

The Responsibility of Boards is Unreplaceable

Prepared by AmCham member:

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Accounting scandals at major companies, such as ENRON, WorldCom, Ahold and Parmalat, massively affected the rise of business ethics worldwide. Corporate Governance has become a central topic not only in the business environment, but also in capital markets, international organizations and national governments. The Slovak Republic is not excluded.

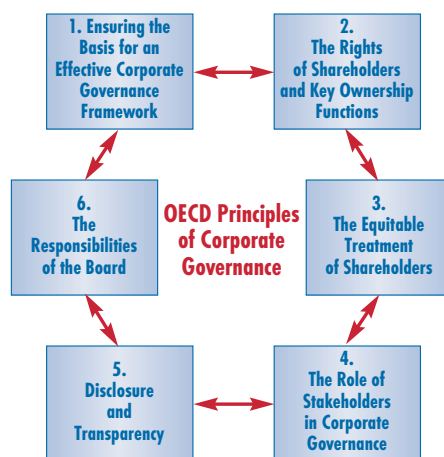
The Board as a Key Corporate Governance Bearer

In order to define the term Corporate Governance, it is important to note that it embodies the responsibility system of the management to owners, generally shareholders, taking into account relationships with other stakeholders. It is quite typical that in the case of "company turbulence", managers and auditors are held responsible. Corporate Governance underlines the primary responsibility of the Members of the Boards (the "Board of Directors" in the Anglo Saxon model, in contrast to the European continental model with the "Executive Board" and the "Supervisory Board"). They are appointed by the owners and are therefore held accountable to them. Hence, owners should set up mechanisms to make the company function, employ managers, supervise their activities and ensure a sufficient amount of credible information leading to competent decisions. Owners should be the first-class partners to the management and stakeholders. The role of the board members is irreplaceable, regardless of their responsibility to majority or minority owners. If a company is to function professionally, it is very important that members of the board are properly skilled. First, they should have a sense of the business strategy in the given field at the beginning of the 21st century. Of no less importance are legal knowledge, company communication, leadership and company financing in the process of creating and implementing the strategy. This is a very difficult role, but the responsibility for the decisions can be borne only by a prepared member of the board. To wit, special attention is paid to independent external members of the board. Slovakia is still at the beginning of this process.

The Slovak Republic as a Part of the Global Scene

Since 2000, Slovakia has taken many positive steps towards improvement of legal,

institutional and regulatory framework of entrepreneurship. Positive development has been observed in the legal field (especially amendments to the Commercial Code), but also in the adoption of Codes of Corporate Governance. Slovakia, as a member of the OECD, accepted recommendations of this organization by adopting the six revised OECD Principles of Corporate Governance (see chart) that were transformed into the Unified Code of Corporate Governance in 2002.



In this connection, the World Bank conducted a review of the Corporate Governance Principles Compliance in the Slovak Republic for the first time in October 2003. In its Report on the Observance of Standards and Codes, the World Bank positively assessed improvement of legal and regulatory framework. At the same time, it pointed out that there are certain open issues concerning the division of powers between executive boards and supervisory boards, the absence of education, and consulting and information systems aimed at further professionalization of board members. The scandals in the U.S. led to the adoption of rather strict legislature (the Sarbanes-Oxley Act). The European Union has not broached such radical arrangements. However, its representatives indicated that some recommendations may be

transformed into legislation for the simple reason that companies ignore them. It is necessary for Slovak companies to realize that they are also participants in their business environment. The more they apply informal rules, the less the government will institute restrictions and repressive measures. Companies pass through many stages in their life cycle, with the method of supervision and financing of their development also changing rapidly, from the execution of the initial idea, when companies, as private subjects, are financed by their own reserve funds, business angels and venture capital, to the final stage, when they normally issue and IPO or are sold. Forms of ownership supervision and control change also work in a similar way. Accordingly, the effect of corporate governance principles is visible in every stage of the life cycle of a company. This process is very dynamic and competitive in Anglo Saxon economies - on the other hand, it is rather cumbersome and slow in European continental economies (including the Slovak economy model). Slovakia is facing a big challenge in creating conditions for development of new economy sectors that are naturally willing to expand in a short-term period. It is these new sectors that help accelerate the supervision and financial mechanisms stated above, which will be reflected in better competitiveness of the national economy.

Transparency and Disclosure

One of the six OECD principles sets standards and conditions for disclosure and transparency. Issuing annual reports should be a basic rule for all transparent companies; a company shall inform about all changes influencing the activities of investors, creditors and other stakeholders. The National Code of Corporate Governance specifies the recommended practice of disclosure of information through annual reports. This year, INEKO, TREND, KPMG and SK-Media will organize the 6th annual national competition "Annual Report of the Year". The level of contestants has distinctively increased in the past few years, and the efforts of many Slovak companies to disclose sufficient information to owners and other stakeholders is evident.

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