Raboshuk Alina, PhD, Assistant Professor,
Department of International Economics
Hrybyniuk Nataliia
Zhytomyr State Technological University

CORPORATE GOVERNANCE DEVELOPMENT UNDER THE EUROPEAN INTEGRATION

The Urgency of Research. In 2014 Ukraine ratified the European Union Association Agreement, which, in turn, commits Ukraine to the economic, judicial, and financial reforms to bring its policies and legislation into accordance with to those of the EU. Basically, The Ukraine–European Union Association Agreement is a treaty between the European Union (EU), Euratom, their 28 Member States and Ukraine that establishes a political and economic association between the parties. The parties committed to co-operate and converge economic policy, legislation, and regulation across a broad range of areas, including equal rights for workers, steps towards visa-free movement of people, the exchange of information and staff in the area of justice, the modernization of Ukraine's energy infrastructure, and access to the European Investment Bank.

One of the issues disclosed in the EU-Ukraine Association Agreement related to Economic and Sector Cooperation is dedicated to corporate governance.

According to the Chapter 13 of the EU-Ukraine Association Agreement “The legislation on the establishment and operation of companies, corporate governance, accounting and auditing”, Ukraine has agreed to cooperate with the EU on the further development of policies of the company’s corporate governance.

It is a well-known fact that violations of the shareholders’ rights on the general meeting, additional issue of shares, the formation of owner’s equity, violations of corporate deals are widespread in Ukraine. These violations should be prohibited on the Ukraine territory as it makes the process of foreign investment into domestic enterprises quite difficult.

Statistics shows that during the period 2014-2015 with the help of mechanisms of corporate securities issue Ukraine's economy has attracted about $33 006,7 million of the foreign direct investment from the EU [1]. Today the owners of registered securities are presented by 17,2 million individuals, representing more than a third of Ukraine’s population; about three quarters of the Ukrainian industrial potential operates as stock enterprises.

The aim of research is to study the latest trends of corporate governance and identify ways of adapting national corporate governance system with EU requirements.

The carried out research reveals that the current state of corporate governance in Ukraine is characterized by the following features: - low level of corporate culture; - discrepancy of existing corporate governance practices generally accepted principles; - insufficient of coordination of government in the regulation of corporate relations; - ineffectiveness of state corporate rights management [2].

Obviously, the development of corporate governance is necessary, as it will attract investment into the Ukrainian economy, the growth of national wealth and development of the stock market.

Moreover, an effective process of the European integration of national systems of corporate governance and corporate relations requires complex problem solving. This is because the interest of foreign investors is increasing towards the domestic issuers despite the complicated political, social and economic conditions and business environment. Therefore, the practices of corporate governance in the successful European public companies should be taken in consideration.

The deep examination of the existing EU Directives regulating the corporate governance system and practices, the following ways to improve the national system of corporate governance in terms of European integration can be defined as: 1) management and corporate control; 2) profits usage and dividend distribution, supervision, internal and external audit; 3) owner's equity management, corporate restructuring, mergers and acquisitions; 4) requirements for financial and non-financial reporting issuers; 5) restrictions on the use of inside information, and more.

The corporate governance system in Ukraine will not be effective without creating additional institutional support and formation of human resources that have the specific knowledge of the functioning of corporate governance in the EU. When creating a new corporate governance system in Ukraine should focus mainly on industrial and commercial activities on the basis of world market conditions.

Especially Ukraine should borrow from the EU experience convergence of national practices and technical requirements, particularly in the agro-industrial sector, engineering, and other technologies with European standards. It is also necessary to pay attention to the structure of the share capital of all corporations at improving the corporate governance system.

The corporate governance system of Ukraine can't be separated from investment climate and business features. According to the report of the World Bank Group "Doing Business - 2016: Measuring Regulatory Quality and Efficiency", Ukraine significantly improved and simplified rules and procedures on registration of legal persons by reducing the time of registration and elimination of registration fees while creating new business.

However, according to the report "Doing Business - 2016", Ukraine still occupies low position in the global ranking (83rd place) and considerably inferior to its neighboring countries: Poland occupies 25th place in the ranking, Hungary – 42, Belarus – 44, Romania – 37, Moldova – 52, Russia – 51. Companies that operate in Ukraine, continue to face with relatively high costs of connecting to the electricity network (ranked 137th place), investors' protection (88th step in the ranking), paying taxes (107th step), the conduct of international trade (109th) and resolve insolvency (141st step). Therefore, the World Bank concluded that Ukraine should continue to make more efforts to improve regulatory policy and reduce costs in these areas [3].

In order to accelerate the improvement of corporate governance system in Ukraine it is necessary to accept the Corporate Governance Code in law that would be fully adjusted to the European best practice corporate business. The effectiveness of the Code confirmed the introduction of such codes in many European countries, the development of which used the OECD principles of corporate governance.

According to the European standards, the Ukrainian Corporate Governance Code should clarify and regulate the points as follows: the relationship between the company and the regulator; the relationship between shareholders, hired management and internal and external stakeholders; formation a full institute of independent directors on the Supervisory Boards on the basis of clear criteria; formation of the Institute of Corporate Secretary in large public companies; the introduction of mandatory participation of the labor collective to the supervisory boards depending on the size of the enterprises' labor collective and the definition of CSR (Corporate Social Responsibility); the introduction of transparency in solving corporate business conflicts because they affect on all companies' shareholders; protection of shareholders in the corporate restructuring and dividend policy implementation; formation of effective system of corporate rights and risks management; formation system to prevent the spread of information asymmetry on the economic situation of stock companies; formation of a transparent system of rewards and incentives (especially public corporate sector) for members of the stock companies' management.

In order to increase corporate reputation, corporate culture and investment attractiveness of domestic companies it is necessary to guided by the following rule: "Corporate governance is the main tool for sustainable development of companies and the formation of socially responsible business in Ukraine".

World practice shows that the owner's equity is used to evaluate the effectiveness of corporate governance in emerging economies which should increase in the long term. Especially, this applies sustainable development of stock companies, namely on the economic, environmental and social performance, which is possible due to the formation of Corporate Social Responsibility.

Conclusions. Thus, the process of the European integration of Ukraine's economy is seen to the basis for an effective reform of current corporate governance system in Ukraine and its convergence with the regulations accepted in European Union. This, in turn, will result in effective protection of the shareholders’ rights and future investors’ interest. Ukraine should contribute in the further development of the corporate governance policy as well as promote compliance with the Corporate Governance Code in line with international standards as well as gradual approximation with the EU guidelines and recommendations in this sphere are required.

References

1. Прямі іноземні інвестиції (акціонерний капітал) з країн ЄС в економіці України [Електронний ресурс] – Режим доступу: http://www.ukrstat.gov.ua/operativ/operativ2015/zd/ives/ives_u/ives1215_u.htm

2. Міжнародні та національні стандарти корпоративного управління (збірник кодексів та принципів)/МФК "Проект "Корпоративний розвиток в Україні", 2002. – С. 55.

3. Doing Business 2016: Measuring Regulatory Quality and Efficiency [Електронний ресурс] – Режим доступу: http://www.doingbusiness.org/reports/global-reports/doing-business-2016