
CHAPTER 9

Corporate governance under economy transformation and geopolitical uncertainty: case of Ukraine

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Abstract

This research explores the impact of instability at the macro- and micro-level on corporate governance. Specifically, the study considers corporate governance reform and ESG-based remuneration trends in Ukraine, focusing on adaptation to crisis contexts and alignment with international standards. Ukraine's corporate governance landscape has evolved significantly, shifting toward formalizing board structures, incorporating independent directors, and enhancing transparency to support accountability and investor confidence. The study assesses the current maturity of corporate governance in Ukraine through data from research companies and professional associations, highlighting gaps in board independence and board formalization in private and state-owned enterprises (SOEs). Ukrainian SOE governance reforms are also examined, guided by OECD principles, and codified under Law of Ukraine No. 3587-IX 2024. These reforms emphasize transparency, risk management, and structured oversight to align SOE operations with EU-integration goals, enhancing governance standards across Ukrainian SOEs and setting a strategic foundation for sustained foreign investment. Research considers the emerging integration of ESG-based remuneration, aligning executive incentives with environmental, social, and governance goals. CSRD influences Ukrainian companies by promoting transparency in ESG-linked pay structures and standardizing sustainability reporting. In a crisis context, ESG-based remuneration becomes particularly relevant, encouraging Ukrainian companies to adapt their ESG targets to include community welfare, environmental restoration, and ethical governance. Drawing from global case studies – such as Japan's post-disaster corporate policies and South Africa's emphasis on social equity – the paper outlines best practices for integrating ESG metrics within Ukrainian corporate governance. This alignment of governance frameworks and ESG-based remuneration in Ukraine aims to strengthen corporate resilience, support investor trust, and contribute to sustainable

development and national recovery efforts. The study recommends further embedding OECD-aligned practices and crisis-responsive ESG strategies within Ukraine's corporate governance landscape, reinforcing the role of Ukrainian businesses in shaping a resilient and sustainable economy, accounting for specific needs of postwar recovery.

Keywords

Corporate governance, instability, geopolitics, postwar recovery, Ukraine's economy transition, economy transformation, ESG-based remuneration, Ukrainian SOEs, SOE governance reform, OECD principles, board independence, UN SDG, investor trust, raising capital, EU CSRD, sustainability metrics, executive compensation, governance structures, corporate resilience.

9.1 Introduction

Corporate governance has emerged as a cornerstone for economic stability and growth, particularly in economies facing significant socio-political challenges. In Ukraine, corporate governance has gradually evolved, influenced by internal economic transitions and the country's integration into the global market. This evolution is particularly relevant as Ukrainian companies deal with complex crises, such as external geopolitical tensions and internal challenges due to war, a broader global drive to enhance governance structures in alignment with international standards, including those outlined by the OECD, and a specific need for structured postwar recovery. Corporate governance frameworks in Ukraine, characterized by varying levels of board formalization and the presence of independent directors, reveal both progress and areas needing improvement. Data from recent studies [1] demonstrate that most Ukrainian businesses have implemented some form of corporate governance, with 60 % establishing boards of directors and 38 % maintaining boards to ensure oversight. However, gaps persist – for instance, independent directors constitute a minor percentage of Ukrainian board composition, which may limit objectivity and impede optimal governance outcomes. The need for increased formalization and impartial oversight has become more pressing, as these elements are crucial to securing investor trust and facilitating effective decision-making. In the context of SOE governance, Ukraine has initiated critical reforms to align with OECD principles, indicating transparency, accountability, and the independence of boards. Recent legislation and relevant policies, including Law of Ukraine No. 3587-IX 2024 [2] and compiled under this legislation, yet unpublished Ukraine's State Ownership Policy, outlines clear governance criteria, enhancing the strategic management of SOEs, and establishing frameworks for board responsibilities, risk management, and performance evaluations. This reform marks a

significant step towards integrating Ukrainian SOEs into the global economy, positioning them as competitive, transparent entities capable of attracting international investment and supporting public trust. Moreover, integrating ESG criteria within corporate governance and remuneration policies reflects a growing commitment to sustainable practices as Ukraine's economy transitions. ESG-based remuneration, though relatively new in Ukraine, has become an essential mechanism for linking executive incentives to measurable sustainability achievements. Amid Ukraine's specific crisis context, ESG-focused strategies provide a means for companies to demonstrate resilience, align with national recovery efforts, and support community welfare. Insights from global experiences in crises, such as Japan's response to the Fukushima disaster, offer frameworks for incorporating ESG-driven governance in Ukrainian companies, especially in the face of ongoing challenges. This effort could be methodically supported by aligning these corporate and social development goals within the UN SDG framework. This research provides an in-depth analysis of the current state of corporate governance in Ukraine, highlighting recent reforms, challenges, and opportunities in both private and state-owned sectors. Additionally, it explores the role of ESG-based remuneration in strengthening corporate resilience and promoting sustainable business practices within the Ukrainian context. By examining these aspects, this study seeks to contribute to the broader discourse on corporate governance in emerging markets and to offer actionable recommendations for advancing governance practices in Ukraine.

9.2 Corporate governance in Ukraine under economy's transition amidst geopolitical crises

Corporate governance is critical in ensuring business efficiency and resilience to external challenges, especially during transitional periods. Ukrainian businesses continue to adapt their corporate governance bodies to meet new realities. Based on recent data from joint research [1] by the Ukrainian Corporate Governance Academy (UCGA) and research company Gradus, we analyzed the status and structure of corporate governance within Ukrainian companies.

9.2.1 Ukrainian corporate governance amidst crisis: 2024 snapshot

According to joint UCGA & Gradus survey [1] results, most researched Ukrainian companies (60 %) have a board of directors in some form. Board of directors (Supervisory board – before 2024 legislation changes allowing only a 2-tier

system for corporations in Ukraine) is present in 38 % of the surveyed companies, indicating a high level of oversight over management activities. So-called advisory or consultative boards (specific bodies supporting the transition from a dominant CEO/President/Chair entity endemic to post-soviet 1990-s and 2000-s business practices reflecting a gradual transition to a transparent structure required by multi-shareholder model) operate in 21 % of Ukrainian companies emphasizing the importance of expert support and consultation in decision-making processes in Ukrainian business practices. Notably, 15 % of researched companies do not have any listed corporate governance bodies, which may suggest a less formalized approach to corporate governance in these organizations.

Data [1] indicates that 54 % of companies have formalized boards, reflecting a high level of corporate governance maturity in these organizations. However, in 39 % of companies, only some boards are formalized, suggesting a phased approach to implementing formal corporate governance procedures. Only 6 % of companies lack any formalized board, which may imply an absence of a clear management structure in these businesses.

Independent directors are vital to effective corporate governance practices, providing impartial oversight and evaluation of management activities. According to UCGA & Gradus joint research [1] in 48 % of Ukrainian companies, independent directors constitute less than 30 % of the board, highlighting the need for further development of this governance component. Conversely, 35 % of companies have no independent directors, which may reduce the objectivity and effectiveness of managerial decisions. Meanwhile, 16 % of companies have over 30 % independent directors on their boards, indicating high transparency and governance effectiveness.

Analysis of data [1] reveals that Ukrainian businesses are actively working to improve their corporate governance structures, even amid active warfare. Most companies have formalized governance bodies, such as boards of directors, which ensure high control and supervision over management activities. However, specific challenges are associated with the low representation of independent directors in some companies, potentially affecting decision-making objectivity. Overall, the trends indicate a gradual improvement in the corporate governance system, a positive signal for investors and other stakeholders. Based on the analysis of UCGA & Gradus data [1], we crystalize several trends regarding the current state of corporate governance in Ukraine:

Trend 1. Maturity of corporate governance: corporate governance in Ukraine demonstrates a certain level of maturity, evidenced by the presence of boards of directors in most companies (60 %). However, there are significant gaps in the governance structure, with 15 % of companies lacking formal governance

bodies. This indicates a less formal and systematic approach to management in these organizations.

Trend 2. Board formalization: the high level of board formalization in most companies (54 %) is a positive trend, indicating a commitment to enhancing governance efficiency through clear procedures. At the same time, 39 % of companies have only partially formalized their boards, suggesting a gradual adaptation to new governance requirements.

Trend 3. The increasing role of independent directors: independent directors remain a weak link in corporate governance in Ukraine. Only 16 % of companies have more than 30 % independent directors on their boards, while 35 % have none, potentially impacting the objectivity of decision-making and oversight of management activities.

Based on these observations, specific recommendations to support corporate governance in Ukraine at the current stage may be suggested. First, strengthening corporate governance formalization – Ukrainian companies should focus on further formalizing corporate governance bodies, especially in companies where such bodies are absent or only partially formalized. This will enhance governance efficiency and transparency in decision-making processes. Second, efforts should be made to increase the proportion of independent directors on the boards of Ukrainian companies. This can be achieved through regulatory requirements or industry standards, promoting more objective managerial decisions, and improving oversight of management activities. Third, the development of advisory boards as a transition instrument should be given to developing advisory and consultative boards, which can provide companies with expert support and facilitate more balanced decision-making in crises.

9.2.2 Pre-crisis transition developments in corporate governance in Ukraine

According to Corporate Governance Professional Association (CGPA) study [3] from 2018, 97 % of respondents noted that proper corporate governance positively impacted company performance. Notably, foreign company subsidiaries received the highest ratings for implementing best practices in corporate governance (95 %), while state and municipal companies had the lowest (26 %). In terms of corporate governance elements in Ukrainian companies, CGPA data [3] shows that the essential principles are: effective board operations (69 %), conflict of interest prevention (66 %), shareholder rights protection (65 %), a professional approach to decision-making (64 %), timely and accurate disclosure of information and

transparency (57 %), and fair treatment of various shareholder groups (52 %). Ukrainian business perspective on the role of the board is also noteworthy. Most respondents (77 %) believed corporate governance is only possible with a fully functioning board. As of 2018, in 81 % of companies, a board had been established, with over 60 % of respondents noting its positive impact on company performance. In some forms, the existence and function of a corporate governance office are separate considerations. Approximately 74 % of researched companies had a corporate secretary and an internal auditor office, while about 50 % established a compliance office. Ukrainian business understands that corporate governance significantly impacts a company's attractiveness to investors. According to CGPA [3], 52 % of respondents stated that good corporate governance significantly enhanced company performance, and 45 % believed it moderately improved performance. This is supported by high ratings for the importance of shareholder rights protection (65 %), conflict of interest prevention (66 %), and a professional approach to decision-making (64 %) as traits of good corporate governance. Despite the general progress in implementing best corporate governance practices, significant differences exist between different types of companies. Foreign subsidiaries and companies with investment fund involvement show the highest performance (60 % and 57 %, respectively), while private companies (40 %) and state-owned companies (26 %) faced challenges in this area.

The effectiveness of boards largely depends on their composition and organization. According to the survey, 81 % of companies had a board, and 36 % of respondents indicated that its activities significantly enhanced company performance. However, only 15 % of boards were directly involved in strategy development. The average board size was five members, about half of whom were independent, although 48 % of companies had no independent members in 2018.

Several conclusions may be drawn based on CGPA [3] data analysis. Legislative requirements and educational programs for shareholders and managers are necessary to strengthen the role of boards, especially in SOEs. That improves management quality and decision-making effectiveness. Including experts from various fields, such as technology and digital media, on boards is essential to enhance companies' ability to respond to contemporary challenges. That facilitates more flexible and adaptive governance. Improving information disclosure and reporting systems boosts investor and stakeholder trust, crucial for attracting investments and ensuring stable company growth. Strengthening the roles of compliance and internal audit departments is critical to minimizing risks and ensuring regulatory compliance. This helps avoid financial and reputational losses.

The following steps are necessary to ensure the sustainable development and successful integration of Ukrainian companies into global markets. First, legislative

norms should be implemented to strengthen the role of boards, particularly in state- and municipal-owned companies, which enhances corporate governance standards and accountability. Second, training programs for shareholders and managers should be introduced to develop competencies in corporate governance, raising awareness and skills. Third, involving specialists from various sectors, including technology and digital media, in boards to better address modern challenges and innovation. Additionally, improve information disclosure and reporting mechanisms to boost investor and stakeholder trust, thereby increasing the companies' investment appeal. Finally, adequate funding and independence for compliance and internal audit departments are ensured to enable effective regulatory compliance control. That reduces risks and improves companies' financial stability. Hence, implementing these measures will enhance corporate governance effectiveness, which is critical to the sustainable development of Ukrainian companies in the current global environment. For further improvements in corporate governance among Ukrainian companies, attention should be given to the following aspects:

- *increasing independent directors' representation on boards*: engaging independent directors enhances objectivity and impartiality in decision-making, reduces conflict of interest risks, and ensures board transparency. Independent directors can also introduce new ideas and approaches, supporting innovation and long-term growth. It is crucial to ensure these directors possess the necessary qualifications, experience, and conditions conducive to their practical work;

- *further formalization of governance bodies*: formalizing governance bodies, including clearly defining their functions and authority, will create a structured and transparent management system. Implementing robust internal control and audit mechanisms enhances reliability and compliance with legal and corporate governance standards. Developing and implementing policies and procedures that align governance bodies with best practices and international standards is essential;

- *institutionalizing corporate governance*: boards can offer critical expert support and guidance, aiding management in strategic decision-making. Involving professionals from various fields, such as finance, marketing, risk management, and innovation, enables comprehensive analysis and assessment of strategic initiatives. Effective communication channels between advisory boards and management should be established to ensure timely information exchange and the incorporation of recommendations into decision-making processes.

Implementing these recommendations enhances corporate governance effectiveness, strengthening the resilience and competitiveness of Ukrainian companies in the international market. This supports investor confidence, strengthens financial stability, and creates conditions for sustainable company growth.

9.3 Ongoing corporate governance reform in Ukraine: focus on the economy's transition for postwar recovery

Corporate governance of SOEs is a critical component of economic stability and development in Ukraine. In recent years, significant steps have been taken to reform state property management to increase SOEs' efficiency, transparency, and competitiveness. The primary objective of this reform is to align management practices with international standards, particularly the principles of the OECD, which ensure effective governance of public companies, balanced distribution of rights and responsibilities within bodies, and protection of investors' rights. That, in turn, should assist in transitioning Ukraine's economy and stimulate an influx of international capital. The reform's essence is reducing the number of enterprises under state ownership by privatizing the majority of SOEs and improving corporate governance in the remaining SOEs. Approximately 3,000 SOEs operate in Ukraine, of which only strategically important ones are planned to remain under state control. Other SOEs will be privatized or liquidated according to Ministry of Economy of Ukraine [4]. This approach not only reduces the fiscal burden on the state budget but also allows for more efficient resource use and creates favorable conditions for developing a competitive market. For companies that remain under state control, the reform mandates the implementation of rigorous corporate governance standards consistent with OECD and Ukrainian policies [5]. This includes establishing boards with independent members who are empowered to oversee the activities of SOE's management. Such an approach ensures transparency and accountability in strategic decision-making. Effective internal control mechanisms, including risk management, compliance, and internal auditing, are also being implemented to identify and mitigate potential risks to the stability of SOEs.

9.3.1 OECD principles vs. Ukrainian corporate governance practices: a strive for transparency for international capital influx in Ukrainian SOEs

Corporate governance analysis in Ukraine highlights both advancements and challenges in aligning with OECD principles [6]. Ukraine has made noticeable progress in adopting OECD's core standards, particularly regarding transparency, accountability, and the protection of shareholder rights. However, significant obstacles remain to achieving full compliance with these international standards, as demonstrated by both progress and limitations across various governance areas:

Point 1. Transparency and accountability are essential components of the OECD framework, emphasizing the need for companies to disclose financial information, report promptly, and ensure information accessibility for shareholders. Ukraine has started implementing mandatory transparency standards, especially in SOEs, where requirements for disclosing financial and strategic information have been introduced. Yet, bureaucratic processes and potential conflicts of interest hinder these efforts. Despite the commitment to increased transparency, many SOEs still lack the necessary infrastructure and culture to facilitate full and consistent information disclosure.

Point 2. Boards' independence is another key OECD recommendation aimed at preventing conflicts of interest and strengthening oversight. In Ukraine, the establishment of boards has been made compulsory for certain SOEs under criteria established by the Cabinet of Ministers of Ukraine (the Cabinet), and these boards are gradually gaining extended powers, such as the approval of financial and strategic plans and the appointment of senior management. However, political dependence continues to compromise its effectiveness. Instances of apparent governmental influence over boards reveal an ongoing challenge in ensuring these bodies' ability to provide objective oversight without interference.

Point 3. Rights of shareholders and stakeholders are fundamental to OECD principles, particularly the protection of minority investors and the consideration of all stakeholders' interests. In Ukraine, these principles are evolving predominantly within the private sector, where investor protection is being reinforced through reforms and heightened transparency. In the public sector, however, shareholder rights are often less pronounced, as the state remains the primary owner and directly controls SOEs' operations. This ownership structure restricts private investors and stakeholders from effectively influencing corporate policies, creating a divergence from the OECD's shareholder protection standards.

Point 4. Compensation system for executives in Ukraine is another area where OECD principles emphasize transparency and alignment with a company's performance. Recently, the Cabinet introduced a compensation policy for executives in SOEs, marking a positive step toward OECD-aligned practices. However, the policy remains in an early stage of implementation, and additional mechanisms are necessary to fully realize its potential for promoting transparent and performance-driven compensation structures.

Point 5. The OECD framework critically focuses on investor protection, advocating for strong legal protections and information transparency, especially for minority investors. While Ukraine has made progress in enhancing investor protections in the private sector, where shareholders have access to information and legal support, protections remain less robust within the public sector. This lack of comprehensive

protection creates risks for potential investors and limits capital inflows, underlining the need for further improvements in this area.

The OECD indicates that independent supervisory bodies are essential to effective governance and accountability. In Ukraine, boards have been granted expanded authority and responsibility over the approval of SOEs' strategic and financial plans. Nevertheless, political influence and conflicts of interest continue to hinder their effective functioning. These boards' dependence on government decisions may adversely impact their ability to conduct objective oversight, diminishing the potential for transparency and accountability. Comparative analysis results are summarized in **Table 9.1**.

Table 9.1 Comparative analysis of OECD principles and Ukrainian corporate governance practices' cohesion

Category	OECD principles	Practices in Ukraine
Transparency and accountability	High level of transparency, including open financial reporting and accessible information for shareholders	Transparency is becoming a standard for SOEs; however, the process is complicated by bureaucracy, conflicts of interest
Boards' independence	Mandatory independence of boards to ensure effective oversight and prevent conflicts of interest	Boards are mandatory under certain conditions, with powers aligning to OECD standards, yet some political dependence exists
Shareholders' and stakeholders' rights	Shareholders, including minority investors, have rights to receive information and influence company policy	Shareholder rights protection is advancing in the private sector; in the public sector, shareholder rights are less pronounced due to state control
Compensation system	Compensation should be transparent and performance-based, aligning with long-term goals	A compensation policy for executives in SOEs has recently been introduced and approved by the Cabinet, but transparency still requires improvement
Investor protection	Special focus on the protection of investor and minority shareholder rights, with legal mechanisms for their support	Investor rights protection in Ukraine is gradually improving, though gaps remain, particularly in protecting minority shareholders in the public sector
Boards effectiveness	Boards should perform strategic management functions and maintain independence from executives	Boards have been granted expanded powers, including strategic oversight; however, conflicts of interest may arise due to state influence

Sources: analysis based on [2, 4-8]

In summary, while Ukraine is gradually implementing OECD principles in corporate governance, especially concerning transparency, shareholder rights, and board

independence, achieving full compliance in SOEs is impeded by several persistent challenges. Political influence on boards, limited transparency in the state sector, and insufficient investor protection remain significant issues. Addressing these factors through continued corporate governance reforming efforts – focusing on enhancing board independence, refining the compensation system, and strengthening investor rights – will be essential for Ukraine's alignment with OECD standards and its advancement toward robust corporate governance practices to ensure transparency and influx of international capital.

9.3.2 Current developments in Ukrainian SOE governance reform

The critical component of the corporate governance reform is Law of Ukraine No. 3587-IX 2024 [2], which came into effect in early 2024. This law mandates the development of a State Ownership Policy, which outlines the main objectives of state ownership of enterprises and sets criteria for their privatization or retention under state control. The law also establishes clear powers for boards, including appointing company management and approving development strategies [8]. Furthermore, an internal control system is introduced to detect and prevent violations in the companies' activities.

Ukrainian legislation requires alignment with the OECD Corporate Governance Guidelines, which will enhance the governance of SOEs and improve transparency in their operations. The OECD has established core principles of corporate governance aimed at ensuring transparency, accountability, and efficiency in managing SOEs. These principles include establishing a stable legal and regulatory environment, separating the state's roles as owner and regulator, ensuring a level playing field in competition, promoting transparency and information disclosure, safeguarding the independence of boards, implementing effective risk management, engaging stakeholders, and developing a well-structured policy on executive remuneration and incentives. The main objective of these principles is to improve the competitiveness, accountability, and transparency of SOEs, which, in turn, will attract investment and strengthen trust from both the public and the international community.

The anticipated outcomes of the reform include increased productivity and transparency of SOEs. Reducing corruption risks, achieving high standards of transparency and accountability, and attracting international investment all contribute to enhancing trust in the public sector. These improvements also help minimize corrupt schemes and abuses, thereby improving the overall reputation of SOEs. A critical

aspect of the reform is the adherence to European governance standards and Ukraine's commitments within the framework of economic integration with the EU, which not only strengthens Ukraine's partnerships with EU countries but also attracts foreign investments to develop strategic sectors of the economy.

SOE governance reform aims to harmonize national principles with the OECD and institutionalize SOE governance in Ukraine. Legislation requires the implementation of a comprehensive state ownership policy. It also stipulates the need for a remuneration policy for SOE executives, a remuneration framework for board members, and a state dividend policy. These measures aim to enhance accountability, promote performance, and ensure responsible management of public assets.

Under modern legislation, SOEs' board independence is reinforced. Each SOE is required to establish a two-tier management structure with a board. This requirement applies to SOEs that meet criteria established by the Cabinet. For companies where the establishment of a board is not mandatory, a single-tier management structure may be implemented by the decision of the authorized management body, in accordance with the provisions of the Law of Ukraine No. 2465-IX 2024 "On Joint Stock Companies" [7]. Boards will also assume broader authority – for greater accountability. Boards will be responsible for approving financial, strategic, and investment plans based on state ownership policy and KPIs set by the Cabinet (as the major shareholder) and for appointing and dismissing SOE management. Additionally, a defined list of grounds for early termination of board members' powers has been established, replacing the previous approach whereby the Cabinet could unilaterally terminate any board member based on its assessment of inadequate performance. A clear set of KPIs encompassing financial, operational, and non-financial goals is to be established for SOEs. The KPIs aim to guide the strategic development of SOEs, ensure a low risk of bankruptcy, and fulfill the SOE dividend policy. Fulfilling these goals affects board remuneration and the prolongation of board members' contracts. Positive changes took place in terms of remuneration policy. The Cabinet is empowered to establish the procedure for evaluating the performance of SOE boards and to approve the remuneration policy for SOE executives. This approach ensures transparency and accountability in compensation matters, promoting expert and independent boards. Key developments are summarized in **Table 9.2**.

Hence, the SOEs' corporate governance reform, combined with improving state property management, is a crucial step for Ukraine toward modernizing its economy and supporting the EU integration effort. This effort aims to optimize the use of state resources and attract foreign investments. It seeks to build an economically stable and competitive economy that aligns with contemporary international standards.

Table 9.2 Key changes in Ukrainian SOEs' corporate governance under Law of Ukraine No. 3587-IX 2024 and related policies

Component	Description	Impact/outcome
Macro-level changes		
OECD alignment	Aligning Ukrainian legislation with OECD principles of corporate governance, which emphasize transparency, accountability, risk management, and efficiency	Enhancing governance standards, strengthening EU and international integration, increasing investor trust
Transparency and accountability	Enhancing SOE transparency and accountability through clear governance structures and reporting requirements aligned with OECD principles	Building public and international trust, reducing opportunities for corruption, and improving SOE reputational image
Institutionalization of SOE governance	Reinforcing the establishment of corporate governance standards in Ukrainian SOEs by mandating a comprehensive governance framework aligned with national and OECD standards	Institutionalizing best practices in SOE management, reducing risk of misuse and enhancing operational efficiency
Economic integration with EU	Adhering to European governance standards as part of Ukraine's commitments to economic integration with the EU	Attracting foreign investment, strengthening international partnerships, and supporting EU alignment
State ownership policy	Mandating development of state ownership policy to outline main objectives for SOE ownership, including criteria for privatization or retention under state control	Enhancing strategic clarity and accountability; streamlining state ownership objectives
Micro-level changes		
Board authority	Expanding boards' authority to include the appointment of SOE management, approval of development strategies, and establishment of a two-tier management structure (or a single-tier board in qualified SOEs)	Improving governance, accountability, and professional management of SOEs
Board independence	Ensuring board independence and limits unilateral termination by the Cabinet by defining grounds for early termination based on specific performance criteria	Strengthening board independence, minimizing political interference, and improving SOE stability
Modernized internal control system	Introducing an internal control mechanism (i.e. compliance and internal audit – substituting revision commission) to detect and prevent violations in SOE activities	Reducing corruption risks, improving compliance, and enhancing transparency
Remuneration policy transparency	Positioning the Cabinet as responsible for evaluating the performance of SOE boards and setting the remuneration policy, ensuring transparency and accountability	Encouraging performance-driven governance and attracting qualified and diverse expertise for board
Performance KPIs	Setting clear KPIs for financial, operational, and non-financial goals to guide SOEs in achieving strategic objectives and avoiding bankruptcy risks	Promoting strategic alignment, financial health, and performance-based management
State dividend policy	Introducing a state dividend policy with clear KPIs for SOEs, including financial, operational, and non-financial goals	Ensuring financial accountability and supports economic sustainability of SOEs

Sources: analysis based on [2, 4–8]

9.4 ESG-based remuneration as the central issue of modern corporate governance: lessons for Ukraine postwar recovery

ESG-based remuneration has emerged as a vital aspect of corporate governance. This approach links executive compensation directly to a company's performance on ESG metrics. It acknowledges that long-term value creation depends on financial success, sustainable practices, and social impact. ESG-based remuneration ties executives' rewards to specific ESG goals, such as reducing carbon emissions, promoting diversity and inclusion, and upholding strong governance practices [9, 10]. This linkage encourages a forward-looking focus, often incorporating long-term incentives that promote sustainable achievements over immediate profits.

Integrating ESG metrics within corporate governance aligns executive incentives with broader stakeholder interests, spanning employees, customers, communities, and investors. It encourages leaders to support value beyond financial gains, prioritizing the social and environmental well-being associated with stakeholder interests. ESG-based remuneration enhances transparency and accountability, with clearly defined criteria that make companies more open regarding their sustainability performance. Moreover, by embedding ESG factors into remuneration packages, companies can proactively address long-term risks related to environmental and regulatory shifts and social responsibilities that, if neglected, could jeopardize business resilience. Despite its benefits, ESG-based remuneration has challenges. Defining and measuring ESG performance can be complex, as it often involves qualitative assessments that are less straightforward than traditional financial metrics [11]. Additionally, there is the risk of greenwashing, where companies might set superficial ESG goals to satisfy remuneration requirements without enacting substantive changes. Striking a balance between ambitious ESG targets and the need for short-term profitability presents another challenge, as prioritizing long-term goals could potentially detract from immediate business growth and stability. Leading companies exemplify best practices by tying executive compensation to specific ESG targets, such as emissions reduction and social impact improvements. External ESG ratings from agencies frequently serve as benchmarks for setting these targets. Corporate boards also play a crucial role, overseeing ESG-linked remuneration to ensure it aligns with the company's values and sustainability objectives. Looking ahead, ESG-based remuneration is poised to become more standardized as regulations evolve [12]. For instance, proposed EU directives may require companies to disclose the alignment between executive pay and ESG goals, reflecting the growing regulatory focus on sustainability. Investor pressure is increasing as institutional stakeholders advocate for stronger

ties between pay and ESG performance to ensure companies prioritize long-term, sustainable management.

Hence, ESG-based remuneration is a progressive corporate governance trend promoting a balanced view of value creation. When executed thoughtfully, it can stimulate positive organizational change, strengthen long-term performance, and amplify a company's social and environmental contributions. However, to avoid pitfalls like greenwashing, companies have to set realistic, measurable ESG goals aligned with their core strategies, ensuring meaningful contributions to sustainability.

9.4.1 EU CSRD impact on corporate governance: roadmap for sustainability

The Corporate Sustainability Reporting Directive (CSRD) [13], introduced by the EU, significantly influences ESG-based remuneration within corporate governance. It aims to enhance transparency and standardize sustainability reporting across EU companies. This directive mandates that many organizations disclose their ESG performance, align executive remuneration with sustainable practices, and hold companies accountable for their environmental and social impact. By requiring detailed reporting on ESG metrics, the CSRD establishes a more objective foundation for integrating ESG criteria into compensation packages, allowing companies to align executive pay with measurable and verifiable sustainability achievements.

CSRD also promotes consistency in reporting, creating a standardized basis for evaluating ESG performance across industries and countries. This uniformity benefits stakeholders, particularly investors, who can better assess executive compensation's alignment with ESG outcomes. By mandating transparency around executive pay linked to sustainability goals, the directive empowers stakeholders to hold companies accountable if ESG claims do not align with actual performance. This reduces greenwashing risks, compelling companies to ground ESG-linked remuneration in substantive achievements.

CSRD places heightened responsibility on board directors to oversee and align executive compensation with long-term sustainability goals, reinforcing corporate governance structures to prioritize financial and environmental objectives. Governance committees now play a crucial role in setting and monitoring ESG-related remuneration criteria, ensuring these metrics reflect broader sustainability goals. The CSRD bolsters investor confidence in companies committed to sustainable practices and aligns with the EU's sustainable finance initiatives. Investors are increasingly drawn to organizations that are compliant with CSRD standards, which reflect

the EU's Green Deal and UN SDGs. By linking executive pay to ESG targets that support the SDGs, companies signal a commitment to the EU's sustainability agenda, enhancing their reputation and regulatory alignment.

CSRD, however, presents challenges as companies must rely on quantifiable ESG data to substantiate performance and connect it to executive pay, requiring robust reporting infrastructure and data management. While these requirements drive more robust governance, they may necessitate additional resources and expertise, posing challenges for smaller organizations. The CSRD is likely to have a far-reaching impact, affecting various sectors and extending its influence beyond the EU. Its expansive application encourages a broad commitment to ESG-linked executive pay across Europe, and as international companies operating within the EU adapt to these standards, the directive may set a precedent for global corporate governance related to sustainability and executive remuneration.

Therefore, the CSRD solidifies ESG-based remuneration by mandating transparent, data-backed reporting and transforming executive compensation structures to reflect genuine sustainability achievements. By mitigating greenwashing risks and promoting accountability, the directive supports a sustainable, long-term perspective within corporate governance, shaping ESG-driven practices across Europe and potentially inspiring similar standards worldwide.

9.4.2 Incorporating ESG-based remuneration under crisis context: insights for Ukraine

The profound social, economic, and environmental impacts of war demand a specialized approach to ESG-based remuneration policies. Specifying these policies to address wartime challenges enables companies to demonstrate resilience and commitment to their workforce, communities, and the environment.

Remuneration policies could reflect efforts to minimize operations' environmental footprint despite disruptions, focusing on resource management, emissions control, and waste reduction [14]. Additionally, targets could incentivize executives to contribute to ecological restoration, with goals for reforestation and soil remediation in affected areas. As infrastructure faces heightened risk, resilience initiatives could be encouraged through policies that prioritize sustainable resource management and energy efficiency, supporting a proactive approach to environmental security [15]. From a social perspective, companies could emphasize support for employees and local communities. Metrics tied to executive pay could reward initiatives that ensure employee safety, mental health support, and safe working conditions. Corporate

contributions to community resilience (such as humanitarian aid, employment opportunities, and training programs) would also signal a commitment to community welfare. This approach could be extended to support diversity, equity, and inclusion, encouraging hiring practices that prioritize vulnerable groups, including women and minorities impacted by the war. Governance considerations in ESG-based remuneration could highlight ethical leadership and transparency, which are critical in wartime. Executives could be incentivized to prioritize responsible business practices, ethical supply chains, and crisis preparedness. Governance metrics might include achievements in operational continuity planning, cybersecurity, and stakeholder communication, ensuring that companies remain transparent and accountable during conflict. Human rights and compliance remain paramount, as companies operating in a conflict zone must uphold safe labor practices and protect employee rights. Linking executive pay to human rights benchmarks (such as fair labor standards, ethical sourcing, and transparency in supply chains) ensures adherence to ethical business standards, especially in procurement and partnerships. ESG-based remuneration could also emphasize contributions to postwar recovery, rewarding leaders who invest in infrastructure, technology, and partnerships that bolster local economies and support long-term recovery. Companies could incentivize executives to pursue innovative crisis-response strategies, supporting economic stability and resilience through partnerships with small businesses and sustainable practices in rebuilding efforts. Adaptive and flexible ESG targets may be critical to managing the unpredictability of a wartime context. Such targets allow companies to recalibrate expectations based on evolving challenges, balancing performance with the dynamic realities of their environment. Integrating Ukraine's specific circumstances into ESG-based remuneration policies exemplifies a commitment to ethical leadership, social responsibility, and sustainable governance. By aligning executive incentives with meaningful ESG goals, companies reinforce their role as stewards of resilience and recovery, embedding these priorities into their core leadership practices during and beyond the crisis.

Incorporating ESG-based remuneration in times of crisis is a common strategy across countries facing extraordinary challenges. This approach allows companies to respond effectively to environmental, social, and governance needs while supporting resilience. This approach has become particularly relevant for companies in Ukraine, which, amidst the current geopolitical situation, can draw on global examples to align executive incentives with national recovery goals and urgent social priorities.

In Japan, the response to the 2011 Fukushima nuclear disaster highlights how corporate ESG strategies can shift in the aftermath of environmental crises. Japanese companies, especially in energy and manufacturing, redefined executive remuneration to prioritize safety and risk management as core ecological goals.

For instance, Tokyo Electric Power Company (TEPCO) linked executive compensation to adherence to strict safety protocols, environmental restoration, and community engagement in affected areas [16]. The disaster also catalyzed corporate governance reforms in Japan, encouraging companies to adopt greater transparency and accountability measures. Consequently, executive pay began to reflect the company's commitment to clear communication on environmental safety, emphasizing board oversight and executive accountability for ESG performance.

In the Philippines, the devastating impact of Typhoon Haiyan in 2013 led agriculture, logistics, and retail companies to adapt their ESG goals for climate resilience. These adjustments included embedding climate resilience and sustainability in supply chains, which became critical of executive performance metrics. San Miguel Corporation, among others, linked executive pay to environmental conservation and infrastructure projects designed to withstand future natural disasters [17]. Moreover, Philippine companies emphasized social responsibility, with executive bonuses tied to community rehabilitation projects that provided essential services and shelter for displaced individuals. This alignment of corporate and social objectives supported a culture of community engagement and long-term support for vulnerable regions.

Similarly, Brazil's ongoing environmental challenges in the Amazon have prompted companies to adopt ESG-based remuneration structures that address ecological accountability. Companies in agriculture and resource sectors, such as Suzano, a major pulp and paper producer, linked executive compensation to environmental performance targets, including deforestation prevention and biodiversity conservation [18]. Additionally, the social aspects of ESG in Brazil were addressed through initiatives focused on indigenous rights and sustainable land use, which became part of executive performance evaluations. By aligning executive incentives with environmental and social responsibilities, Brazilian companies adapted their strategies to meet global scrutiny over deforestation and to engage responsibly with local communities. Incorporating UN SDGs into ESG-based remuneration policies offers a framework for Ukrainian companies to address wartime challenges while promoting long-term sustainability. Aligning executive incentives with SDG priorities helps companies respond to immediate crises and contribute to national recovery [19, 20]. Environmental goals, such as SDG 13 (Climate Action) and SDG 15 (Life on Land), can drive sustainability-focused leadership. Executives could be rewarded for reducing greenhouse gas emissions, implementing energy-efficient practices, and engaging in ecological restoration, such as reforestation and soil remediation in war-affected areas. These efforts demonstrate resilience and commitment to rebuilding sustainably. Aligning with SDG 8 (Decent Work and Economic Growth) and SDG 10 (Reduced Inequalities) socially ensures a focus on workforce and community well-being.

Metrics could incentivize initiatives for job protection, mental health support, and hiring from vulnerable groups, including displaced populations. Community resilience efforts, such as humanitarian aid and rebuilding essential services, further reinforce corporate social responsibility. Governance measures tied to SDG 16 (Peace, Justice, and Strong Institutions) promote ethical leadership and transparency. Remuneration could be linked to human rights adherence, ethical supply chains, and effective crisis management. Governance-focused incentives ensure accountability and maintain public trust in challenging circumstances. Approach to integrating SDGs in ESG-based remuneration is presented in **Table 9.3**.

Table 9.3 Approach to integrating SDGs in ESG-based remuneration

Dimension	Relevant SDGs	Proposed ESG metrics for remuneration
Environmental	SDGs 13, 15	<ul style="list-style-type: none"> - reduction in carbon emissions; - implementation of energy-efficient practices; - ecological restoration (reforestation, soil remediation)
Social	SDGs 8, 10	<ul style="list-style-type: none"> - initiatives for employee well-being (mental health, safety, job protection); - hiring from vulnerable groups; - community rebuilding and aid
Governance	SDG 16	<ul style="list-style-type: none"> - ethical leadership metrics; - adherence to human rights and labor standards; - transparency in crisis management and supply chain practices
Reconstruction	SDGs 9, 11	<ul style="list-style-type: none"> - strengthened public trust; - improved corporate accountability; - effective crisis preparedness and operational continuity

Source: analysis based on [19, 20]

These global examples indicate how ESG-based remuneration strategies can be applied effectively in crisis contexts, offering lessons for Ukraine. Japanese practices in environmental risk management could inspire Ukrainian companies to tie executive compensation to ecological restoration and sustainable rebuilding. Governance reforms aimed at transparency and ethical practices in Brazil serve as a model for Ukrainian companies seeking to support public trust and accountability amidst the ongoing crisis. By integrating these ESG-based practices, Ukrainian companies can reinforce corporate resilience and contribute to national recovery efforts. Such alignment of executive incentives with critical social and environmental needs will help Ukrainian businesses play a meaningful role in rebuilding and supporting the country's long-term stability.

9.5 Conclusions

The corporate governance landscape in Ukraine reflects a dynamic evolution driven by the need to align with international standards and adapt to specific socio-political challenges. This research highlights the progress Ukrainian companies have made in formalizing corporate governance structures, mainly through the adoption of boards of directors and advisory boards. UCGA & Gradus data indicates that while most companies have formal governance frameworks, further improvements are necessary, particularly in increasing the representation of independent directors to bolster objectivity and governance transparency. SOEs' governance reform is a critical element of Ukraine's economic context, marking progress toward compliance with OECD principles. Legislative advancements, notably Law of Ukraine No. 3587-IX 2024, have established a robust framework for SOEs, focusing on transparency, accountability, and the clear delineation of state roles. These reforms enhance the strategic oversight capabilities of boards and emphasize performance-based accountability mechanisms, which are crucial for reducing corruption risks and attracting foreign investment. However, challenges remain, particularly in maintaining the independence of boards and safeguarding them from political influence. Incorporating ESG-based remuneration further indicates Ukraine's commitment to aligning corporate governance with sustainability principles. Linking executive compensation to ESG metrics presents an opportunity for Ukrainian companies to prioritize long-term value creation, addressing critical environmental, social, and governance issues amidst the nation's crisis context. This alignment promotes ethical leadership and accountability and positions companies as resilient and socially responsible entities capable of contributing to national recovery efforts. From global examples of crisis-driven ESG strategies, Ukrainian companies may benefit from adaptive and flexible ESG targets that balance immediate operational needs with sustainable growth. This study concludes that corporate governance reforms and ESG-based strategies are essential for enhancing Ukrainian companies' resilience and competitiveness in the global market. Continued efforts are required to fully implement OECD-aligned governance practices, increase board independence, and standardize ESG-driven remuneration policies. By strengthening these governance components, Ukraine will likely enhance its appeal to investors, support economic stability, and pave the way for sustainable growth within a challenging environment. Implementing these recommendations will improve corporate governance effectiveness and contribute to Ukraine's broader economic and social development in alignment with global standards.

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