

# Corporate Governance

## Success Stories in Europe and Central Asia



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# Introduction

# Foreword

This publication, **Corporate Governance Success Stories in Europe and Central Asia**, captures the experiences of seven firms in Europe and Central Asia as they have implemented corporate governance improvement initiatives with the help of IFC. It is part of a series of regional profiles produced by IFC that offer in-depth and first-hand insight on how emerging market companies and banks are addressing their business challenges through strengthened corporate governance.

Among the important findings from these case studies is that there is no one-size-fits-all approach to company-level corporate governance improvement initiatives. The companies and banks profiled here pursued their own paths, each taking an incremental approach and implementing solutions appropriate for their size, unique circumstances, and market situation.

While the specific experiences differ, the positive impacts resulting from the governance changes are remarkably similar: expanded access to capital, enhanced reputation, improved strategic decision making and operational efficiency, and reduced business risk. A clear message gleaned from these results—as reported by the companies and banks themselves—is that investors place significant value on a demonstrated commitment to corporate governance best practices. In turn, this increased investor confidence leads to strengthened financial sustainability and market positioning. We also learn from their experiences that internal champions and management support are critical factors in ensuring the success of a corporate governance initiative.

The companies and banks highlighted in this publication operate in the transition economies of Europe and Central Asia—Albania, Georgia, Kazakhstan, Kosovo, Kyrgyz Republic, Serbia, and Tajikistan—where private sector participation in the economy continues to grow and where foreign investment has become increasingly important. IFC has long focused on corporate governance in this region as part of its broader efforts to promote private sector investment, strengthen capital markets, and foster inclusive economic development and growth.

Through this publication, the profiled companies and banks share their journeys and their challenges with an eye toward demonstrating to other firms the positive impacts that can result from corporate governance initiatives. Their commitment to going beyond the minimum levels of compliance provides real world evidence that good governance makes a difference, regardless of company size, ownership structure, industry, or operating environment.

On behalf of IFC, I would like to express my appreciation to the companies and banks whose stories are presented here: Altyn Ajydaar, Bank Republic, Galenika Fitofarmacija, KazMicroFinance, Sharrcem Titan, Tajero, and Union Bank. Their willingness to offer candid insights and the business perspective represents a valuable addition to the corporate governance knowledge base.

Darrin Hartzler

Manager

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This publication could not have moved forward without the participation of our clients, who graciously agreed to share their first-hand corporate governance experiences. Our sincere thanks go to them: Altyn Ajydaar, Bank Republic, Galenika Fitofarmacija, KazMicroFinance, Sharrcem Titan, Tajero, and Union Bank.

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# Executive Summary

This publication, [Corporate Governance Success Stories in Europe and Central Asia](#), details the experiences of seven companies and banks operating in the transition economies of Europe and Central Asia that implemented corporate governance initiatives. It makes a strong business case for good corporate governance as these firms—representing a cross-section of industries, ownership structures, and operating environments—all reported significant positive impacts resulting from their governance improvement efforts.

Companies and banks addressed gaps at various levels of their organizations while building on already firm foundations to enable better strategic decision making, more efficient day-to-day operations, and reduced business risk. Despite differences in size, structure, and national origin, some common themes emerged.

## Board-level improvements

Differentiating board roles from management roles was a challenge across the industry spectrum. Several of the profiled companies addressed this issue by separating roles and clarifying responsibilities. Firms also focused on diversifying the composition of their boards, adding independent members and women directors with complementary experience and knowledge.

Most of the companies and banks featured in the report took steps to improve the effectiveness of their boards. Many made changes in board processes and procedures. Some set up a board of directors for the first time. Others created committees to handle detailed analysis and streamline board discussions. Several created a board secretary position to enable a more organized approach to meetings and communication.

## Management control and other improvements

Among the most common targets of companies' specific governance efforts was the internal control function. Some firms took action to formalize internal control policies and procedures while others enhanced existing policies. Most of the profiled companies and banks strengthened their internal audit function for improved independent oversight and a better early warning system for risk-related problems. Several took steps to enhance their risk management practices, improving monitoring and mitigation at all levels of their organization.

Another common issue across the industry and ownership spectrum was management succession. Several of the profiled firms focused on succession planning and reducing key person risk by mitigating their overdependence on one or two key people.

For the family-owned companies in this group, family governance was a priority. A number of them took steps to formalize their policies on family participation in the firm, including training and development of future leadership.

Some of the profiled companies and banks implemented processes to provide a more timely flow of information and a greater degree of non-financial detail to shareholders and the public. In addition, firms focused on ways to improve compliance. Several appointed compliance officers to ensure proper alignment with legal and regulatory requirements.



## Positive impacts

All seven firms profiled in this report benefited from their governance initiatives. Among the most commonly cited benefits:

- **Expanded access to finance:** Nearly all noted a significant uptick in their ability to access finance as a result of their corporate governance efforts. They cited the positive impact of governance changes on instilling market confidence and providing added assurance to investors, creditors, or other debtors. The governance changes have enabled new financing for these firms in the past few years, ranging from \$4 million to nearly \$200 million.
- **Reduced organizational inefficiencies and improved strategic decision making:** Again, virtually all of the companies and banks profiled here reported marked improvements both in day-to-day-operations and in strategy. Many said that this was due to increased clarity in management and board roles, as well as improved oversight.
- **Enhanced brand and better shareholder/stakeholder relationships:** Most experienced a strong positive impact on their reputation as well as an increased ability to differentiate from other competitors in the marketplace. The non-profits in the group also reported significant improvement in some of the intangible—but critically important—measures of effectiveness, such as trust.
- **Reduced risk, improved growth outlook, and increased potential for long-term business sustainability:** By attending to organizational structural improvements such as planning for future leadership and separating board roles from management responsibilities, while tightening internal controls and risk management, all of the profiled companies reported increased confidence in their ability to sustain themselves over the long term.

While each of the seven firms profiled here has a different story to tell, it is clear that their collective results highlight the positive impact of good corporate governance for companies and banks operating in the transition economies of Europe and Central Asia.

# INTRODUCTION

Emerging markets are becoming important engines of global growth. These markets, such as the transition economies in Europe and Central Asia, are viewed with increasing interest by foreign investors as private sector participation grows, as regulatory reforms take effect, and as individual firms focus on elevating their business practices to align with international standards. In fact, foreign direct investment inflows to transition economies increased by 28 percent to reach \$108 billion in 2013, according to the United Nations Conference on Trade and Development.\*

Sound corporate governance is a critical element in helping these emerging markets meet their full economic potential. Good corporate governance, defined as the structures and processes by which companies and banks are directed and controlled, helps firms operate more efficiently, improves access to capital, mitigates risk, and safeguards against mismanagement. Good governance also facilitates appropriate consideration of other critical issues for enterprises, including environmental and social responsibility. It is the foundation for long-term business growth and sustainability, adding value for investors and contributing lasting dividends for economies.

Companies and banks—particularly those in emerging markets—that are focused on improving their corporate governance can look to a growing body of evidence that such efforts matter, yielding bottom line benefits, reputational enhancements, and competitive differentiation. In one study of note, the Emerging Market Investor Survey, 100 percent of the investors interviewed said they would pay a higher premium for good governance in an emerging market firm than what they would pay for a similar firm in a developed market. \*\*

As companies and banks in Europe and Central Asia find their place on the world's economic stage, efforts to enhance governance practices are helping them reduce their business risks, improve performance, and set the course for long-term success and profitability. Among the specific changes that are making a difference: improving the functionality of boards of directors, clarifying board and management roles and responsibilities, increasing audit independence, enhancing transparency and shareholder relations, and strengthening succession plans for family-owned businesses.

Good corporate governance, defined as the structures and processes by which companies and banks are directed and controlled, helps firms operate more efficiently, improves access to capital, mitigates risk, and safeguards against mismanagement.

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\*World Investment Report 2014: Investing in the SDGs, an Action Plan. United Nations Conference on Trade and Development, June 2014.

\*\*Khanna, Vikramaditya and Zyla, Roman. The Emerging Market Investor Survey. IFC, 2012



## Corporate governance is critical to IFC's development mission

For nearly two decades, IFC's corporate governance advisory teams have been active in Europe and Central Asia, providing guidance to firms that want to improve their governance practices. IFC's approach involves partnering with local institutions to engage with companies in a variety of ways, including thematic training, customized diagnostic reviews, consultations on specific corporate governance matters, and in-depth assessments with implementation plans.

The reason for this focus is simple. In addition to yielding benefits to the firms themselves, good corporate governance also contributes to development. Increased access to capital encourages new investments, boosts economic growth, and provides employment opportunities. Businesses that operate more efficiently tend to allocate and manage resources more sustainably. Better stakeholder relationships help firms address environmental protection, social, and labor issues. Thus, the emphasis on corporate governance is a fundamental aspect of IFC's mission to build environmentally, socially, and financially sustainable businesses in emerging markets, creating jobs and expanding economic opportunity so that people can escape poverty and improve their lives.



## IFC's corporate governance methodology: global best practices tailored to local markets and company needs

Through its years of experience working with firms of all sizes, ownership structures, and industries in emerging markets all over the world, IFC has developed a leading-edge methodology\*\*\* for evaluating the corporate governance practices of businesses, identifying risks and opportunities, and proposing recommendations for improvements.

IFC's corporate governance methodology features an assessment that involves taking a detailed look inside the client firm's processes, practices, and controls to uncover weaknesses, gaps, and potential risks. The team works with the client to develop a series of suggestions and proposals aimed at addressing these governance issues. The IFC team also assists in creating an implementation plan. Workshops, training, and follow-up consultations on specific governance topics are part of this work as well.

Because of the personalized, hands-on nature of the work, the approach is easily customized to business needs and tailored to suit the specific client's unique circumstances, market, and operating environment. The approach is relevant for all business types, ranging from banks and publicly listed companies to family-owned firms, from recently privatized companies to state-owned enterprises, from non-profits to for-profit businesses across the industry spectrum.

Today, this proven methodology is an accepted global standard for corporate governance advisory work. In fact, it is woven into the Corporate Governance Development Framework, a common approach adopted in 2011 by 33 development finance institutions.\*\*\*\*

\*\*\*For more on this methodology, please see [www.ifc.org/corporategovernance](http://www.ifc.org/corporategovernance)

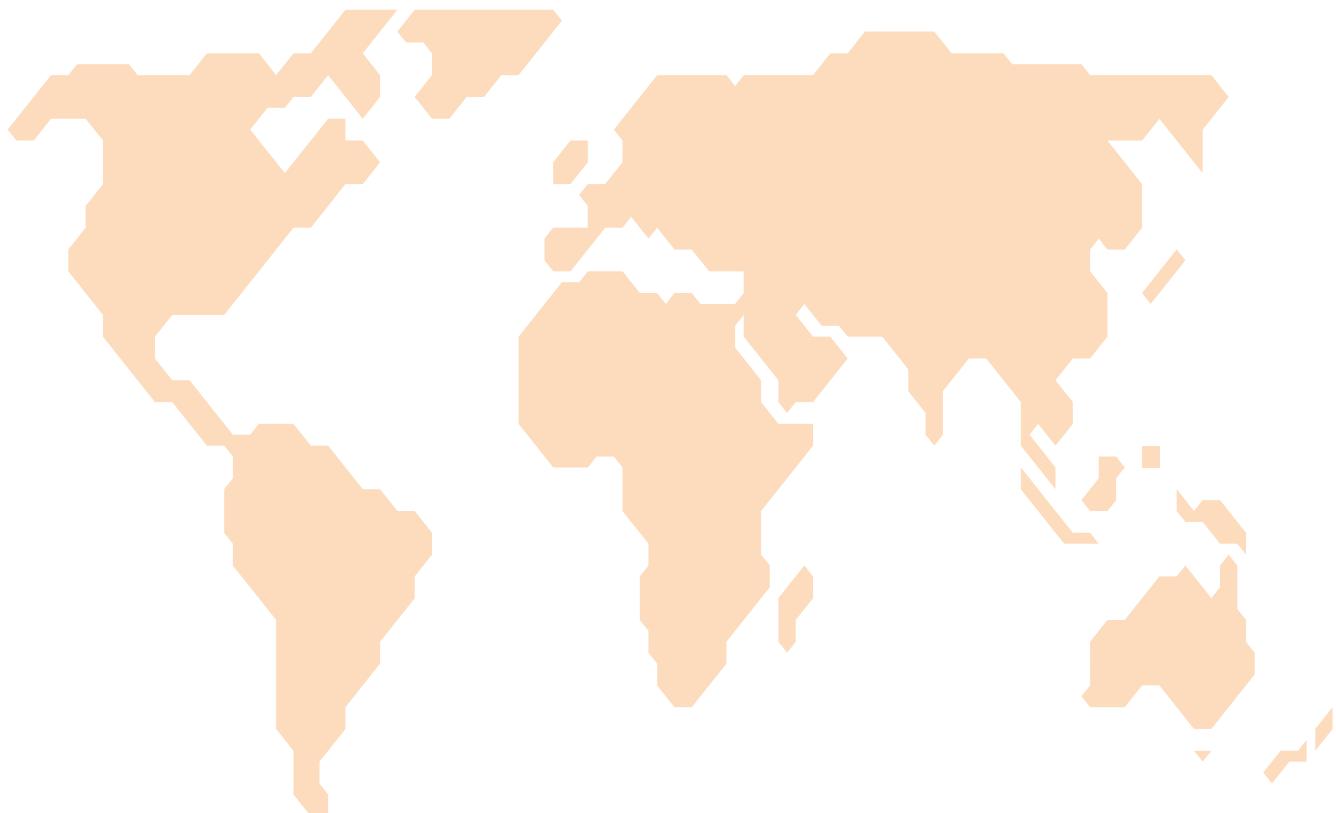
\*\*\*\*For more on the Corporate Governance Development Framework, please see [www.cgdevelopmentframework.org](http://www.cgdevelopmentframework.org).

## Track record of results in Europe and Central Asia

Since the inception of its governance work, IFC has provided tailored corporate governance advice and support to hundreds of clients in Europe and Central Asia alone, a portion of the many companies and banks around the world that have benefited from this guidance and have succeeded in attracting millions in new investment from IFC and other sources.

This publication offers a snapshot of these successes, showcasing a diverse group of seven companies and banks in the region as they undertook governance improvement initiatives. All of the profiled firms are current or former IFC clients that implemented governance changes following an IFC assessment. Each profile details the rationale behind the governance initiative along with key corporate governance practices adopted and the positive impacts reported, including improved performance and profitability, solidified business partnerships, and stronger flows of capital to fund their growing businesses. The information provided by the clients was gathered through telephone and face-to-face interviews conducted during 2013 and the early months of 2014.

As IFC's corporate governance work in Europe and Central Asia continues, with a focus on a future of ever-increasing engagement in the world economy, it is hoped that the sharing of these experiences will inspire other firms in the region to undertake similar governance initiatives. In turn, this will create a broader base of healthy enterprises that are more resilient to business cycle and market volatilities and that can contribute to widespread and sustainable economic development.



# Success Stories in Europe and Central Asia



# Altyn-Ajydaar

## Kyrgyz Republic

Altyn-Ajydaar is an award-winning regional leader in the corrugated packaging industry. Founded in 1995 by the Terehov family in what was then Kyrgyzstan, Altyn-Ajydaar got its start at a time of political and social upheaval, following the breakup of the Soviet Union. With the nation's economy in decline, millions of people were left without work or means of subsistence. Manufacturing operations had virtually ceased as business owners focused on less-expensive ventures that offered a more rapid return, such as reselling food products.

Pavlik Terehov, the company's co-founder and CEO, saw in that environment a unique business opportunity. He predicted growing demand for corrugated packaging materials, initially from food merchants and later from other business sectors as well. The gamble has paid off: since that time, the company has grown and expanded, with offices and production facilities in the Kyrgyz Republic and Kazakhstan and a range of high-quality product offerings including corrugated cardboard, paper products, and packing and building materials. With a current paper manufacturing capacity of 600 tons per month and a corrugated cardboard manufacturing capacity of 1.5 million square meters per month, the company is planning further expansion into Uzbekistan.

**Business:** corrugated cardboard packaging manufacturer

**Location:** Kyrgyz Republic

**Sector:** paper and paperboard

**Type:** privately held, family business

**2013 revenue:** \$0.9 million

**# employees:** about 500

**IFC assessment date:**

May 2011

**Website:** [www.altynbox.kg](http://www.altynbox.kg)



## Company structure

Altyn-Ajydaar, which means Golden Dragon in Kyrgyz, is a family business, co-owned by the original generation of founders, including three brothers and one sister. Woven into the company's culture is an emphasis on family values and positive relationships. "The great Chinese philosopher Confucius said that strong family loyalties, respect of elders by their children and of husbands by their wives are what form the backbone of ideal governance," said Lilia Terehova, co-founder and the company's chief financial officer. "We adhere to this teaching in our company and we firmly believe that this laid the foundation for our future success."



## Why change?

With growing domestic sales and exports, the company has prospered, supported by a series of IFC loans through the years. The first, in 1996, represented IFC's first investment project in the country. Since that time IFC has provided three more loans to the company to finance its production and expansion.

As the company grew and expanded, the complexity of operations increased as well. The owners recognized that the company had outgrown its original governance framework and management infrastructure. They wanted to revise the company's strategy and introduce more sophisticated management, along with an effective corporate governance system that could be replicated in other countries where they have operations. The owners also realized the importance of creating a process to ensure that the company remained family owned as it passed to the next generation of leadership.

"The project helped us address our company's family business corporate governance dilemmas, thus ensuring the continuity and further prosperity of our business. Now we know very well where and how to draw lines between business and family matters. We also set a goal to carefully nurture and groom the second generation of the company."

Pavlik Terehov  
co-founder and CEO of  
Altyn-Ajydaar

## What did they change?

As part of its 2011 appraisal process, IFC conducted a corporate governance assessment for Altyn-Ajydaar. The assessment team uncovered several key challenges related to CEO succession planning and internal controls and proposed various recommendations for changes to help address these important issues.

Prior to the assessment, the owners had not thought much about succession-related issues, in part because they were all relatively young themselves. While the owners agreed in principle about the importance of retaining family ownership, they did not have structures in place to address the transition, nor did they have a process to train their children for their eventual leadership. Among the key concerns: loss of interest in the family business by the next generation. In addition, Altyn-Ajydaar faced some significant key-person risks. With the departure of the current CEO—clearly the heart and soul of the company—and without proper succession planning, the company was in danger of losing its cohesiveness and focus.

With corporate governance studies showing that family-owned businesses sometimes struggle to survive the transition to the second generation, the owners understood the importance of implementing changes proposed by IFC. They formalized their approach to succession planning by creating a family constitution along with appropriate processes and protocols. They reduced key-person risk by identifying members of the next generation who were interested in being part of the family business and developing a process to train them for future management roles.

In addition, Altyn- Ajydaar took several critical steps to improve its internal control system. The company implemented a code of ethics, formalized processes and controls, clarified roles and responsibilities, and introduced internal control policies. A new position for an internal auditor was created.

## How did it help?

Improved corporate governance has enhanced Altyn-Ajydaar's capacity to access capital, providing additional assurances to investors and the market as well as enabled a lower cost of financing. In early 2015, IFC rewarded Altyn-Ajydar's corporate governance improvements by reducing the relevant spread on the existing loan of Altyn-Ajydaar's subsidiary in Kazakhstan (Intermultiservice Ltd.) from 6 percent to 5.2 percent.

Altyn-Ajydaar's actions have streamlined governance within the company, with clear rules for involvement of family members that are helping to lay the groundwork for eventual handover to the next generation. By introducing corporate governance-related covenants, the company has implemented a best practice approach that extends to its subsidiary, thereby mitigating risks. The changes have fundamentally altered family members' perceptions of how to run a successful family-owned company.

# Summary of Key Changes: Altyn-Ajydaar

	Key Challenges	Key Changes
Internal Audit	Internal audit: Altyn-Ajydaar did not have a separate internal audit unit. The owners handled CFO and chief accountant duties.	<ul style="list-style-type: none"> <li>Created internal auditor position</li> <li>Engaged in search (on-going) for qualified internal auditor candidates</li> </ul>
Internal Controls	Internal controls: The company had a rudimentary internal control system that lacked written policies. Management orders were delivered verbally without written follow up.	<ul style="list-style-type: none"> <li>Implemented a code of ethics</li> <li>Introduced internal control policy</li> <li>Formalized and codified processes and controls</li> <li>Clarified roles and responsibilities</li> </ul>
Succession Planning	Succession planning and key person risk: There were no formalized succession plans. Some – but not all – of the children of the founders were involved in the company, but no formal management training program existed. The CEO was the heart and soul of the company but no process was in place to prepare the next generation of leadership.	<ul style="list-style-type: none"> <li>Developed family constitution and protocols</li> <li>Formalized approach to succession planning</li> <li>Identified interested members of second generation for management training</li> <li>Adopted family employment policy</li> <li>Established professional requirements for family member employment</li> </ul>

## Impact Report

Altyn-Ajydaar reported the following positive impacts after implementing governance changes as recommended by the IFC assessment:

- Improved access to capital:** Strengthened governance has given investors and the market added assurance about the health and stability of the company into the next generation, enabling a lower cost of capital.
- Increased potential for successful succession:** With an improved understanding of succession processes by the founders, a heightened focus on educating the next generation, and a detailing of the professional criteria for family member employment, the company is better positioned for a successful transition to the next generation.
- Reduced risk:** Reorganizing and standardizing the company's internal control system provided an unbiased and objective view of the entire organization, revealing strengths and weaknesses, helping to mitigate risks, and ensuring replication of effective business processes as the company expands.

# Bank Republic

## Georgia

Established in 1991, Bank Republic is one of Georgia's oldest and most successful financial institutions. With a range of financial services offerings, Bank Republic's goal is to deliver solutions that meet client needs while adhering to high corporate governance and corporate social responsibility standards.

Today, the bank is in rapid expansion mode, with a focus on increasing revenue, investing in the organic development of its business, and building up its network of branches.

## Company structure

In 2006, following implementation of IFC's recommendations, Société Générale, one of Europe's leading banks, acquired a 60 percent share in Bank Republic. The European Bank for Reconstruction and Development (EBRD) became a shareholder as well, with a 10 percent stake. Currently, Société Générale owns about 94 percent of Bank Republic's stock and EBRD holds the remaining 6 percent.

## Why change?

In 2004, Georgia's financial regulatory and legal structure was not aligned with international corporate governance standards. Without national governance guidelines to follow, Georgian banks that wanted to put in place their own robust corporate governance systems had to rely on their own internal resources to do so. Adding to the challenge: the local governance consulting market was in its early stages of development, so the pool of local experts who could offer guidance was limited.

During this time, Bank Republic's management recognized the need for fundamental changes in its structures and practices. They understood that aligning the bank with international best practices would help improve operational performance and enhance the bank's attractiveness to investors.

The bank's management decided to take action. They engaged with IFC's Georgia Business Development Project—a step that represented a unique opportunity to benchmark the bank's corporate governance practices against internationally recognized standards and to benefit from IFC's international experience.

By implementing recommended corporate governance reforms, the bank would be able to differentiate itself as a reliable and dynamic financial institution and corporate governance leader, reflecting deep knowledge of Georgian market characteristics while adhering to international best-practice standards.

**Business:** retail and corporate banking

**Location:** Georgia

**Sector:** financial services

**Type:** privately held

**2013 revenue:** \$47 million

**# employees:** 900

**IFC assessment date:**

September 2004

**Website:** [www.br.ge](http://www.br.ge)



## What did they change?

The IFC assessment, conducted in 2004, revealed several issues relating to board composition, roles and responsibilities, and decision making.

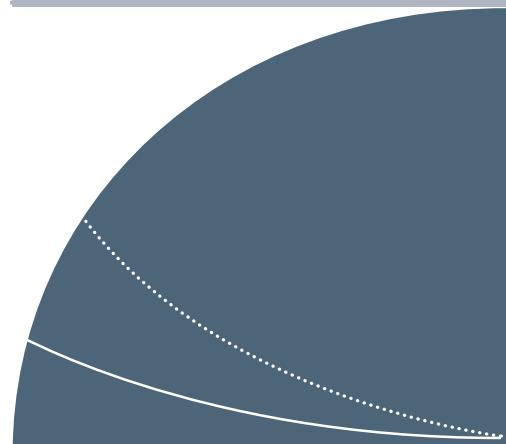
Traditionally, the bank's supervisory board and management played a part in promoting corporate governance, but without clearly defined roles, the board sometimes assumed day-to-day management responsibilities. This limited the board's ability to set strategy because of the conflict between supervisory and managerial functions. In addition, some board members lacked the requisite skills and knowledge to provide effective strategic guidance. Concerns also arose over the potential for a clash between a board member's private interests and the interests of the bank, making it more difficult to achieve impartial and effective decision making.

Another factor contributing to the board's challenges was the lack of a corporate secretary. Without a corporate secretary to draw up and distribute agendas and related background information prior to meetings, board members were not as well prepared as they could have been. No records were kept of discussions that took place, and most decisions were reached by unanimous consent—not necessarily because everyone agreed after thorough discussion, but because the discussions themselves were limited.

To address these issues, the bank implemented changes to its board structure and composition, including clarifying board and management roles and responsibilities, codifying by-laws for both groups, adding new board members with the appropriate skills and expertise, creating separate audit and strategic development committees to advise the board, and establishing a new position for board secretary.

"With the cooperation of IFC and the implementation of corporate governance best practices, Bank Republic was able to introduce the position of corporate secretary, improve its operational activities, enhance the efficiency of decision making process, and increase communication flow. Through this, Bank Republic has become a reputable partner for international investors."

Christian Carmagnolle  
CEO, Bank Republic Société  
Générale Group



## How did it help?

Ultimately, the governance reforms led to a more efficient division of responsibilities between board and management, improved decision-making processes, better communications, and enhanced protection of shareholders' rights.

More broadly, the implementation of sound corporate governance practices is a key reason for the bank's continued success. The governance enhancements have helped attract significant new investment in the bank, influencing Société Générale's decision to become a majority shareholder and contributing to the bank's improved relationships with international financial institutions. Since 2005, Bank Republic has attracted nearly \$200 million in investment from such institutions.

Today, Bank Republic is considered a leader in good corporate governance practices in Georgia. The bank affiliated with the Georgian Association of Banks' Corporate Governance Code for Banks in 2009. A re-branding resulted from the bank's governance initiative, expressed in the slogan "Each of Us Matters." The new approach emphasizes long-term, trust-based relationships and the notion that the bank's clients, partners, stakeholders, and employees are part of one team. Everyone makes a difference and overall success depends on team members.



# Summary of Key Changes: Bank Republic

	Key Challenges	Key Changes
Board and Management Roles	Board and management roles: Without clearly defined roles or separation of power the board sometimes took on day-to-day operational responsibilities. The board was less focused on strategy. Management oversight was limited.	<ul style="list-style-type: none"> <li>Developed clear division of power along functional lines</li> <li>Formalized and regulated board and management roles and responsibilities with by-laws</li> <li>Established lines of communication and dialogue between board and management</li> </ul>
Board Composition	Board composition: Only one member of the seven-member board had an academic background in finance and economics. The remaining board members lacked financial skills and experience, limiting the board's ability to address and identify key risks or to provide professional strategic guidance to the bank.	<ul style="list-style-type: none"> <li>Added board members with relevant expertise</li> <li>Introduced guidelines to reduce conflict-of-interest risks</li> </ul>
Board Effectiveness	Board effectiveness: The bank did not have board committees or a board secretary. Board members often were unprepared for meetings. Discussions were not as robust or as detailed as they might have been, leading to less-effective decision making. Without recorded notes of discussions, communication with shareholders was challenging.	<ul style="list-style-type: none"> <li>Created audit and strategic development committees to advise the board</li> <li>Introduced the corporate secretary position</li> </ul>

## Impact Report

Bank Republic reported the following positive impacts after implementing governance changes as recommended by the IFC assessment:

- Increased access to capital:** Improved governance was a factor that influenced Société Générale's decision to invest in the bank. Since implementing the reforms, Bank Republic has attracted nearly \$200 million from international financial institutions.
- Enhanced operational effectiveness:** With reduced board interference in day-to-day operational issues, management can be more effective and operations can run more smoothly.
- Better decision making:** Changes in board structure and composition have enabled thoughtful discussion, detailed analysis, and strong strategic guidance.
- Improved relationships with partners and shareholders:** The alignment with international corporate governance standards has given investors more confidence in the bank's sustainability over the long term.
- Enhanced reputation:** The bank's visibility in the market has increased as it has become known as a leader in corporate governance reforms.

# Galenika Fitofarmacija

## Serbia

Founded in 1955 as a state-owned manufacturer of plant protection chemicals, Galenika Fitofarmacija went through a re-organization in 1997 and again in 1999, when the company was privatized and transformed into a joint stock company.

Today, Galenika Fitofarmacija is a successful company that emphasizes responsible business practices and use of modern technology as well as a careful investment strategy that has helped create a sustainable business portfolio. Galenika Fitofarmacija also pays attention to what customers are looking for: the company develops new products designed to meet specific market needs. Galenika Fitofarmacija carries no debt obligations and has succeeded in financing the modernization of production and laboratory equipment almost exclusively from its own asset base. The company prides itself on strong quality control, occupational health and safety, and environmental management systems, which meet ISO 9001:2008, BSI OHSAS 18001, and ISO 14001:2004 standards.

Clearly, the approach has paid off: Galenika Fitofarmacija currently controls about 25 percent the Serbian plant protection product market—the largest of any single company.

With annual net profit of €6.7 million, €29 million in sales, and €30 million in market capitalization, the company is well positioned for the future.

**Business:** agricultural chemical manufacturer

**Location:** Serbia

**Sector:** chemicals

**Type:** publicly traded, listed on Belgrade Stock Exchange

**2013 revenues:** €30.6 million

**# employees:** 144

**IFC assessment date:**

January-February 2011

**Website:** [www.fitofarmacija.rs](http://www.fitofarmacija.rs)



# Company structure

Galenika Fitofarmacija is a joint stock company that is listed on the Belgrade Stock Exchange. Through the privatization of the original state-owned enterprise, the company's employees and managers acquired shares of the company and became its shareholders. Over time, others, including institutional investors such as investment funds, became shareholders as well.



## Why change?

Because of its origins as a state-owned enterprise, the company had limited experience with the corporate governance systems that characterize joint stock companies in countries with more developed capital markets. The company's understanding about the value of corporate governance emerged as the result of practical, day-to-day operational experience. From the start, the company's shareholders—also its employees and managers—understood that responsible business practices and sound financial management would be key to business sustainability. A critical aspect of this, they realized, was a robust corporate governance system.

In addition, better governance was linked to strategic goal: for the company to succeed in its plans to expand internationally and enter the European market, it would need to upgrade its governance.

By initiating systematic governance improvements, Galenika Fitofarmacija would achieve another important objective as well—to serve as a model for other Serbian companies.

"Galenika Fitofarmacija is committed to business accountability in all aspects of our work. We have a responsibility to shareholders and potential investors and we prioritize these relationships. This was the driving force behind our decision to bring our corporate governance system in line with best corporate governance practices."

Slavica Pekovic  
Executive Director, Galenika  
Fitofarmacija

## What did they change?

IFC conducted a corporate governance assessment for Galenika Fitofarmacija in early 2011 that highlighted some governance issues and proposed several changes. For instance, the company did not have a process for timely and accurate disclosure of important information. Without key information, shareholders and investors had a hard time making sound economic decisions for the company. In addition, the lack of transparency increased the risk that shareholders' rights would not be protected.

As it happened, at the time of the assessment Galenika Fitofarmacija was in the midst of a website redesign. The IFC corporate governance assessment team suggested designating a separate section of the newly redesigned site for investor relations and corporate governance. In this section, the company could include key management and corporate documents so that shareholders, potential investors, and the general public could readily access the information.

By the company's own admission, it took some time to overcome concerns about enabling public access to a full range of corporate information. Ultimately, the company's leaders realized that the benefits outweighed the disadvantages. "Now we are very proud that our company took this recommendation seriously," said Slavica Pekovic, the company's executive director. In fact, since the initial round of changes, the company has added to the site, uploading information on dividend policies, she noted.

The assessment also highlighted issues related to board composition and effectiveness. The five-member board included no women or independent members. Although it was focused on company performance, the board lacked the range of skills and experience to represent the best interests of the company and its shareholders.

The company took several steps to address these problems, including expanding the number of members, appointing two women directors, adding an independent member, and appointing a corporate secretary.

## How did it help?

The specific actions taken by Galenika Fitofarmacija to improve its governance have yielded strong results. The website evolved from serving as a source of basic information to an effective tool for enhanced investor and stakeholder relations. The board has become more efficient and more effective, with deeper and more detailed discussion, a broader range of viewpoints, and better decision making.

Galenika Fitofarmacija's reputation in the Serbian market has been enhanced as well. Since 2012, the company has been listed on the blue-chip BELEX15 index of the Belgrade Stock Exchange—a direct result of improved disclosure, according to company leaders.

# Summary of Key Changes: Galenika Fitofarmacija

	Key Challenges	Key Changes
Board Composition	<p>Board composition: The five-member board did not include any women or independent directors. Together, board members controlled 48.14 percent of the company. Directors were continually re-elected, with terms extending up to 12 years. The lack of diversity in gender, skills, experience, and viewpoint limited discussion and negatively impacted decision making.</p>	<ul style="list-style-type: none"> <li>Increased to seven the number of board members</li> <li>Identified new directors based on skills, knowledge, and expertise</li> <li>Appointed two female directors</li> <li>Appointed independent director with expertise in internal audit</li> <li>Altered mix of executive and non-executive directors</li> </ul>
Board Effectiveness	<p>Board effectiveness: Without a corporate secretary to coordinate, communicate, and track board processes and activities, the board was not as efficient or as effective as it could have been.</p>	<ul style="list-style-type: none"> <li>Created a full-time corporate secretary position</li> <li>Hired a qualified individual for the corporate secretary role</li> </ul>
Transparency and Disclosure	<p>Transparency and disclosure: Galenika Fitofarmacija did not share information about its policies and procedures. This posed risks to shareholder protections—a core value for the company. The lack of disclosure also meant that the company was not in line with international corporate governance standards, making expansion into new markets difficult.</p>	<ul style="list-style-type: none"> <li>Redesigned website to include section for investor relations and corporate governance</li> <li>Uploaded relevant information to site for easy access by shareholders, investors, and the public</li> <li>Added new information as it became available; updates continue in timely manner</li> </ul>

## Impact Report

Galenika Fitofarmacija reported the following positive impacts after implementing governance changes as recommended by the IFC assessment:

- Expanded access to new markets:** Strengthened governance and improved decision contributed to strategy development and plans for future expansion into the EU market.
- Enhanced shareholder value and market visibility:** The addition of a standardized approach to disclosure led to Galenika Fitofarmacija's 2012 listing on the blue-chip BELEX15 index of the Belgrade Stock Exchange.
- Strengthened reputation as a business leader:** By appointing a diverse board that includes women directors, Galenika Fitofarmacija is a model for other Serbian companies, sending a message to the business community about the importance of representation from varying backgrounds, experiences, and perspectives.
- Improved long-term outlook:** With a stronger corporate governance system, the company has laid a robust foundation for future prosperity and sustainability.

# KazMicroFinance

## Kazakhstan

KazMicroFinance LLC was established in 2006 as the for-profit subsidiary of Kazakhstan Loan Fund, a microlending initiative created in 1997 by ACDI/VOCA. This private United States-based nonprofit fosters development and economic opportunity in Kazakhstan.

Today, KMF is a fully independent and self-sustaining firm, providing a range of microfinancial services to Kazakhstani households. Individual and group loans are available, with a focus on small incremental loans. This strategy—backed by cooperative working relationships with local credit bureaus—helps measure client creditworthiness over a period of time and increases the likelihood of repayment.\*\*\*\*\* KMF's network includes 17 branches in the country's main urban centers as well as 68 rural outlets that extend the company's reach to 3,500 remote villages. The company's individualized approach, flexibility on credit assessments, and nationwide footprint across city centers and rural communities alike have enabled access to finance for more than 250 thousand Kazakhstanis to date, including many women entrepreneurs. Since its inception, the company has disbursed more than 826,000 loans, with an aggregate value of over \$913 million.

A highly regarded microfinance leader in Central Asia and beyond,\*\*\*\*\* KMF has become one of Kazakhstan's largest microfinance institutions, contributing to improved working conditions, business expansion, women's economic empowerment, and agricultural development throughout the country.

**Business:** microloans for business, agriculture, and social welfare

**Location:** Kazakhstan

**Sector:** microfinance

**Type:** privately held

**2013 revenue:** \$4.6 million

**# employees:** 1,146

**IFC assessment date:**

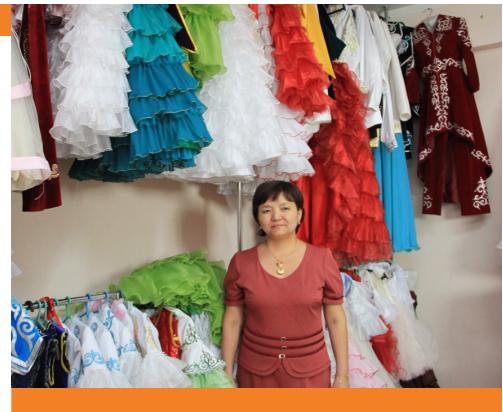
April-September 2009

**Website:** [www.kmf.kz](http://www.kmf.kz)



## Company structure

Currently, ACDI/VOCA owns 86 percent of the company; KMF employees hold the remaining 14 percent. Employees received these partnership stakes as part of a company co-ownership policy designed to incentivize performance, improve workers' loyalty, and attract additional funding.



## Why change?

As the company grew and demand for its services increased, KMF's management became aware that its rudimentary governance system was not keeping pace with its growth. As a result, decision making was not as effective or as strategic as it should be. There was concern that the situation could pose obstacles to future growth, possibly leading to weaker financial performance and a dissatisfied customer base, particularly given the complex and competitive environment in which the firm operated. Ultimately, the management team realized that bringing the company's governance system into line with best international practices would enhance strategic decision making and support long-term growth.

"Improving corporate governance has never been a one-time action for us. It is a continuous process, which began with our participation in the IFC corporate governance assessment.

The most important result of our participation in the IFC program was that people at KazMicroFinance now have a clear understanding of the new corporate governance structure and where we should be heading to improve our corporate governance."

Almira Abenova  
Chief Financial Officer,  
KazMicroFinance

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\*\*\*\*\*"Kazakhstan – KazMicroFinance LLC (KMF), Developing microcredit institutions to provide rural credit," accessed August 18, 2014, <http://www.acdivoca.org/site/ID/kazakhstanKLF>

\*\*\*\*\*Matthew Swibel, "The Top 50 MicroFinance Institutions," last modified March 20, 2007, [http://www.forbes.com/2007/12/20/microfinance-philanthropy-credit-biz-cz\\_ms\\_1220microfinance\\_table.html](http://www.forbes.com/2007/12/20/microfinance-philanthropy-credit-biz-cz_ms_1220microfinance_table.html)

## Creating Opportunity, Empowering Women

As a company, KMF is committed to diversity and equal access to opportunity. The company purposely reaches out to women customers, many of whom demonstrate more fiscal discipline than men in repaying loans. The company has set several ambitious diversity goals, including a portfolio comprised of 70 percent female clients and 50 percent rural clients. Ultimately, KMF aims to generate 60 percent of its revenue from women-owned small businesses.

A look inside the company reveals that KMF's emphasis on women's empowerment extends upward into its own boardroom. The chair of the supervisory board is a woman, as are three of the management board's four members. This makes good business sense for a company increasingly focused on women. In addition to their professional skills and expertise, KMF's female directors can offer valuable insight on the development of new products and services that meet the needs of a mostly female client base.

## What did they change?

IFC conducted a corporate governance assessment for KMF in 2009, which highlighted specific corporate governance challenges and proposed changes to address the issues. Among the challenges facing KMF: the company did not have a board of directors or similar governing body, which left the company without strategic guidance or management oversight.

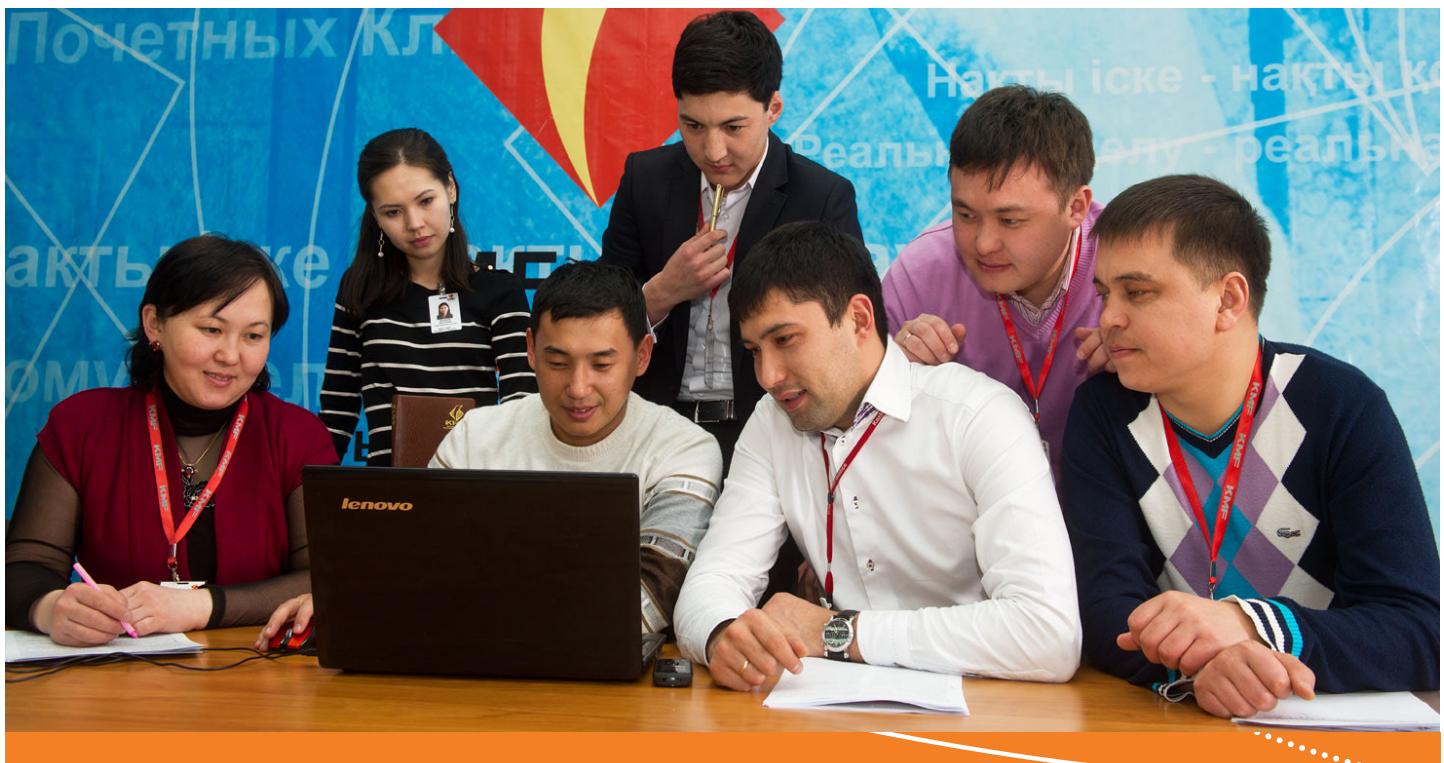
KMF's internal controls were insufficient as well. The internal audit department's work program was set by the management team, leading to difficulty in retaining the department's independence. In addition, the company did not have qualified staff who could handle the risk management function, leaving the company exposed to some significant risk—a serious problem given the challenges associated with the microfinance industry.

Since the assessment, KMF has altered its governance structure based on the recommendations proposed by IFC.

For example, the company now has in place a supervisory board comprised of qualified and experienced professionals, which takes the lead on strategy development and company stewardship.

A new board audit committee includes independent members to advise the board on risk-related issues. This committee has oversight for the internal audit department, a change that has enhanced the department's independence and impartiality.

KMF also strengthened the risk-management function. To ensure appropriate coverage of the full range of the company's risks, KMF set up a risk management department with separate divisions for credit, operational, and financial risks.



## How did it help?

The creation of an effective board has improved the company's overall strategic approach, leading to marked bottom line improvements. Of note: in the three year period 2010-2013, KMF experienced a 284 percent expansion in the value of its loan portfolio, a 303 percent increase in the number of clients, and a 227 percent increase in the number of loans issued. Productivity and profitability improved as well.

With a strengthened control environment, the company is better positioned to weather market difficulties. The changes here led to several additional steps, including the introduction of more robust client protection practices. For its efforts, KMF was honored by the Smart Campaign,\*\*\*\*\* a global initiative that promotes the integration of stronger client protection practices in the microfinance industry. In 2010, the Smart Campaign certified KMF as a microfinance institution that complies with the principles of staff ethical conduct and prevention of over-indebtedness. KMF continues to work toward meeting all seven client protection principles as defined by the Smart Campaign initiative.

The recognition achieved as a result of KMF's drive toward the highest standards of corporate governance and client protection has helped it differentiate from other microfinance institutions, creating a strong brand based on this clearly demonstrated commitment to ethical and consumer-oriented values.

The hard work has paid off. In November 2014, KMF succeeded in attracting \$16.6 million in equity investment, from Triodos Investment Management (Netherlands) and responsAbility Investments AG (Switzerland). Representing 27.4 percent of the company's shares, the investment will help to ensure KMF's sustainable growth as well as the implementation of plans for a more diversified range of service offerings.

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\*\*\*\*\* "About the Campaign," <http://www.smartcampaign.org/about>

# Summary of Key Changes: KazMicroFinance

	Key Challenges	Key Changes
Board and Board Committees	Board and board committees: There was no supervisory board. The company lacked strategic direction and focus.	<ul style="list-style-type: none"> <li>Established a supervisory board, fully functional since 2011</li> <li>Appointed qualified professional directors who have complementary skill sets</li> <li>Set regular meeting schedule</li> <li>Appointed corporate secretary who sets agendas and facilitates communication with management</li> <li>Created audit committee with independent members to advise board on risk-related matters</li> </ul>
Internal Controls	Internal controls: The internal control system was insufficient to meet the needs of a growing company, with little distinction between internal control and internal audit. Management was overly involved in the internal audit department, limiting its impartiality.	<ul style="list-style-type: none"> <li>Separated internal control and internal audit functions</li> <li>Strengthened independence of internal audit, which now reports to the board audit committee</li> <li>Introduced systematic approach to internal controls, with standardized policies and processes</li> </ul>
Risk Management	Risk management: KMF did not have professionally trained staff to handle risk management responsibilities, raising doubts about the department's effectiveness and its ability to flag potential problems.	<ul style="list-style-type: none"> <li>Created separate departments for credit, operational, and financial risk management</li> <li>Hired risk managers who handle credit and operational risks at each of KMF's branches; managers are members of their branch office credit committee</li> <li>Developed plans for soon-to-be launched security department</li> </ul>

## Impact Report

KazMicroFinance reported the following positive impacts after implementing governance changes as recommended by the IFC assessment:

- Expanded loan portfolio, client base, and reach:** Improved decision making and stronger internal controls have strengthened governance and enabled significant growth.
- Improved profitability:** Better risk management has increased client retention, reduced the number of non-performing loans, and helped the bottom line.
- Enhanced brand and competitive differentiation:** KMF's governance changes have been recognized by prestigious groups such as the Smart Campaign for client protection and MIX Market, an MFI ratings agency, which awarded the company Four Diamonds, the agency's second-highest score.
- Increased capital:** KMF has become an organization with international participation by attracting investment from well-known financial institutions, taking the company to the next level of its institutional development.

# Sharrcem Titan/ Laboratory for Business Activity Kosovo

Sharrcem Titan is a leading raw materials and cement producer in Kosovo. Founded in 1936 as a state-owned company, Sharrcem was acquired by the Titan Group in 2010 after the company was privatized. Since that time, Sharrcem has significantly upgraded equipment and technical processes, introducing advanced standards, which ultimately will be integrated into all operations.

As part of the Titan Group, Sharrcem shares the overall company commitment to corporate social responsibility, built on the notion that successful businesses have an obligation to give back to the local communities in which they operate. The company supports an active community outreach agenda, funding social service projects throughout the region.

Sharrcem is the largest employer in Hani Elezit, a municipality that struggles with high unemployment, widespread poverty, and a lack of structured support for entrepreneurs. As the business leader in the region, Sharrcem is expected to meet up to a strong standard of corporate citizenship. The company's management has long understood that the successful continuation of its business activities could not be possible without developing the community and creating opportunities for independence and self-sufficiency.

In 2012, Sharrcem decided to pull together several of its community-oriented activities under a single umbrella, called the Laboratory for Business Activities—LAB.

**Business** (Sharrcem Titan): raw materials and cement manufacturer

**Location:** Kosovo

**Sector:** building materials

**Type:** privately held

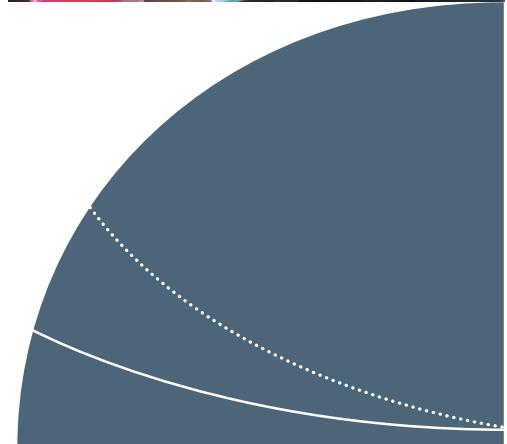
**2013 revenues:** €39.2 million

**# employees:** 503

**IFC assessment date:**

April-May 2013

**Website:** [www.sharrcem.com](http://www.sharrcem.com)



## LAB's structure

Set up as a nonprofit community development foundation, LAB became an official entity in February 2014.

LAB provides vocational training, equipment, and seed capital for small agribusinesses in the region. The goal is to create jobs and foster economic development in a struggling community that has few educational or employment opportunities and where access to grant funding or other financial assistance is limited.

As the program develops, LAB plans to expand its operations into other parts of the country that are facing similar challenges. Future plans also include replicating the foundation in other countries where the Titan Group operates.

### Why focus on governance for a nonprofit foundation?

From the outset, Sharrcem's leaders realized that strong governance policies and practices—in line with international governance standards for foundations—was an essential starting point for a trust-based community-oriented organization that would have credibility and legitimacy. The foundation needed to operate with openness and transparency to encourage a sense of ownership among local community members and to ensure long-term positive impact.

Achieving optimal operational efficiency was critically important as well. With an efficient and well-governed organization, LAB could enhance the effectiveness of its proposed youth education and leadership programs, enabling small and medium business development, personal empowerment, and deeper ties to the local community.

"Addressing the challenges of unemployment, poverty, and lack of support to enable enterprise development in our community has been at the core of Titan Group's strategy in Kosovo. We consider our own growth sustainable only when it is accompanied by proportional growth in our broader community. IFC has helped us make progress toward achieving these sustainable growth goals."

Emmanuel Mitsou  
Managing Director, Sharrcem  
Titan

## What did they change?

As they started up the foundation, Sharrcem's leaders requested IFC's assistance in identifying key governance challenges and in proposing solutions to address the challenges. IFC conducted its analysis in the spring of 2013.

The first challenge the company faced was a lack of trust. Local residents had tired of donor-funded initiatives that may have sounded good on paper but in reality made no real difference in the quality of their lives.

To address this, the company and IFC agreed on an approach built on the principles of transparency and openness, which Sharrcem has implemented. Today, LAB engages regularly with key community stakeholders and government officials. Equally important, LAB communicates openly with international donors, non-governmental associations, and the media as part of its overall strategy for the foundation.

Board structure was another challenge. LAB needed a board-level governance body to set strategy and make decisions. But community interests also had to be appropriately represented, along with the interests of state and local governments, international donors, and relevant financial institutions—a complicated task.

Based on recommendations proposed by IFC, Sharrcem decided to separate the responsibilities usually performed by a single board of a nonprofit organization. The company set up two governing entities: the Council of Stakeholders and the Board of Directors. The two-board system gave LAB an inclusive board-level governance body—the council—that would be involved in all decision making as well as a smaller entity—the board—that would implement council decisions and ensure compliance with legal and regulatory requirements.

Already, the two-board system is functioning well. The first council and board meetings were held in February 2014—even before LAB became an officially registered organization. The primary focus of the two meetings was to identify key selection criteria and launch the hiring process of LAB's CEO.

## How did it help?

LAB's founding is a unique corporate social responsibility initiative in Kosovo—the most structured, comprehensive, and strategically planned effort to date, in a country that has experienced a variety of well-meaning but less-than-successful donor-supported initiatives.

While still in the early days, Sharrcem's focus on embedding robust corporate governance practices into the fundamental structure of the new nonprofit has helped to restore confidence and earn buy-in from the local community. The two-board approach will ensure diverse representation, as well as effective decision making and efficient use of funds.

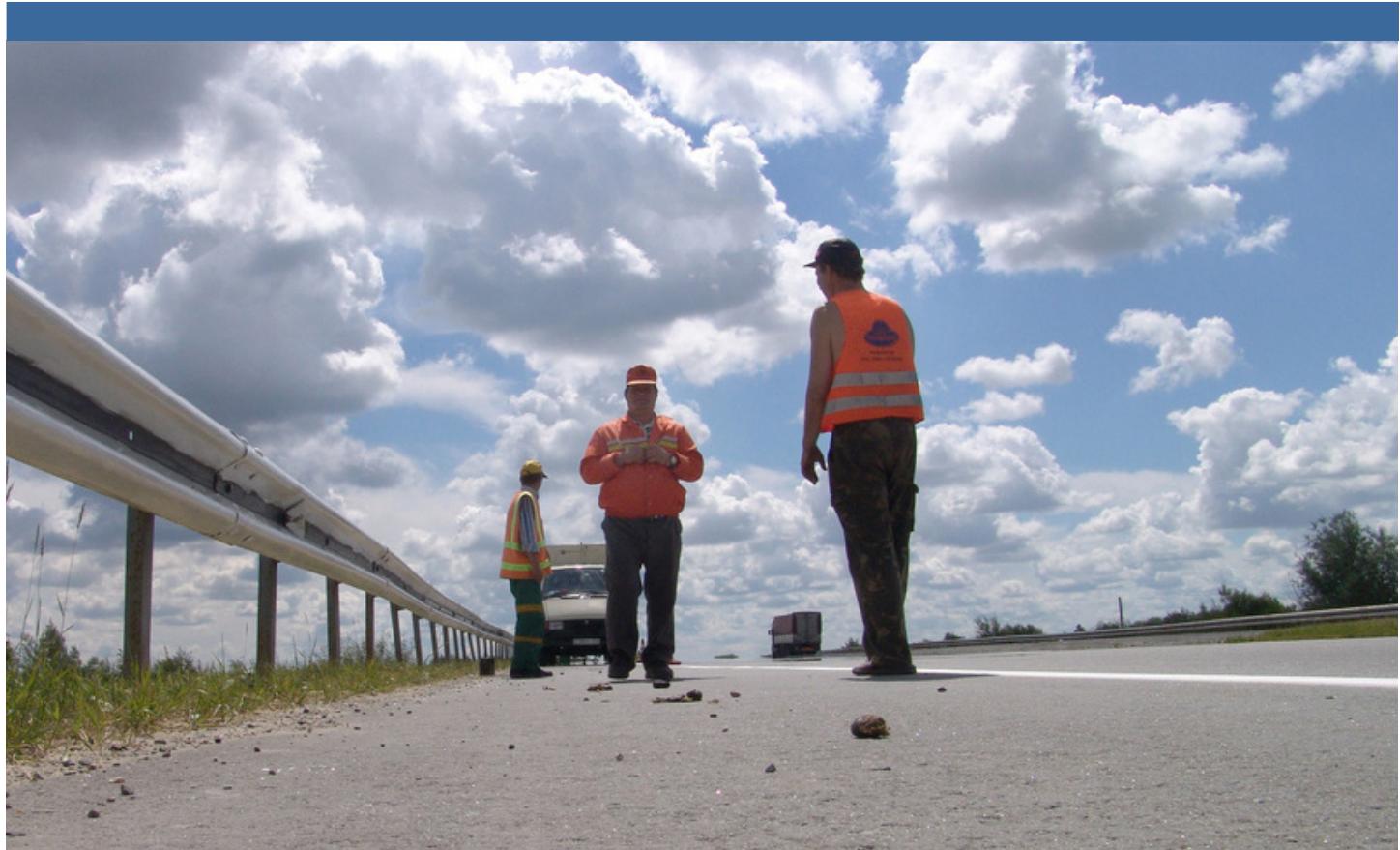
# Summary of Key Governance Initiatives: Sharrcem Titan/ Laboratory for Business Activity

	Key Challenges	Key Initiatives
Board Composition	<p>Board composition: With multiple stakeholders and multiple interests involved, a single board might have been too large to be effective or efficient, which could impede LAB's job creation and business development goals. Or, it might have been too small to ensure representation from all parties, increasing the risk that the community would not support the program. The structure also had to conform with Kosovo's regulatory requirements for non-governmental organizations.</p>	<ul style="list-style-type: none"> <li>Set up a two-board structure; council of stakeholders and board of directors</li> <li>Appointed eleven-member council of stakeholders including community members, state and local government officials, and international donor representatives to serve as principal decision-making body</li> <li>Appointed members of board with complementary and diverse educational and professional backgrounds</li> <li>Identified a pay structure for board of directors as a performance incentive</li> </ul>
Board Effectiveness	<p>Board effectiveness: Sharrcem had to develop board policies, practices, and approaches for the nonprofit from scratch—a massive and time consuming effort. Once operational, it would have been difficult to keep both boards functioning effectively without a corporate secretary to coordinate and document activities, facilitate communication between the two entities, and monitor governance.</p>	<ul style="list-style-type: none"> <li>Created position for foundation secretary</li> <li>Hired a qualified individual for the corporate secretary role</li> <li>Set regular meeting schedules for both groups; initially at least once a month</li> </ul>
Transparency and Disclosure	<p>Transparency and disclosure: There was considerable distrust within the local community about donor-funded development initiatives that promised more than they delivered. A lack of transparency may have contributed to these negative impressions. To overcome the skepticism, Sharrcem needed to convey a sense of openness about the activities and motivations of the new foundation. Robust disclosure was equally important for the international donor community.</p>	<ul style="list-style-type: none"> <li>Identified key influencers in local community</li> <li>Opened regular lines of communication with these community leaders, including one-on-one meetings</li> <li>Organized public forums and round table discussions</li> <li>Established pattern of engagement with all stakeholders including international donors, government officials, and representatives of relevant financial institutions</li> </ul>

## Impact Report

Sharrcem Titan reported the following positive impacts after incorporating robust governance into the structure of LAB, its new community development foundation, as recommended by the IFC assessment:

- **Improved community relations:** The focus on transparency, engagement, and representation as it set up the community development foundation has strengthened the company's relationship with the local community.
- **Increased potential to achieve economic development and job creation goals:** In general, a well-governed, efficiently run, and professionally led non-profit—such as LAB—will be better positioned to fulfill its mission, making a lasting difference in the community it seeks to benefit.
- **Reduced reputational risks:** The positive interactions with the community through LAB have helped mitigate risks and ensured a more sustainable future for the company.
- **Enhanced brand:** Sharrcem has achieved national and international recognition as a leader in corporate social responsibility—the company received the European Award for Corporate Social Responsibility in 2013.



# Tajero

## Tajikistan

Founded in 2002 by Abdurahmon Gaibulozoda and his uncle, Abduhalim Toshiev, Tajero today is Tajikistan's leading food and beverage importer and distributor. As the exclusive distributor for 16 consumer packaged goods companies, Tajero supplies markets and grocery stores throughout Tajikistan. The company also has cooperative agreements with more than 20 food and beverage manufacturers based in countries such as Finland, Germany, Russia, Turkey, and Ukraine.

## Company structure

Tajero is wholly owned by company CEO Abdurahmon Gaibulozoda and his family.

## Why change?

In the past, family-owned companies in Tajikistan were not held in the highest regard—a legacy from the Soviet era when many family-owned firms were poorly managed. The company wanted to overcome this negative public perception and turned to IFC for assistance.

Meanwhile, Tajero had grown steadily since its founding. With growth comes increased business complexity. This required stronger and more standardized internal processes, a more efficient approach to decision making, and higher-level skill sets for top management. To ensure continued business success as the company evolved, Tajero's owner recognized a need to focus on such issues and attend to related corporate governance challenges.

In addition, although its roots were as a family-owned firm, Tajero set its future sights on transformation into a joint stock company. For this transformation to happen, the company would need to meet up to higher standards, including upgrading its corporate governance system.

**Business:** food and beverage importer and distributor

**Location:** Tajikistan

**Sector:** food and beverage

**Type:** privately held, family business

**2013 revenues:** \$62 million

**# employees:** 400

**IFC assessment date:**

April-June 2011

**Website:** [www.tajero.tj](http://www.tajero.tj)



## What did they change?

In spring 2011, IFC conducted a partial assessment of Tajero's corporate governance system. The assessment focused on several key governance challenges facing the company: issues related to family control and governance, CEO succession planning, and key person risk—of critical concern given the central role played by the company's owner and CEO.

Tajero implemented changes to address these issues, as proposed by the IFC assessment team. For example, the company formalized an advisory process so that the CEO—who had been the sole company decision maker—would have the benefit of input from key employees as he made strategic decisions. These employees could provide informed opinions based on their experience and professionalism. Tajero also took steps to plan a succession path for the current CEO and for other members of the senior management team.

The assessment uncovered some gaps in the company's internal operations as well. For example, the company lacked a systematic way to identify risk management, corporate governance, or control problems. Tajero also faced high turnover among its senior executive ranks, creating inconsistencies in the transfer of knowledge and expertise.

To resolve these issues, Tajero implemented several recommendations proposed by IFC. The company set up an internal audit unit for better oversight of key activities and established management training and coaching programs to enable professional skills development for company executives. The training and coaching programs also create a mechanism to provide positive feedback and support for increased job satisfaction.

"We live in a fast paced world, and our customers' habits, interests, and appetites change every day. To stay on top of what our customers want, we have to be at our operational best. Good corporate governance is the key to ensuring that we continue to do so over the long term."

Abdurahmon Gaibulozoda  
CEO, Tajero



## How did it help?

According to company leaders, better corporate governance played a significant role in helping Tajero access the capital it needed to grow: \$3 million in new financing to expand group operations. With the new funding, Tajero set up three new divisions: Amiri confectionary, Amal Industry, and Tajero-Sugd.

In addition, the company is functioning with greater efficiency and effectiveness as a result of a stronger internal control environment and more informed decision making.

Tajero's reputation in the market has improved as well. Today, the company is considered the country's leader in corporate governance and a role model for other family-owned companies, which look to Tajero for guidance and advice on how to enhance their own governance systems.



# Summary of Key Changes: Tajero

	Key Challenges	Key Changes
Family Governance	Family governance: The owner/CEO made all decisions without formal input from management or other advisors. This made informed decision making more difficult.	<ul style="list-style-type: none"> <li>Established a “consultative council” comprised of senior managers with advisory responsibilities</li> <li>Adopted several family governance regulations, including delegation of authority</li> </ul>
Internal Audit	Internal audit: Tajero did not have a dedicated internal audit unit. This left the company without independent oversight and without an early warning system to flag problems. It also meant lost opportunities to identify process efficiencies and cost savings that could help the bottom line.	<ul style="list-style-type: none"> <li>Hired an internal auditor</li> <li>Set up in-house internal audit function to focus on financial, operational, and project risks</li> <li>Identified reporting lines to ensure independence</li> </ul>
Management Roles	Management roles: Although the owner/CEO held meetings and discussions with top executives, the meetings were informal and proceedings were not recorded. There was considerable turnover from among the senior executive ranks.	<ul style="list-style-type: none"> <li>Appointed senior managers to the company’s consultative council</li> <li>Set quarterly schedule of meetings, averaging five-to-six meetings per quarter</li> <li>Encouraged deeper discussion of business and operational issues</li> <li>Initiated management training and coaching program</li> </ul>
Succession Planning	Succession planning: There were no formalized succession plans for the CEO/owner or for other members of the senior executive team, creating significant business continuity risks if any of these individuals were to leave the company suddenly.	<ul style="list-style-type: none"> <li>Adopted succession plans for owner/CEO and senior executive team</li> <li>Adopted emergency succession plans</li> </ul>

## Impact Report

Tajero reported the following positive impacts after implementing changes as recommended by the IFC assessment:

- Improved access to capital:** Strengthened governance led to overall improvement in both strategic decision making and day-to-day operational approach, giving investors added assurance about the sustainability of the company.
- Strengthened business continuity:** Formalized succession planning reduces the risk of operational disruption if a key person leaves and increases the likelihood of long-term viability.
- Reduced management turnover:** Giving senior executives more say in company decisions—as well as coaching to improve their skills—has improved morale, increased job satisfaction, and dramatically transformed the company’s corporate culture.
- Enhanced reputation:** Tajero has received honors and awards for its business accomplishments, including a prize from the Rudaki district Executive Regulatory Agency. The company is considered a corporate governance role model for other family-owned companies in Tajikistan.

# Union Bank

## Albania

Registered as a joint stock company in 2006, Union Bank operates a network of 30 branches and agencies throughout Albania, offering a diverse portfolio of products and services for retail and corporate customers.

High quality of service is a competitive differentiator for Union Bank, which maintains a strong position in Albania's financial marketplace. The bank is focused on continued expansion and cooperates closely with international financial institutions.

In 2013, Union Bank became only the second Albanian bank to join IFC's Global Trade Finance Program, an initiative that promotes trade in emerging markets by providing partial or full guarantees for individual trade transactions and expanding the range of trade services offered.

## Company structure

Union Bank is a joint stock company. At the time of the IFC assessment, the bank was considered a small bank under Albanian financial regulations. The improvements in overall efficiency resulting from the corporate governance initiative enabled the bank to implement its growth strategy based on organic growth. This led to a change in status. Today, the bank's designation is "G2", a medium-sized bank for Albanian regulatory purposes.

**Business:** commercial, corporate, retail, private, and investment banking

**Location:** Albania

**Sector:** financial services

**Type:** publicly traded

**2013 revenue:**

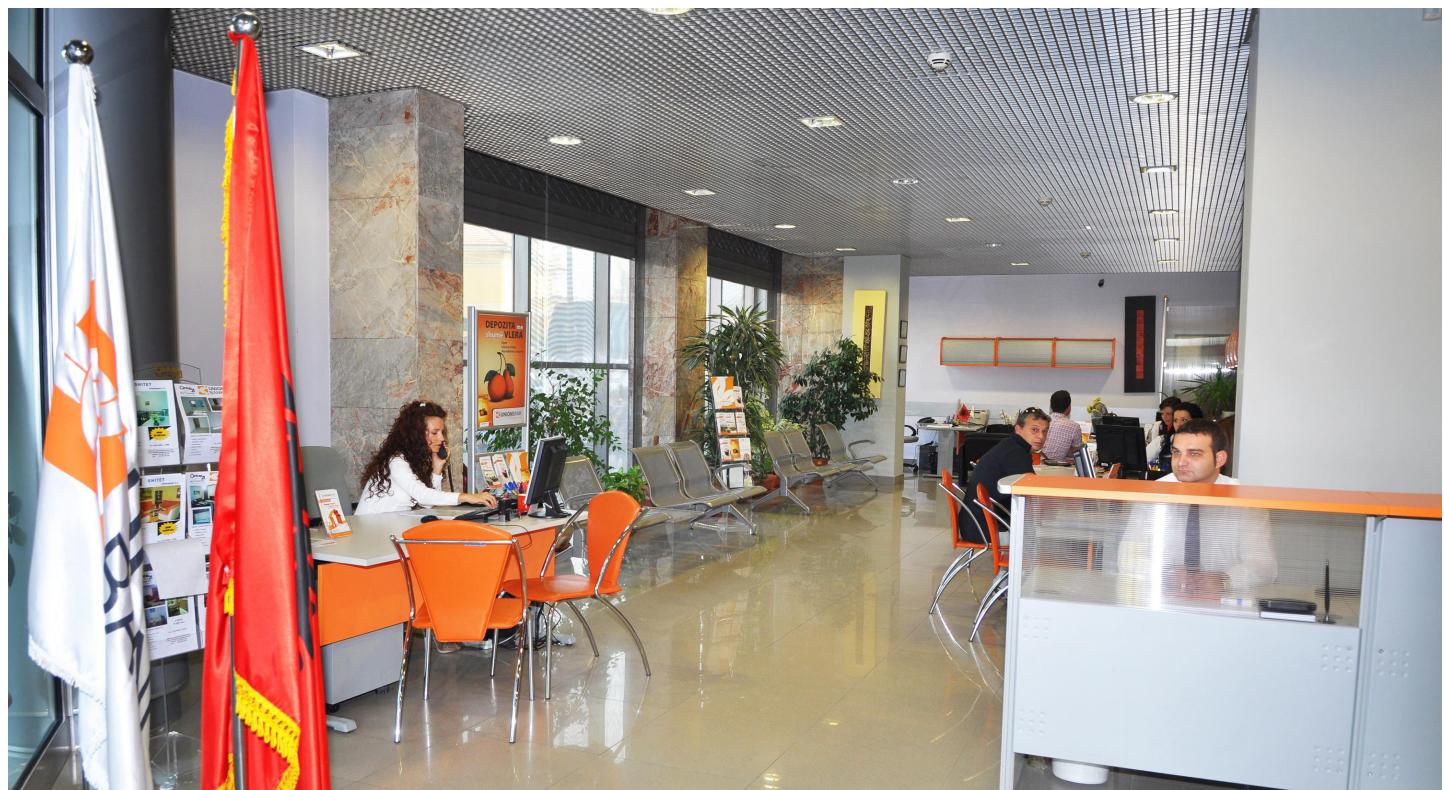
€16.7 million (preliminary); up from €14.2 million in 2012

**# employees:** 301

**IFC assessment date:**

July-September 2011

**Website:** [www.unionbank.al](http://www.unionbank.al)



## Why change?

Union Bank's leaders have long appreciated the value of good corporate governance. They set the tone from the top, with an emphasis on embedding good governance practices into all of the banks' processes, operations, and strategy.

Well before IFC's engagement with Union Bank, the bank's corporate governance system had exceeded the minimum legal requirements under Albanian regulations. There was a clear separation between ownership and management functions, the board of directors played an active role in strategy formulation and management oversight, and a corporate secretary helped organize board processes and communications.

Still, the bank's leadership understood that corporate governance represented a process of continuous improvement, requiring ongoing effort—particularly for a growth-oriented institution. Expansion can lead to new, unforeseen risks and increasingly complex operational challenges. The bank's management realized that such issues called for new governance approaches and solutions.

"We undertook the corporate governance exercise with IFC not because we needed it for external investors or creditors. Our current shareholders provide us with the capital we need for our organic growth and our branches provide us with sufficient core deposits to fund our credit growth," says Union Bank CEO Gazmend Kadriu. "However, when we decided to enter the trade finance business, we found the corporate governance report to be very useful in helping us close the deal with IFC and establish a credit line in support of this new business." The bank's management also believed that implementation of best corporate governance practices would serve as a key asset as they sought to achieve strategic growth goals and looked toward long-term sustainability, he notes.

Other reasons for the bank's engagement with IFC included uncovering hidden weaknesses and identifying potential areas for improvement as well as a desire to benchmark the bank's corporate governance system against the best international standards.

Source: "Albanian Daily News" Newspaper, August 31 - September 1, 2013

## IFC, Union Bank Albania Expand Trade Finance for SMEs

TIRANA—IFC, a member of the World Bank Group, has extended a new line of credit to Union Bank Albania, increasing access to finance for small and medium enterprises (SMEs) that work in imports and exports.

With the new \$4 million credit line from IFC, Union Bank will increase its available products and financial support for corporate and small business customers engaged in international trade, helping those firms reach new markets, expand operations, and create jobs. Trade development is hindered by gaps in Albania's physical infrastructure, but IFC's support will channel

*With the new \$4 million credit line from IFC, Union Bank will increase its available products and financial support for corporate and small business customers engaged in international trade, helping those firms reach new markets, expand operations, and create jobs*

telecommunications sectors. Gazmend Kadriu, CEO of Union Bank, said: "Membership in IFC's Global Trade Finance Program will increase the trade services Union Bank is able to offer its clients, giving them a better banking experience. We are pleased to partner with IFC

opportunities and grow." Union Bank is the second bank in Albania to join the IFC Global Trade Finance Program (GTFP) as an issuing bank. The GTFP promotes trade in emerging markets by providing partial or full guarantees for individual trade transactions backed



international partners, enabling the bank to tap new sources of financing," said Georgina Baker, IFC Director for Global Trade and Supply Chain Solutions. "By joining the GTFP network, Union Bank will reduce transaction costs and improve access to finance for

than 15,000 guarantees totaling \$25 billion to banks for the trade-related obligations of their financial-institution clients in emerging markets. In fiscal year 2013, IFC provided \$3.1 billion to support trade in the world's poorest countries, and 80 percent of all guarantees went to small

## What did they change?

"After the IFC corporate governance assessment, we gained confidence in our core corporate governance fundamentals and received clear directions for further improvements.

Now, we are well-equipped to implement our strategy, which includes acquiring smaller local banks, with possible changes in our future ownership structure.

An important result of our governance work has been our ability to grow with confidence. In fact, we recently succeeded in moving from the "G3" small bank category under Albanian regulations and into the "G2" category of medium-sized banks. This is a considerable accomplishment."

Gazmend Kadriu  
CEO, Union Bank

IFC conducted a three-month corporate governance assessment for Union Bank beginning in July 2011. The assessment confirmed that the bank already had in place a number of sound corporate governance practices. It also revealed some gaps in the bank's governance system and proposed changes to close these gaps, which the bank has implemented.

For example, the bank employed a part-time consultant as its corporate board secretary. While the individual was well-qualified for the job, the lack of day-to-day engagement as a full-time bank employee meant that the consultant was not as effective in the role. This was negatively impacting board effectiveness and efficiency. To address this issue, Union Bank hired a separate in-house corporate secretary and formalized the secretary's role and responsibilities.

Compliance was another concern. While the compliance function existed, the bank did not have a unified approach or a single individual with ultimate responsibility for ensuring compliance. The situation was made more challenging by the complexity of Albania's legal and regulatory requirements and the need to align with international standards in addition to the bank's own internal regulations. The IFC assessment team proposed a change in approach: merging all compliance-related functions into a single unit that would have oversight across all aspects of the bank's regulatory environment.

Initially, the bank's management resisted this idea because they were unconvinced of the benefits. They believed that the entire organization should have a degree of responsibility for compliance and that each team within every division should do its part to ensure compliance. Despite their initial hesitation, the bank's leaders decided to implement the IFC team's compliance plan. After the implementation, they noted clear and immediate benefits resulting from a centralized and coordinated function. Among the benefits: ensuring that compliance issues are comprehensively addressed and that no compliance obligation gets overlooked.

## How did it help?

Today, board meetings are more productive, supported by a structured and streamlined agenda and good documentation. The bank also has greater assurance that it remains in compliance with relevant laws and regulations.

More broadly, despite a difficult economic climate in Albania, the bank is stable and strong, actively pursuing a growth strategy that includes acquisition of smaller Albanian banks and expansion into new business lines. According to bank CEO Gazmend Kadriu, the implementation of governance improvements played a critical role in the bank's ability to secure a \$4 million IFC credit line in support of its new trade finance business.

He also says that the successful attainment of medium-sized bank status under Albanian regulations has given the bank's management confidence to pursue a continued climb in the rankings. "We are now targeting acquisitions in Albania to propel us into the top tier of Albanian medium banks," Kadriu says. "Our current shareholders may wish to invite other shareholders to help fund this growth. As usual, our annual reports would be our calling card regarding our historical financials, and our business plan for our future prospects. However, we believe interested investors will draw strong assurance about our corporate governance foundation and the 'base color' of our bank from the IFC report. We expect this report to be very useful when talking to them."



## Summary of Key Changes: Union Bank

	Key Challenges	Key Changes
Board Effectiveness	<p>Board effectiveness: While the board functioned well, there was room for improvement. Without a full-time in-house corporate secretary to organize processes, procedures, and communication flow, the board was not as efficient or as effective as it could be.</p>	<ul style="list-style-type: none"><li>• Hired a qualified, full-time, in-house corporate secretary</li><li>• Established more formal board working procedures</li><li>• Amended bank by-laws to include detailed description of secretary's roles and responsibilities</li></ul>
Compliance	<p>Compliance: The bank did not have a coordinated and centralized compliance function. This increased the risk that compliance-related obligations could be overlooked and that the bank might not be in compliance with all relevant laws and regulations, which could reflect poorly on its reputation and possibly lead to fines.</p>	<ul style="list-style-type: none"><li>• Created a new centralized compliance unit to ensure external and internal adherence to laws and regulations</li><li>• Hired full-time compliance officer as a focal point to coordinate all compliance-related activities in the bank</li><li>• Specified compliance role for corporate secretary at the board level</li></ul>

## Impact Report

Union Bank reported the following positive impacts after implementing governance changes as recommended by the IFC assessment:

- **Increased access to capital:** Improved governance played a critical role in Union Bank's ability to secure a \$4 million IFC credit line in support of its new trade finance business.
- **Better decision making:** Changes in board operations have enabled a more organized approach to issues, deeper discussion, and more thoughtful analysis.
- **Stronger market positioning:** The alignment with international corporate governance standards is a competitive differentiator for a bank that has built its reputation on quality.
- **Improved growth outlook:** Investors interested in supporting the bank's growth strategy—including the acquisition of smaller banks—will have greater assurance because of Union Bank's solid corporate governance foundation.

# Glossary of Corporate Governance Terms



**Accountability:** In corporate governance terms, it is the responsibility of a board of directors to shareholders and stakeholders for corporate performance and actions of the corporation. It is the concept of being responsible for all actions performed by the company's management and reporting this information to stakeholders. It also refers to the accountability of management to the board for its actions in running the business.

**Acquisition:** Gaining control of another corporation by share purchase or exchange. An acquisition can be hostile or friendly.

**Agency Conflicts:** Problems that can arise when a principal hires an agent to act on his behalf, giving the agent authority and decision-making power.

**Agency Costs:** Costs incurred by an organization for problems related to divergent management-shareholder objectives. The costs consist of two main sources: costs inherently associated with using an agent (e.g., the risk that agents will use organizational resources for their own benefit) and costs of techniques used to mitigate the problems associated with using an agent (e.g., the costs of producing financial statements or the use of share options to align executive interests to shareholder interests).

**Agency Theory:** A theoretical framework used to describe the relationship of power and interest between someone, the principal, who hires a second party, the agent, to act on his behalf.

**Annual General Meeting (AGM) (Shareholders' Assembly):** A shareholders' gathering, usually held just after the end of each fiscal year, at which shareholders, directors, and management discuss the previous year, the financial statements and the outlook for the future. At the meeting, directors are elected and other shareholder concerns may be raised. The AGM is the main opportunity for shareholders to put questions directly to the directors of the company and to exercise their voting and decision-making power.

**Annual Report:** A document issued annually by companies to their shareholders. It contains information on financial results and overall performance during the previous fiscal year and comments on the future outlook. The Annual Report should include the Corporate Governance Report and other narrative reports, such as the CEO's Report.

**Auditor's Opinion:** A certification that accompanies financial statements, provided by independent auditors who audit a company's financial statements and records. The opinion indicates whether or not, overall, the financial statements present a fair reflection of the company's financial condition.

**Audit:** Is a review of the historical financial statements to enhance the degree of confidence in them. Then, examination and verification of a company's financial and accounting records and supporting documents by a competent, qualified professional and independent external auditor is to assure readers that they are in accordance with applicable reporting and accounting requirements, are free from material misstatement due to fraud or error and are true and fair representation of the company's financial condition.



**Board of Directors:** The collective group of individuals elected by the shareholders of a company to direct and control the company. They define vision and mission, set the strategy and oversee the management of the company. The board is charged with selecting the chief executive officer (CEO), defining the compensation package of officers and setting the long-term objectives of the firm and oversight of risk and compliance

**Board Statutes** (or Board Charter): Document that details the roles, responsibilities, composition and functioning of the board of directors and its committees.

**By-Laws:** A written document stating the rules of internal governance for a company as adopted by its board of directors or shareholders. Includes topics such as election of directors, duties of officers, and how share transfers should be conducted.



**Chairman/Chairperson of the Board:** Highest-ranking director in a board of directors. The chairman is responsible for leadership of the board, the effectiveness of the board's functioning, that it has proper access to all the information it requires to make an informed decision, the elaboration of the board agenda, and ensuring that the board's business is conducted in the interest of all shareholders.

**Chief Executive Officer (CEO):** The highest-ranking management officer of the company who reports to the board of directors. The CEO is tasked with short-term decisions and leadership of employees, implementation of strategy, risk management and oversight of management.

**CEO Succession Planning:** The process by which boards of directors ensure that their organization has the ability to sustain excellence in CEO leadership over time, with seamless transitions from one leader to the next. Changing the head of an enterprise impacts company culture, board/CEO relations, and perceptions from multiple constituencies inside and outside the business. Effective CEO succession requires a well-defined program that ensures a supply of highly capable candidates ready to assume the CEO position whether through an unexpected event or a planned transition.

**Codes of Conduct/Ethics:** Developed and adopted by organizations to define appropriate behaviors and actions on relevant and potentially delicate subjects. It is an indicator of how the company will achieve its goals and go about its business.

**Committees of the Board:** Comprises board members only; committees are established to assist the board in the analysis of specific subjects outside of regular board meetings. Common committees are the Audit, Remuneration and Nomination Committees.

**Common Shares:** Equity securities representing ownership in a corporation and providing the holders with voting rights and the right to a share in the company's residual earnings through dividends and/ or capital appreciation.

**Compliance:** Agreeing to and abiding by rules and regulations. In general, compliance means conforming to a specification or policy (internal or external), standard or law that has been clearly defined.

**Concentrated Ownership:** A form of ownership in which a single shareholder (or a small group of shareholders) holds the majority of the company's voting shares.

**Conflict of Interest:** Reflects both a legal and/or ethical situation where loyalties, interests and duties compete and conflict. It includes a situation that has the potential to undermine the impartiality of a person because of the possibility of a clash between the person's self-interest and professional interest or public interest. It may also be a situation in which a party's responsibility to a second party limits its ability to discharge its responsibility to a third party. Directors have a duty to avoid conflicts of interest and should always act in the best interests of the company and the shareholders as a whole.

**Control Block:** The combined group of shares that represent the majority of a company's voting shares.

**Controlled Companies:** Firms in which an individual or a number of connected individuals or a legal entity holds the majority of the voting rights.

**Control Environment:** Under IFC's Corporate Governance Methodology, the internal control environment includes:

- Internal control system
- Internal audit function
- Risk governance
- Compliance function

**Controlling Shareholders:** Shareholders who own enough of the company's voting capital to control the composition of the board of directors — typically, this is 30 percent or more and is usually a controlling family or state shareholder.

**Corporate Social Responsibility:** The responsibility of enterprises for their impacts on society. The phrase refers to a process to integrate social, environmental, ethical, human rights and consumer concerns into the business operations of enterprises and their core strategy, in close collaboration with their stakeholders, with the aim of:

- Maximizing the creation of shared value for their owners/shareholders and for their other stakeholders and society at large
- Identifying, preventing and mitigating their possible adverse impacts

**Cumulative Voting:** A voting system that gives minority shareholders more power, by allowing them to cast all of their board of director votes for a single candidate, as opposed to regular or statutory voting, in which shareholders must vote for a different candidate for each available seat, or distribute their votes between a number of candidates.

**Current Ratio (current assets/current liabilities):** A measure of the short-term liquidity of the firm — the ability to pay its short-term liabilities.



**Disclosure:** Refers to the obligation of a firm to provide material, market-influencing information in accordance with the requirements of a number of parties, including regulatory authorities, the public or in accordance with standards, such as accounting standards, and self-regulatory contracts. Disclosure contributes to the transparency of the firm, which is one of the main corporate governance principles.

**Dispersed Ownership:** An ownership structure in which there is no controlling block of shareholders. The shares are held by many shareholders, each of whom owns only a small percentage of shares, and none of whom can make or influence decisions on corporate matters alone.



**Executive Session:** The portion of a board of directors' meeting that excludes the chief executive or any other executive.



**Family Constitution:** Guidelines for the rights and duties of family members who will share in the family's resources, mainly those associated with invested companies.

**Family Council:** Organized forum for family members to meet and discuss the current and future state of the family business. Members may, or may not, be directly involved in the day-to-day business operations. The family council is a way of building family unity and cohesiveness through a shared vision of the family's guiding principles and to separate the professional management of the firm from the personal family issues. It is usually the forum to determine how the family shareholding will be voted on any matter.

**Family Office:** A group of support services designed for families with very large and complex sets of assets. Often they will comprise financial, legal and investment banking support. The office is intended to protect family interests. The Family Office is intended as a vehicle for optimal management and comprehensive coordination of individual wealth components. The family office can be a tool to implement broader succession, leadership, and family governance plans.

**Family-Owned Businesses:** Companies and projects in which the controlling shareholders belong to the same family (immediate or wider family members) or group of families.

**Fairness:** Respect for the rights of all shareholders and stakeholders. One of the corporate governance principles ensuring the equal treatment of all shareholders and attention to the legitimate rights of stakeholders.

**Financial Statements:** a complete set of financial statements comprises a balance sheet, an income statement, a statement of changes in equity, a cash flow statement and notes. They collectively communicate an entity's economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework.



**Generally Accepted Accounting Principles (GAAP):** Accounting rules, conventions and standards for companies, established by reporting requirements and accounting standard setters in the country. Each country is likely to have a GAAP, which is unlikely to be identical to any other country's GAAP. For example US GAAP is the body of accounting policies applicable to U.S.-registered firms and the GAAP rules are issued by the Financial Accounting Standards Board (FASB). These are not identical to IFRS standards issued by the International Accounting Standards Board and applied in Europe and many other countries.



**Hostile Takeover:** The continued pursuit of a company acquisition after the target company's board rejects the offer; or a situation, in which the bidder makes an offer without prior notification of the target company's board.



**Independent Auditors:** Professionals from an external audit firm charged with undertaking an audit of the financial statements. An audit may be required annually, half-yearly or quarterly. In most countries the independent auditors undertake an annual audit. They must have no personal interest in the financial statements and ought not to have had any role in the development of the financial statements. The independent auditor is required to render an unbiased judgment that the financial statements and accounting records of the firm are likely to be free from material misstatement and are a fair reflection of the financial position of the firm.

**Independent Director:** Someone whose only nontrivial professional, familial, personal or financial connection to the corporation, its chairman, CEO or any other executive officer is his or her directorship. The independent director is expected to be capable of applying objective judgment to all company decisions.

**Insider trading:** Trading in securities by someone connected with the company or with special knowledge about the company. Insider trading can be illegal or legal, depending on when the insider makes the trade. It is illegal when the material information is not available to the public and such information has the capacity to have an effect on the share price.

**Institutional investors:** Are professional investors who act on behalf of beneficiaries, such as individual savers or pension fund members. Institutional investors/shareholders may be the collective investment vehicles, which pool the savings of many or the asset managers to whom they allocate the funds. (Definition taken from ICGN – Corporate Risk Oversight Guidelines 2010).

**Internal Audit:** An independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

**Internal Control:** A process implemented by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance.

**Investor Relations:** The corporate communications department of a company. This department specializes in information and disclosure management for public and private companies as they communicate with the investment community at large.



**Lead Director:** A term used in the United States to refer to an independent director who should provide counterbalance to the power of any controlling shareholders' representatives on the board and/or the CEO. The Lead Director tends to be the leader of several independent directors on the board and who ensures that the supervisory responsibilities of the board are being accomplished. The Lead Director's core responsibilities include involvement in agenda setting, chairing executive sessions, providing feedback to the CEO after executive sessions and helping to shape boardroom dynamics.



**Market Capitalization:** The market value of the firm, defined by the number of outstanding stock multiplied by the market price of the stock.

**Minority Shareholders:** Those shareholders with minority stakes in a company controlled by a majority shareholder — usually less than a 5 percent stake. However, each country may determine various thresholds applicable to the term "minority shareholder."



**Non-Voting Shares:** Owners holding this share class do not commonly have voting rights at the AGM, except on some matters of highest importance. Usually, non-voting shareowners have preferential rights for receiving dividends.



**One-Tier Board:** A board of directors composed of both executive and non-executive members. It delegates day-to-day business to the management team. Found in United States, the United Kingdom, and Commonwealth countries. (see Two-Tier Board)



**Ownership Structure:** The way in which company shares are distributed among shareholders.



**Preferred Shares:** Equity securities representing ownership in a corporation with preferential rights over other share classes in regard to the payment of dividends and distribution of assets upon liquidation. Preferred shares usually do not carry voting rights.

**Proxy:** A proxy in CG terms is any person or agent, legally authorized to act on behalf of another party. Very often, shareowners not attending a company's annual meeting may choose to vote their shares on resolutions being put to the meeting by proxy. The proxy will cast votes on relevant issues on the shareowners' behalf. Most companies, when they circulate notices for the annual meeting to shareowners, include a proxy notice. This is a notice providing information on the issues on which there will be a vote at the meeting. The proxy information should allow shareowners to make an informed decision on the issue.

**Pulverized/Dispersed Ownership:** An ownership structure in which there are no controlling shareholders.

**Pyramidal Structure:** An organizational structure common in family-dominated companies. Legally independent companies are controlled by the same family through a chain of ownership relations.



**Related Party:** A party is related to an entity if it can directly or indirectly control the other party or exercise control through other parties; it may also be where parties are subject to a common control from the same source. Related parties tend to have influence over the financial or operating policies of a firm or have the power to influence another party's actions. A related party may be a close family member (including partners, spouses, children, other relatives), a key manager in the entity (and their close family members), or entities, such as subsidiaries of the entity, its holding company, joint ventures, and associates.

**Return on Equity (ROE):** Net income/book value of equity. A measure of profitability, indicating the percentage return on capital invested by shareholders.

**Risk Management:** The process of identifying, analyzing, managing and monitoring a corporation's exposure to risk and determining optimal approaches to handling such exposure.



**Sarbanes-Oxley Act:** U.S. legislation that tightened up corporate financial reporting, introduced a federal accounting supervision board and criminal liability for executives who are shown to have falsified accounts.

**Say on Pay:** The ability of shareholders in a corporation to actively vote on how much senior executives employed by the company should be compensated. Corporate laws may provide this power to shareholders.

**Shareholders' Agreement:** A written document governing the relations among shareholders and defining how the company will be managed and controlled. The agreement helps to align the objectives of controlling shareholders to safeguard common interests and to protect the interests of minority shareholders.

**Shareholders Rights:** The rights resulting from ownership of shares, which may be based in legal rights or other rights contracted with the company. The basic shareholder rights include the right to information on the company, to attend the meeting of shareholders, to elect directors, to appoint the external auditor, voting rights and cash flow rights.

**Standard & Poor's 500 Index (S&P500):** An index of the 500 largest U.S. companies, accounting for 85 percent of the dollar value of all shares listed on the New York Stock Exchange (NYSE). The index provides a general measure of the overall performance of the U.S. stock market.

**Staggered Board:** Structure of board of directors in which every year a fraction of the directors is elected, each for a multiyear term. Also called a classified board.

**Stakeholder:** A person or organization with a legitimate interest in a project or company. In a more general sense, it refers to suppliers, creditors, clients, employees, and the local community—all affected by the actions of the company.

**Share Option:** An agreement, or privilege, which conveys the right to buy or sell a specific security or property at a specified price, by a specific date. The most common share options are: calls — the right to buy a specified quantity of a security at a set strike price at a time on or before expiration — and puts — the right to sell a specified quantity of a security at a set strike price at a time on or before expiration.



**Tag-Along Rights:** If a majority shareholder sells his/her stake, minority holders have the right to participate and sell their stake under the same terms and conditions as the majority shareholder. This right protects minority shareholders and is a standard inclusion in shareholders' agreements.

**Takeover:** The purchase of a public company (the target) by another company (the acquirer or bidder).

**Trading Policy:** Terms and conditions that specify the conditions under which insiders — typically directors and officers of a company — can trade company shares. It also includes specific periods when insiders may not trade their shares, called "blackout periods."

**Transparency:** The corporate governance principle of publishing and disclosing information relevant to stakeholders' interests and to shareholders on all price-sensitive material matters.

**Tunneling:** An illegal business practice in which a majority shareholder or a high-level company insider directs company assets or future business to themselves for personal gain.

**Two-Tier Board:** A board of directors that divides supervisory and management duties into two separate bodies. The supervisory board, comprising non-executive directors, oversees the management board, comprising executive directors. The arrangement is common in France, Germany, and Eastern Europe. Not all styles of two-tier board are identical.



**Value Based Management (VBM):** Value Based Management (VBM) is the management approach that ensures corporations are managed consistently on value (normally maximizing shareholder value). The three elements of VBM are:

- Creating value: how the company can increase or generate maximize future value, similar to strategy
- Managing for value: governance, change management, organizational culture, communication and leadership
- Measuring value: valuation

**Voting Rights:** The right to vote at shareholders' meetings on issues of importance for the company.

**Voting Shares:** Shares that give the shareholder the right to vote on matters of corporate policy, including elections to the board of directors.



**Weighted Average Cost of Capital (WACC):** A measure of return on a potential investment. The measure includes cost of debt and equity, weighted by their relative contribution to overall costs in proportion to total funding and the cost of the related interest or dividend payments.

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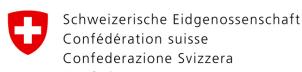
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