

TUAC trade union advisory committee to the
OECD organisation for economic cooperation and development
■ CSC commission syndicale consultative auprès de
OCDE l'organisation de coopération et de développement économiques

**UNIONS CALL FOR INTERNATIONAL ACTION
TO RESTORE PUBLIC FAITH IN CORPORATE GOVERNANCE:
Governments must meet their responsibilities**

JOINT INTERNATIONAL TRADE UNION STATEMENT

Public distrust of the corporation is now widespread in OECD countries and beyond. At the start of the new millennium unrealistic profit expectations and the accompanying equity market bubble came to an abrupt halt amid a series of corporate and financial scandals. These crises have continued and have spread from the spectacular corporate failures of Enron and Parmalat to a wide array of companies across the international scene. Powerful corporate insiders have been manipulating widespread conflicts of interest to enrich themselves; not by creating wealth, but by redistributing income to themselves at the expense of employees, shareholders, taxpayers and the public. These cases have revealed lax corporate regulation, cosy corporate boards and passive shareholders. Meanwhile employees have lost their jobs, retirees have lost their retirement security, and the productive resources of corporations have been diverted and destroyed. A wedge has been driven between the private interests of insider business elites and the wider public purpose of the corporation.

This calls into question the foundations of the corporate governance model that has prevailed over the past quarter century, particularly in the Anglo-American world. According to that view, the corporation is simply a private property whose only social obligation is to make money for shareholders. Regulation is unnecessary, and the sole problem is to align the interests of managers with those of shareholders. However, mainland European countries require participation of other stakeholders, including workers. Yet the shareholder value model is gaining ground and poses challenges to those with systems that involve deep-rooted social dialogue. From the labour movement's perspective, the corporation is a social institution accountable to all stakeholders that engage in firm specific investment. Shareholders are not alone in bearing "residual risk" in the corporation justifying control rights. Workers too invest their commitment and specific knowledge to their company's success, which cannot be fully covered by wage agreements. They too bear residual risk. They too have a legitimate claim to residual control rights. There is now a global concern about the need for effective economic governance in general. It is the responsibility of governments to ensure an open and inclusive debate on corporate governance and to give the lead in helping to restore corporate accountability. Voluntary standards and codes of governance can be useful, but inadequate without effective and enforced overarching regulation based upon a set of common international principles, rights and mechanisms.

In the United States the labour movement through the AFL-CIO continues to campaign for a more worker-friendly corporate governance regime, and one that encourages and empowers responsible investors. In Europe, the trade unions through the ETUC are campaigning for a pan-European framework of rules and regulations to plug the corporate governance gap. At the international level and through the ICFTU, WCL and Global Union Federations the power of workers is being mobilised through their capital in pension funds across international borders in support of corporate accountability and governance. At the OECD, TUAC have

campaigned for the leading industrialised countries to re-negotiate the OECD Principles of Corporate Governance and make them relevant to the current real-life situation.

To date the response of OECD governments that are home to the world's most powerful companies has been disappointing. We would have expected that they would use the current opportunity to establish high standards of corporate governance. Instead they have shown little collective political will. The current OECD text fails to send a clear signal that the power of the imperial CEO will be curbed, that executive remuneration will be reined in, that company boards will be independent, diverse and accountable to all corporate constituents, including workers, that conflicts of interest among corporate gate-keepers and business service providers will be checked, and that institutional investors will be empowered to exercise their ownership responsibilities. Failure to act will amount to a missed opportunity that is most glaring in the case of the rights of employees and other stakeholders to participate in the corporate governance process.

Ministers will be asked to sign off on the revised Principles at the 13-14 May 2004 OECD Council meeting. As things stand, some changes have been proposed to marginally enhance incentives for institutional investor shareholder activism as well a role for shareholders in the nomination of board members and in the setting of the equity element of executive pay. The "imperial CEO" and the core contradiction involved in combining that job with the position of Chair of the board, along with board independence are feebly dealt with. As regards stakeholders' rights the current text merely calls on companies to respect existing laws. Set against today's need for workers to have a voice in the corporate decision-making process, such feeble language is totally inadequate. Moreover these changes are watered down versions of previous proposals, or are buried in the text, and fall far short of the standards needed to re-build the bridge of confidence between citizens and their corporations.

In our view further changes are required that will raise effective standards of corporate governance. We call on governments to revert to the earlier strengthened text, and to substantially revise the stakeholder chapter. If time does not allow this before the May OECD Council of Ministers meeting, then Ministers must give a mandate for the negotiations to continue. We believe that the credibility of the OECD as a serious voice in setting standards on corporate governance is at stake.

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