countries often resulted in chaos (Boycko, Shleifer et al. 1995), they led to the substantial expansion of the private sector. The growth in the private sector has contributed to the creation of new enterprises, as well as the privatisation of SOEs (Estrin, Meyer et al. 2006). Whereas entirely new enterprises are created by real owners, privatised firms experience a transfer of ownership from the state owners to different types of owners, which leads to a range of ownership structures and corporate governance mechanisms (Newman 2000). Given the various governance structures found within privatised firms and variations in macro-economic variables among countries (Estrin and Wright 1999), the impact of governance on entrepreneurial activities in privatised firms in mass-privatisation economies may differ from the impact of governance in economies characterized by gradual privatisation. Some argue that entrepreneurship is better promoted through gradual privatisation than through mass-privatisation (Spicer, McDermott et al. 2000). According to these authors, the longer transition processes associated with gradual privatisation create more opportunities for actors to experience variations in the effectiveness of governance, thereby making them more likely to adopt those that are most effective.

As this paper focuses on the role of the board of directors in leveraging the entrepreneurial activities of privatised firms in transition economies, leadership structure, board composition and board size are the main subjects of analysis. Accordingly, three key facets of internal-control mechanisms are considered: (1) the combination of the roles of chairman and CEO, which is referred to as "CEO duality"; (2) the representation of external members on boards of directors, which is referred to as the "outside ratio", and (3) board size.

CEO duality

Agency theory suggests that the separation of the CEO and chairman positions is positively related to long-term decision-making and, consequently, firm performance. As noted earlier, most of the extant research, which relies heavily on the agency perspective when examining board composition, claims that organisations should maintain an independent board of directors in order to maximise company performance (Jensen and Meckling 1976, Williamson 1985). However, agency theory might be not appropriate for all transition economies, as agency costs in economies that have adopted mass privatisation and economies that have pursued gradual privatisation might differ. Given the unique institutional context and typical features of gradual privatisation in East Asia, we propose that there is no relationship between CEO duality and corporate entrepreneurship.

Proposition 1 (stewardship theory and institutional theory): CEO and chairman separation is not significantly associated with corporate entrepreneurship in newly privatised firms in transition economies where privatisation is gradual.

Countries in the two systems share certain similarities in their institutional environments as well as social and cultural characteristics. As mentioned earlier, the institutional environment in both systems is underdeveloped at the time of transition. In terms of national culture, countries in CEE/CIS countries are characterised by moderately high levels of collectivism, high tolerance of power distance and high uncertainty avoidance. The same is true in most Asian countries (Buck 2003). Furthermore, given the historical context of former SOEs, the boards of directors are less effective and have little interest in monitoring the organization's activities or performance. However, due to different approaches to economic reform and privatisation, the characteristics of privatised firms and their corporate governance differ significantly between the two systems. Specifically, CEOs of privatised firms in a mass privatisation system may differ from those in a gradual privatisation system. For example, CEOs of former SOEs located in the former Soviet Union tend to use their insider positions to engage in trading on non-transparent markets or to gain other personal benefits (Coffee and John 1999). As such, CEOs who also serve as chairmen of the board may have more opportunities to be entrenched. In a study of Russia, Judge, Naoumova et al.

(2003) find that CEO duality is negatively related to firm performance. Meanwhile, despite the fact that the CEO chairmen in East Asian may be also entrenched, they are more likely to behave as their organisations' stewards. This is because most of these CEOs chairmen have had a long period working in former SOEs so that they consider the newly privatised firms as their family. In other words, they are unlikely to forgo opportunities for the sake of investors' short-term returns. Consequently, the combination of the roles of CEO and chairman of the privatised firms in Vietnam and China is not necessarily counterproductive to long-term decisions. In fact, some studies of East Asian transition economies report no significant association between CEO duality and company performance (e.g., Dong-zhi and Li-ri 2002). Some studies even report positive associations (e.g., Tian and Lau 2001, Peng, Zhang et al. 2007). Even in a study in China, Peng, Zhang et al. (2007) find that CEO duality, on the one hand, can enhance firm performance in SOEs and on the other hand, can weaken firm performance in privately-owned enterprises.

As such, there may be no association between CEO duality and risky long-term decisions in the context of transition economies adopting a gradual approach.

Outside ratio

Agency theory argues that non-executive independent directors are more likely than insiders to intensely monitor management. Therefore, an independent board benefits a company because it better monitors management, limits managerial opportunism and protects shareholder interests (Helland and Sykuta 2005). However, based on the institutional and organisational context of privatised firms in transition economies, I propose:

Proposition 2 (agency theory and institutional theory): The representation of independent external directors on the board is not significantly associated with corporate entrepreneurship in newly privatised firms in transition economies where privatisation is gradual.

Even though board governance within a single system might vary, external directors in the two systems play different roles and, therefore, have different associations with corporate entrepreneurship. More specifically, non-executive directors may function independently of management to different extents depending on the organisational context and stakeholder groups. Companies in CEE/CIS countries tend to adopt more independent board structures than their counterparts in East Asian transition economies.

In a study of 506 privatised and state-owned manufacturing firms in the East European countries of the Czech Republic, Hungary and Poland, Frydman, Gray et al. (1999) found that performance is not enhanced when ownership resides with insiders, while it improves when external owners are introduced. In the same vein, in a study of the former Soviet Union, Filatotchev, Dyomina et al. (2001) find that export intensity is positively related to the proportion of board seats allotted to external investors. Although Judge, Naoumova et al.'s (2003) study of Russian firms shows no association between the proportion of inside directors and firm performance, the beta coefficient for the data was nearly significant and negative. Similarly, Peng, Buck et al. (2003) look closely at privatised Russian firms and find a positive relationship between the presence of external board members and firm performance. Filatotchev, Wright et al. (1999) explain that, in Russia, when the board is dominated by insiders, they will collude to restrict outsiders' influence. Moreover, they will transfer the valuable parts of the firm to other companies or sell the firm's assets without the consent of other shareholders. Moreover, Filatotchev, Wright et al. (2003) argue that external control may facilitate restructuring in Central and Eastern Europe. This suggestion is empirically supported by a study showing that privatisation that places ownership in outsiders' hands is effective (Djankov and Murrell 2002).

With regard to East Asia, some studies find a positive association between the presence of external directors and performance (e.g., Lin, Ma et al. 2009). However, Tian and Lau (2001) and Peng (2004) find that the presence of affiliated directors in China, is positively related to firm performance in privately-held and publicly listed firms, respectively. Researchers argue that agency theory is not supported owing to the underdevelopment of the institutional environment in this transition economy. They also suggest that because affiliated directors are resource-rich outsiders, they may bring resources to the firms, while, independent directors tend to lack the power and influence necessary to effectively monitor and control management. Therefore, independent external directors are unlikely to influence the firms' long-term entrepreneurial decisions in this context compared with those in mass privatisation context.

Board size

I propose that large boards may bring more business opportunities and technological expertise to the firms, which are supportive of corporate entrepreneurship:

Proposition 3 (resource dependence theory): Board size is positively associated with corporate entrepreneurship in newly privatised firms in transition economies where privatisation is gradual.

Agency theory argues that a small board reduces the costs of insufficient communication (Haniffa and Hudaib 2006), and helps speed up the decision-making process and make it more cohesive (Lipton and Lorsch 1992). Past research supporting agency theory has demonstrated a negative relationship between board size and firm performance (Hermalin and Weisbach 1991, Yermack 1996, Conyon and Peck 1998, Eisenberg, Sundgren et al. 1998) and between board size and risk taking (Wang 2012), and a positive relationship between board size and diversification (Bosworth, Dawkins et al. 1999, Kiel and Nicholson 2003).

Given the fact the CIS/CEE countries adopted market mechanisms more quickly than East Asian countries, and that the former tend to adopt Anglo-American model more than East Asian transition economies, this aspect of agency theory may be less relevant in East Asia than it is in the CIS/CEE countries. For privatised firms in gradual transition economies, the introduction of more valuable resources to firms is more important for the firm's survival and success. Furthermore, in an environment where a firm's success relies on relationships, a large board plays an important role in establishing linkages with external organizations. These connections enable firms to more effectively engage in entrepreneurial activities, as they provide access to up-to-date market information and new business opportunities. In particular, Globerman, Peng et al. (2011) argue that informal institutions are often more important than formal institutions in Asia. Similarly, Wong and Tjosvold (2010) highlight the governance roles played by the informal social networks that connect an organisation with its external environment in China. In addition, given the highly uncertain and risky environment, and the challenges privatised firms face when adopting market-oriented mechanisms, larger boards might provide firms with preferential access to scarce resources and enable them to more easily overcome difficulties.

Furthermore, given their gradual approach to privatisation, East Asian transition economies tend to have higher numbers of affiliated external directors than their CEE/CIS counterparts. Most of these affiliated directors are state-level directors or business partners. Affiliated directors are more likely than independent external directors to bring resources to the firm. In fact, Peng (2004) finds that only affiliated external directors have an influence on company performance. Therefore, firms with larger boards may have more networks from which to obtain information about the market and new opportunities, providing them with more opportunities to engage in entrepreneurial activities.

In summary, in economies that adopt a policy of gradual privatisation, large boards are more likely to be associated with higher degree of corporate entrepreneurial activity.

5. Conclusions

This paper highlights how different patterns of institutional transition shape variations in corporate governance between firms in the transition economies of the CEE/CIS region and East Asia. Such variations in corporate governance lead to different degrees of entrepreneurship in privatised firms. Based on this distinction, this paper emphasises the necessity of a contextualised perspective in investigations of corporate governance issues and their effects on organisational outcomes.

After demonstrating the need to separate out the context in which corporate governance is examined, I have analysed the unique characteristics of corporate governance in privatised firms in CEE/CIS and East Asian transition economies. In this regard, this paper extends the theoretical framework developed by Peng (2004) by providing a more general theoretical background for analyses of complex governance relationships in the two transition systems. The paper offers clarification as to why and how other theories should be integrated with traditional agency theory in order to derive a richer understanding of the effectiveness of corporate governance and entrepreneurship in transitional contexts. More specifically, I argue that because corporate governance is a context-specific and context-dependent issue, western theories and best practices should not be employed in the context of East Asia transition economies. Instead, the assumptions of any relevant theory, such as agency theory, stewardship theory, resource dependence theory or institutional theory, should be carefully analysed in relation to each organisational context.

In particular, this paper offers support for arguments made in previous studies that research into corporate governance in East Asian transition economies or research that takes broader comparative perspective should make greater use of institutional theory (Filatotchev, Jackson et al. 2013). Rather than emphasizing an economic viewpoint, as in traditional principal-agent models, institutional theory offers a way of understanding how the effectiveness of corporate governance is contingent upon a number of organizational, social and political factors.

These arguments, which reflect a contextualised view, have implications for policy makers and practitioners. First, the chosen path of economic reform and privatisation leads to certain characteristics in the corporate governance of privatised firms. Along these lines, the paper demonstrates that different governance structures eventually result in differences in the degree of entrepreneurial activity among privatised firms in different transitional contexts. Therefore, policy makers should carefully consider the impact of the historical and economic context in order to ensure that they have appropriate regulations in place to facilitate corporate governance. Second, this paper has important implications for foreign investors who want to invest in privatised firms in transition economies. National and organisational factors jointly shape corporate governance structures, and they eventually influence the entrepreneurial activities of privatised firms in transition economies. Therefore, investors must have a deep understanding of the organisational context and the stakeholders of privatised firms if they are to make appropriate investments.

Future research should empirically examine the explanatory power of this integrative theoretical framework. In addition, researchers can test the proposed relationships, as well as the relationship between transition speed and other governance variables, such as ownership concentration and managerial ownership. Furthermore, given the complexity of corporate governance, qualitative studies undertaken in different organisational contexts are needed if we are to gain deep insights into the effect of board governance on corporate entrepreneurship. This framework can also be carefully tested in other settings with similar institutional contexts. Recently, Melkumov (2009) suggested employing resource dependence theory and institutional theory to increase the explanatory power of the roles of boards of directors in the Russian context. As such, a comprehensive theory for CEE/CIS and a corresponding theory for East Asian transition economies are necessary and of interest.

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