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**Ministry of Finance**



**Organisation for Economic Cooperation &  
Development**

*International Corporate Governance Meeting:*

**Why Corporate Governance Matters for Vietnam**

**OECD/ World Bank Asia Roundtable on Corporate Governance**

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**Morning Session: Experiences with the OECD Principles of Corporate Governance**  
*By Daniel Blume, Principal Administrator, OECD Corporate Affairs Division*

## **Experiences with the OECD Principles of Corporate Governance**

*By Daniel Blume  
Principal Administrator  
OECD Corporate Affairs Division*

1. I'm delighted to have the opportunity to talk to you about experiences with the OECD Principles of Corporate Governance. For my own remarks today, I would like to first put things in context by providing some brief background on the OECD and why the OECD Principles have become such an important and relevant global standard. I will then talk about some of the key conclusions that have emerged from the OECD's recent revision of the Principles. Following my own comments I will be pleased to turn to my OECD colleague here, Motoyuki Yufu, who will handle the second part of the presentation with his own remarks on how we have been working with the World Bank Group in Asia to promote better corporate governance through the Asian Roundtable on Corporate Governance.

2. Before turning to the Principles, I would first like to thank the IFC and the Ministry of Finance for their work to help organize this meeting, and for the additional support of the Government of Japan and Global Corporate Governance Forum.

### **The OECD as a global standard-setter**

3. As a first point, allow me to offer some quick background on the OECD: we are an organisation of 30 developed democracies promoting economic co-operation and development through policy dialogue and policy recommendations. Our membership ranges from middle-income countries such as Greece, Poland, Turkey, Mexico and Korea to the higher income countries of North America, Europe, Australia, New Zealand and Japan. Spurred by globalisation, the OECD now involves some 75-100 additional countries in a range of meetings and initiatives, taking a co-ordinated, co-operative approach to addressing global problems that countries cannot necessarily solve on their own.

4. Our work on corporate governance has been at the forefront of this movement toward a more inclusive OECD. The OECD Principles of Corporate Governance were adopted in 1999 and revised earlier this year, following consultation with governments and stakeholders from countries both within and outside the OECD. They were initially developed following the series of financial crises that had erupted in different parts of the world in the mid-1990s, notably in Asia, Russia and Latin America, which raised serious concerns about the stability of the international financial system and architecture.

5. In response, the G7 agreed in 1999 to launch a Financial Stability Forum (FSF), involving all of the major players in the international financial system, including a number of emerging economies such as Singapore and Hong Kong. This Forum adopted 12 key standards considered essential for countries to follow in order to promote international financial stability. The World Bank and others have worked to promote these standards through reviews of country

experience in applying the standards, known as Reports on the Observance of Standards and Codes, or ROSCs.

### **Why the OECD Principles of Corporate Governance Matter**

6. For the purposes of my remarks, the essential point is that one of these 12 key standards is the OECD Principles of Corporate Governance, so that it has become not only a standard for OECD countries, but a global standard. Why have the FSF and others considered corporate governance and the Principles to be so important?

7. There are three reasons why one should care about the quality of corporate governance.

8. First, good corporate governance leads to increased economic efficiency and growth. Good corporate governance leads to improved use of capital which is scarce in many countries. Moreover, it allows new industries to develop. Good corporate governance including transparency encourages foreign direct investment and lowers the country borrowing premium for both the firms and the government. For example, one study by PWC estimated significant losses in Foreign Direct Investment for Egypt, Turkey and Greece of some \$1 billion dollars in each country just from lack of transparency.

9. Second, good corporate governance lowers the risk of crisis and in the case of an external shock it improves the robustness of the economy. Macroeconomic policy and good prudential regulation of banks is of course important but experience in Asia and Latin America points to an important role for governance. For example, in Korea the firms with stronger governance weathered the crisis there far better than those with less effective governance.

10. Third, good corporate governance is crucial for the legitimacy of a market economy. It is in no one's interest that the public comes to regard business as corrupt or immoral. Enron has been particularly important in this regard. The need to maintain or reinforce legitimacy and public trust has also been a driving force in Korea and in many other countries such as Brazil.

11. Against this background, the OECD Principles of Corporate Governance are seen as a globally relevant standard that could play an important role in strengthening corporate governance. There was some sense that negative experience in places such as Korea, Thailand and Indonesia was related in part to an absence of transparent, accountable and well-functioning corporate governance, and that internationally agreed standards were needed to help spur reforms.

12. To ensure widespread knowledge and consideration of these standards, the OECD in co-operation with the World Bank Group was invited to establish a series of regional roundtables that have used the OECD Principles of Corporate Governance as a reference for policy dialogue aimed at promoting regional corporate governance reform. Launched in 1999, this has included Roundtables in Asia, Latin America, Eurasia, Southeast Europe and Russia, with work launched more recently also in China and the Middle East North Africa region. The OECD Roundtables orient discussions around the six main categories of the principles, that is:

- Ensuring the basis for an effective corporate governance framework (enforcement);
- The rights of shareholders and key ownership functions;

- The equitable treatment of shareholders;
- The role of stakeholders in corporate governance, including creditors and depositors;
- Disclosure and transparency; and
- The responsibilities of the boards.

13. Time does not allow me to go into depth on the Principles, so I will just highlight three points that have proven to be of particular importance in the context of the many developing countries that the OECD has worked with.

14. First, **implementation and enforcement** has been a key issue, one that is much more fully reflected in this revised version of the Principles. The first chapter of the Principles on the overall corporate governance framework is entirely new, and reflects lessons gained from Corporate Governance Roundtables around the world about the legal, regulatory and institutional framework needed to ensure effective implementation and enforcement.

15. Second, **shareholder rights** not only need to be secure, but shareholders, and in particular, institutional investors, need to be more active in exercising these rights in order for companies to have stronger incentives to practice good corporate governance. **Transparency** and adequate disclosure is a crucial element for shareholders – as well as stakeholders – to participate effectively in corporate governance.

16. Third, **boards** play a critical role in effective governance, serving as the fulcrum between shareholders and professional management. This requires board members with a capacity for independent judgement, in order to monitor managerial performance; manage potential conflicts of interest; ensure the integrity of accounting and financial systems; select and compensate key executives; and last but not least, guide overall corporate strategy.

17. This is just a very brief introduction to the Principles, but I would invite you to look at them in greater depth. We have made copies available for you here, and work is under way now to translate the Principles into Vietnamese, which we will make available on the OECD Web site at [www.oecd.org/daf/corporate-affairs](http://www.oecd.org/daf/corporate-affairs).

18. And now, to talk about how the Principles have been applied in the context of Asia, I would like to turn the microphone over to my OECD colleague, Motoyuki Yufu.