



The Chairman  
of the Board  
of Directors  
in Modern Russia

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# Stanislav Shekshnia

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## Introduction

The Chairman of a Board of Directors, as a figure, always interested me. Who are these people that hold a key, but, to the external observer, largely invisible role in an organization? How did they come to the position of chairman, what is driving them, what do they really do? Unfortunately, it was difficult to find answers to these questions in the existing literature, and my intrigue only increased with each article I read.

When I was lucky enough to become the chairman of a board of directors for the first time, I could feel how unique, interesting, and challenging the work was,

and how little in common it had with what I had done before – worked as a general director. My experience as chairman gave me the opportunity to look at the figure from the inside, but it did not answer the questions I had about the position. On the contrary, it created more.

This is why I was enthusiastic about this research project, the main conclusions of which are in this edition of our Talent Equity Newsletter. The goal of the project was to get a balanced picture about exactly who becomes a chairman of a board

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*Russia, Harvard Business Review Germany, Academy of Management Executive, European Management Journal, Journal of West-East Business, California Management Review, Compensation and Benefits Review, Journal of Management Inquiry, Organizational Dynamics, The International Executive, World Business and L'Expansion Management Review.*

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of directors in different countries and in different kinds of companies, how the process occurs, what chairmen spend their time on, what challenges they face, what motivates them and how much they earn. We talk about the results of our research, which focuses primarily on Russia.

Statistics are always interesting, but one-dimensional – quantitative research does not give us an adequate understanding of the human side of things, so we included personal conversation in this edition – an interview with a working chairman of a board of directors of a Russian company. Our guests talk

about their challenges, problems, and personal solutions. It is very interesting!

We hope that you find this edition as interesting as we do. Happy reading!

Stanislav Shekshnia

# The Chairman of the Board of Directors:

## Joint Research by INSEAD and the Talent Equity Institute

In academic and business literature, you'll find many articles and books dedicated to the work of CEOs. But you can count the pieces of research dedicated to chairmen of boards of directors (CBDs) on one hand. And therefore, the role of a chairman – the leader of a company's key form of management, the board of directors – is difficult to evaluate. The board makes important personnel decisions, including the appointment and termination of CEOs. It approves the company strategy and determines the system of corporate governance.

In order to shed some light on the little known figure of the CBD, the Talent Equity Institute in collaboration with the Leading from the Chair program at INSEAD Business School carried out a study entitled Chair Survey 2015, through which 132 CBDs from 30 countries around the world were surveyed.

In analyzing the survey results from Russian participants, we tried to answer the following questions:

- Who is this enigmatic chairman of the board of directors?

- How does he become chairman, and what motivates him to take on this position?
- What are the problems he faces, and how does he solve them?
- How do chairmen of Russian companies differ from chairmen in other countries and regions?
- How do the characteristics of a company (type of ownership, size, etc.) impact the choice and work of a chairman?

### Methodology

There were 132 CBDs who participated in our survey, from continental Europe, Asia, the Middle East, the UK and Russia.

Most of the CBDs from Russia surveyed represent medium-sized or large companies (see fig. 1) from various industries (see fig. 2). More than half of the companies are state-owned, about a third are private, and there is a small quantity of partnerships and non-commercial organizations represented (see fig. 3).

INSEAD, Chair Survey 2015. <http://centres.insead.edu/corporate-governance-initiative/meeting-reports/documents/ChairSurvey2015.pdf>.

Fig. 1 Company size

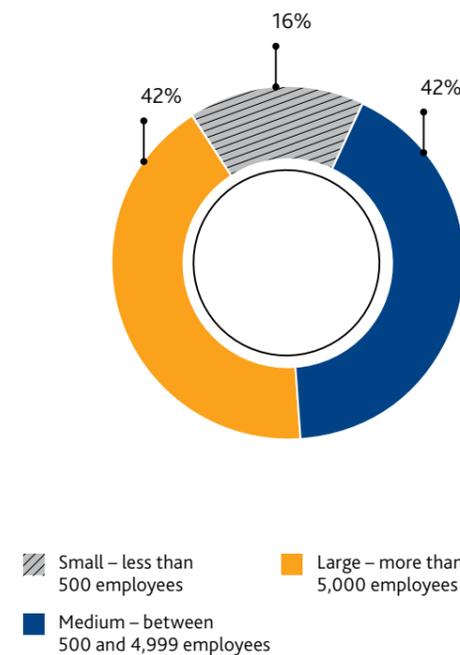


Fig. 2 Industry affiliation

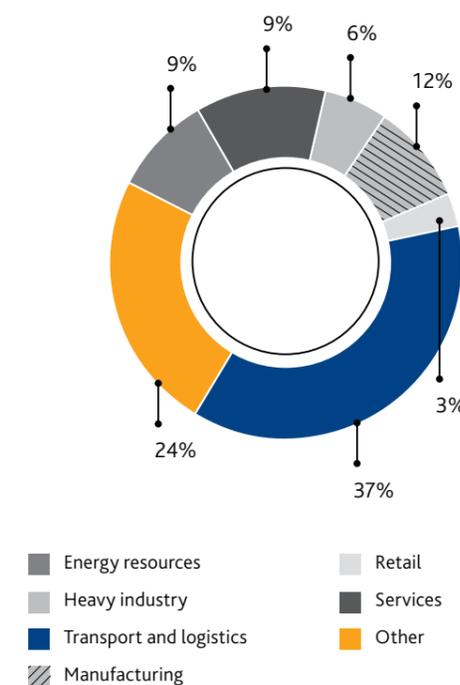


Fig. 3 Type of ownership

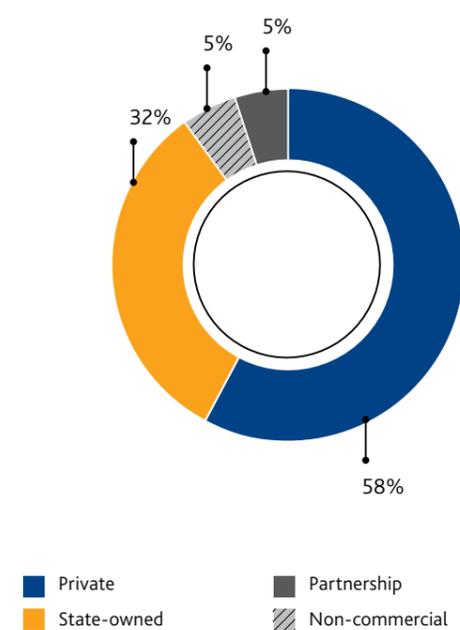
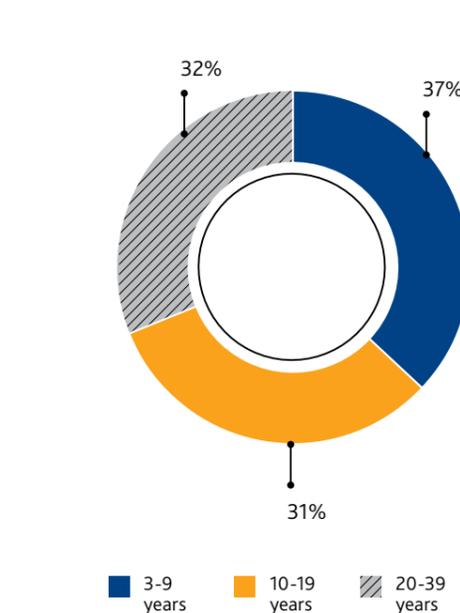


Fig. 4 Age of company



# The Portrait of a Chairman

## Demographics

It comes as no surprise that in most companies, the position of chairman is occupied by a man. However, the percentage of women chairmen in Russian companies is no lower than in other countries and regions (around 10%).

Contrary to the popular notion that a CBD is an experienced professional who has reached considerable age, the average age of a CBD in Russia is just 45. This is even younger than the average age of CEOs of major Russian companies (49) and significantly younger than the average age of chairmen in other regions (55). In Russia, 74% of CBDs were younger than 50, and just one in our sample was over 60. Meanwhile, in the UK, CBDs older than 60 comprise 37% of our sample. In this sense, Russia is more similar to Asian and Middle Eastern countries, where the share of CBDs over 60 is around 11%. This may be due to the fact that the culture of creating and developing a board of directors is much

younger in Russia than in Western European countries. The fact that executives and owners, who often assume the role of chairmen, are, on average, younger in Russia, probably plays a role as well.

It looks like this will be a temporary phenomenon, however – as the average age of executives and high-ranking government officials increases, so will the average age of board chairmen.

Russian CBDs notably differ from their peers in terms of education. Almost 40% of Russian respondents have doctorate-level education, and slightly less than 60% have a master's degree. In comparison, about 22% of chairmen from Asia and the Middle East have a PhD, and just 4% of European chairmen have one. We attribute this to the widespread respect formal education holds in Russia and the relative ease of acquiring it here, as well as the high number of lecturers and researchers among Russian chairmen.

Fig. 5 Age of chairmen

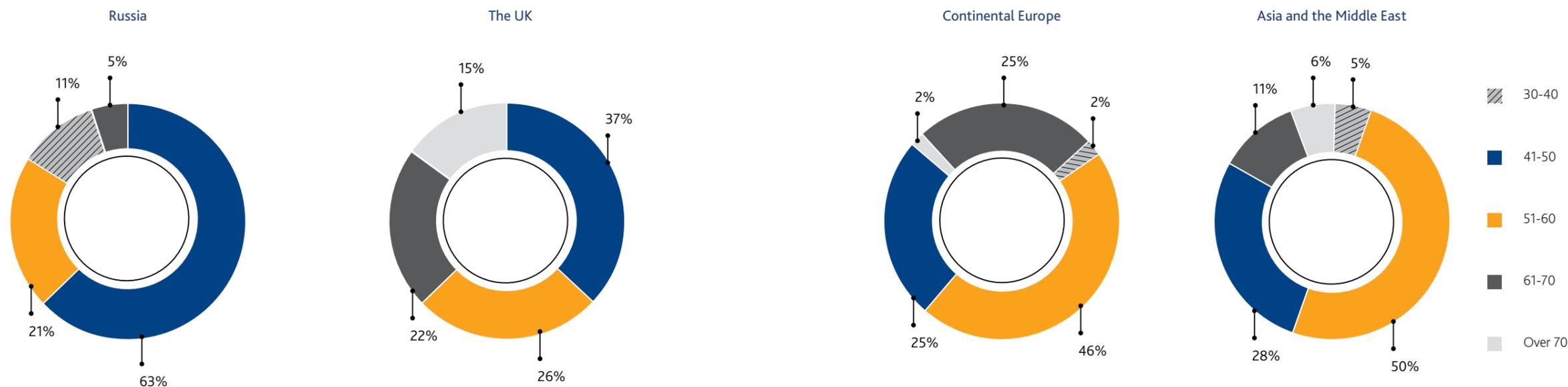
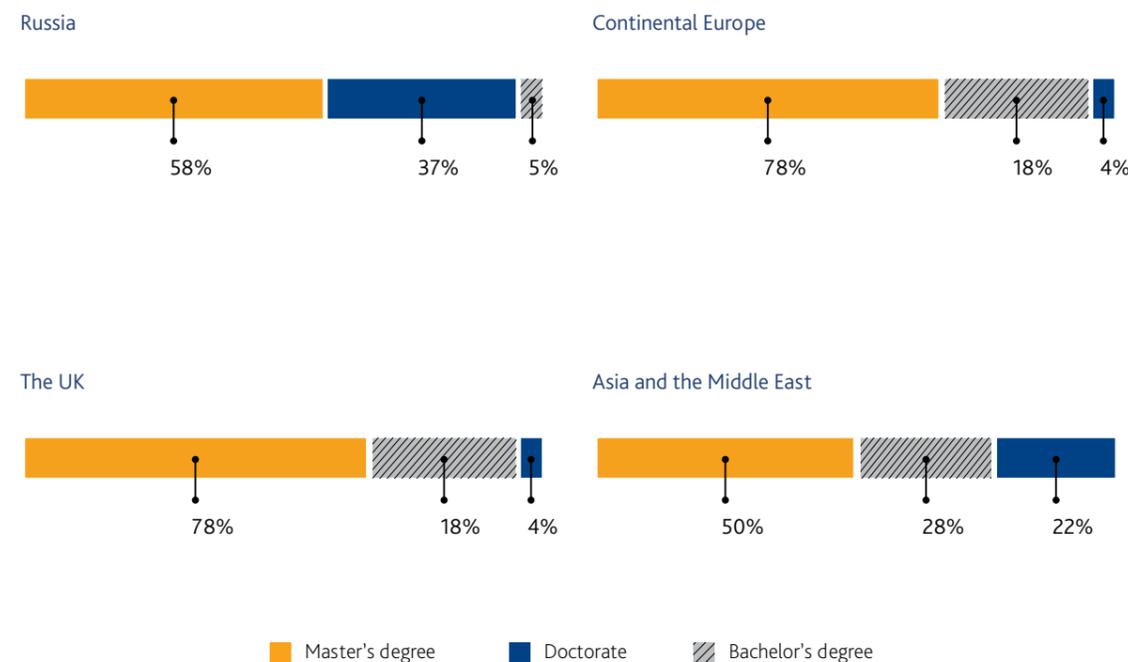


Fig. 6 Level of education



## Career Path

In the regions we studied, chairmen typically have experience as a CEO. In Russia, the proportion of CBDs that had previously led a company as CEO was somewhat lower. Firstly, this is related to the low percentage of public companies with lots of shareholders, boards of which are usually headed by former CEOs. In companies with large private shareholders and in state-owned enterprises, the profile of the CBD is a bit different. In the former case, the CBD is usually the majority shareholder

or someone closely trusted by the majority shareholder (and not necessarily someone with experience as a CEO; frequently a lawyer or financial analyst from the company that manages the family's assets). In the case of state-owned enterprises, the CBD is often a current or former government official.

One respondent said, *"I have worked with one [business] owner for over 10 years already. I manage*

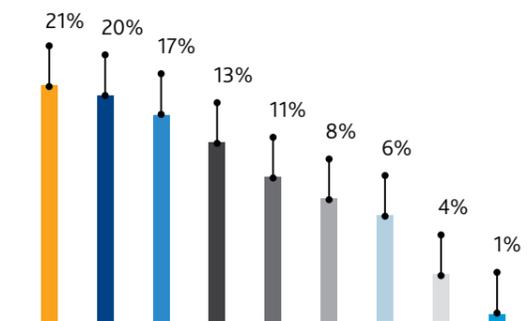
*various investment projects. Previously, he chaired the boards of directors at his subsidiary companies, but there are more of them now, and either he no longer has the desire and ability or I have gained his trust, I currently head the boards of directors for two of his businesses, albeit not key ones."*

What also sets Russia apart from other regions is the higher number of chairmen who, at some point, have worked in academic research. This is particularly

true at government companies, which more often bring in university professors and research professionals, often former government officials, who completely or partially transitioned to working in academia. For example, one respondent, who chairs two boards, in the past twenty years has been a government official at the regional and federal levels, and later headed an educational institution.

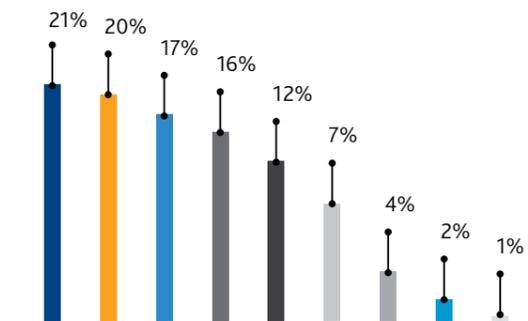
Fig. 7 Previous work experience

### Russia



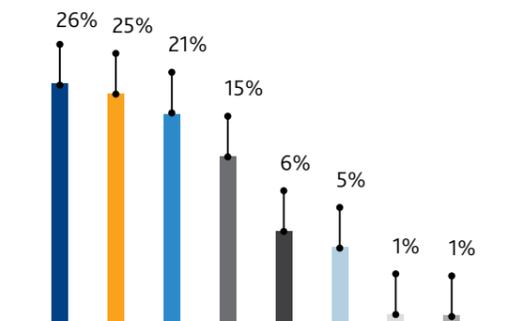
- CEO/general director
- Chair of a board of directors
- Independent director
- Vice president

### Continental Europe



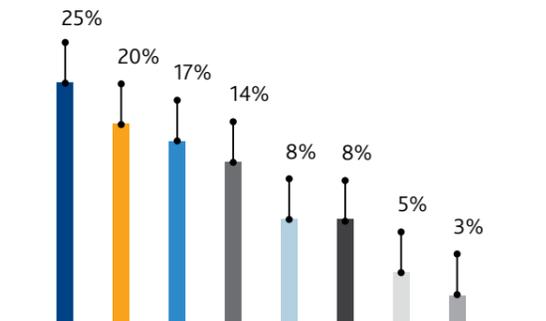
- Executive director
- Professor/academic
- Affiliate director
- Government official
- Intelligence/military officer

### The UK



- CEO/general director
- Chair of a board of directors
- Independent director
- Vice president

### Asia and the Middle East



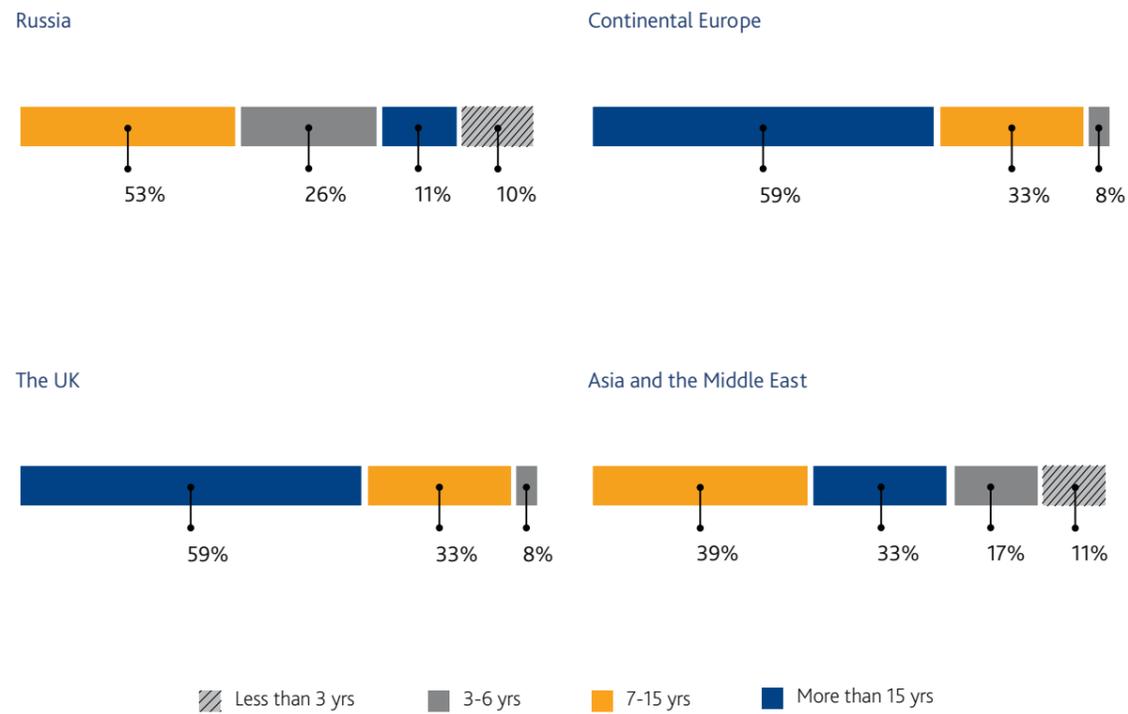
- Executive director
- Professor/academic
- Affiliate director
- Government official
- Intelligence/military officer

## Corporate Governance Experience

In Russia, the board of directors is still a reasonably recent phenomenon, and a class of professional directors is still being developed. Unsurprisingly, Russian CBDs have less experience as chairs and independent directors than survey participants from other countries. More than half of chairmen had sat on boards for 7 to 15 years, and just two

respondents had more than 15 years of experience as a member of a board of directors. In continental Europe and in the UK, 59% of respondents had been members of boards of directors for more than 15 years, and 33% of respondents in Asia and the Middle East had this much experience. The survey showed that 63% of Russian CBDs

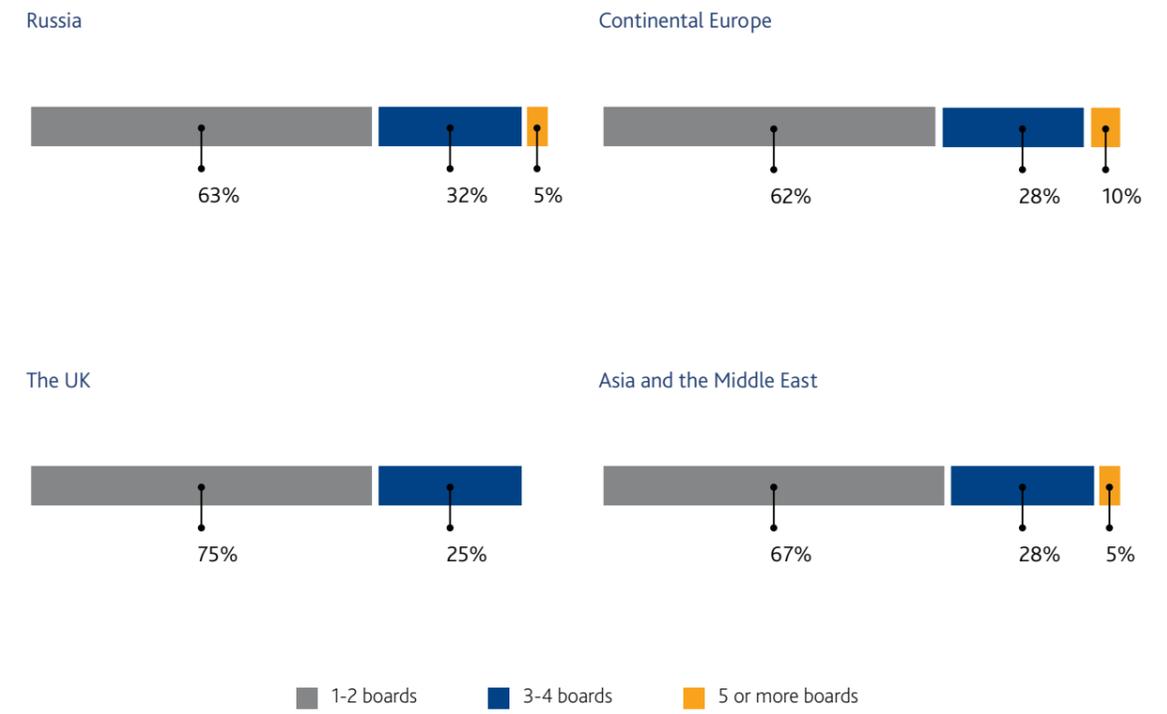
Fig. 8 Work experience in boards of directors



headed one or two boards, while 37% were superstars, chairing three or more. The high percentage of "superstar" chairmen in Russia could be attributable to the low level of experience most Russian CBDs have and, accordingly, the high level of demand for them. One superstar explained to us: *"The more boards you chair, the more sought after you are. But*

*at some point I stopped attending awards ceremonies for corporate governance, and they tore me to shreds for it."* In Russia, there is a high concentration of companies that are owned by the same group, and their boards of directors are frequently chaired by the leader of that group or a trusted adviser.

Fig. 9 Number of boards chaired



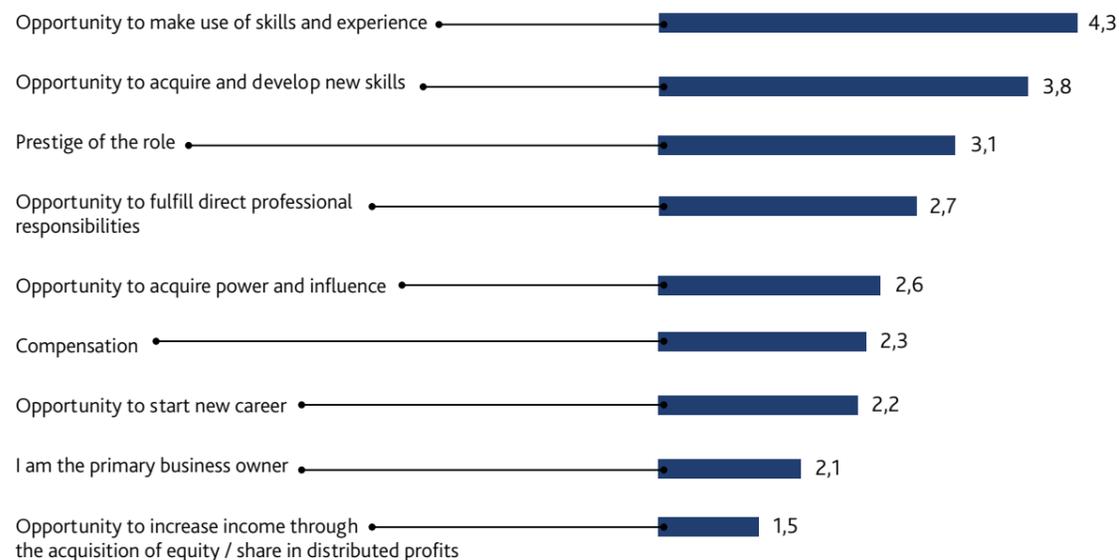
## Motivation

For Russian chairmen, the primary incentive to take on this role is the opportunity to make use of their skills and knowledge, while in Continental Europe and the UK, the prestige that comes with the role is the most important factor. In Asia and the Middle East, compensation is the main motivation.

According to one respondent, *"I no longer want to manage the day-to-day operations of a company, but I am still interested in developing businesses on the strategic market – that is why I chose this path. For me, it combines the level of work I'm looking for with my interests."*

Other factors that are part of the three most important incentives for Russian chairmen include the opportunity to acquire and develop new skills and the prestige associated with the role. Compensation is the least important factor. In our view, this, more than anything else, reflects the professional maturity of chairmen; the material aspects of the role are secondary and relatively modest in comparison with the remuneration of top management. In addition, many chairmen are financially secure.

Fig. 10 Motivating factors for Russian chairmen

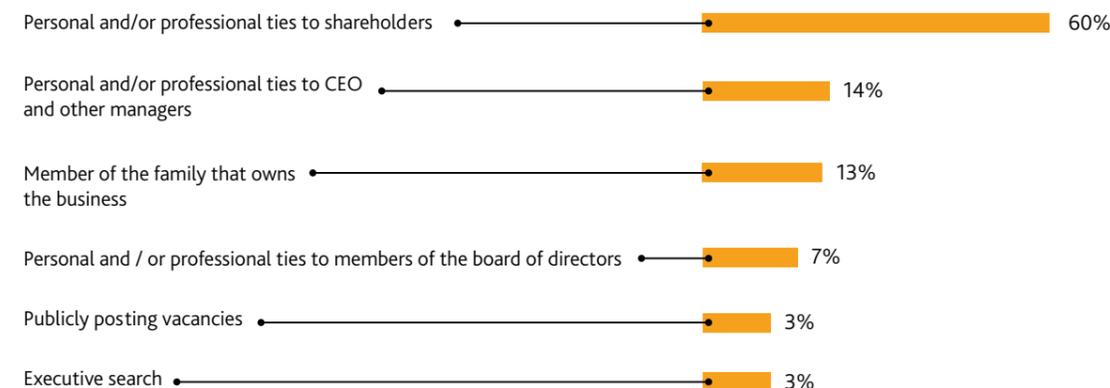


## Appointment of Chairmen

Shareholders play a deciding role in the choice of a CBD. Most Russian CBDs are directly recommended by major shareholders, and the vote by members of the board is purely a formality. Simple acquaintance with members of a board or executive managers of a company has little correlation with the appointment of chairmen; methods

of selection such as bringing in consultants or using a nominating committee within the board of directors are practically never used. The situation is similar in Asia and the Middle East. In Continental Europe and the UK, the channels used to recruit chairmen are more varied, though shareholders play a key role here as well.

Fig. 11 Channels for recruiting chairmen

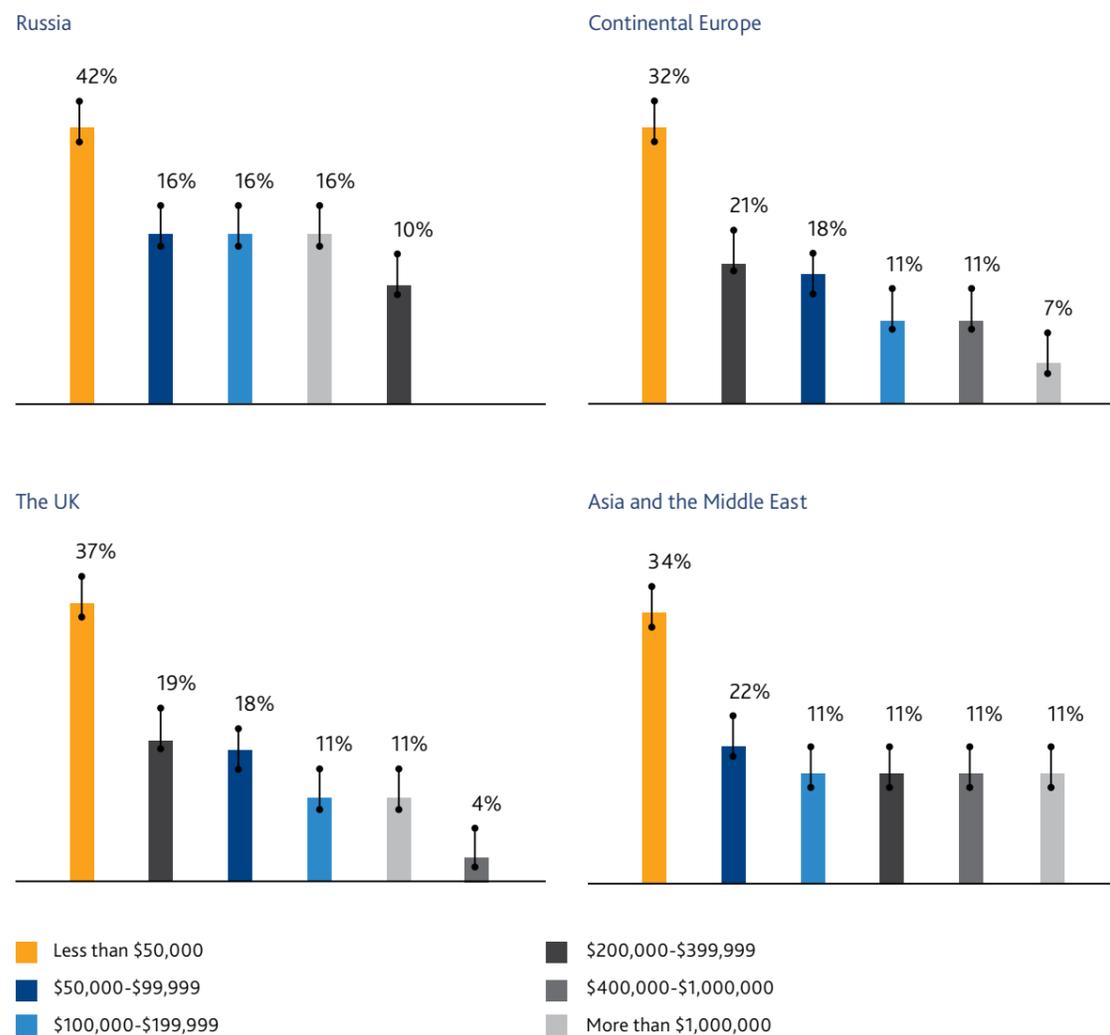


## Remuneration

The salaries of Russian CBDs vary wildly. The average level of compensation in Russia is lower than in other countries and regions: 42% of CBDs earn less than \$50,000 annually (versus 32% in Continental Europe, 37% in the UK, and 34% in Asia and the Middle East). However, 16% of respondents receive more than \$1 mln per year (the global average is 10%). Possessing a large stake in the company doesn't influence the level of salary a chairman receives:

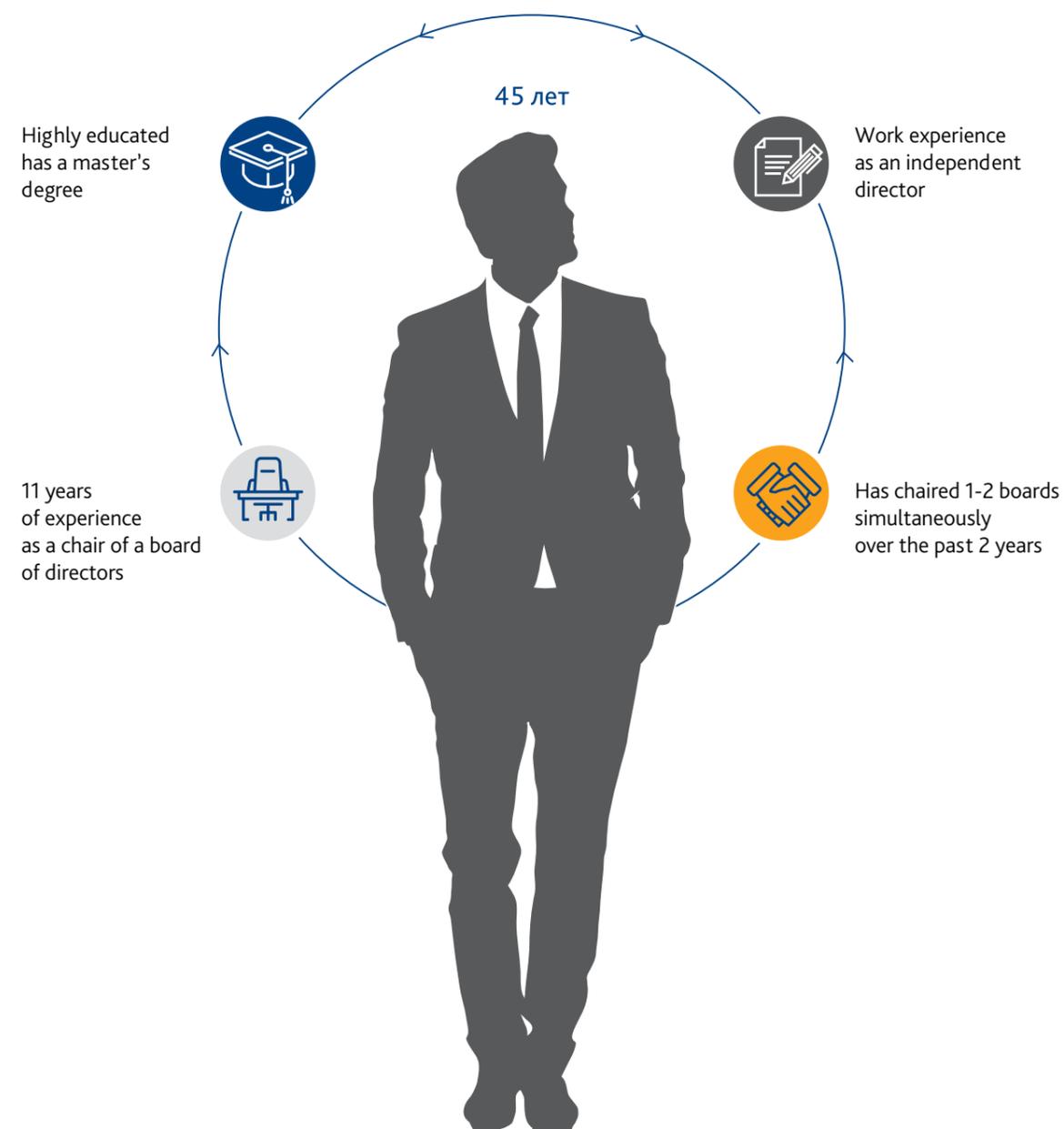
about 75% of CBDs that are major shareholders in their company receive less than \$50,000 per year. Such substantial differences in remuneration reflects, in our opinion, the lack of a single market for chairmen in Russia and illustrates the significant influence non-market factors play (such as familiarity with shareholders, utility to them, loyalty, responsibility, etc.) on the remuneration of a specific board leader.

Fig. 12 Annual remuneration



In short, the portrait of a Russian CBD generally looks like this: He is a 45-yr-old man with 11 years of experience as a chairman, working simultaneously on two boards. He is highly educated, has work

experience in managerial positions, but not necessarily as a CEO, in business or public administration and boards of directors. He received the job as CBD thanks to the trust the company shareholders have in him.



# Objectives and Challenges

Russian CBDs on average did not rate a single challenge that they faced as being more difficult than a three on a scale of five. In Continental Europe, Asia and the Middle East, the average assessment of a problem's difficulty level was almost an entire point higher. Perhaps the relative lack of experience Russian CBDs have leads them to underestimate the complexity of their work, or maybe this is simply just traditional Russian confidence?

That said, the most difficult thing for Russian CBDs is managing difficult (prone-to-conflict) members of the board of directors. The second most difficult task is building relationships with major shareholders. The third is working with external counterparties: clients, suppliers, government agencies. The typical

challenges one sees in contemporary corporate governance were rated nearly as difficult – information asymmetry with the CEO and management.

In our research, we split CBDs into three categories – shareholders, former CEOs and chairmen without experience managing a company – and found that the challenges they faced in their work were different.

For shareholders, the most difficult task is to support sufficient cooperation and teamwork among the members of a board of directors. For chairmen that are former CEOs, the most difficult is to manage the "non-conformist" directors. For chairmen with no prior experience in management, the hardest task for them is to build relationships with major shareholders.

Fig. 13 Challenges CBDs face

## Private companies



Challenges by category of CBD

Type of chairman	Most difficult	Second-most difficult	Third-most difficult	Fourth-most difficult
Former CEOs	Managing difficult directors	Working with major / majority shareholders	Low motivation and involvement from members of the board	Information asymmetry with CEO and mgmt
Chairmen w/o CEO experience	Working with major / majority shareholders	Working with minority shareholders	Information asymmetry with CEO and management / Low motivation and involvement from members of the board of directors / Working with external counterparties: clients, suppliers, government agencies	
Shareholders	Level of cooperation and teamwork among members of the board	Working with minority shareholders	Working with external counterparties: clients, suppliers, government agencies / Resolving conflicts with members of the board	

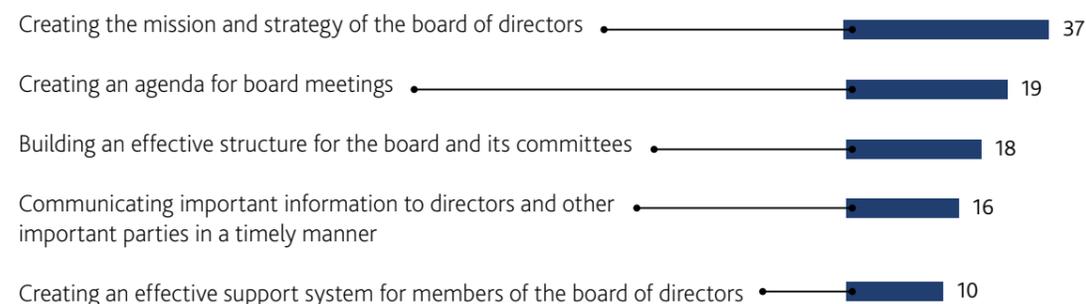
## Tasks and Priorities of CBDs

In the survey, we asked chairmen how they prioritized their work in the following four blocks: general management of the board of directors, working with members of the board, working with top management, and working with external counterparties.

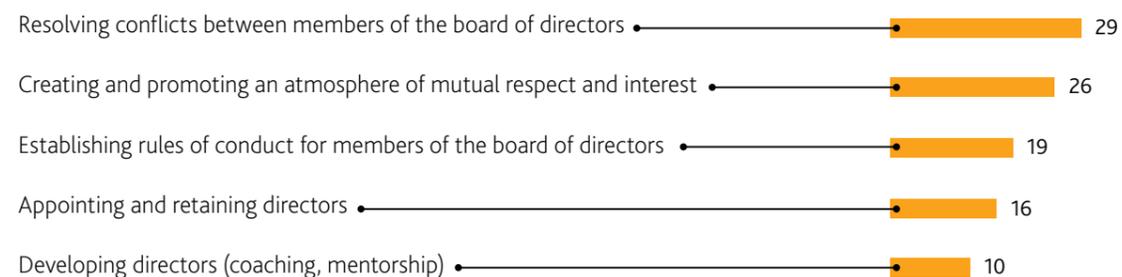
Regarding general management of the board, respondents said that almost 40% of their efforts are directed toward creating the mission and strategy of the board of directors. We find this curious, because our experience has shown that most Russian boards of directors never bother to formulate their own mission, goals, or criteria through which to evaluate themselves. The second-most demanding task is putting together an agenda for board meetings and building an effective structure for the board

and its committees. The task least demanding of CBDs' attention is communicating information to directors in a timely manner or creating an effective system of support for directors. CBDs probably consider this to be more of a technical issue, one that is the responsibility of the corporate secretary or management. Though, chairmen who do not have any prior experience as a CEO and are not company shareholders pay more attention to communicating information to members of the board in a timely manner, putting this as the second-most important task in this category. It is interesting that in comparison with Russian CBDs, respondents from different countries and regions reported that their attention was much more evenly distributed among tasks.

Tasks and priorities: General management of the board of directors



Tasks and priorities: Working with members of the board

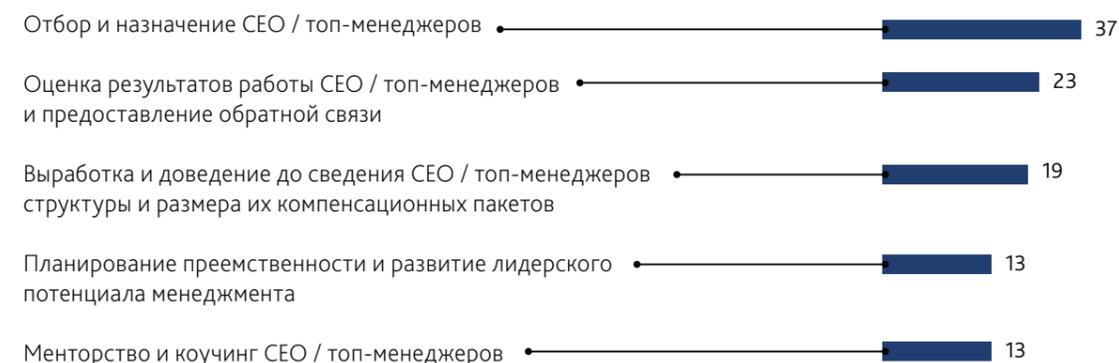


In terms of effectively working with members of the board of directors, respondents said that 30% of their efforts are directed toward conflict resolution. As conflicts can seriously hinder the board's ability to work effectively, the second and third most important tasks are creating an atmosphere of mutual respect (26% of efforts) and establishing rules of conduct for members new members to the board – that is the prerogative of the board of directors (19%). The rest of a CBD's time and efforts are divided between appointing and retaining members of the board appointing and retaining

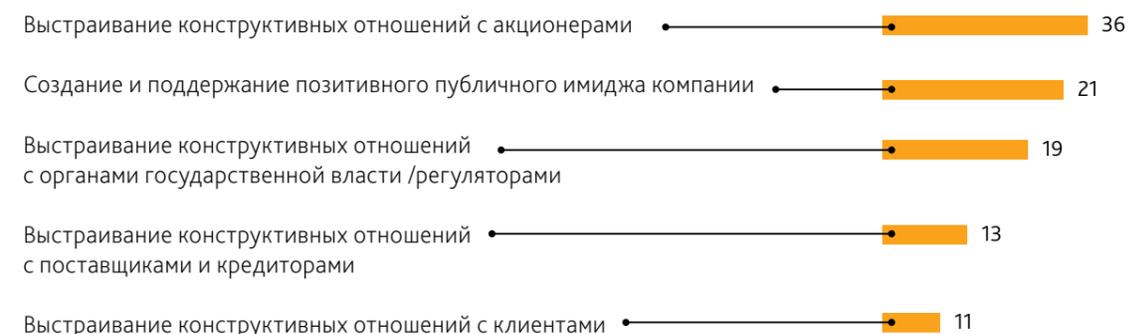
members of the board *"I don't consider developing members of the board to be my responsibility. We were invited to join the board because we already had experience and professionalism. If a director lacks, for example, industry knowledge, he can sense this and works to eliminate those gaps. I am also not in charge of the process of appointing new members to the board – that is the prerogative of the shareholders."*

In working with top management, most attention is directed toward choosing and appointing a CEO and other members of top management. Many CBDs

Задачи и приоритеты: взаимодействие с топ-менеджментом



Задачи и приоритеты: взаимодействие с внешними контрагентами



also note the importance of evaluating a CEO's work and developing the structure of top management and size of their compensation packages. In other regions, most CBDs without prior work experience as a CEO spend less time and attention on the selection and appointment of CEOs and other top managers. Another significant difference with CBDs of other regions is the coaching and mentorship of top management. Respondents from Russia spend a minimal amount of time and effort on that, while respondents from other countries consider that to be the second-most important responsibility.

One respondent from Russia, who considers coaching to be an important responsibility of a chairman, noted: *"In Russia, the board of directors is a relatively young institution, and a lot of practices and traditions we are just starting to adopt. In a few years, coaching will become much more popular in Russia, and right now many chairmen see it as an optional exercise that is very time-consuming. Also, one needs to be specially trained in coaching, and a lot of chairmen don't want to spend time on it."*



Regarding work with external counterparties, chairmen spend most of their time on building strong relationships with shareholders. According to the opinion of one respondent, *"our primary responsibility is to support the shareholders, it is why we gather here four times a year."* Another respondent noted that he always holds regular meetings with major shareholders, though he doesn't consider it to be a direct responsibility of the chairman of the board. The second-most important task of a CBD in this realm is to create

and support a positive image of the company. This task is considered a higher priority than building relationships with government agencies, suppliers, banks, and buyers. This is consistent across the world: more attention is paid to building relationships with major shareholders. Naturally, in the Middle East, Asia, and Russia, where government involvement is high, building relationships with government agencies and regulators was attributed a higher importance.

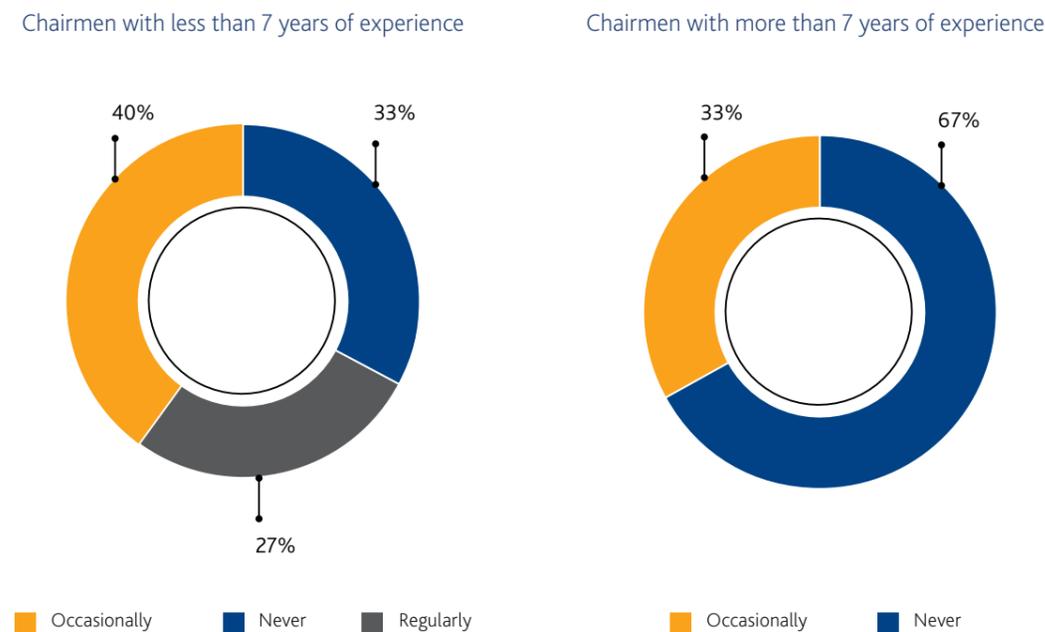
### Meetings Without Presence of Executive Directors

Our research shows that holding meetings without executive directors present (in-camera meetings, executive meetings) is relatively common in Russia: less experienced chairmen (with less than 7 years of experience) hold such regularly, while more experienced chairmen do so infrequently (30%) or never (70%). In other regions, such meetings are typically held by board chairmen with less experience. This could be attributable to less experienced and, therefore, younger chairmen being better acquainted with global practices, being more open to new ideas

and being less dependent on management. More experienced colleagues, executive and non-executive directors alike, may not grasp these intricacies of corporate governance as well, and may pay less attention to issues such as conflicts of interest.

Or, perhaps there are different reasons, such as the following noted by an experienced chairman in a private conversation: *"The board of directors is a single organ, and there shouldn't be any division between different categories of director, this creates additional friction."*

Fig. 14 Frequency that meetings are held without executive directors present



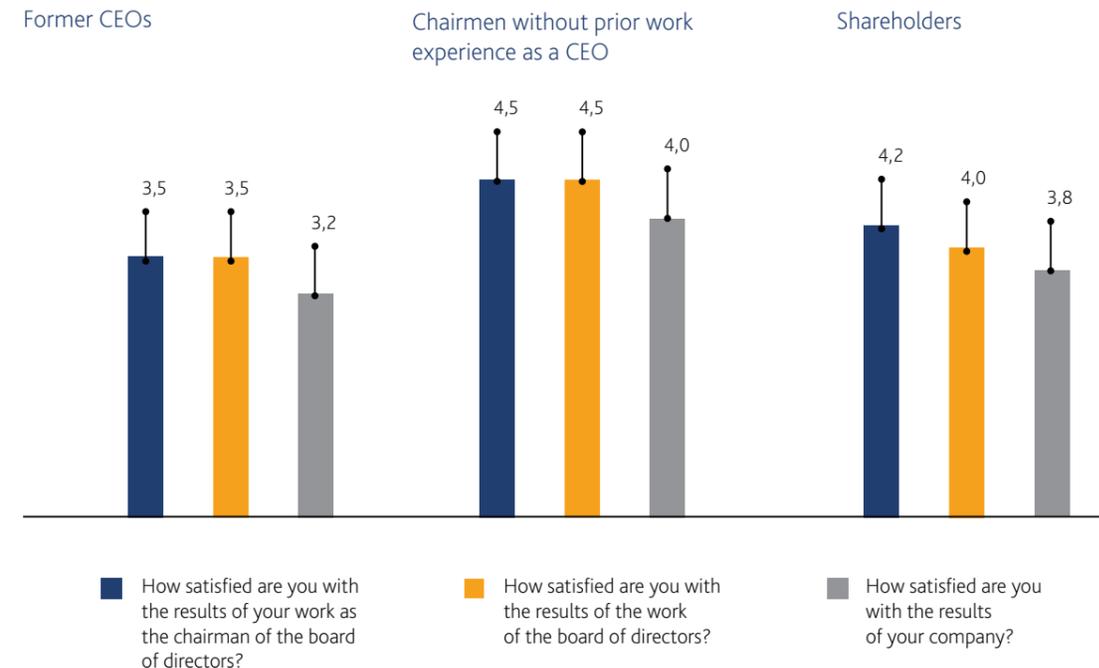
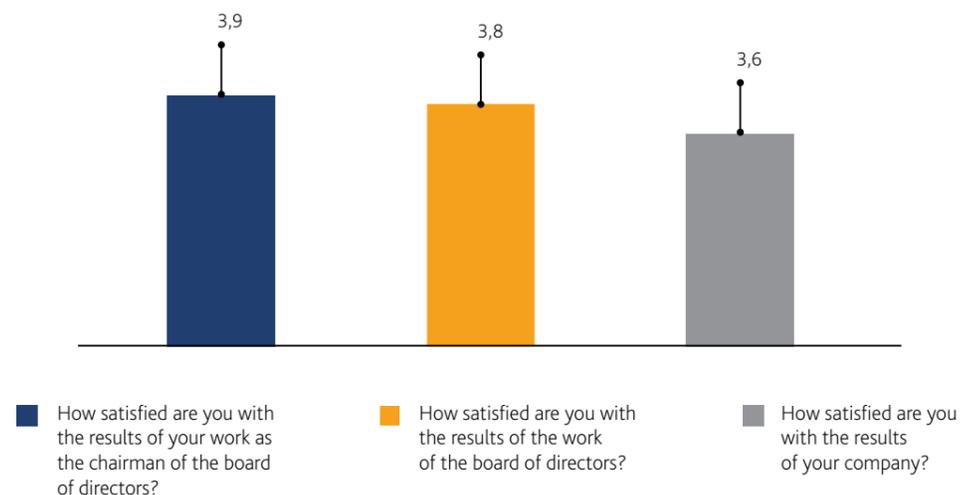
## Evaluating Performance and Satisfaction

The level of satisfaction Russian CBDs have in their own work, the work of the board of directors and the company's results significantly differs from the results we saw in other regions. On average, chairmen in Russia evaluate their work and the work of the board of directors slightly higher (3.9 of 5) than the results of the company, (3.6 of 5). A similar trend was seen in the UK, where chairmen rated their work and the work of the board of directors at a 3.8, and the company's results at a 3.7. However, the opposite is true in Asia and the Middle East:

respondents rated the results of the company the highest of all (on average, at a 4) and their work and the work of the board of directors the lowest (3.5). This partly has to do with cultural differences. Interestingly, the ratings given by CBDs who worked previously as CEOs were almost an entire point lower than those provided by the other two categories of CBD.

This could be attributable to former CEOs being more critical of themselves and the company.

Fig. 16 Level of satisfaction with work performed



## Company Size, Type of Ownership, and Age

The type of ownership, size, and other characteristics of a company determine its model of corporate governance, which, in turn, influences the choice of CBD, his motivations, level of satisfaction, nature of responsibilities and duration of work.

In government companies, more often than not, CBDs have graduate degrees and/or work experience in higher education and research institutes. We see several explanations for this phenomenon. Firstly, many upper-level government officials receive positions based on their association with educational or research establishments and after leaving their post work in academic institutions. Secondly, several major Russian educational institutions have close ties to the government, and their managers run in the social circles of the country's top leaders, earn their trust, and are named to boards of directors of government companies. In this case, we are not talking

about strict academics, but more academic-officials, who for one or another reason combine both roles.

Our research uncovered several differences between the motivations of chairmen in government companies and those in private companies. In both cases, chairmen considered the opportunity to use their skills and experience to be most important. However, in private companies, the opportunity to learn and develop new skills was considered the second-most important factor, while chairmen in government companies considered the prestige of the role to be second-most important. For CBDs of government companies, compensation is significant motivating factor; the average compensation of CBDs at private companies (\$150,000) is higher than that for CBDs of government companies (\$133,000). This is logical, given that government officials earn significantly less than private-company executives.

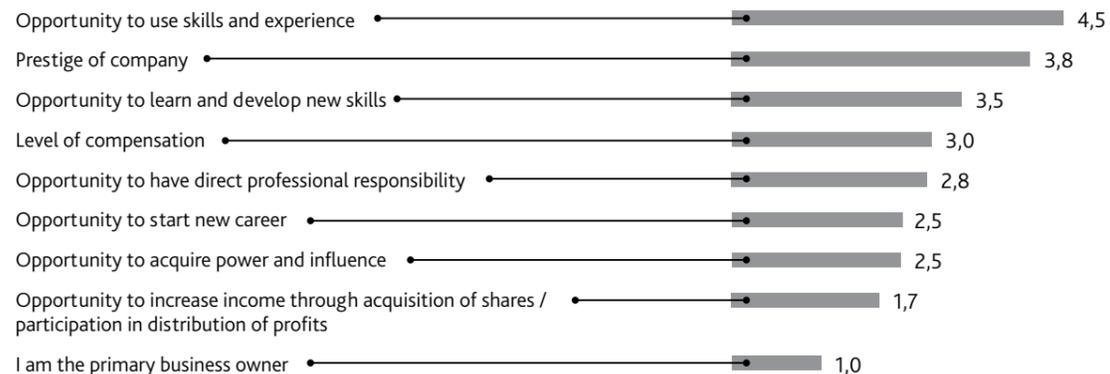
CBDs of government companies evaluate their work slightly higher than CBDs of private companies (4 vs 3.8). However, the opposite is true regarding evaluations of the company: CBDs of government companies assess the results of their company at a 3.2, while CBDs of private companies assign a 3.7.

In talking about challenges that face CBDs, it is interesting to note that CBDs of government companies see only two major challenges: building relationships with major shareholders and information asymmetry with other top managers. The second problem makes sense – CBDs are not professional managers and spend a limited amount of time at the company. CBDs at private companies noted challenges

such as resolving conflicts between members of the board and establishing relationships with major shareholders and external counterparties: clients, suppliers, and government agencies. We noticed a direct correlation between the size of the company and the amount of industry experience its CBD had: the bigger the company, the more experience the chairman had. Companies that have long been established on the market also brought in professionals with more industry experience. The same is true of the chairman's experience: among chairmen of large companies that had been on the market for over 10 years, there were almost no chairmen with less than 7 years of experience leading a board of directors.

Fig. 17 Motivating factors for chairmen

Government companies



Private companies

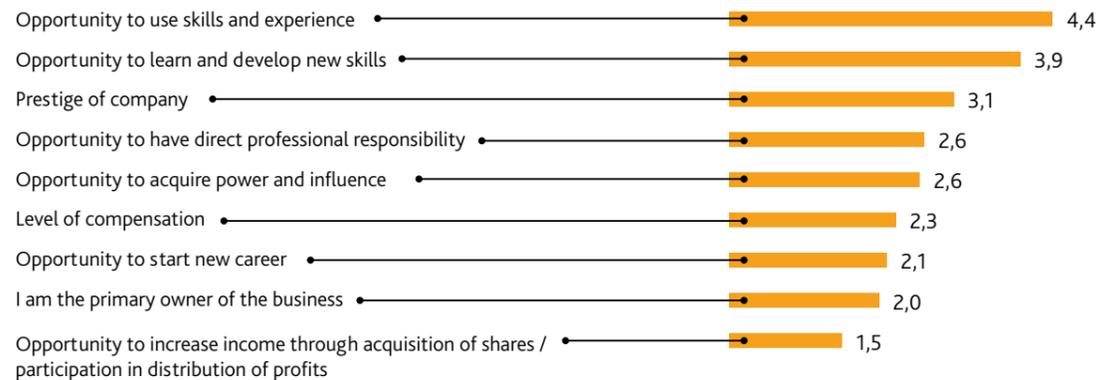


Fig. 18 Career path

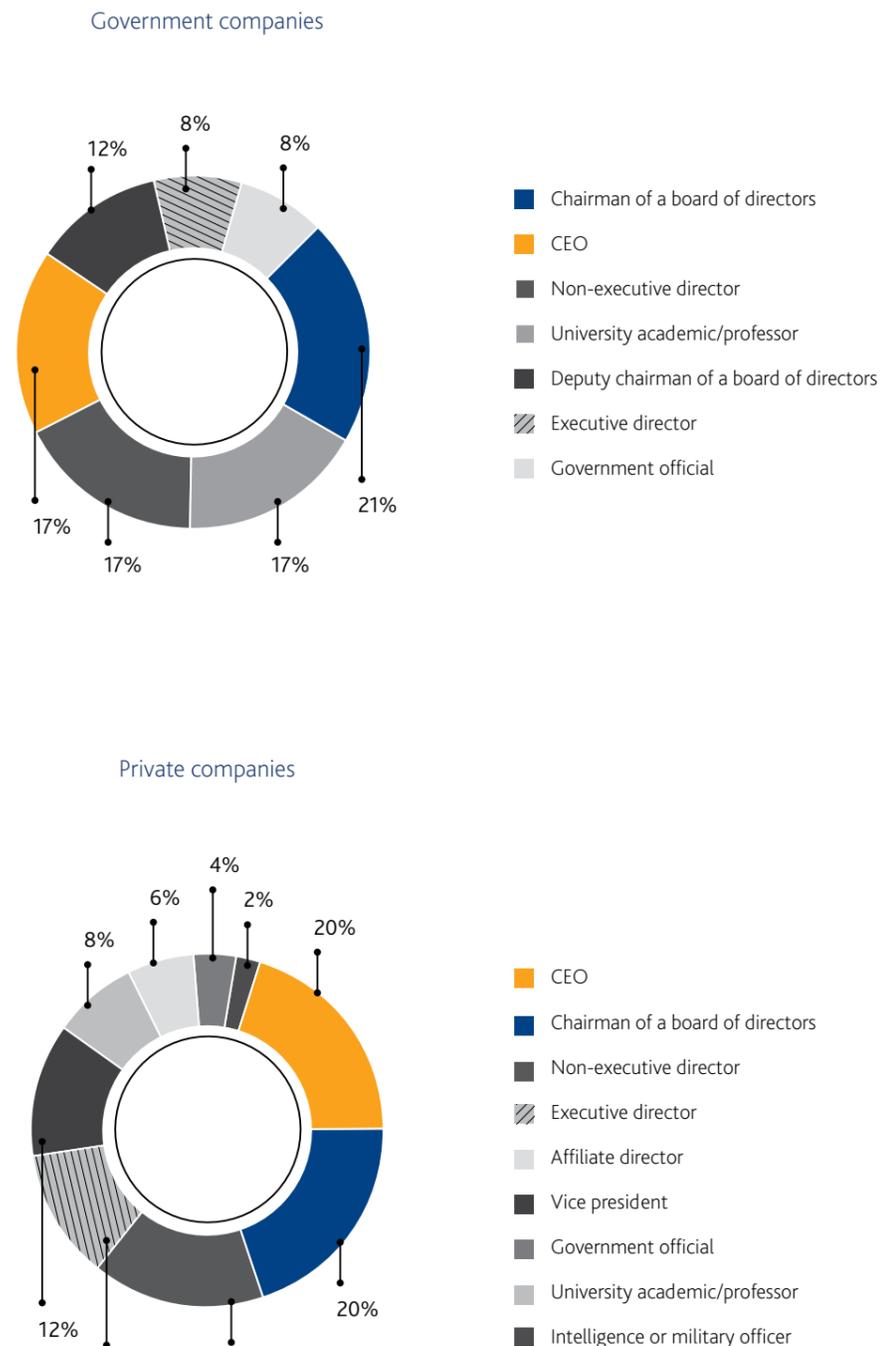
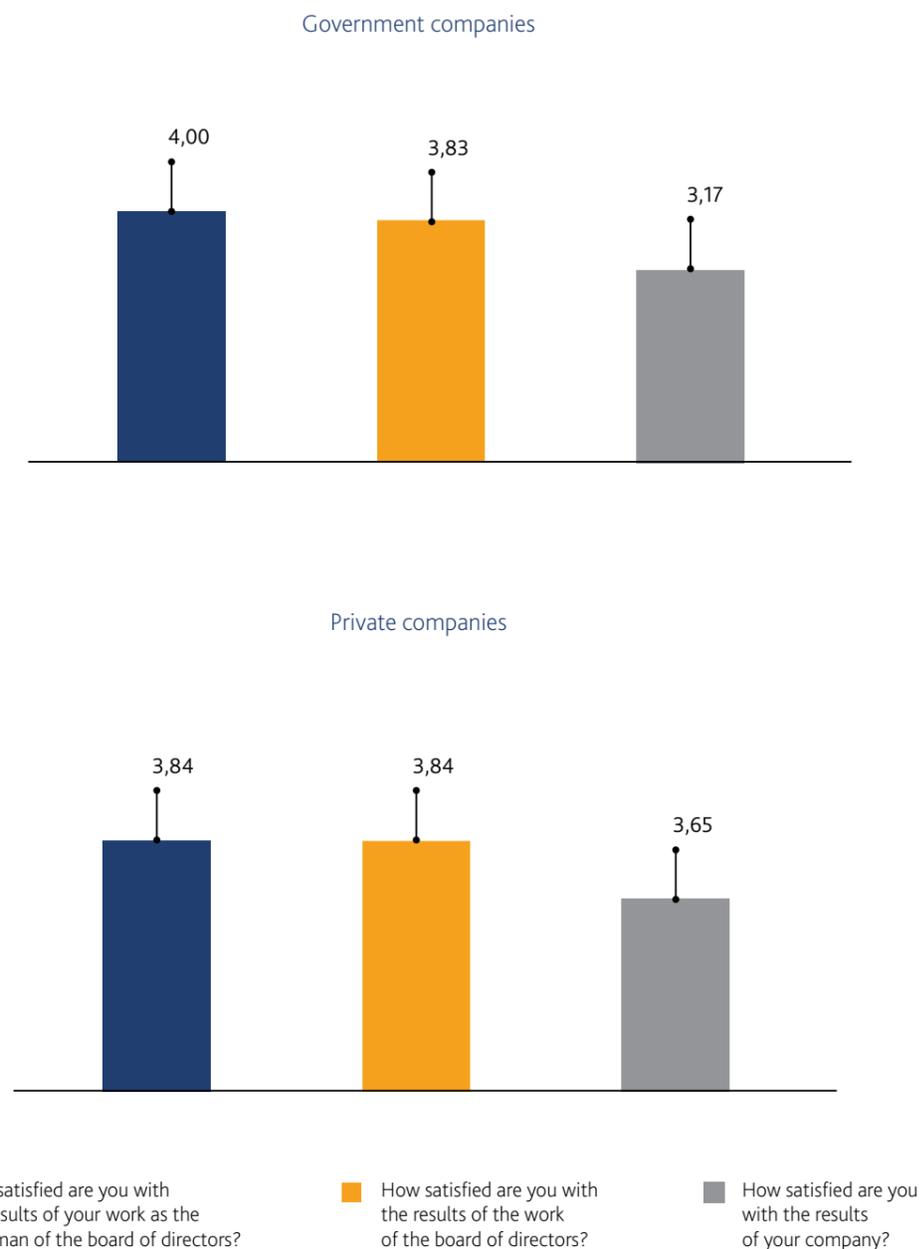


Fig. 19 Level of satisfaction with work



## Conclusions

The goal of our research was to figure out exactly who the chairman of a board of directors of a Russian company is, what drives him, what kinds of problems he solves and how he does it. Our survey simultaneously confirmed several hypotheses and dispelled several entrenched assumptions (myths) about Russian CBDs.

Most respondents do not conform to the traditional image of a CBD as an important, semi-retired, well-respected professional, who receives awards and strong compensation. They are young, many are more educated than executive directors, some have never served in top management. Contrary to traditional assumptions, they are dynamic, open, oriented to development and the acquisition of new skills, and want to put those skills to good use.

Our survey showed that material compensation is not a major motivating factor for Russian chairmen, and they do not earn more than their counterparts from different countries, on average. The level of compensation varies drastically, which indicates that a single labor market for chairmen does not exist in Russia. As time passes and corporate governance in Russia further develops, the amount of compensation will likely even out.

Our research again demonstrated that corporate governance in Russia is less developed than in other countries. Respondents from Russia had far less experience chairing boards of directors, and were, on average, 10 years younger than their colleagues from other countries. A class of CBDs has still not come together, even though the demand for effective chairmen is growing. This is a big reason why in Russia, chairmen typically head more boards of directors simultaneously than their peers in other countries. It is interesting that Russian chairmen evaluate their performance more highly than that of the company, which may also be due to a "young" dichotomous mindset.

The research confirmed that shareholders play a deciding role in the appointment and dismissal of chairmen. They view the position of chairman as key, and trust is the most important factor in the choice of candidate. Therefore, social networks play a much larger role than professional executive search companies in the process of selecting candidates. The ability to build and maintain personal and professional relationships with shareholders and other stakeholders is a necessary quality for a chairman. The three biggest challenges and priorities respondents identified were related to relationships with these groups.

# INTERVIEW

## with Kirill Androsov, Chairman of the Board of Directors of Aeroflot



*"If you are the chairman of a board of directors at a government company, your task is to, in every decision, find a balance between the goals of the government and those of the market."*

*Kirill Androsov is currently the managing director of Altera Capital. He sits on the boards of directors of Russian Machines, Ruspetro, and Rusnano.*

*In previous years, he has been a member of the boards of directors for RAO UES of Russia, Rosneft, Zarubezhneft, VTB, Svyazinvest, GAO VVC and Russian Railways.*

*From 2000-2004, he served as the first deputy CEO of Lenenergo, and from 2004-2005, he worked as the-director of the tariff regulation and infrastructure reform department at the Economic Development*

*and Trade Ministry. Starting in 2005, he served as the deputy minister for economic development and trade, before working as the deputy chief of government. staff from 2008-2010.*

*Since 2011, he has been a member of the Federal Tax Service's Public Council, and has worked as a professor at the Higher School of Economics since 2012. He is a member of the Civic Chamber of the Russian Federation, and is also a member of the Civic Council for the Ministry of Energy. He has an Executive MBA from the Chicago Booth School of Business.*

**TEI: Kirill, what motivates you in your work on the board of directors of a government company?**

I know dozens, if not hundreds, of professionals who want to be nominated to a board of directors of a government company. Every year, more than 1,000 candidates apply to director positions at Rosimushchestvo, and only 200 are selected. But everyone wants to work for one of the top-10 largest companies, even though Rosimushchestvo has hundreds of companies that need professional directors. A lot of this has to do with prestige – you can proudly say that you are a member of the board of directors of Aeroflot, Transneft, Rosneft, etc.

For me, what has always been most important is how interesting I find the company. And Aeroflot, where I am the chairman; Russian Railways, where I was the chairman; and Channel One, where I am a member of the board of directors – all three companies and their business models are ones that I find incredibly interesting.

The second reason is, interestingly enough, responsibility. When the government invites an independent director to represent its interests on a board of directors, that is a big responsibility. That is why the responsibility of being chairman of the boards of directors of Russian Railways and Aeroflot is also a motivating factor for me. If they have asked this of me and entrusted me with this role, it means that they believe that I can professionally fulfill my duties. And that trust that is given to you is very motivating.

In the case of Aeroflot, my interest was also predetermined by my love for civil aviation. I like civil aviation not as a business, but as a story. I have loved Aeroflot since childhood, I like its brand, its character, its image. This has no relation to the business – it's pure emotion, and that's good, when you have it. I haven't felt these emotions for Russian Railways or Channel One, but fulfill my duties due to interest and responsibility.

**TEI: Have you had to turn down offers to sit on boards of directors for companies you don't find interesting? Which criteria are important?**

Yes, I have had to, and more than once. I think to effectively fulfill your responsibility as a government representative, you can chair the boards at two, maximum three companies. I am currently chairing the board at one company, but at one time was a director at three. For me to join a new company means I would have to leave Aeroflot, Russian Railways, or Channel One. But as working with these three companies is incredibly interesting for me, I have not accepted any offers to work or be chairman anywhere else. There is always the temptation to add something else, especially when you're offered significant annual compensation, but I chose to decline every time. It's not worth wasting your effort for money.

I am a member of the board of directors at Ruspetro and Russian Machines. Both companies are part of our investment portfolio at Altera Capital. But on the boards at these companies I represent my interests as an investor. At Russian Railways and Aeroflot, I'm not there to make money, I am there to represent the interests of the government. You always have to remember that you don't simply sit on a board of directors as you are, you represent the interests of a shareholder. And the interests of the government might drastically differ from the interests of a private equity fund.

**TEI: In your opinion, what are the challenges currently faced by chairmen of boards of directors of companies with government participation? What is the most difficult one?**

If the government retains its stake in a company and does not put it up for privatization, this means that it is pursuing some sort of goal. It means that the company is seen as a vehicle for furthering government policy, whether that be social, economic, regulatory, or something else. In this case, the goal of the government differs from that of a market investor, for whom dividend payments and capitalization growth are important. And if you are the chairman of a board of directors at a government company, then your task is to, in every decision, find a balance between the goals of the government and those of the market. The most difficult challenge is to, on the one hand, not turn into a machine that just makes money, and on the other, not to become a government institution.



At any company that represents the interests of the government, there is a curator in the form of an industry minister, deputy prime minister and Rosimushchestvo executive. There are always at least three curators to whom you must listen and with whom you must correlate your position. If your positions differ significantly, then it's necessary to explain what is driving your actions, and why you propose doing something one way, and not another. I have been lucky with curators, I have always been able to find a common language with them.

**TEI: Does this mean that in order to work for the board of directors of a government company, it is necessary to have work experience in government service?**

Let's just say that without an understanding of how the system of state governance works, your job is significantly more difficult. There is a deep logic in this system, but it is only possible to understand it from inside. So it is going to be simpler for someone who has work experience in the government structure.

**TEI: How do you evaluate the performance of the board of directors? How do you determine which directors are effective and which need to be replaced?**

It's important to remember that the chairman doesn't choose the board of directors, the shareholders determine its composition. And the chairman is elected every year; a chairman who starts to forget this will find that his career ends quickly.

Every year I am asked who, in my view, should be added to the board, and who should be removed. This is always my position: you (shareholders) make the decision, and if you select me as chairman, I will work with any board of directors. When you start to blend the skills of the shareholders, management, and board, the chain of command breaks down. Shareholders should decide on their own who represents them. If the board of directors works well and the shareholders are satisfied, that means they're not going to change anything. But a chairman's dissatisfaction with a member of the board should not in any way be the basis for replacing this member.

The main thing I am trying to ensure is that the directors are independent in their judgments and evaluations. Because when board members become promoters of the exclusive interests of management or individual stakeholders, you start to get problems and conflicts of interest. It is important to ensure that directors are objective when they are expressing their point of view or voting on a decision, not becoming a pawn on someone's chess board.

At Aeroflot, we carry out an annual evaluation of the board's performance, the results of which are put into an aggregate report. Out of the 20-30 questions we ask during the evaluation, about 2-3 will reveal significant problems, which are then discussed at a meeting of the board of directors.

**TEI: In crisis moments, chairmen often have the desire become more deeply involved in the company's operating activities. Should one do that, if he sees that the management is struggling?**

A chairman should always be deeply involved in the company's operating activities, but he should never be involved in operating management. Unlike a CEO, a chairman bears no responsibility, including criminal responsibility, he does not have signing rights. So a chairman is required to have a deep understanding of operating activities, but he does not have the right to interfere with them. If he does not agree with some sort of decision, he should bring the issue to the attention of the board; if skills are lacking, bring the issue to the government, whose interests you represent. The government in extreme cases can decide to replace the CEO.

**TEI: What if the CEO has far more GR resources than the chairman, and bypasses the board entirely? I think that this problem exists in about 70-80% of Russian companies. What should a chairman do in this case?**

It is necessary to regulate the actions of the board of directors. A CEO cannot act without its approval. For example, for the approval of major deals, the confirmation of the budget or investment program, a CEO has to consult the board, which has a wide range of powers and abilities to accept the decisions that it considers necessary. It is not something that a manager is trying to lobby.

In cases of non-directive deals, even if you call the minister, you nevertheless have the right to your point of view, which you can defend. Your responsibility is to show the federal official in what way the manager is wrong. The situation becomes more complicated in directive deals. When there is a directive, chairman of the government should vote in accordance with it. If a directive comes down that you have opposed, this means that the CEO went over your head.

**TEI: Does it frequently happen that a board of directors is not in agreement with a directive, but can't do anything to get around it?**

It happens. But if it does, this means that the board of directors is functioning poorly. It means that it needs more quality communication with the federal agencies of executive power, so that the directive is not created before the board's position has been heard. There is a third option – to vote against the directive. If you vote against a directive, you need to write a note explaining why you made this decision. And based on the review of this explanation, Rosimushchestvo will determine whether or not you acted correctly. That is a very difficult decision for them. Because when a directive has been signed by a deputy prime minister or a minister, it is extremely difficult to revoke. Though in my experience there was a time when a directive was revoked, and we brought the issue back for review. That also happens.

**TEI: You have been a member of the Aeroflot board of directors for seven years already. Do you think there is a "shelf life" for serving on a board of directors?**

Of course there is. I am absolutely for rotating both the members of the board and the chairman. Every year about two people on average are rotated out. Sometimes it is the government's decision to do so, sometimes it's the shareholders'. I, for example, have completed my sixth term as chairman and, if we're being honest, I think that it would be right for them to replace me next year. At some point you get tunnel vision. At Russian Railways I was the chairman for four years and was glad when they replaced me, because they needed a new view on working with the management.



**TEI: And what do you think about the common practice of naming a former company CEO the chairman of a board?**

I don't like it. When you're just a regular member of the board, that's not a big deal, but when you're the chairman, that's bad. Because a former CEO likes everything that he's done up to that point. Because when a new person takes on the role of CEO and does something different, this creates ground for serious conflict. If a new director does something different, that means that what he's done is bad. In order to take on someone else's point of view, you have to be an extremely strong person. For a smoother transition, appoint his senior advisor or place him on the strategy committee. But you don't have to give him the most powerful corporate position on the board of directors.

**TEI: What are your thoughts on education? Does a chairman or board member need to have specialized education?**

I'm pretty neutral about it. If someone wants to, then please, go ahead, but it shouldn't be mandatory. It's pretty simple: if there is a potential board member that you think needs to be trained, then you don't choose him. If you chose him, it means that you trust his skill level.

For some, chairing a board of directors is their purpose and meaning in life. And for me, this wasn't the case at Russian Railways, nor at Aeroflot, I didn't even have an office or a company car, I didn't need that. I am an elected body, who should competently and professionally serve for 12 months

**TEI: Are there any common qualities that differentiate an effective CEO of a government company from an ineffective one?**

I would highlight three traits: integrity, professionalism, and independence. Integrity is an important quality for any leader, but particularly for a leader of a government company. These companies don't have a concrete owners (the government is a very abstract one). If you are dishonest, you might start to see yourself as the owner of that company, and only integrity will keep you from forgetting that you are a manager. This, incidentally, is not a quality you can acquire – you've either had it since childhood, or you don't have it.

If a person is professional, he will approach any job professionally: he will be involved in the process, work out the details, listen to different points of view, create a professional team, build an incentive system, and develop a strategy.

Independence is the ability to work out solutions, defend your point of view, and debate with federal officials of any level. Having GR-resources and the ability to debate are very different things. Going to the dacha to quietly debate something is one thing, but to debate and assert your view at a public meeting is another thing altogether. I can count the number of people who can do the latter on one hand. It's always your choice. Why are you here? To kill time until you retire, or to build a great company? If for the second reason, then you need to take responsibility and fight. If for the first, then better to remain quiet. It all depends on what your goals are.

**TEI: What would you say about the motivations of members and chairmen of a board of directors? Is there a financial incentive?**

Of course, a company should create some financial incentives, if people are going to dedicate their time. For me, financial motivation is not important, and so I could choose the companies that I found most interesting, that I was ready to work for for free or for a minimal salary. But for many, this is an important factor. But don't forget that the responsibility of a member of the board of directors and the time that he dedicates to the company is far less than the responsibility and effort of top management.

**TEI: How has the compensation system for the Aeroflot board of directors been set up?**

Compensation depends on the dynamics of the market capitalization. In order to "decouple" Aeroflot from the greater dynamics of the Russian market, we aim to pay out a third of annual compensation, but only if we outperform the RTS Index. This allows us to strip out an overall positive market trend. We have also created a list of competitors, which includes five companies that are comparable to us. We calculate a composite annual average market capitalization of these companies, and if our average is higher, we pay out the second third. The last third depends on long-term financial results. I am proud of the incentive system we currently have at Aeroflot. I think that this example could be proposed to other companies. It is an excellent example, based on best practices.

# INTERVIEW

## with Kirill Matveev, Chairman of the Board of Directors of Dentsu Aegis Network



*“My business partners and I realized that we had grown tired of operational management.”*

*Kirill chairs the board of directors of Dentsu Aegis in Russia and the CIS and has twenty years of experience in communications and advertising.*

*After graduating from Leningrad State University, he started to work in the international department of Russian Video which, at the time, was one of the largest television production companies in Russia. In 1990, Kirill moved to the US, where he earned a bachelor's degree in business*

*Administration at Baldwin Wallace College and worked for two years as the deputy director for business development at Gillette. In 1995, he was appointed the regional manager for the Russian and Ukrainian branches of Gillette.*

*Before becoming CEO and managing partner at Dentsu Aegis in Russia and the CIS, Kirill was a shareholder and managing partner at HMS Komandarm, which was later purchased by Dentsu Aegis.*

**TEI:** Company owners often come to us to talk about corporate governance, and many talk about how difficult it is to make changes to the system, for example, introducing a board of directors. What drove you to change?

When you are an owner and manager simultaneously, at some point you reach a turning point – both physically and emotionally. It is internal. On the other hand, my business partners and I realized that we had grown tired of operational management and could make better use of our knowledge and skills in a strategic position.

In addition, our former structure didn't completely meet our needs. We understood that there were several problems that a structure such as a board of directors could solve (for example, it would provide an additional space to discuss strategic issues). I completed the Leading from the Chair program for board chairmen at INSEAD, which helped me figure out how to effectively implement our plan.

**TEI:** How did you and your partner decide who would be chairman?

It happened organically: he announced my candidacy, and it seemed interesting to me. In addition, creating a board of directors is a long process, with a lot of pitfalls, that requires thorough review of a huge amount of material. My partner is more of a man of inspiration. In general, it would have been easier for me, so the decision wasn't difficult.

**TEI:** You mentioned that you faced obstacles. What kinds?

At the beginning, we mentioned the idea to key management and were met with some skepticism. Then we held trainings with the rest of the team to see what their attitude was to the changes. Over time, they got used to it, and now give excellent feedback and consider the new format to be functional and effective.

**TEI:** How did you formulate the board of directors?

We were lucky. We had a consultant with a lot of experience in corporate governance, who really helped us build and launch the new system.

As a result, we invited him to be an independent director, which was extremely convenient, because he participated in the changes and already had a knowledge base about the organization and about the industry. The management, in turn, knew that this wasn't just someone from the outside, and this helped ensure that the director's desire and ability to bring value to the organization on the whole, and not just to shareholders or some portion of them, came to fruition. This, undoubtedly, contributed to the trust that was built. If we had invited someone from far outside of the company and industry to be an independent director, he would have needed to be extremely compelling for the management to have trusted him. Right now, the board of directors consists of the three of us, the CEO, the financial director and another former top manager from the company, who leads the committee on strategy and M&A. We are considering expanding the board by bringing in one or two more independent directors.

**TEI:** What difficulties did you face at the beginning of your tenure as chairman?

I think the hardest was to hold that first board meeting. I suspect this is a lot like a girl's first dance: a lot of anxiety and doubt, but in the end, everything turns out fine. Of course, it's quite difficult to transition from the role of shareholder/managing director to that of chairman. Again, not all employees had a positive initial reaction to the news about the upcoming changes, which made my job harder. In addition, we (shareholders) continued to creep in to the sphere of operational management for some time. That said, largely thanks to regular feedback, we managed over time to create a structure that the management, shareholders, and all of the board members considered successful.

**TEI:** Who creates an agenda for board meetings?

We have a corporate secretary and a secretary for the board of directors. They, with the help of the committee participants, help the board and the chairman maintain a corporate calendar, from which it is clear which issues will need to be discussed at one board meeting or another. There are certain continuous themes that we discuss at every board meeting (which are held four times per year), or perhaps slightly less frequently. With good enough planning, of course, we can discuss strategic issues



that arise over the course of the year. We prepare for meetings in advance and send materials to the members of the board so that all directors are ready for the meeting when they arrive. So everything goes pretty smoothly and as planned.

**TEI: And how do discussions among the board usually go? Are there any disputes or conflicts?**

We have a pretty small board of directors, and I think we have managed to find good chemistry and participation from all participants, including the chairman. We specifically opt to hold discussions rather than presentations and reports, so our focus has always been on discussing. So of course there are disputes, but they are democratic in nature.

I try to speak last so that my opinion does not influence what other members say.

**TEI: Are there ever any divides between the executive and non-executive directors, and if so, what do you do in those situations?**

In extreme situations, we have a regulation that rules in favor of the non-executive members of the board. It happens that we take some time to consider the position of the management and only then make a final decision. Sometimes we hold meetings without the management, which can also be useful.

**TEI: How did you learn to moderate discussions on the board?**

I think I learned a lot through participating in different operational committees. But in terms of learning to moderate a discussion specifically among a board of directors, I learned this by reading specific literature and from INSEAD, where I, in addition to everything else, had the opportunity to meet people who had extensive experience as chairmen. I really enjoyed the style of teaching there – a lot of practical knowledge, real cases, role playing. For example, we simulated a board of directors meeting. People assumed the roles that they actually perform in real life; it was both a useful and entertaining exercise. I was impressed by how we were able to bring in an element of creativity to the board meeting process.

**TEI: Do you see any positive changes that have resulted over the past year from the creation of the board of directors?**

Definitely. It's important that not just I see these changes, but our employees see them as well. Firstly, my partner and I managed to keep the cost of us exiting operational management to a minimum. Secondly, it made the company more stable. In addition, I think that now employees understand that the company has long-term plans, that even during a crisis period we will continue to grow, create new products, find new clients, conduct deals, etc.

**TEI: Do you think the board of directors pays for itself? Is it worth the money?**

Without question.

**TEI: During the crisis, boards of directors at many companies started to increase their involvement in operations. Many company owners in 2009 returned to operational management. Do you have the desire to do the same right now?**

We see the crisis as an opportunity to improve and change. This is easier to do when you're not involved in the operational activities of the company, which are very time consuming.

**TEI: Do you want to continue your career as a professional director – perhaps by becoming an independent director for a different company, for example?**

Not so that it's my primary goal, but it would make sense. Particularly if it could be useful for my company as well. It would be interesting to sit on a board that employs the best practices, which we could then adopt.

**TEI: Is the remuneration system for members of the board of director linked to the results of the company?**

We have such a system for shareholders and top management at our company. For directors that aren't shareholders, we rely on a reasonable salary that give them for their work and on their intrinsic motivation.

# INTERVIEW

## with Indrek Neivelt, Co-founder and Member of the Board of Directors at Pocopay, Former Chairman of Bank of St. Petersburg



*"I think that being chairman of the executive board and a major shareholder at the same time is not the best practice, but major shareholders can still be effective as chairmen."*

*Indrek is a member of the board of directors at the CEED Institute (Central and Eastern Europe Development Institute), the chairman of the supervisory board at Ldiamon, and is co-founder and a member of the board of directors at Pocopay.*

*Indrek Neivelt graduated from the Tallinn University of Technology with a degree in construction management.*

*He received his master's degree in finance from Stockholm University.*

*After graduation, he worked in various positions at Hansabank until 2005, including as CEO and chairman of the board of directors for his last six years there. He subsequently led the board of directors at Bank of St. Petersburg and was also chairman of the supervisory board at the Estonian Development Fund from 2007 to 2009.*



**TEI:** How did you come to work with Bank of St. Petersburg, what responsibilities were you tasked with, what difficulties did you struggle with, did you ever doubt your choice?

I wanted to work in banking in Russia. I carefully considered several options and decided that Bank of St. Petersburg was a company with good prospects. At that time, it already had a board of directors, but only on paper – there were never any actual discussions held. The founder and main shareholder of the bank played the role of chairman of the board. I was a bit cautious about this approach – the chairman is an independent director and the founder is the leader of the executive body – it's not the most effective way. But overall, my fears were unfounded, we learned how to understand each other and to negotiate. Even before I joined we discussed who was responsible for what. After some time, we made some adjustments to these agreements, and then some more – life doesn't stand still, especially in a country like Russia, and you have to be flexible. We periodically reviewed our responsibilities, but they were always clear to us.

**TEI:** Did you revise your model to expand the powers of the board of directors?

You know, I think that when talking about corporate governance, banks should be considered separately from other companies. Alexander Savelyev (founder and main shareholder of the bank, chairman of the executive board at that time) and I talked about that several times. The thing is that businessmen in non-financial companies are only risking their own money or the money of investors. In a bank, the owner is managing the money of hundreds of clients, he can't feel like the sole owner, he has to be aware of the risks. In this context, the role of the board of directors in financial organizations should be more substantial.

**TEI:** How did the board of directors evolve during your tenure?

We created committees – on risks, on strategy, on remuneration. On the one hand, this was required due to new legislation, but we were also always trying to find new ways to improve the structure of the board of directors. It's no secret that in many companies,



the committees, and even the board itself, are more for show. We started that way too, but gradually breathed real life into them. The 2008 crisis played a role – it required change. The makeup of the board of directors changed insignificantly – by around 10% per year, I think – which is good practice

**TEI: And what was the most difficult aspect of your work as chairman of the board of directors?**

Probably the dichotomy between the chairman of the executive board-founder and chairman of the board of directors. On the one hand, the chairman of the executive board is accountable to the board of directors, the head of which is the chairman, but the chairman, in turn, is accountable to the shareholders. It's complicated.

But I was grateful to Alexander for his cooperation, Frankly, I was tired. I had chaired the board of directors at the bank for 9 years – from 2005 to 2014. And spent more than 20 hours per week on it: I was in the office every week, talking to managers, discussing strategy, I was on the phone every day. I think that 90% of the work of a board falls on the chairman, and just 10% on the other members That's why a chairman physically cannot work on more than four boards.

Alexander Savelyev replaced me as chairman. This was another reason why I left. I think that being the chairman of the executive board and a major shareholder at the same time is not the best practice. But a major shareholder can be effective as chairman of the board of directors.



**TEI: You currently sit on boards of directors for several European companies. What differences from Russian practices have you noticed?**

In Europe, there is no single approach to running a board of directors. Every country has its own specificities. And if you're looking at the average, you won't find any major differences with Russia.

**TEI: In terms of motivation, what other than material compensation could motivate you to chair a board of directors?**

I really enjoy improving things. If I see a place that can be improved, I immediately want to go there.

# INTERVIEW

## with Alexander Ikonnikov, Chairman of the Supervisory Board at the Independent Directors Association (IDA)



*“Our observations show that professional development is needed on every level, even the level of the chairman of the board of directors.”*

*Alexander is one of the leading Russian experts on corporate governance and the functions of boards of directors.*

*He has more than 10 years of work experience on boards of directors of Russian and international companies, including Baltika, the National Settlement Depository (the Central Depository), East Capital Explorer, and SOLLERS.*

*He has chaired the supervisory board of the Independent Directors Association (IDA) since its founding in 2002.*

*Alexander has the highest international qualification for a board member from the IoD Chartered Directors program from the British Institute of Directors (UK).*



**TEI:** Alexander, the Independent Directors Association works in close cooperation with the British Institute of Directors (UK), in particular to develop the international IoD Chartered Director program. This collaboration gives you access to the best international practices. How do they align with the Russian reality?

Let's start with the fact that introducing the best international practices to Russia was, from the beginning, one of the main purposes behind the creation of the Independent Directors Association. Our main mission is to give directors the opportunity for personal development and to help them find a way to improve the effectiveness of their work. As you noted, we work in close cooperation with the British Institute of Directors and several other international organizations that specifically teach this, for example, the American Association of Corporate Directors and the Global Network of Director Institutes, of which we are a member.

Throughout our research we found that boards of directors are far from simple structures and certainly do not work effectively in all companies

What does effective mean? Firstly, the board of directors is fulfilling its primary responsibilities, secondly, it is meeting the expectations of all stakeholders. Our research has shown that even in developed countries, increasing the effectiveness of the board of directors is on the agenda, not to mention in Russia, where, on the one hand, there is a sufficiently large need for effective directors, and on the other hand, the culture is still not developed enough so that this tool could be fully utilized and managed. I have worked in Western countries, and I have seen how boards of directors there make important decisions not just in form, but in substance. There isn't enough of that in Russia.

**TEI:** There exists an opinion that the main motivation directors have for receiving additional education is to get a certificate that confirms their qualifications. Are participants actually trying to gain some new knowledge, or is this just a formal procedure for them?

Our observations show that professional development is needed on every level, even the level of the chairman of the board of directors. For example, for beginner directors, this program provides a means

for structuring the knowledge that they already have, making connections, increasing their visibility on the market, understanding the specifics of the work. For directors from Russia that are planning to work in foreign companies, this is particularly important, because our country is approached, if not suspiciously, then very cautiously abroad – having an international certificate makes it much easier to gain the trust of a company's shareholders. In turn, already established directors and chairmen get the opportunity to hold discussions within their circle. This kind of interaction allows for sharing experience, knowledge and ideas.

**TEI: What, in your opinion, is the benefit of such a program? To what extent does it really increase effectiveness?**

Providing people of this level some sort of academic knowledge is impossible, you can only structure what they already know. What is truly beneficial about these programs is the opportunity to sharpen necessary skills in a safe space, which is extremely important for effective work. As Stephen Covey said, you have to “constantly sharpen the saw.”

**TEI: So there is a specific focus on teaching practical skills, and not academic knowledge?**

Exactly. My observations show that professionals that have received this kind of education start to speak a common language, which simplifies communication between them. Also, many directors that I know who have gone through these programs say that examining so many complex and non-trivial tasks during the program seriously helped them in their work later. Finally, as I already said, it is an excellent opportunity to meet other professionals and together solve problems that you face.

**TEI: You have for a long time worked on coming up with a composite portrait of an independent director. Has this portrait changed at all with the crisis and complicated situation in the country?**

Of course, the portrait of the director changes – in terms of age, professional experience, gender. For example, the average age started to decline a bit. We also attribute this to the fact that during the boom years on capital markets, companies were

able to bring in older, more reputable foreign directors who were ready to work for boards of directors at Russian companies. Now we're seeing fewer foreign directors and more Russian directors. And, of course, there are now more people that have both industry and functional knowledge.

**TEI: According to your research, independent directors are predominantly investment bankers and financiers. Has this changed at all with the crisis? It is logical to assume that there will be more and more directors with experience in investment banking and finance.**

Our observations have shown that the crisis has kind of served to clean up anything that doesn't work. This is why boards of directors are going to value only those people who can actually bring some benefit. The crisis isn't just a change in macroeconomic indicators, it's also a crisis of liquidity. This is why financial discipline is necessary to preserve the business for many companies. Unsurprisingly, directors with financial expertise are extremely in demand in such situations. Investment bankers also typically tend to join boards of directors and continue to play a large role in them, despite the investment crisis. They can accurately assess value and the risks that could challenge a company in the process of acquiring or integrating assets.

**TEI: Has the new corporate governance code changed the ecosystem for companies? Do you see any changes related to the introduction of the code?**

As you know, compliance with the code is currently mandatory for government companies. Given that the government has a large share in the Russian economy, these companies have influence on the corporate governance standards in the country. Furthermore, a code in any country creates a certain standard of best rules and practices, so whenever such a document is introduced, it has its benefits. The code introduced is a kind of benchmark for Russian companies, a standard against which members of a board of directors can compare their management practices.

**TEI: Every year, the Independent Directors Association rates independent directors. What is the methodology behind the rating?**

To assign a rating we consider several factors: the length of time spent working for the board of directors, the size of the company, the director's contribution to the development of the company's corporate governance and its success on the market. We also look at more than just objective parameters, we look at subjective indicators as well. The objective factors include data that you can't argue with: the company where this person has worked for the past five years, the duration of his work, the size of the business, etc. And then there are subjective indicators that reflect, for example, what kind of contribution a person has made to a company. This is decided collectively by the organizers of the award – the Independent Directors Association, the Union of Industrialists and Entrepreneurs, the Moscow Exchange and, recently, Sberbank.

**TEI: Can you provide any examples of Russian directors that you see as particularly strong, given their qualities and contribution to effective corporate governance?**

All leaders in our rating are shining examples. We have had Andrey Sharonov, who I think is one of the best directors in Russia. One of our winners this year is the chairman of the board of directors of Norilsk Nickel (Gareth Penny), who has been able to significantly improve the decisions the company has made. If you remember, before he arrived there was a serious conflict between shareholders, and now the situation has calmed.

**TEI: You are a member of several boards of directors. Have there been any instances, in your experience, when a board of directors that does not operate under the best practices, or even operates in contrast to them, nevertheless manages to make the right decisions regarding the tasks at hand?**

One of my former instructors, who is the father of corporate governance – Aaron Millstein – gave me some examples of best practices that wouldn't work in our circumstances. In his opinion, beneficial solutions are ones that work for the company. This means that the best practices are the ones that best

make your system more sustainable. It is an uncertain time on the market right now, and boards of directors are facing serious challenges and difficulties – for example, how to create an incentive system.

**TEI: In Russia right now, it is common for the chairman of the board of directors to be the owner of the company. How do they divide those roles?**

That depends on the level of development of the person: it is very difficult to share power and use a board of directors as a collective organ that makes decisions when you have consolidated all of the power in your own hands. One aspect of good governance is a balanced system. I have known several people who, despite being strong and smart, are extremely power-hungry. Unfortunately, many of them lost their businesses. I think that a business is, to some extent, a reflection of its owner. The market doesn't stand still, so if you are ready to learn and change, then your business will develop too.

**TEI: Can you think of any examples of successful chairmen-owners?**

Of course. For example, Aleksander Tynkovan and Alexei Mordashov.

**TEI: Have you encountered any hopeless cases? For example, has there ever been a time in your career when you declined to join a board of directors simply because you didn't believe that it could be changed for the better?**

Of course, those situations arise reasonably frequently. You understand that there is little potential for change. Many business owners want results, but aren't ready to change. If an owner doesn't have enough motivation, then the board of directors is just a formality and turns into meetings among friends. But you can make friends outside of a board of directors.

**TEI: But owners have the right to assemble a board of directors?**

You know, it's different in every case. Not long ago we published an article, in which we talked about the selection and appointment process for a board of directors. There is the Anglo-Saxon model,

under which the selection of a candidate is the responsibility of the board of directors.

The second is the Scandinavian model, where once per year an appointment committee meets. The committee is formed at the shareholders meeting and typically consists of the five largest shareholders and the chairman of the board of directors. This approach helps solve at least two issues. The first is that it addresses the principle of accountability. I, as a member of the board, who serves a one-year term, know that at the end of that year I will meet with the shareholders, and I know them, I know who I work for. The second is that during the meeting, you have the opportunity to understand the shareholders' view on the development of the company. Any decision that the board of directors makes is in the interest of the business and of the shareholders, and their attitude is important to understand. Under the Scandinavian model, there isn't the gap between the board and the shareholders that is inherent to the Anglo-Saxon model. You get a board of directors that lives its life and then an agency problem arises, that is from due to some sort of agency a director starts to turn into a principal. And then the management takes over governance.

In the last five years I have carried out more than 30 assessments of boards of directors, and one of the most problematic areas is the process for selecting and appointing directors, i.e. a question of succession. Normally the problem is solved as follows: a major shareholder nominates a candidate, who is then formally confirmed by the appointment committee and board of directors, and then

the remaining shareholders. So the added value of the board is minimal. Moreover, our legislation does not support the role of the board of directors in the process of selecting candidates. The legislation states that if you or you and other shareholders have a 2% stake in the company, then you have the right to nominate candidates to the board, and the number of candidates that you can nominate is unlimited. In these cases, each person typically nominates the most candidates they can, the board of directors can't refuse them and instead includes them all. This means that if the number of candidates nominated by the shareholders is equal to or larger than the number of directors already on the board, then the board cannot nominate its own candidates. So if there is a board that has 9 directors, and the shareholders have nominated 10 candidates, then the board of directors cannot nominate anyone else. However, now this situation is beginning to change. Secondly, we have the code of corporate governance, which outlines what the nominating committee should do. There is an ongoing discussion about changing the legislation to give the board the right to nominate candidates irrespective of how many candidates have already been nominated by shareholders.

**TEI: So the board of directors will be acting as a group of shareholders representing the interest of those shareholders?**

Yes, the board will be equal to a shareholder. In fact, this is important, because this ensures stability on the board: if the board is constantly changing, then it also loses the logic behind the decisions it makes.

## For notes

# TALENT EQUITY NEWSLETTER

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