CORPORATE GOVERNANCE IN POLAND

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Abstract

This article considers the traditional approach to the 'state' Models of corporate governance, namely shareholder Model and stakeholder Model. It then considers the extent to which developments in a recent accession EU country, Poland, reflects either of these Models or adopts a hybrid approach. It then offers proposals for the future development of corporate governance within Poland.

Keywords: corporate governance; shareholder; stakeholder; Poland

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1. Introduction

Corporate governance has been much debated in many arenas in recent years. This has been brought back into the limelight by the current global economic crisis.

The purpose of this article is to review and evaluate the current position with regard to the development of corporate governance in a recent accession member state to the EU - Poland.

This article is divided into two parts: the first presents a brief overview of the main theories and models of corporate governance. Traditionally, these are categorised into two main camps: the shareholder or stakeholder. It is not the purpose of this article to review whether this static approach to corporate governance is appropriate, effective or realistic (for example, see Griffin and Mahon, 1997; Prabhaker, 1998; Friedman and Miles, 2002). Rather, the position in Poland will be examined to see which of these 'traditional' approaches, if either, is being adopted within Poland.

It will be posited that Poland is not 're-inventing the wheel'. That it is, in fact, drawing from these existing approaches. Conclusions will be offered as to the extent to whether this is necessarily the best way forward for a developing country in a relatively young, free market economy. That one cannot ignore corporate governance regimes internationally is noted by Detomasi, (2006, p.225) who states: "It is difficult to avoid the topic of corporate governance". This is also the case domestically in order to understand processes of regime change and transformation (Roe, 2003; Gourevitch and Shinn, 2005). But this is especially the case in emerging markets, where national systems of corporate governance are not as well institutionalised and where the costs of corporate governance failure are very high. This can be seen in the economic consequences of the East Asian financial crisis of the late 1990s which resulted in the five most heavily affected countries losing more than 60 per cent of their combined gross domestic product (Schwab, 2003).

For a country such as Poland a new accession state in the European Union, the pressure to converge in financial regulation and corporate governance so that it can compete for investors and capital with established markets is significant. According to Reed (2002, p.223) corporate governance reforms in developing countries "occur in a larger context that is primarily defined by previous attempts at promoting 'development' and recent processes of economic globalisation".

One would assume for a topic which has been thoroughly debated and examined in many fora for many years that the concept of corporate governance would be clear. It still seems to be though a concept discussed in terms of generality as we shall see below. Nonetheless, it is accepted that corporate governance is not simply for the benefit of companies themselves but also for the whole market and society (Mueller, 2006, .p 207).

In light of this, the next section will consider the 'traditional' models from which to choose.

2. Models of corporate governance

2.1 Introduction

Traditionally, it is assumed that corporate governance is based *either* on the shareholder model *or* the stakeholder model.

The shareholder model is most common in 'liberal market economies' such as the USA and the UK. The stakeholder model a feature of more 'co-ordinated market economies' like Japan and Germany (Hall and Soskice, 2001). This split is also referred to as: 'stock market capitalism' versus 'welfare capitalism' (Dore, 2000) and even 'Anglo-Saxon' versus 'Rhineland' capitalism (Albert, 2003). An interesting recent development in this debate has been to describe this split as being 'market-centred' or 'bank-centred' (Allen and Gale, 2000).

This approach has been criticised as being 'too simplistic' (La Porta et al, 2000) and a more appropriate way of explaining this distinction being to consider the extent to which investors enjoy legal protection (La Porta et al, 1999).

A further recent debate has struck at the very essence of the assumptions above. That is, that whilst traditionally the UK and USA are seen as one 'Anglo-American' Model there are now fundamental differences being identified *within* this Model, (Aguilera et al, 2006; Toms and Wright, 2005). It is suggested that whilst there are differences in the regulatory methods and approaches adopted by each country this is more to do with the enactment of legislation in the wake of recent US corporate scandals. But, whilst this distinction is not significant in terms of the 'social purpose' of the two traditional Models it does represent an interesting distinction particularly for emerging markets undergoing corporate governance reform. We will return to this discussion subsequently.

2.2 Stakeholder and Shareholder Models

2.2.1 Stakeholder Model

Essentially, this is based on the notion that private ownership results in a fundamental desire of social order and an efficient economy. This can be seen in relation to a company in that the right to incorporate is a right to own property and therefore corporation should be seen is a legal extension of their owners (Allen, 1992). Since shareholders are the owners of the company, the company has legitimate obligations and the managers have a fiduciary duty to act in the interest of the shareholders (Barker, 1958; Mayson et al 1994). This is the Chicago School of Law and Economics. Under this theory, assets of the company are the property of the shareholders. Directors and managers, as agents of the shareholders, have no legal obligation to any other stakeholders (Allen, 1992; Blair, 1995). This approach is supported by neoclassical economists such as Hayek and Friedman. For Hayek (1969) this approach of pursuing self interest is the most efficient way to manage economic activities - thus, the company

must use shareholders capital to maximise profits in order to enhance shareholder value. Any 'social purpose' beyond the shareholders interest could be viewed as an abuse of power as it will not lead to efficient use of corporate resources.

This view is developed by Friedman (1962, 1970) who asserts that other stakeholder interests are looked after by contracts or government regulation. These are not the remit of corporate governance.

This approach has been defended recently by Sternberg (1998, 2000) who asserts that considering interests beyond the shareholders undermines private property, agency duty and value-creating capabilities of a business. To address the problem of potential 'abuse' she suggests internal monitoring through non-executive directors, voting rights and information disclosure to shareholders. This method of protection is also posited by Malegam (2008).

So, this Model regards the company as an extension of its owners and that only market forces can achieve efficiency (West, 2006). To resolve any potential conflict between the owners and managers rewards are linked to corporate performance (Letza et al, 2004).

2.2.2 Stakeholder Model

This Model is directly at odds with the notion of inherent property rights. It regards the company not as a private association united by individual property rights but rather as a public association constituted through political and legal processes and as a social entity for pursuing collective goals with public obligations (Gamble and Kelly, 2001 p.115).

This approach is summed up by Sullivan and Conlon: "The standard of a corporations usefulness is not whether it creates individual wealth but whether it helps society gain a greater sense of the meaning of community by honouring individual dignity and promoting overall welfare" (1997, p. 713).

Thus, the corporation is a 'social entity'. It is responsible to and accountable to a broader set of actors than its owners (Wieland, 2005). These actors include employees, suppliers, local communities - indeed, anyone affected by the behaviour of the company (West, 2006).

In addition to the considerable literature on the characteristics of these Models (Donaldson and Preston, 1995; Letza et al, 2004) the assumptions made by these Models about the nature and purpose of a company and to whom it is ultimately responsible constitute key issues for the direction of corporate governance development in any developing jurisdiction.

3. Corporate Governance in Poland

Corporate governance was introduced to Poland by the July 13th 1990 Privatisation of State Owned Enterprises Decree. This also transformed the system from a centrally managed one with a planned economy to a free market one. The whole Polish adventure with corporate governance started with large companies, as these were expected to be at the forefront of implementing corporate policies. The initial step after the transformation was to create supervisory boards. One might ask why the building of corporate governance started in this way. The answer is that at that time all companies were national and had no private share. Many of them were massively privatised, therefore some supervisory body was essential to oversee and look after state-owned entities (SOE). A key task for the government was to find new and stable owners who would effectively run enterprises embraced by the privatisation process. Quite frequently these companies required considerable financial input in order to restore their full capacity or to improve obsolete technologies of production. Therefore, in order to assure success for the newborn Polish economy, the government had to search for financially sound investors with long-term goals. According to Koldakiewicz (2001) the nineties provided enough time to build the *basis* (emphasis added) of corporate governance, but much still remained to be done.

The whole process of privatisation not only in Poland but in all of Eastern and Central Europe is a great example of building different forms of corporate governance policies (Grosfeld and Hashi, 2007). Although these countries had similar economies and were culturally convergent, still their experiences soon after transformation were very different. The first completely new thing that post-socialistic countries had to face in their free markets was the separation of ownership from control, something well known to developed countries (Koldakiewicz, 2001) and discussed above. There was a lack of professional and experienced managers, so initially there was chaos in the markets. Governments launched mass privatisation programmes that ran through societies, which dispersed shares amongst a huge number of individuals, something that was totally new. In Poland alone, out of 29 million people entitled to participate in the privatisation programme nearly 26 million took part. The experience was very unusual and among certain groups was strongly criticised for its artificiality. However, there was a grain of truth in the criticism. The quick process of privatisation did not give law-makers and companies enough time to adapt themselves to the new conditions. There was insufficient time to build a firm basis of corporate governance. This led to a large group of opponents forming the view that the Polish form of corporate governance failed in the nineties (Grosfeld and Hashi, 2007). To this day, politicians from the parliamentary lectern accuse the then government, with its prime minister at the vanguard, for the inept process of privatisation that cost the nation an unbelievable amount of money. Among those widely criticised was the then vice-prime minister and also the Secretary of the Treasury, who also became the subsequent president of the National Bank of Poland. He introduced a package of 11 new acts that were to transform the economy. The truth is that Balcerowicz had to act quickly. At that time inflation in Poland had reached an astonishing 650 per cent of

the gross domestic product. There was not time to hesitate (www.prawo.uni.wroc.pl, 2008).

Before drawing any conclusions on how far Poland managed to get in terms of developing and implementing corporate governance, especially in comparison to the UK and the US, it is essential to consider all of the stages from the very beginning of the Polish free market. As mentioned previously, the process began in the early nineties with the reforms initiated by Leslaw Balcerowicz, and the subsequent creation of the financial system and capital market. The next phase was the transformation of state-owned companies into 'sole-shareholder companies of the State Treasury'. This was also the time that shareholders had their first general meetings and selected their supervisory boards. So far, however, the only shareholder was the State Treasury, so members were selected by the Secretary of the Treasury. On average, supervisory boards consisted of five to six members, out of which, one third were selected by employees (Koldakiewicz, 2001).

In Poland, initially only 512 state-owned companies were embraced by the privatisation programme. When compared to the significantly smaller Czech Republic which had 1700 companies on the list, this does not appear to be a strong response. However, the two economies went in different ways. In relation to Poland, 60 per cent of the equity stakes of 512 companies that were undergoing the privatisation process were given to 25 specially set up National Investment Funds (NFI). Exactly 33 per cent went to one particular NFI, and the remaining 27 per cent were proportionally split between the 14 remaining NFIs giving them slightly less than 2 per cent of the equity share. In this regard the NFI's share simultaneously made these separate 15 entities major shareholders. The remaining 40 per cent were split between the Treasury and employees, 25% and 15% respectively. The managerial functions over the new 15 NFIs were entrusted to commercial institutions, such as 'investment banks' and 'consulting firms', both Polish and foreign. The selection of managerial bodies was conducted 'through international tender offers'. The artificial split of shares between the NFIs was intended to prevent a high concentration of shares being held by one entity. However, neither in Poland nor the Czech Republic did this strategy succeed. By the end of 2000, through acquisitions and mergers, many single shareholders already had over 50 per cent of the equity share of particular companies. In effect, they could easily control companies from their portfolios and accordingly affect the managers' decisions. With regard to Poland, shareholders received one 'certificate' equal to 'one share' in each of the 15 Funds. As a result, they became 'indirect shareholders'. The NFIs were listed on the Warsaw Stock Market and certificates were exchanged to shares of NFIs in 1998 (Grosfeld and Hashi, 2007).

It is worth highlighting that these NFIs were simply conducting their business activities as investment funds, and fulfilled all the requirements to be classified as capital groups. Unlike in Western Europe or America, they came into existence immediately. In the UK or the US the process of creation of powerful capital groups lasts for many years. In the case of Poland this happened immediately and was a very new procedure, not only for Poles, but for all economies (Szczepkowska, 2003).

Poland made a huge effort from the very beginning in terms of implementing effective laws to protect the market and investors. This especially applies when Poland is compared to other Eastern and Central European countries. As Grosfeld and Hashi point out: "NFI managers and the stock exchange listing requirements were carefully designed to ensure the transparency of the process and to avoid expropriation of minority investors". The major concern of Polish authorities was on the one hand not to allow too high a dispersion of shares in order to keep some strategic investors as watchdogs, but on the other hand not to concentrate the ownership too much, so as to avoid "the potential danger of private" incentives with no regard to minority shareholders. Therefore, government implemented "the limit of 33 per cent on the lead fund's holding in each" privatised company (2007 p.522).

In the early stages of the new Polish economy, a major problem concerned the lack of independent institutions that could monitor the activities of companies in the market. This situation changed when the Securities Commission issued regulations in 1991. This provided regulations to assure fair competition and equal access to verified information in relation to the securities market. Also, more importantly, the new regulations touched upon minority shareholders' rights. Soon after, in April 1991, the Warsaw Stock Exchange (WSE) was established and still remains the major proponent of best business practices and corporate governance. What is more, the WSE imposes several obligations on companies floated on the stock market, e.g. submission of quarterly and annual reports, with nonconformity penalised by fines.

Further developments of Polish corporate governance came in 1993 with the Act on the Financial Restructuring of Enterprises and Banks and Act on National Investment Funds and Their Privatisation. Both of these brought new and more efficient supervisory functions. Furthermore, they dealt with the problem of bad debts. At that time, banks had serious problems in judging whether to grant loans to companies to facilitate their further development. The new regulations of 1993 transformed the role of banks from 'a lender to an owner' with debts exchanged into shares of capital stakes. There were high hopes in relation to the new provisions. Regrettably, these expectations were not achieved in reality. There were no major changes in the ownership structure observed. Although the provisions were intended to encourage banks to take more risk and grant loans to finance more challenging projects, this did not happen to any great extent. Banks very rarely exchanged their debts for shares of their debtors. Inexperienced bank managers presumed that if a particular company could not pay off its liabilities, in the case of transfer of debts into shares.

Bad debts would be exchanged for 'bad shares' (Koldakiewicz, 2001).

A major problem for Poland in the nineties concerned minority shareholders. Indeed, this is still a problematic issue. It is common that majority shareholders and minorities have divergent goals; however, this is not always the case. As already discussed, there can be very different institutional investors in the market. Some of them may want to have large numbers of shares in order to monitor the managers in control, some may want to diversify their portfolios in order to minimize risks, others may want to influence managers' decisions and pursue their interests (Grosfield and Hashi, 2001). Whatever the case, effective mechanisms providing protection for minority shareholders are a must. However, this issue is not the sole problem for Poland or other emerging markets, but all markets worldwide. All developed economies have to or have had to deal with this major problem. After all, minority shareholders are the group most vulnerable to abuse. With regard to the Polish market there are several examples of unfair transfer pricing, unjustified investment projects or excessive licence fees etc. However, it is very difficult to assess the scale of such behaviour in the market (www.pfcg.org.pl, 2008). What is even more difficult is to prove that motives were not genuine and the policies were not crried out with the best intentions.

As time went by, Polish law continuously altered and tried to accommodate itself to the needs of the market. A substantial number of these adaptations concerned effective supervisory mechanisms. In effect, several duties were imposed on supervisory boards, inter alia, control of balance sheets, compatibility of accounting books, assessment of management boards' reports and dealing with proposals for distribution of profits. An additional duty imposed on supervisory boards was to issue annual reports for shareholder's general meetings in respect of their work and conducted assessments. On top of the above, some judicial responsibilities included suspension of individual members and/or the whole board of management for important reasons and delegation of members of the board who are incapable of fulfilling such functions. Put simply, obligations that supervisory boards owe shareholders include:

- An information function: submission of quarterly reports about the company
- A review function: issuing opinions regarding the activities of the board of directors
- A reporting function: summaries of the activities conducted by the supervisory board itself (Koldakiewicz, 2001).

The report issued by The World Bank in 2005 on Polish compliance with standards and codes of corporate governance includes an assessment of Polish supervisory board institutions. Following The World Bank's guidelines, Polish law grants supervisory boards extensive powers. Boards play an important part in the selection of CEOs and also have the final say on companies' strategies. Also, they effectively monitor the flow of information within and outside companies. However, concern has grown about the level of professionalism and of independence of the SOE supervisory board members. It is very difficult to resolve this issue due to the fact that the state still owns a considerable stake in many companies. Therefore, politicians have an adverse influence on a company's performance and on the composure of its board.

The World Bank acknowledged that the Polish government had made a huge effort in terms of implementation of accurate corporate policies. Similarly, the authors of the guidelines noticed that ownership concentration, securities market regulation, levels of foreign investment and general patterns of corporate organisation are moving towards Continental European norms. So far, however, most probably due to the high state share in state-owned companies, the government plays the key role in the Polish scene of corporate governance. This situation may change with the growing powers of pension funds that currently correspond to 10 per cent of the capitalization of the market.

Since Poland joined the EU, market capitalization has nearly doubled year on year. By the end of 2004 it equalled $71billion, while by the end of 2007 it was already $330 billion. Approximately 55 per cent of this relates to foreign companies and foreign capital. These figures are enough to keep Poland at the forefront of the countries that acceded to the EU in 2004. Although capitalization of the market has accelerated enormously in the recent past, it should be noted that there are a few large companies that themselves compose a significant stake in the market, for example, Unicredito, with a capitalization of approximately $90 billion (www.skarbiec.biz, 2008). Recently however, there have been changes. Due to the worldwide crisis, the capitalization of the market in Poland has dropped dramatically from $330 billion to approximately $150 billion. Bearing in mind that this happened in less than one year, this has had a dramatic effect on corporate governance development in Poland (www.gpw.com.pl, 2008).

Thus, the early nineties gave Poland the foundations of a capital market with basic institutions. Also, the freshly introduced concept of corporate governance had a chance to find its feet on the new ground. The second half of the 1990s brought further advances, especially thanks to the new legislation that came as the answer to the needs of that time, namely the Act of the Commercialisation and Privatisation of State Owned Enterprises, which came into effect from 30th August, 1996. This Act allowed employees of companies to supervise and control enterprises they worked in to a higher degree than ever before. Since then it has become the rule that employees select two out of the five members of supervisory boards. Also, the nineties set new goals for Poland due to the country's accession to the OECD and the resulting commitments made by the Polish government. The most influential from the standpoint of corporate governance were the introduction of the Act on Investment Funds on 28th August, 1997 and the Act on the Organisation and Functioning of Retirement

Pension Funds. The above Acts introduced a very new group of institutional investors. Their major task involved effective investment of 'publicly collected' funds; therefore they became institutional shareowners rather than institutional shareholders. The latter Act also introduced retirement pension funds to the market. Their activity began on 1st January, 1999. The oversight functions over all the above investors were performed by the newly established Retirement Pension Fund Supervisory Authority and the Investment Fund Association incorporated as a joint stock company (Koldakiewicz, 2001).

Despite the Polish achievements of the last twenty years in relation to corporate governance, many issues still need improvement. The high dispersion of shares at the beginning of the privatisation process was quickly reduced and governmental restrictions did not prevent excessive acquisitions (ROSC, 2005). Although supervisory boards have wide powers, their efficiency needs to be enhanced. According to Koldakiewicz the Polish supervisory system of the nineties was very similar to the one in Germany, especially with regard to Treasury owned companies. Also, there were similar solutions in relation to the participation of employees in the process of privatisation. However, there were remarkable differences in banks' attitudes and their activities. In Poland, as mentioned previously, banks tended to invest very passively, restricting themselves to lending funds necessary for investment and development. Managers had no experience in investment banking and there was no such tradition, contrary to the situation in the German market. Additionally, certain banks that had considerable amounts of shares of other companies were not even privatised themselves. As a result, they had little interest in managing other companies.

The process of privatisation has been ongoing since the beginning of the 1990s. From this date until the end of August 2008, 5894 state-owned enterprises have been through the privatisation process. So far, 1688 companies have been fully commercialized and 2291 companies out of 5894 have been directly privatised as a result of the act of mass privatisation of state-owned companies. 2204 companies ceased to exist due to enhanced competition, ineffective management and so on (www.prywatyacja.msp.gov.pl 2008). In 1994, the state owned all of the 5894 companies and by the end of 2000, the government reduced the state's share in 99 companies to zero per cent. In the remaining entities the national share was reduced to 20 per cent (Grosfeld and Hashi, 2007).

Bearing in mind the above, currently there are over 1500 companies in which the Polish State Treasury still has a considerable share of around 20 per cent, which is one of the highest in Europe. Given this, Poland still has some way to go. The political party Platforma Obywatelska (PO) announced it will do its best to reduce the ratio to 10 per cent or even below (www.dziennil.pl, 2008). All the above has influenced the Polish corporate governance system. The direct connections between the world of politics and the economy are too strong. Many of the state controlled companies are in crucial sectors of the economy, e.g. finance, energy etc. What is more, according to the current regulations, managers of such companies which have a state share, cannot earn more than six times the average wage. The exact figure depends on whether the company is controlled directly or indirectly by the State Treasury. These restrictions may lead to more problems than benefits in the form of savings on managerial salaries. Representatives of PO say the wages of top management must be increased in order to attract highly skilled managers. They say this is part of the reason that these companies are struggling and cannot compete in the market. Therefore, Platforma Obywatelska is pursuing new legislation in order to change the situation (www.bankier.pl, 2008). Even international independent bodies highlight the fact that developing markets have to attract highly skilled managers and offer salaries comparable to those they can achieve abroad (Koldakiewicz, 2001).

4. Conclusion

As assessed by J.Szomburg (2001) and The World Bank (2005) Polish companies perform within the shareholder model of corporate governance. Ownership and control seems to be very concentrated in one place with little dispersion of shares, especially compared to the UK and the US. On average the biggest shareholder of any company owns nearly 40 per cent of its equity stake; some sources even say this ratio is as high as 45 per cent. With regard to smaller companies that are listed on the Polish stock market this ratio is even higher at 70 per cent (www.pfcg.org.pl, 2008). This shows how far Poland has to go to improve the situation.

Corporate ownership has a significant effect on corporate governance issues and is indirectly responsible for companies' results. For many years different bodies have interpreted and calculated the diverse costs of separation of control from ownership. At the very beginning of corporate governance it was widely acknowledged that highly concentrated control in the hand of a small number of investors had beneficial effects for companies. The above was explained by the effective monitoring of managers by investors. However, since the eighties another view has prevailed according to which highly concentrated ownership may be very costly, especially through the expropriation of minority shareholders (Grosfeld and Hashi, 2007). Therefore, since the eighties, both in the US and the UK, much has been done to improve the situation for minorities and to provide them with appropriate protection. This should be a goal for the Polish government over the coming years.

In the case of the US, dispersion of shares among investors of the largest companies is so high that neither investors nor companies have to disclose any information on the possessed package of shares. In the UK, the biggest investors, on average, own nearly 10 per cent of a company's equity stake, which still

represents a high dispersion of shares in the market. In France this ratio is double that in the UK and equals 20 per cent. In Poland, Belgium and Austria it is 40, 50 and 52 per cent respectively (www.pfcg.org.pl, 2008). Szomburg et al raise the question of whether with such a concentration of shares and subsequently with such a level of control, these European companies are still public or already private, despite the fact they are being traded on public European stock markets.

Another issue relates to managers. In Poland, since the 1990s, many things have changed. Certain mechanisms were introduced to control executives and to align their interests with those of investors. A decade ago in Poland there were plenty of examples where companies were too large for their purpose and therefore not effective. Managers strived to gain more control and over invested in certain projects. This behaviour was well known in the American market in the past. Currently, major Polish investors have enough control and ownership due to low dispersion of shares to prevent managers from making damaging decisions. Therefore, many believe that for the Polish situation it is not essential to create complex motivational systems with highly complicated compensational schemes (ibid) and in fact, this has never been suggested. Institutional investors, however, must act very cautiously. Excessive pressures imposed on managers in control may also adversely affect their work and ultimately this will be reflected in poorer results. On the one hand, a high concentration of shares may discipline the management of companies, but on the other it may adversely affect liquidity in the market. A major problem for Poland is the small number of mid investors that would counterbalance the majority shareholders (Grosfeld and Hashi, 2007). Most governments of developing countries have still not found suitable and effective mechanisms to improve this situation.

Corporate governance systems, even if copied from developed countries and implemented directly in emerging markets, will not succeed and must be tailor-made. On the one hand developing markets offer many investment opportunities; on the other, these markets may be very insecure. However, in very general terms, potential shareholders are keen on buying shares of companies that invest in emerging markets because they expect quick and considerable returns. Although developing states have weaker economies, less enforceable laws and fewer options to gain capital for investments, they still attract investors. Shareholders of mature and developed markets are afraid that companies will over-invest in not very profitable projects due to the lack of attractive alternatives. Therefore, they may face slow growth or even a downturn. In such cases, firm corporate governance institutions should prevent managers of mature companies from making such wasteful investments. Therefore, experienced managers turn to developing markets in search of investment opportunities.

Developing countries should do their best to improve shareholders' protection and introduce strict and accurate regulations; otherwise they may face adverse long-term effects on the growth prospects of their economies. The biggest problem for these fresh developing markets is the lack of options for domestic companies to gain funds for investments. As Mueller says, there are 'four options for financing investment - cash flows, bank borrowing, bonds and equity and it is best if in a particular market, companies have all of the above to choose from. The best strategy for these governments would be to develop a large equity market through strong corporate governance institutions' (2006, p.217).

The likely direction of corporate governance within Poland is a general alignment with the shareholder Model. In time there may be greater commitment to stakeholder interests relating to the country's developmental needs which suggest that a hybrid Model of corporate governance may be further developed reflecting the needs of an aspiring, emerging market.

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