

## BICG launches

# "Governance of State-owned Enterprises in the Baltic States"

Baltic Institute of Corporate Governance (BICG) today launches its latest publication entitled "Governance of State-owned Enterprises in the Baltic States".

This publication is the latest in a series intended to build a more profound understanding of how governance works in the Baltic States, and to develop suggestions for how to implement world class standards in the Baltic region.

This publication is unique in a number of ways. To the best of our knowledge it is the most sophisticated attempt ever to rank the governance practices of State-owned Enterprises (SOEs), and the only one to compare SOEs internationally. In addition, the publication provides a highly comprehensive analysis. It looks at four interlinked aspects of SOE governance: public perceptions; individual SOE rankings; an examination of board structures; and an analysis of the legal and institutional framework. At the same time, the publication is designed to be compact and easy to read.

Some of the interesting points that emerge are:

- There is considerable public dissatisfaction with SOE governance and SOE performance in the Baltic region. The issue of SOE governance and SOE performance has the potential to become politically inflammatory if a scandal or financial duress should emerge. Governance practices pose both an economic and a political risk.
- One can clearly identify SOEs that are leaders and SOEs that are not. The leaders are rapidly approaching world-class standards of governance. These SOEs show that modern and professional governance practices are possible in the Baltics. They should serve as models for other SOEs in the region.
- Unfortunately, many SOEs are still far removed from good practice, much less best practice. The report identifies both areas of strength and areas of weakness where governance practices could improve. All SOEs will benefit from a governance improvement plan and a concerted governance improvement effort. The state itself will likely reap significant benefits in terms of the efficiency and effectiveness of its SOE oversight.
- Some SOEs have boards that are beginning to approach good practice. These are, however, comparatively rare. Board composition is generally weak, and board structures and practices are, with few exceptions, underdeveloped.
- Board member nominations processes are not designed to find the best people. Processes are generally informal, not transparent and subject to political influence. Boards do not generally have sufficient independent board members or independence of mind.



- In some cases financial reporting is comparable to world class practice. However, in most SOEs the control environment is compromised by the absence of a direct reporting relationship between the internal auditor and independent board members or an independent audit committee. Audit committees are either missing, or are constituted only to comply with formal requirements.
- Civil servant board members are stretched beyond what can be reasonably expected of them, leaving the state's capacity for oversight dangerously weak. Many boards are fiefdoms of ministries or political parties leaving SOEs vulnerable to political influence.
- The legal and institutional framework in all countries may need some reform. Specific areas are identified. However, the main focus needs to be on better implementation.
- Countries are taking action. Information on possible directions for improvement is provided.

**For additional information:**

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**Notes for editors on BICG:**

Established in August 2009, Baltic Institute of Corporate Governance is a non profit, non governmental association with strong involvement from the Baltic business and political leaders. BICG delivers value to its stakeholders by promoting global competitiveness of Baltic companies through adoption of leading corporate governance practices

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