Prospects for Corporate Governance Development in Belarus

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BEROC Working Paper Series, WP no. 70

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This publication was produced with support from the Center for International Private Enterprise (CIPE) in Washington D.C. The document does not reflect CIPE's opinions or any employee thereof. CIPE is not responsible for the accuracy of any of the information included.

Abstract

The aim of the paper is to analyze the current state of and prospects for the development of corporate governance in Belarus to ensure more effective and wide-scale implementation of the core principles of corporate governance in the state-controlled and the private sectors.

The study is based on the results of two focus groups comprising representatives of supervisory boards (boards of directors) and chief executive officers (CEOs) of state-owned enterprises, 10 in-depth semi-structured interviews with experts and practitioners, as well as a sample survey of 120 businesses of different legal forms employing over 100 workers. The analysis of quantitative and qualitative data demonstrates a fragmented implementation of corporate governance approches in the state-controlled and private sectors that is primarily caused by deeply-rooted governance and management practices, insufficient awareness of the mechanisms and benefits of corporate

[1] BEROC acknowledges the financial support by SIDA

governance, and a low level of trust in society. The results of the analysis of quantitative and qualitative data were used to define a number of recommendations aimed at improving the institution of corporate governance in Belarus.

1. Introduction

Globalization and increasing competition in external and domestic markets strengthen the importance of the enterprise management system for sustainable development of businesses. Country-specific economic, legal, social, and cultural contexts define different models of corporate governance, which, however, have a common goal of enhancing enterprise efficiency in view of the interests of their owners, employees, the State, their counterparts, and other stakeholders.

Over the past few years, Belarus has seen a clearly stronger interest in corporate governance on the part of various groups, as well as a proactive position taken by the State Property Committee and other government bodies on this issue. The Belarus Country Report on corporate governance prepared by the European Bank for Reconstruction and Development (EBRD) reflects some progress and presence of some elements of best practices, while highlighting certain weaknesses and stressing the need for reform (EBRD, 2017). In comparison with its neighboring countries, Belarus lags significantly behind in the development of corporate governance that impedes the efficiency of the economy in general and jeopardizes the country's sustainable development and financial stability.

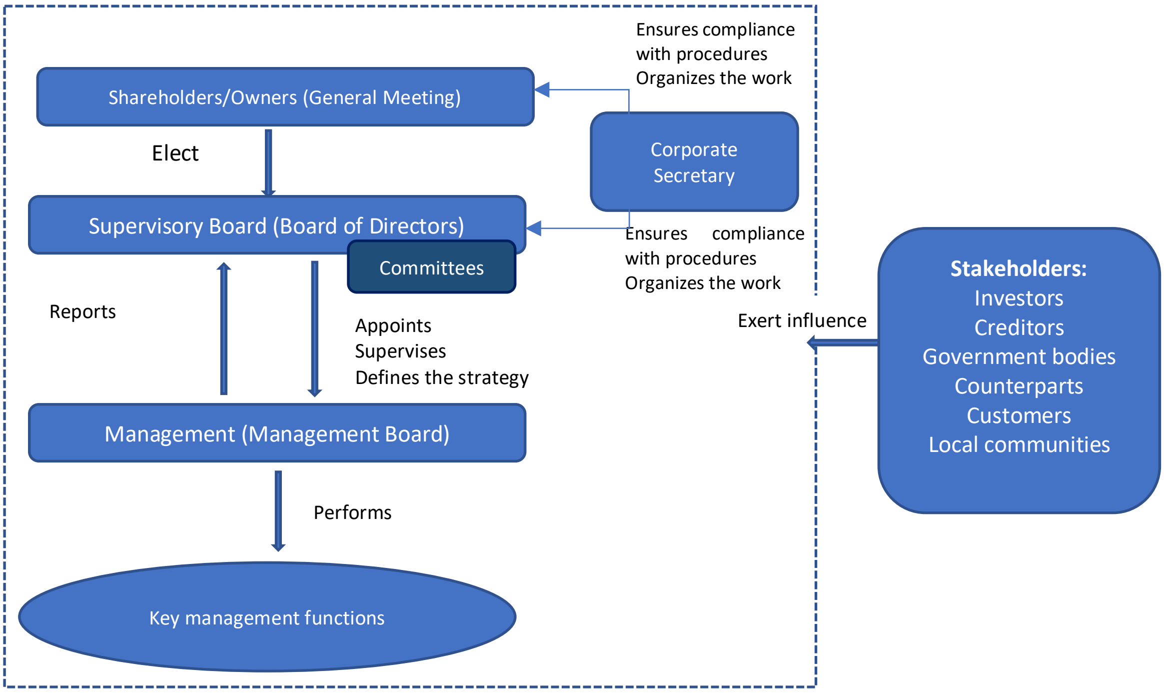
Therefore, the aim of the paper is to analyze the current state of and prospects for the development of corporate governance in Belarus to ensure more efficient and wide-scale implementation of its core principles in the state-controlled and the private sectors. To achieve that, the paper is structured as follows. The first chapter discusses the definition and the core principles of corporate governance. The second chapter presents a brief overview of the corporate governance policies in Belarus. The third chapter describes the research methodology. The fourth chapter is dedicated entirely to describing the results of the quantitative and qualitative research. The conclusion contains some key recommendations for improving the institution of corporate governance in Belarus, which complement the findings presented in existing literature: EBRD (2017), BISS (Автушко-Сикорский et al., 2016), Mazol & Mazol (Мазоль & Мазоль, 2018).

2. Definition and Principles of Corporate Governance

The general concept of corporate governance may be defined as a system of relationships between the owners (shareholders) of an enterprise, its management, and other stakeholders, creating a framework, within which the goals of the enterprise are set, the means of attaining those goals, as well as assessing and monitoring its performance are determined. A good corporate governance should provide proper incentives for the enterprise management and its supervisory board (board of directors)[2] to pursue the goals of the enterprise in the interests of its owners and other stakeholders (OECD, 2015).

In general, the conceptual framework of corporate governance may be presented by specifying the key actors and the linkages between them (Figure 1).

Figure 1. Conceptual framework of corporate governance



Source: Own elaboration based on Iskander & Chamlou (2000).

The implementation of corporate governance is considered desirable not only in multinational corporations or large holdings. State-owned enterprises, as well as medium and large private businesses, including privatized enterprises

[2] The term “supervisory board” is mostly used hereinafter, except for verbatim quotations from interviews and focus groups, where the terms “board of directors” and “SB” are also utilized.

and family-run companies, also tend to be interested in benefiting from the implementation of corporate governance practices and tools to maintain the economic sustainability and competitiveness of their businesses.

The positive effects of the implementation of corporate governance on enterprises may include:

- Improved enterprise performance owing to making more balanced strategic decisions and managing internal and external risks;
- The formation of mechanisms of owner control over the activities of the enterprise management;
- An opportunity for the owners (including the State) to delegate day-to-day management of the enterprise to professional managers while minimizing potential risks;
- Building up the trust between the owners, the management, the State, and other stakeholders;
- Improved attractiveness of the enterprise for investors and creditors and, thus, a higher market value and lower costs of borrowing for it; and
- The ability of the enterprise to issue corporate securities in leading stock exchanges.

In addition to the above benefits, a good corporate governance established in state-owned enterprises contributes to more efficient use of financial resources allocated by the State in line with the enterprise strategy and the current and future situation in the market. As state-owned enterprises often account for a large share of employment in a region or a small town, producing socially important goods or providing socially important services, corporate governance prevents them from going bankrupt that may have a significant negative social effect.

It is equally important to note that state-owned enterprises often operate without a clear strategy but within a complex system of accountability that leads to a clash of bureaucratic interests, rivalry between government bodies for influence on enterprise activities, and corruption (CIPE, 2009). In such an environment, corporate governance creates clear reporting lines, with only a competent government body communicating political and social objectives of the State as an owner to a qualified supervisory board of the enterprise. In its turn, the board would develop a strategy, make strategic decisions and communicate them to the management (management board) responsible for implementing the strategy and pursuing the goals (see Figure 1). If the State decides to privatize an enterprise, a well-established and effective corporate governance in place would significantly improve its attractiveness for investors and its market value (Ehrke et al., 2014).

To generate the benefits, the corporate governance framework of an enterprise should meet the following criteria:

- The corporate governance framework has to be appropriate for the maturity of the business, its size, and ownership composition;
- There should be a clear and transparent framework of reporting, making decisions, and controlling risks that needs to be brought to the supervisory board's attention for review or approval;
- The framework should promote understanding of roles and responsibilities, and limits of authority and set the desired balance between, for example, acceptable risks and reward;
- The system of incentives for the staff (including the management) needs to be clearly supportive of the strategies defined by the supervisory board;
- There needs to be clear and easily understood communication (of strategic goals, plan, expected performance, etc.) by the supervisory board to the management; and
- Supervisory boards need to have good visibility of management actions and decision making, which includes the provision of comprehensive and sound information on business performance and risk management (ACCA, 2015).

In general, the process of creating a corporate governance framework for both government-controlled and private enterprises involves redistribution of roles and building a new set of relationships between their owners and management.

3. Corporate Governance Policies in the Republic of Belarus

In the Republic of Belarus, plans for the development of certain economic sectors, activities, areas of work of government bodies are reflected in relevant conceptual frameworks, programs, strategies generally prepared for a period of five to ten years. This approach applies to corporate governance as well.

One of the first references to the need to develop corporate governance is found, for example, in Resolution of the House of Representatives of the National Assembly of the Republic of Belarus No. 165-P/II of May 21, 1997 "On the Action Program of the Government of the Republic of Belarus". The objectives of the state-owned enterprise reform presented in that document include the design of an effective governance mechanism, further improvement of the contract law, and development of corporate governance in corporatized enterprises.

Further provisions on the need to improve corporate governance and implement the best practices were included in Resolution of the Council of Ministers of the Republic of Belarus, the National Bank of the Republic of Belarus No. 482/10 of April 12, 2011 “On the Program of Development of the Securities Market in the Republic of Belarus for 2011-2015”. Among other things, it was a result of a revival or expected active trading in the securities market following a multi-year moratorium, which was lifted in several stages. In comparison, Resolution of the Council of Ministers of the Republic of Belarus, the National Bank of the Republic of Belarus No. 78/1 of January 21, 2008 “On the Program of Development of the Securities Market in the Republic of Belarus for 2008-2010” does not contain any provisions on corporate governance, although the Ministry of Finance of the Republic of Belarus issued Order No. 293 of August 18, 2007 “On Application of the Code of Corporate Conduct”, advising joint-stock companies to follow those rules.

The Program of Development of the Securities Market in the Republic of Belarus for 2011-2015 attempted to define corporate governance as “... the rules of corporate conduct covering a set of relations between government authorities and officials of the issuer, holders of securities, as well as other stakeholders engaged in managing the issuer as a legal entity”. The main objective at that stage—the document specifies the deadline of 2012—was to create a favorable environment to encourage the adoption of codes of corporate conduct by securities market actors.

In general, we embrace the position of the Ministry of Economy, as stated on its website[3], that the next stage of corporate governance development has been launched relatively recently, namely since 2012, when a number of documents were adopted. Already in Resolution of the Council of Ministers of the Republic of Belarus, the National Bank of the Republic of Belarus No. 229/6 of March 28, 2017 (as revised on August 1, 2019) “On the Strategy of Financial Market Development in the Republic of Belarus until 2020”, the development/improvement/enhancement/implementation of best practices of corporate governance is presented as a way to boost competition, an area affecting the development of the banking system, an objective for qualitative transformation of the securities market, a means of ensuring the liquidity of stocks, and an initiative aimed at developing the insurance sector. There was a timeline fixed in the above document (2017-2020) for the banking sector to

[3] https://economy.gov.by/ru/korporat_formy_uprav-ru/

implement the activities/actions aimed at improving the quality of corporate governance to bring it to a level aligned with the international standards.

Banks are in the foreground of the implementation and enhancement of corporate governance, seeking to achieve the international standards in that area. To this end, competent bodies have adopted regulations, among other things, establishing the relevant requirements—not recommendations, unlike in the Code of Corporate Conduct. A review of reports of the National Bank, approved by Decrees of the President of the Republic of Belarus of different years,[4] shows that specific actions have been taken to develop corporate governance in banks, especially since 2012, among other things based on recommendations of the IMF and the World Bank, as well as further implementation of the updated international standards of corporate governance [5]. In fact, the objective of improving corporate governance in banks was formulated in the Conceptual Framework of the Banking System Development in the Republic of Belarus for 2001-2010, approved by Decree of the President of the Republic of Belarus No. 274 of May 28, 2002[6]. Over time, competent bodies adopted regulations establishing specific procedures, processes, rules, etc.

Another category of entities, where corporate governance had to be implemented and improved, is companies with a share of the State. In addition to various development strategies and programs, indicating the need to improve corporate governance, two important documents were adopted: Resolution of the State Property Committee of the Republic of Belarus No. 29 of July 9, 2015 "On Approval of the Model Corporate Code and Regulations on Committees under the Board of Directors (Supervisory Board) of an Open Joint-Stock Company", and Resolution of the Ministry of Economy of the Republic of Belarus, the State Property Committee of the Republic of Belarus No. 45/14 of July 5, 2016 "On Approval of the Guidelines on Organization of Corporate Governance in Joint-Stock Companies with a Share of the State". It should be stressed that there are no official data on the number of companies with a share of the State—in their total number of 1,896[7]—where corporate governance is in line with the provisions of those regulations, as well as other documents aimed

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[4] It should be kept in mind that some of the information from the 2001-2008 reports is not readily available.

[5] Decree of the President of the Republic of Belarus No. 182 of May 25, 2017 "On Approval of the Report of the National Bank for 2016".

[6] Subparagraph 2.3.5. Improving banks' corporate governance and internal controls

[7] http://www.gki.gov.by/ru/about-press-news-ru/view/seminar-po-voprosam-realizatsii-funktsij-predstavitelej-gosudarstva-v-organax-upravlenija-xozjajstvennyx-5332/

at enhancing corporate governance[8]. 10 pilot projects were mentioned in open sources[9].

Thus, it may be noted that, over the past two years, the interest in corporate governance has apparently strengthened among various groups, and a certain proactive position has been taken by the State Property Committee[10] and other government bodies.

As to a formal international assessment of the corporate governance policies and practices, a study prepared by the European Bank for Reconstruction and Development (EBRD) offers a most adequate vision of developments in various countries. The assessment tool was developed based on the OECD Principles of Corporate Governance (OECD, 2015). Representatives of law firms, audit firms, ten largest (listed) companies, the stock exchange, and government bodies participated in the survey. For the purpose of the assessment, corporate governance policies and practices were divided in five key areas: (i) structure and functioning of the supervisory board; (ii) transparency and disclosure of company information; (iii) internal controls; (iv) rights of shareholders; and (v) stakeholders and institutions[11]. In comparison with its neighboring countries, Belarus lags significantly behind, especially in such key areas as “transparency and disclosure of company information” and “stakeholders and institutions” (Figure 2). It suggests that there is a need for further improvement of both policies and practices in this area.

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[8] The Code of Corporate Conduct; Letter of the Ministry of Economy of the Republic of Belarus, the Ministry of Finance of the Republic of Belarus, the State Property Committee of the Republic of Belarus No. 28-02-03/9686/10-24/76/8-2-18/377 of November 24, 2017 “On Sending Recommendations” (together with the “Recommendations on management (participation in management) of activities of organizations subordinate to (those within the framework (system) of) government bodies”); Explanation of the State Property Committee of the Minsk Oblast Executive Committee of March 9, 2020 “Recommendations on Holding Annual General Meetings of Company Shareholders”; Resolution of the Ministry of Labor and Social Protection of the Republic of Belarus No. 57 of November 21, 2019 “On Amending Certain Resolutions of the Ministry of Labor of the Republic Belarus” (on the corporate secretary of a joint-stock company).

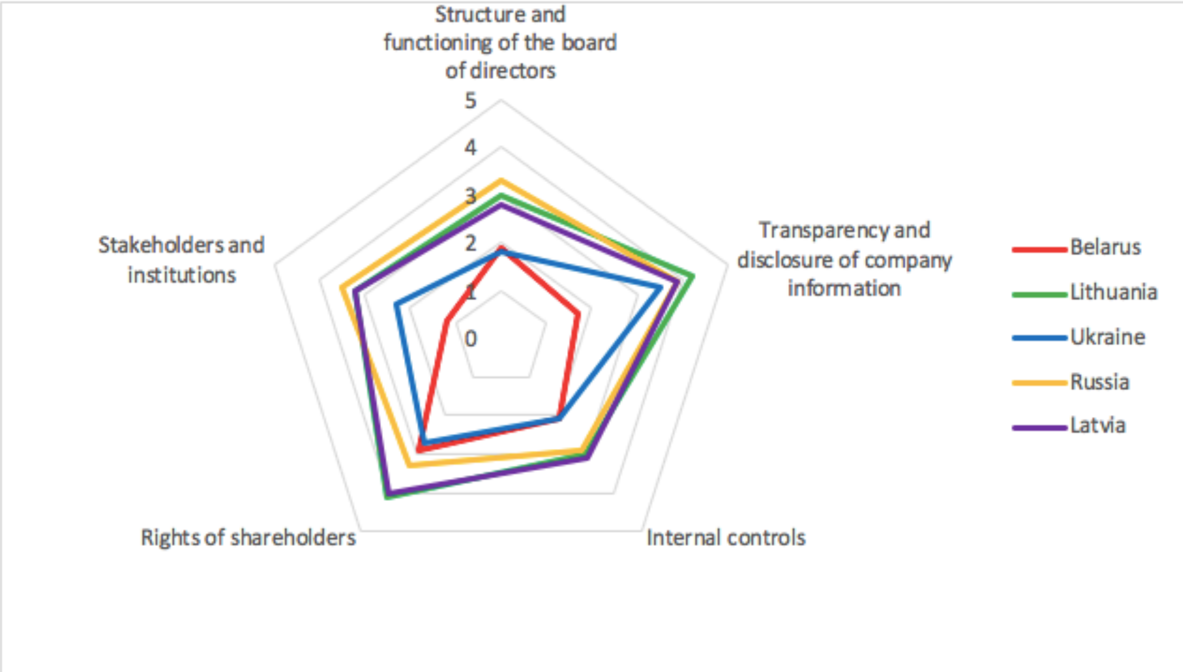
[9] http://gki.gov.by/special/ru/about-press-news-ru/view/issledovatelsko-informatsionnoym-uchrezhdeniem-tsentr-ekonomicheskix-issledovanij-berok-v-minske-budet-5134/

[10] http://gki.gov.by/ru/about-press-news-ru/view/gosudarstvennyj-komitet-po-imuschestvu-i-predstavitelstvo-vsemirnogo-banka-prodolzhat-tsikl-seminarov-po-6156/

http://gki.gov.by/ru/about-press-news-ru/view/v-gomele-nachal-svoju-rabotu-vyezdnoj-respublikanskij-seminar-soveschanie-korporativnoe-upravlenie-v-5490/

[11] The assessment methodology and the description of the key areas may be found in the Belarus Country Report, available at https://www.ebrd.com/cs/Satellite?c=Content&cid=1395251704793&pagename=EBRD%2FContent%2FDownloadDocument

Figure 2. Comparative assessment of corporate governance policies and practices



Source: Own elaboration based on the EBRD data[12].

4. Research Methodology

To achieve the aim of the study, data on the state, challenges of and prospects for the development of corporate governance were collected in three stages:

Stage 1 – Two focus groups

The objective of that stage was to identify internal and external factors that are most conducive to or hinder the formation of an effective corporate governance in enterprises with a share of the state. To that end, two focus groups were organized and held in February 2020, with the number of participants totaling 30. The first focus group was attended by supervisory board members, including independent directors. The second focus group included CEOs of enterprises and their deputies. Thus, the visions of supervisory boards and executive bodies (management board, directorate) were studied. The focus groups also facilitated the formulation and clarification of a number of questions for the subsequent interviews and business survey.

[12] Country reports are available at https://www.ebrd.com/what-we-do/sectors/legal-reform/corporate-governance/sector-assessment.html

Stage 2 – In-depth interviews

Members of supervisory boards, CEOs, and owners of enterprises, as well as representatives of the State Property Committee of the Republic of Belarus were selected for the interview. The core questions of the interview were related to:

- the prerequisites and obstacles to the formation and effective functioning of a corporate governance;
- the areas to improve corporate governance in Belarusian enterprises;
- the functions of supervisory boards; and
- the roles and functions of independent directors and corporate secretaries.

Stage 3 – Sample survey of medium and large enterprises.

Survey vendor MIA Research formed a random sample and conducted a survey of CEOs, their deputies or supervisory board members of 120 Belarusian enterprises employing over 100 workers. Representatives of businesses included in the sample were asked to fill out an online questionnaire or answer questions by phone. The interview was held from June 27 to August 21, 2020. The sample composition is presented in Table 1.

Table 1. Sample composition

Criterion	Sample composition	%
Region	City of Minsk	33.3
	Minsk Oblast	18.3
	Brest and Brest Oblast	13.3
	Vitebsk and Vitebsk Oblast	6.7
	Gomel and Gomel Oblast	15.8
	Grodno and Grodno Oblast	9.2
	Mogilev and Mogilev Oblast	3.3
Sector	Industry	37.5
	Agriculture, forestry, and fisheries	12.5
	Construction	20.0
	Trade, repair	15.0
	Hotels and restaurants	4.2
	Transport and communications	5.0
	Financial activities, real estate transactions	3.3
	Computer services	2.5
Number of employees	100-250 workers	39.2
	250-500 workers	26.7
	500-1,000 workers	18.3
	1,000-5,000 workers	12.5
	Over 5,000 workers	3.3

Criterion	Sample composition	%
Share of the State in enterprise capital	0%	34.2
	0-25%	4.2
	25% + 1 share – 50%	7.5
	50% + 1 share – 75%	39.2
	75% + 1 share – 99%	15
	100%	0
Legal form	Unitary enterprise	5.8
	Limited liability company	10.8
	Additional liability company	0.8
	Open joint-stock company	75.8
	Closed joint-stock company	6.7
	Production cooperative	0.7

Note: Due to rounding, percentages may total more or less than 100 percent.

For the purpose of this paper, all the enterprises were divided into two groups: (1) enterprises with a share of the State below 25% and (2) enterprises with a share of the State of at least 25% + 1 share, i.e. the State having a blocking shareholding (see Table 1).

5. Challenges and Opportunities for Development of Corporate Governance in Belarus

Background

The majority of representatives of state-owned enterprises participating in the study assessed the corporate governance as inefficient and requiring refinement. According to respondents, in one respect, the development of corporate governance is a prerequisite for the viability of enterprises, since the governance model adopted in most cases and aimed at boosting output does not enhance the competitiveness of enterprises. Changing the focus of state asset management from managing fixed assets to managing intangible assets, or from boosting output to improving product attractiveness in the market and enterprise attractiveness for investment, as well as simply working in competitive markets results, among other things, within a more complex governance framework. The institution of corporate governance plays a key role in these processes that requires the implementation of practices that have proven to be effective and have been recognized as a global standard (CIPE, 2009). Experts insist that effective functioning of its corporate governance helps an enterprise function in a balanced way.

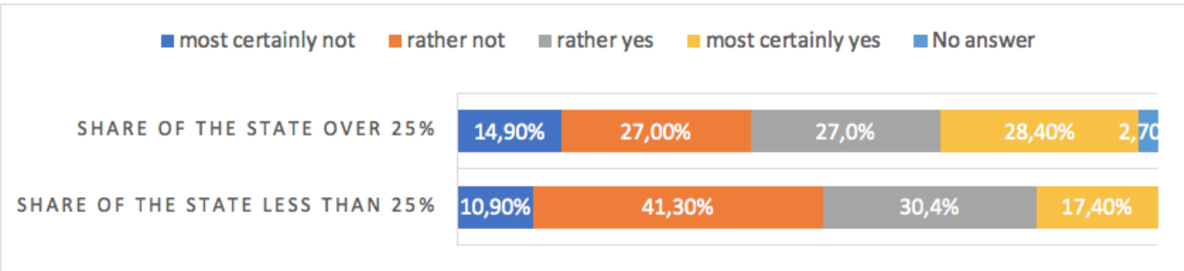
"The challenge of corporate governance is to find a healthy balance between responsibility, powers, competencies, and profitability".

The situation with corporate governance in the private sector of Belarus differs from that in government-controlled companies. While in the case of state-owned enterprises, the corporate governance is formally implemented as required by the legislation but is not functioning efficiently, in the case of private sector enterprises, corporate governance is most often not implemented but, if it exists, it works more effectively than in the state-controlled sector.

According to experts, the penetration of proper corporate governance practices in the private sector of Belarus is very limited. Among other things, it is due to some cultural and historical factors: the lack of experience and tradition of passing businesses on to heirs, the environment of formation of companies and owners, a low level of trust within the society. These features of the business environment, on the one hand, define the barriers to further development of the corporate governance and, on the other hand, create conditions, under which only businesses open to new practices of good governance will survive. This is a trigger for the implementation of the framework.

While respondents representing 47.8% of private enterprises believe that their enterprises have got a corporate governance in place (Figure 3), the owner remains engaged in the day-to-day management of 76% of private enterprises (Figure 4).

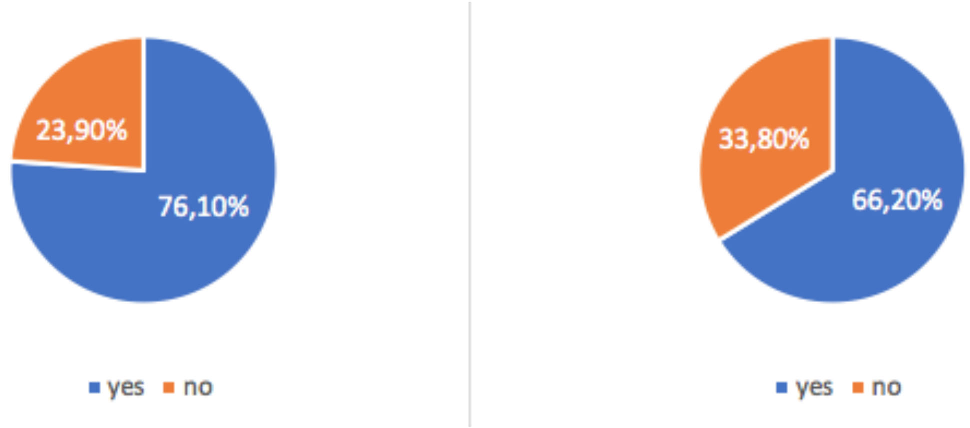
Figure 3. Has the enterprise got a corporate governance in place[13]?



Source: Results of the survey of 120 medium and large businesses.

[13] It was explained to respondents that the corporate governance is the principles and rules of governance and relationships between enterprise owners, management, and other stakeholders, aimed at improving its performance.

Figure 4. Is/are the key owner/owners engaged in the day-to-day management of the company?



Share of the State less than 25%   Share of the State over 25%

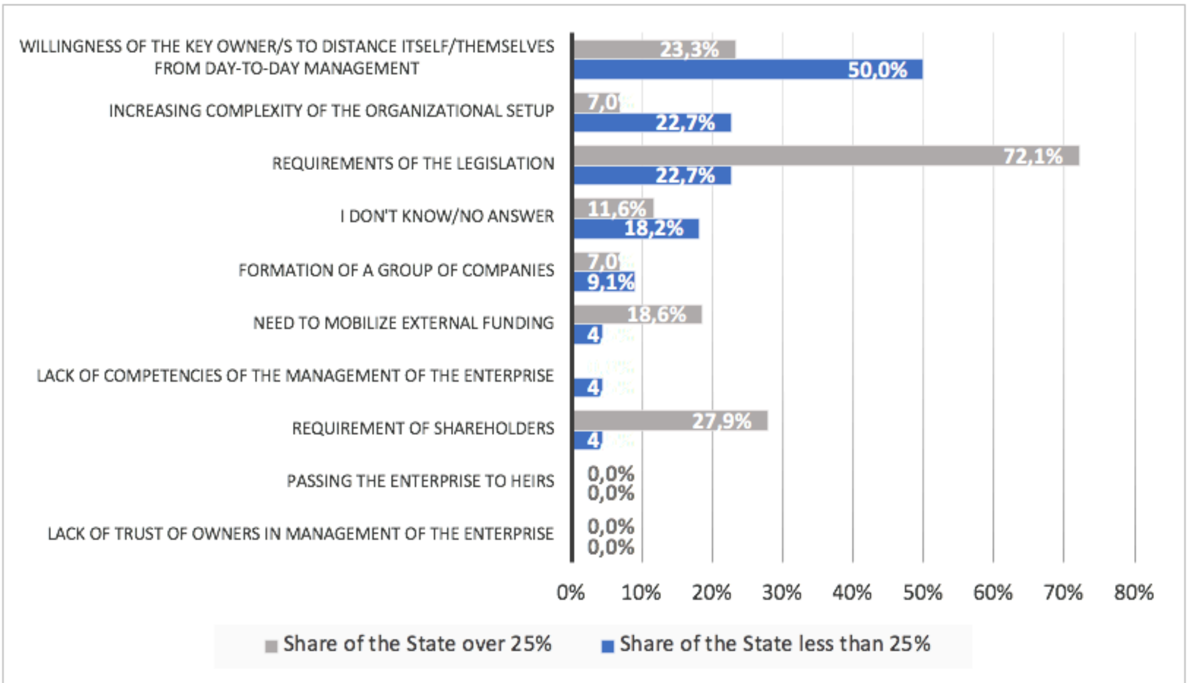
Source: Results of the survey of 120 medium and large businesses.

In general, the survey shows that the introduction of corporate governance in the state-controlled sector was mainly driven by legal requirements (72.1%) (Figure 5). In addition, 27.9% of representatives of state-owned enterprises noted another reason – the requirement of shareholders (including the State) – and 23.3% mentioned the willingness of the key owner (the State) to distance itself from day-to-day management as another reason. The choice of the three answer options provisionally indicates that it is the State that plays the most important role in the development of corporate governance. “Internal” triggers—increasing complexity of the organizational setup, need to mobilize financial resources, etc.—have had a significantly smaller effect on the development of corporate governance in state-owned enterprises.

As to the private sector, the main trigger was the willingness of owners (entrepreneurs) to distance themselves from day-to-day management (50%), which is often a challenge and a barrier to further growth and development (see Figure 4). It is also worth noting the increasing complexity of the organizational setup (22.7%) and requirements of the legislation[14] (22.7%) among other triggers of the corporate governance framework implementation.

[14] The primary reference was, probably, to the requirement to joint-stock companies with more than fifty shareholders to have supervisory boards.

Figure 5. What triggered the corporate governance implementation (a multiple-choice question)?



Source: Results of the survey of 120 medium and large businesses.

Prior to developing the corporate governance framework in state-owned enterprises, it is essential to clearly define the mandate and goals for the enterprises. In many cases, the range of goals is wider than boosting profits or capitalization increases.

> *"The State needs to understand its own goals in terms of governance, what it wants. Does it want these enterprises to generate profits right now? Does it want these enterprises to be the foundation of the infrastructure? Then it doesn't really matter what profits they will generate. Does it want these enterprises to perform a social function? Then it doesn't really matter what profits they will generate either. Or does it want these enterprises to improve over a strategic horizon of 5 to 10 years from the owner's point of view, from the point of view of treating them as assets?"*

According to experts, the problem is that decision-makers at the most senior level do not share the values and principles of enterprise corporate governance. The Government does not make essential decisions to improve the performance and investment attractiveness of enterprises through the development of corporate governance.

> *"Corporate governance could be introduced, the capitalization of companies could be increased, the situation could be changed, then these companies could be sold, the money could go to the budget to develop the country in a different way. The question is who will tell [to do] that?"*

In the absence of defined priorities and a clear understanding of the objectives set for enterprises and, thus, for their corporate governance bodies, there could be no effective corporate control. In many cases, the achievement of economic performance targets by enterprises is contrary to the objectives set for their CEOs by the bodies responsible for their possessory supervision and other government bodies.

> *"It is often the case that people, who bear no responsibility, have powers and people who are responsible don't have those powers. A large number of so-called stakeholders, including the owner, local governments, national security, defense and law enforcement agencies, and the public, have more power than the director of an enterprise. At the same time, their powers are often not formalized, and their responsibility comes down to zero, but it distracts the director from the objectives directly related to the enterprise management. His focus is shifted to being convenient for all the stakeholders and fulfilling their multiple and haphazard demands."*

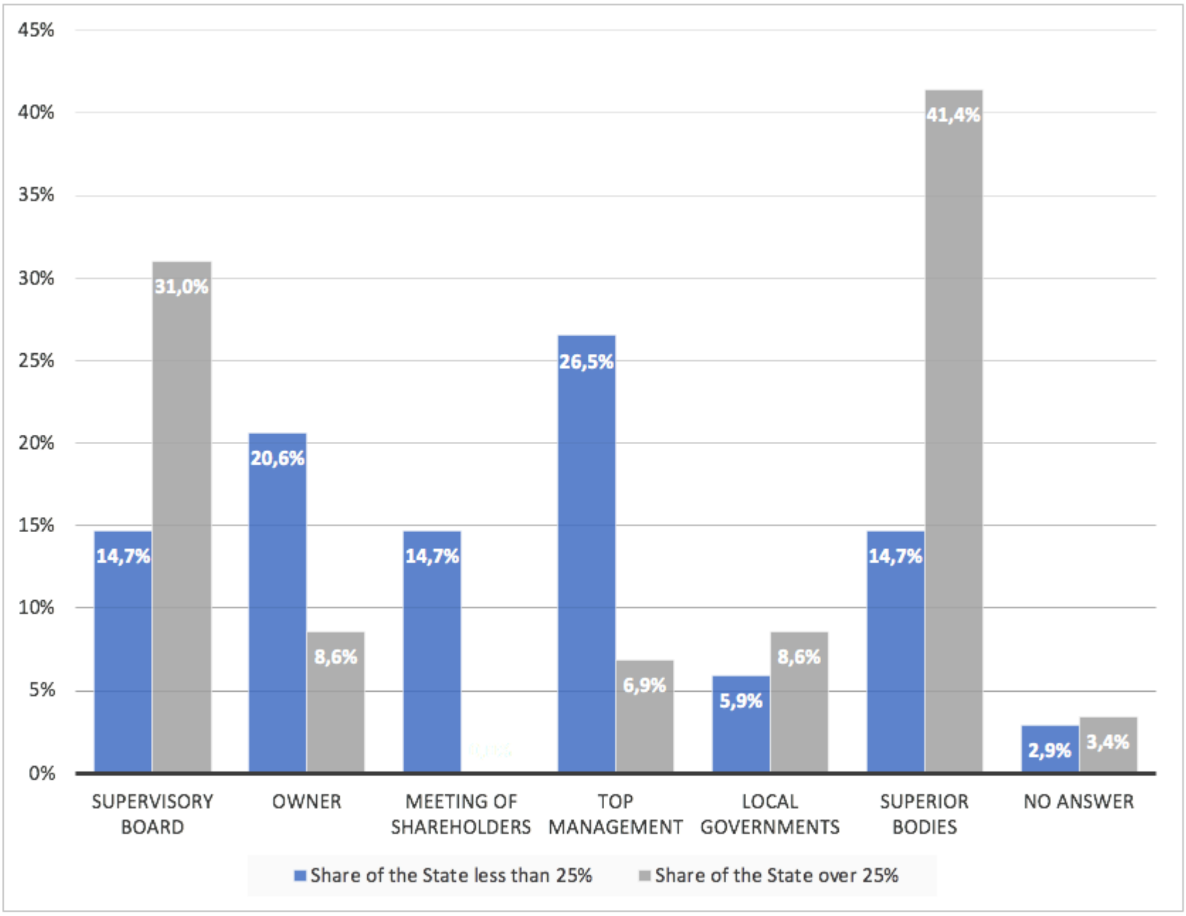
The presence of multiple decision-making centers managing the operation of state-owned enterprises also creates an environment hindering effective corporate governance. It is aggravated by the fact that the parties who make decisions about the operation of enterprises often bear no responsibility for them.

CEOs of enterprises often face a situation where...

> "*the top management gets instructions from superiors, Vice-Prime Ministers or ministers... No arguments of the CEO, no arguments of common sense, technical or technological ones are taken into account. It must be done. Full stop. It is very difficult to refuse, the director risks his position if he does not follow order.*"

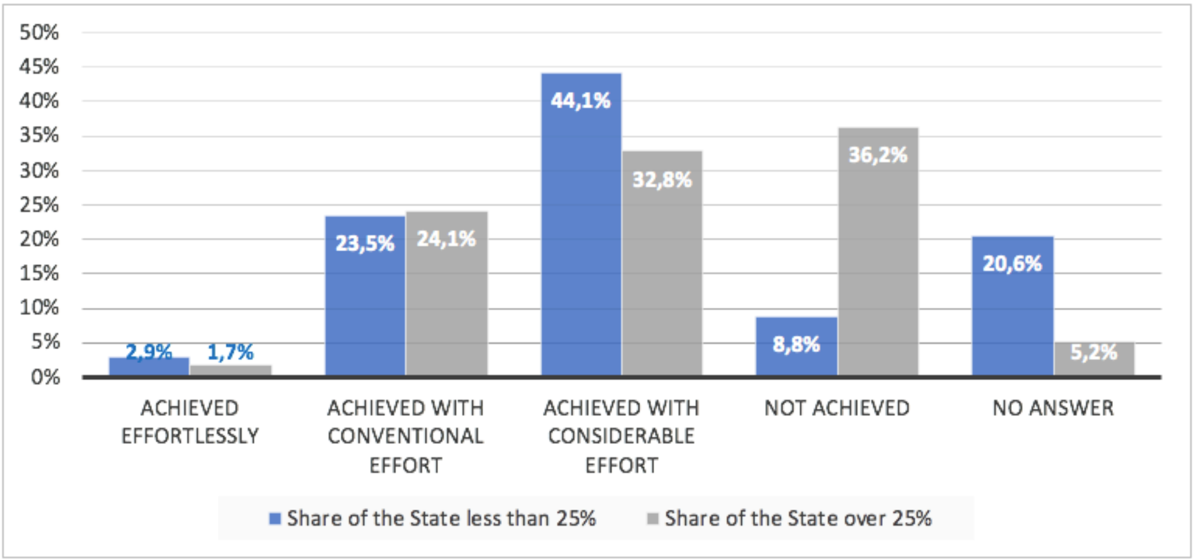
The dependence of state-owned enterprises in their operation on government bodies and superior organizations can be traced in answers to the question “Who defines their targets?” There are significant differences between private and state-owned enterprises (Figure 6). For instance, for almost a third of state-owned enterprises, it is the supervisory board that determines their targets, although, in most cases, targets still come from on high, i.e. from superior bodies, (41.4%) that is not in line with the corporate governance best practices. As a result, state-owned enterprises fail to achieve the targets set for them in 36.2% of cases, while in the private sector, it happens in 8.8% of cases (Figure 7). It is the top management (26.5%) and the owners (20.6%) who are responsible for setting targets for private businesses, whereas the supervisory board determines performance targets for only 14.7% of private enterprises.

Figure 6. Who mainly determined the key performance indicators of the enterprise?



Source: Results of the survey of 120 medium and large businesses.

Figure 7. How easy was it for the enterprise to achieve the established targets?



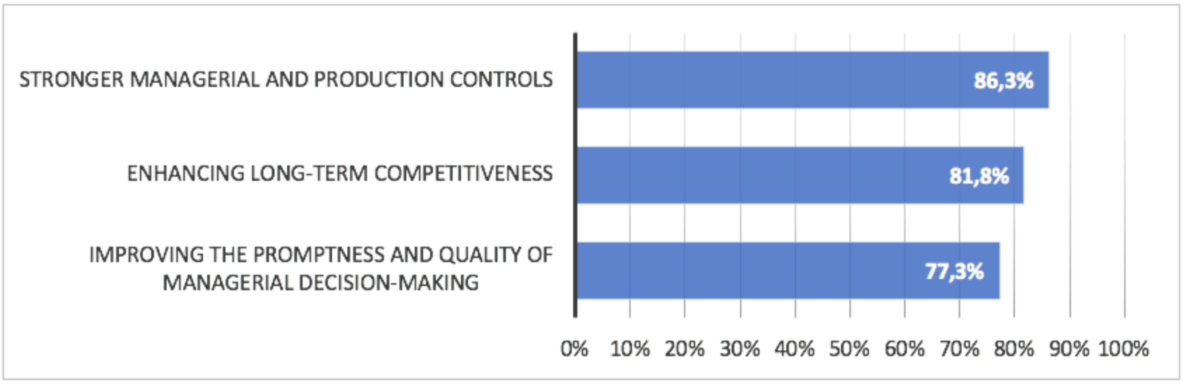
Source: Results of the survey of 120 medium and large businesses.

Based on the data presented in Figure 7, it can also be noted that the target-setting was adequate and realistic in the private sector. In fifty percent of cases, the targets determined by superior authorities for state-owned enterprises were not achieved

The expectations related to the implementation of corporate governance are significantly different among representatives of the private (Figure 8) and the state-controlled sectors (Figure 9). However, for both groups of enterprises, stronger managerial and production controls, i.e. the implementation of the supervisory function to ensure good performance of the enterprise management in the interests of the owners, predictably rank the first. A large proportion of private enterprises also see the potential of corporate governance in enhancing the long-term competitiveness (81.8%) and improving the promptness and quality of managerial decision-making (77.3%). In this regard, it could be argued that private enterprises are aware of the benefits of the implementation of corporate governance, and this process will intensify.

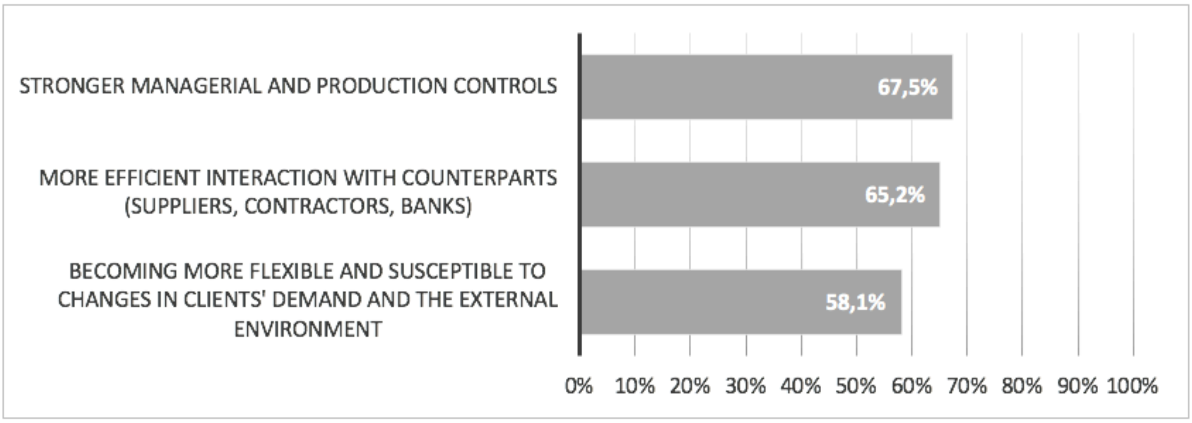
As to the expectations of representatives of state-owned enterprises, they believe that the corporate governance may enable more efficient interaction of enterprises with their counterparts (65.2%) and make them more flexible and susceptible to changes in the external environment (58.1%). Such expectations may indicate the prospects of attracting independent directors, including those from abroad, who have the necessary business ties, experience, and competencies in the industry.

Figure 8. What do you primarily expect from the corporate governance? (share of the State less than 25%)



Source: Results of the survey of 120 medium and large businesses.

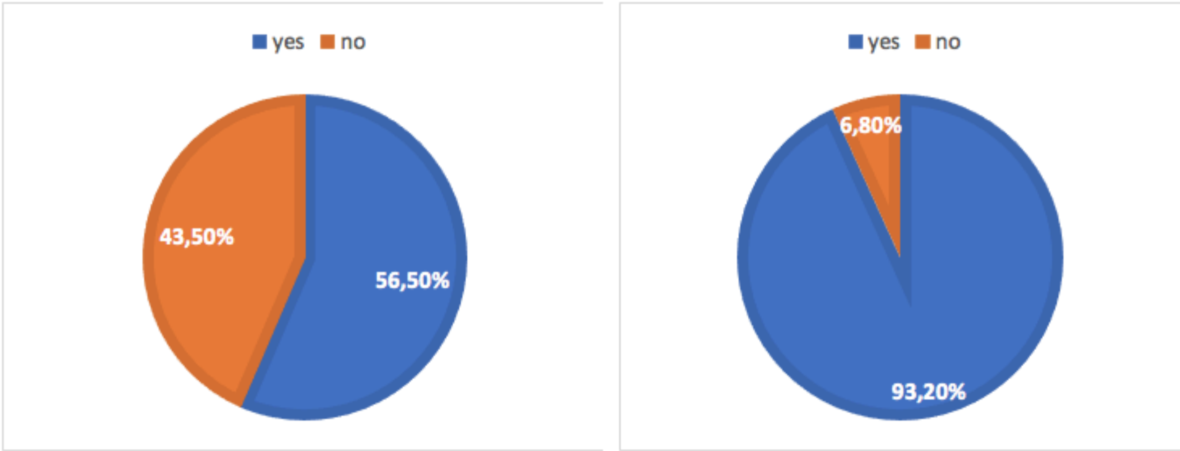
Figure 9. What do you primarily expect from the corporate governance? (share of the State over 25%)



Source: Results of the survey of 120 medium and large businesses.

It is also noteworthy that the share of private enterprises, in which supervisory boards are established, is much less than the share of such state-owned enterprises – 56.5% and 93.2% (Figure 10).

Figure 10. Has the enterprise got a supervisory board or a board of directors, including representatives of different stakeholders (counterparts, customers, the State)?



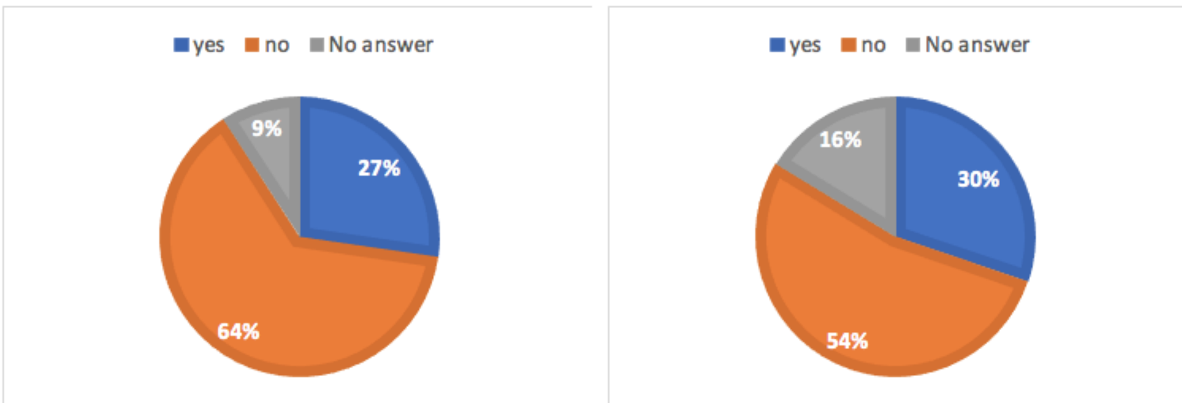
Share of the State less than 25%

Share of the State over 25%

Source: Results of the survey of 120 medium and large businesses.

Another indicator of how well the corporate governance framework is established and regulated is the availability of a specific document (code, regulations, etc.) that defines the functioning of the corporate governance (Figure 11). Less than a third of state-owned and private enterprises, where the corporate governance is in place and there is a supervisory board, have got such documents.

Figure 11. Has the enterprise got a code or another document defining the functioning of the corporate governance?



Share of the State less than 25%

Share of the State over 25%

Source: Results of the survey of 120 medium and large businesses.

Respondents highlighted that owners of enterprises are rarely interested in effective management practices and corporate governance in particular.

> *"Corporate governance has not yet been developed in Belarus. There are few private companies—maybe 20%, or maybe it's very optimistic—that are really developing such a framework, transferring management to hired top managers, with the owners staying at the strategic level – the level of the board of directors."*

As a result, the main owner is not engaged in day-to-day management only at 23.9% of private enterprises (see Figure 4).

According to respondents, there are a few reasons for that, including the general historical context, in which Belarusian businesses operate. The activities and management practices of Belarusian enterprises are impacted by their maturity and stage of formation, i.e. by the fact that all Belarusian private companies are not more than 30 years old. Respondents share the opinion that Belarusian enterprises are at the stage of initial capital accumulation, when there is no experience and aim of passing the business on and maintaining its sustainability when the owner changes, and the key goal is to generate financing for oneself and one's family in an environment where the business may be lost at any time due to economic instability, regulatory changes, unfair competition etc.

> *"In my understanding, we are at the stage of initial capital accumulation, all of those, who own a business, represent the first or second generation of business owners, like in the 16-17th centuries in Europe: robbing colonies, participating in wars, trying to get preferences. Unfortunately, we won't come close to what we refer to – Europe, America, Japan or Korea. Free entrepreneurship in Belarus is 25 years old, while we have never had a free advanced political system. We want to gallop the path from the proletariat to the oligarchs, which took others 500 years to go, in 25 years. ... Therefore, today's CEO, who was a Soviet schoolboy, a pioneer, a Komsomol member, and then earned his first million by the age of 30-40, still thinks along the old Soviet lines – they will come tomorrow, take it away, nothing should be disclosed. Everything is organized in such a way that everything is calm, to be preserved and passed on to the children. Therefore, we have a global situation – we have a really undervalued country, today there are no values that can be passed on. We need corporate governance, the IFRS, statements audited based on international standards – that would generate the very value that our country guarantees investment protection"*

Owners, many of whom launched their businesses in the 1990s, have developed and established a management culture that does not involve delegation of powers. This, among other things, calls into question the prospects for business continuity and the ability of a company to continue running after the owner retires.

> *"Most of our businesses are those established by a founder. It's phase one, they went all in, they started from scratch... The owner has a certain professional deformation and a very strong motivation not to delegate powers, which is fear. Our owners tend to be quite competent, but not competent in everything, over their years of work they have acquired some experience, which is associated with the fear of losing control over their enterprises. Accordingly, they usually interfere excessively in the management's activities, normally with no clear distinction between the powers of the management, the board of directors, and the owner. While in reality, these are three different roles with absolutely different powers and responsibilities."*

Many experts also point to a low degree of trust within the society and the business community, which significantly affects management practices.

> *"There is a very low degree of trust in Belarus, especially if we are talking about private businesses that were created in the 1990s. When one was a creator in general, not understanding what it was and going by steep and toilsome ways to the stars. It was clear that one trusted oneself more. Communicating with many owners of private companies, I see that, in principle, they are not ready to delegate powers even to their top management, let alone having a board of directors or corporate governance in place, i.e. they are not ready to share with other people. 80% of people who started their companies in the mid or late 1990's have a feeling that they won't pass their businesses on to anyone. ... The owners are not ready to retire, no matter how old they are."*

> *"A big role is played by the mentality and by such a word as trust. On the one hand, corporate governance is introduced to build up trust and reduce the dependence on the trust factor. On the other hand, there will be no efficiency in the absence of trust and concerted efforts of the owners."*

The rapidly changing business environment, business models and technologies call for a wide range of management skills, weakening the position of the business owner as a manager and creating the need to delegate many functions to professional managers. At the same time, qualified top managers often do not stay long in Belarusian organizations, as they do not get adequate powers and opportunities for development. This, in turn, adds further barriers to the development of corporate governance.

> *"The reason why many top managers change their jobs is the fact that the qualification of a top manager is often higher than that of the owner in the area of management in particular. ... On the one hand, owners want to develop their company, they still hire top managers. They look for the best in their view and, as a result, those best come and become errand boys, implementing a new idea of the owner every day, and, if they start doing something on their own, they get it in the neck."*

In general, focus group participants and interviewees appreciated the existing regulatory framework, instructions, and recommendations on the implementation of the corporate governance framework in enterprises. In order to improve corporate governance, changes are needed at the level of political will and motivation, both on the part of the owner and on the part of enterprises.

The survey of enterprises shows that, in case of many state-owned enterprises and part of private enterprises with supervisory boards, a proper corporate governance is not in place and is not operational, while in case of a large part of state-owned and private enterprises, with an established corporate governance framework and supervisory boards, their owners are still engaged in day-to-day management.

This may indicate that Belarusian enterprises are at the stage of active formation of corporate governance frameworks, which calls for attention and support from both government bodies and business education providers and consultants.

Specifics of functioning

According to respondents, the corporate governance framework implemented at state-owned enterprises is most often a formality. However, there are examples of enterprises where the implementation of a corporate governance framework is more effective. Thus, two models of corporate governance in state-owned enterprises could be compared: a **formal** one and a "**relatively successful**" one.

Within the formal model, a supervisory board is created in an enterprise, but its members have no real powers, the decision-making system remains unchanged, with the prevailing role of government bodies.

> *"When a supervisory board is formed, the delegation of authority is a formality, with very rare exceptions. As for the holdings established with participation of the State, it is not in line with the kind of corporate governance that should actually be developed. There should always be a real group of persons who are interested in it, they have a financial and material interest, they are willing to have their enterprise growing and changing in the right way... And in our case, in Belarus, who is ready to take the risk and get up in a board meeting to say "I oppose it"? Who would make a move? What for would they make a move? Each has been given some money by the ministry to formally be a member of the board of directors."*

The following features of the **formal model** could be identified:

- ♦ Corporate governance objectives are at odds with the practice of enterprise management when:
  - enterprises are faced with diverging requirements communicated through different control channels/by different bodies; and
  - the targets communicated by government bodies do not take into account the specifics, strategy, position of the enterprise.
- ♦ The management of an enterprise is unable to influence decision-making by the owner.
- ♦ Supervisory boards are formed based on the principle of “being convenient” – as long as they do not interfere with the work, formally clearing all the decisions and targets.
- ♦ Members of supervisory boards lack the competencies needed for the enterprise to develop.

> *"We have directed management of enterprises – it’s a concern in some cases, a ministry in others. General targets are communicated top down, often without taking into account the specifics and the state of the enterprise, the industry, etc. "We want to grow by 10%" – and that is communicated top down to everyone. The function of SBs is to formally legitimize decisions of the directorate or push through decisions of the owner – an order of the ministry, for example "to punish the director". Another function is to approve an additional pay to the representative of the State in the SB."*

The **“relatively successful” model** involves some influence of supervisory board members, their willingness to impact the situation, as well as a possibility of having a dialogue with governmental bodies on key issues of the enterprise operation.

Under this model, supervisory boards play the following roles:

- Aligning the owner's policy and communicated targets with the capabilities and specifics of the enterprise, being a platform for debate.
- Holding consultations, bringing new competencies in certain areas of management.

The functions of the supervisory board under the formal model are limited to clearing pre-approved decisions. Under the relatively successful model, the supervisory board can address the objectives of monitoring the implementation of the strategy, determining rewards, audit, risk control, but most often they do not deal with the issues of strategic planning, investment promotion.

The reduced functions of the corporate governance in state-owned enterprises, against the background of the developed legislative framework, make it a “dormant institution”. The corporate governance framework, which plays no key roles in the management of state-owned assets but has got a legislative framework, may become the foundation to rely on in the process of institutional transformations.

Despite its limited functions, it makes sense to develop the corporate governance framework, as it can give enterprises: (1) a platform for aligning the positions of representatives of the enterprise owner, the management, and government stakeholders, (2) additional competencies in enterprise management contributed by independent directors, and (3) could act as a “dormant institution”, whose capacity should be maintained in the light of future changes.

"It has been decided that, in case of open joint-stock companies, the risk committee should give its opinion stating, for example, that it could be done, but there would be certain consequences, and the persons who issue orders should be informed about that conclusion. So that they issue such orders responsibly and share the responsibility. Or that it would be detrimental to the quality: for example, the construction will be performed in winter. Among other things, it is one of the functions of the risk committee to halt such short-sighted managerial decisions. This is a know-how in enterprise management, since risks have been assessed only by banks so far."

Belarusian private enterprises offer some examples of an operational corporate governance in its pure form, at different stages of its maturity, but more often there are some quasi-forms of corporate governance.

> *"I think that theoretically they are closer to a proper corporate governance framework. At least there are owners who are willing to engage the top management in discussing the strategic development of their company. They already have some practice to avoid single-person decision-making and giving orders – do as I said – not getting involved in day-to day management. From that point of view, such companies have a better chance, they have created that kind of internal corporate governance."*

In one case, the owner may be engaged at the level of strategic management, leaving the authority to address operational issues to the management of the enterprise. In another case, owners come to creating boards of directors in their enterprises (not including independent directors) as a platform to discuss current issues with the management. However, these are some reduced forms that are not exactly corporate governance.

> *"At best, there are companies whose owners have decided to go to a higher level of decision-making, they create a board of directors, but it's internal. It includes top management and the owners themselves. They periodically meet and discuss some issues. But it is still not corporate governance in its pure form, because there are no systems, rules, formalized procedures, periodicity of discussing everything, indicators, based on which the performance would be assessed. There is something, but it is not systemic, not process management but rather situation-centered management."*

In yet another case, corporate governance bodies may exist formally while key decisions on strategic and even on operational matters remain withing the mandate of the owner.

> *"I often hear from managers: "Yes, we have a board of directors, we are formally involved but, in the end, all decisions are made by the owner, he has the final say in any and all decisions." Very often I read people's comments that it looks to outsiders like group decision-making, [while] in fact, it's just a game of democracy and there's really nothing of the kind. I know one company where there is a directorate, which includes heads of departments, the company is large, but this directorate meets once a year at best, and sometimes less often. In other words, it sounds nice to outsiders, you would be told that and would be shown regulations on the directorate, but insiders would stress that they don't see and don't feel it, the top management doesn't feel involved in managing."*

However, as well as in the case of state-owned enterprises, the presence of certain elements of corporate governance creates the potential for further implementation and strengthening of the framework, as in this case, the owner is willing to consider some reallocation of powers, even though to a limited extent, and delegation of making certain managerial decisions, even though only at the operational level.

When there is a corporate governance in place and operational, supervisory boards may perform the following functions:

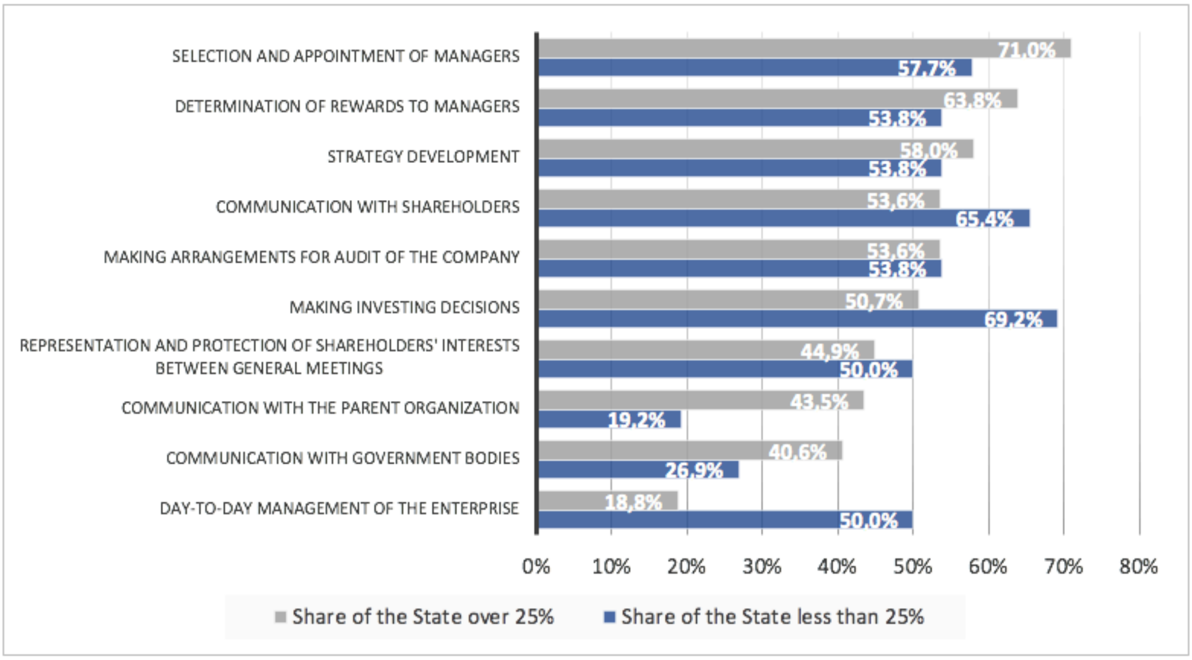
- Strategy development;
- Monitoring of the strategy implementation;
- Discussion of investment promotion;
- Addressing issues of top management hiring, motivation;
- Management of the company’s project portfolio;
- Budget control;

- Risk assessment and control.

> *"The board of directors is a body that develops a common strategy, and the strategy has come to exist not simply on paper or as a declaration of the team but as a real conceptual framework of the company development. People led by an autocrat, a strong entrepreneur, always take sharp turns as individual will. And the board of directors works smoothly, they have analyzed everything, checked whether the company is moving in the right direction, what adjustments should be made, if you have chosen the path of selling [the company] to a strategic investor or the path of potential growth, specific project development, then it is to be followed by the board of directors. It's a real difference, not obvious to people who have been running a business for 25 years, not thinking about it. Well, other things that matter are the continuity of management and business continuity."*

In the survey of medium and large enterprises, which have got supervisory boards, respondents were also asked to specify the functions of their supervisory boards. Here one could also observe differences in the terms of reference of supervisory boards in state-owned and private enterprises (Figure 12). The most common functions at state-owned enterprises include the selection and appointment of staff (71%) and the determination of rewards to managers (63.8%). The development strategy ranks the third (58%). In the private sector, supervisory boards most often deal with investments (69.2%), communication with shareholders (65.4%), management selection and appointment (57.7%).

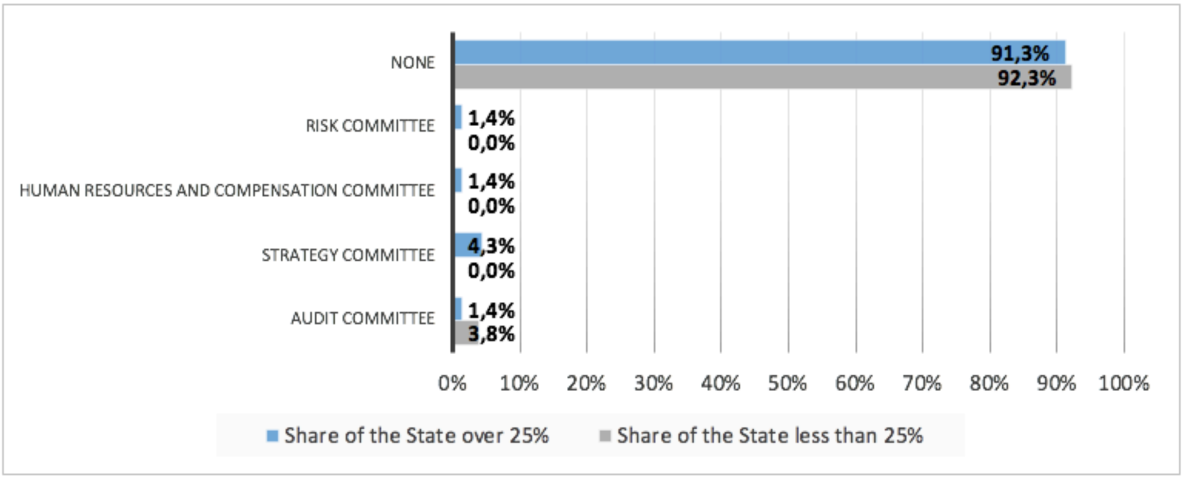
Figure 12. What are the terms of reference of the supervisory board?



Source: Results of the survey of 120 medium and large businesses.

The establishment of committees within supervisory boards has not been properly developed in either state-owned or private enterprises – more than 90% of enterprises, which have supervisory boards, have created no committees (Figure 13). This may be associated with the small number of supervisory board members and with the lack of understanding of the potential terms of reference and roles of committees. In case of state-owned enterprises, the most common is the strategy committee (4.3%), while in case of private ones, it is the audit committee (3.8%).

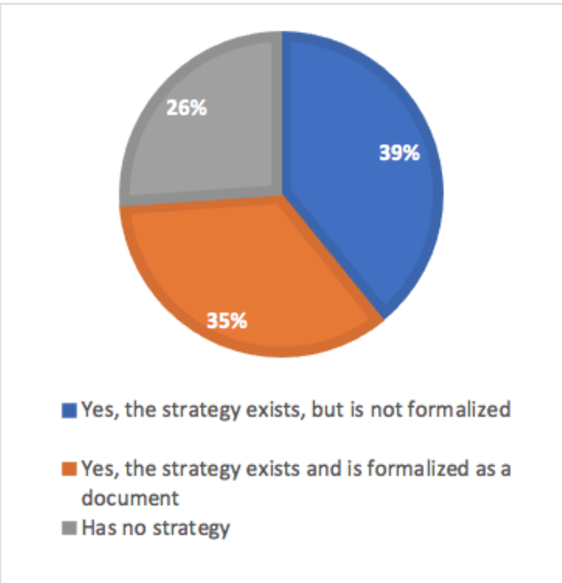
Figure 13. What committees have been created within the supervisory board (board of directors)?



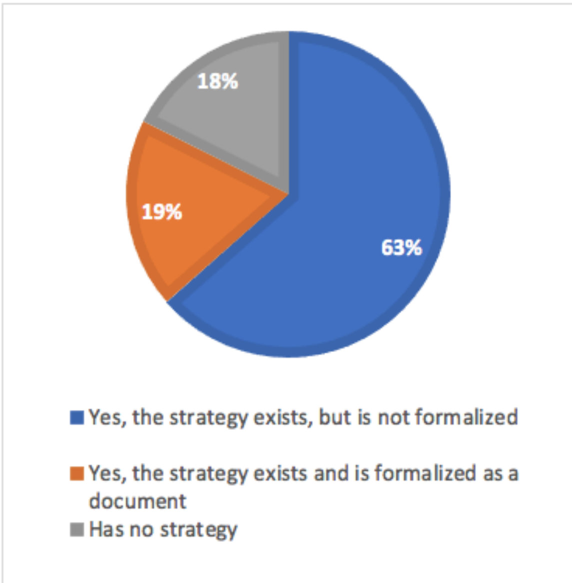
Source: Results of the survey of 120 medium and large businesses.

Perhaps due to the lack of separation of strategic and day-to-day management functions, strategy development and implementation are not given enough attention. As a result, only 35% of private enterprises and 19% of state-owned ones have developed and formalized a strategy with clear strategic goals (Figure 14).

Figure 14. Has the enterprise got a developed and formalized strategy with clear strategic goals?



Share of the State less than 25%

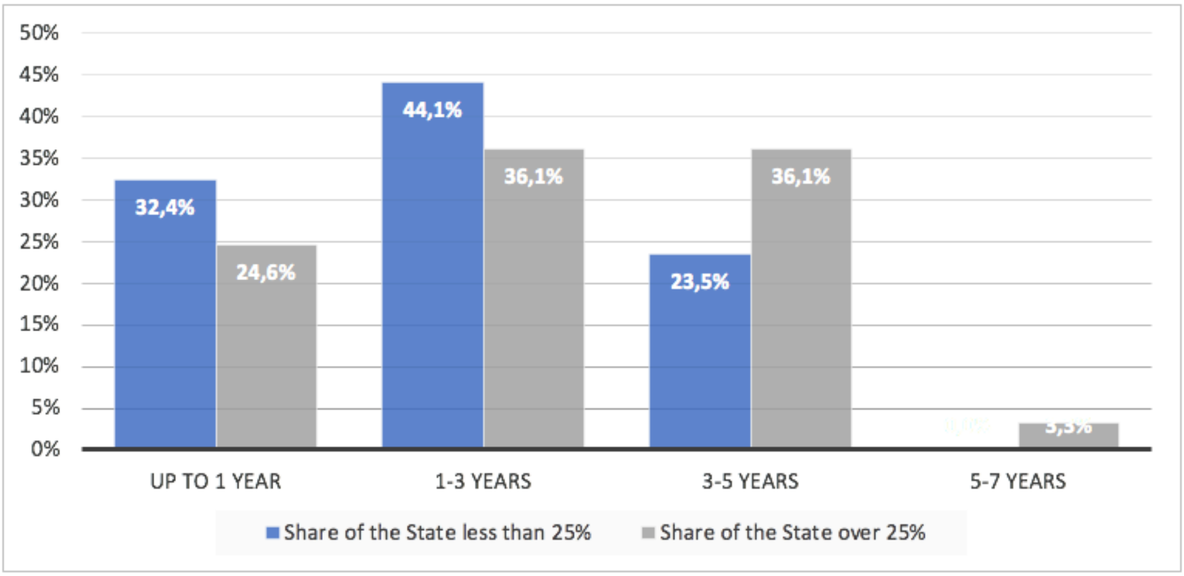


Share of the State over 25%

Source: Results of the survey of 120 medium and large businesses.

At the same time, in case of 76.5% of private enterprises and 60.7% of state-owned ones, having at least an unformalized strategy, the horizon of strategic planning does not exceed three years (Figure 15), which could be associated with the lack of transparency and significant uncertainty in the external environment.

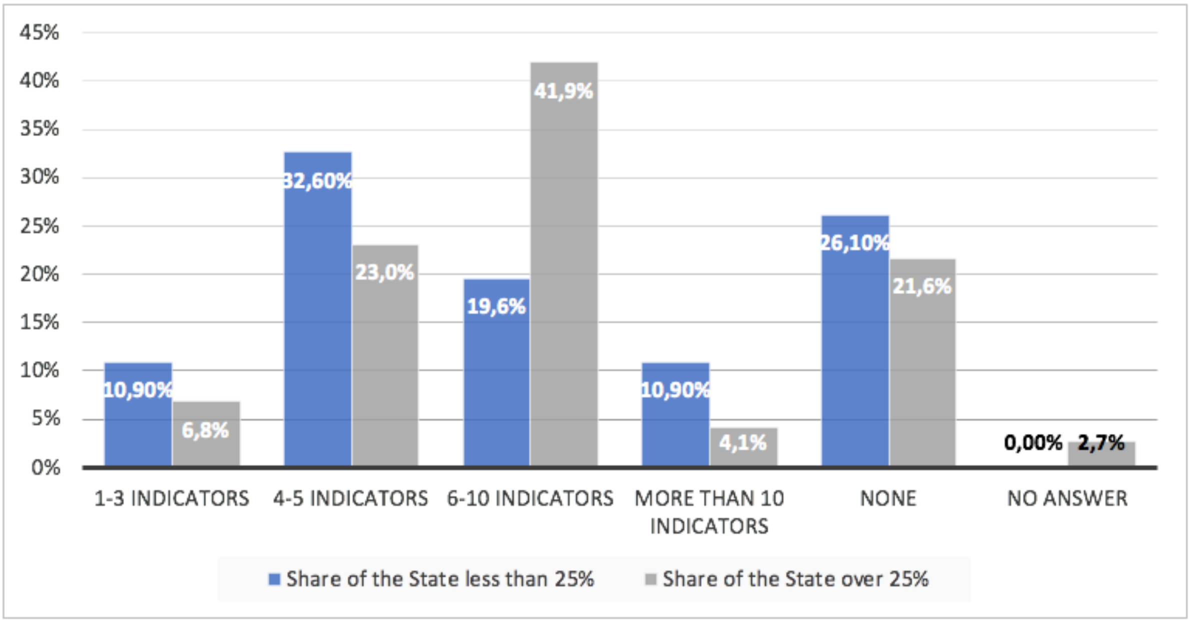
Figure 15. What planning horizon is usually considered when discussing and developing a strategy for the company?



Source: Results of the survey of 120 medium and large businesses.

With regard to performance indicators, it is important to note that 26.1% of private enterprises and 21.6% of state-owned ones have got no indicators set or assessed (Figure 16). It certainly shows that, in total, about a quarter of enterprises do not properly formulate even their annual plans.

Figure 16. How many performance indicators were set and assessed in 2019?



Source: Results of the survey of 120 medium and large businesses.

Favorable factors and barriers

According to respondents, in order to form a relatively successful model in state-owned enterprises, a number of barriers must be overcome:

- Insufficient interest, motivation of executive government bodies to enhance the effectiveness of corporate governance;
- Low motivation of supervisory board members to be engaged in governance, to establish a dialogue with the management, the owner, and government bodies;
- Insufficient motivation of enterprise management to implement decisions of supervisory boards and lack of appropriate competences;
- Inconsistent decision-making by different government bodies;
- Unwillingness of the owner to delegate powers to the supervisory board and the management of the enterprise;
- Attempts to manage the enterprise without taking into account the opinion of its supervisory board and management; and
- Insufficient or irrelevant competencies of supervisory board members.

At the same time, the experience of Belarusian enterprises shows that the following factors may contribute to faster formation of an effective corporate governance framework:

- Operating in an environment of fierce competition in international markets, real focus on efficiency and urgent need for it;

- ♦ Influential representatives of the State, top officials in the supervisory board;
- ♦ Careful selection of supervisory board members based on their competencies;
- ♦ Presence of employees responsible for the implementation of the corporate governance framework and corporate secretaries with sufficient competences, motivation, and authority;
- ♦ Significant experience of a functioning corporate governance (3-5 years or more); and
- ♦ Mobilizing external expertise, financing for projects (among other things, from international financial institutions) to develop strategic documents and implement a corporate governance framework.

Effective operation of a corporate governance may be hindered by the fact that:

- ♦ Supervisory board members are often not responsible for decisions made; and
- ♦ The residence and main employment of supervisory board members are at a considerable distance from the location of the enterprise, and high-ranking members of the board are busy.

There are also barriers to the advancement and effective functioning of corporate governance in the private sector in Belarus. They include those associated with external conditions and those directly related to companies' activities.

External barriers of a general nature include:

- ♦ Unstable regulatory environment for businesses;
- ♦ Unstable economic situation;
- ♦ Low level of trust: in government institutions, within the business community, and within the society as a whole; and
- ♦ Underdeveloped securities and investment markets.

Barriers, which are systemic and directly related to companies' activities, include:

- ♦ Low awareness of the corporate governance, its operation and benefits for enterprises;
- ♦ Most enterprises being at the stage of initial capital accumulation, when the primary goal is to generate financing for owners and their families, rather than develop the business in the long run;

- Low interest in promoting investment, lack of trust in financial institutions;
- The psychology of the owner, which prevents delegation of management and powers;
- Wide presence of gray business arrangements;
- No management accounting at enterprises; and
- Economic crises forcing a shift to manual business management.

There are also barriers related to human resources:

- Limited supply of professional qualified managers; and
- Limited supply of professional qualified independent directors.

Based on the barriers listed, the following conditions that would facilitate the implementation of corporate governance in private enterprises could be defined:

1) Stabilization of the regulatory environment for businesses;
2) Building trust in public administration on the part of entrepreneurs;
3) Development of the securities and investment markets; and
4) Dissemination of information on corporate governance and its benefits, demonstration of success stories of corporate governance, including those in the state-controlled sector.

Benefits of implementation

The question of which enterprises need corporate governance first of all, who may benefit from implementing this framework, is closely related to the one of what the key benefits of implementing a corporate governance are.

According to respondents, the beneficiaries of corporate governance include both the owners and the management of an enterprise, as well as its rank-and-file employees.

Formalized processes and building a clear decision-making framework help reach the level of strategic goals and business development, as well as facilitate day-to-day operation.

"The first priority is to put an organization in order, making it systemically managed, when all levels of management would deal with their relevant issues: shareholders – with theirs, top management – with theirs, employees – with theirs. And that is very important, because, when there is vertical movement emerging and shareholders get engaged in both strategy development and cashier controls, and get to load something at the warehouse, it certainly could not last long and the organization would not be able to grow under these conditions. It's craftsmanship. And when a business grows, systematization is essential. Then there is potential for growth and company development."

It is a direct benefit to owners that a well-built and effective corporate governance helps them distance themselves from day-to-day management and reach the strategic level, avoiding burnout, expanding the portfolio of projects.

"... The owner has five children who don't want to do business. There are statistics that show that about 80% of owners believe that their business will be inherited by their children. And only 13% of children want to inherit the business of their parents and run it. At present, this process is at the pre-launch stage, because those, who started a business in the 1990s, are now 60 years old and it is time for them to think about retirement. And then there are risks emerging, because there is already some capital, and keeping it in one basket is wrong, especially [if it is] big capital. It should be divided into several baskets. There has been one owner, the dad, and now there will be five owners, let them be brothers; or there have been two owners, two friends, and their children maybe don't even know each other, and their wives may know each other but there's no love lost between them. And then, in the absence of corporate governance, it would be impossible to address these challenges."

The benefits for a company are:

- An alternative, broad view needed for development where one person may be stumped;
- Avoiding the risks of sing-person decision-making;
- Improved manageability and efficiency of the company;
- Release of resources for company growth and development;
- Potential promotion of investments, increased company value; and

- ♦ Ensuring continuity of management, maintaining the company when the owner retires.

> *"If we are talking about an ownership strategy, retiring, business growth, it is very difficult to get an investor interested in the absence of a corporate governance framework. An investor would primarily buy the right system of operation, and the right system of operation would primarily depend on what governance principles have been implemented."*

The criteria for prioritizing companies to introduce corporate governance are related to the company size, structure, turnover, areas of business. Experts refer to the following criteria:

- The annual turnover is at least USD 10-20 million;
- The company has de jure and de facto multiple owners;
- The company is sufficiently diversified, it operates in different areas of business, has different sources and centers of profit;
- The company operates in highly competitive markets with increased risks;
- The company attracts investments;
- The owner is willing to deal with a portfolio of projects;
- The owner is willing to shift the burden of day-to-day management and in general to devote less time to the business; and
- The company has already got a supervisory board or other quasi-forms of corporate governance.

Independent directors

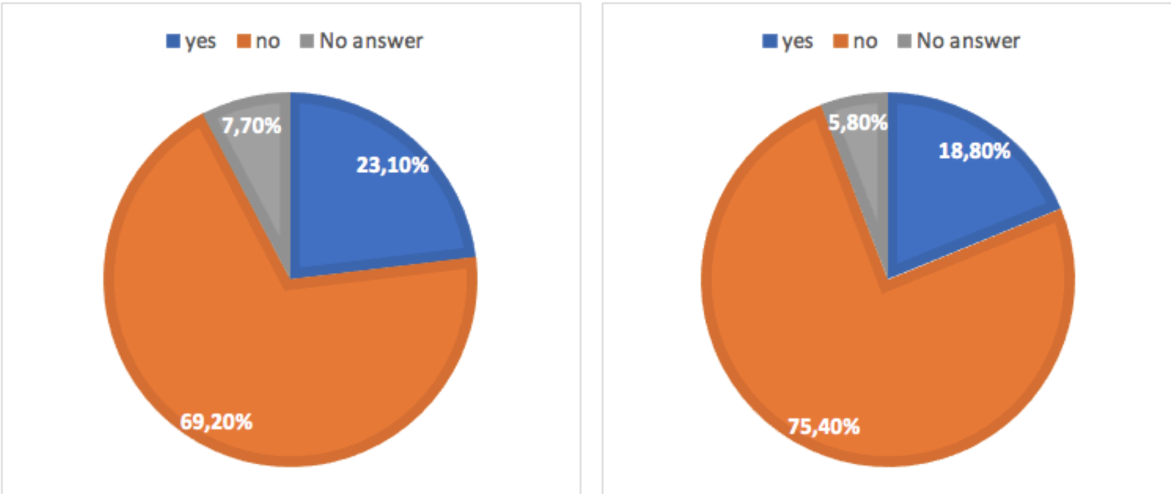
The effectiveness of the entire corporate governance framework depends largely on the ability of the supervisory board to perform its functions, which calls for independence of part of the board members from the enterprise management, owners, the State, and other stakeholders. It enables an objective assessment of the enterprise performance and development prospects, as well as ensures balanced decision-making (Автушко-Сикорский et al., 2016).

It should be admitted that the institution of independent directors has not yet developed sufficiently in Belarus.

The limited supply of suitable candidates for the positions of independent directors, on the one hand, and the reluctance to let an outsider in, on the other hand, are the key barriers to attracting independent directors and, thus, to improving the corporate governance both in the state-controlled and the private sectors.

As a result, only 18.8% of state-owned and 23.1% of private enterprises attract independent directors to their supervisory boards (Figure 17).

Figure 17. Are there any independent directors among members of the supervisory board (board of directors)[15]?



Share of the State less than 25% | Share of the State over 25%

Source: Results of the survey of 120 medium and large businesses.

Competencies

In order to overcome these barriers, the State Property Committee has created a roster of independent directors to be attracted to supervisory boards of enterprises with a share of the State. However, at the moment, it is rated low by representatives of the Committee, as well as CEOs of both state-owned and private enterprises, primarily due to the low and inappropriate qualifications of potential directors. Changes are expected to be made to the process of the registry formation.

[15] It was explained to respondents that an independent director is an individual who, leaving this status aside, is not affiliated to the enterprise and does not depend on its supervisory board, director, shareholders.

"The requirements to candidates specify the kind of positions they have held so far. If one has been a civil servant, then one's work should be connected with enterprises, not just a civil servant sitting in the human resources department, and one can be on the roster. If the candidate was in charge of a business, it should not be loss-making. When [the candidate is] added, there must be a face-to-face interview."

The roster could be replenished with current CEOs of state-owned enterprises and foreign experts, but there are certain restrictions to doing so. There is no clear ban in the legislation for a foreign citizen to become an independent director of a company, but the approaches followed by different lawyers in this regard may vary. For state-owned enterprises, the barrier to attracting an independent director from abroad could be the level of pay requested. In addition, the anti-corruption legislation prevents CEOs of enterprises from acting as independent directors, however, according to experts, this provision should be revised.

"The Ministry of Industry shares concerns where to find independent directors for the top 500 enterprises. 2 independent directors for each of the 500 enterprises makes 1,000 people. We will definitely fail to find such a number of specialists with industry/function-specific skills. They will emerge over time – we have flagship enterprises (private and state-owned) operating in international markets, people coming from these enterprises are good candidates for independent [directors]. Their number is not sufficient because Belarus' business is 30 years old. They're still in the first cycle. And in Germany, for instance, there are quite a lot of such people, who have got 20 years of experience of day-to-day management and who are not burdened with work. We won't have enough from the point of view of either quantity or quality, because we do not have enough international companies."

Theoretically, the roster of independent directors could be used in the private sector as well (and they do turn to it) but at the moment, the existing supply is not satisfactory for private businesses. In general, according to respondents, the deficit of potential independent directors is explained by the short life of the Belarusian private sector.

According to experts, independent directors should have the following qualities:

- Experience of successful enterprise management (that is more important than education);
- Understanding the functioning of the corporate governance framework;

> *"In fact, it turned out to be an experienced person who taught everyone how the board of directors should work. And we certainly needed the role [of the one], who would build up the corporate governance framework and help other board members shape those roles, because the role of the CEO and the role of the board chair are absolutely different, and it's not obvious to people who have never done it before."*

- Competences in functional business areas (production, finance, management accounting, marketing, sales, HR)—entering markets of developed countries, formation of the corporate culture were quoted among the competencies that Belarusian businesses lack; and
- Competences required by organizations at different stages of their life cycle (depending on this, the composition of the board may change over time).

Motivation

Currently, financial motivation is not key to participating in supervisory boards as independent directors. Many people say that working on the board gives an opportunity for personal and professional growth, raising one's value as a professional, the desire to help and be useful was also mentioned.

However, members of supervisory boards almost always get paid (except for cases when enterprises exchange their representatives to add to each other's supervisory boards).

As to the size of pay, government bodies recommend companies to pay independent directors about 80% of the CEO's salary. Some see the work of independent directors as that of business consultants—up to 20% on top of the cost of consultants' work. There are cases when the fixed quarterly pay to board members is insignificant for independent directors, making 10-15% of the CEO's salary.

However, most experts agree that the pay of independent directors should depend on their performance to include an element of responsibility. In general, the best arrangement could be seen as a minimum pay for participation in boards—according to many experts "to cover the petrol costs"—combined with a higher pay depending on one's performance – a percentage of profit gains, etc. Thus, a set of indicators would be used to assess the performance of not only the management but also the board.

Corporate secretary

The corporate secretary is usually responsible for smooth operation of the supervisory board and providing all the necessary materials for its work. At the same time, the corporate secretary plays a significant role in supporting the implementation of decisions made and monitoring their implementation.

Therefore, success is achieved when the role of the corporate secretary is performed by a person who:

- Enjoys authority in the company;
- Has excellent knowledge of all the company processes; and
- Is familiar with the corporate governance framework.

Corporate secretaries often combine this function with other responsibilities: assistant to the CEO, lawyer, and there are also cases where this role is played by a senior manager.

When discussing complex issues, the supervisory board may also request the opinion of the corporate secretary as an independent figure since the corporate secretary is engaged in the operation of both the board and the enterprise.

6. Conclusion

The development and effectiveness of the corporate governance depend to a large extent on the institutional environment, in which it is formed. Progressive corporate legislation is a necessary but insufficient condition for changing governance approaches and mechanisms. Informal institutions, such as trust within the society, values of civil servants and businessmen, principles of business-government interaction, etc., are key in this process. It is clear that in an economy characterized by lack of rule of law, inconsistent compliance with the legislation, lack of an effective public dialogue, corruption and a low level of trust, the actions taken by the State and enterprises to implement corporate governance standards may be inconclusive.

The results of the study confirm the opinion that the institutional prerequisites and conditions for the development of a corporate governance framework are only being formed in Belarus, both in the state-owned and the private sectors (Автушко-Сикорский et al., 2016). The awareness of the importance and the key factors of effective corporate governance is developing both at the level of the State and at the level of business owners. As a result, a number of documents have been adopted since 2012 aimed at intensifying the efforts to improve company corporate governance mechanisms. According to the survey, the efforts taken by the State lead to the creation of some elements of corporate governance (supervisory boards, independent directors, corporate secretaries) but it is premature to talk about an effectively functioning framework. There are a several barriers, overcoming which requires joint efforts of the State, businesses, financial institutions, and international organizations. In addition to the weaknesses identified by the EBRD (2017), the focus should be on the areas of improving corporate governance within the state-controlled and the private sectors as analyzed in this study.

1. In the state-controlled sector, it is advisable to formulate the key goals of operation of key enterprises (legal entities that operate in strategically important sectors of the economy and/or cover other important State needs) and, if possible, of relatively homogeneous groups of enterprises. Pursuant to the goals defined by the State as an owner and with necessary competencies in place, supervisory boards could develop strategies, communicate them to the enterprise managers they have appointed, and control the implementation of the strategies. At the same time, the system of multiple "centers of governance" (ministries, local governments, concerns) should be eliminated to avoid deviations from strategic priorities. Such a framework would create prerequisites needed for the State to become an effective owner by establishing clear reporting lines in accordance with the best practices.
2. The concentration of powers and responsibilities within supervisory boards would obviously tighten requirements to the competencies, experience, and reputation of their members, thus leading to more thorough selection and a higher level of pay to board members. In general, the economy of Belarus is characterized by a shortage of professional managers who have experience of working within effectively functioning corporate governance frameworks. As a result, there is generally a low level of awareness of how to implement a corporate governance and, most importantly, what benefits owners, managers, employees, and other stakeholders would get. The focus should be on training corporate secretaries and independent directors as important actors within the corporate governance framework. Business schools and other education institutions that are training managers have an important role to play in addressing this challenge. Moreover, it is important not only to raise the awareness and the level of theoretical expertise of the corporate governance, but also to develop skills of negotiating and building trustful relationships. As to the private sector in particular, it deems reasonable to

implement training programs and consulting projects aimed at ensuring continuity and transition of business management. As well as in the case of pilot projects to develop state-owned enterprises, real life success stories and their promotion are important for Belarusian private businesses. Such initiatives could be supported by international organizations (EBRD, World Bank, International Finance Corporation, etc.).

3. To develop the institution of corporate governance and establish a professional community of directors and top managers, the idea of creating an association similar to the Russian Association of Professional Directors AID and the Ukrainian Corporate Governance Professional Association looks promising. The objectives of such an association could be to implement specialized training programs, certify independent directors and corporate secretaries, participate in efforts to improve the corporate legislation. In addition to promoting corporate governance within the business community, the association would develop professional standards and keep a roster of independent directors. Such an initiative could, to some extent, consolidate the efforts of the State and businesses, facilitate a productive dialogue in the processes of developing the mechanisms and elements of corporate governance in Belarus.

In conclusion, it should be noted that the international practice offers a lot of seemingly ready-to-implement corporate governance solutions and tools. However, the priority efforts of all stakeholders should be directed not at imitating and adapting such tools, but at developing the prerequisites and general preparedness for change in the country, as well as building trust within the society. The development and regulation of corporate governance is based on trustful interaction between the State and private institutions, as well as on the core values of transparency, accountability, equity, and responsibility. If businesses and the State have not developed a commitment to these values, it is impossible to achieve the objectives set for the corporate governance. However, that being the case, attempts to develop corporate governance raise more global questions about the need for institutional reforms and push for their implementation (CIPE, 2009).

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