

Development of Russian Corporate Governance Practice: Strength Test (Review of the Round Table “Development of Russian Corporate Governance Practice: Strength Test”)



On October 27th 2022, the Institute of Economics of the Russian Academy of Sciences' Expert Council on the issues of Corporate Governance of Companies with State Ownership (hereinafter referred to as the “IE RAS Expert Council on Corporate Governance”) in conjunction with the Financial University under the Government of the Russian Federation held a round Table entitled “Development of Russian Corporate Governance Practice: “A Strength Test”. The event was co-organised by the self-regulatory organization “National Association of Corporate Directors”, the Corporate Governance and Investment Committee of the Russian Managers Association (RMA) and the Russian Institute of Directors.

The discussion was moderated by **A. A. Voronin**, PhD in Economics, Chairman of the Expert Council on Corporate Governance at the Institute of Economics of the Russian Academy of Sciences, leading researcher of the Centre for Public Administration Research at the Institute of Economics of the Russian Academy of Sciences, and **I. Yu. Belyaeva**, Doctor of Economics, Professor, member of the Expert Council on Corporate Governance at IE RAS, Research Director of the Corporate Finance and Corporate Governance Department at the Financial University under the Government of the Russian Federation.

The announced topics of the round Table generated genuine interest. More than 100 professional corporate directors, representatives of the academic scientific community and leading national universities, heads of executive authorities, public organisations and professional associations registered for the event, which was

held in a mixed format. The representatives of “VTB” PJSC, “Alrosa” PJSC, “Roskartografia” JSC, “Rosgeologiya” JSC, “Moscow Stock-Exchange” PJSC, “Voskhod DPO” JSC, “Roscosmos” and “Rosatom” state corporations were present.

The participants presented research papers and took part in discussions on pressing issues of corporate governance development in the Russian Federation.

In particular, **I. V. Belikov**, Director of the nonprofit partnership “Russian Institute of Directors”, Chairman of the Corporate Governance and Investment Committee of the Russian Managers Association, and member of the Corporate Governance Expert Council of the Bank of Russia, presented his vision of the main challenges facing the corporate governance system in the Russian Federation in his speech “Corporate Governance in the New Reality: Key Challenges”.

The new foreign policy and economic reality will have an increasing impact on corporate governance practices due to its long-lasting nature.

From 1992 until the end of 2021, the key driver of corporate governance development was the presence of Western portfolio investors, whose influence has been severely diminished in the new situation. Domestic and non-Western investors will not be able to replace them in this role.

Consequently, the attractiveness of corporate governance development (as a driver of rapid capitalisation growth) is no longer working. Of the three main aspects: legal, investment and governance, the second is undergoing the most serious collapse since 1991. The factor of preserving the established legal framework of corporate governance is playing a key role.

Improving corporate governance as a means of improving the quality of management of a company as a whole is of paramount importance. But the extent to which Russian companies will accept it as a practical guide is still unclear. It is fundamentally important to preserve the established corporate governance tools and working terminology, which are an important element of civilized business conduct and an element of “recognition” of Russian companies by partners from both economically developed and emerging markets.

M. E. Kuznetsov, Advisor to the Russian Deputy Minister of Finance on Corporate Governance, Director of the Centre for Systemic Transformations of the Department of Economics at Lomonosov Moscow State University, and the member of the boards of directors of JSC “PA (production association) Kristall” and PJSC “Sovcomflot”, described in his report on ‘Corporate Governance in a Turbulent Era’ how the organisation of the board of directors is changing and the communication and information support processes for its work are limited in the new environment. He also highlighted the need to fight bureaucracy in corporate procedures and noted that there is and will be no alternative to the further development of corporate governance.

A. A. Voronin, PhD in Economics, Chairman of the Expert Council on Corporate Governance at the IE RAS, a leading researcher at the Centre for Public Administration Research at the IE RAS, in his presentation “Major Trends in the Transformation of the Corporate Governance Model in the New Reality” presented his own interpretation of the transformation of the corporate governance model in a global reorganisation of the world, detailing both the major current trends and risks for the Russian economy in this area and forecasts regarding social and economic systems in Russia and worldwide until 2025. The speaker voiced the three trends which have recently taken the lead

in the attention of corporate directors of major companies:

1) The digitalisation of corporate business processes and the resulting transformation of corporate governance;

2) the orientation of corporate governance practices towards ESG and sustainability goals;

3) the formation by many corporations of their own ecosystems (starting from primitive loyalty cards with participation of all structures of a corporation in these programmes and up to the creation of global ecosystems: foreign ones — “Google”, “Amazon”, “Tencent”, etc., Russian ones — “Sber”, “Yandex”, “OZON”, etc.).

Mr. Voronin also spoke separately on the directions of key priorities in the corporate governance of Russian companies in the coming years. Among other things, he pointed to the growing tendency for the Russian stock market to diminish its role as a mechanism for attracting financial resources to public joint-stock companies.

The speaker went on to present the main parameters and characteristics of the emerging global corporate governance models. Socio-political and economic processes both globally and in Russia are shaping up to be a ‘perfect storm’ for corporations. The way out of the current global crisis for public companies will be a change in previous paradigms, namely the transition to one of the two corporate governance models emerging in the twenties of the 21st century (i.e. right before our eyes): “paternalistic” — when implementing the inertial option, and “transformational” — when there is an optimistic scenario of socio-economic changes, development and application of best corporate governance practices and a proactive position of corporate directors of public companies and corporations.

Further on, **N. V. Starchenko**, executive director, member of the board of the self-regulatory organization “National Association of Corporate Directors”, member of the Collegium of the Expert Council on Corporate Governance

of IE RAS, member of the Board of Directors of “GTsV” JSC, member of the SC of “Rosgeologiya” JSC and “Roskartography” JSC, delivered a report on “How to Transform the Russian Corporate Governance Model in Modern Conditions”. He stated that, along with the dramatic change in the external environment in 2022, the goals of Russian companies have also been transformed. In the commercial sector, the response to the ongoing processes was generally timely and appropriate. Corporate governance responses manifested themselves in a greater involvement of boards of directors and shareholders in the work of corporations and strengthening of their controlling functions. In the public sector, however, responsiveness to change and difficulty in articulating key development objectives in the new environment has lagged. In the speaker’s view, the transformation of corporate governance should primarily take place through giving boards of directors real controlling powers and aligning existing regulation with the existing ownership structure, including through the introduction of the concept of a “state-owned joint-stock company” into legislation and rules for the management of such a business entity.

Then the floor was given to **O. R. Fedorov**, a member of the Expert Council on Corporate Governance of the IE RAS, an independent director and member of the Board of Directors of PJSC “ROSSETI North-West”. In his presentation “On the Culture of Corporate Governance in the New Reality” he drew attention to the increasing relevance of the issues mentioned against the background of the “survival” of inefficient business models in the 1990’s. The response to that challenge was a U-turn towards investors through an increased level of corporate culture. He said that the current economic system in the Russian Federation, while under pressure, required precisely a new quality of corporate culture to enable companies to access capital and for domestic investors to invest in sectors of the economy domestically. In this context, the key

to improving corporate efficiency lies precisely in the quality of corporate governance, its goal-setting and the active application of its tools and best practices in the new reality.

In his presentation on “Changes in Corporate Governance: Recent Trends”, **I. N. Repin**, Deputy Executive Director of the “Professional Investors Association”, member of the Collegium of the Expert Council on Corporate Governance of the IE RAS, member of the Supervisory Board of “VTB Bank” PJSC, member of the Shareholder Advisory Council of “VTB Bank” PJSC, supported the idea of actively using corporate governance tools and mechanisms in working with in-house investors. He stressed the need to improve the efficiency of interaction with Russian shareholders (especially individuals), highlighted the issues of succession and the quality of boards of directors, and suggested returning to the in-person format of general meetings of shareholders (at least for large public joint stock companies with a large number of shareholders) in order to develop communication and increase trust between them and the management of major Russian joint stock companies, as well as exerting discipline over the latter.

A. S. Yukhno, PhD in Law, a member of the Expert Council on Corporate Governance at the IE RAS, Deputy Chairman of the Public Council at Rosimushchestvo, in his presentation “Development of Russian corporate governance practices under new conditions” noted that in the new reality the traditional approaches to business management are changing fundamentally. Proposed solutions to the emerging challenges should be economically justified and used to enhance the efficiency of corporate structures. With companies gradually adapting to the new environment and “rules of the game”, boards will start to shift their priorities towards sustainable development at the expense of strategic development. The speaker presented his views on improving Russian corporate governance practices: he singled out six dimensions to help

corporate structures achieve their sustainability goals in the new environment; he raised the issue of ensuring that the agenda of board meetings is aligned with ongoing changes in business strategy, corporate competitiveness and transition to a new technological mode; he noted the need to revise practical tools for business environment analysis, changing the approach to corporate sustainability in the new environment, and developing a new set of corporate governance standards. As practical recommendations, the boards of directors were asked to identify and prioritise the company's priorities in order to concentrate resources in these areas; to revise the system of key performance indicators with their weighting; to recommend that the company's management continue to implement innovative solutions in the business model and cooperate with various stakeholder groups to implement strategic changes.

During the discussion, **S. V. Eliseev**, member of the Expert Council on Corporate Governance at the Institute of Economics of the Russian Academy of Sciences, drew attention to the corporate governance model taking shape in the new environment, the need to develop deterrence mechanisms in crisis situations and highlighted the main current task of the board of directors — to create conditions for management to quickly reorient itself. **I. I. Smotritskaya**, Doctor of Economics, Head of the Center for Public Administration Problems Research of the Institute of Economics of the Russian Academy of Sciences, member of the Board of Corporate Governance Expert Council of IE RAS, supported the idea of developing corporate governance tools to attract domestic investors and stressed the urgency and immediacy of the problem. Other members of the Expert Council on Corporate Governance at the IE RAS, members of the National Association of Corporate Directors and guests of the round Table **A. A. Gogol**, **G. Yu. Soldatov**, **M. V. Sharatsky** also took part in the discussion.

The presentations and speeches made by prominent representatives of the academic and professional communities set the stage for a wide-ranging discussion of corporate governance issues, including corporate disclosure, corporate governance models, the role of stakeholders and the need to maintain business stability in the current environment, its “survival” under sanctions and closure of Western capital markets for Russian joint-stock companies. The participants also pointed to the increasing role of the government and its influence on transformational processes of corporate governance models in Russian companies.

In conclusion, **A. A. Voronin** and **I. Yu. Belyaeva**, summarising the session, thanked the speakers, partners, co-organisers and all those present.

I. Yu. Belyaeva, Doctor of Economics, Professor,
A member of the Expert Council on the
issues of Corporate Governance over companies
at the Institute of Economics of the Russian
Academy of Sciences, Research Director of the
Corporate Finance and Corporate Governance
Department at the Financial University under
the Government of the Russian Federation

A. A. Voronin, PhD in Economics,
Chairman of the Expert Council on the issues
of Corporate Governance over companies at the
Institute of Economics of the Russian Academy
of Sciences, leading researcher of the Centre for
Public Administration Research at the Institute of
Economics of the Russian Academy of Sciences

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A member of the Expert Council on
Corporate Governance over companies at
the Institute of Economics of the Russian
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