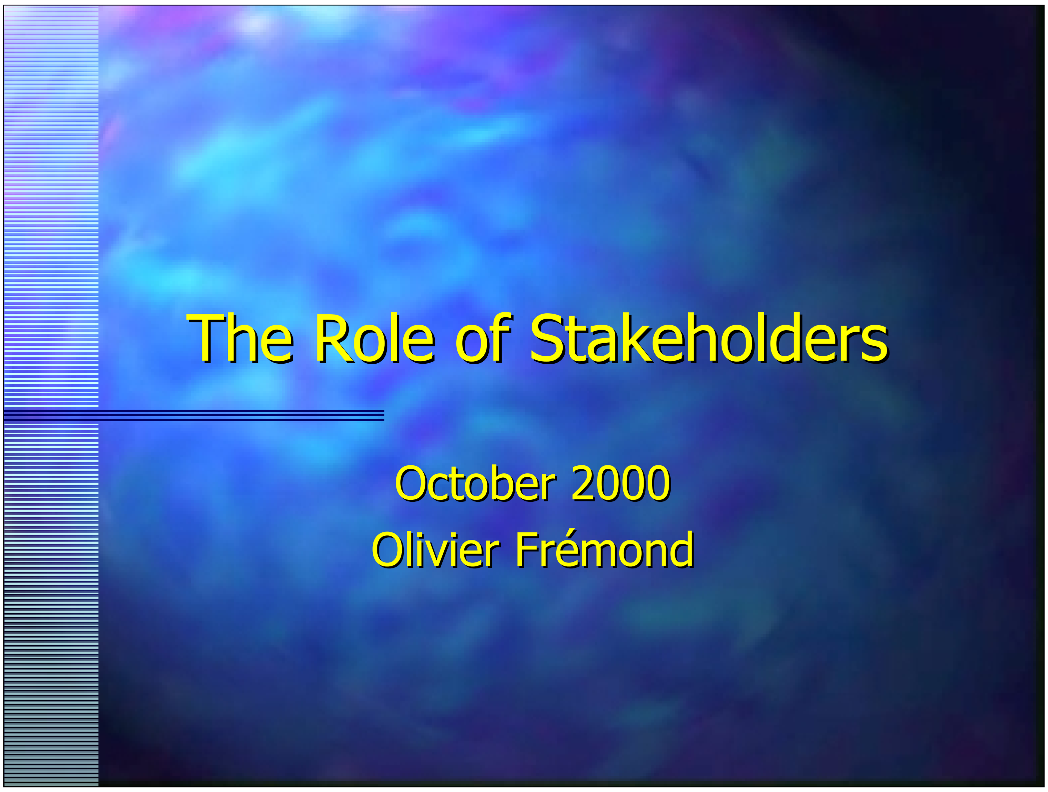
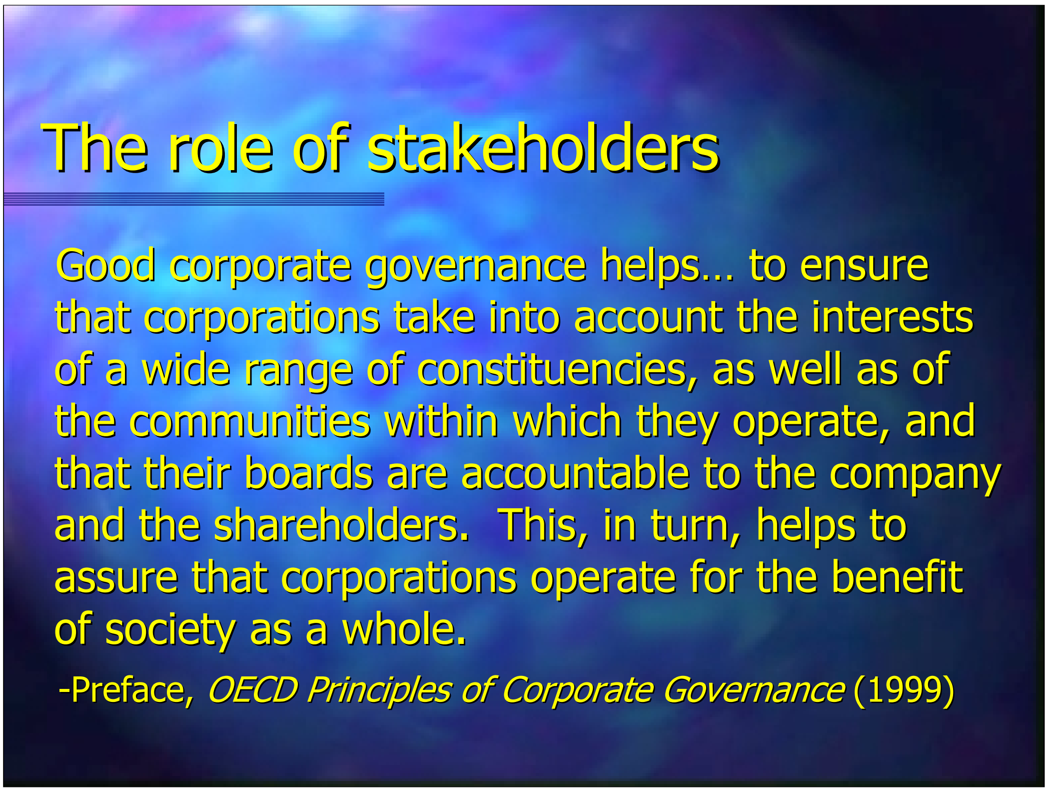


The recent history of the stakeholder debate has highlighted the perceived rivalry between the shareholder model versus the stakeholder model:

•Shareholder model - the purpose of the corporation is to promote shareholder value

•Stakeholder model - the purpose of the corporation is to serve a wider range of interests



(OECD quote paraphrased: CG ensures that interests of many constituents are taken into account. This helps to assure that corporations operate for the benefit of society as a whole.)

•Now we see that this debate is over a false dichotomy

•The debate has moved on as the perspective outlined in the OECD principles has gained in prevalence. OECD member countries include both shareholder and stakeholder models of corporate governance so this consensus is important

•Stakeholders and shareholders alike are searching for methods of ensuring the long term health and prosperity of the company

•We still may debate what the best system for promoting the long term health of the company may be, just as we may still debate who exactly the stakeholders are

•Employees: There is widespread agreement that they are a prime stakeholder

•Shareholders: Some would say that shareholders are the first stakeholder

•Management: Controversial, but some believe that managers are stakeholders For example, Evan and Freeman argue that managers have an additional duty -- that of maintaining the health of the company by keeping stakeholder demands balanced-- which makes them stakeholders

•Creditors: Creditors' rights are often protected under contract and backed by collateral so they are seldom treated as "owners" as the shareholders are

•Trade unions: Some argue that this group is redundant with the employee group

•Customers: Most stakeholder models include customers

•Suppliers: Often considered a stakeholder

•The local community: Broader definitions of stakeholders widen the concept to include responsibilities to local communities and, more generally, civil society

•Future generations: Sustainable development is at the center of the stakeholder debate and this suggests a responsibility to future generations --those who will one day be reliant upon the physical environment-- as a stakeholder group

•So where is the common ground between these disparate groups?

•Stakeholders and shareholders agree that effective corporate governance requires the following principles, which I am listing with examples of their implementation:

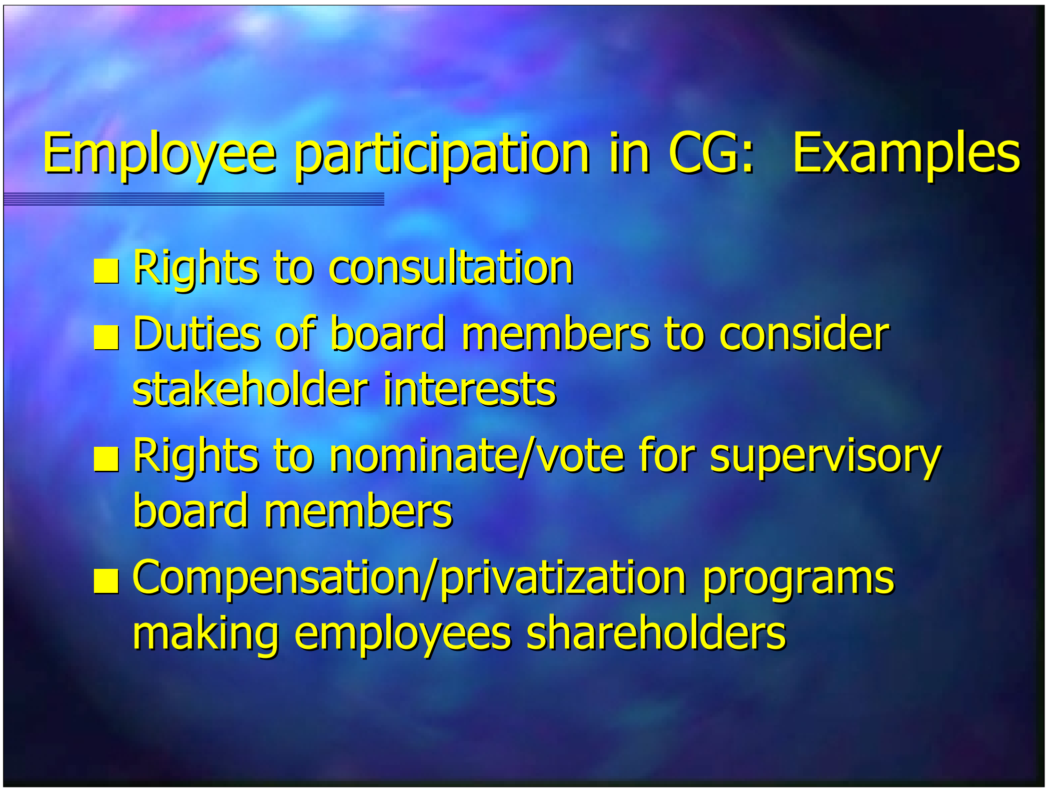
•Transparency: Full disclosure of financial and non-financial information

•Accountability: Ensuring that management is effectively overseen (and, where necessary, replaced) by appointing an independent and competent governing body

•Fairness: Equitable treatment of investors

•Responsibility: Ensuring the corporation fulfills its proper role in society

Corporate governance systems vary in how they achieve these goals, but by focusing on one group --in this case employees-- we can further develop the notion of how a stakeholder group can strengthen the corporate governance system.



Employee participation in corporate governance systems can be found in many countries and corporations throughout the world. Examples include:

•Right to consultation - where employees must be consulted on certain management decisions. This right increases transparency of management decisions and allows employee opinion to ameliorate the asymmetry of information between management and the market

•Duties of board members to consider stakeholder interests. This right reinforces accountability by protecting stakeholders

•Right to nominate/vote for supervisory board members. In many cases employee participation on the board is mandated. This right creates a check and balance system between management and the supervisory board, which in turn creates the perception of greater fairness

•Compensation/privatization programs that make employees shareholders, thereby empowering employees to elect the supervisory board, which, in turn holds management responsible

Before we discuss the potential role of employees in the corporate governance system here, we must recap the current dynamics in the Ukraine

As we have heard during this conference, the Ukraine faces great challenges to its corporate governance systems. The dynamics of the corporate governance system in the Ukraine are based upon:

Challenges of transition - The shift from state to market requires that a new infrastructure for business be developed

Need to attract investment - Ukraine can only meet its needs by ensuring that the markets are attractive to investors

Nascent governance standards - Corporate governance is very new, for example, joint stock companies have only been mandated to appoint a board of directors since 1998

According to a cg assessment produced last year by Nadia Senyk, corporate governance problems in the Ukraine include:

•a dearth of relevant corporate information, including information on directors

•supervisory boards of directors struggling to exercise proper oversight over management

•a lack of independent auditing systems

•management voting shares on behalf of shareholders

•annual meetings held without sufficient notification time

•These are major weaknesses to overcome, and in this Roundtable we have heard many others.

•But: How can a stakeholder perspective, in particular the employee shareholders, help the Ukraine realize its potential by improving corporate governance?

Champions: The reform process needs champions - a stakeholder group that is deeply interested in the long term health of the company and has an undeniable right to speak out to management on improving the corporation. Employee shareholders are ideally positioned because:

•they have additional knowledge of the corporation

•they rely upon the corporation for their own prosperity through employment

Incentives: The reform process needs to provide incentives for change. Improvements in corporate governance standards could benefit employee shareholders:

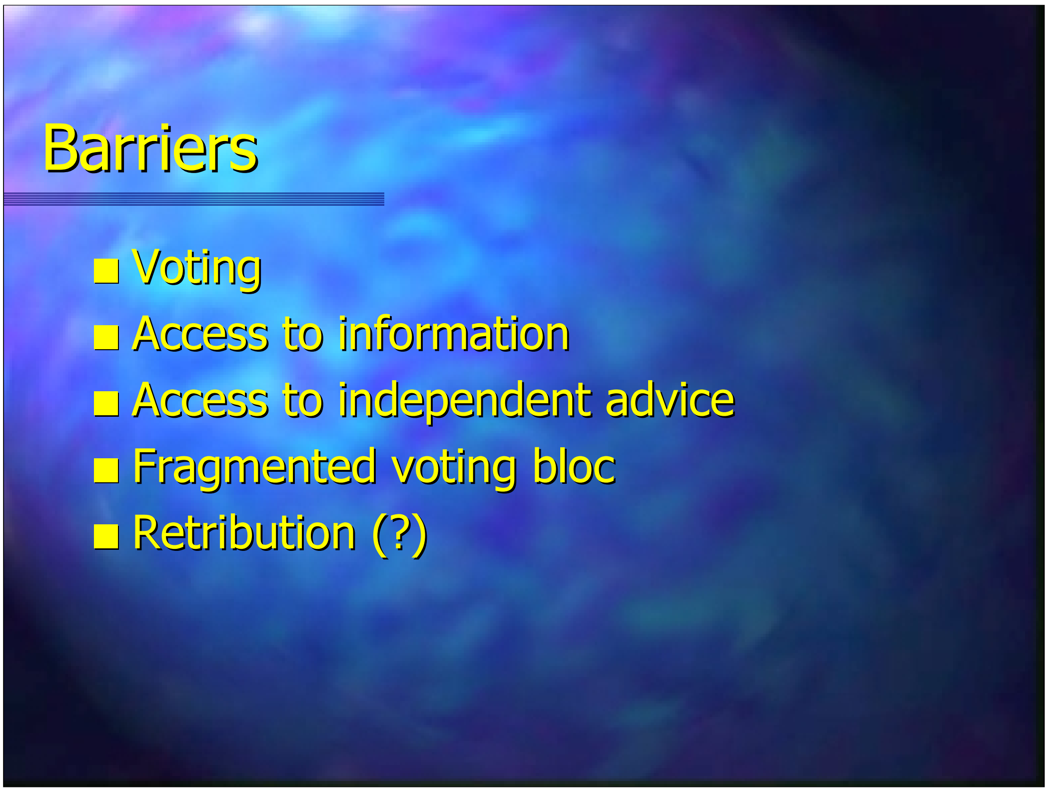
•improving long term prospective health of company, safeguarding jobs

•they stand to gain as shareholders if the corporation increases in value

Rules: The reform process must also be governed by clear rules. But this is not all. Rules must be enforced.

Enforcement

Institutions which can enforce corporate governance rules must also be supported in the reform process



As employee shareholders have the interest and incentives to play a full role in corporate governance, what are the barriers - in rules and in the institutional capacity to enforce those rules?

•Voting - In many companies, employees cannot in practical terms vote their shares, for example they may have their shares voted en bloc by management.

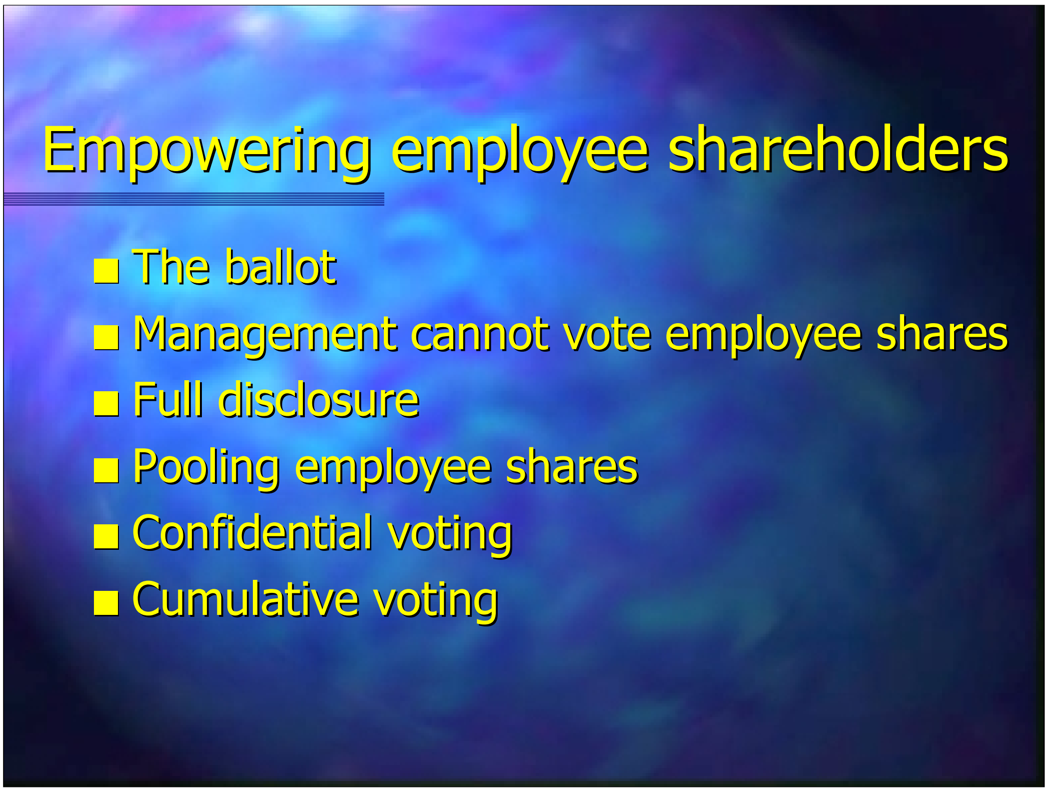
•Access to information - If employees have the right to vote, they often have insufficient information on which to rely.

•Access to independent advice - Without access to independent advice, employees are often guided to voting in a manner consistent with management.

•Fragmented voting bloc - Employee voting needs coordination. The fragmented voting bloc creates the free rider problem and makes it hard to have influence

•Retribution - As well, some employees may fear retribution if they vote against management or otherwise attempting to increase the voice of employees within the corporation.

What can be done to overcome some of these barriers and empower employee shareholders?



Possible methods of ensuring that employees can contribute their voice as shareholders include:

•The ballot. Make sure votes are held and counted by an independent registrar. Also, by making the right to vote unalterable by management, employee shareholders are protecting their rights as shareholders

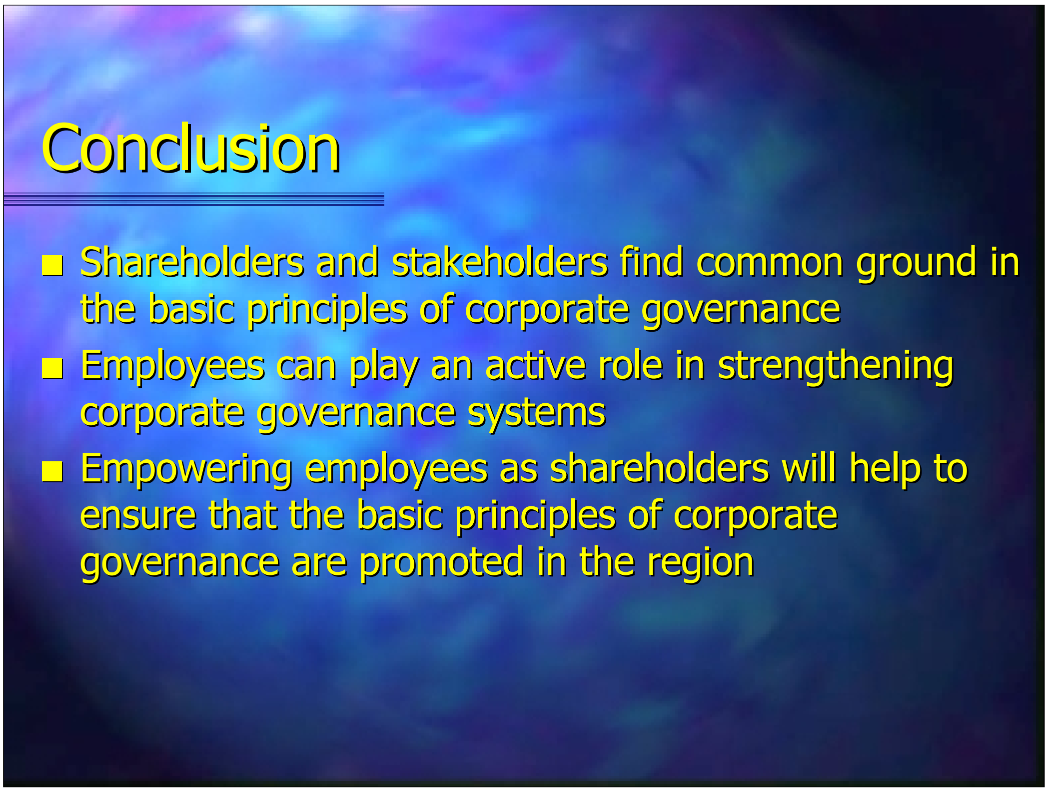
•Prohibiting management from voting employee shares places the right to the ballot back in the hands of its legitimate owner.

•Full disclosure. By releasing financial and non-financial information, the corporation improves transparency and employees are enabled to make better voting decisions

•Pooling employee shares into an independent fund controlled by employees eliminates the fragmented voting bloc problem. Additionally, the fund could be responsible for collecting dividends, for providing independent advice and, if necessary, for mounting shareholder actions, such as pressing law suits.

•Confidential voting. A crucial element in any proxy voting system, confidential voting eliminates the possibility of a threat of retribution. By preventing management interference, it also promotes the principle of fairness. Technological advances such as the internet make confidential voting more accessible

•Cumulative voting. Creates a system whereby individual shareholders may pool their votes in order to weight their voice for a particular board member. Employee shareholders could seek representation on the supervisory board.



Because we are so near the end of the conference and so full of good food and good ideas, let me distill my presentation into a few choice points:

•Shareholders and stakeholders find common ground in the basic principles of corporate governance. There is no real conflict between shareholders and stakeholders when it comes to principles of responsibility, accountability, fairness and transparency

•Employees can play an active role in strengthening corporate governance systems

•Empowering employees as shareholders will help to ensure that the basic principles of corporate governance are promoted in the region

After all, Marx's ideal of communism was where the workers owned the means of production. He never specified that such this could not happen through share ownership.