



Organisation for Economic Cooperation & Development



The 2007 Asian Roundtable on Corporate Governance

Network on Corporate Governance of State-Owned Enterprises in Asia

AGENDA

**Cebu, Philippines
19-20 April 2007**

**In partnership with:
The Government of Japan
The Global Corporate Governance Forum**



Hosted by:



**INSTITUTE OF
CORPORATE
DIRECTORS**



Office of the President
REPUBLIC OF THE PHILIPPINES



Background and Objectives of the Asian SOE Network

The Asian Roundtable on Corporate Governance (hereinafter “**ARCG**”) has decided to develop, under its auspices, a specific activity on the corporate governance of SOEs to raise awareness and promote the use in Asian economies of the OECD *Guidelines on Corporate Governance of State-Owned Enterprises* (hereinafter “**Guidelines**”). These *Guidelines* were adopted in the spring 2005 and are the first international benchmark in this area.

A preliminary meeting was held in Beijing in May 2005, gathering a limited number of countries to discuss a first list of priority issues regarding corporate governance of SOEs in Asia. This preliminary discussion underlined the significance of SOEs in Asian economies and the complexity of the policy challenges related to their corporate governance. Since then, an increasing demand for exchange of experience and policy dialogue has been received from various stakeholders and countries in the region. The Guidelines were presented in the 2005 meeting of the ARCG in Bali. Discussions there underlined further the importance of developing a specific forum to carry out a focused policy dialogue and investigate in-depth the appropriate policy options to improve the governance of SOEs in Asia.

In order to reach the appropriate audience and to properly deal with the policy challenges ahead, it has therefore been decided to set up an Asian Network on Corporate Governance of SOEs (hereinafter the “**Asian Network**”), bringing together the experience and expertise of experts from all Asian economies participating in the ARCG. The Asian Network is planned to meet regularly and develop into a high-level hub for a structured policy dialogue on corporate governance of SOEs in Asia, using the Guidelines as a framework for discussion.

The objectives of the Network are:

- to raise awareness of all concerned constituencies on the importance and challenges related to the good corporate governance of SOEs;
- to evaluate the current SOE corporate governance policy frameworks and practices, and benchmarking these against international good practice as described in the Guidelines;
- to influence policy making by providing a forum in which policy makers, practitioners and experts can share knowledge and experience among themselves and with their OECD peers;
- to support viable and effective reforms in the area of SOE corporate governance, by discussing and analysing policy options, developing relevant recommendations and agreeing on priorities for reforms adapted to the conditions in Asian economies.

Altogether, the meetings will gather around 40 participants, including the most prominent, active and influential policy makers, practitioners and experts regarding corporate governance of SOEs in the region. They would constitute a peer group that can press for legal, regulatory or other type of reform in this field. In order to provide the OECD experience and to ensure consistency with the Guidelines, the Network will also include relevant experts from OECD countries, particularly from the OECD Working Group on Privatisation and Corporate Governance of State-owned Assets.

The Asian Network is planned meet at least three times over 2006, 2007 and 2008 to cover the six chapters of the Guidelines. Each meeting is dedicated to comparing regional practices with one or two chapters of the Guidelines and to developing specific recommendations in this regard. The first meeting took place in Singapore in May 2006, hosted by the Singapore Institute of Directors. It focused on the first two chapters of the Guidelines, namely the legal and regulatory framework and the role of the state as an owner. This second meeting focuses on the role of the board and the relations with stakeholders.

To keep the dialogue focused and to produce tangible outcomes, the Asian Network will progressively develop a Regional **Policy Brief**, providing a set of recommendations and priorities for policy reform in order to improve the corporate governance of SOEs in the economies of Asia. This Policy Brief will be the product of the Network’s deliberations and will be a consensus document.

Thursday 19 April 2007 - Morning Session

8:30 – 9:00 **Registration**

9:00 – 9:15 **Opening**

- Jesus Estanislao, PhD, Chairman, Institute of Corporate Directors, **Philippines**

Welcome Remarks

- Hon. Gwendolyn Garcia, Governor of the Province of Cebu, **Philippines**

9:15 – 9.25 **Opening Statements**

- ◆ John Lim, President, Singapore Institute of Directors, and Chairman, **Singapore**, Chair, Asian Network on Corporate Governance of SOEs
- ◆ Lars-Johan Cederlund, Senior Advisor, Division of State Enterprises, Ministry of Industry, Employment and Communications, **Sweden**, Chair of the OECD Working Group on Privatisation and the Corporate Governance of SOEs

9:25 – 9.45 **Keynote**

- ◆ Hon. Eduardo Ermita, Executive Secretary, Office of the President, **Philippines**

9:50 – 10:45 **Landscape: Recent policy reforms and main challenges in SOE governance**

Chair: John Lim, President, Singapore Institute of Directors, **Singapore**

- ◆ Selective tour de table on recent policy reforms

China: Zhengjun Zhang, Chief of Enterprise System Division, Development Research Center

India: Sumant Batra, Senior Partner, Kesar Dass B & Associates

Malaysia: Abdullah Abdul Hamid, Executive Director, Investment, Khazanah Nasional Berhad

Vietnam: Huang Duong Nguyen, Deputy Director, Ministry of Finance and Thi Phuong Thuy Tran, Deputy Director, State Capital Investment Company (SCIC)

10:45 – 11:00 **Coffee/Tea Break**

11:00 – 12:30 **Theme I: Empowering SOE boards: their mandate and functions**

Chair: Lars-Johan Cederlund, Senior Advisor, Division of State Enterprises, Ministry of Industry, Employment and Communications, **Sweden**

Speaker: Mr. Qin Yongfa, Deputy Head of Board Pilot Project Office, SASAC (State-owned Assets Supervision and Administration Commission of the State Council), **China**

“The Challenges in creating boards in 18 Pilot SOEs”

Discussant:

Mr. Reynaldo David, President of the Development Bank of the **Philippines** (DBP)

General Discussion

1. What are the responsibilities and liabilities of SOE board members? Do they differ from the ones of private sector boards? Are there any differences among the liabilities of different board members?
2. Do SOE boards have clear mandates? Where these mandates spelled out?
3. How do SOE boards fulfil their functions of strategic guidance?
4. Are SOE boards entrusted with nominating CEO and senior management and monitoring their performance?

Summary of Discussion by the Chair**Background:**

One critical element in improving the corporate governance of SOEs is to reinforce their boards. SOE boards should first be assigned a clear mandate and ultimate responsibility for the company's performance. SOE boards in Asia are not always entrusted with the full range of board responsibilities, i.e. providing strategic guidance, monitoring management and controlling disclosure. They see their roles and responsibilities encroached by the ownership entities and the management, being by-passed in some cases by ministries giving direct instructions to the management. In some other cases, their functions are duplicated by specific state regulatory bodies. Accordingly, responsibilities and liabilities of SOE board members should be the same as those in the private sector. It might however be necessary to clarify the respective personal and state liability in cases state officials are appointed on SOE boards. Finally, in many cases SOE boards do not have the legitimacy or authority to monitor management. To fully exercise their monitoring function, they should be able to appoint and dismiss CEOs.

12:30 – 13:30 **Lunch**

Thursday 19 April 2007 - Afternoon Session

13:30 – 15:30 **Theme II: Improving the quality of SOE boards: nomination, competence and functioning**

Chair: Mr Jae Shin Park, Research Fellow, Public Management Research Institute, **Korea**

Speaker: Abdullah Abdul Hamid, Executive Director, Investment, Khazanah Nasional Berhad, **Malaysia**

Presentation of the Green Book on "Enhancing board Effectiveness" of the Putrajaya Committee

Discussant:

Lopa Rahman, Corporate Governance Project, Bangladesh Enterprise Institute, **Bangladesh**

General Discussion

1. How to ensure a structured and transparent nomination process?
2. Which should be the main characteristics of SOE boards in terms of size and composition?
3. How to increase SOE boards' independence and particularly to protect them from undue and direct political interference?
4. How to make best use of specialised committees in SOE boards?

Summary of Discussion by the Chair

Background:

A prerequisite to empowering SOE boards is to improve their quality and functioning so that they can effectively exercise objective and independent judgment and fulfil their responsibilities. In many Asian countries SOE boards include “civil servants who lack the authority, background or interest to perform their roles”, or are appointed “as perks or as a form of early retirement”. These persons might “be pressured to use their position to pursue political or social objectives of the government at the expense of the company” (OECD White Paper on Corporate Governance in Asia, par. 97-98). A key element to improve the quality of boards and to protect them from undue political interference is thus to put in place a well-structured and transparent nomination process, based on competencies and experience. A good nomination process is also instrumental in improving the composition of SOE boards, which should include a limited number of state representatives and as much as possible experts with business experience. Separating the Chairman from the CEO is another step which enhances board independence. Finally, SOE boards should also follow best practice in the private sector and develop specialised committees to better fulfil their functions.

15:30 – 16:00 **Coffee/Tea Break**

16:00 – 18:00 **Theme III: Holding SOE boards accountable through effective evaluation**

Chair: Li-Chung Lee, Associate Professor, Ming Chuan University, **Chinese Taipei**

Speaker: Boon Chong Na, Partner, Hewitt Associates, **Singapore**

Effective board evaluation

Discussant:

Michael A. Osmena, the President of the **Philippine** Deposit Insurance Corporation (PDIC)

General Discussion

1. How to evaluate properly SOE board members?
2. What should be the role of the Chair in board evaluation?
3. How to make best use of board evaluations?

Summary of Discussion by the Chair

Background:

Enhancing SOE boards' quality and professionalism requires putting in place a systematic evaluation process. This practice is for the time being still very under developed in most Asian economies. Such evaluation processes encourage board members to devote time and energy in exercising their functions. They also help in reviewing board size and composition, thus in identifying necessary competencies and required new board profiles. Evaluation should focus on the overall board performance as well as on the contribution of individual board members, without damaging the required collegiality of board work. It can be done with the help of external and independent experts.

19:00 **Dinner**

Friday 20 April 2007 - Morning Session

9:00 – 10:00 **Theme IV: Specific rights of employees in SOEs and the role of their representatives in boards**

Chair: Abdullah Abdul Hamid, Executive Director, Investment, Khazanah Nasional Berhad, **Malaysia**

Speaker: Mr. Gregorio Mico, President, Development Bank of the Philippines (DBP) Employees Union, **Philippines**

Discussant:

Mas Achmad Daniri, Chairman, National Committee on Governance, **Indonesia**

General Discussion

1. What is the extent of employees' specific rights in SOEs and how these impact SOE governance?
2. What is the role of employee representatives within SOE boards? Do they have the same duties and responsibilities as other board members?
3. Which mechanisms could favour the contribution of employee representatives' to the board's independence, competence and information?

Summary of Discussion by the Chair

Background:

In a number of Asian economies, stakeholders and particularly employees are granted some specific rights in SOEs, including board representation and other consultation/decision making rights. These rights might have a critical impact on the overall governance of SOEs and in particular on the functioning of the board. The OECD Guidelines recommend, whenever employee representation on boards is mandated, to develop specific mechanisms to ensure that it contributes to the enhancement of the board skills, information and independence. Questions might arise for example regarding issues of confidentiality and conflicts of interests. Effective contribution also requires acceptance by the other board members and management.

10:00 – 10:15 **Coffee/Tea Break**

10:15 – 11:45 **Theme V: Effective co-operation and communication with stakeholders**

Chair: Duanpen Chansirisri, Deputy Vice President, The Stock Exchange of **Thailand**

Speakers:

Dr. YRK Reddy, Chairman, Yaga Consulting Pvt Ltd & Academy of Corporate Governance, Hyderabad, **India**

Effective cooperation and communication with stakeholders

Affan Mohd Nawati, Transformation Management Office, **Malaysia**
Presentation of the Silver Book on "Achieving value through social responsibility" of the Putrajaya Committee

General Discussion

1. What are SOEs responsibilities towards stakeholders?
2. Which mechanisms should be in place to protect stakeholders 'rights and encourage active and wealth-creating co-operation with them?
3. How to report appropriately on relations with stakeholders and what should be the main elements of such communication?
4. What are the benefits of communicating on relations with stakeholders?

Summary of Discussion by the Chair

Background:

Stakeholder relations might be particularly important for SOEs for building sustainable and financially sound enterprises, for improving or protecting their reputation and for fulfilling the general service obligations that a number of them have. In addition, there is an increasing risk of litigation linked to stakeholder issues. The OECD Guidelines thus recommend SOEs to respect stakeholders rights established by law or through mutual agreements and to fully recognize stakeholders' contribution. They also encourage active and wealth-creating cooperation with them. This implies for SOEs to report on their policies and effective relations with stakeholders. This said, the Guidelines also recommend that stakeholders rights or influence on the decision making process are explicit.

11:45 – 14:00 **Lunch / Break**

14:00 – 15:00 **Discussion on current reforms in the Philippines**

Chair: Jesus Estanislao, Chairman, Institute of Corporate Directors, **Philippines**

Update on the SOE Corporate Governance Scorecard by Jonathan Juan Moreno, Executive Director, Institute of Corporate Directors, **Philippines**

Open discussion on the Presidential Memorandum on *“Furthering Good Corporate Governance in Gov’t-Owned or Controlled Corporations & Gov’t Financial Institutions (GOCCs & GFIs)”*

15:00 – 15:30 **Conclusion and next steps**

Main highlights from the meeting by Mathilde Mesnard, Administrator, Corporate Affairs Division, OECD:

Discussion on future steps, drafting process and next meeting of the Network

Closing of the plenary meeting by Jeremias Paul Jr., Undersecretary, Department of Finance, **Philippines**

15:30 – 16:00 Coffee break

16:00 – 18:00 **Drafting session**

Chair: John Lim, President, Singapore Institute of Directors, **Singapore**

Discussion on a draft of the two first chapters of the Regional Policy Brief giving recommendations regarding topics covered in the previous meeting of the Network, namely the legal and regulatory framework and the role of the state as an owner.

Network on Corporate Governance of SOEs in Asia, 2007 Asia Roundtable on Corporate Governance

Philippines, 19-20 April 2007

Organisation of the Network meeting

This meeting will cover **two chapters of the OECD Guidelines** on Corporate Governance of State-owned Enterprises, namely the Chapter VI on “The Responsibilities of the Boards of State-Owned Enterprises”, and the Chapter IV on “Relations with Stakeholders”.

An **introductory session** will set up the landscape of SOE governance in Asia. A selective *Tour de Table* will be organised, with one representative from four countries being asked to briefly present the recent policy reforms in his/her country related to SOE governance. Each presentation will be strictly limited to 10 minutes and should focus exclusively on policy reforms. Participants are asked to use maximum 3 slides. Participants might also circulate in advance of the meeting or during the meeting descriptive documentation on the state owned sector.

The remaining discussion has been organised around **five main themes** covering together the elements of the two chapters of the Guidelines, namely 1) Empowering SOE boards, their mandate and functions; 2) Improving the quality of SOE boards: nomination, competence and functioning; 3) Holding SOE boards accountable through effective evaluation; 4) Specific rights of employees in SOEs and the role of employee representatives within SOE boards; 5) Effective communication and co-operation with stakeholders.

Main speakers are invited to launch the discussion for each session. Their role is to highlight the main challenges related to the specific theme, provide some elements to answer the related questions, and illustrate with their country experience. The objective is to stimulate reflection and encourage the exchange of views and experience on these complex issues among all the Network participants. These initial presentations should last no more than 15 minutes each. **Discussants** are then invited to comment (in 5 to 10 minutes) on the main speakers’ presentations reflecting on their own country experiences.

The discussion will then be open for **all Network participants** to react, expose their views and systematically discuss the issues raised in the initial presentation and related to the questions provided in the agenda. All Network members are encouraged to actively and openly participate in discussions to provide the whole Network with their country experience and vision for reforms. The objective of the discussion is to lead to a general understanding on what should be the main recommendations to be formulated in the policy brief.

Chairs are invited to encourage open discussion among different Network participants, to maintain the focus on the theme of their session and to be strict in managing time.

A **specific session** on the Philippines will allow the official announcement and presentation of a draft presidential proclamation concerning SOE governance by the Department of Finance, followed by discussion.

A **drafting session** will allow discussing the two draft chapters the Regional Policy Brief which will have been circulated to all the Network participants ahead of the meeting. They will be asked to provide the OECD Secretariat with comments and suggestions in order to submit a more advanced version to the next meeting of the Asia Corporate Governance Roundtable in June.