

# Governance of state-owned enterprises and the role of boards of directors: Implementing best practices

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# Governance of state-owned enterprises and the role of boards of directors

- Let's have a conversation on the state-owned enterprise you work for (managers), influence (ministries, interest groups), or are interested (students)
- Write down answers to the questions as they apply to your firm
- We cover three topics
  - State-owned enterprises: Clarity
    - Objective of the state-owned enterprise
  - Boards of directors: Independence
    - Objective and operation of the board of directors
  - Boards of directors of state-owned enterprises: Effectiveness
    - Success of the board of directors

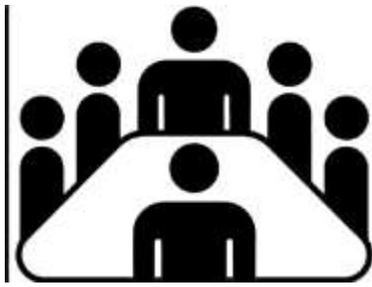


# State owned enterprise: Clarity



- What is the objective of the state-owned enterprise?
  - Economic: Solution of market imperfections (natural monopoly, externalities, imperfect regulation)
    - What is the market imperfection solved by your firm? How do private companies provide the same goods/services?
    - What are the externalities solved (negative externalities) or promoted (positive externalities)? How do private firms address these?
    - What are the limitations in regulation that require ownership? Are these limitations in regulation or state capacity?
  - Political: control of economy activity (strategic, development, ideological)
    - What is the strategic product/service that the company is covering? How can this be provided by private firms?
    - What is the developmental objective of the firm? How can this be achieved by private firms?
    - What is the ideology behind the state ownership of the firm?
  - Changes in objectives: technological advances, new market solutions, improvement regulation or taxes
    - How have technological advances changed the viability of the state-owned enterprise?
    - How have new market solutions altered the viability of the state-owned enterprise?
    - How have improvements in regulation modified the viability of the state-owned enterprise?

# Board of directors: Independence



- How does the board operate? (best practices for effectiveness)
  - Size (less than ten people)
    - How large is the board? How are the interactions in meetings?
  - Composition (diversity in expertise, education, gender, age..., independent directors, separation of chair and CEO)
    - Who are the members of the board? What is the level of diversity? Who do they represent?
    - Who are internal (managers) and external (non-managers)? Who are independent?
    - Is the chair and CEO the same person? Who appoints the CEO?
  - Operation (four/six meetings, executive, audit, compensation, nomination and governance standing committees, ad hoc committees)
    - How often does the board meet? Who sets the agenda? How does it change?
    - Which are the committees? How are members selected to the committees? How are they rotated across committees?
  - Evaluation (periodic external evaluation on individual contributions and teamwork)
    - How are board members evaluated? What are the criteria? How often are they evaluated? Who evaluates board members
  - Renewal (limited tenure, staggered)
    - What are the tenure limits? How are members replaced? Who replaces them?

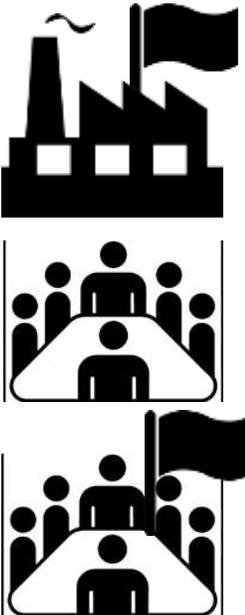
# Board of directors of state-owned firm: Effectiveness



- How do you evaluate the success of the board of the state-owned firm?
  - Stakeholders:
    - Who are the main shareholders of the firm? Who do the individual members represent? Who has influence over the members?
    - Who are the main stakeholders of the firm? Who do the individual members represent? Who has influence over the members?
  - Effectiveness: value creation
    - How does the board measure its contribution toward economic objectives (market imperfections: natural monopoly, externalities, imperfect regulation)?
    - How does the board measure its contributions toward political objectives (control: strategic, development, ideological)?
  - Efficiency: value capture
    - How does the board measure its contribution toward profitability?

# Conclusions

- State-owned enterprises
  - Clarity in the objective of the state-owned enterprise
- Boards of directors
  - Independence in the operation of the board of directors
- Boards of directors of state-owned enterprises
  - Effectiveness in the success of the board of directors



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Thank you!