Benchmarking Corporate Governance: Indian Public Sector Enterprises and OECD Principles of Governance

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I. The Imperative of Corporate Governance

Corporate governance lies at the heart of sustainable and responsible enterprise functioning. It encompasses the structures, processes, and practices through which companies are steered to ensure transparency, accountability, and efficiency, in operations so as to safeguard the interests of all stakeholders.

For Indian State-Owned Enterprises (SOEs) (or Public Sector Enterprises (PSEs) as they are referred to in India), the importance of sound corporate governance is even more pronounced. Operating at the intersection of public policy and market dynamics, these enterprises are entrusted with striking a balance between socio economic development objectives while ensuring commercial success of the organisation. In this scenario, robust governance mechanisms become indispensable to ensure that SOEs are managed professionally, their boards exercise strategic autonomy, and checks and balances are in place to monitor performance and mitigate conflicts of interest.

For SOEs that operate and the intersection of public policy and market dynamics, the importance of sound corporate governance assumes heightened importance to ensure professional management, strategic autonomy, monitor performance and mitigate conflicts of interest

Given the dual objective role of SOE, strong corporate governance emerges as a fundamental pillar for driving operational efficiency, institutional accountability, and long-term public trust so much so that special focus is being given on this aspect by international policy organisations. In this regard, the Organisation for Economic Co-operation and Development (OECD) has been playing an instrumental role.

II. The OECD Guidelines: A Global Standard

The OECD is an intergovernmental organization that supports governments to deliver more effective policies. It fosters evidence-based policymaking and sets global standards through multi-stakeholder dialogue and collaboration. Headquartered in Paris, the OECD comprises 38 Member countries from across the globe, which are primarily developed nations with market-based economies, working together to promote sustainable economic growth and global trade. In addition, the OECD collaborates closely with some of the world's largest economies, including India, which although are not members of OECD but are designated as its Key Partners. These countries actively contribute to the OECD's day-to-day work, engage in policy discussions across various OECD bodies, participate in regular surveys, and are included in its statistical databases. This ongoing engagement fosters deeper cooperation and gradually aligns Key Partners with OECD standards.

While, OECD promotes policy advocacy and guides global efforts of across various domains, it also gives due impetus to the role of SOEs in national development. In the process, OECD recognizes the unique challenges faced by the SOEs in ensuring effective governance and attempts to provide effective solutions for the same.

In this regard, the OECD introduced Guidelines on Corporate Governance of State-Owned Enterprises ('the Guidelines') in 2005 which was then revised to align with the evolving global dynamics in 2015 and 2023.

OECD, an intergovernmental organization headquartered in Paris developed a series of guidelines for effective governance by SOEs across the globe in 2005, subsequently revising it in 2015 and most recently in 2023 to align with evolving realities and effectively capture the growing importance of the subject

It is interesting to note that while, the OECD Principles are recommendatory in nature, adoption or alignment to the same are beneficial for global conglomerates to not only meet national laws and regulations but also ensure compliance at a global level while enabling the organisations to draw operations advantages. The advantages can be broadly outlined as follows:

- Firstly, compliance with Guidelines helps companies improve access to finance, particularly from capital markets while fostering economic dynamism through promoting investment, innovation, and productivity growth.
- Second, the Guidelines provide a framework to protect investors, which include households with invested savings. This is achieved as the Guidelines provide a formal structure of procedures that promotes the transparency and

accountability of board members and executives to shareholders which in turn helps to build trust in markets.
- Third, the Guidelines support the sustainability and resilience of corporations which, in turn, contributing to the sustainability and resilience of the broader economy.

Though recommendatory in nature, aligning with OECD Principles offers significant advantages including improving access to capital, enhancing transparency and investor trust, and strengthening corporate resilience, thereby making them valuable guide for global conglomerates

Now, let's look at how the Guidelines have continued to evolve to reflect the changing global environment. The first version of the Guidelines issued in 2005 was structured around key pillars such as the state acting as an informed and active owner, ensuring effective legal and regulatory frameworks, equitable treatment of shareholders, establishing effective boards of directors, relations with stakeholders and the transparency and disclosures. With the changes in the business environment and growing relevance of good governance, OECD further revised its guidelines in 2015 to incorporate provisions clarifying the purpose of state ownership and ensuring a level playing field between SOEs and private enterprises.

Building on nearly two decades of implementation experience and increasing need of global economies to navigate rising stakeholder expectations, climate challenges, and digital transitions, the Guidelines revised in 2023, aim to ensure that SOEs contribute to sustainability, economic security and resilience, by maintaining a global level playing field and high standards of integrity and business conduct, while also undertaking measures to clarify key concepts and definitions for their implementation.

III. Corporate Governance Landscape in India

Recognizing the imperative of strengthened governance from the outset of its economic modernization, India laid the groundwork for comprehensive institutional mechanisms to uphold transparency, combat corruption and promote best practices in corporate governance. The turning point for Corporate Governance came with the introduction of economic reforms and liberalization in 1991 and the need for capital market regulation and formalization of a Code of Corporate Governance commenced institutionally in 1999 when the Securities and Exchange Board of India (SEBI, regulatory body for the securities market in India) appointed a committee on corporate governance under the chairmanship of noted industrialist Mr. Kumar Manglam Birla. Recognizing the importance of keeping with international best practices since the longest time, Cadbury Code (U.K.) and Oxlay Act (U.S.) made good entry in the Indian corporate sector by way of various committee recommendations such as reports of Mr. Birla, Mr. Narayan Murthy and others from time to time. SEBI regulation and Clause 49 of listing agreement became a guideline for listed corporate entities. In addition to this, the Competition Act 2002 promoted fair market practices and curbed anti-competitive behavior and the Companies Act, 2013 further institutionalized these principles by embedding them into statutory requirements.

Over the years, the frameworks, various reports and codes, consistently emphasized key recommendations such as strengthening accountability to shareholders, enhancing disclosure for greater transparency, ensuring a clear separation between ownership and management, reinforcing the role of independent directors, and underlining the significance of robust risk management practices. It is the result of this that today, the Corporate Governance landscape in the country reflects a more structured, transparent, and accountable approach.

IV. Corporate Governance of State-Owned Enterprises (SOEs) in India

SOEs in India are a key pillar of the economy. As of 2024, 272 operating SOEs contribute approximately 12% to the nation's GDP, with around 78% being profit-making, recording a Net Profit of over ₹3 Lakh Crore. These enterprises play a dominant role in core sectors of the economy and are instrumental in delivering in shaping the country's social and developmental landscape with their Corporate Social Responsibility (CSR) expenditure amounting to nearly ₹5,000 Crore.

Being such vital engines of the economy entrusted with the dual mandate of delivering commercial performance while advancing the broader socio-economic and policy objectives, the Corporate Governance norms applicable to SOEs in India are necessarily more expansive and nuanced. Accordingly, in addition to meeting the general corporate mandatory requirements, the SOEs operate under a layered regulatory and supervisory framework, which includes compliance with guidelines on Corporate Governance issued by the Department of Public Enterprises (DPE), Government of India as well as the Guidelines set out by Department of Personnel and Training (DoPT), Government of India that contribute to further enhancing board effectiveness, ensuring accountability, and promoting transparency in the functioning of public enterprises. In fact, the Corporate Governance guidelines by DPE outline a multi-faceted evaluation process for corporate governance for SOEs, involving self-assessment, external audits, and grading by the DPE on compliance with applicable Guidelines.

As a result of this today, governance in Indian SOEs extends beyond the organizations as it is also embedded in the composition and mandate of the Board of Directors. Complementing this governance architecture is a structured performance evaluation system designed to enhance efficiency, transparency, and strategic alignment. While autonomy is granted based on performance against targets set through the Memorandum of Understanding (MoU) and the Ratna status framework (categorisation into Maharatna, Navratna and Miniratna based on their operations and performance). Boards, including the Independent Directors, are also assessed for their contributions. Further, SOEs are also required to incorporate a separate section on Corporate Governance in their Annual Reports with details of compliance in this respect. Together, these mechanisms create a broad ecosystem that is increasingly aligned with international good practices, including the OECD Guidelines on Corporate Governance of SOEs.

India's robust corporate governance landscape is largely aligned with international good practices and encompasses multi-layered mechanisms that combine institutional oversight, statutory compliance, and performance evaluation

V. OECD Guidelines on Corporate Governance and its convergence with Indian Corporate Governance framework

As a vital international benchmark for good corporate governance, the OECD Guidelines have a global reach and reflect the experiences and ambitions of a wide variety of jurisdictions and at different stages of development. They reflect a strong desire from all OECD Members and partners to receive guidance on companies' sustainability and resilience, manage environmental and social risks, with insights on disclosure, the roles and rights of shareholders as well as stakeholders and the responsibilities of company boards.

With the above aim, the OECD has developed six Guidelines of Corporate Governance:

1. Ensuring the basis for an effective corporate governance framework
2. The rights and equitable treatment of shareholders and key ownership functions
3. Institutional investors, stock markets and other intermediaries
4. Disclosure transparency
5. The responsibility of the Board
6. Sustainability and Resilience

While six Guidelines are identified, they can be broadly classified into four key areas:

1. State ownership rationale and the state's role as on owner
2. Board Autonomy and Responsibilities
3. Transparency, disclosure and accountability
4. Stakeholder Engagement and Sustainability Commitments

Significantly, many of the principles reflected in the Guidelines have long been embedded in India's public sector governance architecture through a blend of statutory provisions, institutional mechanisms, and evolving best practices, a testament to India's early and proactive commitment to fostering accountable, transparent and performance-driven SOEs. This strong resonance in the Corporate Governance ecosystem of the SOEs with the Guidelines has been highlighted in the section below:

A. Strategic Ownership and the state's role as an owner

One of the key recommendations of the OECD Guidelines is that States should articulate a clear rationale for SOE ownership and ensure alignment between enterprise mandates and national priorities. While India does not have a single published ownership policy, ownership rationale is often expressed through budget documents, sectoral strategies, and policies. *With respect to the state's role as an owner, the Guidelines specify that the State should act as an informed and active owner ensuring that governance of SOEs is carried out in a transparent and accountable manner with a high degree of professionalism and effectiveness.* The Indian ecosystem has mechanisms in place that align with the provisions under this section with respect to setting and monitoring implementation and broad mandates and expectations for SOEs in the form of the MoU framework, wherein SOEs sign annual agreements with their respective ministries, laying down defined targets against which performance is evaluated, thereby, linking managerial autonomy to measurable outcomes. MoU implementation is monitored by the DPE, using it as a tool for granting 'Ratna' status and offers greater autonomy in decision making to high-performing enterprises. Further, the Indian rules and regulations (Companies Act, various standards prescribed by Institute of Chartered Accountants of India (ICAI) etc.) and tools like Parliamentary Questions mandate disclosures on performance and transactions, which ensure complete disclosure of information to all stakeholders including the Government as the owner.

India has adopted a strategic approach to SOE ownership through policy directives, with the State playing an active and informed role in setting expectations, monitoring outcomes, and ensuring accountable governance through the MoU framework and complementary regulatory mechanisms, thereby aligning with the OECD Guidelines

B. Board Autonomy and Responsibilities

The OECD Guidelines emphasize that SOE boards should be assigned clear mandates, operate with professional autonomy, and be held accountable for enterprise performance. Recognizing the importance of these principles ahead of its time, the SOE board composition in India typically includes functional directors, government nominee directors, and independent directors. The Independent directors who generally constitute one-third of the Board (as per DPE Guidelines, half in case of SOEs have Executive Chairman), are tasked with ensuring strategic balance, safeguarding minority shareholder interests, and maintaining governance benchmarks. In consonance with the Guidelines, the Indian framework also places due emphasis on diversity on the Board by mandating the presence of at least one woman Director. Further, measures have also been undertaken to enhance the capacity and competence of the Board, as recommended by DPE Guidelines and a parameter that is also factored into the evaluation of Independent Directors.

For the Chairman & Managing Directors (CMDs) and functional directors, a substantial portion of the appraisal is linked to the achievements of the targets under the MoU framework, thereby ensuring a strong focus on results and enterprise accountability. Complementing these mechanisms, Audit committees, Risk management systems, and internal audit functions exist in the SOEs for ensuring transparency, risk mitigation and internal control on the powers and responsibilities of the Board of Directors so as to ensure that the same complied with.

India's SOE boards reflect OECD principles on Board autonomy and responsibilities through a structured composition, performance-linked appraisals, and accountability mechanisms, with a strong emphasis on independence, diversity, and governance capacity

C. Transparency, Disclosure, and Accountability

Transparency forms the foundation of sound corporate governance and is a core pillar of the OECD Guidelines. It calls for clear, consistent, and timely disclosure of both financial and non-financial information to ensure accountability and build stakeholder trust. These principles find place in the Indian mechanisms in the form of a prescribed disclosure format and requirement for presentation of Annual Accounts, along with the presence of the Competition Act, 2002 for promoting competitive neutrality, which applies equally to SOEs and private entities, thereby preventing anti-competitive practices and ensuring that SOEs compete fairly without benefiting from preferential treatment owing to state ownership.

Alongside this, Indian SOEs comply with extensive reporting requirements. Statutory audits as well as audits by the Comptroller and Auditor General (CAG) for Government held and Indian SOEs, internal audits, and periodic performance reviews are mandated. Further, annual reports are placed before Parliament and made publicly available online. In addition to this, DPE's Annual Public Enterprises Survey offers aggregate insights into the sector's financial and operational health. Further, compliance with the Indian Accounting Standards (IndAS) introduced in 2015 facilitate strengthen alignment with international reporting standards, mandate that SOEs provide detailed disclosures on material elements. These align closely with OECD expectations of high-quality, timely, and accessible disclosures.

Robust transparency is ensured in SOEs in India through stringent disclosure norms, independent audits, and adherence to IndAS, fostering public accountability and reflecting global best practices as outlined in the OECD Guidelines

D. Stakeholder Engagement and Sustainability Commitments

Indian SOEs continue to demonstrate responsible business conduct and heightened sensitivity to stakeholder interests. SEBI along with the Independent Directors play a pivotal role in safeguarding the interests of shareholders, including minority shareholders and ensure equitable treatment, especially in listed enterprises.

With respect to sustainability, while Environmental, Social and Governance (ESG) considerations have gained prominence in recent years, the Indian framework recognized their importance much earlier, notably through the DPE Guidelines on Corporate Social Responsibility (CSR) and Sustainability, introduced in 2013, which encourage enterprises to report on their initiatives with respect to social and environmental concerns.

In addition, SEBI has, over the years, progressively strengthened its regulatory framework on sustainability. Most recently, the introduction of Business Responsibility and Sustainability Reporting (BRSR) in 2021 marks a significant shift towards integrating non-financial performance indicators into mainstream corporate governance along with facilitating alignment with global standards. BRSR is currently mandatory for the top 1,000 listed entities by market capitalization, and also includes some listed entities, but is expected to be gradually extended to a wider set of entities in the coming years, thereby, deepening ESG integration into the corporate landscape. SEBI also continues to evolve the BRSR framework to ensure relevance and recent updates to the BRSR guidelines reflect a more holistic approach by incorporating disclosures related to value chain partners as well as incentivizing their participation in generation of green credits. In addition, SOEs have also undertaken sustainability initiatives by including comprehensive sustainability-related disclosures in their Annual Reports, aligning with both national priorities and global best practices.

Indian SOEs are strengthening stakeholder engagement through regulatory safeguards and board oversight, while advancing sustainability through initiatives like SEBI's BRSR and DPE's CSR guidelines, reflecting a growing convergence with the principles set out in the OECD Guidelines

Way Forward

As is evident, the Indian SOE governance framework exhibits strong convergence with the OECD Guidelines in pertinent areas such as performance evaluation, board governance, and transparency. However, there remains scope for further strengthening alignment in certain aspects through a calibrated and strategic approach.

While the Government, being the majority stakeholder in SOEs in the country, has outlined its roles and responsibilities through various applicable guidelines and regulations, however, a comprehensive and publicly available ownership policy would further strengthen the governance aspect of the SOEs as it would enable to enhance transparency, guide strategic decision-making, and align enterprise goals with broader national priorities. **Further, while SOEs in the country have over the years augmented their digital capabilities, continued efforts to leverage emerging technologies would** further strengthen efficiency, oversight, and responsiveness. **As the operating environment for SOEs continues to evolve amid global sustainability transitions and heightened public expectations, ongoing capacity building and review of the governance ecosystem may also prove to be beneficial.** In this regard, it is important that there are periodic updates on regulatory frameworks and guidelines on good corporate governance through workshops and seminars so as to disseminate the information on the subject on a regular basis. Further, organizations should look at building capacities in their workforce by undertaking efforts to enhance board effectiveness and the institutionalization of good practices through peer learning and gaining an understanding of global standards like the OECD Guidelines to benchmark its own practices against the same. Such capacity enhancements and skill enrichments would further reinforce the governance ecosystem of the country.

Through such forward-looking and adaptive measures, the Indian governance landscape can continue to evolve in tandem with global developments, reinforcing the relevance, resilience, and public value of the enterprises. By doing so, SOEs will further deepen their role as dynamic institutions, driving innovation, upholding accountability, and contributing meaningfully to India's long-term development and global stature.

Further strengthening alignment with OECD Guidelines would require measures in the direction of institutionalizing a unified ownership policy, deepening integration of technology in governance, and fostering continuous capacity enhancement, thereby positioning Indian SOEs as globally competitive, transparent, and strategically driven institutions