INTRODUCTION

Boards of directors are a crucial part of the corporate structure. They are link between the people who provide capital (the shareholders) and the people who use that capital to create value (the managers). One of the board's primary roles is to monitor management on behalf of the shareholders.

As Tricker says, in the common definition corporate governance "addresses the issues facing boards of directors". In this view, corporate governance in the task of the directors and therefore attention must be paid to their roles and responsibilities. In the broader view, boards of directors are the part of the governance system.

The way how this part of the governance system influences corporate governance depends on the governance concept used - monistic, dualistic or pluralistic. At the same time, certain governance concept shapes the boards practices.

Fundamental governance concepts have been developed in industrial countries. Countries of the Eastern and Central Europe, so named "post-communist", are still looking for an optimal concept to put it into the basis of the best board practices.

One of the countries where there is not still a firmly defined and well-developed governance concept is Ukraine. After a fifteen-year history of privatization of the state property there is a lack of approved approaches to research in the field of the board practices.

From the point of view of the Jay Conger classification of the roles of the board of directors, i.e. strategic, monitoring and advising, the supervisory boards in Ukraine are rather advisors than strategists and monitors. The members of supervisory boards believe that their main task is to give the competitive advices to the management board members. They support such behavior saying that through advising to the management board members the supervisory board members transmit the most important ideas from shareholders and executives.

Privatization, as a key factor shaping the stature of the supervisory boards in Ukraine transmitted remarkably the major features of privatization to the board practices. The most important factor is a lack of well-motivated owners rather individual to take part in corporate governance with application of the corporate board best practices. 52 per cent of shareholder equity is still owned by employee shareholders. It is waste to hope for their activity in gathering appropriate knowledge on corporate governance to pay an important attention to the supervisory board as a protector of their rights. Consolidation of their votes to represent the common minority shareholder interests by market participants like pension funds or asset management companies is a very unique event in Ukraine. Acting alone, i.e. separately, is not an effective approach of a shareholder to get his representation on the supervisory boards. Thus, the supervisory board gates are close for employee shareholders.

The supervisory board gates are managed very often by executives who apply a lot of efforts to isolate the supervisory board of the major corporate value – information. An information blockade deprives the supervisory board not only of possibilities to play a role of strategist. Monitoring becomes very difficult to apply too. Therefore, there is only one function to fulfill – an advisory function.

Large institutional shareholders whose capitals origin needs more transparency do their utmost to be under shadow. Supervisory board practices reflect such kind of approach to corporate governance. Transparency and accountability are just words and nothing more. Accountability could be only partial, toward the large shareholders. The worst fact is that the largest shareholders were the parliamentarians in Ukraine for a long time. Therefore it was a waste hope for the legislative progress in solving the problems of weak transparency and weak accountability of the supervisory boards. They were very resistant to the adoption of the new "Corporation Act" where many board issues are settled as it is required by the best international practices. Without adoption of that Act the supervisory boards are like marionettes in the hands of the large shareholders.

Market for supervisory board members in Ukraine is the weakest contributor to the development of the best board practices. There are about 35 thousand of joint-stock companies in Ukraine which employ about 280 thousand of directors. This is almost two per cent of adults in Ukraine. Taking into account that corporate governance courses are offered by educational institutions to all interested parties starting only from 1995, thus there is very instable fundament for directors to develop their own skills.

So, the director professionalism is under pressure from the side of society. Mobility of the market for the directors in Ukraine is very weak. That is why it is very hard to hope for the smooth development of the market. The situation in Ukraine is like in Japan where the secondary market for the directors is almost absent. Directors are "the corporate creatures" who worked at the company for a long time and their being on the supervisory board is rather a reward for their loyalty to the company than the reward for their professionalism.

"Director independence" as one of the major corporate governance challenges is far from the Ukrainian practices. Ukrainian companies are still before the approving more primitive concept – the concept of outside directors. Director interlocking has put a net of mutual relationships and informal contacts onto the director community in Ukraine.

All these make the supervisory board practices in a transition economy less competitive than the board practices in developed countries. Lack of the board practice transparency, board accountability, professionalism and social responsibility are the major problems of the corporate board practices in Ukraine. These are the cornerstones the corporate board practices to begin its move forward, toward the best corporate governance practices generally accepted in the world. These are the issues this book is going to deliver to the reading audience.