ecoDa and OECD webinar - 5 March 2025

Aligning with OECD Standards: Enhancing Corporate Governance in State-Owned Enterprises

SUMMARY NOTE

The webinar on the application of the revised OECD Guidelines on Corporate Governance of State-Owned Enterprises raised awareness of internationally recognized best practices in the corporate governance of state-owned enterprises. It began with an introductory presentation by Sara Sultan, Head of State-Owned Enterprise Unit of the OECD, on the key priorities of the recently revised Guidelines, offering valuable perspectives on their implementation. Following the presentation, a panel discussion took place, focusing on enhancing board excellence and leveraging OECD guidance for advanced governance practices. Moderated by Rytis Ambrazevičius, President of the Baltic Institute of Corporate Governance and Chair of ecoDa, the panel featured insights on real-world application of the Guidelines, from Irena Prijović (Slovenia), Klaus-Michael Ahrend (Germany), and Filip Gorczyca (Poland).

Organized by ecoDa and OECD, the webinar started with the presentation of the recently revised OECD Guidelines on Corporate Governance of State-Owned Enterprises (SOE Guidelines). These Guidelines are the leading global standard that give concrete guidance to help policy makers evaluate and improve the legal, regulatory and institutional framework for the ownership and governance of SOEs. They identify the key building blocks to ensure professionalised ownership and governance, and offer practical guidance for implementation taking into account different national approaches, and the concepts of flexibility and proportionality. Currently, 42 jurisdictions, including the EU, adhere to the Guidelines. Anycountry can become an Adherent subject to a review process. The OECD monitors the implementation of the Guidelines across 59 countries and provides regular reports on their implementation.

SOEs play a growing role in the global economy. The number of SOEs in the top 500 largest companies has risen from 34 in 2000 to 126 in 2023. In 2023, these enterprises employed around 21 million people worldwide and generated USD12 trillion in revenue. Additionally, 63 of the 126 largest SOEs operate in high greenhouse gas emitting sectors, positioning them as critical players in the low-carbon transition. Additionally, the public sector ownership accounted for nearly 12% market capitalization. The SOE Guidelines were updated in 2024, with the aim of ensuring consistency with the G20/OECD Principles of Corporate Governance (2023) and the OECD Guidelines on Anti-Corruption and Integrity in SOEs. The revisions focus on several key priorities.

First, to ensure a strengthened and professionalized state-ownership framework, the Guidelines call for greater transparency and accountability by the state as owner. Currently, 64% of countries publish annual reports on SOEs, with 37% providing both financial and non-financial details in aggregate on their portfolio performance.

Second, ensuring a level playing field for SOEs is key, including creating fair competition conditions for SOEs in the market and ensuring a clear separation between ownership from regulation and policy making. The Guidelines aim to ensure that SOEs adhere to the same laws and regulations as other competitors, and are not given favourable treatment, for example with regards to in taxation, subsidies, or exposure to bankruptcy proceedings. However, discrepancies remain, as 36% of states grant SOEs special tax treatment, 74% of SOEs may receive indirect financial benefits, and 45% do not have clear and transparent accounting for public service obligations carried out by SOEs.

Third, the Guidelines also prioritize strengthening corporate governance frameworks, with a focus on enhancing their transparency and accountability. This includes ensuring that boards are fit for purpose and their composition promotes diversity, autonomy and independence. Half of the countries require external audits for SOEs, and many have professionalized board selection processes. Nevertheless, a quarter of countries do not ban elected politicians on SOE boards, signaling room for further improvement.

Fourth, a new chapter on sustainability encourages the state as an owner to define sustainability expectations and urges SOEs to disclose material sustainability-related financial and non-financilal information and integrate sustainability-related considerations into their strategies. Boards are expected to oversee sustainability risks and opportunities while ensuring SOEs uphold integrity, as well as responsible business conduct in their operations.

Sara Sultan concluded that the OECD Guidelines provide a comprehensive roadmap for improving the governance of state-owned enterprises, with an emphasis on transparency, accountability, and sustainability.

Building on this, a panel discussion followed, offering actionable insights to help advanced boards integrate the Guidelines into their governance practices, while also exploring the evolving opportunities and challenges in their practical application.

Irena Prijović (Slovenia) shared how Slovenia began centralizing its SOEs governance in 2010 in the process of OECD membership accession and has since made significant strides in professionalizing governance in SEOs. Over the past 15 years, Slovenia updated its legislation, implemented soft law, established a corporate governance code for SEOs, introduced mandatory training for board members in SEOs, and set up a nomination committee. However, challenges remain, especially in executive compensation for SEOs which is fixed by law and the turnover of CEOs due to political changes, which can disrupt the stability of SOEs. While a certain level of supervisory boards' compensation in SEOs is necessary to maintain authority and prevent misconduct, it may frustrate supervisory board members when it falls below the market rates as is the case for Slovenia.

Klaus-Michael Ahrend (Germany) highlighted that Germany has over 20,000 SOEs, governed by a two-tier system with management teams and non-executive directors. While the Public Corporate Governance Code has helped improve governance and efficiency, there is still a need to increase public trust and interest in SOEs. SOEs have a more sustainable business model compared to private companies. Corporate Governance (CG) indices emphasize that they must be ecological, social, sustainable, and profitable. Establishing compensation benchmarks is essential to ensure fairness and align performance with appropriate standards.

Filip Gorczyca (Poland) discussed the challenges in developing a coherent governance model for SOEs in Poland. Although most are governed by the Ministry of State Assets, some are overseen by other ministries. He noted that those SOEs which have been listed on the stock exchange, benefit from greater transparency and performance evaluation, but there is room for improvement in governance, particularly in areas like innovation and risk-taking. SOE board member salaries are fixed by law and may pose recruitment challenges when they fall below market rates.

Rytis Ambrazevičius (Moderator, the Baltic countries) emphasized the importance of transparency and independence in the governance of state-owned enterprises, particularly in the Baltic countries. He noted that while most SOEs in the region follow a two-tier system, Lithuania offers a more flexible model that could serve as an example. He also highlighted efforts to improve governance practices, such as BICG four days of training on good governance practices for civil servants working in SOEs. However, he stressed that a shift in mindset was crucial, both in terms of strategy and business models for SOEs. SOEs governance must evolve to address sustainability and transformation challenges, but this requires strong leadership and knowledge within boards. In the Baltic region, the salary of SOEs non-executives was previously set at 25% of a private CEO's average salary. This has now been adjusted to 25% of the average monthly salary of a CEO, which has resulted in a positive impact.