

Rules Needed for Selecting State Firm Board Members

By [The Moscow Times](#)

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Russia needs rules for picking independent directors of state-controlled firms to reap the benefits from a decision to remove officials from boards, the head of the country's Independent Directors Association said.

President Dmitry Medvedev ordered Prime Minister Vladimir Putin last month to "initiate" the removal of his deputies and ministers from the boards of state companies, but stopped short of saying how to replace them.

"There is a need to create transparent mechanisms for the selection of independent directors," Alexander Ikonnikov, a veteran corporate governance consultant and the association's head, said last week.

"Now independent directors for strategic companies are often picked from a tight group of people friendly with officials," he said.

The state property agency recently nominated 25 of the association's 500 members to boards in state-controlled firms.

Critics of Medvedev's decision argue that in Russia the presence of an influential minister on the board can help a company deal with potential problems such as red tape or dishonest competition.

Prominent officials affected by Medvedev's order include Finance Minister Alexei Kudrin, board chairman of Russia's No. 2 bank VTB, and First Deputy Prime Minister Viktor Zubkov, chairman of gas export monopoly Gazprom.

The practice of including officials on boards has origins in the 1990s when state giants like Gazprom were de-facto spun off from ministries. It contradicts corporate governance rules accepted by developed countries.

Energy Minister Sergei Shmatko said last week that Putin's deputies will soon have meetings to discuss potential candidates. The criteria for nominations are not known.

Ikonnikov said the presence of professional directors on the boards of state-controlled companies could double their value in the long term, removing the so-called "corporate governance discount" applied by investors to Russian firms.

"The P/E [price to earnings] ratio of Indian firms is in the 9-10 area; ours is about 4.5-5. If we can improve investors' confidence, we can raise this ratio at least twice, if we take India as a benchmark," Ikonnikov said.

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