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SESSION III: THE QUALIFICATIONS, TRAINING AND RECRUITMENT OF DIRECTORS

DIRECTORS' TRAINING AND THE ROLE OF EDUCATION IN PROMOTING SOUND CORPORATE GOVERNANCE PRACTICES IN RUSSIA

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¹ **Background.**

The purpose of this presentation is to inform the Roundtable participants about the Canadian training program aimed on improving corporate governance practices in Russia, to highlight our concerns related to the state of affairs in corporate governance education and training, and to generate a discussion on the best approach to this multifaceted undertaking.

Much of the current thinking on corporate governance tends to focus on the *practice* and overlook the *practitioner*. Major reform efforts are underway to promote more stringent laws, better enforcement, standardized Codes of best practices and greater stakeholder input into corporate governance issues. Some research efforts are beginning to progress beyond board structure to investigate the inner-workings of effective boards and study how effective board process may contribute to board effectiveness, and ultimately to corporate financial performance.

Little is said in the above efforts, however, about the fact that governance is practiced by directors who are nothing like other professionals. So far, directors do not have to acquire some prescribed body of knowledge, come before a peer group review or a licensing agency, and receive continuing education, apprenticeship or on-the-job training. In Canada for example, the requirements are minimal: Directors must be over 18 years of age, not bankrupt and not found to be of unsound mind by a court of law.

It may be naive to ask, but at least the generic question should be raised, *whether it is realistic to think of reforming the practice without also reforming the practitioner*. I can assure you, I am not advocating some idealistic scheme leading to the professionalization and accreditation of corporate directorships. However, I want to make a strong case that governments, international organizations, professional bodies, corporations and educational institutions should pay far more attention to corporate governance training.

Just how little there is by way of training became obvious to me five years ago when directors of a major Russian metallurgical company, involved in a court action with the minority foreign investors, asked me to organize for them in Canada a training seminar on corporate governance. Since that time, there has been a lot of water under the bridge and now it is widely recognized that improving corporate governance is a necessary, although not a sufficient condition for solving many problems of the Russian economy and for increasing the flow of domestic and foreign funds to stimulate economic growth and raise the standard of living.

When we at York University considered how corporate governance in Russia could be improved through education and training, it became clear to us that any major change could only be realized over an extended period of time. The short-term educational programs for selected groups of Russian corporate

¹ The views expressed in this paper are those of the author and do not necessarily represent the opinions of the OECD or its member countries. This paper is subject to further revision.

Presentation by Dr. Alina Pekarsky

directors delivered in Russia or in various western institutions, would not be sufficient to make a difference in corporate culture. Our rather ambitious proposal to the Canadian International Development Agency (CIDA) dealt with a systemic change in the way in which Russian executives and managers perceived the role of corporate governance in bringing business success to their companies and to them personally. To accomplish this on a massive scale in such vast and diverse country as Russia, we proposed to facilitate teaching corporate governance by Russian instructors in Russian institutions with the belief that the system would change over time because of the infusion into the business community of more and more people educated in modern concepts of corporate governance.

The Canadian International Development Agency agreed with this philosophy of "systemic change through training the trainers" and in February 2000 granted the Schulich School of Business a major three million (Canadian) dollar grant to develop and deliver a corporate governance training program over three and a half years, as part of Canada's bilateral technical assistance to Russia. With considerable resident expertise at York, we started out by envisaging a program of courses, seminars, research projects, publications, scholarly networks and similar components of academic program. Recognizing our limited comprehension of the current Russian scene, we also associated in partnership with a Russian institution, namely the State University-Higher School of Economics in Moscow.

As is well known, the Russian economy is in transition and nowhere more so than in the business sector. Consequently, preparing a suitable syllabus for the teaching of corporate governance is certainly not an easy undertaking. It is absolutely essential that what is being taught to the instructors and in turn what they teach to directors and students is relevant and meaningful in the Russian context. The simple transfer of concepts and ideas in corporate governance that exist in Western Europe and North America would make no sense at all. We are of the belief that the proposed changes must be "owned" by Russian academics and directors.

It will not come as a surprise to you when I readily admit that many of our initial ideas have been revised extensively and many others will undoubtedly be modified as we go forward with this project. Some of these changes reflect new perspectives we have gained about corporate governance training in general, while others are due to our improved understanding of specific Russian conditions. Above all, we have come to appreciate that there is no such thing as a comprehensive corporate governance training package. Instead, we now think in terms of three categories: *audience, time frame, and context*.

Differentiation by audience category is an obvious one. The needs of various target audiences range from *micro-training* that can be customized and delivered at the individual company and director level, to *critical analysis* of public policy issues that have direct relevance for policy-makers and regulators. The time frame refers to the horizon over which the training is intended to produce results. The range is between the *immediate and specific*, which is possible in the case of teaching and instituting new procedures, and the *systemic and intergenerational* which involves education that will yield benefits many years hence. Finally, the contextual category ranges from a *legalistic orientation*, with its emphasis on duties, powers, compliance and enforcement, to a *managerial perspective*, which considers internal dynamics, functional integration and risk assessment. Naturally, these criteria are directional rather than absolute.

Let me now return to the York program, with reference to this classification scheme. We have developed a three-pronged approach to the program, which consists of three components: (1) **training of corporate directors**, (2) **training of instructors** and (3) **enhancing institutional training capacity**.

Program Description

The overall objective of the Russian Corporate Governance Program (RCGP) is "to build the capacity of Russian higher-education institutions to conduct corporate governance training for future business leaders and corporate directors". While the program's ultimate desirable impact is "the emergence of an influential core cadre of champions of corporate governance in the public and private spheres", its specific mandate is educational rather than of advocacy nature. The RCGP is designed *to train the trainers*, hence its focus is unique and different from most other international and domestic undertakings that seek to promote sound corporate governance practices in Russia. The program's sponsor, the Canadian International Development Agency provides the following justification for its financial support:

Weak corporate government practices are recognized as one of the major impediments to long-term sustainable growth in Russia, primarily by inhibiting the attraction of productive foreign direct investment. In the early 1990s, many large and medium-sized state-run enterprises were privatized rapidly, and the vast majority of these firms fell into the hands of their former managers who had only minimal experience with the market economy. As a result, many firms which could benefit from investment are not attracting any, due to a profound lack of appreciation of the importance of shareholder rights, the role of the board of directors, and the effective enforcement of contracts. While many Russian educational institutions now offer business training, corporate governance is not yet a common subject area. Thus, while the need for corporate governance training is great, there are not enough instructors at these institutions who have adequate background in the subject to meet the demand. The project will address this need.

Overall, management of the project is the responsibility of the Schulich School of Business at York University, working in collaboration with its Russian partner institution, the State University-Higher School of Economics.

(1) Training of corporate directors

Director training will be provided to up to 60 Russian corporate directors over three years. They will attend a rigorous one-week Canadian seminar at the Schulich School, preceded by a two-day orientation session in Moscow. The Directors seminar places emphasis on the practice of corporate governance from a comparative international perspective. It consists of lectures, guest presentations, panel discussions and fieldwork. The seminar's objective is not only to educate Russian board members, but also to learn from the directors' own experience and views. The directors' comments were extremely useful for "fine-tuning" the Instructors' program and to ensure its relevance in the contemporary Russian context. The detailed program outline of the first Directors' Seminar conducted February 2001, is attached in Appendix 1.

The participants of the seminar, who were selected by the State University-Higher School of Economics, and who paid their own expenses, were senior directors and executives from Financial-Industrial Group "Baltiiskaya construction company", Close Stock Company "Metrovagonmash", Open Stock Company "Sibirsko-Uralskii aluminum" (SUAL), Open Joint Stock Company "Oscolskii Metallurgical Works", "Aviation Complex named after Ilushin" and Nijne-Tagilskii Metallurgicheskii Works.

With respect to content, we found that:

(i) there existed minimal interest on the part of participants in the history of the development of corporate governance;

Presentation by Dr. Alina Pekarsky

- (ii) there existed a strong interest in finance, the structure and regulation of capital markets, and the inter-relationship between corporate governance and general management;
- (iii) there existed a strong interest in how actual situations were dealt with; and
- (iv) for maximum value, material had to be related to the conditions within which the directors were currently working.

Given the fact that the material taught in the academic course must be current, holding an informal seminar for directors prior to the Instructors' seminar appears to be an effective way of ensuring this. Consequently, we are planning the next director's seminar in March 2002, prior to the second instructors' course in 2002.

(2) Training of instructors

The second component of the program, **Instructor training**, is aimed at Russian professors of business and management and will involve 60 educators who are currently employed in the economics, business, and management or law faculties of Russian higher-education institutions. In each of the next three years, 20 individuals will be selected on a competitive basis to attend an intensive four-week seminar on corporate governance at York University in Canada, preceded by the two-day orientation session at the HSE in Moscow. It is expected that upon their return, the participants will play a key role in their Russian home institutions to design, champion and implement corporate governance courses in graduate and executive educational programs, as well as individually tailored training programs. Accordingly, a prerequisite of candidate selection will be a commitment by the applicant's educational institution to consider the introduction of a course on corporate governance in the school's academic and/or management development curricula. The committee takes into account the need to ensure regional, gender and professional diversity, as well as demonstrated evidence that the participant is most likely to succeed in offering corporate governance training in Russia. The curriculum for the first Instructors Course, to be given in July 2001, is attached in Appendix 2.

Participants in the course receive a Canadian Fellowship that covers their travel, accommodation, meals and incidental fees. Among other prerequisites, applicants must speak English, teach in the field of management, and preferably have some academic experience outside of Russia. The institution with which the applicant is associated must endorse the application and plan to offer courses in corporate governance in their degree, executive development and/or other programs.

Announcements and application kits were widely distributed throughout Russian academic circles by utilizing the Internet. Listing of universities was prepared based on reputational criteria, survey data by the World Bank, membership in professional associations and participation in international learning networks. The listing also took into account the need to ensure regional representation. Mailing lists obtained from the Russian Association of Business Education, the Central and Eastern European Management Association, the Open Society Institute and the State-University-Higher School of Economics were used and some 350 institutions and individuals were directly contacted. In addition to the e-mail communication, we set up a web page² for the Program with electronically downloadable information. Each application kit contained an announcement of the purpose of the program, description of the courses, conditions for admission, and instructions for applying.

The Selection Committee, which consisted of representatives from York University, HSE and the Advisory Council, selected 20 participants out of 83 applicants. A majority of instructors are professors from business schools from all across Russia - from Kaliningrad to Vladivostok.

² www.schulich.yorku.ca/RussianCorporateGovernance.nsf

The Instructors' Course is designed not only to teach the participants about corporate governance, but also to teach them how to teach corporate governance - in other words, "train the trainer." Therefore, considerable time has been devoted to creating as interactive a seminar as possible. This will be a team teaching, with participation of instructors from the Schulich School of Business, Higher School of Economics, and other major Western and Russian institutions.

Four modules/weeks are planned. Module 1 will cover strategic management and corporate governance in an international context; Module 2 will cover theory and practice of corporate governance in the West; Module 3 will cover corporate governance issues and opportunities in Russia; and lastly Module 4 will cover teaching and research in corporate governance.

At the beginning of the course, participants will be organized into three teams, each to be assisted by a Russian speaking York MBA student. Each team will be assigned the task of preparing a course in corporate governance for a different type of student group - regular MBA, executive development for directors and short-term seminar programs for the financial community. The teams will present their projects for plenary review and discussion during the final week of the course. Thus, all participants will contribute to and benefit from the preparation of three types of corporate governance courses, complete with cases, readings and other material, in English and Russian, as templates ready to teach when they return to the classroom. We expect, as a consequence of this approach, that the participants will "take ownership" of the process of preparing themselves to teach corporate governance.

(3) Enhancing institutional training capacity - Maintaining the Impetus

The third component of our program, addressing **Institutional capacity building**, is the establishment of a Corporate Governance Center in Moscow at the State University-Higher School of Economics, in order to assure the continuous development of research and education in corporate governance in Russia.

In its first year the Center intends to focus on three areas: program support, networking and expanding the teaching activities of HSE in the area of corporate governance. We envision the Center becoming a repository for teaching, research and study of corporate governance issues and serving as a clearinghouse for scholarly exchanges and conferences. At the same time, the Schulich School will strengthen its Center for Corporate Governance at York University with a new emphasis on international issues affecting corporate governance in developing and transitional economies. To facilitate the establishment of the network among scholars, researchers, regulators and professionals interested in corporate governance, a web-site is being created and several conferences at the HSE are being planned. Finally, within the Center, courses will be developed for teaching within the various business programs of the Higher School of Economics, including the use of the Virtual Learning Environment program.

To evaluate the best corporate governance practices, an international Advisory Council was created and member input was incorporated into curriculum design, teaching and material preparation. The Council is composed from internationally recognized experts from CIDA, the World Bank, the OECD, EBRD, the State University-Higher School of Economics, the Soros Foundation, the Institute of Management Development at the University of St. Petersburg, the London Business School, Kingston University, Henley College, and the University of Michigan as well as other institutions. In addition, several lawyers and directors with experience in corporate governance and/or Russian business, serve as members of the Council. The RCGP is also cooperating with the International Finance Corporation in utilizing its pioneering experience in promoting sound corporate governance in Ukraine and Russia.

In this regard, I would like to emphasize the important role of the OECD Roundtable in instituting Corporate Governance reforms in Russia, by creating and maintaining over the last two years a real-time and virtual forum for discussions and networking opportunities. Due to these efforts, there has been a

Presentation by Dr. Alina Pekarsky

noticeable increase in corporate governance awareness in Russia, as compared to the earlier years of privatization.

The Future

We believe that corporate governance education is a major way of precipitating great change. Such education efforts should be based on the concept of "training the trainers" and working with the next generation of Russian business leaders. It will take time to take effect, but it seems to us to be the most effective and certain way to bring about systemic and lasting transformation to the governance of Russian corporations.

Indeed, we believe that, through CIDA and its efforts, Canadians are making a major contribution to the successful transformation of the Russian economy*.

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