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Russia's New Horizons

ENHANCING RUSSIAN CORPORATE GOVERNANCE STANDARDS

Panel

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12:00–13:15, Pavilion 4, Conference Hall 4.3

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2013

Moderator:

Olga Dergunova, Deputy Minister of Economic Development, Head of Federal Agency for State Property Management, Russian Federation

Panellists:

Alexander Afanasiev, Chairman of the Executive Board, Chief Executive Officer, Moscow Exchange

Andrei Bugrov, Deputy Chairman of the Board of Directors, Non-Executive Director, MMC Norilsk Nickel; Deputy Chief Executive Officer, Member of the Management Board, Interros Holding Company

Ronald Freeman, Independent Director, Member of the Audit Committee of the Board of Directors, Severstal

Albert Ganyushin, Head of Listings – International, NYSE Euronext

David Gray, Managing Partner, PwC Russia

Dmitry Pankin, Head, Federal Service for Financial Markets

Dmitry Peskov, Director of Young Professionals Stream, Agency for Strategic Initiatives

Vitaly Postolaty, Chief Executive Officer, SAP CIS

Front row participant:

Andrei Volkov, Rector, Moscow School of Management SKOLKOVO

O. Dergunova:

Good morning, ladies and gentlemen. Thank you for having the courage to come on a Saturday morning to a session about enhancing corporate governance, which has already been discussed for decades in Russia. Apparently, the interest is due to the fact that we have to make certain changes to the development of corporate governance in Russia.

First, I would like to introduce the distinguished guests of our panel discussion and say a few words regarding the format of the session.

Dmitry Pankin, Head of the Federal Service for Financial Markets (FFMS). Next is Alexander Afanasiev of the Moscow Exchange. Next is Albert Ganyushin of the New York Stock Exchange Euronext. David Gray of PwC. Andrei Bugrov of Norilsk Nickel. Dmitry Peskov of the Agency for Strategic Initiatives. Ronald Freeman of Severstal. And Vitaly Postolaty of SAP CIS.

Today, there are respected financial market experts, as well as company representatives, including those from the technology sector, on the panel. This demonstrates that corporate governance issues affect all parties, and to some extent, each participant in a company influences the way in which a company carries out its corporate governance.

I also want to introduce our expert, Andrei Volkov from the Moscow School of Management Skolkovo, whom we have asked to participate in our discussion. And if Andrei would like to tell us something or make a remark in terms of managerial skills, then that will also be part of our discussion.

Let us start by asking: what is happening with corporate governance in Russia today? The need to enhance corporate governance was discussed in yesterday's speech by the President and in the arguments set forth by the government, the President of the Russian Federation, and investors (both domestic and foreign). Nevertheless, quite a lot has been done in the past 110 years. There was and is a Code of Corporate Conduct that regulates how a company should adopt internal solutions in the interest of all shareholders who are involved in running the company. There are also amendments to the law regarding joint-stock companies.

The amendments pertain to dividend policy in state-owned enterprises. The Government of the Russian Federation has made decisions about replacing state representatives in boards of directors with non-executive directors and professional attorneys. This was done with one goal in mind: to improve the quality of management and efficiency of decision-taking in both private and state-owned companies.

The first question that I would like to ask our respected panel is for Dimitry Pankin. The FFMS has prepared changes regarding the Code of Corporate Conduct, and the changing of the title, in our opinion is significant. The title ‘Code of Corporate Conduct’ is being changed to ‘Code of Corporate Governance’.

Dmitry, what are the significant differences between the Code that was in place for the past ten years, and the new version of the Code that you are providing today for the expert discussion?

D. Pankin:

Thank you, Olga. Participants of the panel, when we talk about the Code of Corporate Governance, we say that it is not a regulatory document. That is the first thing I would like to mention. It is not instructions that are mandatory for all market participants. It is our vision for how governance systems should be established, and how to build relations systems between shareholders and management in good, high-quality companies. Naturally, life evolves, and there are constant changes in legislation. In the ten years after 2001 when the Code was passed, several provisions from the Code have been turned into regulations and laws. In other words, those standards became mandatory.

On the other hand, what have we witnessed? We have witnessed the economic crisis of 2008–2009. A lot of attention has been focused on managing levels of risk. What risks are acceptable for a company? How does a company control risk-taking? How does a company disclose information about levels of risk? These points are very important, and it was necessary to make changes in this area.

The issue of compensation was also spotlighted during the financial crisis of 2008–2009. For example: the banks collapse, the depositors of those banks lose their money, and taxpayers have to bail the faltering banks out, but the executives are rewarded with multi-million-dollar bonuses. How was this allowed to happen? And the topic of compensation also became a central theme when discussing issues of corporate governance.

As a result of these changes, we have come to the conclusion that it is necessary to revise the Code of Corporate Governance. Now the revision is ready and has been published on the website. We would like to hear any comments from market participants, so that before the end of the summer we can finalize the Code and accept it as a recommendation. It may be approved at a government session. But I repeat, it will be a recommendation: a set of good intentions.

I will quickly list a few key points that I would like to end on. First of all, take the interesting point of equal shareholder rights: the arrangement by which shareholders can express their rights and get information from the corporation. We live in a modern world: a world of electronic technology. When we still vote by filling out paper ballots, and information is sent by mail, we of course feel that these are outdated practices of the last century. The Code provides for the transition of the relationship between the shareholder and the joint-stock company to an electronic format and the formation of a system of electronic offices.

Of course, it is not all that simple. Perhaps if every shareholder and every individual had a digital signature, then we would not have any problems. One could fill out a ballot, vote, sign using a digital signature and that would be it. It would be a done deal. Because this is not in place yet, there arise a number of problems. We feel that we have to move in that direction, and the appropriate proposals to do so are found in this Code.

The next topic is a sensitive one, which has also caused a lot of debate. It is the definition of non-executive, or independent, directors. Who are they? What criteria make them independent? What roles do non-executive directors fulfil? A particularly sensitive topic is the criteria for independence of members on a board of directors.

The question of what the maximum share is (2% or 5%) for a member of the board of directors to be recognized as being independent has been discussed.

According to the system of compensation in the Code, there are also prescribed guidelines of fixed compensation that are tied to specific results. And the concept of so-called ‘golden parachutes’ is defined. A ‘golden parachute’ must not exceed twice the amount of one's yearly compensation.

A lot of attention has been focused on issues of controlling risk. Here, I want to say that work is being done within the Financial Stability Board and the G20 to establish standards of approaching risk in banking and non-banking financial companies. There is already a draft document. It is expected that it will be officially adopted next year. We have looked at the document. It is interesting, and we will probably add a number of provisions from that document to our Code of Corporate Governance. They relate most of all to the following: a company should declare its risk policy and the level of risk it feels is acceptable. The qualifications of the management bodies taking the risk must be defined. The magnitude of the risk that each unit within the company takes must be defined. Basically, the topic is very interesting. I repeat that we are planning to incorporate some of these provisions into the Code of Corporate Governance.

The final point that has also caused controversy and debate is disclosure requirements. How should a joint-stock company disclose information? One way is that a shareholder must receive all the necessary information that he requires. This attitude has provoked a lot of objections. An alternative approach is that the joint-stock company may have the right to refuse to provide this information if it is confidential in nature and if its disclosure would harm the interests of the joint-stock company. For the time being, both of these approaches have been retained. Here, we are interested in the professional community's reaction and opinion about what the final wording for the disclosure of information should be. So, colleagues, we will wait for your commentary and plan to finalize work on the Code of Corporate Governance by September or possibly October.

Thank you.

O. Dergunova:

Thank you, Dmitry.

A. Bugrov:

May I ask a question?

O. Dergunova:

Certainly.

A. Bugrov:

What part of what was said will apply to state-owned companies or state-owned corporations? Thank you.

D. Pankin:

Andrei, we are talking about how the Code of Corporate Governance is what we would like to see. In principle, that is how state-owned companies should build their relations as well. But I repeat: this is not a regulatory act. We cannot fine reputable state-owned enterprises or impose sanctions on the company's director.

O. Dergunova:

I would like to add that there is another fundamental change to the Code of Corporate Conduct, which will be renamed the Code of Corporate Governance. That is the emergence of clearer descriptions for requirements for effective management and measurable results, which are described using key performance indicators of the activities of both the board of directors and management of the company, as well as the strict linking of key performance indicators to compensation provisions for members of the board of directors. This was what was previously lacking in the Code of Corporate Conduct. It is the innovation that is clearly reflected in the Code of Corporate Governance. Why is this important to us as well as to state representatives? Because on one hand, we hold the law on joint-stock companies in our hand that regulates shareholder responsibilities, and this includes state-owned enterprises, specifically as a regulatory legal act. On the other hand, the existence of the business practices and ethical standards that form the Code of Corporate Governance make it possible to apply similar requirements to companies, including state-owned enterprises, using any tools necessary. The state can use these tools to install and bring to each state-owned enterprise the knowledge, skills, forms, and methods which have been proposed in the new Code of Corporate Governance.

Moving along, I would like to ask David Gray a question. How is the current level of corporate governance in Russia perceived by the international community? And how are the innovations and proposals that were suggested for addition to the Code of Corporate Governance today going to help improve corporate governance in Russia?

Go ahead, David.

D. Gray:

I am based in Russia, but I honestly travel around the PwC network and talk to partners in other network firms around our network globally, and I think the perception outside Russia is perhaps behind the reality. Russia certainly faces challenges in terms of improving its corporate governance, and the new code is, I think, a very positive step in terms of engaging the people around how boards of directors should function, what their responsibility should be, and indeed how corporate should function. But the reality is that there is still this perception that Russia is a place where normal standards, as defined in Western markets – the UK or the US, for example – are absent. And I think that is a little unfair. Certainly, in our experience working with Russian corporations, many of them have made significant progress over the last few years in terms of the standards of corporate governance that they employ, and I think a key part of that has had to do with the issue of the quality of directors. This is something that comes through in the work that we do in Russia. We have a board survey that we do every year, and we look at the issues that boards of directors in Russia are concerned about, and the one issue at the top of the list is the availability of quality candidates to be on boards. We can have the best corporate governance code in the world, but it is about the people who are actually in the companies implementing them. I think that is a key issue that we need to focus on. The positive news is that people understand that there is a lack of depth in the corporate world in Russia in terms of the quality of people available with experience and technical skills. For example, in my own sphere, in finance, do we have sufficient people with the technical knowledge of finance to actually ask the management of the company the right questions? A number of corporations – Sberbank, for example – are running corporate universities as a means of improving the level of competence of people in these areas. I think that that is a very positive trend. We fully support the idea that, if you have a correct tone from the top and you have people with the right technical skills, they can make a big difference to the effectiveness of organizations and corporations. And that, at the end of the day, will turn up in terms of ratings as well. Therefore, it is not just about doing nice things; it is about money and about the cost to finance business in Russia. So setting the right tone from the top and improvements in the quality of directors are very practical business issues that we need to focus on. Trends are positive, but there is still a long way to go.

O. Dergunova:

Thank you, David. The quality of corporate directors is one of the main factors that helps introduce wonderful laws and wonderful ethical standards into practice.

I see that Andrei Burgov and Ronald would like to speak. Go ahead, Andrei. Begin.

A. Bugrov:

I want to echo what Mr. Gray has just said. For the benefit of our guests at the Forum, I would rather speak in English, which also shows that many concepts in corporate governance are much more easily expressed in English rather than in Russian.

O. Dergunova:

We are going to ensure that we develop terminology too.

A. Bugrov:

This relates to the criteria of the independence of directors, and to one of the realizations that emerged from the financial crisis and during that period. The importance of independence has been emphasized, but sometimes it is emphasized at the expense of expertise, objectivity, and collegiality in the boardroom. These became viewed as mutually exclusive qualities, if you wish. It is a trend, and it is extremely difficult to recruit qualified directors for are a balanced board, for various reasons: workload, reputational risks, litigations, various other threats that people in the boardroom now experience. It is a good question.

R. Freeman:

If I may, I would like to add a comment. Having worked in Russia for some 30 years, I have always been mystified by Russia's delight in self-criticism. As far as corporate governance codes are concerned, I think it is time to stop playing with the codes and focus on the gap between what is written and what is actually practiced. God handed Moses a corporate governance code called the Ten Commandments a few years ago, and there is a still gap between what is written and what is practiced. My impression, sitting on boards of some of the best Russian corporations, including currently Sberbank and Severstal, is that the best Russian corporations have closed that gap between what is written in the corporate governance code and what is practiced. How have they done this? They have done it first by the will of senior managers who want to spend the time to listen to a diversity of viewpoints. It is too common in Russia, when there is a boss present, for everybody to say, "Yes, boss"; the tsar is always right. But in the best Russian companies – I am thinking of Alexey Mordashov at Severstal in particular, or German Oskarovich Gref at Sberbank – they want to hear people's opinions; they invite and demand a diversity of viewpoints; they invite correction; they do not mind being contradicted, and I have seen them change their minds in the course of a board meeting. On the other hand, the directors have to be prepared. You cannot fly in from New York or London and read the papers on the airplane. I spend three days preparing for board meetings, and it takes me two days to recover afterwards. Our board meetings at Severstal start at 09:00 and end at 23:00, after a dinner with the CEO. We have meetings between board meetings among the nonexecutive directors. Alexey Mordashov speaks with our Chair frequently. We exchange information among ourselves. We visit the plants. It is tremendously time consuming to do the job right. No corporate governance code explicitly addresses the obligation of the directors and management to spend the time necessary to do it. You close the gap by spending the time preparing yourself and opening your mind. I would hope to see in Russia that we stop talking about corporate governance and start talking about governance of the government. I think the best corporations in Russia operate at an international level that is beyond criticism, and that government at every level would do well to emulate the behaviour of the best corporations.

A. Volkov:

I would like to step in and point out one point that David made, so that he is not left out of our discussion. It is what he called ‘perception’. How are our companies perceived from the outside, and not just from the inside? This is not just a technical matter of the quality of the board, but a question of publicity, clarity, and articulation of top officials' positions. Ronald was correct when he said that we are conveying that position to the state for some reason. The amount of communication done by heads of major corporations, especially partly state-owned ones, is very important for the country's image and for the quality of governance. Because what is said publicly will not later become difficult to implement privately due to reputational risk. This type of publicity is clearly lacking from our largest companies' top officials.

O. Dergunova:

The quality of board members, and the ability to spend time on training, involvement, and analysing decisions on a regular basis in order to help the company grow and become better is the second factor that determines the board of directors' quality. I have a question: How can one find such distinguished people to be on the board of directors? Where is that special place where they raise smart, professional, people who are ready to work in the Russian Federation at the 2,500 companies whose shareholder is the state (now I am speaking on behalf of the state) and that are not state-owned and named Rosneft, Gazprom, or Sberbank?
I would like to ask Dmitry Peskov from the Agency for Strategic Initiatives a question. Dmitry, you have a special method for the selection and training of those wanting to take on the role of non-executive director. But unlike other professional associations or associations for non-executive directors, you also do selection using pre-qualifications. Please tell the audience what the basis of your approach is, and how it can be beneficial in forming a cohort of board members in the Russian Federation.

D. Peskov:
Thank you. Indeed, there is a huge gap between corporate governance and what is practiced in both the state and private sector, especially in small companies. When we started to deal with this issue, we realized that it can be divided into two parts.
The first part is concerned with good governance, and there is little we can do that would be helpful here. But the second part deals directly with competence, which is necessary for these companies to grow. And it is clear that the smaller a company is, the less of an understanding there is of what a strategy is and what principles of corporate governance exists. In our opinion, it is here that the key to success is basically the same as in the area of innovation. When we talk about innovation, we mean that, more often than not, there is the transfer of competence from one area to another. And we think that we can ensure competence is transferred from areas that still have not been involved in the processes of corporate governance due to their extremely narrow specialties.

If we take a look at state-owned enterprises, then we see an enormous amount of things that are profoundly understood by people who are involved in venture capitalism or are profoundly understood by those who work in university management at leading universities. That level of competence is certainly useful to companies. It is clear that there are regular selection processes through co-opting and professional associations. But we are developing a method that has selected members of the board for the Agency for Strategic Initiatives itself, and now we are using it to select people for development corporations in the regions.

We started a full-scale experiment with the Federal Agency for State Property Management where we use a open selection process. How does this happen? The Federal Agency for State Property Management has a portal where any person with a digital signature can file an application. We work with these people, and it is a long process.

What does it look like? At first, it is working with an application. We look at a person's qualifications, or rather the evidence of qualifications and whether we can identify them through their personal information. Next, we give these people a task. The task may be more or less the same for everybody, and as a result, we can identify people who most clearly manifest certain qualifications. In the next step, we can choose those we want, and then the question arises: does some sort of automatic selection among the winners take place, or whether do we do something more with them? We do something more.

What does that look like? We roughly understand the set of companies in a particular industry, and can model a strategic session or the work of a board of directors in which they have to make appropriate decisions regarding specific foresight in order to develop those industries. So, we understand where they are going. We understand the qualifications needed in the industry for it to develop, and based on these qualifications, we can select people from a wide spectrum of fields. And even further down the line, groups of people emerge with distinct qualifications, and questions about how balanced their qualifications are and whether they are ethical are examined in order for them to bring value to their companies that require good governance. That is the general approach.

We really like the ‘start with yourself’ rule, and now with the formation of the expert-advisory council with the Federal Agency for State Property Management, we want to try this approach in order to get more people involved in the work. It is very important that this method has next to no losers, because those who make it to the finals but do not win become experts and are included in a broader network of experts. And they love to criticize the winners. This means that the winners always know that there are rivals behind them who are not sleeping, and they have additional motivation to do quality work.

A. Bugrov:

I have a question for the Chair. Olga, does what was just described remind you of a Unified State Exam used for corporations?

O. Dergunova:

In 2013–2014, as we were selecting non-executive directors for partially state-owned companies, the state was faced with a lack of formalized criteria for searching and matching the candidates to a set of criteria, which in turn led to some irregularities.

The primary irregularity is corruption. People would say, "I want to work for this company. Make me a member of the board of directors." Next we return to the topic of ‘professionalism versus independence versus objectivity.’ There is a whole class of problems related to this.

Secondly, people who have expertise in one area or industry, do not always turn out to be sufficiently effective members of auditing commissions, audit committees, or strategy committees, because the expertise in their given industry or area does not always match the board of directors’ expectations that are required of its future members.

During the first selection phase of 2013–2014, we tried to formulate a set of basic requirements for representatives of audit committees and auditing commissions. Namely, those requirements were: being educated in finance and economics; having diplomas that confirm one's accounting qualifications in accordance with both Russian and international standards; or having certificates that list professional auditing associations and attest to one's competency in this industry and area. We compared the board of directors' requirements with the candidates who sent in their applications using this electronic tool in relation to which class of candidates they are looking for, and what qualifications they would like to see in a candidate. And it was perhaps the first time when every state-owned enterprise from the special list (which is 150 of the largest flagship companies in the industry) has had, at the very least, one non-executive director on its auditing commission who is an expert in the area of economic analysis of the financial and operating performance of businesses or has a background in auditing.

Perhaps this is similar to a Unified State Exam, where one needs to fit into the ‘procrustean bed’ of certain requirements. But without being more unified during the first stage, it will be hard to adopt a more thoughtful approach. And today there is no such approach. And unfortunately, I absolutely agree with David in at least one respect. Examining now, from the state's perspective, how selection happens in state-owned enterprises, I can say that, compared with businesses, the state is more limited in its ability to define criteria when selecting candidates. Because in such situations, the state, in fact, reduces the opportunity of people to participate in the selection process and limits the competition.

Not having a system in place makes it impossible learn how to build one. Therefore, we need good laws and professional ethics codes from the start. We need to create a system that over a specified period will be more customized to and flexible about the individual needs of state-owned enterprises. But having at least one person in the first round with an auditing background gives us, as a shareholder, the opportunity to take the next step. That step is to teach auditing commissions to be auditing commissions: to teach them to demand reports when they need them, to be able to read them, and to be able to give independent conclusions to the shareholder when he asks for the report and sees the result. David and Ronald rightly said that all of this is practice for implementing those standards that we we already have in place today.

Now, I would like to ask Alexander Afanasiev of the Moscow Stock Exchange a question. We know that this year, the Exchange held a successful IPO of its own shares. And the issues of corporate governance and the formation of a board of directors prior to the initial public offering were on the Moscow Stock Exchange's agenda.

Alexander, why did you add these issues? How did this help in your successful IPO? What advice would you give other companies that are entering the Moscow Stock Exchange as well as other exchanges? How should one prepare in terms of corporate governance in order to be seen and heard by investors?

A. Afanasiev:

Thank you very much.

We are certainly interested in the development of corporate governance, not only because we have recently become a public company, but because we are a stock exchange, a concentration of markets. We are also one of the drivers of this process. We are sponsoring a joint project with the OECD to develop a new Code of Corporate Governance. We are a driver not because we are altruists, but rather because we are approaching this issue fairly pragmatically. It is extremely profitable for us. We are one of the main beneficiaries of this process. We are beneficiaries because a stock exchange is in fact the essence of openness and transparency.

We have competitive markets. Companies can attract funding from different sources. The stock market is not the only or most effective way, since there is the well-known Russian gap, i.e. the discount in relation to Russian companies that is in many ways, and above all, related to corporate governance.

The other markets are the credit market and the various government programmes that are implemented through government agencies and state-owned banks.

In the first case of the stock market, one has to convince shareholders. That is precisely a question of corporate governance. In the case of credit, this is a slightly different approach, in slightly different words, and with different publicity requirements The creditor expects that not all information will be made public. With state-owned companies or state programmes, it is more a question of the state's economic policy. Here you need to convince officials.

Corporate governance concerns only the stock market. I would like to say that Olga Dergunova is correct. We really experienced firsthand how to go through a ‘limbo’ road show for the IPO. So questions are raised as to how the board of directors takes part in the process. I want to say the following. According to our estimates and even my own experience, the perception (which was mentioned by David), the way Western markets perceive Russian development, significantly lags behind the Russian perception, which is not surprising. The whole history of corporate governance is a story of resolving the so-called agency conflict, in which the shareholder separates himself from the manager, puts the manager in place, and sees how he his managing. This reminds me of the popular Soviet saying about how the state apparatus is stronger than the Council of People's Commissars. So the conflict must be resolved one way or another.

Russia is 20 years into the development of its corporate governance. Other countries, whose representatives are here, have had 200 years to master it. Remember how it began when the first businesses emerged not so much as businesses per se, but as access to certain properties. That is to say, the first owners did not create businesses from scratch, but rather it was an issue of procurement, allocation, and protection. And that is not the best motivation for transparency. Rather it is the opposite. Remember how in the 1990s, business owners were by and large the heads of those companies? It was hard to imagine completely entrusting governance of one's property to the management. Now that is far behind us. The owner is separate from the manager. That is the next step.

Now, there is a new, third step, in which there are main, principal shareholders and minority shareholders. Perhaps today's most sensitive issue with regard to corporate governance in Russia is not the conflict between management and shareholders. That is more typical of markets with significantly higher levels of equity dilution. Our equity is more concentrated, so for us the issue of protecting minority shareholders' rights is more important, and more often discussed.

Again, we have the experience of our IPO and conversations with representatives of major international funds with whom we have talked about our company's growth. And growth of the Moscow Stock Exchange is growth of the market. It is like the chicken and egg problem.

Some people say, “You know, the market is not deep, not very liquid, so why should I invest in it? It is better to take out a loan. Why should we pay for transparency?" Because transparency is a commodity! Transparency is, in a sense, a commodity that has a specific price. The issuer pays this price for cheaper and longer-term funding. Perhaps he will not pay if he decides it is better for him to pay interest to a bank, if that is more accessible to him.

The reward for good corporate governance in developing markets is significantly better than in developed markets. Sberbank is an example. Look how much better it is trading than its Russian counterparts. Magnit is another great example. In other words, those who bet on improving corporate governance get a good return on their investment. And it does not matter where those companies are listed. There is the misconception that if a company is listed abroad, then something in its corporate governance will change. This is wrong. All of this affects only the price. Accordingly, companies are opting for high-quality corporate governance more and more often.

I will make just a couple more points. Stock exchanges feature products like listings. The listing reform prepared by the FFMS is currently being implemented. We are actively participating in these new deliberations. In my opinion, this is a revolutionary document that will greatly reform the listing process. We still have some unresolved issues, including a few with the regulator, with regard to certain technical details. But I want to say that from a corporate governance point of view, our premium listing requirements are not fundamentally different from those on the world's leading stock exchanges. There is the difference with respect to liquidity, volume, and so on. That is to be expected. But there is virtually no difference in terms of corporate governance. And that gives us, as a stock exchange, the opportunity, over time, to make a super-premium listing after the new approach to listing is implemented, which will show how much a premium is worth for good corporate governance. There are a few other high-quality and effective examples such as the Brazilian Bovespa Index, the well-known history of the Nuevo Mercado, and so forth. We are seriously considering this opportunity.

O. Dergunova:

Let us continue the discussion of listings, which in addition to being responsible for reliable information about a company, also places the responsibility on the accuracy of a company's financial performance information and its financial reports. The requirement of transparency not only increases the opportunity to attract loan capital on different terms, but also severely limits the way a company can prepare its financial report and be accountable for its results.

And so, I have a question for Albert Ganyushin. The New York Stock Exchange is known both for its strict requirements for the reliability of financial reports and the consequences for the management if the company's report is found to be unreliable. How do the requirements help? How has that influenced the quality of governance in companies in the USA? And what would you recommend to Russia in the way of requirements for reliable reporting by the management of a company before listing?

A. Ganyushin:

Thank you for the opportunity to comment on this subject.

Indeed, there are sufficiently stringent corporate governance standards in the Europe and the USA, but the approach is different. As Mr. Pankin said, here in Russia, there is a European approach based on OECD principles. In the United States, there is a somewhat different approach to regulation of the market. To simplify, one can say that the set of requirements for corporate governance is quite small, but it demands 100% compliance with those requirements. The advantage of that system over the European system is that it defines the minimum level of corporate governance in the capital market of the country. That means that more stringent regulation puts a figurative shelf in place, below which the market never drops.

As a result, the American market is the most developed in the world. Its turnaround and liquidity is several times greater than that of the major European markets, not even mentioning the other, developing, markets. Why were those requirements made? Why are we discussing this? Why was it done? It was done in order to do some house-cleaning. It was done out of anger. As Mr. Afanasiev said, it is a principal-agent problem. It is what the investors demand. Global and American investors demand strict compliance with the minimum corporate governance standards.

What are the standards? First of all, a company must submit accurate reports. There is no other option regarding this issue in the American market. What would I like to see in Russia? We are very interested in Russia raising its standards, because our markets are getting ever closer to each other. I would say that Russia needs to unconditionally accept the International Financial Reporting Standards (IFRS). Not through some commission like the one that is already in operation, as far as I understand. It needs to be said that there cannot be any Russian versions of the IFRS. They need to be stringently adopted. First are the standards.

Second, there need to be independent audit committees. If a Russian company is listed in the United States today, then it must meet this requirement. The audit committee must consist of at least one person, but the requirements placed on that non-executive director are very strict. He must be 100% independent.

And the third requirement in the United States of America is that the head of the company must sign a document and affirm that he his not lying. Do you understand? ‘I hereby attest that I am telling the truth.’ Those are the minimum requirements of a fair market. If someone is ready to do that, and the minimum level is reached, then the company is allowed onto the market.

I will answer your question regarding the Russian market. I think that Russia has made it a very clear priority to build an efficient capital market. Russia faces the strategic objective of investing in infrastructure and projects that are necessary to modernize the country. This requires an effective capital market. In my opinion, it would be faster to achieve this without cultural incentives. After all, what are we talking about? We are discussing the tools that can improve the culture of corporate governance. The process will take some time, but it needs to be dealt with. And that is all very good. However, perhaps it is worthwhile to focus on the minimum level of corporate governance that needs to be demanded of companies that want to be listed on capital markets. If a company is private, then you own it yourself. You can set your own standards, or none at all, for corporate governance. There are companies like that in the West as well. For example, there are family-owned businesses, where there are different rules for corporate governance. That is one's personal business. But when you want to raise funds cheaply (the Russian market is the cheapest in the world, which means the equity capital is expensive for Russian companies), then it is better to adopt these minimum measures that can help. Those are my opinions and suggestions.

One more thing. What do we offer companies that are listed on the Moscow Stock Exchange and New York Stock Exchange? In order for us to work together, complementing one another? Those companies that do work together do not have problems with adhering to all the rules listed above. Through their actions, they invest in the Russian market, raise the general level of corporate governance, and help promote a culture of corporate governance in Russia. For example, there is a wonderful company, MTS, that follows all the rules, has no problems, is traded in Moscow, and is traded in New York by completely different people: not those who work here in this market. So you can choose various options that are complementary, in my opinion.

O. Dergunova:

I would like to continue discussing this topic with the following question. Employees and colleagues who work on the board of directors should have the motivation to be effective and work in the best interests of the company they have been elected to. That means that there should be timely indicators that can measure the effectiveness of board members and the worth of the board members in the company. Here I would like to draw on the experience of two successful private companies by asking Andrei Bugrov and Ronald Freeman a question. Please share your experience and your companies' experience of how key performance indicators that you are introducing, both as members of the board of directors and company management, are helping your companies grow and make effective decisions at all levels and in the management hierarchy.
Andrei, let us start with Norilsk Nickel.

A. Bugrov:
Thank you, Olga.
To begin, there are no formalized key performance indicators for members of the board of directors. And it is hardly possible to establish any. A possible topic for the board of directors in the future is a performance assessment that can either be carried out by self-evaluation or by involving external, independent organizations like those that exist in the rest of the world.
With regard to what motivates company personnel in the case of Norilsk Nickel, which is currently going through an interesting period of updating its management and business processes, we have abandoned the option programme and have made the transition to a system that is known to all as key performance indicators (KPI). The process is not yet finished, and will probably take more than a year to complete. Therefore, talking about the details with respect to our company is uninteresting.
The mistakes that are usually made when implementing such a plan are more important, in my opinion. The first mistake is to have an excessive amount of key indicators. Then, when the system starts to work, the number of indicators starts to

drop. Twenty decreases to eight, and then hopefully you end up with as little as three. It is a painful process that takes an enormous amount of time. It is totally unnecessary. First of all, you have to develop, and then automate, the entire system. Taking the contents of the indicators to the people is the next mistake. A lot of them start to realize that there is no longer a linear management, but a matrix scheme. Some start to panic about what they do not know. They do not know who to report to and who to show the results of their performance to. What is most important when the system starts to work? The most important thing is to not go crazy, because it will start to generate a huge amount of information that the management should regularly analyse and use in meetings with staff to make plans to increase their efficiency. That takes an enormous amount of time. So one has to be ready for those difficulties, and try from the start to avoid similar poor decisions.

Nevertheless, nothing better has been invented yet, so for the time being, KPI is an effective tool for working in a matrix scheme. Starting the system can be difficult, but there will be increased productivity to a certain extent as a result of cutting staff, and in that sense it all comes back to the board of directors. Because the board of directors – and I hope that Ronald agrees with me – does not need to compare the results each quarter. We should be looking at what we looked more at twenty years ago, such as the cash flow the company generates, and not questions of long-term growth or increasing the cost of equity. Returning to the real world where things are not measured in terms of trade expectations, but how much they really cost, is, in my opinion, what is more important in evaluating a company's ability to have a decent dividend yield.

O. Dergunova:

Ronald, go ahead.

R. Freeman:

Let me add a word to that. I find board effectiveness difficult to measure, as Andrei says, but it is best evaluated for the board as a whole. A good board acts like a good string quintet or philharmonic orchestra: they have complementary skills about the industry, about the company, about accounting, auditing, law, finance – all of which are part and parcel of a director's mission. When it comes to the board effectiveness paragraphs that appear in the annual report, I am reminded of a comment made by a member of the US Supreme Court about 50 years ago, Justice Potter Stewart. The court was asked to opine on whether a certain book was pornographic. Justice Stewart said, "I cannot define pornography, but I know what it is when I see it." The same thing applies to board effectiveness; you know what it is when you see it. And one of the strengths of the Russian corporate governance code is that directors are there for one year and one year only, and they are renewed if the shareholders and the management feel that they are effective. So at worst it is a one-year risk, and they can be dismissed individually and retained collectively. I think that works pretty well.

A. Bugrov:

In addition to what Ronald said, these are very serious issues. Dmitry, maybe this is worth thinking about. The fact that a director is elected to the board for one year creates certain difficulties.

Here is a concrete example. Norilsk Nickel decided to find a foreign independent chair of the board of directors who would be responsible for good practices of corporate governance. We thought that this would create more confidence. 'No prophet is accepted in his own land', so I, as the chair of the board of directors, resigned from my post and a foreign, independent, and very good person was elected to the position. And when you try to recruit a good, distinguished expert, he naturally asks you and everyone else, "How long will I be working with you?" because he has to leave his other obligations, and needs to have prospects for one, two, or three years. But I cannot promise him that he will be working for three years, because next year the shareholders need to re-elect him. And how do I solve this dilemma? We promised him that our shareholder's best intentions were to have him work three years. And if for some reason that is unknown to us today, he is not reelected (let us say in one or two years), then we will compensate him for the years we promised him he would work in the form of a ‘golden handshake’. So what happened? Ratings agencies started to criticize us for wrongfully overcompensating an independent chair of the board. And so, to a certain extent, they created doubt in the decision we made. So we were damned if we did and damned if we did not. It is difficult to work like that.

A. Volkov:

Olga, we talk about private companies complaining about short terms for directors. I would say that state-owned enterprises have the same problem. I am not speaking as the rector of a business school, but as a member of the board of directors of one of Russia's largest companies. From my experience, I know that to get into either the financial or technology department of a company and start giving a prepared speech regarding the investment programme will take an independent director at least a year, and probably two or three: to listen, and get insight into the company. Even Ronald, with all of his experience, says that he will fly in and read documents for three days before meeting with the board of directors. So on the one hand, there should be a minimum duration that makes sure one does not settle down and run the risk of corruption, as you say, but on the other hand, it should be long enough to give competent advice and prove oneself from a PR perspective. State-owned enterprises have the same exact problem.

A. Bugrov:

Andrei, I am not Skolkovo. I am an industrial company. I cannot invite people, teach them for a year or two and wait while they get their feet wet and give them special induction programmes. I need them to work. I cannot afford that.

O. Dergunova:

David, do you have an opinion on this subject?

D. Gray:

I tend to agree with the view that people learn about companies, and they get more effective as their understanding of the business, of the specific corporate, improves. So, going back to the metaphor about needing a mix of experience, that very much applies here. You want some people who are fresh in the team, who come with a fresh perspective, but you also need some people on the board of directors who have deep experience of the organization. It is about finding a balance. Like so many of the things we talked about this morning, it is about getting the right balance in your team.

O. Dergunova:

Increasing the terms of board members for state-owned enterprises would be an obvious blessing, because people would be able to better understand the nuances and complexities of the business, including the state being a shareholder, in making decisions. In my opinion – not as the moderator, but as a representative of the Russian government – this is a very important topic that will continue to be appropriately discussed as a possible approach to selecting members of the board of directors in state-owned enterprises in the coming year.

Nevertheless, what unites all private companies is a clear understanding of what measures the effectiveness of a company. Profit in all of its forms is the universal indicator that determines the quality of work during any given period: one year, x number of years, and so on. The absence of this precise measure or of the designation of this precise measure in state-owned enterprises, unfortunately, leads to distortions in goal-setting and the absence of correct measures both when selecting members of the board of directors, and in misguided motivation by the management and setting improper targets for a company's activities. So here a question arises for the two private business representatives. In your opinion, what is the universal indicator that a company in an ever-changing world should make its primary reference point, from which it measures its management's effectiveness, and where should the board of directors add additional value?

Ronald, go ahead.

R. Freeman:

I would suggest that the efficiency of the board of directors is measured by management and by the other independent directors around the board table. You know, in any group, whether a colleague is constructive or destructive. When I sit around a board table, I am not there as a rubber stamp to approve everything the CEO says. I am not there as a traffic policeman, doing some kind of start-and-stop activity. I am there as an honest adviser, informed about the company, using my experience to ensure that it serves its various constituencies well: shareholders, lenders, employees, customers, suppliers, and the community in which it exists. It is a balancing act. It is a difficult act. I would respectfully disagree with the idea that you should lengthen the term guaranteed to board directors. I think the discipline of having to be evaluated at the end of each year and renewed by the vote of your shareholders is a good discipline. It is inherent in the whole democratic process, and it is the collective wisdom of those shareholders and management that is expressed when you are renominated. It is something of a stamp of approval, which you need in order to keep yourself motivated as a director. A guaranteed tenure is not a good idea in any position, political or private. Keep people focused; there is a reward – you are paid a certain amount – and there is a punishment, you are dismissed because you have not performed well. If some companies find it difficult to find chairs – and I refer to my friend Andrei – but the problem is elsewhere. You do not have to offer them extraordinary security. Security should be earned, not given.

A. Bugrov:

May I also try to answer this question? What Ron said actually reflects a certain topic that has come up several times during meetings of the Board of Directors at Norilsk Nickel. We had one board member who was a professor at Harvard University in the field of corporate governance. My advice to everyone is not to invite Harvard University professors to be part of the board of directors of industrial companies. It does not work.

O. Dergunova:
Andrei, you will have the opportunity to comment.

A. Bugrov:
Andrei, this is not pertinent to Skolkovo, you understand.
What is the problem? He asked who a company belongs to. And when I calmly answered (and I still believe this) that a company belongs to its shareholders, he said, "No, you have a share, a voucher that represents your right to receive dividends." But the company belongs to (I do not like speaking in Russian adding English catch phrases, which is why I prefer to speak in English) the shareholders, the creditors, the consumers, and the local community that one provides services to. For example, the milkman who brings the CEO milk in the morning. Do you understand what that is? It is more than socialism! And so we discuss this, and Ron says that the board of directors' effectiveness should be evaluated by creditors, consumers, and anybody else who is connected to the company. But how does that happen? I have no idea, to be honest! So we have to make some sort of pragmatic solution that will work. Maybe not everyone will understand it, or rather everyone will not understand it. Nevertheless, what is a corporation's goal? We want to earn money.

O. Dergunova:
Finally, someone has stated the main economic imperative! What should commercially sound companies focus on? It should still focus on profits, which shareholders work for too, as well as the board of directors, the management, and even the milkman who delivers milk to the CEO because then he increases his productivity.
Andrei, do you want to comment?

A. Volkov:

You may be surprised, but I, as a representative of higher education, strongly agree with everything that Mr. Bugrov said. Indeed, why sit here and try to be clever and pretend to be an expert on boards of directors when one needs to – sorry for the slang – make some ‘moolah’? But even if this is not immediately apparent to private companies, it is more complicated for state-owned companies. I understand your problems, Olga. I have the same ones. Sometimes, the ‘milkman’ is important to state-owned enterprises. For example, if one needs to close a city and close down a mine, one has to do something with the population and all the consequences associated with it.

I do not want to use catch phrases, but Ronald said something interesting about collective intelligence. I am also looking for the right words in relation to the discussion about a Unified Exam. How can you measure management's cooperation using algebra? Governance is not a theory; it is a practical art that my comrades engage in during board meetings. And here I see another process, other than reputational risk. No amount of money, certificates, or measuring people's heads will allow me to imagine a set of criteria that can measure governance. We are not talking about millions of schoolchildren who take standardized tests. We are talking about 1,000 or 2,000 people in the country, as you mentioned at the beginning of the discussion.

And I think that the institution of reputational risk, as compared with European history, is quickly starting to take shape in our country. Because we are already somewhat embarrassed. You could quote Marx, who wrote, “With a certain 300% [profit], there is not a crime at which capital will scruple.” But we live in a different time. We have a 5–15% profit margin, and in this respect, we should already be thinking about our conscience and soul.

O. Dergunova:

We just have to have self-control, understand?

A. Volkov:

Consequently, I believe that a reputation-based mechanism may begin to work in our country too, despite great skepticism.

D. Peskov:

I have a quick observation. You have underestimated the size of the market tenfold. And that means that starting a reputation market on such a large scale will never work. You will be forced to use industrial technology for the training of human capital. Only then you will be able to work on the reputations of the best. It will not work at the start.

A. Volkov:

I, like a school, only get rich from this with technological training. But now I am in a different position.

A. Afanasiev:

I would also like to add a few words from a stock exchange's perspective. They say that a company should focus on profits, and that members of the board should do the same. There are different types of profitability. There is ample opportunity to show short-term profits at the expense of factors that affect future growth. Or we can put aside these factors of growth by improving structure. For stock exchanges – which are, by the way, infrastructure organizations – the technological arms race is very important, and there are a lot of resources constantly being spent on it. And short-term investors who are interested in immediate results do not always like that.

I remember the story of the famous Mr. Seifert from Germany. In the 1970s and 1980s, he was like Bismarck. He united the many German Stock Exchanges with fire and sword into one big, great, wonderful Frankfurt Stock Exchange, which is now the Deutsche Börse. But of course, he did not stop there. He held an IPO (a very serious one at that): nearly 70% of the company was sold. It came from mostly hedge funds. The next year, they threw him out, and as a result of his activities, he wrote a book entitled *Invasion of the Locusts*, referring to short-term investors who wanted to see immediate dividends.

We see that the balance between different types of investors is also a topic in which non-executive directors should be on the side of a company's strategic growth. As far as directors' terms of appointment are concerned, I think it is a little strange to do that for directors, who are elected by shareholders, because shareholders may change in a year. But for non-executive directors, such a rule may be appropriate.

O. Dergunova:

I would like to ask Vitaly Postolaty from SAP CIS a question. How can technology and technology companies help with corporate governance? Alexander has just touched on the topic of technology investment that is made in infrastructure. But perhaps if we are not talking about the basic abilities of technology companies, then are there issues of governance where there may be a demand for investments by vendors such as SAP?

Please, Vitaly, you have the floor.

V. Postolaty:

Yes, Olga. Thank you very much.

Good morning, ladies and gentlemen. This has been a very informative discussion about improving standards of corporate governance in Russia. I would ask this question: what might act as a guarantee that these standards will be appropriately put into place? From our company's point of view, powerful technological systems can do this. Another view is adopting the best global practices in Russian organizations. I have a couple of arguments on this.

First, optimal business processes should be standardized in terms of various business domains within a company. And our company can offer the Russian market valuable experience gained from the past 40 years in 25 industries. This is experience in taking specific components from individual organizations' added value. An example is our huge mining complex, with an entire industry of extraction and mineral processing. Let us take the individual domain of extraction. Obviously, it is possible to use a practice that has been brought in from other countries and huge corporations which have been professionally involved in this for years. On the other hand, it is a good challenge for Russian companies to unify the process among the various mining activities.

The second important point is governance, from strategy to working with a company's key indicators. Obviously, the company leadership's task is to cascade the strategy that has been adopted by all levels, through KPI tools, at both the management level and individual employee level. This is necessary in order for every employee to make a contribution, so that the strategy is ultimately put into place. And of course, there is a good information technology tool for cascading KPI from the CEO to the individual employee, so that work performance is giving added value to the CEO by the employee and contributing to the strategy's implementation.

The other point is the task of improving the transparency of an individual company's activities through improved corporate governance. What does technology have to offer in terms of improving transparency? First, there is control of financing and execution of strategic projects as a result of a company's strategic planning. Here, it is very important that an information technology tool and technology allow one to go from a mission statement and strategic objectives to control over the effective implementation of those goals. Examples are purchasing new assets, building a factory, or creating a portfolio of investment projects that are needed for systematic and effective control according to certain benchmarks. What is financing being spent on? Is it possible to rebalance financing according to an enterprise's various assets if the results at determined stages are not obvious or different?

Another important point is the existence of a single model of data for reporting. If the reporting model within a company is unified, then everyone, from the company's upper management down to the supervisory board and shareholders, can, as the Americans say, drill down to the information. That is, one can evaluate it, look at the assets, and then move upwards. And of course, all of these layers of information are useful and available, and one can utilize them if they are used through a single data warehouse.

The final point that I would like to touch on is managing risk. Every large project has a number of possible risks that may arise. We need to describe these risks, and the risks need to be controlled at every stage, starting from the very beginning. These risks may arise, and we need a system to control risk or mitigate of risk at any stage. Of course, the company has an information system that describes these risks, saves them, and provides the opportunity to activate a system to prevent possible risk during the earliest stages, and this is critically important for a company.

From a unified information systems point of view, perhaps these qualities can give a company certain guarantees; improve the technology of company management and put standards into a certain kind of practice; and give upper management, a separate department, or an individual employee a guarantee that his strategy will be put into place.

O. Dergunova:

Thank you, Vitaly.

Sadly, I have to say that our session is coming to an end. And before we conclude, I would like to give every participant an opportunity to answer the following question. In your opinion, what important practical step would be the most appropriate to take in the coming year in order to develop the practice of corporate governance in Russia for both private companies and state-owned enterprises? Tell us one thing. One practical thing. We will write it down and try to come up with a way to implement it in a practical way.

Dmitry, let us start with you.

D. Pankin:

Thank you. It is hard to choose just one thing. Perhaps I will continue with Andrei and Alexander's point. If we do not have an economic commitment to corporate governance, then it will have no real effect. There will be economic interest only when there is an equity market that becomes the main source of obtaining long-term capital. Then corporate governance rules will work. Then companies will be interested and have to comply with corporate governance standards.

So if you single out one point, mine would be to raise money through capital markets when the banking system will not be able to ensure long-term company needs for capital.

A. Afanasiev:

Thank you.

This is a 'carrot and stick' question. Today, Dmitry said that on the one hand, a new Code of Corporate Governance would include certain innovations. But on the other hand, the new version is missing some things that were in the old version. And those things that are missing are what have been passed into law. A lot of what was passed into law regards the disclosure of information and insider ownership of stock and so on. So first, put those recommendations back in so we can comply with them! I think that there must be a certain balance here. I think that some of these recommendations should be made into laws. And I fully agree with Dmitry that we, as market players, are more responsible for the 'carrots'. For us, the things we can influence are premium listings, which shows outright how much this kind of 'carrot' is worth in terms of money. Only this can truly motivate issuers to really change corporate governance.

A. Ganyushin:

I feel that one can do two basic things. First, regulation needs to change in Russia. In a nutshell, I will express my opinion on this topic. Second, I think that the state should play a positive role in changing the corporate governance culture through its ownership of state-owned enterprises. Managers of state-owned companies can better follow corporate governance requirements, and meet these standards through direct control of these companies by the executive management.

Returning to the topic of regulation, it can give serious impetus to developing the Russian capital market. First, from a foreign perspective, it precisely addresses the question of protecting investors' rights. I think that the main problem is the legislative basis for affiliates and control. Because for foreign investors, the problem is that many Russian companies are more strongly controlled by affiliates than it seems at first glance. And this is quite a dark area for Russian legislation. I know this topic has already been discussed for over a year and a half. And I believe that the most important change that can happen is for a law to be passed in the State Duma that will clearly define affiliates of control. Because that is where the difference between an owner and shareholder lies. We can discuss all we want how we talk with each other about that difference, and talk about the Code and things similar to it. But the difference needs to be defined and clear. That is what is important.

If that is accomplished, then the next big breakthrough should be listing reform. There should be minimum requirements as part of the reform like those in the USA. There do not have to be 10,000 conditions. There should be minimum conditions that will make the distinction between a controlling shareholder and controlling management. Requirements for a strict definition of a non-executive director and the minimum number of non-executive directors for reporting should be specified in the listing reform. All Russian companies must fully accept the IFRS. Then we can say that companies report, and that they have at least one non-executive director that can credibly represent shareholder interests. I believe that all of this must be included in listing reform. And then any company that lists in Russia will be a full-fledged participant in this market. Then it can benefit from it. I think that is the most important thing.

D. Pankin:

I was very pleased to hear Albert's comments. The fact of the matter is that there have been long discussions in the government about the problems of affiliates. Now, the position on amendments in the Civil Code, the definition of affiliation, and listing issues are agreed upon. And there have been long discussions with the stock exchange. So we have as good as posted the project. There have already been real changes in this area.

A. Ganyushin:

As has been said, commercial organizations are the ‘carrots’. Like you, we are quoted on the market, and we have commercial objectives. I am sorry, but I think that the stock exchange can do very little. I will publicly say that first of all, there needs to be state support.

A. Afanasiev:

Then come work with us at the stock exchange, and you will learn what you can and cannot do as a stock exchange.

O. Dergunova:

Gentlemen! Stock exchange! Please stop arguing! We have another session.

A. Bugrov:

I just have one more short remark. Dmitry, we have not discussed this topic, but we have mentioned affiliation. Including the topic of affiliation in the Civil Code is a strategic mistake. This will be shown in the courts, and our beloved and much-anticipated mega-regulator will agonize over it.

O. Dergunova:

We will discuss the Civil Code in a separate session.

David.

D. Gray:

I will focus on one other issue. We talked about the importance of getting a good mix, and I think Ron used the metaphor of an orchestra as an effective organization.

I know of very few orchestras that are all-male, so I think one thing that we might do in terms of pushing Russia ahead of some of the other countries in the world in terms of corporate governance is to include in our code of governance the concept of looking at diversity in our boards.

O. Dergunova:
Andrei.

A. Bugrov:
I have 13 people on my Board of Directors, and only 10 of them are men.

O. Dergunova:
His answer was about diversity.

A. Bugrov:
It is not about that. I would like to say that I do not like everything that happens in America. For example, combining the roles of CEO and chair of the board of directors is not right, and I would never have done that. I see conflict there, and I think that it is ineffective. But perhaps America has its own tradition. For example, publishing quarterly earnings estimates that analysts and institutional investors require is bad, I think. That practice, which developed in the 1990s, should not exist. What I am trying to say is the following: let us exercise restraint in adopting progressive practices, and then continue from there. Because a one-size-fits-all suit cannot be sewn. The specifics of a region have to be considered.
Olga, you asked us to choose one topic. The theme that we unfortunately did not discuss today is combating corruption in the corporate world. It has a very extensive history that deals with complaints and concerns the protection of so-called whistleblowers who blow whistles on everyone. In Russia, whistleblowers are considered ‘stool pigeons’. Here, we quietly knock on the door and say, "Did you see what Ivanov did?" Differences in culture and historical perception naturally exist.

But this needs to be discussed, and there are certain procedures that corporations can and should use.

Thank you.

O. Dergunova:

Dmitry.

D. Peskov:

To the extent that state-owned companies are relevant to me, I think that it would be right, within a year, to define what the state should sell and what it should develop. We need to find out what is important. There need to be completely different practices for them. The culture of best practices, in my view, is dying. A culture that makes its own mistakes and utilizes those mistakes becomes much more important. And all the people that the state is going to develop need to be identified and given to Volkov for training. And then in the following years, we will see the unbelievable economic impact of managing state property.

R. Freeman:

The question was: what is the one thing that could be done to improve corporate governance in Russia? My one suggestion would be to make people who run companies well, more well-known to the Russian public, by giving them access to the main way in which Russians get their news, which is official television. Television programmes about businessmen who are doing a good job would be something new in Russia, to give praise to a class that is often disparaged, after 70 years of regarding private property and profit as something negative. That would be a real change, and I think it would help people to see that doing this well, leading a large corporation well, is something that is admirable and should be emulated. I think that would help a great deal.

O. Dergunova:

Vitaly.

V. Postolaty:

I think that historically, there is not a problem with ideas in Russia. Sometimes problems arise in the execution and controlling the execution of these ideas. Therefore, my main proposal for companies is to use an information system that will provide guarantees in three areas.

First, it guarantees transparency through a universal system of data.

Second, it guarantees efficiency. This is the key issue: the existence of key performance indicators and the opportunity to cascade them down to the employee as well as raise them up from the employee's performance all the way to the organization's performance.

And the third thing is risk management. This is the presence of not only risk managers in the company, but also systems that support managing risk for the organization as a whole.

O. Dergunova:

And finally, Andrei.

A. Volkov:

Olga, it is difficult to give you advice. You have done so much for our country as a regulator in the short time you have had to act in that capacity so far. But I still think that a board of directors is not just a regulatory institutional and an informational machine. It will always be a group of people, and the human aspect is always important. I drew attention to how people talk with each other and to their communication style. If they unite in purpose, cause, and principle, then the issue will progress forward rapidly. But if they only express their opinions, then they could sit talking for two days straight. Of course, this is a very fluffy aspect, a kind of unregulated KPI, and you cannot measure it. But in my experience, I was faced with the fact that this is very important, as Ronald said, for the state and for companies.

O. Dergunova:

Colleagues, thank you for your deep discussion of how we can make governance in both private and state-owned companies a little better.

If we are able to implement even some of the 11 points you listed (thank you, Albert, for listing four instead of one), then that will be a big step forward in how we will be able to effectively make decisions on business growth and economics in Russia.

Thank you. I hope that during the next Forum here in St. Petersburg, we will be able to say how many of the 11 points we were able to make happen. Let us give the participants a big hand. Thank you.