HULT International Business School

ACC440 - Corporate Governance (Prof. D. Willcox)

Outline of the Required Book (Tricker, *Corporate Governance*)

Chapter 12 (a) Corporate Governance in Russia

- ➔ **Hungary, Poland, Eastern Germany,** CG development are similar to **China** (cf. economic regime, historical country development: communist or "eastern bloc")
    - privatization of state entreprises
    - creation of companies, the shares of which are sold to strategic investors (ie. foreign investments institutions).
- ➔ ≠ from **Russia, Czech Rep, Bulgaria**
    - doubts about privatization = industry should run by the state
    - everyone should be guaranteed a job, incomes should be controlled
- ➔ 1990s: attempts to reform the system of ownership to the people via the "voucher privatization".
    - free distribution of vouchers to all russian citizens, can be exchanged:
        - companies shares
        - voucher investment funds
    - investment tenders => substantial investment to redevelop companies.
    - development of a loan-for-shares auction (public companies put at auction (ie. Yukos)).
- ➔ Some Russia companies ⟶ floated on foreign stock exchange (LSE, NYSE) => compliance with the listing requirements in terms of CG.
- ➔ Législations:
    - 1995: 1st federal law on joint-stock companies
    - 1996: Securities Law
    - 1999: Laws on protection of rights and legal interests of investors in the securities market
        - SHH with 2% of the voting rights ⟶ introduce items to the agendas of SHH meetings
        - SHH with 1% voting rights ⟶ file a complaint against board or specific director against damages caused by the company.
- ➔ In the early stages of privatization, the russian model reflected the US/UK/Commonwealth models based on the rule of law and regulation by the stock market. Unfortunately, between the enactment of the law and the daily running of the companies, things were different.
- ➔ 1998: Major financial crisis in russia (default on government bonds, devaluation of the currency, rising oil prices allowed the existing owners to consolidate their power).
- ➔ Corruption, rising power of individual shareholders, etc => need for better understanding of CG => 2000s: Centre for business ethics and corporate governance founded: encourage CG reform in Russia => Russian Code of Corporate Conduct published in 2013.

- ➔ Under the company law and the corporate governance code recommendations, companies are governed by the general shareholders meetings, selecting the members of the board, through cumulative voting, a **board of director** (or **board of supervisors** confusingly) with both independent directors and management directors and an executive or management committee. The audit committee reports to the board, the chairman of which is not allowed to be the head of the executive committee.
- ➔ Corporate Governance in Russia is characterized by a high degree of concentration of ownership and the leading role of majority shareholders frequently including the state, in company management. The existence of attributes such as the low levels of protection of shareholders rights, the nominal nature of the board of directors, and also the lack of bodies responsible for internal control and audit that are independent from executive management, is cited in numerous studies and experts comments.