

# HUMAN RESOURCE MANAGEMENT AND ADMINISTRATION

## Factors influencing corporate governance in Ukrainian companies

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*Abstract – The factors influencing corporate governance in Ukraine have been identified. As a result of the conducted analysis and case studies the essence of each have been revealed. The specificity of Ukrainian corporate governance system have been described. The importance of corporate collaboration within different authority levels have been underlined and the necessity of Ukrainian companies' adaptation to internationally unified rules, principles and standards of corporate governance have been highlighted. The ways of Ukrainian corporate governance improvement have been pointed out.*

Key words – corporate sector of economy, corporate governance, factors of influence, structural transformation, state regulation, improvements, internationalization process, corporate governance standards, process of institution building, human capital asset.

### I. Introduction

The market reformation process of Ukraine's economy at the micro- and macro-levels has led to the creation of corporate sector as a basis among the new organizational and legal forms of management. Globalization of markets, which is reflected in the synchronization of processes in the global and domestic economies, the accelerating trend of scientific and technological progress, increasing integration and internationalization tendencies of business entities that change the structural organization of the corporate sector of economy, determine the necessity of the effective mechanisms formation of corporate relations regulation.

### II. Impact factors on corporate activity

Touching upon the issue of corporate governance of the Ukrainian companies it should be noted that this complicated process encounters with the number of challenges that have a big impact on the companies' performance. The conducted detailed analysis and case studies of this problematic issue have identified four factors of influence on corporate governance performance: pressure from majority shareholders; pressure from outside minority shareholders; pressure resulting internationalization/ globalization and pressure exerted by the state in the form of legal regulation. These factors have a direct effect on all aspects of the enterprise governance and its basic components such as ownership

structure, accountability of managers to owners, financial transparency, the involvement of relevant shareholders into decision-making processes, fair profit distribution among all shareholders and other fundamental elements of corporate governance that are present in four major corporate governance models (Anglo-Saxon, Continental, Japanese and 'family' model). Taking into account the existence of the four main pressures on the whole process of corporate functioning the author underlines the necessity of Ukrainian companies' adaptation to a set of internationally unified components, rules and principles of corporate governance.

### III. Recommendations on corporate governance improvement in Ukrainian companies

The formation and development of a proper corporate governance system has become an important part of structural transformation in the economy of Ukraine. It should be noted that under the socialist system, corporate governance in the sense of the shareholder approach was a nonentity, as all large companies were state-owned and -controlled. Accordingly, there were no corporate governance regulations in place when the socialist system disappeared, nor were there state agencies capable of controlling private companies. The newly established corporate governance institutions in Ukraine were strongly influenced by the German corporate governance model. Ukrainian companies have a two-tier board system despite a strong US influence during the process of institution building; this model better fits their ownership structure. Contrary to the Anglo-American configuration, where companies owned by a large group of small private shareholders dominate, ownership structures in the Ukrainian economy are characterized by large blockholders [3]. At the beginning of 2000 in Ukraine the average share of the largest shareholder in privatized companies was 45% [1]. Hence, most companies have a majority shareholder that monitors and controls the management.

Nowadays the dominance of the corporate sector in the national economy, which has a transitive character connected with nonlinearity of economic processes progress and the high influence of external factors, has emphasized the need of active interaction between the state and the objects and subjects of the corporate sector of economy. Thus, this tendency raises the urgent problematic issue of state's role in the corporate sector of economy of Ukraine and the effectiveness of state regulation in the complex process of corporate relations.

It is worth mentioning that in Ukraine, important improvements in corporate governance regulation were achieved in the period from 2000 to 2002 [3]. Further improvements could be realized due to national

legislation. The state can intervene in corporate governance in order to improve the investment climate and put an end to criminalization of the economy, taxes avoidance, financial manipulations associated with imperfect corporate governance. Accordingly, the state can create legal regulations, which, if enforced, could foster good corporate governance.

In addition, strong corporate governance can be built if the strategy of majority shareholders is oriented towards long-term profitability and there is no conflict with strong minority shareholders. The impact of this constellation on corporate governance is the strongest when internationalization is high. Moreover, when a company wants to enter a foreign market, it must strive to adapt to the foreign business environment, potentially including the adoption of foreign corporate governance standards. In other words, the more important foreign markets become to the company, i.e. the more the company becomes internationalized, the likelier it is to at least partly assume foreign corporate governance practices [2], [5], [6]. Consequently, it is another possible way of corporate governance improvement that will include the further scientific research.

Considering the obvious necessity of Ukrainian regulatory framework development on corporate governance and adaptation of Ukrainian companies to international standards and principles of corporate governance such as international accounting standards, legislation etc., government and companies' owners should focus their attention on the problematic issues connected with the high quality recruitment and further investment in human capital asset.

Personnel should be pointed out as a key characteristic of the organizational system, because people form the backbone of any organization. The potential of top-managers, office workers is mainly prescribed by external environment. At the same time it develops within the company under the influence of experience, professional training and retraining etc [7].

No less essential is a set of criteria and personnel characteristics that should be considered in the management process of the corporation activity:

ideological and political, social, cultural and values background;

professional degree and qualifications;

habitual leadership style;

needs and interests of people based on their social status and living conditions;

motivational base of employee behavior (seeking for material wealth, personal success, willingness to contribute to the achievements of any group, organizational, institutional and other goals) [7].

Therefore, in order to ensure better corporate governance in Ukraine, managers have to hire a highly qualified personnel that is capable to use new approaches to work, following the high standards of corporate governance that are required by the internationalization of the market.

The obvious examples of successful corporate governance in Ukraine are large Ukrainian companies such as SKM, Eastone, Farmak, UkrLandFarming and others. SKM Group,

100% shares of which are owned by R.Akhmetov, and which assets were estimated in \$17,8 billion in 2012 by Correspondent, uses extremely critical approach in personnel selection. For instance, in DTEK, the energy subdivision of SKM Group, candidates for top positions pass through several selection stages. DTEK has an unofficial standard: 1+1=10, which means that synergy of the work of two persons should be equal to the result of ten [4].

## Conclusion

In conclusion the author makes an emphasis on the fact that corporate activity is defined by the objective factors of external environment and internal parameters of organizational structures.

The conducted research and case studies identified four factors that have the most influence on corporate governance performance: pressure from majority shareholders; pressure from outside minority shareholders; pressure resulting internationalization/ globalization and pressure exerted by the state in the form of legal regulation. One of the main internal parametr that could improve the corporate governance seems to be the development of personnel policy that is oriented on the high quality standards. Equally important is the investment in human capital asset that should ensure the effectiveness of interaction mechanism between state, subjects and objects of corporate governance and develop the understanding of high standards necessity by employees.

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