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Lytvynenko Elena

*Candidate of Economics, Associate Professor,
Associate Professor of the Department of Marketing,
Management and Trade Entrepreneurship
Kharkov Trade and Economics Institute of
Kyiv National Trade and Economics University
ORCID: 0000-0002-8360-4461*

Popov Vitaliy

*Student of Master's Degree in Management
Kharkov Trade and Economics Institute of
Kyiv National Trade and Economics University*

PARTICULARITIES OF CORPORATE GOVERNANCE MODEL FORMATION IN UKRAINE

Summary. *One of the most effective forms of domestic enterprises management is the corporate governance system, which ensures the implementation of the long-term sustainable development model. Therefore, the article focuses on the topical issues of forming the corporate governance model in Ukraine. Specifics of corporate governance in the country, current state and basic elements peculiarities of Ukrainian corporate governance model are considered in the article. The main elements of the corporate model are analyzed and systematized. The world experience of formation of corporate governance systems is considered. The paper examines and analyzes the problems and perspectives of corporate governance improvement at the national level. Among certain problems of corporate governance attention is focused on: peculiarities of the process of forming the ownership structure of societies in Ukraine, which*

led to the formation closed for foreign capital investors domestic enterprises; the problem of interaction between the state and corporations; the imperfection of the legal framework on corporate governance and underdeveloped stock market, absence of the developed corporate culture at the enterprises, misunderstandings in relations between shareholders (owners) and managers and importance of introducing corporate governance principles to domestic joint-stock companies. The article is made the systematization of corporate governance models, which differ by ownership structure, legislative base, list of main participants, forms and methods of financing, disclosure requirements of the company's activities and other elements. It is the comparison of these basic corporate governance elements of both in Ukraine and in other countries it is the comparison of these basic corporate governance elements of both in Ukraine and in other countries, allowed explore them in more detail and reasonably approach the main particularities of corporate governance model in Ukraine.

Key words: *corporate governance, corporate governance principles, problems of corporate governance, corporate governance model.*

Statement of the problem. Formation of effective corporate relations in Ukraine remains relevant at the present stage of socio-economic development. Defining directions of corporate relations development, theoretical and practical researches on realizing mechanisms of state regulation of corporate relations, formation of the national corporate governance model remains necessary in solving the problem of increasing the corporations investment attractiveness and the formation of a competitive economic environment in Ukraine.

Considering the experience of creating corporate relations in the USA, Germany and other developed countries, as well as the internal particularities of the development of joint- stock business pattern in Ukraine, the article outlines the directions of building a national corporate governance model.

Analysis of recent research and publications. At the present stage of

corporate governance, there are many scientific papers devoted to theoretical and practical issues of this type of management. The scientific efforts of Ukrainian scientists in the field of corporate governance systems research rely on foreign developments of scientists who investigated these questions – I. Ansoff, Z. Bodie, E. Bradley, P. Drucker, K. Mayer, R. Metron, F. Mishkin, G. Soros, A. Thorsell, R. Thules, F. Hayek and W. Sharpe. Modern corporate governance problems researched by many Ukrainian scientists, among them I. Ignatieva [1], O. Garafonova [1], M. Malskaya [2], N. Mandyuk [2], Y. Zanko [2], S. Korobka [3], A. Yagmurdy [4], M. Iorgachova [6, 15], D. Bayur [7], V. Babichenko [8], T. Kozakova [9], A. Shegda [10], T. Antoshko [11], Y. Voitsekhovskaya [12], L. Fedulov [13], T. Frolov [16], O. Polinkevich [19], B. Andrushkiv [20], S. Chernychynets [20], O. Okunev [21] and others, by virtue of that the general theoretical corporate governance base formed in Ukraine. However, despite these scientific researches, constantly emerging new problems and not resolved outdated need further research to build a safe and effective corporate governance system with a view to creating and developing domestic corporate governance model in the country's economic security system.

Formulation purposes of article (problem). The problematics, which is investigated in the article, determines the following goals: to propose a definition of corporate governance model, to analyze modern peculiarities and problems of Ukrainian corporate governance model elements, identify the main factors that influenced its formation.

The main material. The evolution of the world economy led to the emergence and development of corporate governance as a new form of management that meets the modern requirements of business organization.

Corporate governance is not only limited to the relationship between investors and managers, and also involves taking into account the consideration of legitimate interests and active cooperation with stakeholders, who have a legitimate interest in the Company's activities (employees, consumers, creditors,

the state, the public, etc.) [1]. This is due to the fact that the company can not exist regardless of the environment, in which it operates and the ultimate success of its activities depends on the activities of all stakeholders. The value of corporate governance for the company manifests itself in its impact on increased competitiveness and economic efficiency by the provision of: adequate attention to shareholders interests; balance of the corporate relations participants interests; financial transparency; implementation of effective management rules and proper control.

Effective corporate governance should ensure the stable presence of the company in the market, guarantee the protection of shareholder rights, limit the ability of abuse by managers and promote enterprise development and investment attraction. To that end, the organization of Economic Cooperation and Development (OECD) was formulated the principles of corporate governance:

- protection of owners' rights;
- the same attitude to all shareholders;
- recognizing the legal rights of all stakeholders and encouraging active cooperation between the company and the stakeholders;
- timely and accurate disclosure of substantial information;
- effective control [2].

Subsequently, individual reports, principles and codes of corporate governance were developed in individual countries. That are designed to convince investors (primarily minority) that companies will act in the interests of the shareholders and give them opportunities for prompt receipt of sufficient information about the state of affairs in companies. International organizations, associations of investors, Governments of different countries and companies adopted about 90 corporate governance codes, which is a summary of standards that are voluntarily accepted and internal norms set the procedure corporate relations. The basis of corporate governance codes make recommendations on the main issues of corporate relations. There is no single model of effective corporate

governance. Meanwhile, work carried out in the OECD allowed to reveal some common elements underlying corporate governance [3].

In each country, corporation management system has certain characteristics and constituent elements that are included in it, which distinguish it from other countries systems.

In the OECD recommendation document («Principles of Corporate Governance» [4]) and national Corporate Governance principles [5] identified the principal positions of the corporations missions that are based on these common elements. They are formulated to cover the various existing models.

The key characteristic, by which is classified by corporate governance models, is a mechanism of shareholders-owners control for the activities of corporation managers, it relies on internal or external methods of control. Internal control methods are direct control by the shareholders on the basis of the use of voting rights in shareholders meetings, and external control methods – legal norms defining functions and responsibilities of the corporation's directors. Depending on what control methods dominate – external or internal, two main models of corporate governance – American (or Anglo-American) and German (or Western and Japanese models) distinguish (table. 1) [6].

The American model was created taking into account the market-oriented financial system, on the basis of the developed capital market, a wide set of different financial instruments. It relies on the external methods of joint control over the activities of corporations through the external audits system. Lack of dominant investors is a characteristic feature of corporate property in the USA. The main corporate owners of the shares are pension and mutual investment funds. Through mergers, acquisitions, affiliations, buying companies allows investors to establish effective external control over corporate capital. This is underpinned by the strict publicity requirements regarding financial information provided by corporations [9].

Table 1

Basic models of corporate governance

Anglo-American – Model W (the widely-held corporation model)	Western European and Japanese models – Model B (the blockholder model)
Signs of property	
With scattered property (or with a wide ownership of shares)	With concentrated property (with dominant owners Blockholders)
Control Corporation	
Controlled by professional Managers with a loyal board of directors and passive mass of small shareholders	It is controlled by large owners who have the opportunity to form the board of Directors in their sole discretion, as well as to determine and change higher managers
Interests on which mainly focused on the corporation activities	
Protecting the interests of a small number of shareholders and personal political, economic and social interests of general directors	Protecting the interests of oligarchic family, the dynasties that protect the concentrated their power, sometimes with great damage to the economy of their countries
The emergence of a conflict	
Between shareholders and hired managers, incompetence (or opportunistic behavior) Professional managers	Between Blockholders and all other Shareholders, incompetence (or Opportunistic behavior) The largest shareholders
The existing risk	
The risk of wealth expropriation investors by hired managers	The risk of wealth expropriation dominant investors owners

Source: compiled by authors based on [6; 7; 8]

The German model of corporate governance relies on the internal methods of joint control through the network of internal contracts between the main participants of corporate relations. German feature of corporate formation consists in close connection of banks with industry. The largest share of each corporation's shares belongs to other corporations. Individual investors constitute the second largest group of shareholders. Thus, in Germany, the main entities of joint-stock are financially and technologically related large corporate shareholders, who control the activities of companies using internal methods of shareholders control [10].

It should be noted that the classic models of corporate control are not mutually exclusive. Their functioning in the world's leading countries confirms

that no model has significant advantages over others and is not universal for national economies. World experience shows that combined variants from individual components of different models are possible. The criterion for applying one or another option should be the influence degree of the implementation of certain corporate governance instruments on the country's economic growth rate.

Given the experience of creating shareholder control mechanisms in the United States, Germany and other developed countries as well as the internal features of the joint-stock business development in Ukraine, it is possible to outline the directions of building a national model of corporate governance.

In the early 1990's in Ukraine was a transition to a market economy, that was characterized by significant influence of the social justice principle, almost complete lack of regulatory framework in the field of joint stock and corporate relations, as well as lack of experience in these matters, the choice of a political approach to the privatization. Further changes in the conditions occurring in the national economy also affected the nature of corporate relations.

Ownership structure of corporate enterprises was created mainly not by a classic way of combining capital, but by distributing statutory funds of state enterprises during privatization. At this, because of the certificate (free) privatization got significant scale acquired, the enterprises did not receive real investment, which caused executive staff imperceptions the shareholders as owners. Particularities of forming domestic corporate sector: highly scattered, inefficient structure of shareholder property in the privatization process; the significant role of the state in shaping the corporate sector; the presence in the state of a large shares number and the need to solve the problem of managing state corporate rights; powerful tax burden, which creates for shareholders in different industries the unequal tax conditions, etc [11].

That is, the model of privatization significantly influenced the ownership structure formation in Ukraine. It is the ownership structure that distinguishes between two corporate governance systems, which characterize the basic

approaches to the problem of powers and, accordingly, decision making and realization of property rights.

The initial stage of becoming a domestic model was characterized by a scattered ownership structure (outsider model), but in the future it was characterized by a trend of transition to insider model (concentration of property and control, introduction of elements of cross-ownership and formation of complex corporate structures of various types).

Among the important factors that influence the formation of the national corporate governance model, it is necessary to distinguish:

- shareholding structure in corporations;
- specifics of the financial system as a whole as a mechanism of savings transformation into investments (types and distribution of financial contracts, financial markets position, types of financial institutions, role of banking institutions);
- ratio of sources of the corporation financing;
- macroeconomic and economic policy in the country;
- the political system [12].

In the Ukrainian corporate governance model of the board of directors (supervisory board), carrying out the function of control over management should itself remain the object of control. For the majority of large Ukrainian joint-stock companies, the following groups of participants in the relations that make the substance of concept corporate governance can be distinguished:

- management, including the sole executive body of the issuer;
- large shareholders (the owners of control package of society voting shares of society);
- shareholders possessing a minor number of shares (minority shareholders);
- state authorities (Ukraine and its entities), as well as local self-government bodies;

- owners of other securities of the issuer;
- lenders who are not owners of the issuer's securities [13].

The development of the national corporate governance model cannot be considered beyond the modern globalational tendencies.

At the present stage, it is impossible to apply a single approach in the conditions of certain national peculiarities existence. Institutional and integration tendencies in the process of market transformations in Ukraine resulted in the formation of the corporate sector, that includes large industrial and industrial-equity trade joint ventures, companies with limited liability, national joint stock companies, state holding and transnational companies. Thus, as of April 1, 2018 in the register of corporate rights of the state is accounted for 496 economic societies that have a state share in the authorized capital, including: 383 at, 86 limited liability companies (LLC) and 27 National joint stock Companies (NJSC) and state holding Companies (SHC). Of the total number of companies that have the state's share in the authorized capital: 261 economic partnerships (52.62 % of the total number) has in the authorized capital the state share of more than 50 %, which gives the state the right to control their activities (control package), of which 144 business associations (29.03 % of the total number) have the state share of 100 % (table 2) [14].

One of the most important problems is that the management of many Ukrainian companies is acting both solely in their own interests, or in the interest of a majority shareholder (group of affiliated shareholders), but not for the benefit of all shareholders.

Table 2

**Division of corporate rights of the state by types of business partnerships
(as 01.04.2018)**

Type of partnership	The total number	The amount of shares in the state ownership			
		up to 10%	from 10 to 25%	from 25 to 50%	from 50 to 100%

JSC, Created during privatization and corporatization	189	34	20	47	88
HC, SHC, NJSC	27	0	0	1	26
JSC, Formed with the foundation	59	21	6	21	11
LLC	51	5	15	17	14
JSC, LLC, which are registered with other executive authorities	170	7	13	28	122
Total	496	67	54	114	261

Source: compiled by authors based on [14; 15]

Formation of ownership structure and its redistribution is an effective mechanism of corporate management and control over managers, but in the context of Ukrainian specifics, this mechanism performs other functions, namely the struggle for control over the enterprise. The decisive feature of share capital redistribution in the Ukrainian industry is the dominance of property insiders. For last twenty years, the concentration of shareholder property has virtually unchanged, being maintained at a sufficiently high level. To overcome this trend, it is necessary to eliminate the administrative barriers to the development of a competitive market and to liquidate other unreasonable pressure levers of local authorities on business [16].

Thus, one of the main problems of corporate development in Ukraine is the problem related to the imperfection of property institutions and the management structure, lack of effective mechanisms for self-regulation and lack of effective implementation practice General principles of corporate governance.

Also, to this group of problems should be attributed the problem of underdeveloped stock market in Ukraine, absence of various effective financial instruments, that would give ability to make investment to certain financial assets in this market. Despite a significant number of joint stock companies since the beginning of privatization, currently there is a decrease in the number of joint stock companies, which want to enter the securities market, and the majority of

Ukrainian companies do not plan to attract investments through the stock market (on April 1, 2018 was 2128 PJSC and 5097 PrJSC) [17].

Market value of the securities that are traded in the market constantly changes depending on the owning of existing information by stock market participants about the expected income for these securities, state of affairs and prospects of issuer's activity. The legislation of Ukraine provides for the shareholders right to receive information about the activities of the corporation [18]. In Ukraine, compared to European, Anglo-American and Japanese corporate governance systems, there is no enabling for sufficient transparency of information. Thus, the person who first receives such information due to own post or certain connection with the issuer has the opportunity to get a profit by acquiring securities to raise prices or to avoid losses by selling securities before the start of their market price fall.

The aforementioned state management problems of the corporate sector are caused by the peculiarity of the formation of the national model of corporate governance. Even in those corporations where there is no State property, the state indirectly is owner, because it embezzles significant funds of enterprises in the form of taxes, but does not contribute to the enterprises development. Also, the state reserves the right to use effective redistribution mechanisms of corporation property in its favor, because it is a significant creditor [19].

Effective corporate governance helps to organize management processes within the company and then develop business at a qualitatively new level. Significant investors, as a rule, give priority to the quality of corporate management than the financial and economic indicators. With low quality of corporate management, investments are small or none at all. Corporate governance defines the culture of doing business.

Successes in the field of corporate governance are especially important for Ukraine. Progress is possible, if companies, that are interested in improving their own efficiency and forming a civilized market, organizing a business community

and government structures, unite their efforts. There are two types of country involvement in globalizing processes. In the first case, integration into the global market takes place in all directions, including in the sphere of industry, finance, services, standards, legal norms, corporate culture, etc. Raw materials specialization with that, does not prevent the use of all the fruits of global development, including progressive technological and structural changes, the consumer market expansion and growth in the living standards. The second type of integration is solely related to the export of raw materials or agricultural products [20].

The internal structure of society is not changed and is ultimately incompatible with global requirements. Moreover, the export proceeds often designed to artificial conservation of non-competitive economy and ineffective public relations. Due to that, inheriting of the generally accepted corporate governance standards can be considered in terms of increasing the ratings of individual companies and improving the investment climate in general [21].

Insights from this study and perspectives for further research in this direction. Corporate form of management due to such advantages as concentration of financial, production, labor, innovation capital, etc., becomes one of the most widespread forms of doing business in developed countries of the world. Corporate governance is based on the provisions of the company's economic theory and management. Formation of the economy corporate sector in Ukraine was based on the previous system, in which large enterprises and Scientific Production Association took a leading place, in other words, there were prerequisites for the development of corporate property.

There is no unified model of the best corporate governance for all countries, because they have different legal systems, institutional bases and traditions. But common to all countries is that the sign of perfect corporate governance is to prioritize the interests of shareholders, who trust corporations to use their funds reasonably and effectively.

Therefore, it is important for our country to use the experience of developing models of developed countries, taking into account the existing Ukrainian specifics of corporate governance, but not the direct and automatic transfer of foreign models to the corporate governance formation, which may be dangerous to further reform. In this case, it is necessary to study the international experience, which let to build such a national model of corporate governance, which will take into account national features, meet national interests and promote economic growth of the country.

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