

# Implementation Of International Corporate Governance Standards In Russian Electric Power Industry

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**Abstract** — The paper considers the implementation of international corporate governance standards in Russian power generation companies. The implementation is mainly determined by analyzing whether or not Russian companies comply with Russia's Corporate Governance Code criteria that are based on these standards. An in-depth analysis involves additional assessments. These are the assessment of Russian boards of directors by Spencer Stuart; the Transparency International assessment of corporate reporting transparency in the largest Russian companies; the assessment of the Corporate Governance Index of Russia based on the Good Governance Index and an international methodology adapted to Russian contexts; and the assessment of how the elements of the international "soft law" are introduced. These additional assessments made it possible to consider the criteria that are not included in the Code; to compare corporate practice in the Russian power generation companies with other Russian companies and the largest companies in Europe, the United Kingdom and the United States; and to study independent opinions of professional and expert communities about the quality of corporate governance. The findings revealed that the overwhelming majority of Russian power generation companies do not meet the analyzed criteria that are significant for investors. This situation is indicative of weak implementation of international corporate governance standards in these companies and their low investment attractiveness.

**Index Terms** — Corporate governance, international standards, implementation, Russian power generation companies.

## I. INTRODUCTION

The world experience of corporate governance shows that it is impossible to ensure the inflow of foreign investment and the successful development of companies without an effective management system. Such a system helps determine the goals of a company and the methods of their achievement, and constantly monitor the activity of the company. High quality corporate governance provides access to capital markets and reduces its cost, gives investors confidence that the capital they provide will increase the company's capitalization, and will not be appropriated by corporate executives, the board of directors or controlling shareholders; that investors will participate in company's profit on fair and equal terms. Good corporate governance, coupled with effective control and enforcement mechanisms, can increase the level of confidence not only of external, but also of Russian investors, strengthen the proper operation of financial markets and, ultimately, stimulate more stable sources of funding [1]. Such management makes it possible to strengthen the position of any country in the World Bank Doing Business rating, in particular, due to the high "index of protection of the rights of minority investors", especially noted by the Government of Russia in the "Improving corporate governance" roadmap [2]. The implementation of international corporate governance standards that are trustworthy and understandable for any investors, contributes to its quality in Russian companies.

Russian experience of corporate governance based on the international standards is relatively small. The basic milestone of their introduction into the Russian corporate practice was the Code of Corporate Conduct (2002). In the Russian electric power industry, the experience of corporate governance is even smaller. Partly, the low investment attractiveness of Russian power generation companies is caused by the problems associated with the establishment of new corporate relations that are adequate to the altered realities. After restructuring and privatization (2008), in most of them the effective owners did not appear. The

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formation of new corporate relations was exacerbated by other external conditions in comparison with the creation of “typical” world models of corporate governance - “Anglo-American” and “German”. Such specificity, in particular, was due to the relative weakness of the Russian securities market and the banking system, legal institutions, law enforcement practices, the lack of competitiveness of the commodity, capital and labor markets.

The Code of Corporate Governance of Russia (Code) (2014) was another milestone in the improvement of Russian corporate practice. This Code clarifies the best standards of corporate governance practice for observing the rights of shareholders that meet new needs, contributes to their practical implementation, and acts as an effective tool to improve the efficiency of company management and ensure its long-term and sustainable development. This document considers the improvement of corporate governance «... as the most important measure to increase investment flows to all sectors of the Russian economy, both from sources within the country and from foreign investors» [3]. The main purpose of applying the international standards in the Russian practice of corporate governance is to protect the interests of all shareholders, regardless of the size of their block of shares. The higher the level of protection of shareholders’ interests, the greater number of Russian companies will be able to count on large investments.

The ultimate goal of this study was to determine the current implementation of international corporate governance standards in the Russian electric power industry, given the nation-specific contexts. Modern international standards of corporate governance G20/OECD are shown. The implementation of international standards in the practice of corporate governance of 13 Russian power generation companies from the RBC-500 list was comprehensively analyzed [4]. The analysis was mainly based on the criteria for compliance of corporate governance in these companies with the principles of the Code [5-17]. For a more in-depth analysis, additional assessments have been studied. These are the assessment of Russian boards of directors by the company Spencer Stuart [18–21]; the assessment of the transparency of corporate reporting of the largest Russian companies by the organization Transparency International [22]; the assessment of objective signs and opinions of the respondents of the Corporate Governance Index of Russia regarding good corporate practices [23–25]. The additional assessments were necessary to study the implementation of the international standards according to the criteria that are not included in the Code. It was also necessary to analyze the implementation according to the views of the professional community and in comparison with other Russian companies, the largest companies in Europe, the United Kingdom and the United States. The introduction

of the international “soft law” elements into the practice of corporate governance of Russian power generation companies, which are used in the countries with relatively weak legal and regulatory frameworks was analyzed [27, 28].

## II. INTERNATIONAL CORPORATE GOVERNANCE STANDARDS

International standards (principles) of corporate governance determine the global policy and practice of corporate governance. They first appeared in 1999 as a result of the compilation of data on corporate governance in the member-countries of the Organization for Economic Cooperation and Development (OECD). In 2014-2015, these standards were revised and approved as the G20 / OECD Corporate Governance Principles (G20 / OECD Principles). Below they are listed in an updated form [1].

1. The corporate governance should stimulate transparent and fair markets and efficient allocation of resources. It must comply with the requirements of the rule of law and support effective oversight and enforcement.
2. The corporate governance should protect the rights of shareholders and ensure fair and equal treatment of all shareholders, including minority and foreign shareholders. All shareholders should be able to receive effective compensation for violation of their rights.
3. The corporate governance must provide strong incentives throughout the entire investment chain and require securities markets to operate so as to promote good corporate governance.
4. The corporate governance should recognize the rights of stakeholders as provided by law or by multilateral agreements, and stimulate active cooperation between corporations and stakeholders in the light of creation of wealth, jobs, and financially sustainable enterprises.
5. The corporate governance should ensure timely and accurate disclosure of information on all essential company-related matters, including financial position, results of operations, ownership and management.
6. The corporate governance should provide strategic management of the company, effective control over management by the board of directors, and the accountability of the board of directors to the company and shareholders.

The G20 / OECD principles reflect global corporate governance experience since 1999, including changes in the corporate and financial sectors. They retain the same key elements of creating an effective corporate governance system: high transparency; accountability; supervision by the board of directors; respect for shareholder rights; the importance of the role of key stakeholders.

These principles are generally recognized in the world, including the developing and emerging economies that are interested in attracting investment. They are considered to be guidelines for policy makers, investors, companies and other stakeholders and a key standard of sustainable

financial systems, the basis for the World Bank reports on compliance with corporate governance standards and codes. The G20 / OECD principles can be used to improve corporate practice not only by companies whose shares are traded at the open securities market, but also by those whose shares are not listed on the stock exchange.

The key elements of an effective corporate governance system, clearly defined in the G20 / OECD Principles, are applied in global corporate practice in accordance with the economic, legislative, social and regulatory features of each country. In Russia, they were used as basic principles for the development of the Russian Code. The development of the Code allowed for the national contexts and involved the European Bank for Reconstruction and Development, the OECD, the Moscow Exchange, the Federal Property Management Agency and the Ministry of Economic Development of Russia, Russian and international companies providing services in the field of corporate management.

### III. IMPLEMENTATION OF INTERNATIONAL STANDARDS ACCORDING TO THE COMPLIANCE CRITERIA

The current implementation of international standards in the corporate practice of Russian power generation companies has been studied on the example of 13 companies from the RBC-500 list. These are PJSC "Inter RAO UES", PJSC "OGK-2", PJSC "Unipro", PJSC "Enel Russia", PJSC "RusHydro", PJSC "TGC-1", OJSC "TGC-2", PJSC «Mosenergo», PJSC «Quadra», PJSC «Irkutskenergo», PJSC "T Plus", OJSC «Fortum», PJSC «TGC-14»[4 ].

Implementation was determined mainly by analyzing:

- A. The compliance with the principles of the Code.
- B. The assessment by Spencer Stuart.
- C. The assessment by Transparency International.
- D. The Russian Corporate Governance Index.
- E. The introduction of the international "soft law" elements.

#### *A. Compliance with the principles of the Code*

The principles of the Code are generalized below [3]. The generalization meets the recommendations of the Bank of Russia that are intended for Russian companies to make the "Reports on Compliance with the Principles and Recommendations of the Corporate Governance Code" in the framework of their Annual Reports (Bank of Russia Letter dated February 17, 2016 No. IN - 06 - 5218).

1. The system and practice of corporate governance should ensure equality of conditions for all shareholders owning shares of the same category, including minority (small) shareholders and foreign shareholders, an equal and fair attitude towards them when exercising the right to participate in the management of the company and profits through dividends.
2. The company board of directors should be an effective and professional governing body in the interests of the company and its shareholders, exercise strategic

management, control the activities of the executive bodies, and be accountable to the shareholders.

3. The corporate secretary should ensure effective ongoing interaction with shareholders, coordination of actions to protect their rights and interests, effective work of the board of directors.
4. The system of remuneration of board of directors, executive bodies and other key managers should ensure the remuneration dependence on the result of the company's work and their personal contribution to the achievement of this result. Remuneration must be paid in accordance with the accepted remuneration policy. The remuneration system for members of the board of directors should bring closer the financial interests of directors to the long-term financial interests of shareholders.
5. A system of risk management and internal control should be established in the company to achieve its goals. It is necessary to make a systematic and independent assessment of its reliability and efficiency.
6. Timely disclosure of complete, current, reliable and additional material information about the company and its subsidiaries should be carried out to enable the shareholders and investors to make informed decisions. The provision of information must comply with the principles of fairness and ease.
7. The procedure for conducting material corporate actions should be developed in the company (increase in share capital, takeover, listing and delisting of securities, reorganization, material deals). These actions can significantly affect the structure of share capital and the financial standing of the company, and, as a result, the position of shareholders. This procedure should allow shareholders to timely receive full information on material actions, to influence their performance and guarantee respect for their rights and adequate level of their protection.

In order to analyze the compliance of the Russian power generation companies with the principles of the Code, a total of 128 criteria were used to assess the compliance with these principles. These criteria are contained in the recommendations of the Bank of Russia, which, unlike the previous recommendations of the Moscow Exchange, present the corporate governance principles in a clearer structure, highlight the criteria for the assessment of their compliance, expand the status of compliance with each of the principles, and specify the form of explanations why the criteria are not met.

The analysis revealed numerous violations of the criteria for assessing the compliance of the companies with the principles of the Code. The principles that are not respected by the overwhelming majority of companies (in brackets - the proportion of companies that meet these criteria, in percentage of the total number of companies) are given below.

- Shareholders are provided with information on who nominated candidates to the board of directors (33).
  - The board of directors includes at least 1/3 of independent directors (33).
  - Information on attendance of meetings of the board of directors and its committees by individual directors is disclosed (33).
  - The data on beneficiaries and other shareholders are disclosed (32).
  - Principles and approaches to the organization of a risk management and internal control system are defined (25).
  - The board of directors is notified of the intentions or appointments of its members in the governing bodies of other organizations (25).
  - A policy is developed and implemented to remunerate members of the board of directors, executive bodies and other executives, including transparent mechanisms for determining the remuneration (25).
  - The list of transactions and other material corporate actions, the criteria for determining them are defined (25).
  - The content of the Code of Ethics is disclosed (23).
  - The effectiveness of the risk management and internal control system is assessed (20).
  - The most important issues are considered at in-person board meetings (17).
  - The committees of the board of directors for audit, and remuneration consist only of independent directors. At least one member of the audit committee has experience and knowledge in the preparation, analysis and audit of financial statements (17).
  - All committees of the board of directors are headed by an independent director (17).
  - Board of directors considers the issues of corporate governance practices (16).
  - The content of the Corporate Governance Code is disclosed (15).
  - Board of directors considers the information policy compliance issues (15).
  - Procedures are adopted to assess the compliance of the quantitative composition of board of directors with the needs of the company, the effectiveness of its individual members, committees and the board of directors as a whole; and analyze the professional qualifications of the board members, their experience, knowledge and business skills, absence of conflict of interests, etc. (8).
  - Shareholders are provided with the biographical data of all candidates for the members of board of directors, results of evaluation of such candidates, information on compliance with the independence criteria when electing the board of directors (8).
  - There is a procedure for independent directors to evaluate and approve the material corporate actions prior to their implementation (8).
  - There is an expanded list of grounds on which members of the board of directors are recognized as interested in the transactions of companies (8).
  - Information on the relationship between remuneration of the board members and performance of the company is disclosed (7).
  - Detailed information on the remuneration of members of the board of directors is disclosed (0).
  - Detailed information on remuneration of management bodies is disclosed (0).
- The criteria listed above are of particular importance to investors. This is confirmed by their high correlation with the indicators of good corporate governance of the Corporate Governance Index of Russia (Index 2017), which is based on the international Good Governance Index methodology adapted to Russian conditions [24,25]. It is worth noting that more than 70% of the unobserved criteria of the Code are directly related to the boards of directors of companies. For this reason, in particular, in order to better understand the implementation of international standards in the corporate practice of the Russian power generation companies, the assessment of the Russian boards of directors by Spencer Stuart was analyzed.
- B. Assessment by Spencer Stuart*
- The Spencer Stuart “Board Index” is an annual survey for various countries that analyzes various aspects of board performance. The analysis covers the boards of directors of large public companies. It was first published over 30 years ago in the United States. Today it is produced in 22 countries, including 11 European countries. The first edition of the Russian board of directors Index was published by Spencer Stuart in 2014. The main objective of this Index is to provide business leaders with current information on current practices in Russian boards of directors. In addition to these data, Spencer Stuart publishes detailed information on a number of key management indicators of Russian boards of directors compared with the boards of the largest companies in Europe, the United Kingdom and the United States. The Russian companies included in the Russian board of directors Index have large market capitalization in terms of the RTS index in each year of the study. The Russian power generation companies included in the Spencer Stuart Russian Index of the board of directors (2014–2017) are represented only by PJSC “Inter RAO UES” and PJSC “RusHydro”, PJSC “Mosenergo” was added to this list in 2015 and 2017.
- Generalized indicators of the corporate governance quality that are assessed by Spencer Stuart, are given below (in brackets - the number of criteria for each of them) [18–21]:

- 1) The size and composition of the board of directors
  - a) executive and non-executive directors (3);
  - b) independent directors (2);
  - c) female representation on board of directors (6);
  - d) directors from outside Russia (5);
  - e) new directors (3);
  - e) average age of directors (6);
  - g) tenure (3);
  - h) number of directors serving on an outside company board (4);
  - i) the number and type of committees on board (4).
- 2) Meetings and performance evaluation of board
  - a) meetings of board of directors (2);
  - b) performance evaluation of board (2).
  - 3) remuneration of directors
    - a) chairman of board (2);
    - b) non-executive directors (2);
    - c) remuneration for participation in committees (3)

Among the listed indicators, particular attention was paid to those non-observed by the overwhelming majority of Russian power generation companies, which were revealed during the study of the Code. These are independent directors, performance evaluation of board of directors, and their remuneration. Assessment of these Spencer Stuart indicators provided additional information on the implementation of the international standards in comparison with other Russian companies and the largest companies in Europe, the United Kingdom and the United States. Indicators concerning independent directors are particularly significant. This importance is explained by high concentration of ownership in the Russian power generation companies, the lack of effective external corporate control by banks and the stock market. The studies indicate that the average index of independent directors on boards in these companies is relatively low and in 2016 was less than 27%. This value is lower than similar indicator in Russian companies - 36.7% and the lowest among those in Europe and the USA. The highest proportions of independent directors according to Spencer Stuart are noted on boards of directors in companies in the Netherlands, Finland and Switzerland — 84%, and the United States - 85% [21].

The study noted almost absent internal and external evaluation of the performance of boards of directors. The Code recommends that companies conduct an annual self-assessment, and the assessment involving an external organization, at least once every three years. However, there is no uniform methodology for internal performance evaluation of boards of directors. The Code does not provide it either but puts forward recommendations that are limited only to a simple listing of individual criteria - "... professional and personal qualities of board members, their independence, coherence and degree of participation in the work" [3]. Often, an internal assessment is reduced

to a simple questioning of board members on various organizational issues. As a result, neither the shareholders nor the boards of directors themselves know what to do with its results and refuse it. According to Spencer Stuart, PJSC "Inter RAO UES" conducted internal performance evaluation of boards of directors in 2014–2015, and in 2016 - with the help of third-party organizations. The PJSC «RusHydro» conducted only self-assessment in 2014, 2015. The PJSC "Mosenergo" had neither self-assessment nor the assessment involving external organizations. Of all Russian companies surveyed by Spencer Stuart, only 19% evaluated the performance of boards of directors in 2016. For these companies, this is an obvious increase compared to 11% in 2015 and 6% in 2014 [19–21]. However, the achieved values are still far from those of the largest public foreign companies. In particular, in 2016 they accounted for 43.3% in the UK, 29% in Italy, and 28% in the Netherlands [21].

The study indicated low disclosure of information on remuneration of board of directors. According to Spencer Stuart, the confidentiality of such information, along with the heterogeneity of reporting standards makes it difficult to obtain this information. The overwhelming majority of Russian companies only disclose data on total remuneration for all members of the board of directors. In 2016, the average base remuneration of non-executive directors (excluding the chairman) in Russian companies was 105.934 Euro, in the US companies – 108.771 Euro. The amount of remuneration appeared to be comparable with virtually incomparable levels of corporate governance quality in these companies [21].

### *C. Assessment by Transparency International*

In order to conduct an in-depth assessment of the implementation of international standards in Russian power generation companies, an additional analysis of the transparency of their corporate reporting was carried out according to the criteria of the organization Transparency International [22]. The study performed by the Transparency International on the "Transparency in corporate reporting: assessing Russia's largest companies" uses the same methodology as the study of "Transparency in corporate reporting: assessing the world's largest companies". Transparency International assesses the transparency of companies using three indicators underlying its index. These indicators are listed below. The number of criteria used by Transparency International for each studied indicator is shown in parentheses.

- Anti-corruption programs (13).
- Organizational transparency - disclosure of a full list of subsidiaries and associates, joint ventures and other controlled companies (8).
- Reporting by country of operation i.e. the countries where the company is present directly or indirectly through its subsidiaries and associates, joint ventures, branches and representative offices (5).

- The transparency of the corporate reporting of Russian power generation companies in 2016 was investigated according to the following key criteria of indicators of the Transparency International Index (in brackets - the share of companies that met these criteria, in percentage of the total number of companies)
- Company has a developed anti-corruption policy (30);
- A full list of subsidiaries and associates, joint ventures and other controlled entities is disclosed (0);
- Data on offshore zones of subsidiaries and associates, joint ventures and other controlled entities are provided, their financial data are disclosed (0).

The study revealed that the overwhelming majority of the Russian power generation companies had not developed an anti-corruption policy. The companies did not disclose: a full list of subsidiaries and associated companies, joint ventures and other controlled entities; data on offshore zones of their activities; financial data in these zones. It is worth noting that compliance with the above criteria for transparency of corporate reporting is of particular importance for investors of the companies, particularly those with high offshore ownership. Especially as the offshore ownership is characteristic of Russian power generation companies and has increased significantly in the post-restructuring years [26]. Two companies with high offshore ownership (PJSC “T Plus” and Siberian Generating Company LLC) were among the Russian companies investigated by Transparency International. They got a relatively low average corporate reporting transparency index for all of its three indicators. This index for PJSC “T Plus” was 4.4, and for Siberian Generating Company LLC - 0.9 (out of 10 points for the companies with the greatest transparency). The values of this index were slightly higher for the state-owned power generation companies - 5.2 – for PJSC “Inter RAO UES”, and 5.1 – for PJSC “RusHydro” [22].

#### *D. The Russian Corporate Governance Index*

The Russian Corporate Governance Index (hereinafter referred to as the Index) was developed by the Association of Independent Directors together with the National Research University “Higher School of Economics”, the Bank of Russia, the Moscow Exchange and the Russian Union of Industrialists and Entrepreneurs twice (2016, 2017). The index is designed to understand what, in fact, is “good corporate governance” in Russian companies through the “eyes” of modern investors. The index was based on the Good Governance Index, an international methodology developed by the Institute of Directors of the United Kingdom and the Cass Business School (2015), and adapted to Russian conditions. In the Index, the basic principle of the international approach remains unchanged. According to this principle, corporate governance of each company is assessed based on two sources of information:

1. Results of electronic survey of representatives of the

professional and expert communities (respondents) about the level of corporate governance in each company through the “eyes” of market participants, based on their subjective perception;

2. Reports and other publicly available sources about the company activities. These are used to evaluate individual indicators (objective signs of the corporate governance quality).

In the methodology of Index 2016, objective indications of the corporate governance quality were mainly associated with the Russian Code [23]. In Index 2017, the developers “... managed to move away from excessive attention to the Code and - following the recommendations of the British Institute of Directors - to make wider use of corporate behavior indicators promoted by well-known analytical and information agencies” [24]. This approach is fully correlated with the approach of the present study.

The international partners that developed the Good Governance Index determined which objective requirements for the quality of corporate governance affect its positive perception by investors. Given these requirements, a compact set of 34 indicators characterizing corporate governance in the areas recommended by the British Institute of Directors (board of directors, audit and risks, remunerations, relations with shareholders and relations with stakeholders) was investigated in the Index 2017. To reflect Russian specifics, they additionally took into account changes in the listing requirements of the Moscow Stock Exchange, the familiarization of large Russian companies with the standards of the Code, and the possibility of obtaining information from publicly available sources. “Relations with stakeholders” is a new direction in the study of Index 2017. It corresponds both to the prospects for the development of Russian corporate governance, and to the methodology of the British Institute of Directors [24]. In our opinion, it is almost impossible to use this indicator of the British Institute of Directors when assessing current Russian corporate practice. In contrast to the G20 / OECD Principles, “relations with stakeholders” are not considered in the Code as a separate principle, therefore, there are no recommendations (indicators) for its observance. The indicators proposed by some analytical agencies for Russian companies in this area were tested in the Index 2017.

The Index 2017 study involved 53 Russian companies whose shares were included at the end of the first quarter of this year in the first listing of Moscow Exchange. Consequently, the Russian power generation companies were represented by PJSC “Inter RAO UES”, PJSC “Mosenergo”, PJSC “TGC-1”, PJSC “RusHydro”, PJSC “Enel Russia” and PJSC “Unipro”. According to a survey of respondents, the companies whose rating was higher than average (equal to 688 points) had good corporate governance. These companies are listed in Table 1.

The data in Table 1 show that, according to a survey of respondents, none of the Russian power generation companies were included in the list of companies with good corporate governance.

Among those assessed by objective grounds, only PJSC “Inter RAO UES” from the Russian power generation companies received a higher than average rating and was among the ten companies with good corporate governance in Index 2017.

#### *E. Adoption of the international “soft law” elements*

As noted above, “... the purpose of applying international standards in Russian corporate practice is to protect the interests of all shareholders, regardless of the size of the block of shares they possess. The higher the level of protection of shareholder interests, the larger the investment can be expected by Russian companies” [3]. In the international practice of corporate governance, «... when building protection for investors, a distinction must be made between the expected (ex ante) and actual (ex post) rights of shareholders. Expected rights, for example, include the preemptive right to purchase shares and make certain decisions by a qualified majority. Actual rights

Table 1. Companies with good corporate governance according to respondents (2017).

| Companies (PJSC)         | Average assessment | Number of assessments |
|--------------------------|--------------------|-----------------------|
| “Moscow exchange”        | 870                | 59                    |
| “Mts”                    | 808                | 64                    |
| “Lukoil”                 | 803                | 58                    |
| “Novatek”                | 792                | 26                    |
| “Sberbank”               | 772                | 122                   |
| “Transcontainer”         | 771                | 31                    |
| “Severstal”              | 765                | 23                    |
| “Aeroflot”               | 762                | 105                   |
| PJSC “NLMK”              | 752                | 21                    |
| “Mmc norilsk nickel”     | 744                | 46                    |
| “Alrosa”                 | 739                | 46                    |
| “Afk sistema”            | 739                | 57                    |
| “Magnet”                 | 737                | 49                    |
| “Megafon”                | 724                | 38                    |
| “Cherkizovo group”       | 721                | 14                    |
| “Pole”                   | 721                | 14                    |
| “Phosagro”               | 711                | 9                     |
| “M-video”                | 710                | 29                    |
| “Mmk”                    | 706                | 16                    |
| “Pik group of companies” | 705                | 19                    |
| “Lsr group”              | 693                | 15                    |

allow seeking compensation for damage in case of violation of rights. In the countries with insufficiently developed legal and regulatory frameworks, it is recommended to strengthen the expected rights of shareholders, for example, by setting a low threshold for the number of shares giving the right to put issues on the agenda of the general meeting of shareholders, or by providing an over-qualified majority of votes of shareholders to make important decisions» [1].

The implementation of international standards in Russian corporate practice requires strengthening the expected rights of shareholders in connection with noted violations of the use of capital provided by investors in companies and relatively weak legal and regulatory frameworks in the country. In part, such strengthening is incorporated in the fundamental principles of the Code, along with the key elements of international corporate governance practice - high transparency, accountability, oversight by the board of directors, and respect for the rights of shareholders. The expected rights of shareholders in the previously listed principles of the Code should be strengthened, in particular, to ensure effective interaction with shareholders and coordination of actions aimed at protecting their rights and interests; to improve the remuneration of company management; to create a risk management and internal control system; and to develop the procedures for conducting material corporate actions. These elements of corporate governance are formulated in the Code as independent principles.

International corporate governance standards for the countries with relatively weak legal and regulatory frameworks provide that “... legal and regulatory elements of a corporate governance structure can be practically supplemented with elements of “soft law” based on the “comply or explain” principle, for example, on the Corporate Governance Codes, providing flexibility and reflecting the specific features of individual companies” [1]. The formal attitude of the majority of Russian power generation companies to the introduction of elements of international “soft law” is noted. Own Corporate Governance Codes and Codes of Ethics in internal documents from the official websites of these companies are characterized by poor disclosure of their content. This is mainly explained by the fact that they are not updated. The content of the Corporate Governance Codes has not changed since 2006 in 85% of companies, Codes of Ethics - in 63% of companies, despite the updated principles of corporate governance and criteria for their observance in the Code (2014) that are approved and recommended by the Bank of Russia for the joint-stock companies, state corporations and companies.

The application of the “comply or explain” principle recommended by the Bank of Russia to Russian companies in evaluating their compliance with the principles of the Code is also very formal. This was confirmed by the monitoring of the quality of explanations by power generation companies of their non-compliance with the

principles of the Code (the monitoring was conducted by the Bank of Russia), and by the results of this study that correlate with these data [27,28]. Almost all explanations lacked:

- clear indication of the Code provision to which the explanation relates;
- description of the context, circumstance, prerequisites showing why the company does not follow the Code;
- convincing and understandable explanations of the specific reasons for non-compliance with the Code;
- description of alternative risk reduction mechanisms used by the company;
- planned timeline for bringing corporate governance in line with the Code.

#### IV. CONCLUSIONS

Corporate governance is one of the most important factors in the investment attractiveness of companies. In their corporate practice, these companies, aimed at attracting long-term capital, adhere to internationally recognized standards that are trustworthy and understandable for all investors. The findings have demonstrated weak implementation of international corporate governance standards in the corporate practice of the overwhelming majority of Russian power generation companies. This is explained by the fact that these companies:

- Allow numerous violations of the criteria for compliance with the principles of the Code.
- Cannot compare with boards of directors of the largest companies in Europe, the United Kingdom and the United States in a number of key management indicators of Spencer Stuart, including evaluation of their performance and independent directors.
- Have low transparency of corporate reporting on the Transparency International criteria important for investors.
- Are not among companies with good corporate governance based on objective criteria, polls of the professional and expert communities of the Corporate Governance Index of Russia, based on the Good Governance Index, an international methodology adapted to Russian conditions.
- Treat formally the introduction of international “soft law” elements, including strengthening the expected rights of shareholders and applying the “comply or explain” principle that are recommended for countries with relatively weak legal and regulatory frameworks.

As a result, the weak implementation of modern international standards in the practice of corporate governance of Russian power generation companies does not contribute to an increase in their investment attractiveness.

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