Remarks by Principal Deputy HR Donald Hays At a Corporate Governance Roundtable in Banja Luka

Ladies and Gentlemen,

First, let me say thank you to our host, the Tropic Holding Company. I am looking forward to hearing in some detail about the steps that were taken in order to create an effective management structure for this company of more than 400 employees.

This is an unusual gathering – at least in BiH – because we are here to talk about a subject that is still unfamiliar to many people here.

It boils down to this:

- honest management optimizes profits and benefits – for the corporation, for the government and for citizens.
- In the long run ethical management optimizes profits for those who own the corporation.
- management that takes account of shareholders' interests is more profitable for everyone.
- when management takes account of the interests of employees it is acting prudently in regard to the long-term health of the company.
- environmentally responsible management will deliver a product that costs less for the country and for taxpayers. Someone always has to pay the bills for an environmental cleanup, and that is usually the citizens of a country.

OK, many of you are nodding your heads and saying – that's

obvious.

But if it’s so obvious, why are the authorities not yet doing enough about poor corporate governance? Why do many managers still have only the vaguest idea of what good corporate governance is?

The reports into the management activities of the pubic utilities, undertaken by the Special Auditor last year, found that mismanagement was widespread – it was the rule not the exception. The Special Auditor assessed the loss to the two biggest public companies in the RS at over 200 million KM annually.

This mismanagement has had a crushing impact on these companies, on their workers, their customers and their shareholders, and ultimately a corrosive impact on the economy of the country as a whole.

These things didn’t only happen because there were no laws to prevent them from happening – but rather because the laws on the statute books are so full of holes that they represent an insignificant obstacle to the dedicated embezzeler and no one was interested in cleaning up management of public companies.

We now have legislation ready to go into parliamentary procedure

Law on Public Enterprises

Law on Investment of Public Funds

Law on Accounting and Auditing Standards

And here is what I want to emphasise today – the central message of this morning’s roundtable: These pieces of legislation aren’t going to make companies *less* profitable, they are going to make them *more* profitable; these laws are going to serve the interests of consumers, employees, shareholders and – let’s be quite clear – managers.

The only losers in the shakeup of management styles that these laws will initiate are the losers, who have mismanaged public companies, and their political patrons. In short, Good Corporate Governance benefits all but a small minority

We need this legislation because Good Corporate Governance is a prerequisite for economic take-off.

Why is this? Investors prefer putting their money into companies where they have the necessary tools to control whether or not they make the best use of their capital; where managers can be dismissed for their failures. So the steps being proposed as a means of improving corporate governance are at the same time steps to boost investment and create jobs.

What about minority shareholders or individuals like you and me who put their savings into stock companies? This is a positive thing and should be promoted. But this requires that shareholders are adequately protected. For example, in the banking sector it is the Banking Agency that monitors corporate performance and serves as an insurance mechanism for depositors. In a stock company it is the shareholder assembly and the Supervisory Board that oversees the management to ensure that they meet accepted standards. But this requires that effective regulations are in place – something that will be the case once these laws are adopted.

If I were one of the minority shareholders and heard that a lot of money was wasted in my company I would immediately try to hold the management responsible and see what reforms are needed to avoid this in the future.

The public utilities should be engines of economic growth for several reasons.

- they should optimize profits, service to consumers
- they should display strategic strengths, in terms of planning, marketing and technology

- they should represent management models that can be copied in other sectors and by other companies
- they should sustain business growth so that companies in their sector can grow along with them

We have seen none of this when it comes to the public utilities in this country.

The moral of this is that the *lack* of good corporate governance is not just a matter of local concern. The negative impact is felt throughout the economy and therefore by every citizen in this country.

Poor corporate governance has been sustained by vested interests. The legislation which is shortly to go before parliament calls for measures such as

- transparent accounting
- clear procurement rules
- management accountability
- an internal audit function that is independent from management;

It’s hard to imagine how any decent parliamentarian would argue against such legislation. Yet efforts to improve corporate governance in BiH will come up against political opposition.

Why is this?

Well one way of arriving at an answer is to ask how many parliamentarians refused to approve the Supreme Auditor’s reports into the public utilities, and then ask how many parliamentarians receive stipends or salaries from these same public utilities.

This effort to clean up public corporations is also about cleaning up governance in general. We are beginning to shine a light on these unhealthy networks of self-interest.

We have here today successful managers. They do not need to learn about good corporate governance; they have much to teach others however. Managers like this can help transform BiH into a prosperous market economy – to do that they must be protected from losers. That is what the legislation now going into parliamentary procedure will do.

Thank you