

## **OECD and Corporate Governance in State Owned Enterprises**

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**Abstract:** OECD is a forum seeking for economic cooperation between governments in addressing challenges of Globalization in their economies. Since the OECD countries are mostly of developing countries the Public Sector undertaking in India are nothing but the State Owned Enterprises there. The SOE's are the institutions where the government is into business and hence in an effort to bring Transparency and accountability aiming at maximization of Shareholder's wealth. The OECD works to ensure that state-owned enterprises operate in a sound competitive and regulatory environment to promote efficient and open markets at the domestic and international level. It advances national reforms in countries across the world, guided by the internationally-agreed OECD Guidelines on Corporate Governance of State-Owned Enterprises.

The OECD Guidelines on Corporate Governance of State-Owned Enterprises give concrete advice to countries on how to manage more effectively their responsibilities as company owners, thus helping to make state-owned enterprises more competitive, efficient and transparent. First issued in 2005, the Guidelines were updated in 2015. They are currently being revised again to reflect nearly a decade of experience and evolving best practices since the first revision. The review is expected to be completed in 2024.<sup>1</sup>

### **OECD Principles of Corporate Governance**

The Organization for Economic Co-operation and Development (OECD) is a unique forum where the governments of 30 democracies work together to address the economic, social and environmental challenges of globalization, in close co-operation with many other economies. One of these challenges in Corporate Governance; a topic on which the OECD had developed

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<sup>1</sup> <https://www.oecd.org/corporate/soes/>

internationally agreed Principles of Corporate Governance<sup>2</sup>.

These countries meet annually to discuss on Corporate Governance organised by the OECD in partnership with the IFC/World Bank Group and with the support of the Global Corporate Governance Forum. The International Finance Corporation (IFC) is part of the World Bank Group and was established in 1956 to encourage private sector-led growth in developing countries. IFC helps Companies and financial institutions in emerging markets create jobs, generate tax revenues, improve Corporate Governance and environmental performance, and contribute to their local communities. And the Global Corporate Governance Forum is an International Finance Corporation (IFC) multi-donor trust fund facility located within IFC Advisory Services. The Forum was co-founded by the World Bank and the Organization for Economic Co-operation and Development (OECD) in 1999. Through its activities the Form aims to promote the private sector as an engine of growth, reduce the vulnerability of developing and transition economies to financial crisis, and provide incentives for corporations to invest and perform efficiently in a socially responsible manner.

In this way, the OECD provides a setting where governments and other stakeholders can compare experience, seek answers to common problems, identify good practice and work to co-ordinate domestic and international policies.

Work on Corporate Governance has been going on at the OECD for a number of years. The OECD is an ideal forum for such discussions, as it brings together representatives of 30 OECD member countries as well as numerous other countries that participate in the Organization's work. Together, these countries account for more than 90 percent of world stock market capitalization. Their governments have a vested interest in working on behalf of their citizens to ensure good practice in Corporate Governance, as an essential element in the promotion of prosperity and economic growth.

In 1999, the OECD published its Principles of Corporate Governance, the first

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<sup>2</sup> <https://www.oecd.org/about/>

international code of good Corporate Governance approved by governments. These Principles focus on publicly traded Companies and are intended to assist governments in improving the legal, institutional and regulatory framework that underpins Corporate Governance. They also provide practical guidance and suggestions for stock exchanges investors corporations, and other parties that have a role in the process of developing good Corporate Governance.

Since the Principles were first published, however, a spate of corporate scandals has undermined the confidence of investors in financial markets and Company boards. In 2002, OECD governments called for a review of the Principles to take account of these developments. On April 22, 2004, OECD governments approved a revised version of the OECD principles of Corporate Governance adding a series of new recommendations and modifying others. The revised test is the product of a consultation process involving OECD members and representatives from the OECD and non- OECD areas including businesses and professional bodies, trade unions, civil society organizations and international standard-setting bodies. They are designed to assist policy makers in both developed and emerging markets in improving Corporate Governance in their jurisdictions, as a vital step in rebuilding public trust in Companies and financial markets. Now the summary of OECD principles of Corporate Governance (1999, REVISED 2004) can be stated as follows –

The OECD Principles, adopted in 1999 and expanded in 2004, describe that basic elements of an effective Corporate Governance framework for corporations that seek to attract capital from equity investors:

- Promoting transparent and efficient markets, which are consistent with the rule of law and which clearly articulate the division of responsibilities among supervisory, regulatory and enforcement authorities;
- Protecting and facilitating the exercise of shareholders' rights;
- Ensuring the equitable treatment of all shareholders, who should also have the opportunity to obtain effective redress for violation of their rights;
- Recognizing the rights of stakeholders established by law or through

mutual agreements and encouraging active co-operation between corporations and stakeholders in creating wealth, jobs and the sustainability of financially sound enterprises;

- Ensuring that timely and accurate disclosure is made on all material matters regarding the corporation, including its financial situation, performance, ownership and governance; and
- Ensuring the strategic guidance of the Company, the effective monitoring of management by the board and the board's accountability to the Company and the shareholders.

The new Principles call for a stronger role for shareholders in a number of important areas, including executive remuneration and the appointment of board members. The revised Principles emphasize the important role that institutional investors can play in monitoring Company performance and in conveying their concerns to the board of a Company. They can challenge or support the board through voting at the general meetings of shareholders and they are well placed to take their concerns directly to the board and to propose a course of action. An increasing number of institutional investors are actively exercising their ownership roles in this way. The revised Principles also need for effective regulatory system that can protect the interest of minority shareholders. Effective implementation and enforcement require that laws and regulations are designed in a way that make them possible to implement and enforce them in an efficient manner.

By agreeing on these Principles, OECD governments have set the broad foundations for high standards of Corporate Governance. The legislation needed to enforce these standards is the responsibility of individual governments, and in enacting it, governments and policy makers need to find a balance between rules and regulations on one hand and flexibility on the other.

The OECD Guidelines on Corporate Governance of State-Owned Enterprises have provided an internationally agreed benchmark to help governments assess and improve the way they exercise their ownership functions since 2005. This report documents changes in state ownership and SOE governance in both OECD and partner economies and assesses the extent

to which the Guidelines have served as a “roadmap for reform” in individual countries since 2015, following the most recent update of the Guidelines. Drawing on practices in up to 31 jurisdictions, it covers organising the state enterprise ownership function; safeguarding a level playing field between SOEs and private businesses; equitable treatment of shareholders and other investors; stakeholder relations and responsible business; transparency and disclosure practices; and professionalizing boards of directors. The report supports policy makers by facilitating greater awareness and more effective implementation of the Guidelines.<sup>3</sup>

Conclusion: The Idea remains the same whether it is a Public Sector Undertaking or a State Owned Enterprise, the concept remains as it is. The maximization of Shareholders wealth is the primary objective and bring in greater Corporate Governance so that there is transparency in the business operations with accountability to the Board of Directors therein.

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<sup>3</sup> [https://www.oecd-ilibrary.org/governance/implementing-the-oecd-guidelines-on-corporate-governance-of-state-owned-enterprises-review-of-recent-developments\\_4caa0c3b-en](https://www.oecd-ilibrary.org/governance/implementing-the-oecd-guidelines-on-corporate-governance-of-state-owned-enterprises-review-of-recent-developments_4caa0c3b-en)