

**Corporate Governance in Macedonia**  
**Corporate governance – new experiences:**  
**Implementation in South Eastern Europe**  
**03 – 04 November 2011, Zagreb, Croatia**

# Specificities of development of the corporate governance structures and practices in the Macedonia

- Privatization in Macedonia in the 1990s: rather dispersed ownership structure of many companies in the country.
- Some estimates:
  - by the end of the 1990s there were 300 thousand shareholders.
  - 255 thousand in 2004 and
  - 105 thousand in 2007.
- Shareholders often are also employees in the companies, makes them be confused about their primary role in the company.

## Specificity (2)

- Not sufficient distinction between ownership and control in the company.
  - Often no separation between the top positions in the companies (especially CEO and President of the Board),
- Fourth, the composition of the boards of directors – especially the non-executive directors and of the supervisory boards is far from the best practices.
  - These are frequently people who have not enough competence, experience and skills, they are often familiar to, or even controlled by the dominant shareholders or the managers, decreasing thus the effectiveness of the supervision in the companies.
  - In state owned companies, this is also complicated by the partisan policy in nominating executive and non-executive directors.
- This was the main reason to feel the need for establishing the Institute of Director that would assist in the promotion of the role of non-executive directors in companies.

## Specifics of CG (3)

- Transparency and disclosure practices of the companies' financial performance and position are still to be improved.
- The companies were reluctant to disclose their financial statement in line with IFRS.
- Auditing profession was slower to get organized in comparison to some other countries in the region. It is only several years ago that the Macedonian Institute of Auditors was established and just recently it became an associate member of IFAC.

# Research on CG in Macedonia

- Several researches on CG have been conducted:
  - EBRD
  - FOSIM
  - IBRD/IMF (ROSC)
  - IFC
  - OECD
  - USAID

# CG status in Macedonia

- Various level of achievement of the 6 OECD CG principles:
  - Framework for effective CG
  - Shareholders rights and basic ownership functions
  - Equitable treatment of shareholders
  - Stakeholders' role in CG
  - Disclosure and transparency
  - Board of directors' responsibility
- Range mostly on the partially observed or largely observed area.
- ROSC (2005) provided the most detailed analysis following the OECD principles
- EBRD analysis: legal framework more or less established, and highly compliant to OECD principles “by book”, however poor “by actions”.

# Still missing

- Government followed the ROSC and other studies' recommendations on many matters.
- The most problematic areas, yet, are the following:
  - Disclosure and transparency
    - Institute of certified Auditors has become an associate member of IFAC only this year
    - Supervision to auditors improving but not sufficient
  - Board of directors' responsibilities

# Recent improvements

- Internal audit has been made obligatory for all public companies since 2010
- Audit committees have been made obligatory for banks in the Law on Banks 2007 and for all companies with obligation for public disclosure in the Audit Law of 2010.
- Overall disclosure practices have been constantly improving.



# Problems with the Boards

- Boards are usually nominated by the management and the Assembly simply elects them – they are not sufficiently independent
- Board members are not professional sufficiently
  - They are not aware of their responsibilities
  - They are not aware of the risks they run by not complying with laws and best practices
- Sometimes they feel intimidated by the Management

# Institute of Directors of the Republic of Macedonia

- Recognized the need for improving the situation with the boards and that this may enhance overall companies' performance
- Established in 2009
- 47 members of different industries, sizes and regions
- Supported by IFC
- and SECO



Schweizerische Eidgenossenschaft  
Confédération suisse  
Confederazione Svizzera  
Confederaziun svizra

Swiss Confederation

Federal Department of Economic Affairs FDEA  
State Secretariat for Economic Affairs SECO

# IOD's Mission

- The Institute of Directors in Macedonia is dedicated to creating a positive impact on the economy and the society by promoting professional directorship and good governance.
- In the focus of its activities is to support Boards of Directors and Supervisory Boards to add value to their strategic decisions.

# General goals

- To promote respect for the role of director
- To protect the rights of Macedonian directors
- To improve the professionalism, expertise and status of Macedonian directors

# Specific goals

- Preparation of Manuals related to the rights and obligations of members of the Supervisory Boards and non-executive and executive members of the Boards of the companies
- Organization of trainings/workshops
- Cooperation with similar institutions abroad
- Organization of visits to international meetings of institutes
- Ensuring that the Code of Conduct for application of best practices in the corporate governance is properly adhered to by the Institute's members
- Promotion of the Institute of Directors and its mission
- Organization of conferences
- Improvement of the capacity of the persons who provide professional support to the Boards of Directors and Supervisory Boards (especially company secretaries and internal legal advisors)

# Activities

- A strategic workshop held in March 2009.
- Launching event: "The New Role of Directors in Times of Economic Crises and Beyond", June, 2009.
- Publications:
  - "Rights, duties and responsibilities of managers in Macedonian joint-stock and other companies - state of affairs, dilemmas, and prospects" by prof. Dr. Goran Koevski, May 2009.
  - "Navigation in times of Crisis" in cooperation with IFC and IMD – Switzerland
  - "Manual of corporate governance", in cooperation with IFC
- Workshops and trainings:
  - "Risk Governance – The Board's Response to Economic and Company Crises". IMD experts presenters. The IFC and Swiss SECO supported this training.
  - Working capital management
  - Risk management
  - Women in corporate boards, Skopje 2010
- Corporate governance assessments

## Activities (continued...)

- Agreement signed for joint activities of IOD and IFC to scan the situation and the level of corporate governance in Macedonian companies by using a standardized IFC created tool - a questionnaire created and used for this purpose.
  - During 2010 and 2011 scans of about 15 companies were conducted, mostly JSCs.
- At the beginning of 2010 two workshops at the Securities and Exchange Commission of the Republic of Macedonia and the Macedonian Stock Exchange were organized.
  - "The key corporate governance issues for regulatory bodies" and
  - "The key corporate governance issues for market institutions".

# Problems encountered

- The need for the IOD's services has not been widely recognized.
- BOD's is considered as a "necessary evil": companies are not happy to invest in them.
- Public awareness for the need of improvement is still low.
- Nomination in state owned companies is very political.



## Benefits (to be) offered

- Education
- Publications
- Conferences and workshops
- Corporate governance assessments – good for raising public awareness
- Personal Insurance liability