

UNIVERSITY OF TARTU
Faculty of Social Sciences
School of Economics and Business Administration

Sergei Jakovlev

**APPLICATION OF CORPORATE GOVERNANCE
PRINCIPLES IN ESTONIAN PRIVATE COMPANIES**

Master's thesis

Supervisor: specialist Iuliia Trabskaia

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(Iuliia Trabskaia)

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I have composed this master’s thesis independently. All viewpoints of other authors, literary sources and data from elsewhere used to for writing this paper have been referenced.

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INTRODUCTION

Private companies make decisions through their governing bodies. The management and control bodies of the company operate and interact in the management system: the supreme management body, board of directors, executive bodies, and control body. This management system is called the corporate governance system, regardless of whether the company is a corporation in the strict sense of the word. The theory and practice of corporate governance knows more than one version of the corporate governance system. Legislation provides companies with fairly broad rights to determine their own corporate governance model. Since companies have a choice, the issue of modeling an adequate corporate governance system in accordance with their choice is relevant for them.

Private companies may not be accountable to a wide range of stakeholders, but good corporate governance is important. Just because a private company does not mean that, it is not accountable to its workforce, suppliers, partners and customers, as well as to society as a whole. Private companies that disclose less financial information are at risk of being perceived as less open or trustworthy. The prospect of creating a stock market and an attractive investment environment depends on the decision of the owners of a huge mass of private companies: whether to move towards corporateness and publicity, or, conversely, towards greater closeness. The term “corporate governance” is generally believed to be associated with large public corporations that are listed on stock exchanges (Bartholomeusz *et al.* 2006). However, studies show that non-public private companies are also dealing with various types of corporate governance (Gulzar *et al.* 2010).

The principles of corporate governance are based on the recommendations of OECD (Organization for Economic Cooperation and Development), developed in 1999. These principles lay the foundation for reducing the conflict of interests in the company, balanced control of management by the owner, separation of functions of the owner, board and management. The application of these principles ensures transparency of activities and the disclosure of necessary information to interested parties.

In the past, most of the research in corporate governance has been devoted to large corporations. This topic has been well studied for many decades (Keasy *et al.* 2005; McKnight *et al.* 2009; Core *et al.* 1999). However, the area of corporate governance in private non-public companies is less studied. However, this topic of study is gaining popularity. Researchers and managers also understand the importance of good corporate governance in private companies, as this results in the creation of important values for companies, improves the viability of the business, improves the company's performance and management structure (Zattoni *et al.* 2015; McCahery *et al.* 2008). Private firm owners are increasingly employing corporate governance principles to improve firm performance in the present and future generation because corporate governance facilitates growth in businesses and developing economies (Ediriweera *et al.* 2015). Corporate governance issues tend to relatively increase in complexity and reflect in the ownership and board structures (Brenes *et al.* 2011; Che *et al.* 2015).

This paper discusses the application of corporate governance principles in private companies. This topic is relevant for the modern world, and in particular for Estonia. Private companies that are not corporations have a big impact on the global economy. The viability of the companies themselves, their sustainable development and public perception of these companies depend on the quality of management and transparency of information for all interested parties. This study explores the benefits of applying corporate governance principles in private companies.

Estonia was chosen as the country of study because there are a large number of private companies in Estonia and this country is largely oriented towards Scandinavia in its development. In Scandinavia, corporate governance is quite developed in private companies. Estonia is also exploring modern approaches to company management and looks innovative in the field of changes in the business environment. Estonia is the native country of residence and work of the author as well.

The purpose of this work is to identify the reasons and barriers for application of corporate governance principles in Estonian private non-listed companies, as well as to develop recommendations for companies in the field of corporate governance improvements. To achieve the goal of the work, the following research tasks were set:

1. to examine the basic principles of corporate governance,

2. to derive the benefits of application of corporate governance principles in private companies,
3. to derive the reasons and barriers for application of corporate governance principles in Estonian private companies,
4. to formulate recommendations for improvements in corporate governance for Estonian private companies.

The contribution of this work to topic theory is to identify the benefits of corporate governance for private companies. In many ways, the principles of corporate governance are intended primarily for corporations. However, there are clear benefits that a private company will receive if corporate governance principles are used in their operations. This study complements the existing literature related to the use of qualitative methods in corporate governance research. This research aims to develop the framework on the influence of corporate governance principles in private companies. The results of this research can be used by various business groups, such as corporate governance institutes, business associations, investment and commercial banks. In addition, this work may be useful for familiarization and use by business owners and directors of private companies. This research allows you to look from the angle of corporate governance on the maturity of management processes in private companies in Estonia. The significance of this research lies in the ability to propose strategies for improving the performance of private companies by ensuring compliance with corporate governance principles.

This study is qualitative and consists of two parts. In the theoretical part of this work, a literature review is given on the basic principles of corporate governance. It also discusses the benefits of application of corporate governance principles in private companies. In the empirical part of the work, interviews are conducted with ten private Estonian companies. Existing practices in the approach to corporate governance are studied. Reasons and barriers for application of corporate governance principles are identified. Next, conclusions are drawn and recommendations are made for private companies in the field of corporate governance improvements.

Keywords: corporate governance, principles, benefit, board, Estonia, private company

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1. CORPORATE GOVERNANCE IN PRIVATE COMPANIES

1.1. Principles of corporate governance in private companies

Many phenomena and problems of economic practice of Western countries acquire great importance over time and become very relevant for East Europe enterprises. One such phenomenon is corporate governance. Issues of corporate governance quality are becoming increasingly important in practice and are reflected in the economic literature (Ivinskaya 2014).

In accordance with the definition of OECD (Organization for Economic Cooperation and Development), corporate governance refers to the system of relationships between the company's management, its board of directors, shareholders and other stakeholders - employees, customers, suppliers, the public, supervisory authorities, the government.

Board, CEO and board committees

Distribution of role functions in management, as well as resolution of conflict situations, refers to the activities of the board of directors of the private family company. It should be emphasized that its size, structure, composition, role and impact on the activities of the family company and its results, as well as the participation of the family in the management - all this is the subject of numerous studies in this approach (Bammens *et al.* 2011).

According to Arsenov *et al.* (2014), the board of directors is the element of corporate governance on which the relationships of corporate governance participants and key decisions largely depend. To identify the role and significance of the board of directors, it is necessary to clarify the interpretation of the concept of "corporate governance", since in the East Europe literature this term is not always used correctly and is often identified with the general management system at any large enterprise. Under "corporate governance" it been understood the specific management relations in companies, that is,

in organizations, one of the important features of which is the separation of ownership from management.

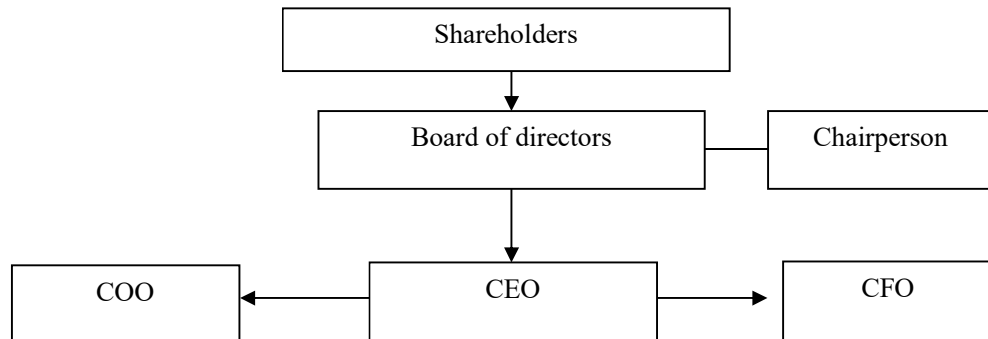
Key issues in the field of corporate governance should be decided by the general meeting of shareholders. Performing the functions of corporate governance in the period between meetings of shareholders, board of directors at the same time solves the issues of business management. In assessing the role of the board of directors, it is customary to emphasize that this management body should protect the interests of shareholders in so-called agency conflicts (Filatova *et al.* 2014).

The theoretical justification of agency conflicts in corporate governance was first presented by M. Jensen and W. Meckling. Participants of agency relations: a principal who transfers the performance of part of his functions to another participant - agent. The discrepancy between the interests of the principal and the agent in the presence of a number of additional conditions leads to the development of agency relations in agency conflicts. The most significant (primary) agency conflict is the conflict between the owners of the company (principals) and managers (agents). In this situation, the board of directors acts as a kind of mediator between the parties to the conflict (Bezhenar 2019).

Kniga (2013) states that in the course of their activities, members of the board of directors receive a more complete and in-depth understanding of the functioning of the company than shareholders who are not related to management. The interests of different groups of shareholders may also not coincide with each other, as well as with the interests of the company itself as an economic entity. In this regard, it can be assumed that the main purpose of the board of directors as an element of corporate governance is not only to protect the interests of shareholders in the framework of the primary agency conflict, but also to "protect" the interests of the enterprise from the actions of shareholders that damage the functioning of the organization.

To look after the interests of shareholders, many private companies adopt a two-tier corporate hierarchy. Elected by shareholders are the board of directors - the ultimate governing authority of the company. The board of directors selects the chairperson and CEO (Chief Executive Officer). With the recommendation of the CEO, the board of

directors also elects the COO (Chief Operating Officer) and CFO (Chief Financial Officer) (see scheme 1).



Scheme 1. Basic corporate structure of a company. Source: (author).

There should not be any confusion between the role of a CEO and that of a chairperson of the board. The CEO is the top operational decision-maker at a company, while the chairperson of the board is responsible for protecting the investors' interests and for overseeing the company as a whole. The chairperson of the board is technically superior to the CEO, as he or she cannot make major moves without the approval of the board. The chairperson could essentially become the ultimate boss of the company or organization. However, this is rare, as most board chairpersons are not so directly involved in day-to-day business operations, leaving the CEO with flexibility in running the company. There are reasons why to separate the CEO and chairperson positions. In some cases, the position of CEO and chairperson of the board are held by the same person, which can cause conflict of interest problems (for example executive payment and performance evaluation) (Ntim 2017).

Therefore, good corporate governance usually prescribes a separation of duties between the CEO and the chairperson of the board. In many countries, it is forbidden by law for the CEO and chairman of the board to be the same person (Corporate Finance Institute).

According to Kniga (2013), the board of directors of the Anglo-Saxon model of corporate governance is the second (after the general meeting of shareholders) level of management. The main task of the board of directors in the Anglo-Saxon model of corporate governance is to protect the interests of shareholders and help maximize the growth of their wealth. Characteristics of the board of directors in the Anglo-Saxon model of

corporate governance indicate that this body is assigned a fairly wide range of tasks, both in the field of corporate governance and in the field of business management. An important feature of the German model is that the supervisory board has only control functions and does not deal with many issues of business management, performing only a supervisory function. Performance characteristics of boards of directors in corporate governance models are described in table 1.

Fomin (2017) has opinion that the corporate governance model is a set of the most important characteristics of corporate governance, which allows to implement corporate relations in such a way as to ensure the sustainable and successful functioning of companies. The features of the corporate governance model are determined primarily by the sources of financing and ownership structure in the company.

Glasbergen (2015) notes that the quantitative composition of the board of directors depends on the needs for effective management. From the point of view of the qualitative composition of the board of directors, one of the most important indicators is the ratio of the number of internal and external (independent) members of the board of directors. Internal members are representatives of the management of the firm, and independent directors are elected from persons who have no interests in the corporation, i.e. are not managers or owners of the company or their relatives. As a rule, external directors are representatives of banks, other counterparts associated with the corporation, well-known experts in the field of law, finance, professional directors.

Table 1. Performance characteristics of boards of directors in corporate governance models.

Characteristics of activity	Anglo-Saxon model	European model
The board of directors:		
minimum number	1-3	3
independent directors	majority	not specified
employees	not obligatory	yes (up to 50%)
the representative of the banks	not obligatory	yes
CEO functions:		
strategic management	*	**
appointment of the director general	*	*
assessment of management activities	*	*
control over observance of legality of activity of company	*	*
control of financial activities	*	*

informing shareholders	*	*
decision-making on restructuring and reorganization		*
decision-making on major transactions	*	*
approval of reports	*	*

Source: (Kniga 2013).

According to Kniga (2013), for more effective work in the boards of directors are formed specialized committees, the number and specialization of which depend on the needs of the company. It is mandatory for American companies to have audit and remuneration committees. The practice of forming committees on management and wages, financial and electoral committees is quite common. The task of the committees is to prepare recommendations on issues decided by the board of directors.

Committees are smaller groups with authority delegated by the full board on specific matters within the remit of the board. Each standing committee is chaired by a non-executive board member (HSBC). Board committees constitute an important element of the governance process and should be established with clearly agreed reporting procedures and a written scope of authority. The act recognizes the right of a board to establish board committees but by doing so, the board is not exonerated of complying with its legal responsibilities (Deloitte 2014). Better corporate governance measures such as having independent members of board, supervisory committees (such as audit committee, nomination committee and remuneration committee) and quality external audits, can reduce opportunistic behavior by management (Bhuyian *et al.* 2013). An audit committee with a higher number of independent members plays a major role in minimizing financial fraud and is considered to positively affect firm performance (Hamid *et al.* 2015). Committee size, independence and meeting serves as important elements of corporate governance mechanism and contributes to firm's performance by ensuring that management presents true and fair view of the firm to the shareholders (Bauer *et al.* 2009). Smaller companies need not establish formal committees to perform these functions, but should ensure that these functions are appropriately addressed by the board (Deloitte 2014).

Separation of board-CEO roles and implementing of committees are important features of corporate governance for private companies. It helps to ensure company with balanced decisions for sustainable development.

Independent board members

In research of Khosa (2017) stated that the key benefit of having independent board members is their different and diverse perspectives, as well as their ability to augment the business owner's own knowledge and expertise with their own different backgrounds and experience. Benefits of a board being the CEO of a private company or family-owned business can be a lonely position, and they can benefit from having a group of people with whom they can share ideas and perspectives. Independent board members may also bring a different and wider range of perspectives to the CEO than are typically found in a privately held and family-owned business. However, independent board members should be much more than just a sounding board for the CEO. Independent board members could bring knowledge and expertise in areas where the CEO's and management team's knowledge may be lacking, such as internal controls, finance, human resources, marketing, tax, and other areas. Independent board members may also have important industry expertise and first-hand experience gained from working with other organizations facing difficult challenges, such as a cyber-attack or managing a crisis.

According to Spregner *et al.* (2017), independent directors play an important role in the work of the board of directors and make a significant contribution to the effective management of private companies. The role of an independent director is to strengthen shareholder confidence in the company; improve relations with investors; make coordinated strategic decisions; create effective internal control mechanisms; resolve conflicts; increase management transparency; and increase the value of the company. As a private company grows, the owner's role will change, as will its management processes. In smaller start-up companies, owners usually take a hands-on role. Processes throughout the organization are informal; since the owner is involved in most activities, he or she has a first-hand knowledge of almost every aspect of the business. As the company grows, new people are added to the team and the owner's role becomes more of a manager, and the need for processes that are more formal, knowledge sharing and delegation increases. Experienced board members can guide CEOs as their role changes and new processes are implemented, and can also offer assistance in developing a shorter- and longer-term strategic direction for the company.

As Deloitte (2016), found the independent boards can also help family-owned businesses manage one of their biggest challenges: succession. This is one area many family-owned businesses avoid addressing since it involves a complicated mix of family and business concerns. Owners want to do what is best for the business while also treating all family members fairly and avoiding family infighting. Family members may have conflicting expectations about the roles they feel they should play in the family and the business, which they may perceive as a right. The presence of a board simplifies the succession process. When the board is responsible for identifying a successor, it removes many of the personal issues from the process; the successor will be selected based on merit, rather than family position. The owner, meanwhile, can address family issues without them becoming mixed with succession.

In addition, the high social and relational capital of independent directors ensures a high level of trust among various groups of stakeholders, as well as among the management of companies, which allows to balance the management system and smooth out contradictions that can harm the business. Moreover, despite the fact that the owner has both power and control, such independent directors play a kind of vital, mediatorial role in the system of private business relations and the structure of the firm itself, reducing the risk of intrusion into the business system of both "family altruism" and "opportunism" of hired managers (Ng *et al.* 2007).

Deloitte (2016) concluded that in private companies it should be an attitude of mutual respect between the owner and the independent board members. There can be confusion about the role, so it is important that independent board members establish clear ground rules. When they first join the board, they need to clearly communicate to the owner and the other members of the board that they will provide advice and guidance, and they will be open and honest in their recommendations, but that they are also independent, which means they may not always agree with the owner. If independent board members do not make this clear from the start, or if they try to play a social or collegial role on the board, the owner will not consider them as being independent. That will be a problem when an independent board member disagrees with the owner. Owners may accept some disagreements over minor decisions, but if it is something larger - for example, a strategic

decision - the owner will not accept a challenge from a board member who is not understood to be independent.

Independent board members can be a valuable resource for private companies. Entrepreneurs are typically strong willed people, and for many the thought of having to answer to similarly strong willed independent board members about the decisions they make for their businesses is not particularly appealing. They may also believe the cost, time, and effort required for a board with independent members could be put to better use elsewhere in their businesses. Despite that, a growing number of privately owned companies have opted to have boards with independent board members, believing that the perspectives and insights that they can bring to the company far outweigh any constraints.

Consideration of stakeholders' interests

The organization of the corporate governance system based on the balance of interests of the most important persons for the company (strategic stakeholders) makes it possible to ensure its effective and sustainable development. One of the most effective, according to Dolmatova (2013), is the organization of a corporate governance system based on a stakeholder approach, that is, targeted management of networks of stakeholders and business development, taking into account an expanded range of multidirectional interest (participants in corporate relations are not only shareholders and salaried managers, but also other significant categories of stakeholders for the company). The elements of corporate governance of companies are influenced to a greater or lesser extent by legal requirements, recommendations of corporate governance codes, best standards and practices of corporate governance in companies, requirements of investors and other participants in corporate relations (creditors, clients, suppliers, representatives of the local community, etc).

Study by Belyaeva *et al.* (2019) shows that as there are more and more stakeholders, who directly or indirectly influence the activities of companies, their interests should be taken into account, including this is achieved by improving the corporate governance system (as one of the requirements of stakeholders).

Astrachan *et al.* (2003) have concluded that an individual can represent the homogeneous interests of a group of stakeholders, but it is almost impossible for a single agent to represent the interests of multiple and disparate conflicting stakeholders. Thus, multi agents are needed that would represent the interests of different groups of stakeholders, such as family ones. After the multi agents implement the task assigned to them related to the view in the decision-making process, mechanisms for majority participation in voting should be included to ensure the necessary balance of decision-making efficiency.

Conflict management is necessary in order to develop the company for the benefit (and trust) of stakeholders. However, it would be misleading to believe that all objectively existing conflicts of interest in the company can be overcome to the delight of all their participants. Still the number of collisions, as well as the resulting negative consequences can be reduced to one degree or another. The key element of managing any process is decision-making. The task of corporate governance in establishing and maintaining trust is complicated by the fact that the activity of any company is always accompanied by an objectively determined conflict of interests between different groups of persons involved in the process of investment development (shareholders and stakeholders). Corporate governance simultaneously meets the expectations of all significant persons for the company (Bushev *et al.* 2005).

The analysis of best practices by Bagova (2013) confirms the need for disclosure by the board of directors of information on the existence of a mechanism to protect the rights of other stakeholders in the company. Even in the absence of legislation, it is considered good practice to make additional commitments, since the reputation and activities of the company may dictate the recognition of broader interests.

Opinion expressed by Wester *et al.* (2003) is that the more diversified the interests of stakeholders, the less likely they are to take control of decision-making. In private companies, along with such stakeholders as management, employees, investors and partners can be allocated another stakeholder - the family. It is obvious that such a stakeholder has its own non-economic goals, such as family control over the business, harmony in the family, and preferential employment of family members. Within the framework of the stakeholder theory, it is assumed that family agents fight for power and influence in business, protecting their own interests.

In present time, the considering of stakeholders' interests is underestimated. Different stakeholders directly or indirectly have significant influence on very important areas of private company activity. It should be valued and taken into account in corporate governance application.

Ethics code

Modern culture is characterized by a variety of forms of implementation of ethical codes, sometimes surpassing the heritage of all previous eras. At present era, private companies are moving to a new level of management, starting to pay increased attention to issues of social responsibility. It can be even talk about the emergence of a new form of competition for an ethical, socially responsible business. Companies are increasingly making their financial statements publicly available, conducting charity events, providing social benefits and protection to their employees, and claiming the benefits of doing business ethically with their partners (Fritzsche 2002). The collapse of a number of large corporations and high-profile scandals that have shaken global markets have raised the question that there is a correlation between ethical and economic principles (Perryer *et al.* 2002).

According to Perevalov (2010), the code is not a copy of job descriptions. It formulates general principles of conduct in the exercise of professional activity. The code illustrates how the values of individual organizations and society as a whole will be refracted through the prism of certain professions. However, since there is no ideal and exhaustive list of social values and norms, there can be no ideal code of professional ethics. Such documents cannot be accepted for the last time. It is also advisable to report any exceptions to the code or rules governing business ethics procedures.

As stated in study by Cherepanova (2013) the content of most American codes of ethics can be reduced to three points:

1. employees should be loyal to their organization, put its welfare and prosperity above personal interests;
2. in private life, employees do not have the right to take potentially dangerous actions for the company;
3. employees should behave in a respectful and ethical manner towards customers

Safonov (2013) states that although corporate ethics codes are widely adopted in the United States, their effectiveness in combating violations of business ethics is problematic. On the one hand, they are given great importance, but on the other hand, many codes, especially in large private companies, have lost their meaning, because they were focused only on the needs of the company itself. They paid great attention to the issue of responsibility to the company and the loyalty of employees to it, but very little was said about the obligations of the company to its employees and the whole society.

It is clear that monitoring business ethics is important to promote best private business practices, transparency and risk reduction. Only with the help of an ethical code do general moral goals become concrete, and therefore easily attainable. Not everyone is able to understand what constitutes the common good, but he can understand how his activities can contribute to the moral renewal of society.

Disclosure and reporting

Since a number of corporate failures in various parts of the world, United Nations member states have taken various actions to strengthen their regulatory systems in this area, to restore investor confidence and to enhance companies' transparency and accountability. Now it is no longer enough for companies to disclose only high-quality financial information in reporting on the results of their activities (Vakhrushina 2014).

Omran *et al.* (2014) have concluded that disclosure of information is sometimes confused with transparency. Companies may disclose a large amount of information that is not valuable, but important information may remain undisclosed. Non-relevant information may be disclosed, or, moreover, disclosure is manipulated in order to hide the real picture of the company's affairs.

According to Kosorukova (2018), the system of indicators on corporate governance issues should be disclosed in the reports of companies. It is based on the recommendations contained in the "guide to good corporate governance disclosure practices of United Nations" which are described in table 2 (page 18).

Table 2. Good corporate governance disclosure practices.

Financial disclosure (in accordance with IFRS)
Non-financial disclosure:
• company goal
• ownership and rights of shareholders
• changes in control and transactions with significant assets
• governance structures and policies
• the members of the board of directors and key executives
• the president and the board
• audit commission (audit of financial and economic activities)
• significant stakeholder, environmental and social responsibility issues
• factors of predicted material risks
• independence of external auditors
• internal audit function
General meetings (relations with shareholders)
Terms and means of disclosure
Best practices for compliance with the corporate governance code

Source: (Kosorukova 2018).

The main principles of information disclosure by private companies are reliability, availability, efficiency, completeness and regularity, a reasonable balance between openness of the company and respect for its commercial interests, maintaining the neutrality of information (Bocharova 2011).

As Kulkova (2019) notes that there are proposals for the disclosure of non-financial information of ownership and rights of shareholders. The beneficial ownership structure should be fully disclosed to all stakeholders. Changes should be reported to the market as soon as the company becomes aware of them. The beneficial ownership structure of the private enterprise is important for investment decisions, especially in terms of fair treatment of shareholders.

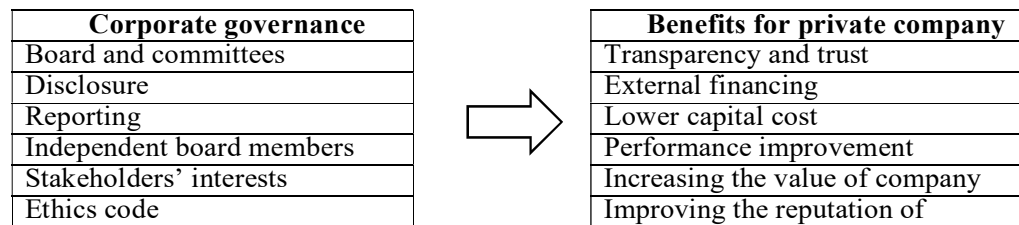
Reporting should disclose the role of employees in corporate governance. As it found by McCahery *et al.* (2008) today it is extremely important for the board of directors to disclose its policies and results of its activities in the field of environment and social responsibility, as well as the consequences of these policies and actions for the sustainability of the firm.

Importance of the principle of information disclosure in private companies is raising at present moment. Disclosure and reporting helps companies to be trustable partner for

each stakeholder. Disclosure is still one of the most underdeveloped areas in corporate governance.

1.2. Benefits of application of corporate governance for private companies

Shikhverdiev *et al.* (2005) have opinion that those experts who believe that the system of proper corporate governance is necessary primarily for open joint stock companies with a large number of shareholders doing business in industries with high growth rates and interested in mobilizing external financial resources in the capital market are wrong. Its usefulness is undeniable for joint-stock companies with a small number of shareholders, closed joint-stock companies with limited liability, as well as for companies operating in industries with medium and low growth rates. The introduction of such a system allows private companies to optimize internal business processes and prevent conflicts by properly organizing relations with owners, creditors, potential investors, suppliers, consumers, employees, representatives of state bodies and public organizations. Positive impact of corporate governance to company is proposed in scheme 2.



Scheme 2. Beneficial influence of corporate governance for company. Source: (author).

In her study Bataeva (2015) mentions that the need for corporate governance in non-public private companies is still debatable, and there are opinions that non-public private companies do not need corporate governance, since they do not have such characteristics of corporations, such as "openness" (no statutory restrictions for shareholders to sell shares), "publicity" (securities of circulation - exchange and the company discloses information) and "dispersion of ownership". Non-public companies have the ability to control the composition of participants.

Beattie (2018) in his research says that despite being the dominant form of business globally, it is widely recognized that research focused on the governance of small private

entities has been largely overlooked. The benefits of sound governance practices are deemed salutary for small business prosperity; however, these enterprises are confronted with significant governance issues and unique concerns of their own.

Transparency and trust

The lexicon of corporate governance has “transparency” as a key imperative. Yet transparency as a management principle begs explanation. It is important to decide - transparent to whom, how and why, who decides, is full transparency desirable, what are its merits and benefits, what are the risks of increased transparency.

Danker (2013) found that the transparency debate has emerged in parallel, and with it, issues of privacy and/or secrecy on one hand and the notion of “sunlight” on the other. Transparency’s role has been variously described as the promotion of corporate disclosure and protection of the rights of minority shareholders in the information environment; the promotion of corporate accountability and advancement of the rights of stakeholders; a tool to limit information asymmetries); a means to create a level playing field through ethics and fairness; the promotion of market efficiency; and the prevention of abuse through stakeholder activism. Aspirations aside, there is lack of consensus as to transparency's dimensions, drivers and dilemmas in corporate behavior. As Danker (2013) supposes, its perceived value to stakeholders and corporations alike remains questionable.

As stated in study by Rahdari (2016), stakeholder paradigm has been gaining currency over the past few decades and technological breakthroughs have been influential in building its momentum. Hyper-transparency is emerging as a building block and as an indispensable concomitant of stakeholder paradigm. The crux of a hyper-transparent organization is trust. The new paradigm requires substituting translucent and opaque business practices with fully transparent ones under which lasting trust can be built between the organization and its stakeholders. However, the nub of the stakeholder paradigm is the changes inside the organizations as well as changes in relation to their external environment, and transparency is both a driver and a resultant of these changes. Transparency is an integral part of corporate social responsibility debate and an eristic

issue for the stakeholders. Moreover, hyper-transparency empowers the stakeholders to considerably influence the decision making sphere.

Parris *et al.* (2016) note that the transparency framework can be used as a guide for organizations attempting to change their behavior, image, and performance by adopting transparency as a value in their organization. In addition, the framework can be used to create and adopt a universal (i.e. industry-wide or even societal-wide) code of conduct. A key factor in reaching a new level of corporate governance is business transparency. Ensuring corporate transparency of companies is an important characteristic of the quality of corporate governance, a factor in the formation of the company's value. The information should be of a substantial nature, contribute to decision-making by investors and other stakeholders of the company, and form feedback with stakeholders influencing the activities of the corporation. Transparency of information about the company allows providing investors with data on corporate governance practices, assessing its level and investment risks (Gold *et al.* 2018).

Shareholders and potential investors need access to regular, reliable and comparable information that is detailed enough to enable them to assess the quality of management performed by the administration and to make informed decisions on valuation, ownership and voting of shares. Insufficient or unclear information can impair the functioning of the market, increase the cost of capital and lead to abnormal allocation of resources (Savelyeva 2014).

According to Bataeva (2014), the most important positive consequences of improving corporate transparency for companies are increased trust in management, easier access to debt capital, more long-term investors, lower cost of raising financing, reduced intervention by market regulators and government agencies, access to new joint ventures and strategic partnerships. As stated by OECD, transparency also helps to improve public understanding of the structure and operations of enterprises, corporate policies and performance with respect to environmental and ethical standards, and the relationships of companies with the communities in which they operate.

The principles of transparency and accountability are essential in the system of effective corporate governance and increasing trust in private company's sustainable development.

External financing with lower capital cost

According to Vagneur (2016), one of the most significant positive effects of corporate governance is improved access to financing. A high level of corporate governance can expand companies' access to external financing, lower the cost of capital and increase the value of the company, making investments more attractive, increase operational efficiency through better allocation of resources and improved management.

Opinion is expressed by Frid *et al.* (2016) that corporate governance is the most important factor in the formation of an effective market economy, which in turn is based on the principle of fairness in corporate legislation and the rule of law. The lack of control over the interaction of directors with managers and investors creates a stagnation in the company's development and reduces the rate of economic growth by restraining investment inflows. If the ability to acquire external funding is significantly constrained, the quality of the opportunity and the skill of the business founder may be less a determinant of success at creating a new business as prior studies have suggested. Consequently, entrepreneurship (as measured by business formation) as a path toward upward, socioeconomic mobility will be afforded only to those individuals with sufficient financial endowments at the outset.

Rashid (2014) found that corporate governance is not only one of the most important factors influencing investment decision-making, but also the ability of a private company to get more access to capital, compared to companies that do not have a sufficient level of corporate governance development. Effectively managed companies inspire more confidence in investors and are perceived as reliable and stable. The higher the level of corporate governance, the more likely it is that assets are used for the benefit of shareholders, and not stolen by managers. Firm-specific risk appears to be more important economically for firms' external financing decisions.

Gupta (2018) notes that investment is an integral element of the economy, contributing to the development and expansion of each individual business entity. Investment is one of the main sources of financing for an enterprise. Every investor is interested in getting the most complete information about the current state of the company. Investors want to see a corporate governance system that can provide a sufficient level of information

transparency and clarity in the corporate decision-making process in enterprises that they have already invested in or are ready to invest in; thus, investors are given additional guarantees.

Effective work of boards of directors is an important factor in increasing the investment attractiveness of companies, increasing their shareholder value - and as a result, increasing access to external sources of finance on more favorable terms (Spregner *et al.* 2017).

Companies that comply with high standards of corporate governance, as a rule, have wider access to capital compared to companies, improperly managed, and superior to the latter in the long term. They can reduce the cost of external financial resources used in their activities (Bagovala 2013).

Abasheva (2016) found that less investor risk means less expected return on investment and reduces the value of the WACC (Weighted Average Cost of Capital). The low cost of capital raised allows companies with effective corporate governance to implement projects that competitors cannot implement due to the higher value of the WACC. Thus, effectively managed companies have the opportunity to raise capital faster and in greater volume than more risky, from the subjective point of view of the investor, their competitors.

Bogotova (2014) agrees that a high level of corporate governance can expand private companies' access to external financing and lower the cost of capital. Those companies that seek to take full advantage of global capital markets and attract long-term capital should have corporate governance mechanisms that are trusted, understandable, and consistent with international principles. Even if foreign sources of capital are not the main sources of capital for companies, compliance with good corporate governance practices will help increase the confidence of domestic investors, reduce the cost of raising capital, and ensure the normal functioning of financial markets.

It is clear that the higher the quality of corporate governance, the more investors trust the private company, expanding access to external financing, offering preferential rates on loans and expanding options for sources of external financing.

Performance improvement

According to Bushev *et al.* (2005), corporate governance creates organizational (structural) prerequisites necessary for effective decision-making. In the process of managing the company at the decision-making stage, it is necessary to take into account the interests of all persons important to the company in order to manage the conflict in a timely manner. Companies need to make the right decisions. Then there will be trust of interested persons, there will be also the sought reputation. Decisions are made by people, and people tend to make mistakes. It is hardly possible to completely eliminate errors, but the probability of their occurrence when making a decision can be significantly reduced. Elements of corporate governance as well as the whole system affect the consciousness and will of decision-makers. Therefore, the construction of a corporate governance system should contribute to the proper manifestation of the will and consciousness of all persons influencing the company's activities, take into account the legal, psychological and other aspects of the motivation of proper behavior.

A number of researchers, such as Anderson *et al.* (2004) and Yeh *et al.* (2005) establish a positive relationship between the level of independence of the board of directors and the financial performance of the private family company. Other authors (Labaki *et al.* 2012) come to the opposite conclusion.

Bagova (2013) consider that because of improved management, accountability becomes clearer, supervision of managers is improved and the link between managers' remuneration and the company's performance is strengthened. In addition, the decision-making process of the board of directors is improved by obtaining reliable and timely information and increasing financial transparency. Effective corporate governance creates favorable conditions for succession planning and sustainable long-term development of the company.

According to corporate governance in private family system in the study of Schulze *et al.* (2003) it was found that, on the one hand, the independence and representation of external members on the boards of directors of private family companies negatively affects sales indicators. On the other hand, the implementation of best corporate governance practices by private family companies by inviting high-level professionals in the field of corporate

governance to work, including on the board of directors, the company's performance indicators were superior to those of other companies. The inclusion of external directors in the management team, which leads to de-emotionalization of relations, helps to increase the objectivity of the decision-making process.

Other authors, such as Jaskiewicz *et al.* (2007), dispute this fact, that the participation of external independent directors has a positive impact on the performance of companies. They emphasize that affiliated directors can provide more valuable business advice than external independent directors because they are closely connected to the family and firm.

The introduction of corporate governance principles have the significant impact on improving the performance of products and services of the private company.

Increasing the value of company

High-quality corporate governance improves the efficiency of using equity and debt capital, as well as ensures that the corporation takes into account the interests of a wide range of stakeholders. In order to assess the impact of these factors on the performance of the company, most often use the growth of its market value. The growth of the enterprise value is of great importance for the society and socio-economic development of the country (Sprenger *et al.* 2017).

Kosorukova (2018) notes that, corporate governance is not one of the fundamental indicators that determine the value of an asset, but in recent decades, many investors have come to appreciate corporate governance as one of the sources of creating shareholder value of the company. An increasing number of companies in their integrated reporting pay attention to the so-called ESG-factors (Environmental, Social and Governance factors), which imply the company's initiatives on environmental protection, management decisions affecting social responsibility, and corporate governance.

As Abasheva (2016) states, it is important for the company to have its high value because it resembles the spirit of shareholders increasing wealth. There is the impact of the application of corporate governance on company value and also the impact of firm value to the implementation of corporate governance. For corporate governance, the purpose of which is increase shareholder wealth, value is one of the main indicators efficiency of the

company's management. Therefore, the management of the company should be aimed at increasing value, and management should be interested in this as same as the owners. Thus, VBM-approach (Value-Based-Management management aimed at value creation) becomes one of the elements of corporate governance, and corporate governance management, in turn, is considered in VBM concepts as one of the factors influencing on the value of the company.

VBM approach highlights corporate management in one of the factors affecting the value of the company. Company's value is the indicator on the basis of which it is possible to assess the effectiveness of its activities, as well as the quality of corporate governance (Vechkanov *et al.* 2016).

According to Abasheva (2016), the theoretical justification of the positive impact of effective corporate governance on the value of companies is confirmed in many studies. In research by McKinsey, investors are willing to pay significant premiums to share capital of companies with an effective corporate governance system. It should be noted that in the markets of developing countries, this premium is higher than in developed countries and has a stronger impact on the value of the company in countries with a weak legal environment, where legislation cannot fully protect the interests of minority shareholders and ensure compliance with high accounting standards.

Effective corporate governance, in accordance with the standards adopted in international practice, allows to increase the investment attractiveness of the company, to create an additional inflow of capital, and ultimately is one of the main tools for creating shareholder value.

Improving the reputation of company

The success of business development in the conditions of its globalization and internationalization directly depends on the reputation of the company. According to Bushev *et al.* (2005), the value of reputation in economically developed markets can reach 8-15% of the company's value. In East Europe corporate governance, sometimes narrowed to the concept of ethics in relations with internal partners, is considered in comparison with other factors affecting reputation as the least important. At the same

time, corporate governance in Western Europe is considered by many to be one of the key means of maintaining and protecting reputation. This view of the relationship between corporate governance and reputation is explained for East Europe by the fact that domestic entrepreneurs, unlike their foreign counterparts, have not yet sufficiently mastered the concept and importance of corporate governance for successful business, including its reputation component. The importance of corporate governance will occur in the ranks of East Europe entrepreneurs.

The factor linking corporate governance and the reputation of the company, causing their mutual influence is trust. It is a question of trust to the company first of all from various contractors (suppliers, consumers, state bodies, the public, other persons interacting with the company). The thesis that trust is the core of reputation is indisputable. The higher the specified confidence of counterparties of the company in satisfaction it is important for each of them and the relevant activities of company expectations (needs), the higher the reputation of the company, and therefore, the more likely the partners will trust the company with their values calculated on their return (provided different kind of loans shareholders' funds, labor, commercial, trade, bank loans etc.). Corporate governance is also aimed at maintaining the company's interaction with the same persons (creditors) and strengthening their trust. Having achieved trust, the company deserves a reputation, which in turn increases the attractiveness of the company for various significant for its activities persons (creditors) (Shikhverdiev *et al.* 2005).

Styhre (2018) found that corporate governance achieve the simultaneous trust of various individuals whose interests are sometimes mutually exclusive (and, therefore, through confidence building, improves the reputation of the company). Decisions are made at many stages of the private company's management, including operational issues. Corporate governance, in contrast to the operational management of the corporation, provides for the adoption of basic, strategic decisions for the company, i.e. those decisions that may affect the common interests of a significant group of persons as a whole, and not its individual representatives.

As Bushev *et al.* 2005 state, that ensuring the operation of the company's general principles of effective decision-making (methods of economic, psychological, legal, etc.) will strengthen the confidence of creditors in it. The probability of satisfaction of property

interests of creditors ("belief in the company") will increase. A certain positive opinion (reputation) will be formed about the company. The higher the belief (trust, reputation) that the company will be able to satisfy a certain interest, the more intensively the creditors significant for the company will interact with it, the more actively they will entrust their resources to the company. And, therefore, the more successful the private company's business will be.

Companies that adhere to high ethical standards respect the rights of shareholders, creditors and ensure financial transparency and accountability, form a reputation as zealous guardians of the interests of investors. As a result, these companies can become worthy corporate citizens and enjoy the confidence of the public (Bagova 2013).

Georgievskaya (2017) notes that corporate governance affects the formation of reputation and trust on the part of significant persons for the company - its creditors (shareholders and stakeholders). Reputation and trust are strengthened by the fact that the management of the company, the process of making significant decisions is carried out in accordance with special procedures and mechanisms. These procedures and mechanisms ensure that the interests of all creditors important to the company are taken into account and, as a result, contribute to the conflict-free interaction between them, the stability and viability of the company as a whole as a certain system.

It is very hard to underestimate influence of reputation on success of any company. If corporate governance principles improving reputation, then it is definitely valuable to improve corporate governance level in any company.

2. APPLICATION OF CORPORATE GOVERNANCE PRINCIPLES IN ESTONIAN PRIVATE COMPANIES

2.1. Methods of data collection and analysis

In order to achieve the objectives of the study, 10 in-depth semi-structured interviews were conducted with Estonian businessmen. The qualitative research method is already used in empirical researches. Zattoni *et al.* (2013) state that mixed results in corporate governance studies have encouraged scholars to use the qualitative methods. Young *et al.* (2001) applied the qualitative method to study the functioning of boards of directors of overseas Chinese firms in Hong Kong and Taiwan. Walker (2018) also used qualitative method by conducting interviews with senior managers to examine corporate governance strategies in the accounting industry. Since the aspects of study cannot be quantitatively measured in a simple way, the qualitative methods of research allow a deeper study of individual views and experience. The qualitative method is suitable when the purpose of the research is to study business methods or ask how people understand their life's experience (Yin 2014). During the interview, you can collect many details that include the feelings and opinions of people, as well as see the historical dynamics of issues related to corporate governance. Detailed interviews are an appropriate way, because the topic of application of corporate governance in private companies is quite sensitive. During the interview, respondents have time to think and communicate some personal opinions. Moreover, at this moment no one else will affect the opinion of the person. This increases the objectivity of information. Semi-structured interviews with open-ended questions are best in elite interviewing and helps build rapport with participants (Leech 2002). Moreover, according to Haniffa *et al.* (2006) semi-structured interviews provide liberty to diversify and ask question according to given answers.

Estonia was chosen as the country of study because Estonia has been in a market economy for more than 25 years and already has a fairly mature level of businessmen. Estonia is guided in its development by Scandinavia, where the level of corporate governance in

private companies is very high (GMI Ratings). Therefore, Estonia should be an indicative country where corporate governance in private companies could be known and in demand. It should be also taken into account that various innovative approaches to organizing business are actively developing and implementing in Estonia. Estonia is largely oriented towards the adoption of world business experience for the successful development of the country. In addition, Estonia is the author's native country and the processes that develop in this country are of interest.

When deciding on the number of interviews intended for analysis, referrals were received from a number of well-known qualitative research researchers. There is suggestion that more than 15 interviews make the study cumbersome (Miles *et al.* 1994). The most common range falls between 4 (minimum) and 15 (maximum) (Perry 1998). Despite a small sample of people, these interviews can be considered significant, because all the people interviewed are highly qualified and experienced. They shared the actual experience gained over many years of operation. To obtain a variety of samples, respondents were selected from various fields of activity, such as logistics, tourism, finance, real estate, production, IT, energy.

Table 3. Criteria for choosing interviewees.

Area	Criteria
Industry	Diversified (IT, real estate, production, finance, logistics, tourism)
Company	Private, non-listed, non-corporation, non-state-owned
Age	Significant life experience (above 40 years old)
Position	Top-manager or owner (shareholder, CEO, CFO, member of board)
Education	Higher
Language	No difference (trying to have national diversity)

Source: (author).

When choosing candidates for interviews, it is proceeded from a variety of criteria (table 3). It had to be businessmen of different ages in order to get a diverse overview of the views of different ages. The sample included businessmen in the age range from 42 to 60 years. These should be large enough businessmen so that the size of the business is worthy of corporate governance. For example, in the United Kingdom in 2018, the so-called Wates Corporate Governance Principles for Large Private Companies were adopted. According to this regulation, the principles of using corporate governance in private

companies were made mandatory when one or more indicators were achieved (more than 2 000 employees and / or company sales turnover of more than GBP 200 million and balance sheet volume of more than GBP 2 billion) (Financial Reporting Council). In Estonia, such mandatory criteria are not accepted, but the size of the business in Estonia is much smaller. For the survey, businessmen with companies that had a significant turnover, a significant number of employees and a significant influence on third parties were selected. Unfortunately, there were no women among the businessmen surveyed. Among the respondents were Estonian-speaking businessmen and Russian-speaking. Information about interviewees is presented in the table 4.

Table 4. Brief profile of participants interviewed.

No.	Position	Industry	Education	Language	Age
1	Shareholder	Real estate	Higher	Estonian	46
2	Shareholder	Real estate	Higher/MBA	Estonian	47
3	CFO	Production	Higher	Estonian	48
4	Shareholder	Logistics	Higher/MBA	Russian	54
5	Shareholder	Finance	Higher	Estonian	45
6	Member of board	Energy	Higher	Russian	47
7	Shareholder	IT	Higher/MBA	Estonian	53
8	Shareholder	Consulting	Higher/MBA	Estonian	53
9	CEO	Tourism	Higher/MBA	Estonian	43
10	Shareholder	Consulting	Higher/MBA	Estonian	49

Source: (author).

Author's considerations affecting research design included, firstly, giving voice to businessmen' own understandings of themselves as corporate governance subject. Therefore, author needed an approach that would allow him to hear participants' views and let themes and issues emerge to predefined research problem. Secondly and relatedly, author was from the outset deeply personally implicated in the project, so he needed to ensure that his active role as researcher was both useful and explicitly acknowledged.

In the interviews, author used a set of pre-prepared questions as a guide to prompt his interviewees' thought and ensure that research aims were addressed. Questions for the interview were formed based on the studied literature on corporate governance. In many respects, the list of questions was taken on the basis of the main recommendations of the OECD (Organization for Economic Cooperation and Development) to describe the basic

principles of corporate governance (OECD. G20). Questions are following and based on theoretical part of research. There are two major blocks of the interview questions. The first block of the questions is focused on the main principles and tools of corporate governance. It contains the questions about the board, independent members and committees, which are designed with reference to studies by Kniga (2013), Bhuyian *et al.* (2013) and Khosa (2017). Also there are questions about the interests of stakeholders, the code of ethics and the disclosure principle, which are developed from previous studies such as Vakhrushina (2014), Belyaeva *et al.* (2019) and Fritzsche (2002). As for the benefits of application of corporate governance, different authors was followed to develop the second block of questions with next categories as external financing (Sprenger *et al.* 2017), performance improvement (Bagovala 2013), increasing the value of company (Abasheva 2016), reputation improvement (Shikhverdiev *et al.* 2005). To develop interview questions was followed also study by Verbitsky (2016). The list of interview questions can be found in Appendix 1.

Most questions are open-ended. The meaning of open-ended questions is to find out the real feelings that are behind this or that answer to the question. These questions contained business awareness of the principles of corporate governance, of the obvious and hidden benefits of application of these principles. In the framework of these questions, the interviewees themselves had to reason about whether corporate governance principles could solve the problems facing their business. In particular, it was interesting what exactly businessmen pay attention to when they talk about the management models of their companies.

As interviews were semi-structured, author did not necessarily follow the interview guide in the pre-specified order, or ask questions exactly as planned. Instead, author has encouraged participants to talk at length around the subject. Most of the interviews were conducted during personal meeting; some of the interviews were conducted over the telephone or via Skype. The interview lasted an average of about 30 minutes. As part of the interview, the author took written notes. Basically, the people interviewed did not want the interview to be conducted under audio recording. The generalized protocol of the interview is presented in the table 5 (page 33).

Table 5. Interview protocol.

Interview type	Semi-structured interview
Duration of interview	Average 30 min
Level of interviewees	CEO, CFO, shareholder, member of board
Number of respondents	10
Purpose and style	Information extraction and exploration
Interview place	Online or office
Language	Estonian or Russian
Confidentiality	High
Recording	Hand notes
Question type	Open-ended

Source: (author).

The obtained data were analyzed and grouped. It was followed the Yin (2014) data analysis method: compiling the data, disassembling the data, reassembling the data, interpreting the data, drawing conclusions. The answers given by the interviewees were compared with each other in order to find similarities. This helped highlight relationships, main themes, and patterns in the data (Saunders *et al.* 2009). The data analysis was inductive and interpretative and aimed at obtaining deeper understanding of the field of corporate governance in private companies. The result was three groups of answers that can be briefly described as “open to principles”, “closed to principles”, and “unfamiliar with principles”.

2.2.Main findings

As part of the conduct and analysis of the interview, we can say that in a general sense, businessmen are familiar with the principles of corporate governance. Many have studied this as part of a general training program or specialized management training. Some proceeded from practical literature on the principles of company management. Some see the principles of corporate governance in commercial law (in Estonian *Äriseadustik*). In the total mass of respondents, the concepts of “supervisory board” and “board of management” are known. However, for example, the concept of “independent director and independent member of the board” is much less familiar and common.

Often, businessmen do not see the need for separation of company management from owners. There is a certain barrier in entrusting a company with professional management, moving away from operations and focusing on strategic management. The barrier

includes both the fear of businessmen themselves to lose control of the business and the absence of professional managers whom they can trust.

The concept of “disclosure of information” is quite common because of the rather high requirements of the Estonian Commercial Register for the provision of data and because of the convenience of electronic information systems for providing information.

In general, the concept of “stakeholder” was unfamiliar. In the general understanding of the Estonian businessman, “stakeholder” is a shareholder. They do not take into account in many respects that big business begins to exert influence on many interested parties, such as employees, the environment, suppliers, the state, lenders, customers, media, etc. Estonian business is generally very low on the concept of “social responsibility of business”. Accordingly, business does not evaluate its impact on society and attaches little importance to this.

Very few businesses have access to internationally beneficial financing. Local banks do not require mandatory application of corporate governance principles, and accordingly this does not affect the ability of a business to be financed by banks. However, the business does not know or underestimates that, application of the principles of corporate governance, one can reach a different level of financing, where cheaper money can be received with less collateral. This accordingly enables companies to develop at a completely different level.

During the categorization of the interviews, three groups emerged that could be conditionally called “open to principles”, “closed to principles” and “unfamiliar with principles”. Next, each of the groups will be disassembled in more detail.

Open to principles of corporate governance

Three out of ten interviews fell into this category. This group of businessmen is well aware of the principles of corporate governance and actively uses them. During the discussion, it was highlighted for what main reasons companies use the principles of corporate governance and what benefits the companies achieve with this help. Companies decided to use many principles of corporate governance after analyzing which approach to company management to take. In some cases, this is the result of recommendations

from external institutions (for example, the Financial Supervision Authority) or external consultants (investment banks or companies from Big4). Representatives of the companies believe that the presence of elements of corporate governance provides significant benefits in their work.

According to these companies, the use of a supervisory board and the use of independent board members provides a clear separation of company owners from company management. This balance gives a clear understanding of the separation of tasks and responsibilities at different levels of government. This helps to more balanced manage the long-term development of the company. The presence of an independent member of the board gives the owners of the company the opportunity to receive advice from an external specialist in the interests of the company.

“In general, private exchange companies in Estonia are required to have independent board members in the amount of 1/3 of the total number of members of the supervisory board. However, if these companies left the exchange, then despite the need for independent board members, companies would in any case leave independent members on the board. This is very important when there is a qualified and experienced specialist next to the business owner who can help with advice or share experience” (Interview No.7).

A feature of this group of businessmen is that they do not consider themselves fully experienced and qualified in all areas of business. They do not believe that they know everything from the field of financing, expanding business to international markets, jurisprudence, ensuring the long-term viability of business, etc. They believe that this knowledge should be replenished from external sources. Accordingly, this service can be bought, but usually the seller of the service is interested in the volume sale of services and is not ready to answer for the consequences of his recommendations. Having an independent board member makes it possible to get more responsible and less expensive advice. Although, of course, everyone recognizes that there are not so many good specialists for independent council members in Estonia. In many ways, it is from independent directors that the principles of corporate governance are being introduced. Such as the work of committees, ensuring transparency of information for stakeholder, the existence of a code of ethics. Ensuring the work of corporate governance principles

provides options to greatly expand the capabilities of the company. It is very important to ensure the confidence of all stakeholders in the long- term stability of the company.

This approach directly affects the company's reputation. It is often underestimated how the reputation and external image of the company affects the attractiveness of the company as an employer. In the modern world of competition for high-quality labor, this is of no small importance. Applying the principles of corporate governance, you can provide your company with a long-term influx of quality specialists and the loyalty of existing employees.

“The more understandable the principles of work of your company, the more confident employer you look and are, the more good specialists are in the management of the company, the more you can give new employees at the start, and thus the longer the queue for work in your company. Choosing the best employees on the market means making your company even stronger. And so on in the loop. This is the basis for the quality development of the company through the development of its personnel” (Interview No. 2).

In addition, many principles of corporate governance are used to improve internal processes and increase the efficiency of the company. Independent directors assist experience in improving the company through best practice and performance monitoring. Independent board members are also some kind of supporting business trainers (coach) for the owner and management of the company. It is important that the attitude of independent directors is aimed specifically at the interests of this particular company. That is, it is a necessary and loyal look of a professional necessary for a company. An independent director can provide constructive challenging for company management. For the development of the company, it is necessary to regularly question and test the stability of many processes and views in the company's work. Without such a challenge, the company will stand still in development.

During the interview, it was highlighted that corporate governance principles have a real impact on working with investors and lenders. The more transparent the company's activities, the higher its reputation, the more independent board members, the more financial institutions and investors are ready to finance the company and the lower the

cost of such financing. So far, none of the companies surveyed plans to sell themselves to third parties, and accordingly, no one has yet seen a digital measurement of how corporate governance increases the value of the company. However, everyone understands and agrees that the value of a company depends on the volume and quality of corporate governance.

Reasons for application of corporate governance principles by present group of companies are listed in following table 6.

Table 6. Reasons for application of corporate governance principles (group “Open to principles”).

Decision-making in the interests of the company
Balanced management of the long-term development of the company
Consultation of an external experienced specialist in the interests of the company
Improving the work of the company with a focus on best-practice
Constructive challenging for company management
Ensuring the confidence of all stakeholder in the long-term stability of the company
Improving company reputation
Long-term influx of quality professionals
Loyalty of existing desired employees
Improving access to finance
Low cost of financing
Planning a company for an initial public offering (IPO)
Succession planning
Method to preserve business for next generations

Source: (author).

At the end of the description of this group of businessmen, could be noted that even in the most conscious group of businessmen in the field of corporate governance, only one businessman is currently thinking about such a thing as “succession planning”. Ensuring the consistency and long-term development of the company for the heirs is an important factor that requires independent and balanced management of the company. Corporate governance helps shareholders to preserve business for next generations. Succession planning can also be interpreted as having backup managers in case key managers leave the company. In this area, corporate governance and the presence of distributed management provide undoubted benefits for the company and the owner.

Closed to principles of corporate governance

Five out of ten interviews fell into this category. This group of businessmen is aware of the principles of corporate governance, but does not actively use most of the principles. During the discussion, it was highlighted for what main barriers companies to use the principles of corporate governance and how they assess the potential disadvantages and benefits of such a solution.

During the interviews, it was revealed that this group of businessmen is limited to exactly the range of corporate governance that is laid down in mandatory legislation. According to the law, they have supervisory boards with the necessary number of members and submit disclosed financial statements to the extent necessary for the commercial register. Thus, they limit themselves to opportunities, based on the principle that is not required by law, it is not necessary. For them, there is no such thing in business as soft law (OECD. Regulatory policy) and good corporative culture traditions (Coleman 2013). Often, the implementation of some corporate rules comes randomly based on external random factors. For example, companies are starting to implement ISO standards based solely on the requirements of public sector tender documentation. In this case, the owners and management of the company do not even understand why they should do this in essence and what good it can be for a company to work with full awareness of the ISO standard. The same examples occur if companies go international and face unexpected requirements for them to have an anti-corruption policy or a policy of avoiding conflicts of interest in the company.

Regarding independent board members, many skeptical statements were made. The owners and management of companies from this group believe that a stranger does not understand the features of their business. In addition, there is even an opinion that such an independent director will not be able to understand the intricacies of the business. An aggravating moment for this group is the need to pay an independent member of the council. In their understanding, paying even small amounts is a waste. There is also a factor of distrust towards strangers. There is a clear problem of finding independent, experienced professionals within your acquaintances.

“First you need to find a person, choose, then immerse him in your business. And then take the risk that he can understand anything in my business. Why waste time on this?! He will spend my time for my money” (Interview No. 4).

Many in this group believe that they know all aspects of the business. At least to the extent that they need to maintain an existing business. However, they did not think about whether the new competence could open new horizons for them in the development of the company and ensuring sustainable growth. This view is fundamentally different from the Scandinavian view. In Scandinavia, independent board members will be required to discuss the current state of affairs and develop a strategy. Scandinavian business does not consider itself an expert on all aspects of business, especially new business trends in the global economy. Independent specialists are attracted precisely in order to get a new look at existing business. Many important decisions are made only after repeated discussions with various parties, including with independent directors or consultants. Finland has a corporate governance rating of 6.38 and is in 8th place in the world in this ranking. Sweden ranks 10th in the same ranking with a rating of 5.88 (GMI Ratings).

“In Estonian business media, there was even such a word as “waterlogged badger” (in Estonian “*vettinud mäger*”), which characterized the old generation of owners / directors who did not want to update their managerial models” (Interview No. 8).

Due to the absence of independent board members in companies, many companies lack such elements of corporate governance as a code of ethics or various committees (for strategy, audit, etc.). As mentioned above, if such documents and procedures are not required by law, then companies do not develop them, do not implement them, and therefore do not use them. Sometimes management develops from its own initiative, but in general, the lack of understanding of the value of these procedures turns these undertakings into a void.

The companies in this group do not consider the satisfaction of various stakeholder groups to be very important. For them, the main stakeholders are the owners and the state. In some cases, these are still banks. Other groups, such as customers, suppliers, employees and others, are not for them the target group where corporate governance should be directed. Reputation is mainly in the field of PR management and marketing. For the

reputation of companies, there are enough available socially significant actions that the company does. Including support for sports, culture and other socially oriented projects. Companies rarely think about how to be attractive to employees. This situation is likely to change when there will be higher competition for quality labor. Then the benefits of corporate governance to attract and retain qualified employees will be evaluated.

Companies in this group are mainly financed for equity or in local banks. Local banks have not yet made mandatory the application of corporate governance principles. Therefore, as long as the company does not enter the bond market or the international financing market, they do not need the benefits that the application of corporate governance principles provides. However, it is often the issue of bonds or international financing that provides opportunities to expand the business and ensure long-term sustainable growth. Bond loans expand business financing opportunities with fewer collaterals. If businessmen attracted international financing, this would reduce the cost of financing. Local banks also acknowledge that management evaluations are made in assessing the credit risk of companies. The presence of corporate governance elements significantly increases the credit rating of the company, and, accordingly, reduces the cost of borrowing. Therefore, for the businessmen of this group there is a hidden potential that they have not yet appreciated.

Companies in this group are not yet fully selling their companies. Attracting investors or entering the stock exchange by partially selling the company is also not yet a priority. Therefore, the task of increasing the value of the company is not yet relevant for many companies. In this regard, the principles of corporate governance do not currently have much relevance in full. One of the companies is thinking about entering the stock exchange.

“We believe that complete IPO preparation certainly includes the introduction of a full range of corporate governance principles. At the moment, we think that this should be done 1-2 years before entering the stock exchange. However, we think that increasing the value of the company is still not a 1-2 year plan, but many years of preparation, including through elements of corporate governance” (Interview No. 6).

Along with the irrelevance of the problem of the full or partial sale of a company, companies also do not have the problem of transferring companies to heirs. However, the above problems will face these companies in the coming decades. Solving the problem of succession or sale of companies is the task of the near future in Estonian business. To solve this problem, business owners will face the question of how to ensure and maintain the sustainable development of the company. When changing generations in a business family, the question always arises as to whether the company will be sold or inherited. In both cases, the implementation of corporate governance principles becomes inherently important. In the Scandinavian countries, the cycle of changing business generations has passed. Therefore, corporate governance in private companies is widely prevalent there as an integral part of business traditions.

Barriers for application of corporate governance principles by present group of companies are listed in following table 7.

Table 7. Barriers for application of corporate governance principles (group “Closed to principles”).

Non-mandatory application of corporate governance principles in existing legislation
Low activity in foreign trade markets
Distrust of unfamiliar person in the supervisory board
Information leakage risk
Self-confidence of the business in full understanding of all aspects
Skepticism and unpreparedness for new approaches to management
Narrowing the concept of stakeholder to shareholder and state
Low value of external attractiveness for external stakeholder (for example, society)
Low value of external attractiveness for internal stakeholder (for example, employee)
Low activity in foreign financial markets
Non-mandatory application of corporate governance principles in the requirements of commercial banks to private companies
Low maturity and low need for full or partial sale of the company
Postponing of problems transferring companies to heirs

Source: (author).

At the end of the description of this group of businessmen, author would like to say that, with the high probability, these businessmen will begin to use the principles of corporate governance in more depth. They are one step away from this. It is this group of businesses that will receive the greatest effect from application of the full range of corporate governance principles. Not only these companies will benefit from this change, but the entire business community.

Unfamiliar with principles of corporate governance

Two out of ten interviews fell into this category. These companies were not familiar with corporate governance principles. The companies, like the previous group, proceed in compliance with the mandatory requirements of the law. The companies of this group are largely concentrated in their business within Estonia and probably have not yet encountered problems that corporate governance can solve. However, this does not exclude the fact that the principles of good corporate governance are useless for current activities.

One of the companies had a supervisory board, but based on the principles of legislation. According to the commercial law, in Estonia, a unit partnership does not have a supervisory board, and joint-stock companies must have a supervisory board without fail. The supervisory board includes the owners of the company themselves. The company has already taken the first step in corporate governance by hiring a CEO in the company. However, while the owners are on the supervisory board, it cannot be said that management in its actions is separate from the owners and acts exclusively in the interests of the company. At the moment, companies do not see the need for independent directors. They did not know what benefit could be from them. However, as part of the interview, the idea arose that the concept of an independent director might be useful:

“If our company decides to enter a new geographic market, then it is quite possible we will need a new competence in the governing bodies. Then it is quite possible that an independent qualified council member will help to cope with the task faster. In addition, this will avoid potential errors.” (Interview No. 9).

In the companies of this group there is no separate attention to additional elements of corporate governance. At the moment, companies have not seen the need for separate audit and strategy committees, nor have they seen the need to implement a code of ethics. Various kinds of policies - such as the policy of avoiding conflicts of interest or anti-corruption policies - were not in demand and companies did not know about their existence and benefits. One of the companies uses the “17 global goals” developed at the UN in 2015 (UN. Global Goals) as a strategic document to ensure the sustainable development of the company. Pursuing these principles, the company believes that it

covers all stakeholders and thereby ensures its reputation. This is a good indicator that the company is still looking for some kind of universally recognized platform for meeting good business traditions. It is possible that in the future the company will continue its search and will come to the generally accepted benefits of corporate governance for its business as well.

As part of obtaining financing, these companies did not encounter any knowledge of how an approach to managing a company can affect the availability and cost of external financing. As mentioned above, Estonian commercial banks do not make corporate governance an indispensable criterion and do not report separately that this affects the financing of the company. It is very important that companies themselves consciously come to the benefit of improving their management models. Then the effectiveness of such management systems will be clearly visible and will be clearly useful to all stakeholders. The development of one of the companies in this group depends on the availability of external financing. During the interview, the company thought that attracting independent board members could help reach a level of profitable international financing.

“We really did not think that entering foreign financing markets could depend on the presence of people in the governing bodies. It is important for us that we can make large borrowed funds; thereby our company can make a qualitatively new leap in development. However, where and how to find such independent members for the management and supervisory bodies of the company?! How can they entrust internal information without guaranteed damage to the company?” (Interview No. 1).

Barriers for application of corporate governance principles by present group of companies are listed in following table 8.

Table 8. Barriers for application of corporate governance principles (group “Unfamiliar to principles”).

Non-acquaintance of the benefits of applying corporate governance principles
Lack of good examples and recommendations for private companies
Weak development of corporate governance institutes
Distrust of unfamiliar person in the supervisory board
Information leakage risk
Using other bases for the long-term development of the company

Source: (author).

Indeed, it must be admitted that the institution of forming independent directors in Estonia is not yet developed. From this comes, among other things, the low awareness of Estonian businessmen about the benefits of corporate governance principles. If this topic is not discussed in media and conferences, if it is not mainstream topic in the existing business environment, then naturally there will be little awareness of the benefits of corporate governance for private companies. In addition, those groups that are informed about corporate governance do not see good illustrative examples from which to take best practices for their business models. There are attempts to make initiatives to form an institute of independent directors for state-owned companies, but this problem has not been solved for private business. The process of seeking outside experts as independent directors is an even bigger problem. It is compounded by the above-described problems of the primary distrust of Estonian business towards foreign specialists. It will take a long time for this worldview to change. Perhaps this will happen only with the change of business generations.

Main findings with reasons and barriers for application of corporate governance principles in Estonian private companies are listed in following table 9.

Table 9. Reasons and barriers for application of corporate governance principles.

Reasons for application of corporate governance principles
Decision-making in the interests of the company
Balanced management of the long-term development of the company
Consultation of an external experienced specialist in the interests of the company
Improving the work of the company with a focus on best-practice
Constructive challenging for company management
Ensuring the confidence of all stakeholder in the long-term stability of the company
Improving company reputation
Long-term influx of quality professionals
Loyalty of existing desired employees
Improving access to finance
Low cost of financing
Planning a company for an initial public offering (IPO)
Succession planning
Method to preserve business for next generations
Barriers for application of corporate governance principles
Non-mandatory application of corporate governance principles in existing legislation
Low activity in foreign trade markets
Distrust of unfamiliar person in the supervisory board
Information leakage risk
Self-confidence of the business in full understanding of all aspects
Skepticism and unpreparedness for new approaches to management
Narrowing the concept of stakeholder to shareholder and state

Low value of external attractiveness for external stakeholder (for example, society)
Low value of external attractiveness for internal stakeholder (for example, employee)
Low activity in foreign financial markets
Non-mandatory application of corporate governance principles in the requirements of commercial banks to private companies
Low maturity and low need for full or partial sale of the company
Postponing of problems transferring companies to heirs
Non-acquaintance of the benefits of applying corporate governance principles
Lack of good examples and recommendations for private companies
Weak development of corporate governance institutes
Using other bases for the long-term development of the company

Source: (author).

Unfortunately, in Estonia most of private business companies do not use yet benefits of corporate governance. However, author supposes that in near future actuality of corporate governance in private companies of Estonia will definitely raise. Author also offers a number of recommendations in the field of applying corporate governance to improve the performance of companies and whole private business community in Estonia.

1. Estonian private companies need to use the full range of corporate governance principles to ensure business continuity.

The generation of the first owners who built the first corporate governance systems came close to the need to create continuity models for corporate property ownership for natural reasons. However, in the main, companies are not ready for this fundamental turning point in corporate relations. Existing corporate governance systems have in many cases been viable due to the authority of the business owner. The effectiveness of autonomous corporate governance systems created under pressure from owners, operating without an owner, is in great doubt. Under these conditions, the formulation and solution of the problems of building the corporate governance system of Estonian non-public companies are relevant and essential.

2. Estonian private companies should enter international financial and trading markets with a well-developed corporate governance structure.

There is a great hidden advantage for Estonian private companies to develop their activities through expanding the horizons of financing and trade. It is very important for players in international markets that a new partner has a governance structure that

provides long-term sustainable growth. This brings a significant sense of confidence for starting and developing a relationship.

3. Taking into account the forthcoming competition for qualified personnel, Estonian private companies should increase their attractiveness among new and existing employees through corporate governance.

Private companies compete for labor mainly with government companies and corporations. All state-owned companies and large international corporations have a full range of corporate governance principles. This greatly increases their value as an employer in the eyes of hired personnel. Private companies should also start using all corporate rules. Otherwise, they will lose the long-term competition for attracting qualified professionals and young talents.

4. Estonian private companies need to start using independent board members as an opportunity to obtain best practices in the field of management and, in particular, in the field of corporate governance.

The use of Scandinavian experience will be very beneficial for Estonian private business. Discussion of the strategy and decision making should be done using a multifaceted assessment of the issue. To do this, there is need to attract independent opinions. This helps to create a more complete vision for making and choosing a decision. Of course, there is need to create trust with independent directors. This will provide a lasting effect for the development of the company.

5. Estonian regulatory authorities need to consider the option of mandatory application of corporate governance principles for private companies.

Unfortunately, a large number of companies do not have the concept of “soft law”. As long as corporate governance is not regulated by the “hard law”, the attitude towards this is not very active in Estonia. Bringing the application of corporate governance principles to the level of legislation will lead to a multilateral assessment of the benefits of corporate governance in private companies. This will increase the awareness of private business in corporate governance. As a result of this the level of corporate governance in private companies increases, and then a huge number of stakeholders (including the state,

employees, customers, media) will benefit. This regulation will not be burdensome for private business, because it solves simultaneously many actual entrepreneurial problems, like choosing of stable management model.

6. Estonian commercial banks need to consider the option of mandatory application of corporate governance principles for private companies.

Commercial banks play a huge role in working with and influencing private companies in Estonia. In many ways, banks are for businesses an external appraiser of private companies. If a commercial bank finances a private company, it means that the bank gives a positive assessment of the long-term sustainable development of this company. If banks would list the elements of corporate governance into the mandatory conditions of loan applications, then there will be an additional incentive for companies to improve their management systems. This will increase the overall level of awareness of private business in corporate governance. Moreover, thereby it will lead to an increase in the overall quality and maturity level of private business sector in Estonia.

CONCLUSION AND DISCUSSION

In order to simplify the management of corporate structures regardless of their geographical location, the international community has created common standards. The OECD (Organization for Economic Cooperation and Development) developed corporate governance principles in 1999, which have since become guidelines for companies, investors, national legislatures and other stakeholders, and have been applied in practice in both developed and developing countries.

To ensure application of principles private companies can use corporate governance approaches and tools, such as duality of CEO and supervisory board of directors, involvement of independent members to board, implementing board committees, disclosure and reporting, code of ethics, cooperation with stakeholders.

For private companies there are benefits of application of principles of corporate governance. Such as high level of transparency for stakeholders, increasing trust among employees and other stakeholders, improved access to external financing, lower cost of capital, better business decisions, better risk management, better sustainable efficiency, higher profitability, growing value of company, improved reputation, higher resilience and reduced risk for corporate crises and scandals. Following the best corporate governance practices gives rise to investor and lender confidence in the company. It also allows the company to be considered a reliable partner.

The study confirms the existence of benefits of corporate governance for private companies, and also identifies the reasons and barriers for application of corporate governance principles in private companies in Estonia.

To conduct the study, a qualitative form of data collection and analysis was chosen. 10 in-depth semi-structured interviews were conducted with representatives of Estonian private business.

When analyzing the reasons for application of corporate governance principles, the following aspects were identified.

The use of the supervisory board and the use of independent board members gives a clear separation of company owners from company management. This ensures balanced decision-making in favor of the company, taking into account all stakeholders. It also helps to more balanced manage the long-term development of the company.

The presence of an independent member of the board gives the owners of the company the opportunity to receive advice from an external specialist in the interests of the company. An independent director assists experience in improving the company through best practice and performance monitoring. An independent director can provide constructive challenging for company management.

Ensuring the work of corporate governance principles - such as the work of committees, ensuring transparency of information for the stakeholders, the existence of a code of ethics - gives confidence for all stakeholders in the long-term stability of the company. Corporate governance directly affects the improvement of the company's reputation and provides the company with a long-term influx of high-quality specialists and the loyalty of the existing necessary employees.

Application of corporate governance has helped private companies to obtain profitable financing in international financial institutions or through a bonded loan form. Implementing the full range of corporate governance principles, a private company can be considered prepared to issue its shares on the stock exchange. This is a great advantage for the company, as well as a kind of quality mark for all external partners and stakeholder.

When analyzing the barriers for application of corporate governance principles, the following aspects were identified.

The implementation of corporate governance is not required under existing law. This allows for many companies ignore best practice of corporate governance because there is no any obligation from outside.

A partial reason for not using corporate governance principles is the lack of knowledge of the benefits of applying the principles. In Estonia, the institutions of corporate governance is still underdeveloped, therefore there are no good examples and recommendations for private companies. In addition, a barrier is the lack of a sufficient number of experienced external experts as independent directors.

A barrier to the use of independent directors is the primary distrust of Estonian businessmen towards unfamiliar persons. Many are not ready to attract a stranger to work in the governing bodies in their private company. Devoting such a person to the nuances of his company's work is a problem for many businessmen. There is also the problem of the long-term protection of company data and knowledge when attracting strangers.

A barrier is also the confidence of businessmen in a complete understanding of all existing processes and the lack of readiness for new approaches to management. This does not make it easy to listen to the recommendations of independent directors.

Basically, companies narrow down the concept of stakeholder to the owner and the state. Many businessmen are not so concerned about the attractiveness of companies as an employer, and therefore do not see a direct need to use corporate governance as a tool to attract new and retain existing employees.

Another problem with the low level of application of corporate governance principles is the low activity of most Estonian companies in foreign markets, including the foreign financing market. Local Estonian banks do not set high mandatory requirements for the level of corporate governance. The same situation is in the field of state orders. For the most part the rule is fulfilled for local business: "what is not required by a mandatory law does not exist".

Low maturity and the need for full or partial sale of the company also reduces the need for corporate governance. In addition, companies are not yet faced with the problem of transferring companies to heirs.

This research is consistent with previous findings on corporate governance in private companies. Study by Sarah (2017) showed that without proper reporting, private companies are losing out on good investors. If large corporations could reap great benefit

through embracing corporate governance, surely, private companies can also get those benefits. Many companies faced suspension and liquidation due to that investors are not aware of their activities. Sarah (2017) states that the inclusion of the independent member in a board of directors can assist as it has been seen that some outsiders bring with them new contacts and business expansion in a long run.

Findings of research seem to confirm earlier research executed for private companies made by Sarbah *et al.* (2015). According to it, the principles of corporate governance apply to both listed and non-listed companies and institutions in the private and public sectors, such as non-governmental organizations, charities, businesses and government boards, trusts and agencies. Aside these, good governance is a must for every business but for private businesses, corporate governance is a crucial paradigm shift, so significant, that it determines the continuity or growth of every private business. The main goal of good corporate governance is to give direction for private owners in the business as they move on to the next stage of development of their businesses, and its consequences on the owners and the business as a whole.

Barriers for application of corporate governance in private companies are connected with complexity of implementation. This is supported by study by Verbruggen (2012) who posit that corporate governance that ensures the accountability and transparency for all stakeholders is decisive for private businesses. However, especially private businesses must pay attention to implement only those elements that are necessary regarding management and complexity of the business. All further elements increase costs and at the same time decrease competitiveness. Knowing this, business owners can anticipate on the level of complexity regarding a possible prior business transfer and implement an adequate governance structure that will match the requirements of the previous business transfer.

In comparison to previous studies on corporate governance in private companies, this paper obtained results in line with the findings by Bataeva (2015). Bataeva has concluded, that corporate governance will become especially relevant in the coming years due to the upcoming change owners in non-public corporations created in East Europe 20 years ago. These companies can be divided into two groups: the first group consists of companies owned by several partners, the second group - companies with significant concentrated

ownership. In the first group of companies, there is a need to build a corporate governance system in connection with the problems of transferring business to their heirs. Since it is unlikely that the children of partners will also work as partners, three development strategies are likely for such companies: transformation into family companies; transformation into public companies and dilution of the ownership share of the founding owners; and sale. In the latter case, the received capital can be directed "to private investment funds that do not pretend to define the company's strategy". The second group consists of companies with significant concentrated ownership, in which it is necessary to separate the business from the owner in connection with his upcoming retirement from active activities. There are two possible strategies for them: transformation into family companies or transformation into a public corporation and sale of some shares through IPO. Implementation of any of the above strategies implies improving the corporate governance system and increasing transparency and manageability in general. It has to be built a clear ownership structure, transparent accounting, and conduct a fair audit, to get a fair assessment of the company. Otherwise, the company can only be sold at a large discount.

The author also offers a number of recommendations in the field of applying corporate governance to improve the performance of companies.

1. Estonian private companies need to use the full range of corporate governance principles to ensure business continuity.
2. Estonian private companies should enter international financial and trading markets with a well-developed corporate governance structure.
3. Taking into account the forthcoming competition for qualified personnel, Estonian private companies should increase their attractiveness among new and existing employees through corporate governance.
4. Estonian private companies need to start using independent board members as an opportunity to obtain best practices in the field of management and, in particular, in the field of corporate governance.
5. Estonian regulatory authorities need to consider the option of mandatory application of corporate governance principles for private companies.

6. Estonian commercial banks need to consider the option of mandatory application of corporate governance principles for private companies.

As for limitation of research, interviews were not audio recorded because of refusal of participants. Author's written notes could be relatively subjective to his personal opinion. This limitation in some level narrows objectivity of gathered data. Also as for limitation of research, female shareholders or top-management interviews was out of scope of present research. It would be interesting area for future research. Quantitative analysis between companies' financial performance and corporate governance level would be large input in corporate governance studies in Estonia. Present research is limited within Estonian private companies, but pan-Baltic similar analysis (including Latvia and Lithuania) would be also potential area for research.

There are another fields for deeper research. For example, a more detailed study of the work of independent board members in private companies in Estonia. To better understand benefits of corporate governance, future research can also investigate the influence of corporate governance on succession planning of Estonian private enterprises. Researches can explore impact of corporate governance to remuneration of top management in private firms. Future studies may be expected to pay more attention to the private companies' supervisory board meetings exploring its formal and informal sides. Besides, future research can expand to comparison corporate governance approaches in state-owned and private enterprises.

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APPENDICES

Appendix 1. List of interview questions

1. Why does your company use (or not use) the board of directors (supervisory board)?
2. Why does your company use (or not use) independent board members in the board of directors (supervisory board)?
3. What competencies do you currently lack in the board of directors (supervisory board)?
4. Why does your company have (or have not) the internal control or the audit committee?
5. Why does your company have (or have not) the strategy committee?
6. Why does your company consider (or not) the interests of stakeholders?
7. Why does your company have (or have not) the code of ethics?
8. Why does your company follow (or not) the principle of information disclosure and reporting?
9. What kind of the benefits of corporate governance for the company's transparency and trust you do (or do not) know about?
10. What kind of the benefits of corporate governance for obtaining financing and its cost you do (or do not) know about?
11. What kind of the benefits of corporate governance for improving the company's performance and internal processes you do (or do not) know about?
12. What kind of the benefits of corporate governance for increasing the value of the company you do (or do not) know about?
13. What kind of the benefits of corporate governance for improving the company's reputation you do (or do not) know about?

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