

OECD WORK ON CORPORATE GOVERNANCE

There is now clear evidence that good corporate governance underpins long-run growth by maintaining public confidence and financial stability, thereby ensuring a lower cost of capital. Good corporate governance requires transparent and reliable disclosure mechanisms about corporate performance. Clearly defined responsibilities and effective powers among the shareholders, the board and management are also needed. By contrast, the costs of weak corporate governance systems include unethical behaviour, a decline in the legitimacy of business, concerns about market integrity and reduced economic performance. Helping countries to improve corporate governance arrangements and the quality of the business environment is thus an important strategic goal of the OECD.

The updated OECD Principles

The OECD plays a leading role in the international movement towards raising the quality of corporate governance. The *OECD Principles of Corporate Governance*, first issued in 1999, reflect a call by member countries for a set of corporate governance standards to guide policymakers, regulators, investors and other private sector actors. Today, the OECD Principles enjoy worldwide recognition and have been endorsed as one of the Financial Stability Forum's 12 key standards considered essential for financial stability.

OECD ministers in 2002 requested an assessment and review of the Principles, the results of which are being presented to the 2004 Ministerial Council Meeting. The review paid particular attention to the improvements and emerging good practices catalogued in a recently-published survey of developments in member countries. Observers from key international institutions participated actively in the assessment process and consultations were held with the private sector, labour, civil society and non-OECD countries. The process also benefited from informal roundtable meetings with senior representatives from prominent international organisations, business and labour convened by the OECD Secretary-General. Public comments on a draft of the Principles were sought via the Internet and attracted many constructive suggestions.

The assessment concluded that the Principles should be revised to take into account new developments and concerns, while retaining their non-binding principles-based approach which recognises the need to adapt implementation to varying legal, economic and cultural circumstances. The revised Principles include a new chapter which sets broad principles for effective implementation and enforcement, including those to be followed when new regulatory measures are being considered. Good corporate governance relies on effective checks and balances. To strengthen them, the revised Principles aim to tighten the oversight of management by the board, and to improve the accountability of the board to shareholders. New principles call for the exercise of informed ownership by shareholders, both through strengthening their ability to influence the board and by

lowering the costs of exercising ownership rights. In addition, the Principles call for increased attention to managing conflicts of interest through enhanced disclosure and transparency. The need to declare and manage conflicts of interest now concerns not only managers and controlling shareholders, but also institutional investors, auditors, brokers and analysts.

Promoting good corporate governance

The Principles are the centrepiece of the numerous activities undertaken by the OECD to improve corporate governance. In co-operation with the World Bank, the OECD has used the Principles as a reference for policy dialogue in a series of regional roundtables aimed at promoting regional corporate governance reforms in Asia, Latin America, Eurasia, Southeast Europe and Russia. This activity has resulted in the preparation of regional White Papers for all areas (except Eurasia), which develop common policy objectives and highlight recommendations for policy actions. The knowledge gained from the roundtables has been made available to the public and is summarised in a recent OECD synthesis report comparing the corporate governance problems faced by widely different emerging market economies and the priorities which these countries have set.

The next stage of the roundtable process is already under way. In the case of the Russian roundtable, the participants have agreed to create two *ad hoc* task forces to examine policy options in two priority areas: the transition towards internationally-recognised financial reporting standards, and dealing with problems arising from related party transactions and the closely-linked issue of transparency of beneficial ownership and control. The results of these discussions, including a consideration of policy options, will be presented in two policy development documents, which are expected to be finalised before the end of the year. In the case of both the Asian and Latin American roundtables, discussions in 2004 will focus on improving implementation and enforcement.

Good corporate governance is also necessary for state-owned companies. The ownership function of the state in its companies has yet to be fully resolved, even after taking into account the beneficial effects of partial privatisation, which in many countries has opened the way to unprecedented restructuring and increased exposure to competition from private entities. The OECD is presently developing a set of new Guidelines that, once completed in 2005, will allow countries to better benchmark the ownership functions of the state.

Regulatory reform is often associated with changes in the corporate governance framework. The OECD's response to the growing demand for up-to-date, comprehensive and comparable information about recent regulatory developments has been to develop the Company Law and Corporate Governance Database, a unique interactive tool for disseminating corporate governance legal and regulatory information. Presently available only to OECD governments, it will be made accessible to the general public via the Internet before the end of 2004.

Considering next steps

Heads of state at the G8 Evian Summit in France in 2003 endorsed the review of the OECD Principles and called for continued global efforts to enhance corporate governance. The Principles, serving as an international benchmark, are central to this process and this has implications for the future work of the OECD. Being general and non-prescriptive, the Principles are compatible with a number of implementation strategies, which vary

according to domestic conditions in the legal, economic and social spheres. There is broad support for the OECD to establish a dialogue in which countries would share experiences regarding effective implementation strategies and disseminate ideas about maturing “good practices”. To ensure a high-quality, policy-relevant, dialogue will also require the development of a broad, generally accepted, framework which would serve to give structure to the dialogue by highlighting the inter-relationships between individual measures. Maintaining such a structured dialogue should remain at the core of OECD work on corporate governance.