„Journal of Management and Business Administration. Central Europe"
Vol. 25, No. 4/2017, p. 96–118, ISSN 2450-7814; e-ISSN 2450-8829


# The Specificity of Boards of Directors in Russian Companies[1]

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Submitted: 6.03.17. Final acceptance: 18.09.17

## Abstract

**Purpose**: The primary purpose of the article is to present the specificity of Russian boards of directors, critically analyze their main characteristics, and consider their relations to selected corporate governance mechanisms in Russia.

**Methodology**: The article was prepared based on specialist literature, which pertains to the theoretical aspects of the boards of directors' activity and the changes in the corporate governance system in Russia. The qualitative research on the boards of directors' key characteristics in the Russian public companies was based on SPARK data.

**Findings**: The central features of the boards of directors in the Russian companies depend on the key events in the Russian economy – such as financial and economic crises – changes in the companies' ownership structure, including the participation of the state in ownership, as well as on their activity on the Russian and international financial market.

**Research limitations**: Research limitations resulted mainly from the lack of access to all the data about the directors of the companies under examination, including their independence from or obligation to the state institutions.

**Originality**: The research on the Russian joint-stock companies – that is, corporate governance in Russia with its mechanisms – is a relatively new issue in the Polish specialist literature. They may be an important trigger for comparative studies in the field of corporate governance in Central and Eastern European economies.

**Keywords**: boards of directors, corporate governance, state, ownership structure, Russia

**JEL:** G31, G34, M12

[1] The article was prepared as part of the research project: „Evolution of corporate governance system in Russia', financed from the resources of the National Science Centre (Poland) (decision no DEC-2013/11/N/HS4/03327).

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Ministry of Science and Higher Education Republic of Poland
English-language editing of that article was financed under Agreement 763/ P-DUN /2016 with funds from the Ministry of Science and Higher Education allocated to the popularization of science.

## Introduction

The actual operation of the corporate governance system in particular countries reveals a variety of solutions emerging from the specific economic, political, legal, historical, and cultural conditions (Zalega, 2003, p. 9–10). They result in a specific combination of internal and external mechanisms and supervisory institutions (Aluchna, 2007; Oplustil, 2010). State systems, in spite of a long development period, do not constitute a static structure. They undergo gradual changes due to economic and political events as well as local legal solutions.

The economic reforms started in Russia at the beginning of the 1990s resulted in the privatization of state-owned enterprises and creation of new private companies. Moreover, the reforms enabled the creation of the corporate governance system. Within more than twenty years, the companies developed all the necessary mechanisms of corporate governance, both internal and external. Legal acts like privatization and corporate law shaped these mechanisms along with the state reforms and key economic events; i.e., the financial and economic crises of 1998, 2008, and 2014. The years of evolution shaped many features of the corporate governance, such as the dominant role of the concentrated ownership structure, reliance of corporate supervision on a combination of ownership function and company management, significant role of the state as the owner, and fairly marginal relevance of external market mechanisms (Dolgopyatova, Iwasaki and Yakovlev, 2009). As Muravyev (2017) emphasizes, the Russian case provides an excellent research material on corporate governance due to numerous problems in the field of governance over companies, significant changes in the economy caused by the crises, and many reforms of corporate governance practice in recent years.

Together with the new owners, the Russian companies gained bodies responsible for the efficient activity of the privatized and new companies called the boards of directors. While other mechanisms of corporate governance in Russia, especially the ownership structure, have already been the object of research, there is still need to define the role of the boards of directors in the corporate governance system and their relations to other governance mechanisms. In answer to this need, the author defines the following research questions:

- What is the direction of change for the Russian boards of directors in reaction to the changing economic situation (including crises) and due to the improvement in corporate governance standards in Russian companies?
- What were the basic characteristics of the boards of directors in the largest Russian public companies in recent years?

- What is the role of the board of directors in Russian corporate governance system?
- What are the relations between the board of directors and other mechanisms of corporate governance in Russia?

The primary purpose of this article is to analyze the key characteristics of the boards of directors and their relation to other corporate governance mechanisms. The paper takes mostly from the study of specialist literature, predominantly in Russian. The first part of the article reviews the literature and describes the basic theoretical aspects connected with the boards' activity in companies. The second part discusses the specificity of the Russian corporate governance system. The main, third part analyzes the key features of the Russian boards of directors selected in the evaluation of the whole Russian corporate governance system which stems from the research results and publications of main Russian research centers. The article is partly a review of the current state of affairs, but it also includes own research results conducted on the boards of directors in a group of Russian public companies. The article is part of a wider research project which focuses on the evolution of corporate governance system in Russia.

## Literature review

Among the numerous corporate governance mechanisms and institutions, the boards take an important place because they are bodies that control and manage a company's activity (Aluchna, 2007, p. 102). We find two models of the board as the controlling body: the one-tier board like in the USA and the UK and the two-tier board popular in countries of continental Europe. They may take the form of the board of directors or the supervisory board. In the one-tier model, the board is composed of directors who manage the company as its employees (insiders, executors) and external directors whose independence constitutes a bridge between the company and its shareholders but who do not possess executive rights (Koładkiewicz, 2011, p. 112). In the two-tier model, the board of directors consists of the internal managing directors and the supervisory board which includes internal members and independent external members, but the members of both groups have no executive rights[3].

In the corporate governance system, the board is a body created to provide the compatibility of manager's activities with shareholders' interests and exercise control over

[3] In the considerable part of the article, the board of directors shall be the only term used, due to the fact that only such an entity is really present in the Russian companies.

the ongoing activity of executive managers. The board is stronger when the external market corporate mechanisms are less developed and, in turn, weaker when the company's ownership is more concentrated due to dependence on a dominant shareholder. Boards of directors are strongly subordinate to the ownership structure. Usually, it is the shareholders who elect the board's members and, as a rule, the board of directors should represent their interests (Mallin, 2016, p. 180–183). However, they consist of representatives of various stakeholders: shareholders, banks-creditors, employees, institutional investors, and others.

The board of directors and the supervisory board hold the following responsibilities: they provide the company with long-term market and financial success, modify and target company's strategy, protect shareholders' interests, monitor managerial staff's activity on behalf of shareholders, appoint senior managerial staff, determine managerial staff's remuneration, shape dividend policy, supervise long-term liabilities, provide management with proper working conditions, audit financial reports, and provide periodic evaluation of the company's management quality (Mallin, 2007, p. 122; Aluchna, 2007, p. 103; Jeżak, 2010, p. 216). Supervisory boards in the two-tier model also fulfill additional functions; i.e., they supervise the boards' decisions, support the board members with knowledge and experience, transmit information to shareholders, and coordinate supervisory boards' activities in subsidiaries where a supervisory body is an important element of providing efficient activity of the whole capital group (Bohdanowicz, 2009, p. 23–24).

The key features that determine the efficient activity of both the board of directors and the supervisory board are: independence from the owners and managerial staff, presence of independent members who possess no economic, family, or other relationship with the company, appropriate proportion between executive and non-executive members or internal and external ones, frequency and regularity of meetings, quality and comprehensiveness of information provided by the company's management, competency, and experience (Aluchna, 2007, p. 109–115). Moreover, it is important to appoint teams of specialists responsible for audit, remuneration, strategic planning, corporate conflicts resolution, ethics, and risk (Tricker, 2009, p. 67–72).

The selected trends in the New Institutional Economics (NIE) and managerial theories provide the theoretical background for the analysis of the boards' role in the corporate governance system. One of the key trends in NIE is the agency theory that analyzes the main problems of contemporary companies, in which the phenomenon of separating ownership from management and control appears. The theory concentrates on the so-called 'agency relationship' that occurs between a principal (the owner) and agent (the manager) defined as a contract in which one side engages the other to perform certain tasks on his/her behalf. This is connected with delegating part of the principal's decision-making responsibilities to the agent (Jensen and Meckling, 1976, p. 4–9). We may call the whole company a nexus of contracts between the owners of production factors and their clients, which entails many different relationships of the agency inside the company, as well as between the company and its surroundings (Fama and Jensen, 1982, p. 2). According to the assumptions of the agency theory, both parties to the contract aim at maximizing their usability and, as a result, the agent does not act in the best interest of his principle mainly due to the opportunistic tendencies of the agents, moral hazard, and asymmetry of information, which results in the so-called 'agency problems' or 'agency costs.'

The board is the key internal mechanism which enables the control of managerial activity (Koładkiewicz, 2013, p. 36). Its main tasks concern supervising, monitoring, and motivating managers and, in case of the conflict of interests, eliminating them from the company. The supervisory function of the board entails disciplining managers in a way that ensures the company's activity according to the rules beneficial to the owners (Jeżak, 2010, p. 146–147). The principal (owner) may choose from two basic options to solve the agency's problems: apply the governance mechanism based on a remuneration system; or, directly monitor managerial activity (Urbanek, 2005, p. 101–104; Aluchna, 2013, p. 5).

The stewardship theory provides a different image of managers than the agency theory. The former's basic assumption is the compatibility of interests between the principle and the agent (Davis, Schoorman and Donaldson, 1997; Donaldson and Davis, 1991). The managers lack the tendency to perform opportunistic activities, want to fulfill their duties, manage the company's assets, and act in the interest of the owner. It is more important for them to maximize the usability of the whole enterprise rather than one's own. The stewardship theory's assumptions produce certain implications for the corporate governance role and its selected mechanisms of company's activity. According to the theory, there is no such thing as a conflict of interests between the owners and managers, and there is no problem connected with motivating managers to work efficiently and act in accordance with the owners' interests (Donaldson, 1990, p. 377). Managers can control themselves and, thus, the main goal of the board is to support the management board in the key decisions (Jeżak, 2010, p. 148).

The resource dependence theory also explains the significance of the board in the company's activity (Pfeffer and Salancik, 1978; Barney, 1991; Peteraf, 1993; Hillman, Cannella and Paetzold, 2000). According to this theory, the companies mostly aim at gaining a competitive advantage on the market which means greater attractiveness for purchasers, cooperatives, investors, and employees. Thus, the companies search for rare and precious resources and improve the ability to create and multiply them. The boards constitute a unique and valuable resource for the company, especially when their members possess knowledge, experience, high qualifications, and network. An important function of the board is, thus, to support managers in taking strategic decisions for the company.

The managerial hegemony theory greatly restricts the board's role in the companies' activity. According to the research conducted by Mace (1971; 1979), companies have professional managers who possess knowledge and information unavailable to others – e.g., to the supervisory board – thus hold the real power over the company. The board's role is limited to accepting the decisions of the board of directors, advising the managers, and only sometimes it increases in crisis situations. There is a dissonance between the formal (mythical) and real tasks of the board (Jeżak, 2010, p. 150–151). Moreover, the conformist approach of the board members to the company's owners exaggerates this situation. This allows the members to gain financial benefits for a long period without competencies.

Russian scientists research the boards of directors in the Russian companies since the middle of the 1990s. The studies on the boards of directors' structure, including those connected with the representatives of the groups of shareholders as well as the occurrence of specialized committees, usually convey investigations of the ownership structure. However, these studies were relatively less frequent – due to the domination of ownership structure as a mechanism of corporate governance – and mainly after the 1998 crisis. The Institute for Industrial and Market Studies conducted the most comprehensive studies in this field in the years 1999–2009 and also covered the boards of directors; their largest research sample included 700 enterprises (Dolgopyatova, Iwasaki and Yakovlev 2009). The Bureau of Economic Analysis researched the board of directors' content (Avdasheva, Dolgopyatova and Pleines, 2007). The enumerated research in Russian companies reveals a strong interrelation between the board's content and the ownership structure of the studied companies as well as the popularity of the phenomenon of combining ownership and control.

On the other hand, the research by the Russian Institute of Directors (RID 2015) shows a regular improvement in the corporate governance practice in 150 public companies studied in 2004–2015. These companies included such practices in the boards of directors as the presence of independent directors or appointment of specialized committees.

 DOI: 10.7206/jmba.ce.2450-7814.209

Muravyev (2016; 2017) examined the key structural characteristics of the boards in Russian public companies, the dynamics of those characteristics, and how do they relate to company performance. The studies that cover the years 1998–2014 reveal, among others, the ubiquity of medium-sized boards, prevalence of non-executive directors in the boards, and small ownership stakes held by board members (Muravyev 2017, p. 22). Iwasaki (2008), who studied the key structural characteristics of the Russian boards in 822 companies, reveals similar results. The author used other significant publications on the subject in further parts of the article.

## The specificity of corporate governance in Russia

Favourable conditions for the development of corporate governance in Russia emerged at the beginning of the 1990s along with the commencement of economic and political transformation. Until today, the dominant mechanism of corporate governance in Russia is the ownership structure. According to the results of research conducted by every leading scientific research center in Russia[4], the ownership structure of Russian companies has a relatively high level of concentration, which results in the dominant owner's control over the company. The concentration of ownership applies here to companies of various size, from different branches of industry, and of different types of organization (Dolgopyatova, 2010, p. 80). Dominant owners directly participate in managing the companies, which results in a combination of ownership and control. The demand for 'external' managers who are not the owners is very much restricted.

A significant aspect of the analysis of the ownership structure of Russian companies is state participation in ownership. State companies function in every sector of the economy and prevail in industries such as (Sprenger, 2010, p. 120–121) infrastructure, extraction, arms, financial services, and media. In the Russian corporate governance system, the capital market and the market for corporate control perform a secondary role, mainly because of relatively slow development of individual market institutions, low standards of observing minority shareholders rights, and difficult access to long-term bank loans for businesses. Scholars consider the capital market in Russia relatively narrow in terms of sector diversification and variety (IET, 2006, p. 21). The Russian market is dominated by industries in extraction, petroleum, gas, and construction.

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## The evolution of boards of directors in the Russian companies

The boards of directors' activity in the Russian companies commenced simultaneously with the emergence of the corporate sector. They formed in fully privatized public companies as well as in companies with mixed ownership. The legal regulation of the position of the board of directors as a company body introduced the 1995 act on 'Joint-stock companies.' This act offers companies the possibility to select one of two bodies, the board of directors or the supervisory board, but requires of them to use neither (Federalnyi zakon, 1995). In practice, the supervisory boards rarely appear in the Russian companies. Moreover, the 1995 act enabled the companies with fewer than 50 shareholders to resign from having a board altogether.

The significance of the boards of directors has been changing throughout the whole period of corporate governance system's creation depending on the general economic situation, institutional environment, evolution of legislation, conditions and aims of the company, and the evolution of other corporate governance mechanisms (Dulyak, 2012). In the 1990s, the boards of directors possessed only a formal character mainly due to solutions adopted in the field of privatization, which granted special privileges to companies' managers and enabled them to gain the position of dominant owners (Radygin, Gutnik and Malginov, 1995, p. 51, 56). Moreover, the progressing ownership concentration meant that in the majority of privatized companies, the dominant owner – very often the former director of a state-owned company – became the CEO and kept control over finance management and the whole company. The legislation described the rights and obligations of the boards; however, the possibilities of the organ were not fully utilized. The boards only served the realization of the interests of owners who held real operational and strategic control over the companies. Furthermore, the boards' members were not sufficiently prepared to function in the new economic conditions. The positions of senior managers stayed with the former 'red' directors with a specific mentality and management style.

After the crisis of 1998, the Russian companies gradually started to utilize the boards of directors as a tool for improving investment attractiveness, although they remained under the control of dominant owners (Dulyak, 2012, p. 26–27). An important process for the Russian companies in the 2000s was their turn to the Russian and international financial markets as important sources of external financing of ongoing activity and development. The largest capital groups offered the first Initial Public Offerings (IPOs). Due to that, the composition and activity of the boards required subordination to the demands of the stock exchanges, recommendations of other institutions, and the Code of Corporate Conduct implemented in 2002. As T. Dolgopyatova (2011, p. 53) points out, by distributing on foreign exchanges, the Russian companies aimed not only to gain capital but also improve their image and increase the capitalization of stocks.

This trend has been continuing in recent years especially because, after the crisis of 2008, the boards of directors came into use as an instrument that satisfies the internal needs of companies. Now, the boards serve not only to attract foreign investors but also to improve the quality of management and efficiency of the whole company (Dulyak, 2013, p. 12–14). On the other hand, the crisis increased the role of the state in the Russian economy, including the companies' ownership (Radygin, 2008, p. 88–92), which weighed heavily on the structure and functioning of the boards of directors in state-owned companies (SOEs).

## The key characteristics of the Russian boards of directors

Among the boards of directors' members in the Russian companies, both at the end of the 1990s and in the 2000s, prevailed the representatives of managers and employees (Table 1). This reflects the rise of the so-called 'insider model of corporate governance' in Russia which stems from highly a concentrated ownership structure and the combination of ownership and management. According to the research results of the Institute for Industrial and Market Studies (IIMS), the participation of the mentioned groups' representatives at the end of the 1990s reached 60% and, according to the results presented by the Bureau of Economic Analysis (BEA), it could even amount to 70%. As IIMS reveals, this participation dropped in the previous decade from about 55% in 2002 to 51.4% in 2005, but it was still relatively high and in conformity with the ownership structure of the studied companies. What should be highlighted is the decisive domination of the managers' representatives who abused their position and acquired more ownership rights (Dolgopyatova, 2001, p. 55). The Russian boards of directors strongly depend on the dominant owners who play a significant role in the selection of their members.

The participation of various state representatives ranged from 5 to 9%, with the tendency to drop. Among the remaining groups of entities, the representatives of industrial enterprises and natural persons played a considerable role in the boards' ranks. Bank representatives had the smallest participation. IIMS research from 2005 treats all the outsiders as one group and marks their participation of representatives in the boards to be 37.4%. It was in this research that the category of independent directors emerged for the first time: in 2005 they constituted 6.2% of the members of the studied companies' boards. Previously studies did not include independent directors, which does not mean that they did not exist in the boards. Russia lacks legal regulations that would impose the necessity to include in the boards the representatives of employees (shareholders or not) and minority shareholders during the formative period (IEP, 2007, p. 13).

**Table 1.** The structure of joint-stock companies' boards of directors according to the data from the research conducted by selected research centres in the years 1999–2005 (in %)

<table>
<tr><th rowspan="2">Representatives in boards of directors of:</th><th>IIMS</th><th>BEA</th><th>IIMS</th><th>IIMS</th></tr>
<tr><th>1999</th><th>2000</th><th>2002</th><th>2005</th></tr>
<tr><td>Employees</td><td>19.4</td><td>29.7</td><td>20.9</td><td>5.0</td></tr>
<tr><td>Managers</td><td>38.0</td><td>39.2</td><td>35.2</td><td>46.4</td></tr>
<tr><td>federal, regional or city authorities</td><td>8.9</td><td>5.4</td><td>6.6</td><td>5.0</td></tr>
<tr><td>foreign investors</td><td>2.1</td><td>1.4</td><td>b. d.</td><td rowspan="5">37.4*</td></tr>
<tr><td>Russian banks</td><td>2.1</td><td rowspan="2">4.1</td><td rowspan="2">1.2</td></tr>
<tr><td>institutional investors</td><td>9.1</td></tr>
<tr><td>industrial enterprises</td><td>15.0</td><td>10.8</td><td>13.0</td></tr>
<tr><td>RF citizens</td><td>5.4</td><td>9.5</td><td>23.0</td></tr>
<tr><td>independent directors</td><td>b. d.</td><td>b. d.</td><td>b. d.</td><td>6.2</td></tr>
<tr><td>average number of members</td><td>7.9</td><td>7.4</td><td>6.8</td><td>6.7</td></tr>
<tr><td>number of companies</td><td>278</td><td>393</td><td>289</td><td>736</td></tr>
</table>

Explanation: * – the research distinguished only the group of large external shareholders (their representatives constitute 32% of the board members from the studied companies) as well as small external shareholders (5.4%).

Source: own preparation based on Dolgopyatova (2007, p. 91); Avdasheva, Dolgopyatova and Pleines (2007, p. 36).

The researchers of the Russian corporate sector claim that the main characteristic of Russian corporate governance, apart from ownership concentration in the hands of insiders, is the direct participation of dominant shareholders in the companies' management and control (Dolgopyatova, Iwasaki and Yakovlev, 2009, p. 27). In many cases, the main shareholder is the CEO. The scholars consider the combination of ownership and control to be a formal institution of the Russian corporate governance system, present in both privatized enterprises and new companies, in which the owners consciously choose this kind of instrument of governance in their company. The IIMS conducted the most extensive research on this feature of the corporate governance

 DOI: 10.7206/jmba.ce.2450-7814.209

system in the middle of the 2000s on the group of 822 companies. The combination of ownership and management appeared in the majority of the studied companies; on the level of general director and managerial staff in 40% of the researched companies. A situation in which anybody from the managing staff (director or managers) possessed shares of the company emerged in further 37% of companies, which in sum gives 77% of companies with the combination of ownership and management.[5] We should, therefore, assume that, in most cases, there is no conflict of the agency of the owner-manager type the Russian companies and, thus, we should analyze the role of the boards of directors from the perspective of the resource dependence theory.

Independent directors constitute an important and increasingly current aspect of the boards of directors' activity in the Russian companies. In some parts of the companies, independent directors hold the function of minority shareholders' representatives because the representatives of majority shareholders prevail in the boards (NCCG, 2008, p. 81). Russians use the term 'independent directors' in an enhanced manner. The manner may pertain to banks' representatives, main suppliers, holding companies, and thus the entities that have direct relationships with the company (Sprenger, 2012, p. 156). Russian scholars typically consider the presence of independent directors on the boards as the sign of high standards in corporate governance. The necessity of their presence stems from either foreign stock exchanges requirements or the Moscow Exchange while, previously, from the requirements of Moscow Interbank Currency Exchange or the Russian Trading System.

The Russian enterprises became interested in the institution of an independent director after the crisis of 1998 while RAO JeES employed the first independent director in 1999 (IET, 2007, p. 16). According to the research conducted by the Association for Investors Rights Protection, now the Association of Institutional Investors, as many as twenty-five companies employed independent directors in 2000, thirty-nine in 2001, and fifty-five in 2002. At the end of 2006, the Association of Independent Directors (AID) conducted a multilevel research in the Russian companies' boards of directors (NCCG, 2008, p. 81–86) which revealed that about 100 companies, both public and private, had independent directors in their boards; this amounts to 180 people. The AID indicated the main factors that influence the employment of independent directors: the preparation to IPO; the demands and recommendations of regulators; and, the expectations of the portfolio and strategic investors.

5 As IIMS researchers emphasize, separation of ownership from management is the situation present mainly in capital groups of a holding type and relates to companies subordinated to the holding company.

At the end of the 1990s, the dominant share in the Russian companies' equity trading turnover had the London Stock Exchange (LSE) and the Deutsche Börse; in 1999, this share amounted to 67% (Gaidar Institute, 2016, p. 105–105). It was a very popular practice to conduct an IPO on foreign capital markets, and most of the IPOs took place on the LSE. The share of LSE in the value of the IPOs conducted by the Russian companies in the years 2005–2011 was on average 56% (ReDeal Group). Due to that, the relevant factor which stimulates the employment of independent directors in Russian boards stems from the requirements of foreign stock exchanges. Standard & Poor's proved this by researching seventy-five largest Russian companies, including twenty--four listed on foreign stock exchanges (Table 2). Internal members constituted on average two-thirds of the boards in the studied companies and the independent directors slightly less than 20%. The proportions change the moment the company enters a foreign stock exchange. In seventeen of the studied companies listed on the LSE, 31% of the boards' members were independent – the great majority of external directors – and, in seven companies listed on the New York stock exchanges, 33% of the boards' members were independent and internal members constituted merely about one-third of all the boards of directors' members.

**Table 2.** The structure of the boards of directors of 75 largest Russian public companies in 2006 (in %)

| | 75 studied companies | 17 companies listed on LSE | 7 companies listed on NYSE/NASDAQ |
|---|---|---|---|
| Internal members | 66.3 | 62.5 | 38.0 |
| External members including: | 33.7 | 37.5 | 62.0 |
| representatives of minority shareholders including: | 13.9 | 6.6 | 28.9 |
| representatives of strategic investors not exercising control | 10.9 | 6.1 | 27.6 |
| representatives of portfolio investors | 2.9 | 0.5 | 1.3 |
| independent members | 19.9 | 31.0 | 33.0 |
| state representatives | 23.0 | 11.3 | 9.1 |

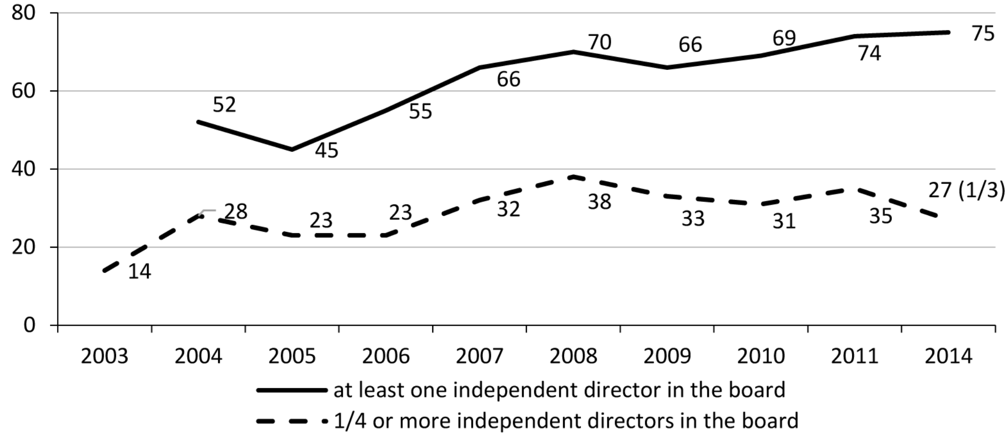
Source: Lazareva, Rachinsky and Stepanov (2007, p. 20).

The Russian Institute of Directors (RID) conducted the longest research on Russian boards of directors, in 2003–2014, on a fixed group of 150 joint-stock companies. The

 DOI: 10.7206/jmba.ce.2450-7814.209

RID considered the presence of specialized committees and participation of independent directors in the boards. While in 2004, about half of the boards had at least one independent director, in 2014, 75% of the boards had at least one (Figure 1). In 2003, 14% of the companies fulfilled the requirements of the 2002 Russian Code of Corporate Governance, which requires that independent directors should constitute at least a one-fourth of the board. In 2014, 27% of the companies fulfilled the requirement which was already raised to state that one-third of the boards' members should be independent directors.

**Figure 1.** Presence of independent directors in the boards of directors of the Russian joint-stock companies in the years 2003–2014 (150 companies, in % of the number of the studied companies)




Source: own preparation based on: RID (2008, p. 29); RID (2012, p. 50); RID (2015, p. 59).

The boards of directors are an important tool of state influence, as owner or co-owner, on the company activities in the Russian economy. Similarly, as in the case of the private companies, there is a strong need for efficient ownership management and control over managers' activity in the mixed and state-owned firms. This fact implies the need for representatives of various levels of authorities to participate in a board's work. In case of the SOEs or firms with the state as an important owner, external mechanisms of corporate governance lose significance and influence on the companies and managers (IET, 2009, p. 197). This issue has become particularly important in recent years due to the increasing position of the state in the Russian economy and the system of corporate governance. We observe these developments in the increase in the state ownership of the largest companies or the participation of SOEs in capitalization, transactions, and the capital market.

After the end of mass privatization, the influence of the state included not only personal designation of the representatives to the boards of directors' by the Russian Federation government and the President but also the determination of voting procedures during shareholders meeting (Malginov, 2001, p. 66–67). These issues significantly gained in the case of the so-called 'protected stock' controlled by the state during the privatization of shares of strategic enterprises for the state interests (Muravyev, 2003, p. 9). The main task of the authorities was to designate state representatives who had to control the companies and appoint directors to the boards; those usually were officials or other persons employed on special contracts designated by the President, government, the State Committee for State Property Management.

According to the research conducted by the Russian Economic Barometer of 1995–1996 about 312 joint-stock companies, the authorities participated in the boards of directors and executive bodies as a shareholder in 15% of the firms (IET, 2009, p. 98). In 9% of them, the state representation happened without a share in the capital while, in 11.2% of the companies, the participation of the state in share capital did not translate into the presence of its representatives. The tendency to appoint the representatives of city and regional authorities to the boards of the companies where the state is not the owner intensified in the first years of the 2000s.

As Malginov (2001, p. 63) points out, the characteristic features of officials engaged in corporate governance in the companies of mixed ownership in the 1990s were: irregularity of participation in the work of managing bodies, low level of professionalism, 'detachment' from the real processes in the company (ignoring company's debts and infringing financial discipline), voting for secondary share offerings which decreased state share in ownership. The abovementioned arguments indicate inefficiency of work of the state representatives in the management bodies.

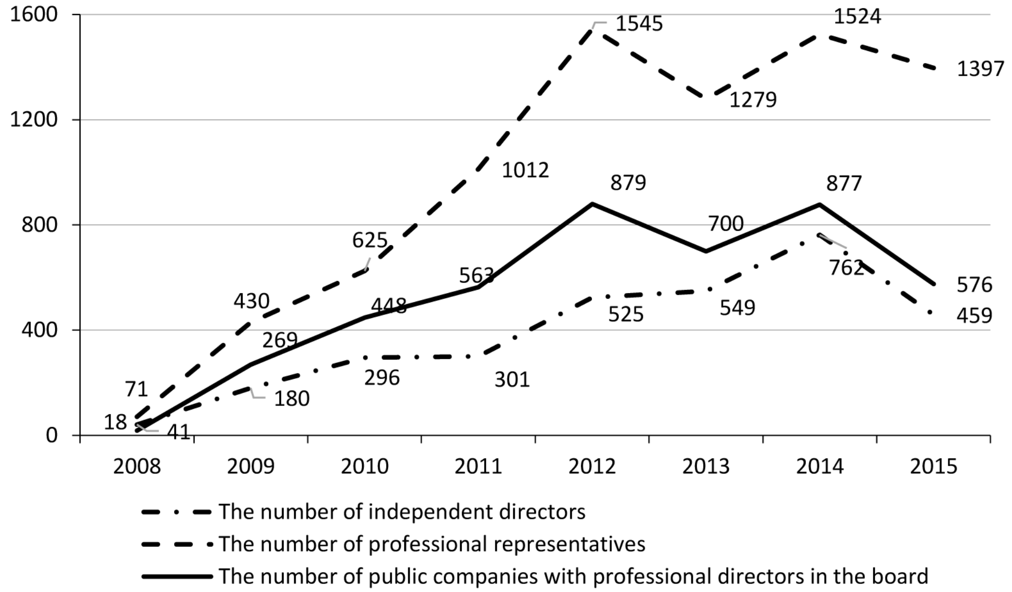
The crisis of 1998 necessitated a search for efficient and active methods to manage state assets, including the mixed enterprises. In September 1999, the government of the Russian Federation adopted the "Idea of the state-owned property management and privatization in the Russian Federation" (*Kontseptsiya upravleniya gosudarstvennym imushchestvom i privatizatsii v Rossiyskoy Federatsii*). The concept's implementation was supposed to improve the standards of corporate governance in state-owned companies and, in this way, better promote state interests as participant in corporate governance (Malginov, 2000, p. 28). Professional managers rarely received employment as representatives of the state in boards of directors in the 1990s and first years of the 2000s (Avdasheva, Dolgopyatova and Pleines, 2007, p. 6–7). The only form of employment of the professional managers as state representatives in firms co-owned by the

 DOI: 10.7206/jmba.ce.2450-7814.209

state was through shares ownership in the so-called 'trust management' or state holdings. In 2008, the Federal Agency for State Property Management (*Rosimushchestvo*) initiated the implementation of a program for appointing independent directors to the boards of directors of the state-owned companies, who were supposed to implement the current standards of corporate governance (Gogol and Starchenko, 2013, p. 154–155). The program also includes the replacement of state officials with independent directors. Ultimately, these activities should increase the transparency and innovative attractiveness of companies with state participation.

As the data from Figure 2 reveals, the number of professional directors in companies with state participation in ownership had been growing systematically since 2008, either when it comes to independent directors as well as the so-called professional representatives. In the years 2008–2012, it grew 18 times and in case of independent directors 13 times. The number of companies in which these directors were employed amounted to 879 in 2012 (as compared to 18 in 2008). The drop in the number of professional directors employed in state-owned companies results partially from the fact of selling some part of state assets in the aftermath of a difficult situation of the Russian economy in the last three years.

**Figure 2.** The dynamics of employment of professional directors in management bodies of joint-stock companies with state participation in capital in the years 2008–2015




Source: Rosimushchestvo (2012, p. 7–8); Rosimushchestvo (2016, p. 130–133).

However, Shastitko and Avdasheva (2009, p. 112) emphasize the results of appointing ministerial and office clerks to the boards of directors in the companies with mixed ownership. They have no right to obtain remuneration for their work on the boards and, thus, their motives may be distorted. Moreover, the competencies and qualifications of clerks conform to the tasks of their primary employment and may not correspond to the profile of the board's company. This situation grows worse because state officials usually have little knowledge of the reality in which companies operate, not to mention the world economy. The circumstances may improve due to the growing tendency to employ professional representatives and independent directors to the boards. The nearest years will help assess if the observed tendencies and their results are permanent and significant to companies' efficiency and the improvement in corporate governance standards.

## Boards of directors in the Russian companies – research design

The author's research results on the basic characteristics of the boards of directors in the Russian public companies will relevantly supplement the article. The following results are an important element of the research into the key features of the whole corporate governance system conducted within the scientific grant "Evolution of the corporate governance system in Russia."

The basis for the research was the "Expert 200" list; a ranking of 200 largest Russian companies in terms of capitalization. The Russian rating agency ExpertRA publishes the list and provides the key data for capitalization and selected financial indices for 200 largest public Russian companies, which cover over 95% of the whole market capitalization in Russia. The study operated on a group of 173 public companies from the "Expert-200" list. The research excluded banks and insurance and investment companies because their different legal acts regulate their operations than the activities of enterprises. Moreover, the author excluded the companies with incomplete data.

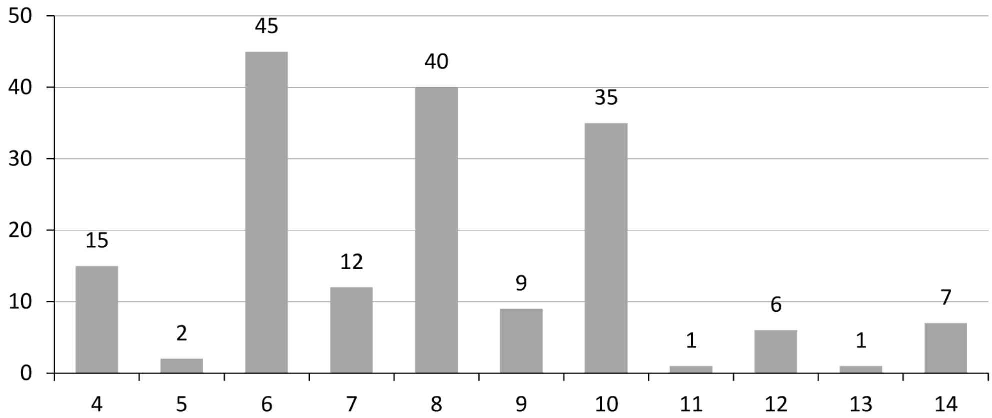
The main source of information was the Russian database SPARK of the Interfax agency, the System of Professional Analysis of Markets and Enterprises, which provides detailed profiles of all the Russian companies. The analysis concerned the data from 2014: number of members in the boards of directors; structure according to education, age, and sex; participation of foreign directors; possession of shares by the members of the boards of directors.

 DOI: 10.7206/jmba.ce.2450-7814.209

## Boards of directors in the Russian companies – research results

In the studied companies, 45 companies employed 6 directors, 40 companies employed 4, and 35 companies employed 10 members of the board (Figure 3). The average number of members in the boards of directors in the studied group is eight people, which corresponds to the requirements of the "Federal law on joint-stock companies."

**Figure 3.** The number of members in the boards of directors in the studied joint-stock companies



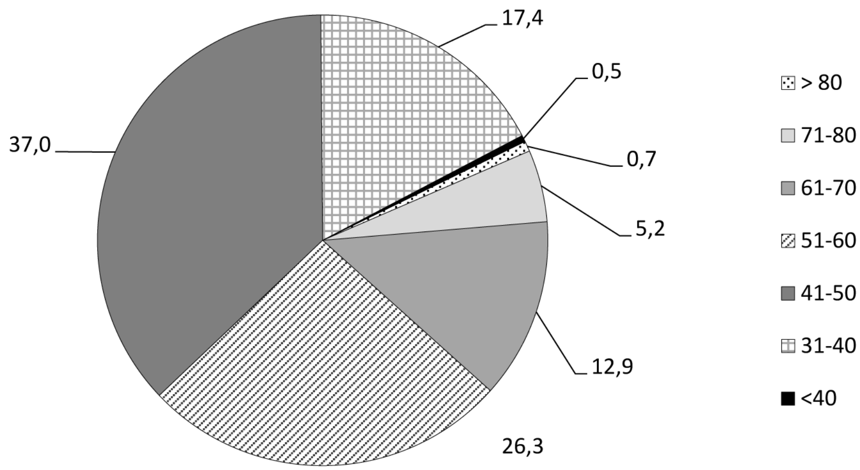

Source: own preparation based on the SPARK data.

The boards of directors in the studied companies mostly consist of members between forty-one and sixty years of age, which jointly constitutes 63.3% of all directors. This age may indicate their proper qualification and experience, but it also suggests that they may have roots in the centrally planned economy. Moreover, we observe the following interdependence: the larger the company and its ranking – it often belongs to a big business group – the older the directors on the boards. The average age of chairmen in the studied boards was fifty-two.

Men strongly dominate the Russian boards of directors. In the studied companies, men constitute 87.2% of all the boards' members (Figure 5). Furthermore, men were the only members in seventy-one of the companies. Women chaired the boards of directors only in seven firms. The studied companies also employed foreign directors which the result of the foreign investors' participation in ownership. In the studied group, there were 120 foreign directors employed in forty-five companies. The presence of foreign directors in the boards concerned the companies with relatively larger capitalization (higher ranking) whose shares appear on foreign stock exchanges.

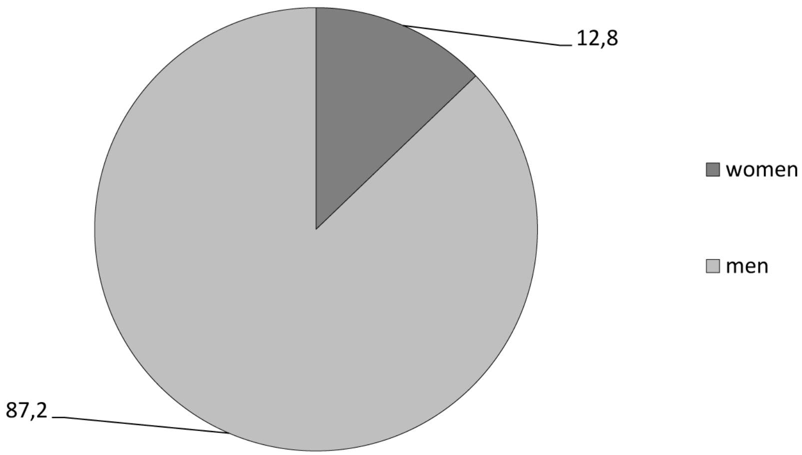
Additionally, we observe that the higher the company ranks, the more detailed data about the boards' members are publicly available. This rule partly relates to the requirements of foreign stock exchanges, on which these companies list their shares, as well as the necessity to increase their attractiveness to foreign investors.

**Figure 4.** The structure of the studied boards of directors according to age (in %)




Source: own preparation based on the SPARK data.

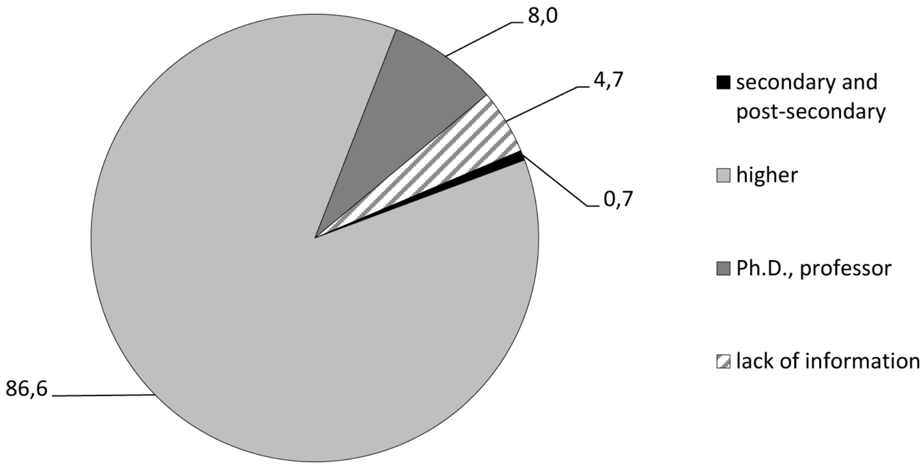
**Figure 5.** The structure of the studied boards of directors according to sex (in %)




Source: own preparation based on the SPARK data.

The directors of the Russian companies' boards typically have a high level of education. In the research trial, 86.6% of the directors possessed higher education and 8% even held a Ph.D. degree, assistant professorship, or professorship (Figure 6). Furthermore, we found the following interdependencies: the higher the company's capitalization, the more the directors are assistant professors or professors.

**Figure 6.** The structure of the studied boards of directors according to education (in %)




Source: own preparation based on the SPARK data.

The study also concerned the participation of directors in companies' ownership. In thirty-nine of the joint-stock companies, the chairpersons had a share in ownership in the average of 7.21% with the extreme case amounting to 64.18%. Moreover, in seventy-six companies, the boards of directors' members held shares of the company with the average of 7.03% and the extreme case amounting to 57.6%. This kind of situation means that the decisions and activities of the boards of directors' members better comply with the interests of other owners.

## Conclusions

The privatization of the state-owned companies in Russia and the emergence of new private companies led to the creation of indispensable supervisory and control bodies: the boards of directors. In the past twenty years, the boards of directors have become a crucial element of the Russian corporate governance system, especially in public companies listed on foreign capital markets. Similarly to other corporate governance mechanisms, the boards fulfill only a secondary role due to the high level of ownership concentration and the connection of ownership function and management in the Russian companies.

In the case of numerous public companies, the combination of ownership and management means limiting potential conflicts of agencies. We should, therefore, consider the boards of directors in the Russian companies in the context of the resource dependence theory. The directors of public companies have a high level of education and experience. Moreover, an increasing number of companies fulfils the standards connected to the employment of independent directors. On the other hand, high level of ownership concentration translates into a strong dependence of the board's members on the dominant owners and their interests.

The current situation of the Russian economy results from the financial and economic sanctions, currency crisis, and limited access to foreign financial markets. Considering this alongside the fact that the crises of 1998 and 2008 greatly energized the evolution of the Russian corporate governance system raises the question: How the current situation in the Russian economy will influence the activity of public companies and the role of the boards of directors? On the one hand, it may mean ownership redistribution and replacement of some part of directors. Moreover, it may motivate the companies to further improve their corporate governance standards, also in case of companies with a significant share of the state in ownership. On the other hand, the difficult situation of the Russian economy and companies questions the importance of the boards of directors and the possibility of their influence on the companies' efficiency. This framing of the situation significantly contributes to further research on the Russian boards of directors.

Russian experiences in the construction and development of corporate governance system, including the board of directors, should be used by other countries in situations of significant economic and socio-political changes to track the corresponding dynamics of board work, functions, and structure. The research on the Russian companies should be an important trigger for comparative studies in the field of corporate governance in Central and Eastern European economies.

 DOI: 10.7206/jmba.ce.2450-7814.209

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