

Chapter 12

International Integration and Corporate Governance Practices in Russia

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ABSTRACT

This chapter considers the institutional environment in Russia, its potential impact upon governance practices, and the attitudes of Russian executives towards the alignment of governance processes relative to international standards. Focusing on corporate board directorship, the research addresses the extent that the harmonization of governance to international standards may assist boards of directors to improve their corporate development. Using a survey questionnaire, the authors explore perceptions of directors of public companies concerning the challenges of corporate governance development in the country. The study illustrates unanimity among the respondents about the reforms needed for international convergence of corporate governance standards. The results reveal that institutional alignment with good governance principles will foster strategic corporate development in the Russian economy. The study offers insights to policymakers in terms of enhancing legitimacy of corporate governance in the Russian context and provides a perspective for executives of foreign companies considering investment in the country.

INTRODUCTION

The Russian Federation is presently undertaking further economic transition aimed at building a developed economy as part of a modern society (Puffer & McCarthy, 2011). Somewhat ambitious objectives have been announced by the govern-

ment including further privatization of the state controlled assets, a reduction of government presence in the economy, accession to the Organization of Economic Cooperation and Development (OECD), and the conversion of Moscow into a world financial center. The main focus is to introduce innovative approaches of produc-

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tion in all sectors of the economy to accelerate national competitiveness and further integration into the global economy by means of institutional convergence, the introduction of improved business practices, and further attraction of foreign capital through an improved investment climate (Kremlin, 2011).

Realizing these aims requires a conducive institutional environment, appropriate financial infrastructure and a robust corporate governance (CG) system. Effective CG is a prerequisite for sustainable competitiveness and forms bedrock for national economic development and successful functioning of the capitalistic system (Claessens, 2003; Khanna, Kogan & Palepu, 2006). Considering the evolution of business environment and corporate development, Tricker (2000) presented an interesting consequential order naming *entrepreneurship* as a 19th century phenomena, *management* prevalence as a catalytic force in the 20th century and *corporate governance* as a leitmotif of the modern times. However, despite the acknowledgement of corporate governance as a fundamental precondition for socio-economic progress, a challenge still remains in finding transnational alignment of CG standards, universal institutional isomorphism and achieving 'transportability of the best practices' (Aguilera & Jackson, 2003:447; Bruton, Ahlstrom, & Wan, 2003).

The debate on convergence and divergence of crossvergence of the corporate governance principles has been widely accepted by many prominent academics and various influential policymaking institutions as an important task for achieving multiple benefits and opportunities for wider range of stakeholders within societies (Peng & Pleggenkuhle-Miles, 2009; Dharwadkar, George & Brandes, 2000; Jesover & Kirkpatrick, 2005). In the process of proliferation of good CG practices, several attempts have been made to introduce internationally accepted governing precepts. As such, the leading corporate governance doctrines tend to emanate from the Anglo-

American systems and currently dominate as reference points and guidelines for many scholars and experts in the subject worldwide. Thus, the alignment of CG practices with acknowledged international standards is seen by the proponents of the convergence ideas as an effective measure to ensure benefits accrue to both societies and the economies across the globe (Aguilera & Cuervo-Cazurra, 2009; Zattoni & Cuomo, 2008; Doidge, Karolyi, & Stulz, 2003), whereas the experts in opposition prove that it is not easily achievable task (Bruton, Dess, & Janney, 2007; Young, Peng, Ahlstrom, Bruton & Jiang, 2008).

Most corporate governance research occurs at the firm-level, yet in order to contribute to global theory building, there is a need for multiple level analytical discussions and comparative cross-national appreciation of institutions and their impact on corporate governance (Filatotchev, Jackson, & Nakajima, 2012). In this respect, Russian firm-level studies are small in comparison with other members of the BRICs (Brazil, Russia, India, China) group (Puffer & McCarthy, 2011), yet we believe some unique aspects of the Russian institutional context together with its current corporate governance practices provide novel insights into the interplay between the institutional framework and firm-level practices with respect to CG.

This chapter provides a theoretical explanation of the strategic importance of corporate boardrooms as a bridge between institutional environment and governance arrangements. Our main objective is to investigate Russian Board of Directors' (BoD) attitudes towards: (1) the impact of international harmonization of the corporate governance standards on the mechanics and operations of the boards of directors; and (2) how this would subsequently affect strategic corporate development in the country. Here, we explore the institutional factors that affect the movement of CG activities towards international standards, the subsequent anatomy of BoDs, and how this influences the corporate development with respect to one of the major transition economies in the

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