CORPORATE GOVERNANCE IN TRANSITION AND DEVELOPING ECONOMIES: A CASE STUDY OF SOUTH KOREA

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ABSTRACT

The World Bank has published a series of reports on corporate governance as part of its project on the Reports on the Observance of Standards and Codes (ROSC). The corporate governance principles in its ROSC Reports are benchmarked against the OECD’s *Principles of Corporate Governance* (OECD 2004). The main categories of principles are discussed below. This study focuses on the main corporate governance attributes of South Korea. The paper concludes with an extensive bibliography.

INTRODUCTION

Corporate governance issues are especially important in transition economies, since these countries do not have the long-established financial institution infrastructure to deal with corporate governance issues. Before the fall of the Berlin Wall and the collapse of the Soviet Union, there was no need to discuss corporate governance issues because all enterprises were owned by the state and there were no shareholders. All that has changed since 1989. This study discusses in general how transition economies are dealing with corporate governance issues and the extra obstacles they have to overcome due to a lack of established financial institution infrastructure, then focuses on the main corporate governance issues in a particular country.

Corporate governance has become an important topic in transition economies in recent years. Directors, owners and corporate managers have started to realize that there are benefits that can accrue from having a good corporate governance structure. Good corporate governance

helps to increase share price and makes it easier to obtain capital. International investors are hesitant to lend money or buy shares in a corporation that does not subscribe to good corporate governance principles. Transparency, independent directors and a separate audit committee are especially important. Some international investors will not seriously consider investing in a company that does not have these things.

Several organizations have popped up in recent years to help adopt and implement good corporate governance principles. The Organisation for Economic Cooperation and Development, the World Bank, the International Finance Corporation, the U.S. Commerce and State Departments and numerous other organizations have been encouraging governments and firms in Eastern Europe to adopt and implement corporate codes of conduct and good corporate governance principles.

The Center for International Private Enterprise (2002) lists some of the main attributes of good corporate governance. These include:

- Reduction of risk
- Stimulation of performance
- Improved access to capital markets
- Enhancement of marketability of goods and services
- Improved leadership
- Demonstration of transparency and social accountability

This list is by no means exhaustive. However, it does summarize some of the most important benefits of good corporate governance. All countries, whether developed or developing face similar issues when it comes to corporate governance. However, transition economies face additional hurdles because their corporate boards lack the institutional memory and experience that boards in developed market economies have. They also have particular challenges that the more developed economies do not face to the same extent. Some of these extra challenges include:

- Establishing a rule-based (as opposed to a relationship-based) system of governance;
- Combating vested interests;
- Dismantling pyramid ownership structures that allow insiders to control and, at times, siphon off assets from publicly owned firms based on very little direct equity ownership and thus few consequences;
- Severing links such as cross shareholdings between banks and corporations;
- Establishing property rights systems that clearly and easily identify true owners even if the state is the owner; (When the state is an owner, it is important to indicate which state branch or department enjoys ownership and the accompanying rights and responsibilities.);
- De-politicizing decision-making and establishing firewalls between the government and management in corporatized companies where the state is a dominant or majority shareholder;
- Protecting and enforcing minority shareholders’ rights;
- Preventing asset stripping after mass privatization;
- Finding active owners and skilled managers amid diffuse ownership structures; and
- Cultivating technical and professional know-how (CIPE 2002).
REVIEW OF THE LITERATURE

Actually, the literature on the topic of corporate governance is too large to review in any detail. A full review of just the Russian literature in the English language would require a book. Then there is the Russian language literature and the English and national language literature for each of the other former Soviet republics, plus each country in Central and Eastern Europe, the Balkans and China.

Hundreds of articles and dozens of books have been written about corporate governance in the last few years alone. One book that should be mentioned is *Corporate Governance* by Monks and Minow (2004). This book was required reading for the ACCA Diploma in Corporate Governance program before that program was discontinued. Davis Global Advisors publishes an annual *Leading Corporate Governance Indicators*, which measures corporate governance compliance using a variety of indicators.

The Cadbury Report (1992) published the findings of the Committee on Financial Aspects of Corporate Governance. The Greenbury Report (1995) discusses directors’ remuneration. The Hampel Committee Report (1998) addresses some of the same issues as the Cadbury and Greenbury reports. It has separate sections on the principles of corporate governance, the role of directors, directors’ remuneration, the role of shareholders, accountability and audit and issued conclusions and recommendations. The *Encyclopedia of Corporate Governance* is a good reference tool for obtaining information on corporate governance. It is available online. The OECD’s *Principles of Corporate Governance* (1999; 2004) has been used as a benchmark for a number of corporate governance codes in transition economies. OECD has also published a *Survey of Corporate Governance Developments in OECD Countries* (2003). The European Corporate Governance Institute maintains many links to codes of corporate conduct for many countries on its website.

Several academic journals are devoted either exclusively or partially to corporate governance issues. The following journals are among those devoted exclusively to corporate governance issues:

*Corporate Governance*
*The Corporate Governance Advisor*
*Corporate Governance: An International Review*
*Corporate Governance: International Journal of Business in Society*
*Dow Jones Corporate Governance*
*IUP Journal of Corporate Governance*
*Journal of Management and Governance*
*Corporate Ownership and Control*

*Governance* is an international monthly newsletter devoted exclusively to corporate governance issues. *Economics of Governance* also publishes articles on corporate governance, in addition to articles on governance in the nonprofit and governmental sectors.
Several websites are also devoted to corporate governance issues and contain many articles, research papers and reports on a wide variety of corporate governance issues. These include:

- British Accounting Association Corporate Governance Special Interest Group
- Corporate Monitoring
- European Corporate Governance Institute
- Global Corporate Governance Forum
- International Corporate Governance Network
- Organisation for Economic Cooperation and Development
- World Bank

Within the field of corporate governance literature is a subfield of corporate governance in transition economies. The OECD has published a *White Paper on Corporate Governance in South Eastern Europe* (2003) that is used for guidance by enterprises in that part of the world. This *White Paper* contains sections on shareholder rights and equitable treatment, the role of stakeholders, transparency and disclosure, the responsibilities of the board, and implementation and enforcement. Much of what is contained in this *White Paper* is applicable to corporate governance in Russia as well, although the *White Paper* is not specifically addressed to Russian enterprises. The OECD and World Bank websites have numerous publications on corporate governance in other East European countries as well.

The OECD website section on corporate governance is subdivided by country. There is a link for Russia that contains studies, papers and announcements pertaining to Russia. One important paper is the OECD’s *White Paper on Corporate Governance in Russia* (2002), which contains recommendations for improving corporate governance in Russia. The Russian Corporate Governance Roundtable website also contains documents and announcements pertaining to corporate governance in Russia. The International Finance Corporation, which is affiliated with the World Bank, has a Russia Corporate Governance Project. Its website provides up to date information about several aspects of corporate governance in Russia. The Global Corporate Governance Forum website provides links to more than 60 organizations that are involved in corporate governance issues.

Several Russian organizations also have websites and publication on corporate governance. The Russian Institute of Directors website contains news items and well as publications. Some of its publications and links include a *Code of Corporate Governance* (2002), several Foreign Best Practices Codes and several corporate codes of conduct. They also publish surveys and provide training for corporate directors in Russia. The Independent Directors Association also has a website that provides current information and various documents on corporate governance, mostly pertaining to directors. It also publishes a newsletter, which is available on its website. The Institute of Corporate Law and Corporate Governance also has a website that contains publications about corporate governance in Russia. One of its studies is *Managing Corporate Governance Risks in Russia* (2002). It also provides corporate governance ratings of Russian firms.

Detailed or even brief descriptions of all the papers that have been written on corporate governance in general, corporate governance in transition economies or corporate governance in Russia would take us far afield of the limited focus of the present paper. Citing the sources above is intended to give other researchers some good leads that will aid them in their own research. However, a few papers are worthy of special mention.
A rich body of literature about corporate governance in Russia has evolved and grows larger with each passing year. Judge, Naoumova and Kutzevol (2003) conducted survey research of Russian managers in December 2002 that found a negative correlation between leadership and firm performance where the same person served as CEO and board chair. This finding is especially curious given the fact that Russian federal legislation has made it illegal since 1996 for the same person to serve as both CEO and board chair at the same time. They also found that the correlation between the proportion of inside directors serving on the board and firm performance becomes increasingly negative the more vigorously a firm pursues a retrenchment strategy. But there was no significant correlation between the proportion of inside directors and firm performance when the firm was not in retrenchment mode, which seems to support the view that inside directors generally fulfill their fiduciary duties to the owners except when their jobs are threatened. Their study complements an earlier study by Wagner, Stimpert and Fubara (1998), which found that very high and very low levels of insider representation on the board had an effect on board performance, whereas moderate levels of representation did not.

Puffer and McCarthy (2003) discuss the substantial progress made in corporate governance in Russia in recent years and track the emergence of corporate governance in Russia through four stages – commercialization, privatization, nomenklatura and statization -- beginning in the mid-1980s. They place special emphasis on problems on nondisclosure and nontransparency that have made Russia one of the riskiest countries for investment. In an earlier work (2002) they examine the question of whether the Russian corporate governance model will evolve into something that looks like the U.S. model or whether it will look more like the European model. They conclude that it will evolve into something that is uniquely Russian, taking into account Russian values, culture and tradition.

Buck (2003) discusses corporate governance in Russia from a historical perspective and the hostile attitude that is taken toward Western and outside investors. He also discusses the persistently strong State influence in Russian corporate governance. Roth and Kostova (2003) tested data from 1,723 firms in 22 countries in Central and Eastern Europe and the Newly Independent States and conclude that cultural factors must be considered when explaining corporate governance in transition economies.

Filatotchev et al (2003) discuss the effect that privatization has had on corporate governance in Eastern and Central European countries. They suggest that excessive management control and ignorance of the governance process is causing problems that could be reduced by increasing the influence of outside directors. Their arguments are supported by case studies.

Peng, Buck and Filatotchev (2003) conducted a survey of 314 privatized Russian firms and tested two hypotheses of agency theory that outside directors and new managers correlate positively to firm performance. They found little support for the hypotheses, a finding that goes against much of the prior research and thinking on this relationship. Their findings question whether this issue must be viewed from other perspectives.

Robertson, Gilley and Street (2003) collected data from 112 U.S. and 74 Russian respondents and looked for patterns of ethical conduct. McCarthy and Puffer (2003) focus on large Russian companies and provide a framework for analyzing corporate governance in transition economies where the corporate governance process is still evolving. They draw on agency theory, stakeholder theory and the cultural embeddedness model in their analysis.

Muravyev (2001) challenges the view that good corporate governance does not exist in Russia and shows through an empirical study that Russian executives can be fired for poor performance. He also challenges the view that the state is a passive shareholder in Russian
enterprises and presents evidence of how the ownership of a corporation influences managerial succession.

Filatotchev, Buck and Zhukov (2000) examined enterprises in Russia, Ukraine and Belarus and looked at the relationship between downsizing and outside, noninstitutional shareholding. They found that downsizing is positively correlated with outside, noninstitutional shareholding but that the firm’s ability to downsize is negatively correlated with the degree of management shareholding. In other words, when management is entrenched and has a sufficiently large block of voting shares, it can block downsizing in an effort to protect jobs.

Several studies have been done on various aspects or components of corporate governance. In the area of timeliness of financial reporting, for example, the Accounting Principles Board (1970) recognized the general principle several decades ago. The Financial Accounting Standards Board (1980) recognized the importance of timeliness in one of its Concepts Statements. Ashton, Graul and Newton (1989) examined the relationship of timeliness and the delay of audits. Atiase, Bamber and Tse (1989) examined the relationship of timeliness, the firm size effect and stock price reactions to annual earnings announcements. Basu (1997) applied the principle of conservatism to the asymmetric timeliness of earnings. Chai and Tung (2002) studied the effect of earnings announcement timing on earnings management. Chambers and Penman (1984) looked at the timeliness of reporting and the stock price reaction to earnings announcements.


Studies on the timeliness of financial reporting have been done of the Russian energy sector (McGee 2006, 2007b&c), the Russian telecom industry (McGee 2007a&c) and the Russian banking industry (McGee & Tarangelo 2008). Another study compared the timeliness of financial reporting by companies in the new and old EU countries (McGee & Igoe 2008). Another study examined the timeliness of financial reporting in China (McGee & Yuan 2008a).
Other studies focusing on the timeliness of financial reporting included an overview of the subject (McGee 2008c), a comparative study of timeliness in the USA and China (McGee & Yuan 2008b), a comparative study of Russian and non-Russian banks (McGee & Tarangelo 2008a), the Russian transportation industry (McGee & Gunn 2008), Russian and non-Russian companies in general (McGee & Tyler 2008), a comparative study of Russian and US companies (McGee, Tarangelo & Tyler 2008), a comparative study of companies in Russia and the European Union (McGee, Tyler, Tarangelo & Igoe 2008), a comparative study of Russia and China (McGee, Yuan, Tarangelo & Tyler 2008) and a trend analysis of timeliness in Russia (McGee 2008d).

Other studies examined other principles of corporate governance outlined in the OECD (2004) White Paper. Studies were done on insider trading (McGee 2008a) and the market for corporate control (McGee 2008b), for example.

GUIDELINES FOR EMERGING ECONOMIES

Numerous articles, documents and reports have been published in recent years that provide some policy guidelines for good corporate governance. Such documents are especially valuable for transition economies, since the subject of corporate governance is new for them and even their top government and private sector leaders have little or no experience governing market oriented private firms that have a public constituency. The World Bank has published more than 40 studies on corporate governance in various countries that use the OECD principles ((OECD 2004) as a template. Seventeen of those studies are of transition economies and are listed in the reference section.

The OECD (2004) principles are subdivided into the following categories:

I. Ensuring the Basis for an Effective Corporate Governance Framework

“The corporate governance framework should promote transparent and efficient markets, be consistent with the rule of law and clearly articulate the division of responsibilities among different supervisory, regulatory and enforcement authorities.”

II. The Rights of Shareholders and Key Ownership Functions

“The corporate governance framework should protect and facilitate the exercise of shareholders’ rights.”

III. The Equitable Treatment of Shareholders

“The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights.”

IV. The Role of Stakeholders in Corporate Governance
“The corporate governance framework should recognize the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises.”

V. Disclosure and Transparency

“The corporate governance framework should ensure that timely and accurate disclosure is made of all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company.”

VI. The Responsibilities of the Board

“The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board’s accountability to the company and the shareholders.”

One of the better documents in this area was published by the Institute of International Finance. Its *Policies for Corporate Governance and Transparency in Emerging Markets* (2002) provides a set of guidelines that corporate officers and directors can use when establishing or revising their own company’s corporate governance rules. Here are some of the main suggestions.

**Minority Shareholder Protection**

The company should have a formal policy that defines voter rights and which corporate actions require shareholder approval. There should also be a mechanism that allows minority shareholders to voice their objections to majority decisions. Minority shareholders should have the legal right to vote on all important matters, including mergers and the sale of substantial assets.

Firms should be encouraged to allow proxy voting and proxy systems should be available to all shareholders, foreign and domestic.

Multiple voting classes should be eliminated where they exist. The number of nonvoting and supervoting shares should be reduced or eliminated and all new issues should have a “one share, one vote” policy.

Cumulative voting should be permitted. Shareholder approval of takeovers, mergers and buyouts should be required. Any anti-takeover measures such as poison pills, golden parachutes and issuances of bonds with special rights in the event of a takeover should have to be approved by shareholders. Spinoffs should also require a majority vote of all shareholders.

Dilution of ownership or voting rights should require a majority vote of all shareholders, at the very least. The IIF recommends a supermajority vote as a “Best Practice.”

In the event of a takeover or delisting, all shareholders should be offered the same terms. Shareholder approval should be required before a company can sell additional shares to existing majority shareholders after some threshold. Any capital increases should first be offered to any existing shareholders. Significant share buybacks should require shareholder approval.

Shareholders should be notified a sufficient time in advance of shareholder meetings. The “Best Practice” is to send a notice of the meeting and agenda at least one month prior to the
meeting. Reasonable efforts should be taken to prevent vote fraud and to allow for a recount in the event an election is contested. Minority shareholders should be able to call special meetings and petition the board with some minimum share threshold.

Foreign and domestic shareholders should be treated equally. A policy should be established to clearly define who retains the right to vote when shares are traded close to the meeting date. Quorum rules should not be set too low or too high. The IIF recommends around 30 percent, which should include some independent minority shareholders.

**Structure and Responsibilities of the Board**

The company should define independence, disclose the biographies of board members and make a statement on independence. The IIF recommends that as a Best Practice a board member cannot (a) have been an employee of the firm in the past 3 years, (b) have a current business relationship with the firm, (c) be employed as an executive of another firm in which any of the company executives serve on that firm’s compensation committee, and (d) be an immediate family member of an executive officer of the firm or any of its affiliates.

At least one-third of the board should be non-executive, a majority of whom should be independent. The Best Practice calls for a majority of independent directors.

The board should meet every quarter for large companies. The audit committee should meet every six months. Minutes of meetings should become part of the public record. The Best Practice would be to apply this rule to all companies.

The quorum requirement should be specified by the firm and should consist of executive, nonexecutive and independent nonexecutive members. Best Practice calls for representation by both executive and independent directors.

Nominations to the board should be made by a committee that is chaired by an independent nonexecutive. There should be a mechanism in place that would allow minority shareholders to put forth the names of potential directors at annual general meetings and extraordinary general meetings.

For large firms, directors should need to be re-elected every three years. The Best Practice rule would apply the three-year requirement to firms of any size.

For large companies, the compensation and nomination committees should be chaired by an independent nonexecutive director. The Best Practice would be to extend this requirement to firms of any size.

The board should formally evaluate directors before their election, in the case of large firms. The Best Practice is to extend this requirement to firms of any size.

The board should disclose immediately any information that affect the share price, including major asset sales or pledges. Procedures should be established for releasing information. Best Practice calls for releasing information on the company website at through the stock exchange.

Remuneration for all directors and senior executives should be disclosed in the annual report. All major stock option plans should be disclosed and subjected to shareholder approval.

The company’s articles of association or bylaws should clearly state the responsibilities of directors and managers. This document should be accessible to all shareholders.

The chairman or CEO should publish a statement of corporate strategy in the annual report.

Any actual or potential conflict of interest involving a board member or senior executive should be disclosed. Board members should abstain from voting in cases where they have a
conflict of interest. The audit or ethics committee is required to review conflict of interest situations.

The integrity of the internal control and risk management system should be a function of the audit committee, according to the Best Practice guideline.

The company should have an investor relations program. Best Practice requires the CFO or CEO to assume this responsibility as part of the job.

The company should make a policy statement concerning environmental and social responsibility issues.

**Accounting and Auditing**

The company should disclose which accounting principles it is using. It should comply with local practice and file consolidated annual statements where appropriate. Companies should file annual audited reports and semi-annual unaudited reports. Best Practice calls for filing quarterly unaudited reports.

Audits should be conducted by an independent public accountant. Best Practice calls for adherence to the standards developed by the International Forum on Accountancy Development.

Off balance sheet transactions (e.g. operating leases and contingent liabilities) should be disclosed.

The audit committee should issue a statement on risk factors. For large companies, the audit committee should be chaired by an independent director. Best Practice calls for the audit committee chair to be an independent director regardless of company size. The chair must have a financial background. A minimum of one week should be allocated for any committee review of an audit. Communication between the internal and external auditor should be without having executives present.

Any departures from accounting standards must be explained in the annual report.

**Transparency of Ownership and Control**

Best Practice calls for significant ownership (20-50%, including cross-holdings) to be deemed as control.

For buyout offers to minority shareholders, Best Practice calls for ownership exceeding 35% to be considered as triggering a buyout offer in which all shareholders are treated equally.

Companies should disclose directors’ and senior executives’ shareholdings and all insider dealings by directors and senior executives should be disclosed within 3 days of execution.

Best Practice calls for shareholders with minimally significant ownership (3-10%) of outstanding shares to disclose their holdings.

There should be independence between industry and government. There should be rules outlining acceptable employee and management conduct.

This Institute of International Finance document is not the only comprehensive set of guidelines on corporate governance practices. The Organization for Economic Cooperation and Development (OECD) [www.oecd.org] has several comprehensive documents as well. Private groups have also issued comprehensive guidance documents. Gregory [2000] has published a major study that compares various sets of guidelines.

Merely having rules and guidelines is not enough to ensure success, however. Culture, institutions and organizational structure also play an important role. Roth and Kostova [2003] conducted a major study of 1,723 firms in 22 countries in Central and Eastern Europe and the
Newly Independent States and that a firm’s adopting a new governance structure will be helped or hindered based on these factors.

CORPORATE GOVERNANCE IN SOUTH KOREA

The present study focuses on corporate governance in South Korea. The data for this study was taken from the World Bank study on this country.

METHODOLOGY

The corporate governance topics discussed in the World Bank’s ROSC Report were classified into categories based on the extent of compliance with the OECD’s Principles of Corporate Governance (OECD 2004). Points were then assigned to each category, as follows:

- O = Observed = 5 points
- LO = Largely Observed = 4 points
- PO = Partially Observed = 3 points
- MNO = Materially Not Observed = 2 points
- NO = Not Observed = 1 point

SUMMARY OF FINDINGS

Table 1 summarizes the scores in the various categories. The table categorizes compliance with corporate governance principles into five categories.

<table>
<thead>
<tr>
<th>Table 1</th>
<th>Summary of Scores by Category</th>
<th>O</th>
<th>LO</th>
<th>PO</th>
<th>MNO</th>
<th>NO</th>
</tr>
</thead>
<tbody>
<tr>
<td>I Rights of Shareholders</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>A Protect shareholder rights</td>
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<td>X</td>
<td></td>
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<td></td>
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<tr>
<td>B Shareholders have the right to participate in, and to be sufficiently informed on, decisions concerning fundamental corporate changes.</td>
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<td>X</td>
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<tr>
<td>C Shareholders should have the opportunity to participate effectively and vote in general shareholder meetings.</td>
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<td>X</td>
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<tr>
<td>D Capital structures and arrangements that allow disproportionate control.</td>
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<td></td>
<td></td>
<td></td>
<td>X</td>
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<tr>
<td>E Markets for corporate control should be allowed to function in an efficient and transparent manner.</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>X</td>
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<tr>
<td>F Shareholders should consider the costs and benefits of exercising their voting rights.</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>X</td>
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<tr>
<td>II</td>
<td>Equitable Treatment of Shareholders</td>
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<tr>
<td>A</td>
<td>The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders.</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B</td>
<td>Insider trading and abusive self dealing should be prohibited.</td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>C</td>
<td>Board members and managers should be required to disclose material interests in transactions or matters affecting the corporation.</td>
<td>X</td>
<td></td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>III</th>
<th>Role of Stakeholders in Corporate Governance</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>The corporate governance framework should recognize the rights of stakeholders.</td>
</tr>
<tr>
<td>B</td>
<td>Stakeholders should have the opportunity to obtain effective redress for violation of their rights.</td>
</tr>
<tr>
<td>C</td>
<td>The corporate governance framework should permit performance enhancement mechanisms for stakeholder participation.</td>
</tr>
<tr>
<td>D</td>
<td>Stakeholders should have access to relevant information.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>IV</th>
<th>Disclosure and Transparency</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters.</td>
</tr>
<tr>
<td>B</td>
<td>Information should be prepared, audited and disclosed in accordance with high quality standards of accounting, financial and nonfinancial disclosure and audit.</td>
</tr>
<tr>
<td>C</td>
<td>An independent audit should be conducted by an independent auditor.</td>
</tr>
<tr>
<td>D</td>
<td>Channels for disseminating information should provide for fair, timely and cost effective access to relevant information by users.</td>
</tr>
</tbody>
</table>
Table 2 shows the scores for each subcategory. The weighted-average score was 3.78.

### Table 2
Corporate Governance Scores

<table>
<thead>
<tr>
<th>Category</th>
<th>Total Points</th>
<th># of Items</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rights of Shareholders</td>
<td>24</td>
<td>6</td>
<td>4.00</td>
</tr>
<tr>
<td>Equitable Treatment of Shareholders</td>
<td>10</td>
<td>3</td>
<td>3.33</td>
</tr>
<tr>
<td>Role of Stakeholders in Corporate Governance</td>
<td>17</td>
<td>4</td>
<td>4.25</td>
</tr>
<tr>
<td>Disclosure and Transparency</td>
<td>16</td>
<td>4</td>
<td>4.00</td>
</tr>
<tr>
<td>The Responsibility of the Board</td>
<td>20</td>
<td>6</td>
<td>3.33</td>
</tr>
<tr>
<td>Overall Average</td>
<td></td>
<td></td>
<td>3.78</td>
</tr>
</tbody>
</table>

The graph below shows the relative scores. Role had the highest score (4.25). All of the scores were above 3.00.
RECOMMENDATIONS

The ROSC Report made several recommendations. Companies should give minority shareholders a greater voice in corporate governance. One area where more voice is needed is in the selection of directors. Cumulative voting is suggested as a way of achieving this goal. Ways should be found to facilitate foreign investor voting.

The process for nominating independent directors should be improved. There should be a requirement that at least two-thirds of outside nomination committees should be independent directors.

Shareholders and investors should be able to file class action lawsuits against directors, managers and auditors for violations of the law and breaches of duty. Companies should consider the possibility of allowing shareholders to vote electronically. There should be full disclosure for related party transactions. Self-dealing and insider trading rules should be strengthened by excluding inside directors from making decisions that involve potential conflict of interest or related party transactions.

Companies should improve their accounting standards and auditing practices and should move in the direction of international standards and practices. They should improve the quality of disclosure in their quarterly and annual reports, especially in the areas of related party transactions, conflicts of interest and nonfinancial information.

Companies should improve the effectiveness of their audit committees in ways that are consistent with international best practices. Statutory auditors should be replaced with audit committees in the case of smaller companies. The knowledge and skills of audit committees should be upgraded.

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Global Corporate Governance Forum http://www.gcgf.org/


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