

The Corporate Governance Scorecard for GOCCs/GFIs

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Overview

- Background
- Corporate Governance Scorecard
- Concluding notes/way forward

Background

- Primarily a private sector initiative
- Institute of Corporate Directors
 - Promoting CG and Professional Directorship
 - Established in 1999 after the Asian Crisis
 - CG advocacy (conferences, seminars, training, CG scorecards, etc.)
- Working with Government, business and civil society groups.
- Active in broader governance efforts (public and institutional governance)

Objectives of the Project

- To develop a CG benchmark score for key SOEs
- To raise awareness on corporate governance issues among Philippine SOEs
- To identify areas for improvement

Scorecard Dev't Sept 2005-Mar 2006	Data Gathering Jan-Feb 2006	Rating March- April 2006
<p>OECD releases SOE for CG Guidelines</p> <p>ICD develops initial scorecard methodology and conducts a series of working sessions</p> <p>Working group approves of methodology and content and 31 GOCCs/GFIs were selected to compose the pilot group</p> <p>Enhancement of the questionnaire into: MICRO Scorecard MACRO Scorecard</p>	<p>Data gathering from GOCCs</p> <ul style="list-style-type: none"> • Annual Report Charter • Code/Manual of Corporate Governance • Code of Ethics • CG Surveys <p>Laws and issuances pertaining to GOCCs were provided by the Office of the Government Corporate Counsel</p>	<p>Rating period (Micro Scorecard) commenced in March 2006 with volunteers from Institute for Internal Auditors - Philippines doing 2 runs of scoring.</p> <p>A third and consolidating run was done by ICD Fellows</p>

Scorecard Development

- OECD Guidelines on CG for SOEs provided the impetus
- Open and participative
- Influenced by the experience in scorecards for PLCs
- Four main results of the sessions:
 - Review of the guidelines
 - Relevance of questions
 - Weights of each section
 - Methodology

Scorecard Development

1. The need to be strategic
2. Contextualize! (Notes on CG for SOEs)
3. Worked with the Office of the President, the Department of Finance, and key stakeholders

Data Gathering

- A major challenge
- It was key to work with the office of the Government Corporate Counsel
- We had to do a survey to complement the information available from the documents

Rating Process

- ICD solicited the assistance of the Philippine Institute of Internal Auditors (2 rating runs).
- A third run was made by ICD Fellows to consolidate the results of the first two runs.
- Each answer to the questionnaire was justified by a specific information source or evidence from the compiled information.

The Micro Questionnaire

OECD Principles	Weight	Micro Questions	Macro Questions	Total
I. Ensuring an Effective Regulatory Framework	10%	7	14	21
II. The Government acting as an owner	10%	2	14	16
III. Relations with Stakeholders	10%	14	0	14
IV. Transparency and Disclosure	30%	13	2	15
V. Responsibilities of the Board	40%	17	3	20
TOTAL	100%	53	33	86

- The Equitable Treatment of Shareholders was omitted

Brief Profile of the GOCCs

- Industry Classification
 - 9 = Banking/Financial Services
 - 5 = Industrial/Area Development/Regulatory
 - 5 = Social/Cultural/Scientific
 - 4 = Agricultural/Trading/Promotional
 - 8 = Public Utility
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31 GOCCs

Brief Profile of the GOCCs

- Quick Facts
 - 4% of Total Number of GOCCs (31 out of 736 Corporations)
 - Revenues - 50% of Total Revenues in 2004
 - Assets - 59% of Total Assets
 - Liabilities - 54% of Total Liabilities in 2004



Indicative Results

Industry Classification	Top Quartile	Bottom Quartile
Banking/Financial Services	5	-
Industrial/Area Development/Regulatory	2	1
Social/Cultural/Scientific	-	3
Agricultural/Trading/Promotional	-	1
Public Utility	1	3
TOTAL	8	8

Ensuring an Effective Legal and Regulatory Framework (10%)

OECD Principles	Yes/Likely	No/Unlikely
1. Are the obligations and responsibilities that the GOCC/GFI is required to undertake in terms of public services clearly mandated by laws or regulations?	100%	-
2. Are the advantages being given and enjoyed in view of special responsibilities and obligations the GOCC/GFI has to discharge?	94%	6%
3. Does the GOCC/GFI enjoy the same flexibility as its competitors in making adjustments in its capital structure ?	13%	87%
4. Does the GOCC/GFI enjoy any privileges in obtaining access to finance from state-own banks?	71%	29%
5. Does the GOCC/GFI enjoy sovereign guarantee when it contracts loans and take on other financial obligations?	71%	29%
6. Are advantages in accessing financing disclosed?	77%	23%

The Government Acting as an Owner (10%)

Question	Yes/Likely	No/Unlikely
8. Does the code of governance or any other document provide for remuneration of directors that helps foster their commitment to the long-term interest of the GOCC/GFI as well as attract qualified professionals to serve as directors?	39%	61%
9. Does the code of governance or any other document specify public reports and other information that the Board must ensure should be provided to the general public through appropriate public channels?	77%	23%

Note: Most of the questions on this section are in the Macro scorecard

Common Observations

- The results were more or less expected (not too many surprises)
- Companies in the finance and banking did fairly well (subject to stricter regulation)
- Conversely, some public utilities and companies classified under social/cultural did not do too well
- Government “cash cows” scored low

Concluding Thoughts

- Not a perfect process but it's a good start
- The exercise has brought out certain issues:
 - No one entity in Government is in control (survey results).
 - No overriding strategy for GOCCs/GFIs (Legal review)
 - Evidence indicating poor corporate governance practices among GOCCs/GFIs exists but nothing seems to be done about them (Audit reports).
- We may have enough attention and empirical data to push the reform agenda forward

Concluding Thoughts

- On the broader context, we need to be reminded of the ff:
 - Link between public and corporate governance
 - Systemic nature of the governance problem (Government =Executive, Legislative, Judiciary; role of private sector, etc)
 - Importance of developing a culture of ethics and social responsibility in our SOEs
- Importance of CG Champions
- To develop a support base (domestic and international)

Thank you.

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