

# 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

<b>Scorecard Dev't</b> <b>Sept 2005-Mar 2006</b>	<b>Data Gathering</b> <b>Jan-Feb 2006</b>	<b>Rating</b> <b>March- April 2006</b>
<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"> <li>• Annual Report Charter</li> <li>• Code/Manual of Corporate Governance</li> <li>• Code of Ethics</li> <li>• CG Surveys</li> </ul> <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
- 

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 <b>clearly mandated</b> by laws or regulations?	100%	-
2. Are the <b>advantages</b> 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 <b>capital structure</b> ?	13%	87%
4. Does the GOCC/GFI enjoy any privileges in obtaining <b>access to finance</b> from state-own banks?	71%	29%
5. Does the GOCC/GFI enjoy <b>sovereign guarantee</b> 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 <b>remuneration of directors</b> 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 <b>public reports</b> 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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