



Effective corporate governance framework as a condition for attracting constructive capital summary of the research

The result of constructive investments is formation of a transparent, accountable business environment, reduction of corruption risks, spread of a culture of integrity, environmental security, and promotion of stakeholder inclusion. Constructive capital contributes to the development of public goods, to increase in the quality of public life, and not life of individuals or groups.

The quality of corporate governance is crucial for attracting constructive capital; that is, existence of a clear and strong commitment to good governance, professional and independent board, internal control and risk management systems, structures for stakeholder rights protection, etc.

Top management clearly understands its responsibility to ensure the long-term success of the company.

Taking into account the connection between constructive capital and corporate governance, the aim of the “Effective corporate governance framework as a condition for attracting constructive capital” research was to:

- Study the inclination of Armenian companies towards constructive capital;
- Find out the features of corporate governance of Armenian companies;
- Identify the efforts of Armenian companies aimed at improving their own corporate governance system and their expectations from the state.

A narrative research was conducted through a survey of 63 companies. The survey was conducted using a semi-standardized questionnaire.

The main results of the survey are:

- Most of the respondents, emphasizing the long-term nature of the investments attracted (71%), assessing their positive impact on market transparency and accountability, expressed their inclination towards constructive capital.
- 16% of the respondents were in favour of investments with characteristics of corrosive capital; moreover, 13% of the respondents considered the long-term return on investment to be secondary, and 3% considered that they should serve the enrichment of a certain group of people.
- The respondents also emphasized the importance of constructive capital for the development of their own business.



- As barriers to investment attraction nearly 3/4th of the respondents cited the country's political instability, and 80% - failures of the economic policy. In addition to government policy barriers, the respondents also singled out inefficient corporate governance environment: lack of culture of integrity in the business environment (22%), lack of knowledge about corporate governance (21%), and non-transparent and non-accountable practices of companies (14%).
- The respondents attach importance to the role of emotional ties with Armenia in attracting investments; they found that foreign investors of Armenian origin (70%) as well as local investors (65%) may be interested in Armenia's economy.
- The vast majority of the respondents (95%) expressed their agreement with the provision of the 2020 Manifesto of the World Economic Forum, according to which companies' performance were assessed not only by the profit paid to its shareholders, but also by their ability to achieve social, environmental and governance goals.
- Only about 1/3rd of the respondents were aware of the UN Sustainable Development Goals, and they presented a fairly wide range of goals to be achieved by them, including all 17 goals.
- The respondents' perceptions of corporate governance are strongly positive. Only 3% of the respondents found that corporate governance was an additional headache.
- The respondents realize the need for improvements in their governance system, but gave secondary importance to the corporate governance commitment.
- The respondents rely mainly on public policy to improve their own corporate governance systems; the state should encourage efforts to improve the quality of corporate governance of companies (40%), promote companies' transparency through legislative changes (27%), and tighten law enforcement (21%).
- More than 2/3rd of the respondents expected the state to ensure equal rules of the game in the business environment in order to improve the country's business environment and promote the flow of long-term investments; almost half of the respondents were in favour of implementing a tax incentive system, and 37% expressed the opinion that the state should encourage companies with an effective corporate governance system.
- The need for business collective action to improve the corporate governance system was highlighted by the vast majority of respondents (95%).