IFC Corporate Governance Knowledge Tool

SUPPLEMENT TO TOOLKIT 2

Developing Corporate Governance Codes of Best Practice

Corporate Governance Scorecards

ASSESSING AND PROMOTING THE IMPLEMENTATION OF CODES OF CORPORATE GOVERNANCE

IFC International Finance Corporation
WORLD BANK GROUP

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IFC, a member of the World Bank Group, is the largest global development institution focused exclusively on the private sector. Working with private enterprises in more than 100 countries, we use our capital, expertise, and influence to help eliminate extreme poverty and promote shared prosperity. In FY13, our investments climbed to an all-time high of nearly $25 billion, leveraging the power of the private sector to create jobs and tackle the world's most pressing development challenges. For more information, visit www.ifc.org

About IFC Corporate Governance Group

The Group brings together staff from investment support and advisory operations into a single, global team. This unified team advises on all aspects of corporate governance and offers targeted client services in areas such as increasing board effectiveness, improving the control environment, and family businesses governance. The Group also helps support corporate governance improvements and reform efforts in emerging markets and developing countries, while leveraging and integrating knowledge tools, expertise, and networks at the global and regional levels. For more information, visit www.ifc.org/corporategovernance

Corporate Governance Scorecards

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Foreword

This supplement builds on the extensive work of the International Finance Corporation (IFC), a member of the World Bank Group, on developing codes of corporate governance. Since the early 1990s, more and more countries have adopted governance codes. The pace picked up with the groundbreaking work of the OECD (Organisation for Economic Co-operation and Development) in the late 1990s and became a major trend. IFC encouraged this trend by helping a large number of developing and emerging markets develop their own codes. The hope was that codes and better governance would boost the development of capital markets, help companies perform better, and make them better members of society.

In 2005, the then IFC Global Corporate Governance Forum, now merged into IFC Corporate Governance Group, published a toolkit, *Developing Corporate Governance Codes of Best Practice*, and began using it extensively to help countries develop their own codes and notch up their governance standards. Many countries drafted codes, and the understanding of governance and its impact on companies, markets, and societies grew significantly in all of the world's regions.

Despite these advances, the mere existence of a local corporate governance code did not automatically translate into better practice. Regulators, stock exchanges, and other organizations often put considerable effort into code development, only to face the new challenge of how to make good governance practices a working reality. Their work was often complicated by the limited experience most developing countries and emerging markets have with voluntary tools as a means of changing corporate behavior.

Something was needed to encourage best practice in governance, but without the intrusiveness of legislation. Part of the answer was scorecards, which had been inspired by the experience of private sector investors assessing compliance with national codes. Later, institutes of directors, stock exchanges, and regulators used scorecards to assess and promote governance reform. IFC has used them as a tool to help a variety of users identify weakness in governance and to alert them to areas that require reform.

Scorecards have now been used globally for more than 10 years, providing sufficient experience to make it possible to compile this supplement to the initial codification toolkit. This supplement offers a tool that readers can use for code implementation—a next step after the successful completion of a code.

Finally, let us emphasize that the ultimate beneficiaries of scorecards are companies. Although scorecards do check observance of codes, they are not mere compliance exercises. Measuring corporate governance helps companies know where they stand and helps them improve performance through better strategy, decision making, risk management, control, and organization.

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1. In Brief *by Christian Strenger*

Scorecards are tools for the assessment of corporate governance practices. They measure the observance of corporate governance codes and encourage better governance practices without the intrusiveness of legislation.

Key messages of this publication:

- **Scorecards generate important information on the quality of governance practices.** They can tell whether companies ignore codes or follow code recommendations. They provide information on the impact of governance codes. They can be used to compare practices between companies and between countries.
- **Scorecards encourage companies to improve their governance**. Comparisons to other companies provide an important indicator on how the company stacks up against a peer group and can motivate companies to improve their governance. Scorecards are particularly useful when a (new) code of corporate governance is introduced in a country.
- **Companies want concrete and useful information**. Most companies want quantifiable and comparable information on the quality of their governance practices. Companies want to know when and where they fall short so that they can act.
- **The main beneficiaries of scorecards are companies and their stakeholders.** Scorecards can help companies improve their strategy, decision making, risk management, control, and organization.
- **Anybody can initiate a scorecard project.** Scorecards are of interest to companies, regulators, stock exchanges, institutes of directors, chambers of commerce, investors, academics, and more.

This supplement tells you how to develop and implement a scorecard:

- **It synthesizes the experience of a large number of countries.**
- **It translates country experiences into a step-by-step process.**
- **It highlights the key messages in takeaway points.**
- **It contains numerous examples and case studies.**
- **It contains sample indicators and other useful models.**
- **It helps the user avoid costly misunderstandings.**

The executive view:

Text boxes highlight examples, takeaway points, and additional resources. Each type of text box is indicated as follows:

Examples
The supplement describes a rich variety of practice. The different examples serve to illustrate how scorecards have been developed and implemented in real life.

TAKE AWAY

Takeaway Points
Takeaway points summarize the critical messages of the supplement. For the reader in a hurry, consulting the boxed takeaway points found in each section provides a rapid understanding of the issues in developing a corporate governance scorecard. An index of takeaway points is provided in section 8.1.

Additional Resources
Not all issues related to scorecards are addressed in detail in the supplement. The "additional resources" boxes offer a large number of references as a first step to answering possible further questions.

2. Introduction

This is a supplement to IFC's *Toolkit 2: Developing Corporate Governance Codes of Best Practice*.[1] The focus of Toolkit 2 is the development of codes of corporate governance.[2] This supplement focuses narrowly on how to use scorecards to measure the observance and implementation of such codes. It does not cover the full panoply of governance assessment tools.

One of the key values of scorecards is that they raise awareness of good standards and practices at different levels of the market. Scorecards are part of a long-term, iterative process to improve the governance culture within a country. Clearly, scorecards are not the only means to achieve this goal. Nor are they a panacea. A variety of mechanisms may enhance governance practices and standards in a market and among companies, and it is not the purpose of this publication to cover every possible mechanism.

This supplement is not intended to be a full manuscript of all the available tools or assessment techniques but more a guidance on various possible uses and applications of scorecards. As with all IFC knowledge management tools, the supplement cannot foresee all situations and eventualities. It is, however, intended to cover most of the issues that might confront any institution, regulator, stock exchange, and so on, that has in mind to develop a scorecard and to provide some practical guidance on how to approach those issues.

What is the purpose of this supplement?

This supplement provides practical guidance and a step-by-step approach on how to develop a corporate governance scorecard. It also presents different approaches to scorings based on the experience of different scorecard users in different countries. The supplement also shows how scorecards are adapted to local circumstances and the local corporate governance framework.

Scorecards generate numerical scores. In Section 4.5, "Summarize and present the results," the supplement shows a variety of useful information that can be created from such scorings. In Section 6, "Building on scorecards," it also presents other potential uses of scorecards, such as the basis for stock exchange indexes or tiers.[3]

Scorecards tell us whether we measure up

"Good corporate governance brings real benefits to companies. It improves their decision making and risk management, ensures proper accountability, eases their access to capital, and gives confidence to creditors. But how do companies know whether their governance passes muster? Scorecards can help them measure their achievements and tell them where they still need to improve. This is not just about compliance. It's about self-help."

- Peter Montagnon, Associate Director, Institute of Business Ethics, United Kingdom, PSAG Member

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[1] *Toolkit 2: Developing Corporate Governance Codes of Best Practice* can be found here: http://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/global+corporate+governance+forum/publications/toolkits+and+manuals/toolkit2_codes_of_best_practice.

[2] A corporate governance code defines best practice in governance among companies. Most countries now have a corporate governance code.

[3] The supplement does not go into detail regarding corporate governance ratings, indexes, or tiers. For more information on these, see D. Grimminger and P. Di Bendetta, *Raising the Bar on Corporate Governance: A Study of Eight Stock Exchange Indices* (World Bank and IFC, 2013).

What is a scorecard?

A scorecard is a quantitative tool to measure the level of observance of a code and/or a standard of corporate governance. Scorecards compare governance practices to a benchmark. Typically the benchmark is a national code of corporate governance or an international code or standard.[4] Scorecards are not used principally to measure regulatory compliance. Rather, scorecards measure the observance of a voluntary code of best practice. Scorecards are used to assess a company's governance practices, show progress over time, and compare different companies and even groups of companies within or across countries.

Market-level goals

At the market level, the overarching goal is the development of safer and more efficient capital markets. One way to strengthen capital markets is to improve the implementation of the governance framework. Governance codes and standards are an important part of this framework. Scorecards encourage implementation of codes and standards by benchmarking companies and countries over time. Scorecards set expectation levels, generate incentives for reform, help direct change, and can set in motion a process of continual improvement.

Scorecards are tools to measure and motivate

"A corporate governance scorecard is a measure to encourage and motivate adherence to good corporate governance practices. It can be usefully deployed by regulators to evaluate market response to a corporate governance code and its recommendations, while companies might use it to guide their adherence to the recommended practices contained in a corporate governance code."

- Philip Armstrong, Senior Advisor Corporate Governance, IFC

The original source of inspiration for many scorecards was the one developed by the German Financial Analysis and Asset Management Association (DVFA).[5] The purpose of the DVFA scorecard was to provide financial analysts and investors with a practical tool to evaluate the governance of listed German companies. In addition, the DVFA scorecard served as a tool to measure the level of compliance of listed companies with the German Corporate Governance Code.[6]

What are the broad goals of scorecards?

Scorecards have goals at both the market level and the company level.

Company-level goals

At the company level these goals begin with providing companies with a powerful analytical tool. Scorecards are a useful basis for companies to start an analysis of their governance practices. Scorecards help identify shortcomings against locally defined standards and/or generally accepted international standards of good practice. The findings of a scorecard can, in turn, be used to help the company develop a corporate governance improvement plan. The ultimate outcome should be better operational performance and lower risk as a result of better governance practices.

Scorecards encourage a better governance culture and a better business climate

"Scorecards can be useful in countries wishing to implement best corporate governance practices. Scorecards can support the efforts of the government and the business community to further strengthen the country's business climate."

- Christian Strenger, Academic Director, Center for Corporate Governance HHL Leipzig Graduate School of Management, Deputy Chairman PSAG

[4] For a discussion of the different benchmarks, see Section 4.3.2, "Choose the benchmark," of this supplement.

[5] For more information on DVFA, see http://www.dvfa.de/home/.

[6] The Deutscher Corporate Governance Kodex is available at http://www.corporate-governance-code.de/.

Scorecards support the growth of stronger financial markets

"Scorecards will often start modestly, but as they grow to support better governance, stronger disclosure, and improved standards, the benefits from further development can be wide-ranging, particularly in building investment confidence and encouraging incoming capital."

- John Jarrett, Principal, BHJ Partners, and Executive Director, Chairmen's Forum

Scorecards help companies

"I think that it is important to send a clear message: scorecards serve to improve the governance and performance of the company."

- Bistra Boeva, Bulgarian Corporate Governance Commission, PSAG Member

It has been shown repeatedly that scorecards educate companies on good governance practices and on local codes. Iterative scorecard assessments can create a virtuous cycle by which companies assess and reform and ratchet up their governance practices.

The specific outcomes that can be expected from scorecards and from better corporate governance practices are described in Section 4.4.1, under the heading "Engage early adopters," and in Section 5, "Measurable outcomes." Table 2.1 (on page 5) provides a sample of actual outcomes taken from the case studies found in Section 5.

Who can use a scorecard?

Potential users of scorecards include companies, regulators, stock exchanges, institutes of directors, and development finance institutions (DFIs). Each is likely to have somewhat different goals. Companies tend to be more interested in addressing the concrete day-to-day issues they face in their governance. Regulators and stock exchanges tend to be more interested in measuring code compliance and drawing conclusions about the effectiveness of the regulatory framework. DFIs are usually interested in encouraging market-level change in corporate governance practices and transferring knowledge and skills to local counterparts.

Each user will likely play a different role in the development of a scorecard. It is useful to distinguish between the roles of different users to see how and what each contributes.

Below are three main user roles:

1. *Initiator:* The initiator is the institution that suggests undertaking the development of a scorecard. The initiator will typically seek to test the concept with a number of local stakeholders, establish whether a scorecard has utility, and encourage implementation. The initiator's role is to catalyze action. It may seek other institutions to lead and implement. IFC often finds itself in the role of initiator.

2. *Owner:* The owner of a scorecard project is the institution that takes a leadership role and primary responsibility for implementation. Ideally, the owner is a local institution. Ownership with a local institution promotes sustainability through a knowledge transfer to local partners.

3. *The beneficiary:* All the institutions involved in the development of a scorecard will derive some benefit. A regulator may extract information important for the development of sound policy, a stock exchange may enhance its image as a trading location, and a business association may provide a valuable service to its members. The ultimate beneficiaries are the companies whose governance practices are being assessed.

Though scorecards are often initiated by regulators, anybody can initiate or own a scorecard. In practice, institutions may play multiple roles.

What can scorecards help different users achieve?

Scorecards bring different benefits to different users. Table 2.2 (on page 6) shows a broad group of potential users and the benefits that can accrue to them.

Table 2.1: Sample of Measurable Outcomes

For a small listed company:

- Appointed personnel to improve and maintain good governance practices;
- Developed written policies and procedures;
- Enhanced transparency toward all shareholders and the markets;
- Created recognition of the company as a governance leader and a quality investment;
- Developed commitment to good governance at board and executive levels;
- Created better understanding of governance and how it affects company operations;
- Enhanced protection of minority shareholders;
- Provided a better understanding of governance strengths and weakness; and
- Led to a roadmap for future improvement.

For a chamber of commerce:

- Raised awareness of corporate governance issues;
- Generated real-time information that allowed comparison of any company to a peer group;
- Created a network of consultants to advise enterprises on their governance;
- Led to the development of numerous governance action plans developed at the company level;
- Plans led to actual changes in governance practices in numerous enterprises; and
- Allowed generation of aggregated data on governance practices—broken down by sector, size, region, and the quality of governance.

For an institute of directors:

- Raised awareness of corporate governance and maintained public attention over a number of years;
- Led to the development of governance action plans within listed companies;
- Led to measurable improvement in governance practices of companies over time;
- Created incentives for better governance through awards programs and disclosure;
- Led to the creation of institutions (clubs and discussion groups) to perpetuate good governance practices;
- Improved the reputation of the country for its corporate governance practices; and
- Generated information useful to policymakers on the governance practices of listed companies, state-owned enterprises, and banks.

For a stock exchange:

- Measured changes in governance practices among listed companies over time;
- Created collaborative relationships between the stock exchange and listed companies;
- Created incentives to improve governance through competition between companies;
- Improved public awareness of corporate governance;
- Generated useful information for the stock exchange, regulators, and policymakers; and
- Enhanced the reputation of the stock exchange and the country as an investment destination.

For a regulator:

- Permitted verification of levels of implementation of national code as well as legal compliance;
- Provided indications of the effectiveness of codes and the degree of implementation of company law;
- Permitted identification of governance practices where companies are relatively strong or weak;
- Generated data on governance practices over time, thus permitting the identification of trends; and
- Forced companies to conduct rigorous self-checking of their governance practices.

Scorecards benefit different users

"There has been strong interest in governance scorecards from many different users, including regulators, companies, investors, students, and researchers."

- Nguyet Anh Nguyen, Operations Officer
Vietnam Corporate Governance Project, Vietnam

Table 2.2: Different Users of Scorecards

Who can use a scorecard?	What can a scorecard help achieve?
Companies, company boards, individual board members, and executives	• Conduct self-assessments or facilitated self-assessments and receive support through consultants • Improve governance practices • Improve board function • Improve company reputation in the markets and among shareholders • Help report to regulators and stock exchanges
Membership organizations such as institutes of directors, chambers of commerce, or business associations	• Encourage better governance practices among companies/members • Assess the status of governance practices within a country • Raise public awareness of governance issues • Educate companies and the public on the impact of governance practices
Self-regulatory organizations such as stock exchanges, as well as regulators and government institutions	• Assess and encourage compliance with codes and basic elements of company law • Create incentives for better governance • Improve the function of the capital markets • Gather information to guide the development of law and codes and improve the regulatory framework • Develop market indicators/investment indexes • Provide a basis for companies to report on their governance • Enhance the reputation of the country's capital market
Development finance institutions, including IFC	• Encourage the development of sound capital markets • Provide knowledge transfer to local counterparts on how to conduct scorecard evaluations • Raise awareness of the importance of governance
Banks and other lenders	• Supplement bank credit-review and credit-approval processes with assessments of governance • Make better lending decisions through better risk assessment
Academia	• Provide the basis for academic research

This introduction has defined some basic terms and concepts that are used throughout the supplement. One additional term that needs definition is ***scorecard project.*** A scorecard is not just a simple assessment of company practices or the filling in of a questionnaire. What is involved is a multifaceted, multiplayer project designed to create incentives, change practices, and develop new attitudes toward governance.

3. How to Use This Supplement

The main body of the supplement (Section 4) is a step-by-step process that describes how to build a scorecard. The remaining sections provide a discussion of outcomes, cases, and a variety of models, tools, and cross-references to make the supplement practical and easy to use. Also each section is in a different color in order to make it easier to use.

Below are the main sections of the supplement:

Section 4, "The Process Step-by-Step," begins with establishing the objectives of a scorecard project and ends with the development of final reports.

Section 5, "Measurable Outcomes," describes results. This section covers four case studies that relate outcomes from the perspectives of 5.1) a company; 5.2) a chamber of commerce; 5.3) an institute of directors; and 5.4) a stock exchange.

Section 6, "Building on Scorecards," contains a discussion of follow-on projects and what happens after a scorecard project is completed.

Section 7, "Annexes," contains 7.1) sample indicators; 7.2–7.4) model scorecards; 7.5) a feedback form; and 7.6) references.

Section 8, "Cross-References," helps you identify existing scorecard projects and locate 8.1) takeaway points and a discussion of scorecards by 8.2) the type of theme or issue, 8.3) the type of scorecard user, or 8.4) country or region. For example, you can use the cross-references to find a discussion on how to choose benchmarks, examples of scorecard projects implemented by a stock exchange, or examples of scorecards in Asia. This section also includes indexes of 8.5) figures and 8.6) tables.

4. The Process Step-by-Step

This section describes how to conduct a scorecard project. It presents a standardized process based on the experience of a number of countries. Any potential initiators or owners of a scorecard project will need to adapt this process to respond to their local context and meet their local needs. (See Figure 4.1.)

Figure 4.1: Steps in Conducting a Scorecard Project

Steps

1. Establish clear and realistic goals for the project

2. Recruit the institutions to lead and implement the project

- Find the project owner
- Engage key stakeholders

3. Develop the scorecard

- Draft a delivery plan
- Choose the benchmark
- Develop the scorecard structure
- Select the platform
- Solicit stakeholder feedback
- Pilot test the scorecard

4. Conduct the scorings

- Engage early adopters
- Promote the scorecard broadly
- Conduct the scoring

5. Summarize and present the results

Measurable Outcomes

These steps lead to outcomes. The concrete results of scorecard projects are summarized in Table 2.1, above, and are described in further detail in the case studies in Section 5, "Measurable outcomes," on page 50.

4.1 Establish clear and realistic goals for the project

Environmental assessment

Before beginning a scorecard project, there needs to be a brief in-country environmental assessment. This assessment can be informal, but it should cover any and all factors that might influence the scorecard and its acceptance by stakeholders:

- Legal traditions that affect governance practices;
- Strengths and weaknesses of the corporate governance framework;
- Strengths and weakness of governance practices among companies;
- Company attitudes toward compliance with the law versus codes of best practice;
- Company willingness to participate and open itself up to examination;
- The powers, capacity, and willingness of regulators;
- Oversight activities and powers of stock exchanges, and so on.

The environmental assessment will help identify potential stakeholders in a scorecard project, define partners, and predict the level of company cooperation. The environmental assessment also provides the context needed to set clear and realistic goals and establish the scorecard approach. (See Example 4.1.)

Eurasia Corporate Governance Codes and Scorecards Regional Workshop, Baku, 2011

Example 4.1:
Initial Environmental Assessments Help Determine the Approach

A successful scorecard project was undertaken in Vietnam, despite significant challenges.

Initially, neither companies nor regulators attributed much importance to corporate governance. Companies were not concerned with governance, despite existing laws and regulations, and were reluctant to participate in a scorecard assessment.

As a result, the project took the approach of not expecting strong company engagement or relying on voluntary company involvement. The project made corporate governance assessments from the perspective of an independent external investor using publicly available information. Scorings could thus be done without the active collaboration of the company.

Under these circumstances, companies were engaged at the end of the scorecard review. Having concrete scorecard results on hand then served to raise interest among companies and regulators.

An initial environmental assessment paves the way for setting clear and realistic goals. Having clear goals upfront helps guide decisions down the line. Different institutions will have different goals and will pursue different approaches.

The objectives of regulators

Regulators want to know how effective their regulations and oversight are. They will want to use the scorecard project to refine their regulations and codes and to develop techniques for enhancing compliance. Regulators may also be quite interested in legal compliance in contrast to the penetration of voluntary codes. Working directly with companies is not typically in regulators' remit and may not figure prominently in their objectives.

The objectives of stock exchanges

Stock exchanges are also concerned with compliance but tend to place more emphasis on encouraging companies to improve their governance practices. Since companies may also be considered the clients of a stock exchange, stock exchanges are also concerned about how companies will react to scorings and how scorecards add value to enterprises.

A stock exchange will typically work closely with companies and may include awareness-raising and training exercises as part of a scorecard project. The ultimate goal for a stock exchange is to show investors as well as potential listings that the stock exchange is a high-quality venue for share trading. (See Example 4.2.)

Example 4.2:
Stock Exchange Objectives

Experience in Bosnia and Herzegovina had shown that implementing governance codes is difficult when incentives for good governance are missing. Despite legal requirements for companies to adopt their own governance codes, few if any economic incentives existed for them to comply. As in many developing and transition economies where bank lending is the traditional source of finance, the cost of equity capital was not a compelling argument.

Another major problem was that "comply or explain" was an unfamiliar technique for implementing codes; it had no history within the local regulatory culture, which was without the accompanying market mechanisms that generally exist in more developed markets to support/monitor adherence to code recommendations. Voluntary approaches and disclosure-based regulation were unfamiliar concepts. In fact, the expectation that the markets would encourage better governance practices simply through disclosure was not borne out.

(Continued on page 10)

Scorecards help regulators refine their governance framework

"In Vietnam, the scorecard findings pinpointed regulatory weaknesses and helped the securities regulator make the case for corporate governance reform to line ministries. This resulted in a review of the Corporate Governance Guidance and of the Securities Law."

- Anne Molyneux, Director, CS International

(Continued from page 9)

Example 4.2: Stock Exchange Objectives

In the face of these challenges, the Banja Luka Stock Exchange[a] sought to enhance the image of the local equity market and attract foreign portfolio investment, thinking that the quality of the governance of listed companies would crucially determine its image. Investors appreciated well-governed companies and saw them as having less risk. Similarly, an exchange with sound rules—and listings that complied with these rules—would benefit from a superior reputation.

The rules were all in place in Banja Luka, but the exchange needed to enhance practice. The implication was a hands-on approach. Stock exchange staff visited companies to explain the benefits of good governance, conducted seminars and training, and provided direct feedback to companies on how to improve their practices.

Since change requires time, Banja Luka conceived its scorecard as a long-term project, scoring companies repeatedly over a four-year period. Still ongoing, each iteration has resulted in improved understanding and an incremental improvement in governance practices.

a. See http://www.blberza.com

Objectives of chambers of commerce, industry associations, and institutes of directors

The principal mandate of chambers of commerce, industry associations, and institutes of directors is to provide value-adding services to their members. Meeting member needs comes first. The positive systemic effects of good governance are secondary outcomes. Membership organizations often focus on operational outcomes of good governance that companies find useful. These outcomes typically include:

- Better strategy and more professional business practices;
- Better policies, procedures, and documentation;
- Stronger control environment and reduced operational risk;
- Improved relations with stakeholders; and
- Compliance with legal and reporting requirements.

These topics are of great practical interest, particularly to smaller companies that lack the resources to implement sophisticated governance systems. (See Example 4.3.)

Example 4.3: Membership Organization Objectives

Confecámaras (La Confederación Colombiana de Cámaras de Comercio)[a] is a network of city chambers of commerce in Colombia. Confecámaras is the main force promoting good governance in the country. The distinguishing characteristics of its scorecard project are:

- Focus on closely held and family-owned businesses;
- Use of paid consultants to advise companies;
- Web-based scorecard technology;
- Self-administered scoring and/or assisted scoring;
- Innovative marketing campaign; and
- Wide-reaching scoring of over 335 companies.

The goals of Confecámaras focus tightly on generating benefits for its members:

- Making members more competitive;
- Enhancing member operating and financial performance;
- Professionalizing management and operations through better governance;
- Providing easier and cheaper access to credit;
- Preparing for listing and enhancing reputation in the equity markets;
- Improving relations with shareholders and helping resolve ownership conflicts;
- Improving relations with suppliers and clients; and
- Providing members with valuable tools to improve the value of their business.

Confecámaras used the local small and family-owned businesses code (Guidance for Closely Held and Family Businesses)[b] as the basis for scorings. The code perfectly matched the profile of most of its membership.

Confecámaras was also keenly aware of the need to create incentives to participate. It designed the scorecard to make the scoring as user-friendly as possible. Online tools made it easy for companies to conduct self-assessments, and consultants were available to assist those that needed help.

Additional incentives were provided. Sixty consultants were trained to help companies develop policies and procedures. With a grant from Switzerland's SECO (State Secretariat for Economic Affairs)[c] economic cooperation program, Confecámaras made financial

(Continued on page 11)

(Continued from page 10)

Example 4.3: Membership Organziation Objectives

contributions to companies to offset up to 50 percent of consulting fees (up to approximately $430) for the first 100 companies that requested support.

a. See: http://www.confecamaras.org.co/ (in Spanish).

b. Guía Colombiana de Gobierno Corporativo para Sociedades Cerradas y de Familia. See: http://www.supersociedades.gov.co/web/documentos/guia%20colombiana%20de%20gobierno%20corporativo.pdf.

c. SECO, the Swiss government's center of expertise for core issues relating to economic policy, has programs to facilitate the integration of developing and transition economies into the world economy and reduce economic disparities.

www.seco-cooperation.admin.ch/index.html?lang=en.

Regional integration

In some cases scorecards are used to promote regional integration. European transition economies, for example, often use scorecards to track the degree to which their governance practices approach European Union practices. In Asia, the ASEAN (Association of Southeast Asian Nations) finance ministers endorsed the ASEAN Capital Markets Forum (ACMF) plan to promote the development of an integrated capital market through the use of an ASEAN scorecard.[7] (See Example 4.4.)

Development finance institution objectives

The goals of DFIs tend to be broader than those of local stakeholders. Often the goal is to strengthen local institutions, with a much longer-term goal of creating a vibrant capital market. DFIs will typically want to work with local partners to achieve these goals. Their overriding objective is to create local capacity and transfer knowledge and responsibility to local institutions so that scorecards and programs to improve governance become iterative and self-sustaining.

Example 4.4: Scorecards to Promote Regional Integration

The ASEAN Capital Markets Forum (ACMF) has developed and implemented a regional scorecard based on the *OECD Principles* and other international standards of corporate governance. Six countries (Thailand, the Philippines, Malaysia, Singapore, Indonesia, and Vietnam) were actively involved in the development of the ASEAN scorecard. The initiative is intended to:

- Raise corporate governance standards and practices of ASEAN companies and establish common measures in the implementation of corporate governance by publicly listed companies among the six member countries.
- Showcase and enhance visibility and investability of well-covered ASEAN publicly listed companies.
- Complement other ACMF initiatives and promote ASEAN as an asset class.

The use of the ASEAN scorecards is open to other ASEAN member countries. However, the adoption of the scorecards depends on the degree of readiness of participating countries, especially with young capital markets.

Red flags and caveats

Finally, there is a role for the development of some "red flags" (early warning of a danger or a problem) and caveats that may alert scorecard project initiators to potential difficulties or less-than-optimal outcomes. Examples are:

- **Unrealistic expectations:** Expectations about what a scorecard can achieve are unclear or unrealistic. Scorecards should not be relied on as the only tool available to reform governance practices. They are

Scorecards should be iterative and self-sustaining

"I would emphasize the importance of sustainability. It may be easy to initiate a scorecard, but it will be up to the owner to keep the spirit alive, which means a long-term vision."

- Thierry Buchs, Head, Economic Cooperation Programme in Colombia SECO, Colombia

[7] The ASEAN Scorecard is among a number of major regional initiatives under the ASEAN Capital Markets Forum, aimed at raising Corporate Governance standards and practices. For more details, see http://www.theacmf.org/ACMF/upload/asean_cg_scorecard.pdf. The ASEAN CG Scorecard assessed companies in six countries, based only on published annual reports.

not a cure-all. Scorecards should be part of a larger strategy for governance reform that includes diverse institutions using a variety of approaches and tools and more effective enforcement mechanisms.

- **Lack of commitment and participation:** There is insufficient or less than wholehearted local commitment and participation, especially from key regulators or companies. The local environment may not have been closely scrutinized for its suitability.
- **Lack of ownership:** No owner has been identified for the scorecard. Identification of an owner at the outset is essential if the scorecard project is to succeed and be sustained. The participation of a committed local owner is vital to generate value from a scorecard project.
- **Limited access:** There is a problem with access to scorecard results. Access is a key incentive for companies to participate. Scorecard data should be readily available to participating companies.

4.2 Recruit the institutions to lead and implement the project

The following two steps have as their objective finding strong leadership for the scorecard project and engaging key stakeholders.

4.2.1 Find the project owner

The main role of the *owner* is to exercise leadership. Finding a suitable owner to spearhead and lead a scorecard project is critical. The *owner* could be any number of institutions. However, in most cases it will be one of the following:

- Stock exchange;
- Securities exchange commission/capital markets regulator;
- Institute of directors;
- Chamber of commerce or business association; or
- Banking regulator.

While the leading institution is clearly of great importance, leadership is ultimately an individual quality. Finding a committed individual who understands the need for good governance and the benefits of a scorecard project will have greater implications for success than the choice of institution. A good leader should have a deep interest in achieving outcomes, the capacity to influence others, and the ability to muster resources. (See Example 4.5.)

TAKE AWAY

Goal Setting

1. Scorecard projects should not be launched without clear and realistic goals. Many operational decisions will rely on a clear initial statement of goals. Some questions that need to be answered are:

a. Who should lead the project (be the owner), and what are the interests and contributions of other stakeholders?

b. What is the primary outcome for different institutions? Compliance checking? Improvement of governance practices? Other?

c. Is a scorecard the best tool for achieving the desired outcome?

d. What types of enterprises are to be scored, and why?

2. The initial goals should be captured in writing. The goals can be set down in a simple memorandum of intent. This can be complemented and completed later by a delivery plan that provides greater detail. (See Section 4.3.1, "Draft a delivery plan," on page17)

3. An initial environmental assessment is helpful. The environmental assessment helps set realistic goals, define approaches, and avoid potential pitfalls.

4. Be aware of potential "red flags" and caveats—circumstances that may endanger the success of a scorecard project.

The need for a committed owner

"Without a committed and engaged institutional owner in the scorecard project, interest in the scorecard may lapse and reduce the overall impact of the program."

- Anne Molyneux, Director, CS International

Example 4.5:
Who Initiates the Project? Who Owns It?

The roles of *initiator* and the *owner* of a scorecard are defined under "Who can use a scorecard" on page 4. The initiating institution varies from one scorecard project to the next. In Colombia, for example, SECO acted as the initiator. It provided guidance and resources to Confecámaras (a local business chamber), which was the owner of the scorecard project.

In the Philippines, the scorecard was the brainchild of the Philippine Institute of Corporate Directors (ICD).[a] Led by its chief executive, the ICD was initiator and owner of three scorecard projects: one for listed companies, another for state-owned enterprises, and one for banks.

Similarly, in Indonesia, the Indonesian Institute for Corporate Directorship[b] took a lead in initiating corporate governance scorecards designed to strengthen corporate governance practices in publicly listed firms and generate recommendations to regulators to strengthen the regulatory framework.

A regional network of institutes of directors was an important *initiator* and *owner* of scorecard projects in East Asia. IDEA.net (Institutes of Directors in East Asia) worked to implement scorecards in Indonesia, Malaysia, the Philippines, Singapore, and Thailand.

In Vietnam, IFC initially acted as an *initiator* and *owner* of a scorecard project that resulted in a sophisticated analysis of the governance practices of the country's largest 100 listed companies. IFC expects local institutions to take over ownership of the scorecard project later.

Sometimes leadership comes from an unexpected source. In Trinidad and Tobago, the head of Syntegra Change Architects,[c] a small consultancy dedicated to sustainable development, was an important source of inspiration for the Energy Chamber of Trinidad and Tobago to conduct a scorecard project for its members.

In summary, no country's experience is exactly like another's. Different constellations of project initiators and owners can work. What is the same is that successful programs have good leaders.

a. See http://www.icdcenter.org/.
b. See http://www.iicd.or.id/.
c. See http://syntegrachange.com/.

Development finance institutions are often catalysts for change and initiators of a scorecard project. DFIs should be alert to the potential of scorecards to help them achieve their country goals. Where a scorecard project is called for—particularly in countries with young equity markets where code compliance has been shown to be a problem—DFIs should contact key stakeholders to explore whether a scorecard may help them achieve their goals. The initial contact should include discussion of the following issues:

- What a scorecard project is;
- The broad goals of a scorecard project;
- How a scorecard project might help meet the specific

TAKE AWAY

Ownership

1. **It is important to understand the different goals and roles of the *initiator*, the *owner*, and the *beneficiary*.**

2. **Finding the right individuals and/or institutions to own and lead is the key to success.** It is the most important task that a scorecard *initiator* will undertake.

3. **Individuals can be more important than institutions.** Even if the right institutions are involved, it is difficult to develop and implement a scorecard without committed individuals.

4. **Local institutions are best suited to do the job.** Leadership and ownership of the scorecard needs to be local. Local institutions understand the local situation best and are best placed to explain and implement a scorecard.

5. **Local capacity building is an important objective.** Working with and relying on local institutions is important, because a key goal is to develop local capacity and expertise in governance.

6. **DFIs can play a key supporting role.** Some have experience in governance reforms and can act as an *initiator* of a scorecard project and a source of continuing support.

The importance of engaging stakeholders

"Stakeholder management is probably the most important dimension of scorecard development, so as to reach acceptability, credibility, and sustainability. A sound engagement process determines whether you achieve your goals."

- Thierry Buchs, Head, Economic Cooperation Programme in ColOmbia
SECO, Colombia

needs of various stakeholders;

- How responsibilities are shared with other stakeholders;
- The role of the DFI in supporting the project; and
- Practical issues, including commitment of personnel and time as well as costs.

When meeting with stakeholders, the goal of DFIs will be both to inform and to assess the degree to which different stakeholder organizations are willing and able to act as owners. Section 2, "Introduction," of this supplement provides all of the information necessary to inform such a discussion.

4.2.2 Engage key stakeholders

Key stakeholders

Once the project owner has been identified, key stakeholders need to be engaged. Key stakeholders might include:

- Companies;
- Institutes of directors;
- Chambers of commerce, trade associations, or business associations;
- Stock exchanges;
- Professional associations, including associations of accountants, auditors, corporate lawyers, bankers, or company secretaries;
- Investor or shareholder associations;
- Stock market and/or securities regulators;
- An economics ministry or department of commerce;
- A central bank; and
- Universities.

Involving and engaging stakeholders is not just being polite. Stakeholders help make things happen. Failing to engage stakeholders means wasting the potential contributions of other institutions, including their goodwill and resources. At worst, an absence of proper stakeholder engagement can result in active opposition to a scorecard project.

Example 4.6:
Ensuring Stakeholder Engagement through a Code-Drafting Group

In Azerbaijan, the scorecard was based on the Azerbaijani National Corporate Governance Standards, which were developed by a national corporate governance taskforce. This taskforce included the central bank, the State Committee for Securities, the Ministry of Justice, the Ministry of Finance, Azerbaijan Investment Company (a sovereign investment fund), and the Baku Stock Exchange. It was led by the Corporate Governance Division of the Ministry of Economic Development.

Similarly, in Bulgaria the key stakeholders had already come together to develop the national code of corporate governance. The Bulgarian code was developed by a taskforce comprising the Bulgarian Stock Exchange-Sofia, the Financial Supervision Commission, business representatives, governmental and civil society organizations, and academia. Eventually, the taskforce formalized itself and became the National Corporate Governance Commission (NCGC), an independent body under the patronage of the Bulgarian Stock Exchange and the Financial Supervision Commission. The NCGC became the moving force behind the Bulgarian scorecard.

Developing a stakeholder strategy

Not all of the stakeholders listed above need to be actively involved in a scorecard project. The IFC *Toolkit 2: Developing Corporate Governance Codes of Best Practice*[8] contains strategies for how to manage stakeholder engagement. On the simplest level, Toolkit 2 suggests that stakeholders need to be assessed and divided into three broad categories,

[8] *IFC Toolkit 2: Developing Corporate Governance Codes of Best Practice,* Volume 2, pages 31–48. http://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/global+corporate+governance+forum/publications/toolkits+and+manuals/toolkit2_codes_of_best_practice.

depending on the degree to which they need to be engaged. The three levels of stakeholders are those that need to be:

1. Informed;
2. Consulted; or
3. Involved.

The same approach should be used for the scorecard project itself: assess the situation to ascertain which stakeholders are critical for success, then decide on the appropriate level of engagement. A number of different stakeholder engagement strategies are described below.

Stakeholder engagement through an existing code-drafting group

Scorecards often will use the local corporate governance code as their benchmark. Where there is a local governance code, there will also have been a code-drafting group, which may be an ideal forum for interacting with stakeholders. Its members will likely include all the key stakeholders needed for a scorecard project. Also these stakeholders will already be well-informed regarding the importance of corporate governance and will have a demonstrated commitment to governance reform. (See Example 4.6 on page 14.)

In summary, code-drafting committees are invariably interested in encouraging code compliance. They are an existing and tested forum that can bring committed stakeholders to the table.

Public-private stakeholder partnerships

In many countries, scorecard projects are conducted by private sector bodies such as an institute of directors or a chamber of commerce. Such membership bodies typically have limited powers and often experience difficulty in getting their members to participate in a scorecard assessment. Many membership bodies have thus decided to work with regulators and stock exchanges to ensure the success of their scorecard. (See Example 4.7.)

The example shows how different stakeholders contribute to a scorecard project and how the group of key stakeholders depends on local circumstances. The example also shows the challenges facing purely voluntary scorecards. A combination of regulatory authority and private initiative may be necessary to achieve success.

In the end, each country requires a stakeholder strategy

Example 4.7:
Public-Private Stakeholder Partnerships

The Philippine Institute of Corporate Directors had as its objective encouraging better code compliance. However, it recognized that its ability to encourage compliance was limited, since it was a private membership organization without enforcement powers. Between 2006 and 2007, only 49 companies out of 200 decided to voluntarily submit to scoring.

The ICD addressed this limitation by building a consortium of institutions with complementary characteristics. The core stakeholders were the Philippine Stock Exchange (PSE), the Securities and Exchange Commission (SEC) and the Ateneo Law School. Each stakeholder brought attributes that contributed to the successful outcome of the scorecard.

ICD contributed its expertise in governance. It had a strong understanding of governance issues and, above all, had a clear vision and proven leadership skills. These characteristics complemented those of the stock exchange, which had the power to force disclosure. In a memorandum of agreement between ICD, the PSE, and the SEC, the PSE required listed companies to conduct self-assessments of their governance using the ICD scorecard.

Though the PSE could demand disclosure, it was not the ultimate source of accountability. Under the memorandum of agreement, scorecards were to be formally reported to the SEC. The SEC had been reticent to use the substantive regulatory tools at its disposal and wanted to pursue a private sector-driven oversight. In addition to its disclosure requirement, the SEC contributed its governance manual, the equivalent of a governance code, which was to influence the design of the scorecard.

Two more stakeholders were to join the group. When it was shown that self-assessments were not fully unbiased, verification was introduced. Law students from the Ateneo Law School conducted the verifications. The law students brought educated manpower. By the fifth iteration of the scorecard, over 200 companies participated, demonstrating a consistent improvement of scores over time.

Targeted engagement of regulators can contribute to success

"There is a strong positive correlation between highly regulated industries or sectors and the quality of corporate governance implementation. This finding suggests that the absence of the regulator as a key stakeholder will discourage firms from using the scorecard."

- James Simanjuntak, Board of Trustees Member, Indonesian Institute for Corporate Directorship, Indonesia

TAKE AWAY

Stakeholder Engagement

1. Working together increases the likelihood of success. *IFC Toolkit 2*: Developing Corporate Governance Codes of Best Practice, Volume 2, contains a detailed discussion of stakeholder management. The toolkit should be consulted.

2. Stakeholders bring expertise and support and reduce the costs that are borne by any one institution.

3. Involving key stakeholders is necessary to:

- **a.** Remove potential barriers;
- **b.** Access additional financial and human resources and expertise;
- **c.** Develop a fuller understanding of the governance challenges;
- **d.** Educate influential stakeholders and decision makers on the benefits of good governance;
- **e.** Prepare the way for subsequent action by involving key decision makers; and
- **f.** Avoid overlapping initiatives.

4. Consulting and working with stakeholders yields longer-term benefits, even if it takes time and effort.

5. Consulting and working with stakeholders is transparent and fair.

6. A stakeholder strategy helps. It is important to define which stakeholders need to be a) involved, b) consulted, or c) informed. At the same time, one size does not fit all: every stakeholder engagement process is different.

that is adapted to the local environment. In some countries, regulatory involvement will be the key to success. In others, a chamber of commerce may be perfectly capable of achieving its objectives on its own. Broad stakeholder engagement is generally advisable for the sake of transparency. However, it is important to strike the correct balance between *informing*, *consulting*, and *involving*, based on the local context.

ADDITIONAL RESOURCES:
Stakeholder Engagement

IFC 2005. *Toolkit 2: Developing Corporate Governance Codes of Best Practice.* Vol. 2 (Process), Module 3: 31–38. Detailed description of how to assess the contribution of various stakeholders and develop an engagement strategy, plus detailed insight into the process of establishing and managing a code-drafting group. http://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/global+corporate+governance+forum/publications/toolkits+and+manuals/toolkit2_codes_of_best_practice.

IFC and SECO. 2005. Bank Corporate Governance in Azerbaijan, Survey Results. Baku, Azerbaijan. http://www1.ifc.org/wps/wcm/connect/0a2d23004ad2fac88dedbdb94e6f4d75/bank%2B_en_web.pdf?MOD=AJPERES&CACHEID=0a2d23004ad2fac88dedbdb94e6f4d75.

IFC and SECO. 2005. Company Corporate Governance in Azerbaijan, Survey Results. Baku, Azerbaijan. http://www1.ifc.org/wps/wcm/connect/ff0bde804ad2fb2b8f7dbfb94e6f4d75/company_en_web.pdf?MOD=AJPERES&CACHEID=ff0bde804ad2fb2b8f7dbfb94e6f4d75.

4.3 Develop the scorecard

The development of a scorecard involves answering a number of questions and making a number of choices. These choices need to be coherent and, as far as possible, consistently and objectively applied. For this reason, it is important for the key stakeholders to discuss the alternatives and develop a plan.

4.3.1 Draft a delivery plan

The delivery plan can be basic, but it should specify the desired outcomes and how they will be achieved. Table 4.1 provides a list of questions to answer in developing the plan.

Each of these questions is discussed in this section and other parts of the supplement. Other significant questions may arise. It is important to write down the answers and their justification for future reference. They can be captured in the form of a meeting summary, a memorandum of understanding, or more formal terms of reference. It may eventually be necessary to deviate from the plan. However, it is always better to modify an existing plan based on changing circumstances than it is to proceed on an ad hoc basis.

4.3.2 Choose the benchmark

The purpose of a scorecard is to measure the observance of a code of corporate governance. Therefore, it is necessary to choose an appropriate benchmark.

Table 4.1: Key Questions to be Answered in the Plan

Key Questions	Alternatives
1. What are the desired outcomes?	Discussion of outcomes should be part of the process of initiating the project. They should be formally agreed and written down. See Section 2, "Introduction," and Section 4.1, "Establish clear and realistic goals for the project."
2. What kinds of companies do you plan to focus on?	The usual choice is either listed companies or closely held and family-owned businesses. Less common subjects are banks and state-owned enterprises—though the potential interest in scoring is arguably equal or higher.
3. What code or standard do you want to help implement?	This question is inextricably bound up with the prior question. The type of company will determine the chosen code and define the benchmark. See Section 4.3.2, "Choose the benchmark."
4. What is the best platform to administer the scoring?	The alternatives: a) text questionnaire; b) computer spreadsheet; or c) Web-based application. See Section 4.3.4, "Select the platform."
5. What financial and human resources are needed and available?	The financial requirements of scorecard projects need not be large. Staff time and expertise tend to be the main constraints. Stakeholders may provide *pro bono* support.
6. What is the best structure for the scorecard?	Avoid getting into excessive detail with the scorecard design at the planning stage. Nevertheless, some basic questions should be discussed, including a) how to deal with scoring legal versus code compliance; b) the degree to which the scorecard must follow the local code; c) how much the scorecard can interpret or adapt the local code; and d) the level of synthesis versus detail in the scorecard.
7. How should you test and refine the scorecard before using it?	Testing of the scorecard can be in the form of a) feedback from stakeholders; b) pilot testing by companies; c) feedback from international experts; or d) all of the above. See Section 4.3.5, "Solicit stakeholder feedback," and Section 4.3.6, "Pilot test the scorecard."

(Continued on page 18)

(Continued from page 17)

Table 4.1: Key Questions to be Answered in the Plan

Key Questions	Alternatives
8. How can companies be encouraged to participate, and how should the scorecard project be promoted?	Getting companies to participate is often the greatest challenge. Participation can be mandatory or voluntary. Where it is voluntary, pay particular attention to how to create incentives. See Section 4.4.1, "Engage early adopters," and Section 4.4.2, "Promote the scorecard broadly."
9. Who fills in the scorecard?	The alternatives: a) self-administered scoring; b) self-administered scoring with external assistance; or c) full external scoring. See Section 4.4.3, "Conduct the scoring."
10. What kind of reports are to be generated?	The type of report that is generated depends on the goals initially set for the project. Review various types of reports to decide how final reports should look. See Section 4.5, "Summarize and present the results."
11. Who has access to the raw data and final reports?	Circulation of reports depends on project goals. The alternatives are circulation to a) the company only; b) the company and key stakeholders; c) regulators; or d) full public disclosure. Full public disclosure is discouraged in the short run. Companies are more inclined to reply honestly if they know they will not suffer public embarrassment. The benefits of public disclosure may come later, when companies are more comfortable with the idea and want to be able to compare themselves with their peers.
12. How frequently should scorings be repeated?	Scorings can be one-off exercises when the purpose is to take a snapshot of the current governance environment. Iterations permit tracking of change over time and allow companies to learn and evolve.

National benchmarks

In most countries, a code of corporate governance exists that can serve as a benchmark.[9] Generally, such codes are aimed at listed companies. Fewer codes of governance have been written for closely held businesses, family firms, banks, or state-owned enterprises (SOEs).[10]

International benchmarks

Where there is no local code of governance, scorecards may use an international code of corporate governance as their benchmark. A commonly used international benchmark for listed companies is the *OECD Principles of Corporate Governance*.[11] Many scorecards draw on the *OECD Principles*, including Azerbaijan, Kazakhstan, the Philippines, Trinidad and Tobago, and Vietnam. OECD also has published *Guidelines on the Governance of State-Owned Enterprises*, which serves as a benchmark for SOEs. The European Confederation of Directors' Associations (ecoDa) has produced regional guidance for unlisted companies.[12] The *ecoDa Guidance* is important, because small and family enterprises represent the preponderance of economic activity in most economies.[13]

Sector-specific and function-specific benchmarks

Codes may also be sector-specific. At the time of writing, Afghanistan, Georgia, Indonesia, Italy, Jordan, the Netherlands, Nigeria, Qatar, and Singapore, among others, had developed codes for banks. A scorecard was developed for banks in the Philippines, and bank scorecards were being developed in Afghanistan and Georgia, based on central

[9] The most complete and up-to-date listing of codes at the time of writing was available on the website of the European Corporate Governance Institute (ECGI): http://www.ecgi.org/codes/index.php. Other benchmarks are listed in the "Additional resources" at the end of this section.

[10] Examples of closely held company codes exist in Albania, Belgium, Colombia, Finland, Egypt, Lebanon, Spain, and the United Kingdom. Egypt and Morocco have developed codes for state-owned enterprises.

[11] The Organisation for Economic Co-operation and Development is a Paris-based forum for governments to exchange views on and promote effective economic and social policy.

[12] The European Confederation of Directors' Associations is a not-for-profit European membership organization of institutes of directors.

[13] Though European in scope, the *ecoDa Guidance* is relevant for other countries as well.

Benchmarking unlisted companies

"The *ecoDa Guidance* responds to the need for governance norms and policies in large and small unlisted companies. Unlisted companies want to know how well they comply with best practice. Unfortunately, most don't. Scorecards help companies see how well they stack up."

- Patrick Zurstrassen, Chairman, European Confederation of Directors' Associations (ecoDa), Brussels, PSAG Member

bank requirements. The Basel Committee is an authoritative international source on bank governance and an obvious source of bank benchmarks. Codes also exist on investment funds, other financial intermediaries, and even service providers such as audit firms. (See Example 4.8.)

Function-specific refers to key governance-related functions. For example, disclosure and transparency are key governance functions. UNCTAD[14] has scored companies on their compliance with its *Guidance on Good Practices in Corporate Governance Disclosure*. Other function-specific codes exist on audit committees, internal controls, non-executive directors, and remuneration.

Function-specific codes are useful for filling in gaps in governance codes. For example, governance codes often suggest that companies have an internal audit function but do not typically provide any indication of how to ascertain whether an adequate internal audit function exists. In this case, function-specific codes can help develop relevant indicators and make the scoring more meaningful. IFC has used the standards of the Institute of Internal Auditors[15] (which provides best practices for the organization of the internal audit and other control functions) to elucidate the general requirements of governance codes.

In principle, any type of enterprise in any sector can be subject to scoring. Even specific governance functions, such as financial reporting or controls, can be scored. Where national benchmarks are missing, international benchmarks can be used. But even where high-quality international codes and standards are available, the best benchmark for a scorecard is, in principle, a national code. This is because one of the main purposes of a scorecard is to help strengthen the local

Example 4.8:
A Benchmark for Banks, Composed of Banking Regulation and Best Practice

In early April 2013, a large German bank, which provides correspondent bank services to Afghan banks, informed the Afghan banks that it would no longer be able to offer correspondent bank services for U.S. dollar transactions after June 30, 2013. The Afghanistan Banks Association (ABA) asked the USAID (United States Agency for International Development) FAIDA (Financial Access for Investing in the Development of Afghanistan) program whether it could bring in a private sector specialist to specify what correspondent banks are looking for—regarding banking standards and bank corporate governance practices—from prospective correspondee banks.

Afghanistan has a regulation on corporate governance for banks but does not have a governance code for banks. Instead of creating a new one, the ABA established a working group that used the regulation on corporate governance as a base and added provisions to it based on international best practice. The added provisions came from the Basel Committee's *Principles for Enhancing Corporate Governance*. The result was the Corporate Governance Code for ABA-member banks—a combination of legal requirements and best practice that was in line with current international requirements.

This benchmark was then used for declarations of compliance to the central bank and as the basis for the Afghanistan Bank Corporate Governance Scorecard, which in turn helped Afghan banks meet the requisite international requirements.

[14] The United Nations Conference on Trade and Development is the principal organ of the United Nations General Assembly dealing with trade, investment, and development issues.

[15] The Institute of Internal Auditors (IIA) is an international professional association of internal auditors. It produces a variety of guidance and standards on internal auditing, risk management, governance, internal control, information technology audit, education, and security.

governance framework and lend legitimacy to and encourage compliance with the national code.

Missing benchmarks

At times, there is no local code of governance that is a suitable benchmark. In the absence of a local code, a sound strategy is to benchmark against a recognized international code. (See Example 4.9.)

Weak benchmarks

Sometimes a national code of corporate governance exists but is too weak to serve as the benchmark. Such a code may be incomplete or may conflict with other codes and legislation. The question then arises whether the benchmark can be used at all or whether it needs to be revised first. Results of a scorecard project based on a flawed benchmark can have dubious utility and may damage the credibility of governance reform efforts. It appears that a precondition for the success of any scorecard project is a code or benchmark of acceptable quality.

In a perfect world, a country would set down basic corporate governance requirements in company law. A strong code of corporate governance would then describe best

Example 4.9:
Using an International Benchmark When There Is No Local Code

In early 2012, Trinidad and Tobago did not have a governance code of its own that could serve as a benchmark. Yet the Energy Chamber of Commerce of Trinidad and Tobago[a] wanted to conduct a scoring of its members to ascertain the quality of their governance practices.

A number of alternative benchmarks were considered. One was the governance code of Jamaica, an island country of somewhat similar size and with a similar legal tradition. Another was the U.K. Code of Corporate Governance, which was very advanced and had the advantage of coming from a country on which Trinidad and Tobago had based its legal system. Another option was the *OECD Principles of Corporate Governance*, which represented an international consensus on governance practices. The work of the International Corporate Governance Network was also considered.

The Energy Chamber faced another problem in selecting a benchmark: its own diverse membership base. The Energy Chamber's membership had a significant number of listed companies and even state-owned enterprises. But most chamber members were family businesses. As a consequence, no single code could serve as a benchmark to evaluate the governance practices of all.

In the end, the chamber decided to create a scorecard composed of three different codes. The composite benchmark was then modified to come up with three variants of the main scorecard. The *OECD Principles* were used mainly for the composite benchmark and for listed companies, *ecoDa Guidance* was used for closely held companies, and the *OECD Guidelines for SOEs* for state-owned enterprises.

Similarly in Vietnam, IFC conducted a scoring based on the *OECD Principles*. In Azerbaijan, the local code was considered insufficient and was supplemented by the *OECD Principles*.

a. For information on the Energy Chamber, including its work on corporate governance and corporate social responsibility, see http://www.energy.tt/#.

The tortoise and the hare (understanding limitations within the local environment)

"In some markets it is safer to go very slow, acknowledge weaknesses in the existing code, allow for the new code to be developed through a proper consultative process, leave time for testing it, and then engage in developing the scorecard. The process must not be imposed from the outside, as this will yield only temporary and superficial results. Local institutions must be owners of the product to ensure its full implementation and acceptance."

- Merima Zupcevic Buzadzic, IFC Operations Officer
Corporate Governance, Europe and Central Asia

practice that goes beyond these legal requirements. This code would serve as the benchmark for a scorecard project designed to measure corporate governance practices. In reality, finding an appropriate benchmark can be much more challenging. (See Example 4.10.)

Even though weak benchmarks should raise concerns about the viability of a scorecard, the perfect can be the enemy of good; even if a code is not perfect there is often value in getting a scorecard started. The challenge is in deciding what represents "acceptable quality" for a code. The scorecard project stakeholders will need to decide whether the flaws in the local code are so great that the benchmark cannot be used or if contradictions between the code and law are so large as to make scoring impractical.

The use of the law as a benchmark

An important issue is whether the law (company or banking law) can be the benchmark for a scorecard. Consider the following questions:

1. *Is it appropriate to focus governance reform efforts on encouraging observance of a governance code of best practice when compliance with basic elements of company law is a bigger problem?*

   The answer should emerge from the environmental analysis that precedes a scorecard project. See Section 4.1, "Establish clear and realistic goals for the project." Typically, when law and compliance are severely lacking, reform efforts should first focus on encouraging basic legal compliance.

2. *Can legal compliance be part of a scorecard that is, in principle, designed to measure adherence to voluntary best practice?*

   Most governance codes repeat key requirements of company law. A scorecard thus typically mixes mandatory and voluntary indicators, with the result that the objectives of the scorecard (legal compliance versus encouraging best practice) may become unclear. Therefore, scoring code observance may by definition mean checking legal compliance.

3. *How do you design a scorecard when both legal requirements and best practice are combined in a single code?*

   Where legal requirements and best practices are combined, scorecards should either have separate sections for each or clearly mark which indicators are legally required and which are voluntary. This will allow for a clear distinction between legal compliance and code observance for analytical purposes and when developing reports.

In practice, it may be hard to focus a scorecard exclusively on best-practice requirements. Many codes have been drafted in such a manner as to combine both legal requirements and best practice. Furthermore, certain stakeholders—regulators in particular—are keenly interested in ascertaining whether companies comply with the basics. The solution is to clearly distinguish between the two, both in scorecards and in the reports that are generated from scorings. (See Example 4.11 on page 22.)

It is not unusual for scorecards to measure compliance with the law. In fact, it is often a key goal of stakeholders—regulators in particular. Using scorecards to check compliance with basic elements of company law was an explicit goal in Azerbaijan, Colombia, Serbia, and Trinidad and Tobago.

A special case is the benchmarking of corporate governance in the banking sector. Banking is a heavily regulated sector because of concerns for systemic stability. Moreover, regulatory supervision tends to cover bank governance in addition to bank operations. Example 4.12 (on page 22) includes an illustration of the Afghan Bank Corporate Governance Scorecard, which contains both mandatory and voluntary provisions.

Example 4.10:
Dealing with Gaps in the Code and the Law

In Nigeria, the logical code on which to build a scorecard would have been that of the Securities Commission.[a] However, the code had gotten ahead of the law, and there were conflicts between the mandatory and voluntary provisions of the law and the code. The key question the Nigerian experience raised was whether underlying legislation needed to be revised before a scorecard could be done.

In Moldova, the development of a scorecard was not considered possible because of the quality of the benchmark code. The existing code is currently being revised and may become the basis for a scorecard project in the future.

a. For the Securities Commission Code of Corporate Governance for Public Companies in Nigeria, see www.sec.gov.ng

Example 4.11: Measuring Legal Compliance versus Observance of Best Practice

In addition to tracking voluntary best practice, the Palestinian Scorecard of Corporate Governance Standards for Listed Companies measures compliance with mandatory governance provisions.

The scorecard clearly distinguishes between mandatory (M) and optional (O) provisions of the code. The summary reports generated by the scorecard also differentiate between compliance with mandatory versus voluntary indicators.

	Criteria:	Answers: Yes	Partially	No	Weight	Weight/ Score
	II. Shareholder Rights and Stakeholder Relations		**Weight:**			**15%**
M	II 1. Are shareholders and/or proxies given adequate notice (within a maximum of 14 days) of shareholders' meeting along with items of agenda and meeting by direct mail/email and newspaper advertisement (within a maximum of 7 days)?				5%	0.00%
M	II 2. Do shareholders who hold 15% or more of the company have the right to call for an extraordinary public assembly meeting?				5%	0.00%
O	II 3. Does the invitation to the shareholders clearly stipulate the right of shareholders who own in aggregate 10% or more to add items on the agenda of the public assembly meeting?				5%	0.00%
O	II 4. Does the company provide the right for minority shareholders who hold 10% of the company to elect a representative on the board?				5%	0.00%

Source: Palestinian Capital Market Authority.

Example 4.12: Legal Compliance and Best Practice Combined in a Bank Scorecard

In Afghanistan, to restore lost correspondent banking relationships with foreign banks, one of the measures implemented by the Afghanistan Banks Association is to strengthen corporate governance practices among its member banks. The ABA and Da Afghanistan Bank (DAB, the central bank) worked together to strengthen bank governance by developing a benchmark composed both of legal requirements and best-practice provisions. (See Example 4.8 on page 19.)

The scorecard was loosely modeled on the Philippine bank scorecard of 2009, used color coding, and clearly distinguished between mandatory requirements and voluntary (desirable) practices.

The scorecard also generated reports that distinguished between regulatory compliance and observance of voluntary practices. DAB plans to require banks to submit the scorecard as part of its regular supervision, starting in 2014. A delay in introducing the scorecard was intended to allow banks sufficient time to come into legal compliance and have the opportunity to score at least 70 percent on the scorecard, which corresponds to the score if a bank complies fully with the law.

Governance Scorecard for ABA-member Banks

SNo		Survey questions	Inadequate	Adequate	Exceeded	Mandatory or Desirable	Weight	Status	Score	Remarks
Part 1. Evidence of the Bank's Commitment to Good Governance										
I		Does the bank have a BOS-approved Corporate Governance Policy that guides conformance with the Corporate Governance (CG) Code for ABA-member banks? *(BOS-approval of a CG Policy indicates that the bank accepts the importance of good CG: to provide a basis for its future development and corporate performance, to support trust in its activities as a recipient of depositors' funds and shareholders' capital, and to enable it to contribute to the successful development of the banking system of Afghanistan and the efficiency of the national economy.)*	No, or if yes, then it doesn't conform to all provisions of the CG Code for ABA-member banks	Yes, conforms to all provisions of the CG Code for ABA-member banks	Yes, both CG Manual and CG Policy	D	2%	Exceeded	200%	In draft at present, but Bank's governing documents sets these out.
	A	Does the bank have someone identified to lead annual review of the bank's CG Policy and assess compliance with its provisions?	No	Yes, but it is one of many of the person's responsibilities	Yes, and this is the person's primary responsibility	D	2%	Adequate	200%	

Source: Afghanistan Banks Association .

TAKE AWAY

Choosing the Benchmark

1. Scorecards are used principally to benchmark performance against codes. Most countries now have at least one code of corporate governance, and many have multiple codes.

2. Companies with different ownership structures have different benchmarks. Most governance codes are addressed to listed companies. However, there are also codes that can serve as a benchmark for SOEs and closely held firms and family businesses.

3. Sector-specific codes also exist. The main sector-specific governance codes are for financial services companies, including the banking industry, investment fund managers, private equity and sovereign wealth funds, and insurance.

4. There are also function-specific codes and standards (for example, audit committees, internal audit, disclosure, or remuneration). They generally serve to add needed detail. Scorecards may draw on function-specific codes when the national code lacks detail or is largely principles-based.

5. A local code is often the best benchmark. One of the key objectives of a scorecard project is to encourage use of the local code. Feedback from a scorecard provides valuable information on the quality of the local code and its contribution to the local corporate governance framework.

6. International codes can provide a suitable benchmark where no local code exists. A number of international codes and standards can serve as potential benchmarks.

7. Scorecards should clearly distinguish between compliance with mandatory legal provisions and observance of voluntary best practice. In principle, scorecards are designed to benchmark observance of voluntary best practice, not legal compliance. But in fact, corporate governance codes often combine voluntary and mandatory provisions. Certain stakeholders—in particular regulators and central banks—are keenly interested in benchmarking basic legal compliance.

ADDITIONAL RESOURCES:
National and International Codes That Can Serve as Benchmarks

For the most extensive listing of national and international codes: European Corporate Governance Institute (ECGI): http://www.ecgi.org/codes/index.php.

A regional code for unlisted companies: European Confederation of Directors' Associations (ecoDa) *Corporate Governance Guidance and Principles for Unlisted Companies in Europe*: http://www.ecoda.org/Publications.html.

Widely recognized global standards: *OECD Principles of Corporate Governance*: http://www.oecd.org/corporate/oecdprinciplesofcorporategovernance.htm.

Perspective of large international investors: International Corporate Governance Network (ICGN) *Global Corporate Governance Principles*: https://www.icgn.org/.

International benchmark on the governance of state-owned enterprises: *OECD Guidelines on the Corporate Governance of State-Owned Enterprises*: http://www.oecd.org/corporate/ca/corporategovernanceofstate-ownedenterprises/oecdguidelines oncorporategovernanceofstate-ownedenterprises.htm.

Function-specific benchmark focusing on governance disclosure, try the United Nations Conference on Trade and Development (UNCTAD) *Guidance on Good Practices in Corporate Governance Disclosure:* http://unctad.org/en/Pages/DIAE/ISAR/Corporate-Governance-Disclosure.aspx.

International standards of internal control: Committee of Sponsoring Organizations of the Treadway Commission (COSO): http://www.coso.org/.

International standards on internal audit: Institute of Internal Auditors (IIA) website: https://na.theiia.org/Pages/IIAHome.aspx.

International guidance on bank governance: Basel Committee work on Banking Supervision (1999–2006) *Enhancing Corporate Governance for Banking Organisations:* http://www.bis.org/press/p060213.htm and http://www.bis.org/publ/bcbs122.htm.

For the Basel Committee's 2010 pronouncement, see the Basel Committee on Banking Supervision *Principles for Enhancing Corporate Governance 2010*: http://www.bis.org/publ/bcbs176.htm.

The importance of a well-structured scorecard

"A well-structured governance scorecard is an important piece of governance transparency. Its concise criteria provide relevant information that can be readily compared, making it an effective tool for all stakeholders to assess companies' fulfillment of best practice."

- Christian Strenger, Academic Director, Center for Corporate Governance HHL Leipzig Graduate School of Management, Deputy Chairman PSAG

4.3.3 Develop the scorecard structure

After the benchmark has been identified, the structure of the scorecard needs to be developed. The structure needs to emulate the structure of the code, provide a comprehensive picture of governance practices, and generate a numerical score. The following basic tasks in developing the scorecard structure are discussed below:

1. Agree on broad indicator categories;
2. Select and adapt specific indicators;
3. Set the performance scale;
4. Decide whether weightings are needed; and if so,
5. Select weightings.

1. Agree on broad indicator categories.

In most cases the benchmark will be the national code of corporate governance. This code will likely describe best practice in corporate governance in listed companies. The general categories in a listed company code most often are as follows:

- Shareholders rights;
- Minority shareholder protection;
- The board of directors;
- Transparency and disclosure;
- The control environment; and
- Stakeholders.

Codes from different countries will combine or order these categories in different ways. In some cases, shareholder rights and minority shareholder protection may be combined. Similarly, transparency and disclosure may be combined with the control environment. A significant number of codes do not cover the role of stakeholders in corporate governance. Others add the concept of commitment to good governance practices. Whatever the specific breakdown, the underlying governance principles are the same.

Example 4.13:

The Use and Adaptation of Indicators from the *OECD Principles*

Vietnam undertook a scoring of its listed enterprises in 2010 (based on 2009 data), 2011 and 2012. The structure of the Vietnamese scorecard mirrored the indicator categories of the *OECD Principles*:

- The rights of shareholders;
- Equitable treatment of shareholders;
- Rights of stakeholders;
- Disclosure and transparency; and
- Responsibilities of the board.

However, the individual indicators needed to be adapted to better fit the Vietnamese context. Detail was added to guide raters on how to apply the OECD's general principles to the reality and the specifics of Vietnamese enterprises.

Another use of the *OECD Principles* comes from the Philippines, where the Institute of Corporate Directors scored local banks between 2003 and 2004. The structure of the bank scorecard drew mainly on the board practices section of the *OECD Principles*:[a]

- The board;
- The chairman of the board;
- Members of the board;
- Board meetings;
- Board committees and board issues.

a. It is worth noting that the OECD Principles are not specifically designed to address bank governance. They are addressed principally to governments to guide them on how to structure their legal and regulatory framework and not first and foremost as a tool to assess companies. The use of the extensive pronouncements of the Basel Committee on bank governance may have served as a useful supplement to the generic OECD benchmark.

The distinct governance challenges faced by different enterprise types are reflected in the detail of their respective codes and scorecards. For example, a key governance challenge for family-owned enterprises is establishing clear distinctions between the economic rights of family members as shareholders versus their rights to direct and manage the family enterprise. For SOEs, important issues are political influence over board members and CEOs, as well as board empowerment and autonomy. For banks, governance practices that have an impact on risk and systemic stability are of overriding concern.

Irrespective of the nature of the code, the scorecard should use the same categories as the code and should be structured in the same way in order to draw better conclusions about code observance. (See Example 4.13 on page 24.)

Indicator categories permit scorecard users to identify areas in which the company's governance is strong or weak. For example, a scorecard may show that a company is strong in board practices but weak in disclosure. Reporting governance performance based on categories allows the scorecard user to quickly target indicator categories that require attention. Once the general indicator categories are identified, scores on individual indicators provide direction on the specific areas that require reform.

2. Select and adapt specific indicators:

Benchmark codes do not automatically generate useable indicators. It is almost always necessary to:

- Focus on the critical recommendations of the code;
- Identify which indicators are good for these critical recommendations;
- Shorten and simplify the language used in the code; and
- Add some explanatory detail to clarify the indicator and help the user of the scorecard understand the intent of the code's recommendations.

Example 4.14 shows specific indicators under the category of Transparency and Disclosure. Each indicator is subject to evaluation and receives a numerical score, which will be used in the calculation of a final aggregate score that combines the scores of the indicator categories.

Example 4.14:

Transparency and Disclosure Indicators in a Spreadsheet-based Scorecard

		Answers (1)			Standard weighting (2)	Percentage (3)= (1)x(2)
		1	0.5	0		
		Yes	Partly	No		
C/L/BP	4. Transparency and Disclosure					
4.1.	The Company discloses immediately to the Stock Exchange and on the website of the Company any new information.					
4.2.	The Company discloses in timely manner and fully all material information related to: a) overall company objectives and objectives on the upcoming period; b) information on certified auditors; c) material risk factors; d) related party transactions; e) major transactions; f) changes in the share capital and in the results of the Company in the reporting period.					
4.3.	The Annual Report of the Company contains the gender, age, profession, data on fees and salaries and other rights arising from employment agreements, citizenship, date of initial appointment and his/her current term of individual members of the Board of Directors and data on his/her membership in other Boards of other legal entities which are relevant to the performance of the individual members of the Board of Directors.					
4.4.	The Annual Report contains information on the remuneration paid to current individual members of the Board of Direcctors.					
4.5.	The Company has adopted an internal act that ensures a regular, timely, and equitable dissemination of information to all shareholders and the public at large.					

Source: FYR Macedonian Scorecard.

Making use of code-drafting groups

"Include people who were originally involved in the development of the code. They can communicate the original drafters' intent and help ensure that the spirit of the original code is respected."

- Ralitza Germanova, Associate Operations Officer, IFC Corporate Governance Group

Selecting good indicators involves identifying the key recommendations of the code. It requires the ability to discern between what is truly fundamental and what is not. Once the key recommendations are identified, they need to be pared down to their essence. Paring down code recommendations requires strong reasoning and drafting skills.

At the same time, many codes are principles based and do not provide indicators that are useful for measuring benchmarking. For example, a code may suggest that a board have the capacity for independent judgment and decision making. Yet it may not offer any details about how to achieve this. Thus scorecard developers often need to add indicators that help the user of the scorecard provide a response.

In this example, indicators for independent judgment might be the percentage of independent board members, examples of board discussions in which management or a chairman were challenged, or instances where outside directors were able to raise new issues. Such detailed indicators are useful to illustrate how a principle is implemented in practice. Detail is also useful to make the scorecard more understandable and usable.

Adapting the scorecard is necessary. But some adaptations need to be avoided. Sometimes scorecard developers add or remove indicators, based on their personal preferences. Not infrequently, the role of stakeholders in governance is removed. In other cases new requirements are added. Modifications, when taken too far, can mean that the

Example 4.15:
Assigning Scores to Indicators, Based on a Qualitative Difference in Performance

In Colombia, the points awarded for each indicator correspond to a level of performance in Deming's cycle—a four-step process used by businesses for the control and improvement of processes and products. Deming's cycle seeks to identify the degree to which processes are self-sustaining and ensure continual improvement. The cycle is a persistently recurring succession of:

- **(P) P**lanning;
- **(D) D**oing (implementation);
- **(C) C**hecking; and
- **(A) A**ction in response to checking.

Colombian companies thus receive what is referred to as a PDCA score. Companies that have no implementation receive a numerical score of 1. Companies that have some level of implementation receive a 2. Companies that have formalized documentation for a governance

1 **There is no implementation**

2 **There is some implementation**

3 **Policy implementation is supported by documentation**

4 **Tracking and evaluation of implementation**

5 **There is a cycle of continuing improvement after checking**

Source: Confecámaras.

practice receive a 3. Companies that regularly track performance receive a 4, and companies that repeatedly act on the results of checking receive the highest score.

This scoring technique is different from a normal performance scale. The approach does not measure more or less implementation. Rather, it seeks to measure qualitative differences that make good governance a continual and self-correcting process.

scorecard no longer measures adherence to the benchmark but rather to a new standard that corresponds to the views of the scorecard developer. Additions and subtractions should elucidate but not modify the benchmark code.

Developers often try to make scorecards as objective as possible. Frequently they do so by trying to find quantifiable indicators. Where quantifiable indicators are available, they should be used. However, it is important to distinguish between what is *measurable* and what *matters.* The adage, "you manage what you measure," may be true, but not everything that is quantifiable is relevant. Furthermore, more is not always better. It is far from certain whether a board with 50 percent independent directors is any better than a board with only 35 percent independent directors.

In the end, the assessment of the quality of any company's governance practices will contain subjective elements. It is better to recognize and accept a certain level of subjectivity in assessments than to assume that what is measurable is automatically a good indicator. The principal goal of scorecards is to alert the user and the company to gaps in compliance—that is, a particular governance practice exists or does not exist. Thus a simple "yes" or "no" response to a question is not only plausible but also useful.

A list of potential indicators based on the *OECD Principles* is included in Annex 7.1, "Sample indicators." Additional sample indicators appear in Annexes 7.2–4.

3. Set the performance scale.

A choice needs to be made regarding the points awarded for different responses. The scorecard illustrated in Example 4.14 (page 25) awards 1 point for complete fulfillment of an indicator. Nonfulfillment yields 0 points, and partial fulfillment yields 0.5 points. A simple yes-or-no response is also possible. Alternatively, if the scorecard is able to describe different gradations in governance, and if the individuals who are filling in the scorecards are able to distinguish meaningfully between different levels of performance, a 1–5 point scale may be more appropriate. Indeed, scorings have been done on a 1–10 scale.

Introducing gradations may appear to give a scorecard more accuracy. However, the use of more gradations requires a much higher level of sophistication in scorecard design, because it requires developing intermediate indicators. It also requires a great deal of sophistication and judgment in conducting the assessments. An example of a sophisticated performance assessment approach with five levels of gradation is shown in Example 4.15 on page 26.

4. Decide whether weightings are needed.

It needs to be decided whether to weight different indicators. The assignment of weightings to specific indicators and to indicator categories tends to be the part of scorecard design that provokes the most debate. Weightings elicit debate because the choice is ultimately subjective.

The assignment of weightings is an attempt to identify factors that have a greater impact on the governance of the enterprise and, in turn, on its riskiness and performance. It is commonly argued that a specific indicator (such as the presence of a strong internal audit function) reduces risk and is of greater importance than another indicator (such as whether the company has a dedicated corporate secretary to manage board affairs).

However, empirical studies have had a great deal of difficulty identifying which indicators correlate to risk and performance and, consequently, which should be weighted more or less. In addition, studies suggest that the relevance of indicators depends on a large number of additional factors, including the level of development of the legal framework, civil society institutions, and the market. (See "Additional resources: Papers that examine the link between indicators and performance," on page 29.)

Weightings are not, in fact, necessary to create a good scorecard. If the purpose of the scorecard is to serve as a compliance checklist, then the weightings are not important and can be equal (or neutral). A scorecard based on neutral weighting provides a very simple insight. It shows, for example, that Company A complies with 61 percent of a benchmark while Company B complies with only 20 percent. This information still has considerable value in evaluating and guiding enterprises—though it in no way purports to make a statement about performance or risk.

5. Select weightings (if they are needed).

If you decide to assign weightings, assign them based on the perceived relevance of the indicator. In Example 4.14, on page 25, the five indicators have different weightings, for a total potential score of 100 percent in the category of *transparency and disclosure*. Question 4.2, which demands timely and full disclosure of all material information, is considered the most important and is given the highest weighing at 35 percent. The presence of internal rules

Example 4.16:
Neutral Indicator Weightings Mixed with Weighted Indicator Categories

The scorecard that was conducted in Vietnam used a neutral or equal weighting for indicators but applied weightings to indicator categories. The total number of indicators and weightings by category are shown in the table below.

Indicator category	Number of indicators	% of total score	Contribution of each indicator to final score
The rights of shareholders	21	15%	0.7%
Equitable treatment of shareholders	18	20%	1.1%
Role of stakeholders in corporate governance	8	5%	0.6%
Disclosure and transparency	32	30%	0.9%
The responsibilities of the board	31	30%	1.0%
Total	110	100%	

Source: Vietnam Scorecard.

TAKE AWAY Developing the Scorecard

1. Governance codes tend to be the principal benchmark and source of indicators for scorecards.

2. To allow conclusions to be drawn about code observance, the scorecard needs to emulate the structure and content of the code.

3. A good scorecard will need to adapt the text of the code. Using and adapting codes to develop scorecards means a) identifying the critical recommendations of the code; b) selecting key indicators; c) restating the code recommendations clearly and concisely; and d) adding explanatory text when needed. Scorecards may require revision as codes change.

4. Adapting codes for use as scorecards requires skill. A strong knowledge of governance is required, as are excellent reasoning and drafting skills.

5. Deviations from the local code should be minimized. The more the scorecard deviates from the code, the less it is possible to use the findings as a measure of adherence to the local code. Additions and subtractions in the scorecard should serve to elucidate the intent of the original code.

6. It is best to start with a limited number of performance gradations. A large number of gradations can give a false sense of accuracy. "Yes," "no," and "partly" responses are easily filled in and are sufficient to permit solid analysis. Gradations measuring performance on a qualitative scale (such as the Deming cycle) result in a more sophisticated scorecard that may require more skill to complete.

7. Quantitative indicators are not necessarily better than qualitative indicators. Some level of subjectivity in a scorecard assessment needs to be accepted. Governance is an intangible quality that has resisted attempts at quantification.

8. You can choose to weight different indicators or not. Some scorecards try to associate the score with the quality of governance and, by extension, performance and risk. To do so they assign weights to indicators. The empirical evidence is mixed on the ability to correlate specific indicators to risk or performance. If the purpose of the scorecard is to measure code observance, then it is sufficient to simply count the number of indicators a company complies with.

ADDITIONAL RESOURCES:
Papers that examine the link between indicators and performance

Bhagat, S., and B. Black. 1999. The uncertain relationship between board composition and firm performance. *Business Lawyer* 54: 921–63.

Bhagat, S., and B. Black. 2001. The non-correlation between board independence and long-term firm performance. *Journal of Corporation Law* 27 (2): 231–74.

Black, B. 2001. The corporate governance behavior and market value of Russian firms. Working Paper No. 212, *Emerging Markets Review* 2.

Black, B., H. Jang, and W. Kim. 2006. Does corporate governance predict firms' market values? Evidence from Korea. *Journal of Law, Economics, and Organization* 22 (2): 366–413.

Black, B., I. Loveb, and A. Rachinsky. 2006. Corporate governance indices and firms' market values: Time series evidence from Russia. *Emerging Markets Review* (December) 7 (4): 361–79.

Chen, K., Z. Chen, and K. C. Wei. 2004. Disclosure, corporate governance, and the cost of equity capital in emerging markets. Working Paper No. 2004/05-13, Department of Accounting, Hong Kong University of Science and Technology.

Daines, R., I. Gow, and D. Larcker. 2009. Rating the ratings: How good are commercial governance ratings? Rock Center for Corporate Governance at Stanford University, Working Paper Series No. 1, Stanford University School of Law, Law & Economics Research Paper Series, Paper No. 360.

Dionne, G., and T. Triki. 2005. Risk management and corporate governance: The importance of independence and financial knowledge for the board and the audit committee. HEC Montreal, Working Paper No. 05-03.

Ertugrul, M., and S. Hegde. 2009. Corporate governance ratings and firm performance. *Financial Management* (Spring) 38 (1): 139–60.

Gugler, K., D. Mueller, and B. Yurtoglu. 2003. Corporate governance and the returns on investment. ECGI Finance Working Paper No. 06/2003.

Gupta, P., D. Kennedy, and S. Weaver. 2009. Corporate governance and firm value: Evidence from Canadian capital markets. *Corporate Ownership & Control* (Spring) 6 (3) 293–307.

Hitz, J-M., and N. Lehmann. 2012. The usefulness of corporate governance ratings. Faculty of Economic Sciences Georg-August-Universität Göttingen.

Renders, A., A. Gaeremynck, and P. Sercu. 2010. Corporate-governance ratings and company performance: A cross-European study. *Corporate Governance: An International Review* (March) 18 (2): 87–106.

that require fair disclosure to all shareholders is considered relatively less important and receives a weight of only 10 percent.

The value in the *Answers* column is multiplied by the weighting to calculate a point score for the indicator. In the example, partial fulfillment of any indicator would reduce by one-half the number of points awarded. The scorecard is completed for all of the indicators, thus permitting the calculation of a score by indicator category and an aggregate score for the company.

4.3.4 Select the platform

Scorecards are administered principally in three different forms: 1) *text documents* (paper questionnaires); 2) *spreadsheets*; and 3) *Web-based applications*. Table 4.2 (page 30) shows that each has advantages and disadvantages. Examples and illustrations of these three different platforms follow the table.

Text document scorecards

Scorecards that are in the form of printed questionnaires have the advantage of simplicity. They are a traditional data-collection method that everyone is familiar with. (See Example 4.17 on page 31.)

The ICD scorecard project placed importance on verification of the responses. It provided room for information sources as well as for clarifying remarks to justify the response. Scorecards in Indonesia and Thailand also used text documents.

Spreadsheet scorecards

Example 4.18 on page 31 shows the scorecard of the German Financial Analysis and Asset Management

Association (DVFA).[16] The DVFA scorecard served as a tool for measuring the level of compliance of German listed companies with the German Corporate Governance Code. It was the inspiration for many subsequent scorecard projects, in particular, those conducted in transition economies. The DVFA scorecard differs from the ICD scorecard by having additional columns that assign weightings to each indicator. The spreadsheet also automatically calculates a score, once an indicator has been evaluated and entered into the spreadsheet. This approach has the advantage of immediately summarizing the key governance characteristics of the company and highlighting areas that need attention. It can be used to provide immediate onsite feedback to companies.

Web-based scorecards

Example 4.19 (on page 32) shows a Web-based scorecard. Web-based scorecards are among the most user-friendly and have the most attractive user interface.

The Web scorecard functions as follows: The scorecard presents respondents with a first question. If the question is answered in the affirmative, a subsequent question is posed. If a respondent answers "no," the scorecard stops, assigns a score, and moves on to the next indicator topic.

The score is referred to as the "implementation level." Each implementation level corresponds to a qualitative

Table 4.2: Advantages and Disadvantages of Different Platforms

Scorecard	Advantages	Disadvantages
Text Document	• Sample scorecards are available for immediate adaptation and use • Does not require the responding company to input data into a computer • Some people, in particular top executives, feel more comfortable responding on paper rather than with technology	• Data need to be transferred into a computer database for calculation and analysis • Data transfer from paper to computer is an opportunity for errors • Respondents do not always answer the questions directly • Handwritten feedback may be difficult to read or interpret
Spreadsheet	• Sample spreadsheets are available for immediate adaptation and use • Spreadsheets are widely used tools • Inexpensive • Tool is highly portable on a laptop or a tablet • Can calculate results automatically	• Unattractive user interface • Spreadsheets are cumbersome for inexperienced users • Comparisons between multiple companies require additional data manipulation and analysis
Web-based	• Attractive user interface • Easy access for companies by simply providing a webpage link • Easy to use for most users • Allows high degree of control over responses (limiting responses to "yes" or "no" or by forcing choices) • Results are calculated at the moment data are entered • Analytical feedback can be provided to the user instantaneously • Comparison to a peer group can be provided instantly, if there has been a sufficient number of users	• Requires webpage • Webpage requires development of an underlying database • Fewer people have the skills needed to develop a Web-based survey application than a spreadsheet or a text questionnaire • May be more costly if a webpage designer is used • May be rigid and limit nuanced or qualitative responses

[16] The Deutsche Vereinigung für Finanzanalyse und Asset Management (DVFA) is a professional membership organization for investment professionals in Germany. For more information, see http://www.dvfa.de/home/dok/35613.php.

Example 4.17:
Text Documents as a Platform

This scorecard of the Philippine Institute of Corporate Directors (ICD) was administered as a text document. The section is reproduced below regards the Equitable Treatment of Shareholders. The questionnaire, given to companies to fill in as a self-assessment, was later checked for accuracy by Ateneo law students. Written feedback was subsequently put into a computer for analysis and definitive scoring.

Part II. EQUITABLE TREATMENT OF SHAREHOLDERS

ITEM	Survey Question	Self-Assessment Poor	Fair	Good	Information Source	Remarks
13	Does the company offer one-share-one-vote?			Yes	Articles of Incorporation and By-Laws	Both common and preferred shares have one-share-one-vote
14	Does the company have any mechanism that allows minority shareholders to influence board composition?			Yes	Articles of Incorporation and By-laws	
15	Has there been any case of insider trading involving company directors and management in the past two years?			No	SEC and/or PSE Records	The company offered its shares to the public and was listed at the PSE only on December 13, 2006.
16	Has the company established a system to prevent the use of material inside information and inform all employees, management, and board members of this system?			Yes	Internal memorandum circulated to all officers and employees of PNOC EDC (Annex J)	
17	Has there been any complaint/dispute/problem regarding related-party transaction in the past two years?			No	SEC and/or PSE Records	
18	Does the company have a policy that requires management to disclose related-party transactions?			Yes	Information statement	No related-party transactions, or if observed, company provides (1) name, (2) relationship, (3) policy, (4) value regarding related-party transactions

Source: Corporate Governance Scorecard for Publicly Listed Companies (Philippine Institute of Corporate Directors, 2007).

Example 4.18:
Spreadsheets as a Platform

The DVFA scorecard was developed on an Excel[a] spreadsheet. The structure of the scorecard is similar to that of the ICD scorecard in Example 4.17, though the DVFA scorecard asks for a yes-or-no response rather than assessing performance as poor, fair, or good. The part of the scorecard that is illustrated shows indicators under the category of *Reporting and Audit of Financial Statements*.

Scorecard for German Corporate Governance® (according to GCG-Code May 21, 2003) Company:

DVFA Evaluation Method based on the 'German Corporate Governance Code' Date:

DVFA Corporate Governance Working Group (Prof. Dr. Alexander Bassen (Speaker), Prof. Dr. Otto Loistl, Christian Strenger)

DVFA

Methodic Remarks:

Important basis is the official 'German Corporate Governance Code' in its current version (May 21, 2003).
References in brackets are printed in bold for 'Shall-Recommendations'. For 'Should-Suggestions', references in brackets are printed in italics.
The different criteria of the Scorecard refer to each chapter of the Code.
The degree of fulfilment of every single question is being determined by marking the applicable field in column (1).
Weighting of the questions: In addition to the Standard Weighting an Individual Weighting can be made in columns (3) and (5). The sum of the weightings of all points per criterion must add up to 100%.
Total Score: Summary of the results of the partial criteria shown on page 5.
Information Source: The respective source of every point should be indicated in column (6).

Partial Criterion	Fulfillment (1) 1 yes	0 no	Standard Weighting (2)	Individual Weighting (3)	No. Of Points (4) = (1) * (2) Standard Partial Score	No. Of Points (5) = (1) * (3) Individual Partial Score	Information Source (6)
I. Corporate Governance-Commitment (10%)					10%	10%	
1.1 Does the company have its own specific corporate governance principles based on the 'German Corporate Governance Code'?			20%		0.0%	0.0%	
1.2 Are these principles based on the Code easily available to all stakeholders (e.g. via internet) in an up-to-date version?			10%		0.0%	0.0%	
1.3 Do these company principles include an explicit commitment to adapt them to best practice developments of corporate governance?			15%		0.0%	0.0%	
1.4 Do the management and the supervisory board report annually about the company's governance?							
a) Is any non-compliance with the 'Shall-Recommendations' of the CGC-Code explained? **(3.10)**			10%		0.0%	0.0%	
b) Are the 'Should-Suggestions' commented? *(3.10 p.2)*			15%		0.0%	0.0%	
1.5 Is a sufficiently neutral corporate governance officer in charge of the implementation of the principles and the compliance with them?			15%		0.0%	0.0%	
1.6 Is the report of the corporate governance officer regularly discussed in the Supervisory Board?			15%		0.0%	0.0%	
			100%	0%	0%	0%	

Source: The DVFA Scorecard for German Corporate Governance.

a. Excel is a registered trademark associated with the Microsoft Office System.

improvement in governance practices. For example, a "yes" answer to Implementation Level 1 (complying with the legal baseline) generates a score of 1 point; Level 2 (understanding the need to professionalize governance) yields 2 points; Level 3 (significant concrete steps) yields 3 points; and Level 4 (advanced governance practice) yields 4 points. The approach is similar to that of the Colombian scorecard described in Example 4.15, on page 26.

Explanatory text helps the respondent fill in the scorecard properly. The webpage gives an explanation of the information that is required and the conditions that must be met in order to answer "yes." Such explanations also provide an opportunity to educate scorecard users on good governance practices, thus giving the webpage format a secondary educational and training benefit.

Example 4.19:
The Web as a Platform

The Energy Chamber of Trinidad and Tobago used this scorecard to evaluate the governance of its membership. The layout of the scorecard differs from the two previous examples. The illustration below is a screenshot of a webpage. The screen shot deals with one indicator: *the role of board members versus the role of executives in family businesses.* Performance is graded into four different implementation levels.

1. Roles

The board and management have distinct roles. There is a clear division of responsibilities between the decisions taken by the board and the running of the business.

The role of the board and the role of the executive are different. The core functions of the board are to communicate with the owners, to guide executives, and to monitor the performance of executives. The board adds value by testing the assumptions and the strategies of management, monitoring, and offering its advice to the executive on high level strategic issues. Management has an executive and operational function. Best practice boards do not become involved in management or micro-manage decisions.

1. Roles

Implementation level 1: Complying with the legal baseline

–> At least 2 Directors have been appointed

False

True

There are at least 2 Directors who direct the business and affairs of the company.

Implementation level 2: Understanding the need to professionalize corporate governance

–> The company has a formal schedule of matters reserved for board decisions.

False

True

Implementation level 3: Significant concrete steps

–> A formal family governance mechanism is established (e.g. family council, separate shaireholder agreement, or other written arrangements)

False

True

Implementation level 4: Advanced governance practice

–> The Board publishes a statement on its corporate governance practices in accordance with National or International Corporate Governance guidelines.

False

True

Board disclose the firm's corporate governance details so as to enable shareholders to form an opinion about how the firm's corporate governance compares to a consensus standard (national and international)

Source: Syntegra Change Architects

TAKE AWAY The Platform

1. The choice of platform depends on the time, financial, and human resources available. The choice also depends on the number of companies to be scored, the degree of interaction desired with the company, and the sophistication of companies.

2. A text questionnaire or spreadsheet is easy and simple. A text questionnaire is understood by everyone and is good for self-assessment.

3. Spreadsheet scorecards typically need to be administered to ensure proper data input and avoid accidental alterations to the spreadsheet. The fact that they need to be administered makes them a good choice when interaction is desired with the company.

4. A Web-based scorecard is well-suited to self-assessment. They are easy to fill in and provide instantaneous feedback. They also double as training tools. Web-based surveys require a bit of experience to develop. The Web is a good way to reach a large number of companies that may also be geographically distant.

ADDITIONAL RESOURCES: **Web-based Survey Tools**

Free or paid survey tools can be used to develop a scorecard. The choice will depend on the features required by the implementer of the scorecard project. Deciding which to use will require research. Below is a small selection of survey tools for consideration. A simple Web search will turn up more.

FreeOnLineSurveys: http://freeonlinesurveys.com/

Kwik Surveys: http://kwiksurveys.com/

LimeSurvey: http://www.limesurvey.org/

Pollmill: http://pollmill.com/

Survey Expression: http://www.surveyexpression.com/

SurveyMonkey: http://www.surveymonkey.com/

Web-based scoring is particularly well-suited to situations where companies are expected to assess themselves or where a large number of companies are to be surveyed. It is less suited to situations where an active dialogue with the company is desired, or where the purpose is to develop a subtle understanding of the company's governance practices.

A Web-based scorecard need not be more complex or expensive to develop than a spreadsheet; the Web scorecard of the Energy Chamber of Trinidad and Tobago was developed using a simple and relatively inexpensive Web-based tool called SurveyMonkey.[17] However, it does require human resources that are capable of understanding the basic characteristics of webpage and database design.

4.3.5 Solicit stakeholder feedback

Once a working version of the scorecard has been completed, it should be reviewed by key stakeholders. Stakeholder involvement and feedback can generate greater stakeholder "buy-in." In addition, soliciting stakeholder feedback ensures that the scorecard:

- Properly reflects the critical recommendations of the underlying code;
- Is clear, understandable, and easy to use;
- Is of a reasonable length (with sufficient indicators to reflect the code, but not so many as to make it unwieldy);
- Has weightings that have been properly considered;
- Is in a form (platform) that helps achieve the goals; and
- Is administered effectively.

Stakeholder feedback is typically received on two levels: 1) local feedback and 2) feedback by international experts. Local stakeholders are well-suited to provide insight into local conditions and the particularities that influence the design of the scorecard. Their input keeps the scorecard relevant and alerts developers to potential pitfalls.

Experienced international experts are also available to provide feedback and advice on scorecards. International feedback is particularly useful when the benchmark code is international and for clarifying the intent of international codes of best practice. It also helps ensure that the scorecard benefits from the latest thinking on good governance practices. (See Example 4.20 on page 34.)

[17] SurveyMonkey is a registered trademark of the company by the same name.

Stakeholder feedback helps ensure proper scorecard design

"Poor stakeholder feedback may lead to poor design of the scorecard, unnecessary indicators, redundant questions, or indicators that are not realistic. Without company feedback, the benefit of the scorecard may become questionable."

- James Simanjuntak, Board Trustee Member, Indonesian Institute for Corporate Directorship

TAKE AWAY

Stakeholder Feedback

1. Gather stakeholder feedback. Stakeholder feedback improves the scorecard, promotes the program, and provides legitimacy. Gathering and responding to stakeholder feedback helps avoid potential pitfalls. Think of it as both good quality control and risk management.

2. Feedback from local stakeholders is critical. Feedback should be sought from the key stakeholders but, in particular, from companies.

3. International feedback is useful when the underlying code is international. It is also useful when local experience and expertise are limited, and to keep the scorecard up-to-date with international developments. Some foreign experts have considerable experience in administering scorecards.

4.3.6 Pilot test the scorecard

Pilot testing is not always needed. Some countries take an "external investor perspective" in their scorings. This means that companies are externally assessed based on publicly available information. Companies do not actually fill in the scorecards, and consequently the user-friendliness of the scorecard is less important. The external investor perspective was used originally in the Philippines, has been used in Vietnam, and is planned in Mongolia.

Where companies are expected to actively collaborate in a scoring, pilot testing provides important feedback on the user-friendliness and understandability of the scorecard. Pilot testing was conducted in Afghanistan (for the Bank Corporate Governance Code), in Vietnam, and in other countries. For a sample form you can use to assess the scorecard and the scorecard process, see Annex 7.5, "Sample pilot test and company feedback form."

Example 4.20:
Gathering Stakeholder Feedback

To provide additional legitimacy to scorecards in Azerbaijan, FYR Macedonia, Montenegro, and Serbia, drafts were discussed by local stakeholders, including regulators, businesses, and academics. Stakeholder review was informal yet effective. Very welcome was the involvement of securities and exchange commissions that provided fine tuning and moral support for the development and use of the tool.

IFC has also organized feedback on scorecards from its network of international experts. With the help of IFC, countries benefited from the advice of experts from the Finnish Professional Board Members Association, ecoDa, and members of the Bulgarian Corporate Governance Commission as well as many others. These experts provided advice on the content of scorecards as well as on the process by which they were administered.

In Azerbaijan, stakeholder feedback came from members of the national Corporate Governance Taskforce, which included the central bank, the State Committee for Securities, the Ministry of Justice, the Ministry of Finance, Azerbaijan Investment Company (a sovereign investment fund), and the Baku Stock Exchange. In addition, IFC coordinated a panel of international experts, mainly from its Private Sector Advisory Group, to provide an international perspective.

TAKE AWAY Pilot Testing

1. Pilot testing a scorecard can reveal problems early on. Test runs are advisable when companies are expected to self-assess or contribute to an assisted self-assessment. Pilot testing helps ensure that the scorecard works and that company concerns are understood and addressed. It is also a way to demonstrate the value of scorings and get additional companies to buy into the program.

2. The "external investor" approach to scorecards reduces the need for pilot testing. The external investor approach does not rely on the company to participate in the assessment. Engagement with companies is pursued in a subsequent phase, once the scorecard results have been gathered.

4.4 Conduct the scorings

Companies can be convinced to participate in a scorecard project in a number of ways. Mandatory participation is often viewed as an effective approach. Participation of listed companies was made mandatory in the Philippines, where a Securities Exchange Commission requirement was important in overcoming initial reticence among companies to conduct self-assessments. Where companies are assessed externally, based on publicly available information, there is little need to engage them, since they will be assessed whether they want to be scored or not.

4.4.1 Engage early adopters

Participation is voluntary for some scorecards. The new Kazakhstan Stock Exchange scorecard, for example, is a voluntary self-assessment tool. For companies to participate voluntarily, they need to be convinced of the benefits of a scorecard project. If there has been proper stakeholder engagement from the beginning, the business community will be more likely to support the scorecard. Even so, companies in all countries tend to be wary of rules, regulations, scorecards, and even voluntary codes, as these are often viewed as harbingers of future regulatory intrusions. So a first task is to overcome such fears. (See Example 4.21.)

For companies to voluntarily participate in a scorecard, they need a credible answer to the question, "What's in it for me?" The promised benefits cannot be theoretical. In many countries, the traditional rationale for good governance—access to capital or lower cost of capital—is a meager incentive. This is especially true in emerging markets and late transition economies, where companies have traditionally met their capital needs through banks and continue to view banks as a preferred source of finance.

Nor is it sufficient to promote a scorecard project based on benefits that accrue broadly to the country, such as strengthening the capital markets. These goals are often championed by international financial organizations or donors that pursue macroeconomic objectives. Companies need to be shown how they will benefit directly.

What's in it for me? The following benefits may appear self-evident to governance experts. But in practice they must be explained.

For all companies:

- Reducing internal risk through a tighter control environment
- Reducing legal risk through better systems of compliance
- Improving and making operational decision making more rigorous
- Improving shareholder relations
- Enhancing company reputation among clients

Example 4.21:
Corporate Fears

In Indonesia, corporate fears were overcome by providing training to and hosting discussions with boards of directors. Board members had the opportunity to ask questions and raise specific doubts regarding corporate governance principles and the administration of the scorecard.

In the Balkan region, companies wanted to understand why they should be subject to a scorecard assessment. Some were concerned that the scorecard was a regulatory requirement in disguise and were afraid that stock exchanges and regulators would use the results against them. Others felt that the scorecard was an unreliable tool, since corporate governance was an intangible value that could not be measured. Others questioned why a scorecard was necessary on top of the national governance code. Each of these arguments against scorecards had to be addressed and rebutted.

- Improving capacity to sell products, both at home and abroad
- Improving board relations and board productivity
- Introducing better policies and procedures, including board procedures

For listed companies:

- Enhancing company reputation in the markets
- Improving communication with shareholders
- Improving systems and processes for financial reporting and disclosure

For family businesses:

- Avoiding or managing family conflicts
- Helping the company through its growth phase
- Professionalizing management
- Preparing for expanded ownership base and new capital investment

For SOEs—from the state's (owner's) perspective:

- Greater ease and efficiency of oversight
- Reducing financial and political risk to the state
- Improving clarity and definition of both policy and commercial objectives
- Improving accountability

Example 4.22:

Incentives for a Small Listed Company

Galenika Fitofarmacija,[a] a small company in the Republic of Serbia, is listed on the Belgrade Stock Exchange. It conducted a scoring that eventually led to a profound improvement in governance practices. Notwithstanding the company's satisfaction with the final results, its initial reaction was skepticism. The argument that it would benefit from easier and cheaper access to capital did not convince Galenika Fitofarmacija, because the company was in no need of cash.

Other factors persuaded Galenika Fitofarmacija to participate. For instance, the project might potentially be useful in enhancing the company's image and improving relations with minority shareholders with whom there had been occasional conflict. The role of the local chamber of commerce was also key. Galenika Fitofarmacija had always had excellent relations with the chamber and wanted to assist it in its new scorecard initiative. Also, IFC brought technical expertise and manpower to conduct the assessment, giving the company confidence that the scoring would be completed professionally, successfully, and at low or no cost.

a. A more detailed case study of Galenika Fitofarmacija appears in Section 5.1, "Measurable outcomes: Company."

For SOEs—from the perspective of the SOE:

- Reducing political intervention
- Improving clarity and definition of both policy and commercial objectives
- Greater attention to commercial objectives and better understanding of costs of policy objectives
- Enhancing efficiency

For financial institutions:

- Complying with regulation and international standards
- Enhancing and broadening the spectrum of risk management
- Meeting expectations and needs of partners
- Creating better systemic stability

TAKE AWAY

Engaging Companies

1. Regulators can make a scorecard assessment mandatory. Mandatory approaches to governance assessment are rarely used in developed markets but may fit the business culture of many emerging and transition economies.

2. An external assessment that takes the "investor's perspective" and uses publicly available information does not require the same level of company buy-in or engagement. However, ex post engagement is necessary to implement reform.

3. Where participation is voluntary, companies need to be shown tangible benefits. Scorecard organizers need to understand and convincingly communicate the positive outcomes that accrue to business. Using success stories to illustrate benefits is smart.

4. Company feedback and engagement must be sought actively. Companies should be informed and consulted at early stages of a scorecard project to ensure that they understand the benefits, that their fears are assuaged, and that legitimate concerns are met. Company participation is more likely to be forthcoming if the scorecard is designed to be a useful tool to help companies achieve their objectives.

5. Early adopters provide leadership. In all things, there are early adopters and followers. Early adopters can be trendsetters. Winning the participation of corporate leaders can convince others to follow.

Often the understanding of governance among companies is such that it is hard for them to make the link between their governance practices and their day-to-day problems—even when their problems are either due to or exacerbated by governance failures. Generally, a constructive, open, and proactive discussion with individual companies serves to illustrate how better governance practices help them better navigate their daily challenges. (See Example 4.22 on page 36.)

4.4.2 Promote the scorecard broadly

Broad promotion of the scorecard is different from engaging companies as discussed in Section 4.4.1, "Engage early adopters," above. Engagement provides substantive reasons for participating in a scorecard project. Substantive reasons are good, but not good enough to get a large number of companies to participate. Promotion focuses on getting the message out to a larger number of potential participants. Promotion uses tools such as seminars, press events, advertising, launch events, and competitions to motivate participation. All are designed to raise awareness of the scorecard project and to educate companies and the public on its benefits.

Promotion through seminars, conferences, and the media

Articles and professional gatherings can be an important part of scorecard promotion, as noted in Example 4.23. Even though such promotional approaches are fairly conventional, there is room for innovation and creativity. Corporate governance is often viewed as an arcane topic, but there really is nothing mysterious about it. And it does not need to be boring. Promotional campaigns not only can demystify governance for people who are not familiar with the topic, but they also can make vague concepts appear crystal clear. This is particularly important when dealing with closely held or family-owned businesses. (See Example 4.24 on page 38.)

Awards programs

Another way to promote scorecards and raise awareness is to provide awards to good performers. Organizing awards is relatively easy, once a sufficient number of companies have participated in the scorecard project. Identifying winners is simply a question of ranking companies based on their aggregate scores. However, some technical issues need to be considered.

Since awards are based on a ranking, and since a ranking is a comparison of performance, it is critical that the companies are evaluated on the same basis. If the same scorecard is used, then this should be the case—in principle. But you must exercise care when the basis of the scorecard is a self-assessment. Unchecked self-assessments are generally unreliable as the basis for an award.

External assessments are more objective but may also have weaknesses. For instance, they may not be comparable if

Example 4.23:
Promotional Activities

In the Philippines, the Philippine Institute of Corporate Directors held an annual working meeting with key stakeholders (regulators, stock exchange, industry associations, professional associations, and selected listed companies) to discuss governance and get their input to update the scorecard.

In Indonesia, promotional activities conducted by the Indonesian Institute for Corporate Directorship included 1) publishing and distributing scorecard results to all companies, regulators, and other local and international bodies with an interest in corporate governance issues; 2) conducting a seminar on the results; 3) conducting a paid one-day training program; and 4) honoring corporate governance leaders with awards.

In the Balkans, the first step in a series of promotional activities was the publication of articles in the national media to convey the purpose and function of scorecards. Next came conferences and seminars (most notably those organized by stock exchanges), which highlighted success stories from companies that had undergone scorecard assessments. These provided a way to invite more companies to participate.

Articles in the leading business newspapers in FYR Macedonia, panel discussions at the annual conferences of the Sarajevo and the Belgrade stock exchanges, and discussions at the Milocer Forum organized by the Association of Montenegrin Economists described the benefits of scorecards and showed that they were tools to help companies comply with and assimilate the best-practice recommendations of corporate governance codes.

Example 4.24:
Speaking Clearly to Companies on Issues of Relevance

The Colombian Confecámaras scorecard project was accompanied by an innovative awareness campaign that got right to the point and showed that the topic of governance need not be without humor. Banner advertisements (shown below) appeared in the print media as well as on the Confecámaras website, http://www.confecamaras.org.co/.

Such advertisements were considered important factors in promoting the scorecard and winning the participation of family-owned enterprises in Colombia. The advertisements were accompanied by an outreach program that included radio, print, television, and the Internet.

Enhance liquidity and controls

The bubble text reads: "There's no lack of businesses with unexplained liquidity problems."

Access to sound business advice

The bubble text reads: "There's no lack of businesses where a witchdoctor is the manager's advisor."

Prevent conflicts between owners

The bubble text reads: "There's no lack of businesses where there's a daily fight between owners."

The main text reads: "Prevent conflicts with your owners, improve decision making, prepare succession, and be transparent with the corporate governance program offered by chambers of commerce and Confecámaras."

Don't let a clown run the business

The main text reads: "Begin to self-implement best practices in corporate governance with the online tools developed for Colombian SMEs."

The bubble text reads: "There's no lack of businesses where disoriented offspring are ready to provide their advice."

Source: Confecámaras.

the individual assessors differ from one company to the next. To preserve the credibility of a scorecard award, pay special attention to the comparability of data and to an equal application of the assessment criteria.

Since the public identification of a winner can raise sensitivities, you must reduce potential bias and the margin for error to an absolute minimum in an awards program. It is often advisable to establish a short list of the best companies and then undergo a second review to ensure the accuracy of the data and the fairness of the comparison. To minimize bias, a common practice is to use an external body of experts to review the results of the competition.

Awards based on scorecards have been organized with success in the Balkans, Indonesia, India, a number of MENA (Middle East and North Africa) countries, the Philippines, and others. Award ceremonies are an excellent opportunity to:

- Bring together governance leaders;
- Highlight success stories;
- Exchange experiences on governance practices; and
- Throw the spotlight on governance.

They are also much appreciated by members of business chambers and institutes of directors, who see them as a positive, nonintrusive way to encourage good governance, and who value them as a benefit of membership.

A word of caution

A governance award does not necessarily predict better performance or lower risk. It is seldom acknowledged that

TAKE AWAY Promoting Scorecards Broadly

1. Promotion is needed to get voluntary participation. Promotion helps inform a larger number of potential participants of the benefits of the scorecard project and of good governance.

2. A variety of promotional techniques exist. These include articles in the printed press, conferences, panel discussions, training, and radio and television interviews. Since each has advantages and disadvantages, consider a mix of approaches.

3. Innovative promotional approaches can make the benefits of governance clear. Innovative messages can be especially important when the target is family-owned businesses, which typically have a less sophisticated understanding of governance and need to know in no uncertain terms what problems can be solved and how good governance helps them.

4. Awards programs can be effective. They are easy to organize and have a powerful promotional impact. Companies and top executives are often motivated by competition and comparison. Awards programs inevitably garner good press coverage. But give special attention to reducing the potential for bias and error in the scorings. And take appropriate precautions to ensure that an award is not interpreted as financial advice.

Enron had in place award-winning governance and management control systems when it folded,[18] and untoward activities are not unheard of among governance award winners. Awards organizers should be careful to communicate that there may not be any direct link between an award and future performance or risk, and that awards in no way imply an endorsement or investment advice. Organizers also may wish to consider that, if an award winner later performs below expectations, their own reputation may suffer.

4.4.3 Conducting the scoring

There are three ways to conduct a scorecard assessment: 1) *external assessments* done by individuals outside the company who collect and analyze data; 2) *self-assessments*, particularly when the scorecard is on a Web-based platform; and 3) *assisted self-assessments*, a mixed approach. Table 4.3, on page 40, shows advantages and disadvantages of each.

The choice of approach depends on the goals of the scorecard project. If the owner of the program is a regulator interested in measuring compliance, objective verification of the data is of overriding concern. Regulators are unlikely to accept unchecked self-assessments as a tool for compliance checking. On the other hand, if the *owner* is a chamber of commerce or an institute of directors, the objective will be to sensitize its membership base to governance issues, provide information on what good governance is, and collect data. In this case a self-administered approach may be more attractive, because member companies will find it less intrusive and have more control over the outcome. In practice, scorecards often use a mix of approaches.

External assessments

External assessments may be undertaken with or without the participation of the company. In Example 4.25 on page 41, the company both sought out external evaluation and collaborated by providing assessors access to company staff and information.

The advantage of self-assessment

"With the self-rating approach, companies are more involved."

- Jonathan Juan Moreno, Former Executive Director, Philippine Institute of Corporate Directors, the Philippines

[18] C. Free, M. Stein, and N. Macintosh, Management Controls: The Organizational Fraud Triangle of Leadership, Culture and Control in Enron (Ivey Business Journal Online, July/August 2007).

Table 4.3: Advantages and Disadvantages of Assessment Approaches

Scorecard Administration	Advantages	Disadvantages
External assessment	• Greater objectivity in scoring • Greater consistency in scorings between companies • Familiarity of external assessors with governance issues • Training is only required for a limited number of external assessors • Creates a sense of external accountability	• Company concern about confidentiality of data • Company concern about how the findings will be used and potential legal implications • Number of companies that can be scored is limited due to human resource constraints • More costly
Self-assessment	• May be easier to get companies to participate • Reduces workload and costs for organizers • Permits scoring of a larger number of companies • Companies like control over the assessment and the findings • Best protects potentially sensitive company data • From company perspective, less external accountability	• Absence of governance expertise in many companies makes findings of uncertain quality • Bias is high • Less critical assessment of governance practices • Need to train individuals at all companies on how to properly respond to scorecard questions • No sense of external accountability • Reduced incentive to reform
Assisted self-assessment	• Has same advantages of external assessment plus more • Reduces work for companies and enhances quality of scoring • Reduces work for assessors • Allows for a collaborative dialogue between external experts and internal staff • Teaches companies how to conduct their own analyses • Can be a training/learning opportunity	• Reduces the disadvantages of a self-assessment but has the same disadvantages as an external assessment.

External assessments that do not rely on the company for information are sometimes referred to as taking the "external investor perspective" (as in Vietnam). Taking the external investor perspective means relying on publicly available information to evaluate the entity (as would be the case for any portfolio investor). Those conducting the assessment gather information from websites, public statements by the company and its board, the media, regulatory filings, and so on.

The external investor approach has the disadvantage of relying only on information that reaches the public's eye. But it may be the only approach when it is not practical to engage with companies directly. In addition, it serves to illustrate the limitations of publicly available data by emulating the conditions under which external investors operate.

Self-assessments

In a self-assessment the company evaluates itself. Self-assessments were used in the initial year of the Philippine scorecard. Furthermore, most Web-based assessments (such as those of Colombia and Trinidad and Tobago) are self-assessments. Self-assessments are the form of scoring most easily accepted by companies. They have the advantage of using the company's own resources to fill them in and are thus well-suited to scoring a large number of companies.

Example 4.25:
External Assessment Brings Expertise

IFC conducted an external assessment for Galenika Fitofarmacija,[a] a company listed on the Belgrade Stock Exchange. The assessment started with a day of talks with the chief executive and the corporate secretary. IFC received documents for analysis and then conducted interviews for one week. With that information, IFC produced an initial scorecard and then presented the final results to the board.

The overall rating and, in particular, the company's performance in the *disclosure and transparency* subcategory motivated the board to learn how it could improve. The company called on IFC again, this time to undertake a more detailed governance assessment and provide tailored advice. IFC recommended simple, practical, and cost-effective improvements to Galenika Fitofarmacija's governance practices.

Ultimately, the scoring helped Galenika Fitofarmacija's board recognize that good governance was useful for:

- Improving relations with shareholders; and
- Improving the company's reputation in the investment and business community.

The company embraced the scorecard as an appropriate tool to improve governance, because it:

- Was easy to use;
- Proposed a systematic approach to governance analysis; and
- Allowed comparison to other companies.

In Republika Srbska, the Banja Luka Stock Exchange conducted external assessments, taking it upon itself to visit companies, meet with staff, and fill in scorecards onsite. Such visits were an opportunity for a dialogue between the exchange and the company and permitted a sophisticated and collaborative assessment of governance practices.

a. A more detailed case study of Galenika Fitofarmacija appears in Section 5.1, "Measurable outcomes: Company."
b. A more detailed case study of Banja Luka Stock Exchange appears in Section 5.4, "Measurable outcomes: A stock exchange"

In principle, self-assessments work because companies know their own governance best. Plus, self-assessments are in their interest; if companies understand the importance of good governance and conduct a sincere analysis, self-assessments can have a profound impact. However, self-assessments are vulnerable to bias, and it is typically only governance leaders (companies that have strong commitment to good governance) that extract benefits from the process.

Assisted self-assessments

As a result, scorecards that aim at encouraging real change tend to use assisted self-assessments. In the Philippines, for example, the tendency toward bias in self-assessments was recognized early on and the approach was changed. In subsequent years the scorecards that were filled in by the company were supplemented by publicly available data and checked by law students who verified the information. (See Example 4.26 on page 42.)

In summary, the tradeoff between external assessments and self-assessments is a tradeoff between objectivity and getting the buy-in of companies. Self-assessments are often the best way to break the ice, get companies involved, and familiarize them with the issues. External assessments can be most objective. A mixed approach is often best suited to encourage reform at the company level, especially where assessment includes an in-depth dialogue between the company and external governance expert.

Training needs

Whatever option is chosen, and irrespective of who conducts the scoring, the individuals who administer the scorecard need to receive basic training on how to do so. Below is a list of training points for assessors:

1. General information on corporate governance:
   a. Why governance is important, and what constitutes good governance;
   b. The purpose of governance codes, including their basic content and structure.
2. Specific information on the conduct of a scorecard assessment:
   a. The purpose of scorecards;
   b. The structure of the scorecard;
   c. Indicators and how to assess compliance;
   d. How the scorecard calculates and weights;
   e. How to decide whether a company complies, when judgment is involved;
   f. What data are confidential, and how to treat confidential information.

Example 4.26:
Enhancing Objectivity and Reducing Bias through Assisted Self-Assessments

The goal in a scorecard project is to take an accurate snapshot of the enterprise. This means reducing subjectivity and enhancing the accuracy and reliability of the assessments. As in accounting, the objective is to provide a "true and fair view." But unlike financial statements that look mainly at numbers, scorecards contain mainly qualitative indicators. Some level of subjectivity and judgment must be accepted. Nevertheless, there are actions that can ensure the unbiased collection, treatment, and analysis of even qualitative data.

As mentioned elsewhere in this supplement, students from Ateneo Law School in the Philippines were used to verify the accuracy of company self-assessments. The primary task of the law students was to ensure that the assertions made by companies were not just a matter of opinion, but rather were backed up by evidence and documentation. In some cases, students challenged the assumptions made by those filling in scorecards.

In Indonesia, the Indonesian Institute for Corporate Directorship used a group of well-trained assessors and had the assessment results reviewed by corporate governance experts. In Bulgaria, self-assessments were verified by the Bulgarian Corporate Governance Commission through interviews.

At times external consultants can contribute. In the Balkans, consultants developed and administered scorecards. In Colombia consultants were available for assisted self-assessments and for post-assessment implementation work. The advantage of using consultants is that the right ones bring experience and expertise.

The importance of training and unbiased assessment

"Irrespective of who does the scoring, they need to be well-trained. It cannot be a biased institution."

- Kiril Nejkov, IFC Operations Officer Corporate Governance, Europe and Central Asia

Example 4.27:
Enhancing the Quality of Scorecards through Training and Proper Procedure

It was broadly understood in the Balkan countries that the training of companies, stakeholders, and scorecard administrators was a prerequisite for success. Most local institutions had only a basic understanding of governance and the impact of good (or bad) governance on the life of the enterprise. Companies, in particular, were unfamiliar with specific governance techniques and how governance affected their performance, their stock price, their relations with shareholders and other stakeholders, and the impact on strategy and risk.

As a result, preparatory training received considerable attention. Training was made available to stock exchanges, consultants who were used to conduct assisted self-assessments, companies, and regulators. One of the key points was to explain the value of good governance, the reason for corporate governance codes, and the utility of knowing how well companies complied with the code. Technical issues regarding how to fill in scorecards were also covered.

The scorecard project in Vietnam took a number of steps to ensure accuracy and consistency and to reduce bias in external assessments. First, raters received thorough training to reduce variability of assessments. Second, to ensure that no single company was rated by one person, scorers specialized in particular indicators and then rated a group of companies on that indicator. This ensured that the same critical eye was applied to different companies, which is important because different scorers tend to assess compliance differently even when presented with identical facts. Finally, each assessment was cross-checked and audited to ensure consistency across ratings.

g. How to ensure comparability between different assessors; and
h. How the findings of the scorecard will be used, and what reports are to be generated.

Training should be adapted to the specific scorecard and in response to the local context. (See Example 4.27 on page 42.)

Providing companies and other institutions with support

Scoring requires experience and expertise. Precisely how to interpret data and how to assign a numerical score under different circumstances requires good judgment. Even when proper training is provided, experienced hands provide invaluable assistance. IFC typically guides local partners until they are able to conduct scorings themselves. In the long run, the goal is to give local counterparts the tools and to create a self-sustaining process.

In the Balkan countries, IFC's local partners continued to undertake scorecard assessments after initial IFC involvement. The Banja Luka, Belgrade, and Sarajevo stock exchanges, the Institute of Directors of Macedonia, the Serbian chambers of commerce, and CEED Consulting all became repositories for skills and knowledge on how to use scorecards and provide advice on good governance practices.

4.5 Summarize and present the results

Once data have been collected, the next step is to convert them into *useful* information. What is *useful* depends on the user. For companies, a simple gap analysis to show where their governance falls short of the benchmark code is already sufficient information to develop an action plan. Regulators, on the other hand, are more interested in the effectiveness of the regulatory framework so they can adjust

TAKE AWAY

Conducting the Scoring

1. Companies tend to be most comfortable with self-assessments. Companies are often concerned regarding the confidentiality of findings. Self-assessments maintain a high level of privacy.

2. External assessments can provide greater objectivity. External assessors are more likely to be even-handed in their evaluations of different companies. Steps can be taken to enhance the objectivity of assessments and reduce bias.

3. Assisted self-assessments are a good way to enter into a dialogue with companies. This dialogue can motivate the company and lead to action plans designed to improve governance practices.

4. In any case, assessors need training. The training should cover governance basics, the specific characteristics of scorecards, and how to conduct scorings.

5. Training is not enough; experience is necessary. Assessments are most effective when they are guided by experience. An experienced party such as IFC can provide important guidance at the beginning of a scorecard project or during its first year of iteration.

6. The ultimate goal is to help local institutions conduct scorecard projects themselves. Donor support is never permanent. A sustainable system of governance monitoring is a valuable outcome.

ADDITIONAL RESOURCES:
Lessons learned from scorecard projects

Center for International Private Enterprise (CIPE). 2007. Philippines Stock Exchange commits to good corporate governance. *Overseas Report, Special Edition for Asia* (September) 34.

IFC. 2008. Governance scorecards as tools for breakthrough results. *Private Sector Opinion 8*. Washington, D.C.: IFC. http://www1.ifc.org/wps/wcm/connect/f6597c0048a7e6d3a887ef6060ad5911/GCGF%2BPSO%2Bissue%2B8%2B5-13-08.pdf?MOD=AJPERES.

IFC. 2011. Corporate governance scorecard: Versatile tool for companies, investors, and regulators: Experiences from Southeast Europe and East Asia. *Lessons Learned* (March). Washington, D.C.: IFC. http://www1.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/global+corporate+governance+forum/publications/les sons+learned/ll_scorecards.

Scorecards help generate information that leads to concrete steps

"...[S]corecards monitor corporate governance practices; signal commitment to take concrete, practical steps; and can help track progress on the journey ...."

- Stefanus S. Handoyo, IFC Operations Officer Corporate Governance, East Asia and Pacific

their oversight. They require more analytical information on multiple companies, which will give them insight into the governance practices in the market.

Individual company reports

The simplest form of reporting is an individual company report. If the scorecard was administered in the form of a computer spreadsheet, a report can usually be generated, once the final indicator scores are introduced. This can be done onsite with the company, where results can be shared with staff and serve as the basis for discussion and the development of an action plan. (See Example 4.28.)

If reports are used to advise companies on how to improve their governance practices, spreadsheets should be supplemented with more analytical information. In Example 4.28, a report should highlight that the information disclosure and commitment categories are relatively weaker and would probably merit further attention by the company. For reports to be meaningful, they need to be developed by the people who conducted the original company analysis. To be complete, narrative reports should include recommendations for how to improve governance practices.

Webpages are capable of generating instant individual-company reports. Depending on the survey software used, Web applications can provide a comparison to a peer group of other companies. Some Web software is able to calculate running averages as more and more respondents fill in their scorecards. (See Example 4.29 on page 45.)

Example 4.28:

A Spreadsheet-based Performance Summary for an Individual Company

The diagram below illustrates scorecard results for a single company.

Scorecard for Corporate Governance in Bulgaria©

Summary of the Results of the Two-tier System Companies

Scorecard/Evaluation Form for Corporate Governance in Bulgaria

Category	Weighting (Standard)	Partial Score (Standard)
Protection of Shareholder Rights	20%	80%
Information Disclosure	20%	63%
Internal Control and Audit	20%	90%
Corporate Governance—commitment (incl. Stakeholders)	10%	60%
Cooperation between the Management and Supervisory	10%	90%
Management Board	10%	78%
Supervisory Board	10%	85%

Corporate Governance Total Score

Standard Score: 79%

Example 4.29: Web-generated Report for an Individual Company

The following individual-company report was generated by the Confecámaras website. The results immediately alert the reader to areas requiring attention. It shows gaps in performance and alerts the reader to priority areas through color coding. Scores ranging from 0 to 1 are deemed to require immediate attention and are highlighted in red. Scores from 2 to 3 are coded in yellow, and those from 4 to 5 are coded in green.

Companies tend to appreciate clear, constructive, and immediate feedback. However, as with all automatically generated reports, interpretation requires care. Such reports can only be the beginning of a discussion. (For the specific indicators that fall under each of the blocks, see Annex 7.4, "Sample Web-based scorecard.")

Priority	Gray	Red	Yellow	Green
High		BLOCK 1 BLOCK 5 BLOCK 7 BLOCK 8 BLOCK 10 BLOCK 15 BLOCK 17	BLOCK 6 BLOCK 17	
Medium		BLOCK 9 BLOCK 13 BLOCK 16		BLOCK 2 BLOCK 4
Low				BLOCK 3

Source: Confecámaras.

Note: The color coding results from the assessment described in Example 4.15 on page 26.

Rankings

When scorings are done for large numbers of companies, it is possible to generate comparisons and rankings. Rankings do not necessarily provide indications of performance or risk, but they do show which companies observe good governance practices. There can be little doubt that the companies at the bottom of the list underperform their peers and need to review their governance practices. (See the list of company rankings in Example 4.30)

Country surveys

When sufficient numbers of companies are assessed, it may also be possible to draw conclusions about the quality of governance within the market. Example 4.31 (on page 46) shows the findings of the *IFC Vietnam Corporate Governance Scorecard Report (2012)*.[19] The Vietnam scorecard project had the objective of developing information on governance practices in the Vietnamese market that would be useful for policymakers. Since Vietnam did not have its own corporate governance code, the underlying benchmark was the *OECD Principles of Corporate Governance*.

In the example, performance is divided into indicator categories as described in Section 4.3.3, "Develop the scorecard structure." The chart shows that, on average, Vietnamese companies perform best in the *equitable treatment of shareholders* category. They perform less well on average in the *responsibilities of the board* category.

The columns also reveal where compliance is uniform and where there is greater variability of practice around the average. The analysis shows that adherence to *disclosure and transparency* requirements is fairly uniform, while the *role of stakeholders* shows considerable variability. Variability can be taken as a proxy for level of compliance. The greater variability around the *role of stakeholders* category might suggest that enforcement should be improved.

The *Vietnam Corporate Governance Scorecard Report* uses and presents data in further innovative ways. Since data were collected over a three-year period, the evolution of governance practices could be tracked over time. So while the report shows that the average performance of enterprises

[19] For a copy of the report, see http://www1.ifc.org/wps/wcm/connect/region__ext_content/regions/east+asia+and+the+pacific/publications/corporate+governance+scorecard+for+vietnam+2012.

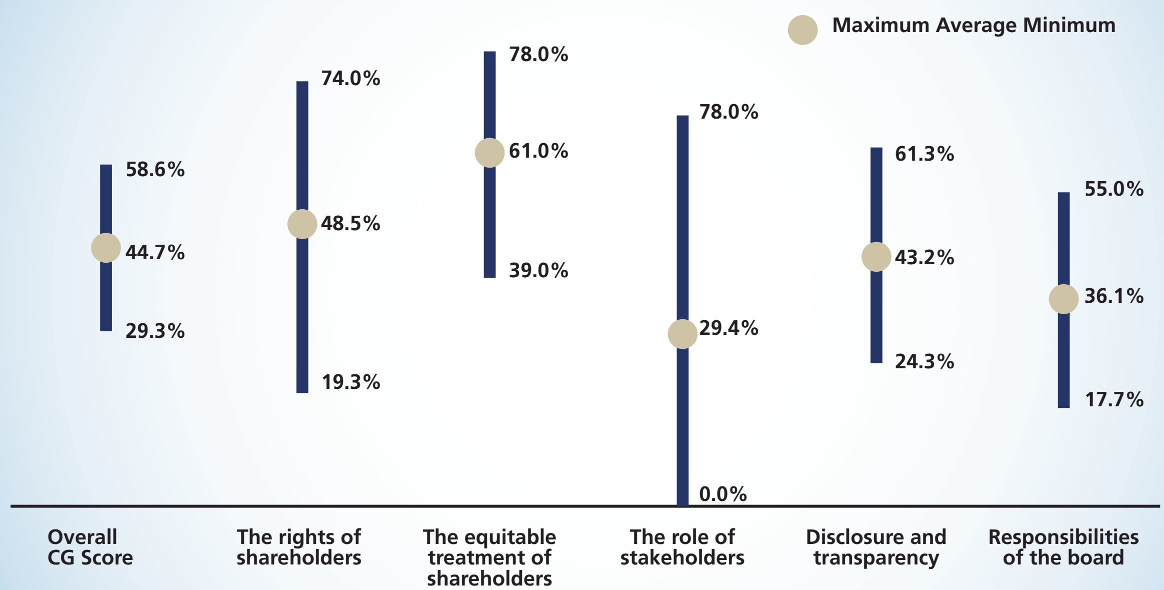
Example 4.30:
Rankings of Company Compliance with Azerbaijan Corporate Governance Code

Ranking	Company	% Score
1	DemirBank	99
2	Azerbaijan Leasing Company	93
3	Ismayilli Gushchuluq	90
4	Sumgait Technology Park	89
5	Azerigasbank	88
6	Gilan Gabala Food Production	88
7	Azmark Dısh Tıcaret	86
8	Azerbaijan Investment Company	82
9	The International Bank of Azerbaijan	82
10	Metanet A	81
11	Business Service Center	80
12	Rabitebank	78
13	Turan Bank	78
14	Embafinance	76
15	Agrarcredit	75
16	Ata Holding	74
17	FX Beauty Company	73
18	Tamiz Shahar	71
19	Akkord Industry Construction Investment Corporation	64
20	Azer-Turk Bank	59
21	Institute of Machine-Building Technologies	59
22	UniTravel	53
23	Sheki-Ipek	51
24	Azerlotereya	50
25	Alatava 2	40
26	Surabad Gushchuluq	40
27	Color Group	38
28	Sweet Production	38
29	Muller Interyer	33
30	Alhambra	27
31	Caspel	24
32	Esder	17
33	Azerstar	8

Source: Azerbaijan Ministry of Economic Development.

Note: Average score is 63%

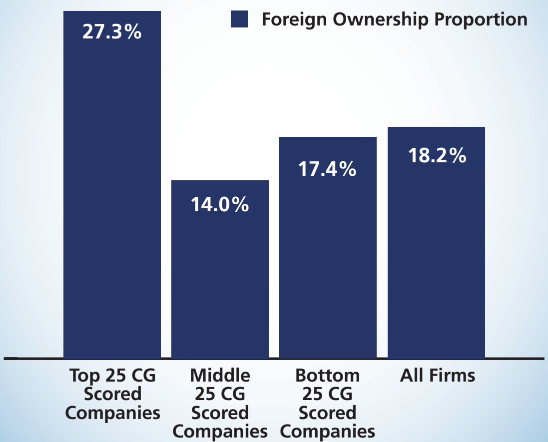
Example 4.31:
Reporting Performance by Indicator Category



Source: Vietnam Corporate Governance Scorecard Report (2012).

stayed the same between 2009 and 2011, the variability in governance practices was considerably reduced. Stated differently, compliance improved. Other factors being equal, a lesser variability in governance practices is positive, as more companies approach the norm.

Example 4.32:
Reporting on the Relationship Between Foreign Ownership and Good Governance



Source: Vietnam Corporate Governance Scorecard Report (2012).

Example 4.33:
International Comparisons Using Scorecards

Year	Country Average Score (Majority Listed-Firms)		
	Philippines*	Thailand	Indonesia
2011	NA	77**	NA
2010	NA	80	NA
2009	NA	82	66.50
2008	72	75	64.96
2007	65	NA	NA
2006	54	71	61.26
2005	53	69	NA

Source: J. Simanjuntak, *IDEA.net Corporate Governance Scorecards* (Indonesian Institute for Corporate Directorship, Vienna Scorecard Seminar Presentation, May 2012).

Additional analyses provided invaluable information to help frame the policy dialogue on corporate governance. The report suggests that good governance did in fact have a positive impact on performance of enterprises. It also provides clues regarding the factors that correlate with good governance. For example, foreign ownership correlated positively with good governance, while state ownership correlated negatively. (See Example 4.32.)

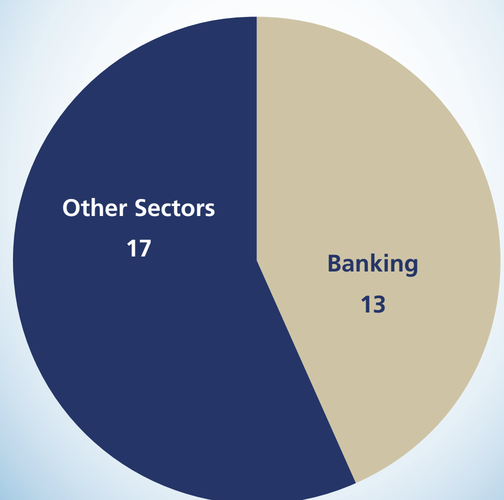
The report relates governance practices to profitability (including return on assets and return on equity), company size, company sector, board size, the number of non-executive directors, gender diversity, board member tenure, and so on. To perform this more sophisticated analysis, the Vietnam scorecard collected additional contextual data that are not usually part of a basic scorecard.

International comparisons

International comparisons allow countries to see how well they compare to a regional or global peer group. Example 4.33 shows the results of an IDEA.net (the Institute of Directors in East Asia Network)[20] scorecard study.

Example 4.34:
Banking Sector Governance Practices

TOP 30: More likely from the banking sector



Source: : Indonesian Institute for Corporate Directors (2013).

[20] IDEA.net is an East Asian forum of institutes of directors that work together to develop their educational and service capacity.

Clearly, for a valid comparison between countries, each country needs to be assessed using the same benchmark. IDEA.net used the *OECD Principles* as the basis for its scorecard, because the principles were a recognized and accepted international benchmark.

Reporting against a sector-specific benchmark

As noted in Section 4.3.2, "Choose the benchmark," benchmarks may be sector-specific or function-specific. A number of scorecards have been used to examine the governance of specific sectors, including the Vietnam scorecard[21] and a survey in Azerbaijan[22] to assess the banking sector. The ASEAN scorecard has also been used for sector-specific assessments. Example 4.34, on page 47, shows how banks are strongly represented among the best governance performers, compared to other sectors within the ASEAN region.

Reporting against a function-specific benchmark

In addition to sector-specific analyses, reports may contain information on important governance functions, such as the reporting and control environment. Disclosure is an important governance function. The table in Example 4.35 shows an analysis and report on the disclosure of governance practices. This scoring used UNCTAD's *Guidance on Good Practices in Corporate Governance Disclosure* as its benchmark.

The table provides a quick insight into the practices of 100 emerging-market companies. While disclosure of *financial*

Example 4.35:
A Scorecard Analysis Using a Governance Disclosure Benchmark

Top 10: Most prevalent disclosure items reported by 100 emerging-market enterprises	No. of enterprises reporting	Bottom 10: Least prevalent disclosure items reported by 100 emerging-market enterprises	No. of enterprises reporting
Financial and operating results	100	Decision-making processes for approving related-party transactions	53
Company objectives	100	Existence of plan of succession	51
Composition of board of directors (executives and non-executives)	99	A code of ethics for the board and waivers to the ethics code	49
Governance structures, such as committees and other mechanisms to prevent conflict of interest	96	Duration of current auditors	45
Nature, type, and elements of related-party transactions	94	Policy on "whistle blower" protection for all employees	45
Role and functions of the board of directors	93	Professional development and training activities	43
Composition and function of governance committee structures	92	Process for appointment of internal auditors and scope of work and responsibilities	40
Critical accounting estimates	88	Anti-takeover measures	10
Risk management objectives, system, and activities	88	Rotation of audit partners	10
Ownership structure	87	Compensation policy for senior executives departing the firm as a result of a merger or acquisition	3

Source: UNCTAD Secretariat, *Review of the Implementation Status of Corporate Governance Disclosures: An Examination of Reporting Practices Among Large Enterprises in 10 Emerging Markets* (TD/B/C.II/ISAR/CRP, 2008). http://unctad.org/en/Docs/c2isarcrp1_en.pdf.

[21] IFC, *Corporate Governance Scorecard for Vietnam 2012* (November 2012). http://www1.ifc.org/wps/wcm/connect/region__ext_content/regions/east+asia+and+the+pacific/publications/corporate+governance+scorecard+for+vietnam+2012.

[22] IFC and SECO, *Bank Corporate Governance in Azerbaijan, Survey Results* (Baku, Azerbaijan, 2005). http://www1.ifc.org/wps/wcm/connect/0a2d23004ad2fac88dedbdb94e6f4d75/bank%2B_en_web.pdf?MOD=AJPERES&CACHEID=0a2d23004ad2fac88dedbdb94e6f4d75q.

and operating results is near perfect, disclosure of the *decision-making processes for approving related-party transactions* is among the weakest.[23] Since the potential for abuse of related-party transactions is a critical concern in many markets, weak disclosure practices in this area would be a clear cause for alarm.

Public disclosure

One issue that deserves additional consideration is the degree to which the information generated by scorecards is made public. Getting companies to agree to participate in a scorecard often means assuring them that the findings will remain confidential—or at least not identifiable. On the other hand, disclosure is clearly one of the best ways to induce companies to effect change.

Public disclosure need not be made during the first iterations of a scorecard. In the Philippines, the plan was to gradually increase disclosure over time. An often used solution is to identify only good governance performers. An awards program can provide incentives to both strong and poor performers.

TAKE AWAY

Summarizing and Presenting the Results

1. The simplest reports are those for individual companies. A company report can be the same spreadsheet that was used to collect data. Web-based reports are also quick and simple. However, automatically generated reports need to be analyzed, understood, and presented by actual people. Numbers are merely the basis for narrative reports with recommendations.

2. There are several other reporting options. Aggregated and more analytical reports describe country practices and provide international comparisons. Rankings provide important information on comparative performance. Sector-specific and function-specific reporting is also possible.

3. Reports should respond to the goals of the scorecard project stakeholders. A clear vision of the problems that need to be solved—and the information needed to begin to address these problems—drives the scorecard project toward good reporting.

4. Reports should lead to action. Regardless of the type of report (company, sector-specific, function-specific, or country), reports should drive toward action and make recommendations.

5. Proper consideration must be given to disclosure strategy. Public disclosure of information that can be associated with individual companies usually dissuades companies from participating in scorecards. However, companies usually accept disclosure of aggregated data and the identification of award winners.

[23] For the final summary report, see Corporate Governance Disclosure in Emerging Markets (UNCTAD, 2011). The report can be found at http://unctad.org/en/Docs/diaeed2011d3_en.pdf.

5: Measurable Outcomes

This section focuses on the outcomes that were achieved as a result of scorecard projects. It also provides information on how projects were conducted. It offers a more nuanced view of scorecard projects from the perspectives of:

- **5.1** A company;
- **5.2** A chamber of commerce;
- **5.3** An institute of directors; and
- **5.4** A stock exchange.

5.1 A company

The case of Galenika Fitofarmacija[24]

Galenika Fitofarmacija, a Serbian company listed on the Belgrade Stock Exchange since 2001, manufactures herbicides, insecticides, fungicides, rodent poisons, and fertilizers. It is a company with 150 employees and sales of approximately $35 million in 2012.

Background

Founded in 1955, the company initially had almost 2,000 shareholders. Later, it underwent a period of ownership consolidation and now has approximately 1,400 shareholders, with 54 percent of the company held by four individuals and many of the remaining shares held by employees. Market capitalization in the beginning of 2014 was approximately $27 million.

Rationale

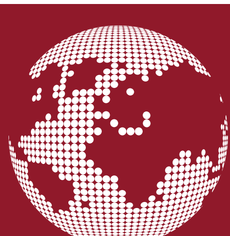
In 2010, the local chamber of commerce approached Galenika Fitofarmacija to participate in a scorecard project sponsored by IFC. The benefit of participation, as presented to the company, was better access to the capital markets. Galenika Fitofarmacija's initial reaction was that it was not in need of external capital and did not need to improve its governance. The company had a good reputation and carried no debt. The benefits of a governance assessment were thus unclear.

However, a number of factors persuaded Galenika Fitofarmacija to participate. The role of the local chamber of commerce was important, because the company had always enjoyed an excellent relationship with the local chamber and wanted to assist it with the project. Galenika Fitofarmacija also realized that the project might potentially be useful in enhancing its image and improving relations with its minority shareholders.

How it happened

The review resulted in targeted governance recommendations and the provision of some practical consulting advice. IFC provided additional value through a follow-on full corporate governance assessment that included the provision of sample governance policies and supporting documentation, such as sample articles of association, a dividend policy, and an executive remuneration policy, among others. Galenika Fitofarmacija could not use some of these items because of conflicts with Serbian legislation, but others, such as the dividend policy, were applicable with only minor modification.

Another outcome of the IFC review was that Galenika Fitofarmacija appointed a fulltime corporate secretary to professionalize its governance. The company already had a corporate secretary (corporate secretaries are required under Serbian legislation); however, the corporate secretary was in reality the chief administration officer, who already fulfilled an array of functions. The appointment of a dedicated corporate secretary focused attention on governance



Transparency need not hurt companies

"Many companies in transition economies fear transparency. Resistance to transparency is deeply embedded in our culture. But, our experience shows that fears regarding greater transparency are largely unsubstantiated."

- Slavica Pekovic, General Affairs Manager, Galenika Fitofarmacija, Serbia

[24] Website address: http://www.fitofarmacija.rs/en-gb/po%C4%8Detna.aspx.

and improved Galenika Fitofarmacija's capacity to improve its governance practices. Under the new corporate secretary, governance policies were formalized and documented.

Transparency improved dramatically. In just one year, Galenika Fitofarmacija moved from a position of weakness to one of strength in disclosure. It became the first Serbian company to make its dividend policy public. It also disclosed its articles of incorporation, remuneration policies, its code of corporate governance, the résumés of board members and top management, annual and semiannual financial statements, and information on general assemblies, including agenda items and minutes, on the Web.

Such practices brought the company close to international levels of best practice. In recognition of Galenika Fitofarmacija's commitment to good governance, the Belgrade Stock Exchange included the company's shares in the BELEX 15 stock index, which drew a positive reaction from investors. Shortly after its inclusion in the index, the company experienced a period of greater trading volume.

Board members and executives found that using the scorecard helped them better understand governance and how good governance can reduce the potential for procedural conflicts between controlling and minority shareholders.

Overall, the board felt that the scorecard process added tangible value to the enterprise. The board of directors also felt that good governance would be a future selling point in any potential European expansion.

Summary of outcomes

As a result of its participation in the scorecard activity, Galenika Fitofarmacija:

- Appointed personnel to improve and maintain good governance practices;
- Developed written policies and procedures;
- Enhanced transparency toward all shareholders and the markets;
- Created recognition of the company as a governance leader and a quality investment;
- Developed commitment to good governance at board and executive levels;
- Created better understanding of governance and how it affects company operations;
- Enhanced protection of minority shareholders;
- Provided a better understanding of governance strengths and weakness; and
- Led to a roadmap for future improvement.

TAKE AWAY Scoring a Company

1. Closely held companies can benefit from better governance. Closely held and small and medium enterprises (SMEs) are often skeptical about the value of governance. Frequently they demand proof that good governance will somehow benefit them in the form of better financial or operational performance. Galenika Fitofarmacija shows how small and medium companies benefit from good governance.

2. Good governance affects reputation. A key motivator for governance reform is its reputational impact. Good governance sends important signals to clients, shareholders, and the markets. Galenika Fitofarmacija wanted to be recognized as an European Union company, not just as a local enterprise.

3. Transparency helps even in small to medium enterprises. Greater transparency did not damage the business or reveal confidential business information to competitors. On the contrary, better transparency enhanced the reputation of the company in the public's eye.

4. People make the difference. Better governance is ultimately the result of competent and committed individuals. It is reasonable to look to chambers of commerce, consultants, or other institutions as sources of inspiration. However, it ultimately comes down to people. Without the commitment of key members of Galenika Fitofarmacija's management team and board, the potential for good governance would not have been realized.

5.2 A chamber of commerce

The case of Confecámaras

Confecámaras[25] is a network of 57 city chambers of commerce in 32 different regions in Colombia. It is the main force promoting good governance in family businesses in the country. The Confecámaras scorecard project:

- Focuses on closely held and family-owned businesses;
- Encourages action by paying consultants to advise firms;
- Uses a Web-based scoring;
- Permits self-administered scoring or assisted scoring;
- Employs an innovative marketing campaign; and
- Is wide-reaching, having conducted scorings of 170 companies.

Speaking clearly to SMEs

"Companies have limited patience. You have to talk to them in a language they can understand. Scorecards have to be to the point, easy to understand, and user-friendly."

- Francisco Prada, Head of the Corporate Governance Division, Confecámaras, Colombia

A key factor that distinguishes chambers of commerce is that the membership of most chambers is composed of closely held companies and family businesses. Unlike regulators, who can require compliance, chambers must demonstrate to their membership how good governance delivers benefits.

Background

The benchmark used for the Confecámaras scorecard was Colombia's *Guidance for Closely Held and Family Businesses* (the Guidance).[26] Governance codes for closely held and family businesses differ from codes for listed companies; they usually take the form of suggestions rather than rules, and they focus on the governance challenges that are characteristic of closely held firms and family businesses.

Even if closely held and family-owned business governance codes are usually framed as voluntary guidance statements, they tend to repeat some elements of company law. Thus some 70 percent of the Guidance represents requirements found in the law. The Confecámaras scorecard thus had elements of a compliance check in addition to a benchmarking against best practice.

Its design included a simple methodology that businesses could apply with ease. The methodology was tested by different interest groups, such as companies, consultants, and students. It went through various iterations of development and feedback before a definitive version was achieved.

The scorecard also needed to have a Web-based platform for ease of use. And there had to be business logic behind the scoring. It used the Deming cycle, which corresponded well with best practices in business management systems, specifically for quality control and management. (See Example 4.15, on page 26.) Colombian businesses were familiar with such quality control techniques as a result of the application of ISO standards and certifications.

Rationale

The goals of the Confecámaras scorecard project emanate from the organization's strategic goals:

- Help closely held and family firms become more efficient and more effective;
- Improve the capacity of boards to act professionally;
- Enhance the competence and capacity of management;
- Contribute to the solution of family conflicts, which are a major cause of business failures;
- Improve the governance culture of Colombian enterprises;
- Introduce clarity when family affairs and business affairs become intertwined;
- Increase the transparency of firms; and
- Encourage compliance with basic elements of company law.

How it happened

The program generated considerable public awareness and interest in the use of the tool. Confecámaras conducted workshops to inform and attract businesses, and it launched a sophisticated and wide-reaching media campaign to promote the website and to help companies understand the scoring concept. In the end, over 350 companies were scored. Companies were offered the services of consultants to do assisted scorings. After the scorings were completed, Confecámaras provided subsidized consulting

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[25] La Confederación Colombiana de Cámaras de Comercio.

[26] *Guía Colombiana de Gobierno Corporativo para Sociedades Cerradas y de Familia* (in Spanish). See http://www.supersociedades.gov.co/web/documentos/guia%20colombiana%20de%20gobierno%20corporativo.pdf.

services to develop remedial action plans. As a result, a large number of enterprises benefited from action plans and reforms.

Summary of outcomes

The Confecámaras scorecard project:

- Raised awareness of corporate governance issues;
- Was used to assess over 350 companies;
- Generated real-time information that allowed comparison of any company to a peer group;
- Created a network of consultants to advise enterprises on their governance;
- Led to the development of numerous governance action plans at the company level, which in turn led to actual changes in governance practices in numerous enterprises; and
- Allowed generation of aggregated data on governance practices—broken down by sector, size, region, and the quality of governance.

TAKE AWAY

Scoring by a Chamber of Commerce

1. Recognizing and responding to the problems of closely held and family-owned businesses is important. Companies need to feel that the scorecard helps them respond to their challenges and problems.

2. Scorecards must be simple, be user-friendly, and contain commonsense explanations of complex questions. In Colombia, Web-based scoring was found to respond well to entrepreneurs' needs. A user-friendly marketing campaign is also important to generate awareness.

3. Scorecards should provide immediate feedback. Immediate feedback maintains company interest and helps the entrepreneur understand the purpose and utility of the scorecard project.

4. The assistance of external experts is fundamental. External experts not only make the filling in of the scorecard more effective, but they also provide the bridge between analysis and implementation. Expert advice is necessary to help businesses respond to the findings and implement reform.

Paying attention to incentives

"An astute use of incentives contributed significantly to the success of the Philippine program. We listened to companies and made sure the scorecard was user-friendly and responded to their needs. Of course, the involvement of regulators was also important to encourage companies to participate."

- Jesus Estanislao, Chairman, PSAG Member, Philippine Institute of Corporate Directors, the Philippines

5.3 An institute of directors

The case of the Philippine Institute of Corporate Directors

The Philippine Institute of Corporate Directors (ICD) was founded in 1999 to promote governance reform in the Philippines. Some of the distinguishing characteristics of the ICD scorecard project are:

- Stock exchange and regulator support;
- The wide package of training and learning activities offered by ICD that complemented the scorecard process;
- The reliance on self-evaluations and publicly available data for scorings;
- Validation of data by university volunteers; and
- The benefits and pitfalls of regional collaboration.

Background

It is important to understand the context for the ICD scorecard project. In the mid-2000s, a wide variety of studies showed that the Philippines was in urgent need of corporate governance reform. In 2007, *CG Watch 2007*[27] placed the Philippines second to last in corporate governance among a group of 11 Asian countries. In addition, the World Bank's 2008 *Doing Business* report ranked the Philippines 144 out of 178 countries for the ease of doing business.[28] The *protecting investors* portion of the *Doing Business* report (which tracks key governance indicators) ranked the Philippines 141 out of 178. An examination of nine Asian economies showed that rules and regulations in the Philippines were broadly in line with international standards.[29] At the same time, it highlighted significant differences between rules and practices. Imple-

[27] CLSA, in collaboration with the Asian Corporate Governance Forum (2007). https://www.clsa.com/assets/files/reports/CLSA_ACGA_CGWatch2007_Extract-2.pdf.

[28] World Bank, *Doing Business* (2008). http://www.doingbusiness.org/reports/global-reports/doing-business-2008/.

[29] S. Cheung and H. Jang, *Scorecard on Corporate Governance in East Asia* (2006). Available at SSRN: http://ssrn.com/abstract=964908 or http://dx.doi.org/10.2139/ssrn.964908.

mentation was the problem. In the *Scorecard on Corporate Governance in East Asia*, the Philippines ranked among the top in rules, while fund managers and analysts ranked it toward the bottom on practices.

Rationale

The approach of the ICD has been summarized as "moving from talk to action." Specific ICD goals were to:

- Call the attention of companies to the importance of corporate governance;
- Encourage companies to develop roadmaps for governance reform;
- Educate boards, executives, and the public on good governance practices;
- Collect data on company practices;
- Use benchmarking analysis to develop tools and training for members; and
- Influence policymakers.

How it happened

Generating participation was difficult. Initially, scorings were voluntary. To get more companies to participate, the ICD followed a three-pronged approach:

1. Use regulatory muscle;
2. Adapt the scorecard and the scoring process to better meet company needs; and
3. Allow strong performers to publicize their ranking and thus enjoy a reputational benefit.

The scoring was rolled out so that it was initially available only to regulators and subsequently to the public. In the first years of the scorecard (2005–2006), companies were reluctant to change. There was an indication that only about 20 percent of companies showed improvements in their governance practices. Reluctance was attributed to:

- Powerful controlling shareholders;
- A corporate culture that distrusted disclosure; and
- The cost of implementation.

ICD found new approaches that created better participation and had a real impact on practices. In 2006, it achieved a broad consensus on how to alter the questionnaires and the scoring process. A key lesson was that permitting companies to comment on scorecard project design helps ensure better support and participation.

Initially, ICD conducted assessments based on publicly available data. The choice to rely on publicly available information was to simulate the conditions under which markets and investors would assess companies. In 2007, the approach was modified to allow companies to respond when they felt the public data did not fully reflect reality. It permitted companies to perform a preliminary self-evaluation, followed by a validation of the self-evaluation, conducted by a team of students from the Ateneo Law School working under the direction of ICD.

For ICD, the scorecard was part of a larger reform plan. It included the establishment of new institutions, including:

- The ICD Chairmen's Circle, which brought together chairmen who were committed to better governance practices;
- A Circle for Corporate Secretaries; and
- A Professional Director's Program designed to help directors professionalize their governance practices.

Each of these initiatives was designed to help professionalize governance and recognize companies and individuals for performance above the norm. For each, the ICD scorecard served as an important tool for assessing progress.

Over the years, firms reacted increasingly well to the scorecard project. Scorecards allowed companies to undertake a structured analysis of their governance practices. In many cases, this led to a new acceptance of governance as an important aspect of the company's operations. The impact went beyond raising awareness. Many companies developed roadmaps for governance reform and put new governance practices in place.

Finally, the number of enterprises participating in the scoring (approximately 130) was a sufficiently large proportion of the listed-company sector that the scorings provided a statistically relevant picture of the state of governance in the Philippines as a whole. Armed with such evidence, ICD was better able to work with regulators and companies on further reform efforts.

Summary of outcomes

The ICD scorecard project:

- Scored hundreds of listed companies, banks, and SOEs;
- Raised awareness of corporate governance and maintained public attention over a number of years;
- Led to the development of governance action plans within companies;

- Led to measurable improvement in governance practices of companies over time;
- Created incentives for better governance through awards programs and disclosure;
- Led to the creation of institutions (clubs and discussion groups) to perpetuate good governance practices;
- Improved the reputation of the country for its corporate governance practices; and
- Generated information useful to policymakers on the governance practices of listed companies, SOEs, and banks.

TAKE AWAY

Scoring by an Institute of Directors

1. **Incentives for businesses to participate are important. ICD adapted its scorecard to make it user-friendly and responsive to company needs.** It also built awards programs and institutions that allowed companies to receive reputational benefits from good governance.

2. **Mandatory participation in a scorecard is possible.** ICD partnered with key public bodies, such as the Philippine Stock Exchange and the Securities and Exchange Commission, that made scorings mandatory.

3. **The Philippine scorecard was successful in part because the scorecard was part of a larger tactical plan.** The scorecard was a component of a number of other projects, including clubs, recognition awards, seminars, and educational events. Together, these programs reinforced the message of good governance.

4. **Partnering with stakeholders is important as a way to compensate for limited resources.** The costs of implementation can be high for a scorecard project, particularly when it is conducted by nongovernmental organizations or emerging institutes of directors. For ICD, the partnership with Ateneo Law School was crucial for providing the human resources necessary to validate the self-evaluations conducted by the companies.

The cost of capital as an argument for good governance

"The argument based on access to capital is only theoretical for most companies. A lot of companies here have easy access to money. We work closely with them to help them understand the other benefits that good governance brings."

- Nebojsa Vukovic, CEO Deputy and Head of Listing, Education and PR Department, Banja Luka Stock Exchange, Bosnia and Herzegovina

5.4 A stock exchange

The case of the Banja Luka Stock Exchange

The Banja Luka Stock Exchange (BLSE)[30] in Bosnia and Herzegovina illustrates how difficult it can be to implement governance codes when incentives are missing. Despite legal requirements for companies to adopt their own governance codes, there were few economic incentives to comply.

Background

As in many developing countries and transition economies, bank lending is the traditional source of finance in Bosnia and Herzegovina. So improved access to capital was not a compelling argument for better governance. To illustrate, Banja Luka had only one small initial public offering during the three years preceding the writing of this supplement. Trading on the BLSE is almost purely secondary.

In 2006, the Securities Commission (SC)[31] adopted corporate governance standards for joint-stock companies that were based on company law as well as the *OECD Principles*. These standards were voluntary and were enforced on a "comply or explain" basis. In 2009, a more forceful approach was taken. The new company law required listed companies on the Official Market of the Banja Luka Exchange to adopt their own codes of corporate governance or accept the SC code. The scorecard was designed to track compliance with both company law and the recommendations of the SC code.

Rationale

The rationale for the scorecard project was as follows:

- Begin to measure corporate governance quantitatively;
- Help monitor compliance with stock exchange disclosure requirements;

30 Federation of Bosnia and Herzegovina has two stock exchanges: the Sarajevo Stock Exchange and the Banja Luka Stock Exchange.
31 The Securities Commission of Federation of Bosnia and Herzegovina, http://www.komvp.gov.ba/site/index.php/en/

- Provide data to track the implementation and effectiveness of regulation and codes;
- Provide input into future market regulation and revisions of governance codes;
- Alert companies to the governance expectations of the stock exchange and investors—and to potential future requirements;
- Provide data that are useful for the creation of stock exchange tiers based on the quality of governance;
- Help guide the stock exchange in designing its educational activities; and
- Create incentives for change through media pressure.

How it happened

The BLSE initially developed the scorecard in cooperation with the LOK Institute for Economic Research and Organization from Sarajevo, with support from IFC and the SC. The scorecard later underwent adaptation to ensure conformity with changing law and codes as well as the gradually increasing levels of compliance. BLSE sought to minimize changes in the scorecard over the years to ensure comparability over time. The BLSE implemented the scorecard and used it to evaluate a group of 15–20 listed companies over several years.

The scorecard was a combination of requirements under company law and recommendations under the SC code of best practice. About 50 percent of the questions related to company law with the remainder being best practice. The inclusion of questions on company law was not because the BLSE used the scorecard as a legal compliance-checking mechanism; in fact, compliance with the company law requirements of the scorecard was about 90 percent. The inclusion of company law items was to generate data to help the BLSE assess compliance on an aggregate level and to illustrate to foreign investors requirements under the company law.

The BLSE scoring was an external assessment—neither a self-assessment conducted by companies nor an assisted self-assessment. Two BLSE staff members conducted the information gathering and analysis. Over the years a number of other groups assisted the BLSE in its scorings, including IFC staff and representatives of the Faculty of Economics at the University of Banja Luka. However, the essential core of analysts remained the same.

Having a small and stable core of people assigned to the project brought multiple benefits. First, different people naturally interpret the same data differently. Since many governance indicators are subject to interpretation, differences in perceptions can be even greater. Having a small group that gathered and analyzed data helped create consistent assessments and made possible greater comparability. Second, assessors were able to work with the same companies over a number of years and were thus able both to build on past knowledge and to enhance their assessments over time. Repeated contacts with the same companies provided a much deeper understanding of the issues.

The total number of companies scored was limited to 16 in 2012. Over the years, the figure ranged from 15 to 20. Those companies that were asked to volunteer for scoring tended to be the most relevant and largest companies on the BLSE. Smaller companies were not approached, since it was expected that their size would preclude the implementation of best-practice governance structures. To better track change over time, the BLSE retained essentially the same sample of companies.

Rather than rely on publicly available data, the BLSE project gathered information directly from companies, contacting from one to four people within each company. Company secretaries were usually the first stop for conducting the scorecard. Over the years, consultations included other positions, such as the CFO, always making an effort to avoid repeatedly going back to the same person, as a way to generate a varied perspective.

The benefit of gathering information directly from the company was that it was possible to involve companies themselves in the scoring. Under the alternative, using publicly available data, there is less contact with company executives and therefore fewer opportunities for interchange and education.

Scorings themselves were fairly rapid. BLSE staff made appointments and drove to the companies to fill in the questionnaires. The scores for individual items were discussed onsite with the company—though they were not subject to negotiation. Over time, both the companies and the BLSE staff became adept at filling in the scorecards and were able, under good circumstances, to complete two or three scorecards in a single day. In earlier years, meetings with companies required more time and explanation. In subsequent years, the process became much more efficient.

Repeated contacts with the companies allowed BLSE to observe and guide change. For example, a scoring during the first year might require the explanation of a dividend policy. In the second year, a company might simply answer that it had no dividend policy. In a following year it might report that such a policy was being discussed at the board level, and in a final year the company might report "yes," that a dividend policy had been adopted.

The findings of the scorings were confidential. Not even the names of the companies that were scored were disclosed. However, the winner of the scoring was announced and publicly recognized. Average scores were disclosed to the public. Keeping information confidential was necessary to achieve better participation. Promising confidentiality was also useful in presenting the scoring as a tool to help companies rather than a tool to simply grade them.

The scorings were accompanied by a number of educational and awareness-building activities, which made scorecards more effective. For example, 20 seminars were conducted on such issues as risk governance, control, audit, disclosure, and developing annual reports. BLSE made presentations, wrote articles, and posted information on webpages to share with the media. These complementary activities helped companies turn the results of scorings—for example, weak internal control procedures—into action. Complementary activities demystified good governance and made change easier and more realistic.

Real change resulted. Because the Banja Luka scorecard was conducted over a number of years, and by a core group of the same people, it was possible to track governance over time. Both the numbers and the qualitative impressions coming from ongoing contact with companies confirmed that practices improved.

A sense of competition arose between companies and provided incentives for improvement. Companies value their reputation and are concerned about the reputational impact of the scorecards. Though final scores were not revealed, companies were generally aware through informal contacts how their performance compared to others.

The process educated companies and executives on governance issues and raised their awareness of how governance affects firm performance and operations. Articles also appeared in the press. Though indirect, information generated from the scorings provided feedback that was useful for the development of new regulation.

Summary of outcomes

The Banja Luka scorecard effort produced the following outcomes:

- Measured changes in governance practices among listed companies over time;
- Created collaborative relationships between the stock exchange and listed companies;
- Created incentives to improve governance through competition between companies;
- Improved public awareness of corporate governance;
- Generated useful information for the stock exchange, regulators, and policymakers; and
- Enhanced the reputation of the stock exchange and the country as an investment destination.

TAKE AWAY

Scoring by a Stock Exchange

1. Closely held companies can benefit from better governance. Closely held and small and medium companies are often skeptical about the value of governance. Frequently they demand proof that good governance will somehow benefit them in the form of better financial or operational performance.

2. Classic arguments in support of governance are not always relevant to companies. The justification for good governance needs to be recast to focus on the operational and performance benefits of good governance.

3. Scorecards may include items that measure compliance with law. However, these should be classified separately from the "comply or explain" requirements typically found in a best-practice code. A clear distinction should be made between voluntary and mandatory. Scorecards are not principally designed as tools for legal enforcement and should not be the basis for sanction.

4. A small, stable group of assessors can enhance the quality and uniformity of assessments. Continuing contact between a limited group of assessors and the company also permits the development of constructive relations with firms.

5. Repeated scoring generates better information and better outcomes. The repetition of scorings permits an ever deeper understanding of the company. It also helps educate the company and develop trust that is useful when the company is ready to accept advice. Also, scorings become considerably more efficient with repetition over time.

6. Confidentiality is important in getting companies to participate. Though disclosure can have a powerful impact on company practices, it can be handled in ways that may make it more comfortable for companies to participate. Performance incentives can be produced by awards and recognition programs.

6: Building on Scorecards

Scorecards have knock-on effects

"Scorecards are not the end of the process. Actually, they're just a beginning. They lead us to the next step: other corporate governance activities, better tools, codes, and guidelines."

- Bistra Boeva, Member, Bulgarian Corporate Governance Commission, PSAG Member

Reform is never a static process. Scorecard projects open new opportunities for future work and evolution. The most common forms are:

- A change in ownership of the scorecard project;
- In-depth assessments of companies; and
- Knock-on projects.

The first form—change in ownership of the scorecard project—is an intentional outcome when IFC is the owner of a scorecard project. IFC often takes the lead as an *initiator* or even the *owner*, because local capacity is limited. Once the first iteration of a scorecard project is completed, local institutions are typically interested in carrying on the work themselves. They become *owners*.

The second—in-depth assessments of companies—amounts to further work on corporate governance with individual companies. For many companies, scorecards are often a first taste of corporate governance. Once they understand and feel comfortable with the issues, companies often want to consider further steps, which requires more in-depth analyses and tailored responses. Scorecards may open the way for advisory services and the use of additional tools to assess governance practices.

The third—knock-on projects—push the good governance agenda ahead. For example, scorecards can lead to other governance activities, including awards programs, new tools for assessing governance, codes and guidelines, and new techniques for working with companies. (See Example 6.1.)

Another interesting knock-on project is the development of corporate governance indexes for stock exchanges. (See Example 6.2 on page 59.)

Example 6.1:
Building on Scorecard Projects

The Vietnamese scorecard project was initially conceived as an IFC project to promote the implementation of good corporate governance principles in Vietnam and to provide a framework for future policy discussions and corporate governance development. It was intended to raise awareness and educate regulators, companies, investors, and the marketplace. It was to provide a common metric and language on corporate governance in Vietnam. The scorecard proved to be highly effective in achieving these goals. In Vietnam, the initial scorecard project led to an eventual change in local listing rules.

When the Indonesian Institute for Corporate Directorship was given the responsibility to conduct ASEAN scorecards in Indonesia for publicly listed companies, the results provided important feedback to the Financial Service Authority of Indonesia. It used the information in formulating a corporate governance roadmap for Indonesia and for the revision of rules and regulations in the Indonesian capital market and banking sector.

In FYR Macedonia, a scorecard for listed companies was developed by the Macedonian Institute of Directors. This was followed by a scorecard developed by the Macedonian Stock Exchange to promote the benefits of listing for closely held companies. The scorecard for the closely held companies in due

(Continued on page 59)

(Continued from page 58)

Example 6.1: Building on Scorecard Projects

course became one of the primary tools for the Macedonian Institute of Directors to provide services to family-owned businesses. Counterintuitively, the development of the scorecard for listed companies was initiated by the Institute of Directors, and its owner later became the stock exchange, and the situation was reversed for family-owned businesses. The work of the Institute of Directors was also translated into tailored services to companies. In one case, the scorecard results helped the Institute of Directors develop tailored training services for Fersped, a diversified logistics company from Skopje.[a] The scorecard and the subsequent training led to the development of recommendations to improve the governance structures and policies of the company. These recommendations were currenlty being implemented .

Award plans based on scorecards have been organized in Balkan countries, Indonesia, a number of MENA countries, the Philippines, and others. In the Philippines, the scorecard project became the basis for regular conferences and led to the formation of business groups, or "circles," within the Institute of Corporate Directors to meet regularly and discuss governance issues. The Philippine scorecard for listed companies also encouraged the central bank and the Ministry of Finance to introduce an SOE scorecard.

After conducting a scorecard project in Bulgaria, the National Corporate Governance Commission eventually undertook a number of related activities to promote the use of the Bulgarian code. These activities included awards designed to recognize good corporate performers, a review and revision of the original code of governance, and the development of a governance index for the stock exchange.

a. For more information on Fersped, see http://www.fersped.com.mk/default.aspx?Lan=EN.

Example 6.2: Corporate Governance Indexes and Listing Tiers

One of the first listing tiers based on corporate governance was developed for the Novo Mercado in Brazil. More and more, indexes and listing tiers are being created for emerging markets. Indexes can be built based on geographical location, capitalization, sector, or any other measurable characteristic of companies. Increasingly, indexes are being developed based on the quality of corporate governance.

In China, the Shanghai Stock Exchange developed its SSE Corporate Governance Index. The Borsa Istanbul Stock Exchange has its Corporate Governance Index, and the Moscow Stock Exchange reports plans to introduce a corporate governance index. In Vietnam, the scorecard led to the introduction of two stock exchange indexes (HNX 30 and HOSE 30) that use governance practices as a criterion for inclusion. In Bulgaria, the scorecard project led to the development of the Bulgarian Stock Exchange Corporate Governance Index.

In each case, a stock exchange index uses a form of scorecard to assess the companies that will go into the index. The development of a scoring methodology is thus an important first step toward the development of a stock exchange index.

These indexes, or tiers, may be viewed by investors as having less governance risk and potentially better performance. From the perspective of companies, inclusion within an index may imply better capacity to raise financing and a potentially lower cost of capital.

Launch of the Azerbaijan Corporate Governance Standards, Baku, 2011

Building on Scorecards

TAKE AWAY

1. The story does not end with scorecard projects. Scorecard projects generally lead to change—in the institutions that take ownership of the scorecard as well as in the form of additional knock-on projects.

2. Scorecard owners should be aware of potential opportunities to engage directly with companies. Once companies have undergone an initial scoring, they are likely to understand the benefits of good governance better and may request further assistance.

3. A shift of scorecard ownership to local partners is common. Ownership by local institutions is an opportunity to create sustainable local support for governance reform. It needs to be encouraged.

4. The initiators and owners of the scorecard project should be alert to other opportunities. Initiators and owners should not be taken by surprise. They should be aware of the possible options that a scorecard project can open for further corporate governance work, such as awards programs, business forums for discussion, academic research, and the development of corporate governance indexes.

5. Governance indexes are becoming more and more common. They are increasingly present in emerging markets.

ADDITIONAL RESOURCES:

Corporate governance indexes

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7. Annexes

7.1 Sample indicators

The sample indicators in Table 7.1 were developed from the *OECD Principles of Corporate Governance (2004)*.[32] The *OECD Principles* are, in fact, a framework code; that is, they are a distillation of good policy that is addressed principally to governments to guide them on how to structure their legal and regulatory frameworks. They are not, first and foremost, a code addressed to companies. As a consequence they need to be adapted for the purposes of a company scorecard.

Adaptation means the exclusion of certain principles and recommendations that are addressed to governments (and not to companies). For example, Chapter I of the *OECD Principles*, which addresses government's responsibility for establishing a sound governance framework, is not included in the table.

Adaptation may also require the addition of detail. So while the *OECD Principles* contain no discussion of dividend policy, dividends are a profit distribution that would fall under the principle related to shareholders sharing in corporate profits (OECD II.A.6). Indicators that might be used to measure the implementation of this principle could be the disclosure of a clear dividend policy and timely payment of dividends after they have been declared. Further adaptations of the *OECD* Principles are illustrated in the Vietnam scorecard in Annex 7.2.

Table 7.1 summarizes those parts of the *OECD Principles* that are addressed to companies and that are best suited for the development of indicators for a company scorecard.

TABLE 7.1: SAMPLE INDICATORS

Categories and Indicators	OECD Reference
1. Shareholders rights	**II**
1.1. Basic shareholder rights are ensured such that shareholders enjoy:	II.A.
1.1.1. Secure ownership registration	II.A.1
1.1.2. Ability to convey or transfer shares	II.A.2
1.1.3. Ability to obtain relevant information on a timely basis (see Section 4. on Transparency and Disclosure, below)	II.A.3
1.1.4. Effective participation and voting in shareholder meetings	II.A.4
1.1.5. Right to elect the board members	II.A.5
1.1.6. Sharing in corporate profits	II.A.6
1.2. Shareholders participate in and are informed on basic decisions:	II.B
1.2.1. Amendments to governing documents	II.B.1
1.2.2. New share authorization	II.B.2
1.2.3. Extraordinary transactions	II.B.3
1.3. Shareholders can participate effectively and vote in the GSM (general shareholder meeting)	II.C
1.3.1. Sufficient and timely information is available on the GSM	II.C.1
1.3.2. Shareholders can question the board on fundamental issues	II.C.2
1.3.3. Shareholder input on certain key decisions is possible	II.C.3
1.3.4. Voting in absentia is permitted	II.C.4
1.4. Control structures that are not proportional to share ownership are disclosed	II.D
1.5. The control structure of the enterprise is transparent and is allowed to change based on the needs of the shareholders	II.E

[32] OECD, *OECD Principles of Corporate Governance* (2004). http://www.oecd.org/corporate/.

TABLE 7.1: SAMPLE INDICATORS continued	
Categories and Indicators	**OECD Reference**
1.5.1. Rules for change of control exist and are transparent to all shareholders	II.E.1
1.5.2. Share transactions occur at transparent prices and under fair conditions for all shareholders	II.E.1
1.5.3. Anti-takeover devices are not used to shield management from accountability	II.E.2
1.6. Ownership rights of all shareholders are facilitated	II.F
1.7. Shareholders are allowed to consult with each other on issues concerning their interest	II.G
2. Minority shareholder protection and equitable treatment of shareholders	**III**
2.1. Shareholders within the same class are treated equally	III.A.
2.1.1. Within a class, all shares carry the same rights	III.A.1
2.1.2. Investors have the right to information on their rights before purchase	III.A.1
2.1.3. Changes in rights subject to approval of shareholders of that class	III.A.1
2.1.4. Minority shareholders should be protected from abuse by controlling shareholders	III.A.2
2.1.5. Minority shareholders should have recourse to effective redress	III.A.2
2.1.6. Beneficial share owners have a right to instruct custodians or nominees on how to vote	III.A.3
2.1.7. There should be no impediments to cross-border voting	III.A.4
2.1.8. Shareholder meeting procedures should ensure equitable treatment of all shareholders	III.A.5
2.1.9. Shareholder meeting procedures should not make it unduly difficult to vote	III.A.5
2.2. Insider trading and abusive self-dealing are prohibited	III.B
2.3. Members of the board and key executives disclose any material interest in any matter or transaction with the company	III.C
3. Stakeholders in governance	**IV**
3.1. Legal and mutually established rights of stakeholders are respected	IV.A
3.2. Performance-enhancing mechanisms for employee participation are permitted	IV.C
3.3. Stakeholders have a right to access to timely, relevant, and reliable information on governance issues in which they have a right to participate	IV.D
3.4. Stakeholders and in particular employees have the right to whistle blow to the board without risk of retribution	IV.E
4. Transparency and disclosure	**V**
4.1. Material information is disclosed on:	V.A
4.1.1. Financial and operating results	V.A.1
4.1.2. Company objectives	V.A.2
4.1.3. Major share ownership and voting rights	V.A.3
4.1.4. Remuneration policy for board members and executives	V.A.4
4.1.5. Qualifications of board members	V.A.4
4.1.6. Selection process of board members	V.A.4
4.1.7. Other board memberships	V.A.4
4.1.8. Independence of board members	V.A.4
4.1.9. Related-party transactions	V.A.5
4.1.10 Foreseeable risks	V.A.6
4.1.11. Issues regarding employees and other stakeholders	V.A.7
4.1.12. Governance structures	V.A.8
4.1.13. Governance policies and governance codes	V.A.8

TABLE 7.1: SAMPLE INDICATORS continued	
Categories and Indicators	OECD Reference
4.1.14. Process by which governance codes or policies are implemented	V.A.8
4.2. High-quality standards for financial reporting are used	V.B
4.3. High-quality standards of nonfinancial reporting are used	V.B
4.4. High-quality standards of audit are used	OECD 1999 IV.B
4.5. An independent external audit is conducted of the financial reports	V.C
4.6. The independent external auditor is qualified and competent	V.C
4.7. The independent external auditor is accountable to shareholders	V.D
4.8. The independent external auditor exercises due professional care	V.D
4.9. The dissemination of relevant information to shareholders is timely, cost-effective, and equitable	V.E
5. The board of directors	**VI.**
5.1. Board members act on a fully informed basis	VI.A
5.2. Board members exercise duties of loyalty and care	VI.A
5.3. Board members act in the interest of the company and its shareholders	VI.A
5.4. Board members treat all shareholders fairly	VI.B
5.5. The board applies high ethical standards	VI.C
5.6. The board takes into account the interests of other stakeholders	VI.C
5.7. The board fulfils these key functions:	VI.D
5.7.1. Reviews and guides strategy, major plans, risk policy, annual budgets	VI.D.1
5.7.2. Sets performance objectives and monitors implementation	VI.D.1
5.7.3. Oversees major expenditures, acquisitions, and divestitures	VI.D.1
5.7.4. Monitors and improves corporate governance practices	VI.D.2
5.7.5. Selects and replaces key executives	VI.D.3
5.7.6. Monitors executive performance	VI.D.3
5.7.7. Develops incentive compensation plans for executives	VI.D.3, 4
5.7.8. Ensures formal and transparent board member nomination	VI.D.5
5.7.9. Monitors and manages potential conflicts of interest	VI.D.6
5.7.10. Monitors and manages related-party transactions	VI.D.6
5.7.11. Ensures the integrity of the company's financial reporting	VI.D.7
5.7.12. Ensures the integrity and independence of the external audit	VI.D.7
5.7.13. Ensures the integrity of the company's systems for internal control, including risk management and compliance	VI.D.7
5.8. Oversees the process of disclosure and communications	VI.D.8
5.9. The board is capable of objective independent judgment	VI.E
5.9.10. Independent board members should oversee issues where there is a potential conflict of interest (financial reporting, controls, related-party transactions, nominations, and remuneration)	VI.E.1
5.10. Committee mandates, composition, and procedures should be well-defined and disclosed	VI.E.2
5.11. Board members should be committed to their responsibilities	VI.E.3
5.12. Board members have access to accurate and relevant information to fulfil their roles on a timely basis	

7.2 Sample checklist scorecard

The following checklist is an example of an adaptation of the *OECD Principles* that was used to conduct scorings in Vietnam.[33] Though the structure follows the *OECD Principles* closely, the Vietnam scorecard includes additional detailed indicators where the *OECD Principles* are either general or silent, or where Vietnamese practices require a different approach. The questions are supported by explanatory criteria to help assessors determine if the area is "observed," "partially observed," or "inadequate or not observed."

A. Rights of shareholders (Scorecard weighting: 15%)

OECD Principle II: The corporate governance framework should protect and facilitate the exercise of shareholder's rights.

A.1 Are the voting rights of shareholders clear and unequivocal?

A.2 Does the company offer ownership rights, more than basic rights (voting rights, right to freely transfer shares, and right to timely information)?

A.3 Do shareholders have the right to nominate and remove members of the board of directors and the supervisory board?

A.4 Are the dividend and dividend payment policies transparent?

A.5 Do shareholders have the right to approve major corporate transactions (mergers, acquisitions, divestments, and/or takeovers)?

A.6 Was the AGM (annual general meeting) held within four months of the end of the fiscal year?

A.7 Are there adequate company systems for shareholder attendance at the AGM?

A.8 Are the AGM shareholder meeting notices effective?

A.9 Are the policies and processes for shareholders to ask questions at the AGM clear, and is time provided for on the agenda?

A.10 Does AGM information of the past year record opportunities for shareholders to ask questions?

A.11 Was the attendance of the chairman/head of supervisory board/other board members/CEO at the last AGM evident?

A.12 Are AGM policies and processes in the past two years (notices and information) sufficient for shareholders to evaluate individual board nominations?

A.13 Do shareholders effectively vote (receive information on, make their views known, and vote) on board and key executive remuneration annually?

A.14 Did the external auditor attend the AGM and express his or her views on audit issues?

A.15 Did the shareholders effectively approve the appointment of the external auditor?

A.16 Did information provided to shareholders for the appointment of the external auditor include mention of auditor independence?

A.17 Is a full report provided to the AGM on the board of directors' performance?

A.18 Is a full report provided to the AGM on the supervisory board's performance?

A.19 Did the AGM notices include explicit information on accessible systems for proxy voting and voting in absentia?

A.20 Did AGM meeting minutes and the company website disclose individual resolutions, with voting results for each agenda item?

A.21 Are there additional items included in the AGM minutes not included on the original meeting notice?

B. Equitable treatment of shareholders (Scorecard weighting: 20%)

OECD Principle III: The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights.

B.1 Does each share in the same class of shares have the same rights?

B.2 Does the company have a "one share, one vote" policy?

B.3 Can minority shareholders affect the composition of the board?

B.4 Are directors required to be re-nominated and re-elected at regular intervals?

B.5 Is cross-border voting facilitated by the company?

[33] IFC, *Corporate Governance Scorecard for Vietnam 2012* (November 2012). http://www1.ifc.org/wps/wcm/connect/region__ext_content/regions/east+asia+and+the+pacific/publications/corporate+governance+scorecard+for+vietnam+2012.

B.6 Is the company group structure clearly and transparently described?

B.7 Is there evidence of structures/mechanisms that have the potential to violate minority shareholder rights?

B.8 Are there mechanisms that provide effective redress for complaints of shareholders?

B.9 Do shareholders have the right to approve fundamental company changes?

B.10 How many days before the AGM were the meeting notices sent out?

B.11 Can a small shareholder place an item on the AGM agenda?

B.12 Are there company policies in place that effectively prohibit the misuse of information by directors, management, and staff?

B.13 Were there any known cases of insider trading involving the company directors, management, or staff in the past year?

B.14 Are there effective company policies for the company to approve relevant RPTs (related-party transactions)?

B.15 For large company transactions, does company policy require the provision of information to explain RPTs and require shareholder approval of RPTs above a certain threshold?

B.16 Were there cases of noncompliance with requirements relating to related-party transactions in the past year?

B.17 How does the board deal with declarations of conflict of interest?

B.18 Does the company have an effective investor relations/information policy and program?

C. Role of stakeholders (Scorecard weighting: 5%)

OECD Principle IV: Recognize the rights of stakeholders established in law or mutual agreements and foster co-operation with stakeholders.

C.1 Does the company recognize company obligations (in law and agreements) to key stakeholders and engage them?

C.2 Does the company provide a range of performance-enhancing employee benefits to align company and employee interests?

C.3 Have mechanisms been introduced that facilitate communication to board members of illegal and unethical company practices?

C.4 Do company policies/information recognize the safety and welfare of employees?

C.5 Do company policies/information mention the environment?

C.6 Are stakeholders able to directly communicate on company performance with the board of directors, board of management, and supervisory board?

C.7 Is there some company recognition of its obligations to the broader community?

C.8 Is there a clear framework for the enforcement of creditors’ rights?

D. Disclosure and transparency (Scorecard weighting: 30%)

OECD Principle V: The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company.

D.1 Is there evidence that the concept of “material information” is well-understood by the company?

D.2 Does the annual report give a full and clear picture of the financial performance of the company?

D.3 Are the financial reports disclosed in a timely manner?

D.4 Did the company provide quarterly and semiannual reports in the past year?

D.5 Do the CEO and chief accountant certify the annual financial statements, audited and unaudited?

D.6 Does the company use internationally accepted accounting standards?

D.7 Does the annual report include a full and clear picture of company operations, its competitive position, and other nonfinancial matters?

D.8 Are details of current largest shareholdings provided?

D.9 Are directors’ (board of directors and supervisory board) shareholdings disclosed?

D.10 Are senior management’s shareholdings disclosed?

D.11 Are the company shares broadly held?

D.12 In the annual report, is board member experience disclosed?

D.13 In the annual report, are non-executive directors specifically identified?

D.14 Does the annual report specifically identify "independent" directors?

D.15 Does the annual report disclose board of directors/ supervisory board meeting attendance of individual directors?

D.16 Is the basis (level and mix) of board remuneration disclosed in the annual report?

D.17 Does the latest annual report identify the company's main executives and their responsibilities?

D.18 Does the latest annual report disclose the remuneration of key executives?

D.19 Does the company have a policy requiring disclosure of related-party transactions?

D.20 Are statements requesting directors to report their transactions in company shares evident?

D.21 Does the annual report explain foreseeable business risks?

D.22 Does the annual report include a separate, quality corporate governance report?

D.23 Does the company have an annual external audit undertaken by an authorized auditor?

D.24 Do AGM and/or company documents refer to the "independence" of the external auditor?

D.25 If a change of auditor is noted in the past two years, were the reasons for the change disclosed?

D.26 Is there a policy that prevents the external auditor from undertaking non-audit services?

D.27 Is the external auditor's opinion publicly disclosed?

D.28 Have there been any accounting/audit qualifications or queries related to the financial statements in the past two years?

D.29 Does the company provide a variety of communication methods?

D.30 Is the information on the company website comprehensive and accessible?

D.31 Does the company have a policy and process to ensure continuous ad hoc disclosure of important matters?

D.32 Does the company provide easy public access to and contact details for the investor relations person or unit?

E. Responsibilities of the board (Scorecard weighting: 30%)

OECD Principle VI: The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders.

E.1 Has the company promulgated good corporate governance guidelines?

E.2 Does the company have clear company values and direction, led by the board of directors?

E.3 Does company corporate governance guidance disclose the material transactions that must be approved by the board?

E.4 Is the chairman's role at board meetings clearly described in the company corporate governance guidance?

E.5 Is the chairman a non-executive director?

E.6 Is the chairman "independent" of the company?

E.7 How many board of directors members are non-executive?

E.8 What percentage of the board of directors is "independent"?

E.9 Is there evidence of the board of directors being a "balanced board"?

E.10 Does company information and director information clearly state/disclose the number of board seats each director holds?

E.11 Does the company have a board induction policy and program for new appointments to the board of directors and supervisory board?

E.12 Do the board of directors and supervisory board undertake an annual self-assessment/evaluation?

E.13 Did board of directors and supervisory board members and CEO participate in corporate governance training and report this?

E.14 How often did the board of directors meet in the past year?

E.15 How often did the supervisory board meet in the past year?

E.16 Are there mechanisms in place to ensure that board members receive adequate notification of the board meeting for all board of directors/supervisory board meetings?

E.17 Do the board of directors and supervisory board keep meeting minutes and resolution records of each meeting?

E.18 Has the board of directors established board of directors committees (audit committee, remuneration committee, and human resource committee) or a designated board of directors person?

E.19 Is there evidence that the board of directors receives regular management reports on the company activities and its financial position?

E.20 Is there evidence that the board of directors is responsible for the strategy and business plans of the company?

E.21 Does the board of directors have responsibility for and oversee the risk management system of the company?

E.22 Do the board of directors/supervisory board assess the CEO and key executives annually?

E.23 Was there any evidence of noncompliance of the company over the last year?

E.24 Do company documents cover/explain internal control structures, policies, and practices?

E.25 Does the internal audit function provide an independent evaluation of the internal control process and risk management of the company annually?

E.26 Does the company report on the activities of internal audit in its annual report and/or supervisory board report?

E.27 Is there evidence of the supervisory board oversight of the external auditor?

E.28 Is there evidence of the supervisory board's review and approval of the annual report and financial statements?

E.29 Does the supervisory board report include discussion of the supervisory board supervision of operational and financial conditions of the company and performance of the board of directors, management board, and executive officers?

E.30 Does the supervisory board report include reference to the supervisory board's performance, issues discussed, and decisions taken?

E.31 Does the supervisory board report on its evaluation of the coordination between the supervisory board, board of directors, management board, and shareholders?

Most companies are closely held or family-owned businesses and face their own governance challenges.

7.3 Sample spreadsheet scorecard for family-owned businesses

The *OECD Principles* refer primarily to listed companies. Yet most companies are closely held or family-owned businesses, which face their own specific governance challenges. The scorecard example in Table 7.2 is for family-owned businesses. It is a spreadsheet program, which allows easy data collection and permits an immediate calculation of results.

TABLE 7.2: CORPORATE GOVERNANCE ANALYSIS: FAMILY-OWNED BUSINESS

Name of Company ______________

Country ______________________

Date _________________________

	OVERALL SCORE 0%				
		(1) Grading (1–10)	**(2) Weight-ing %**	**(3) Score per category (in %)**	**(4) Comments & Remarks; Source of Information; Recommendations**
1.	**Commitment to Corporate Governance (CG)**		**20**		
1.1.	**FOUNDATIONS: the basic formalities of CG are in place –** the company's charter (or similar document or documents) and founding documents provide for appropriate CG structures and processes (which reflect the realities in the company, rather than being based solely on statutory forms, etc.); the company's board shows leadership and commitment to CG and sets an appropriate "tone at the top"; management is committed to good CG practices; CG is observed in substance (no form over substance).	0	30	0%	SOURCES OF INFORMATION: COMMENTS & REMARKS: SUMMARY RECOMMENDATIONS:
1.2.	**POLICIES AND FUNCTIONS: key CG policies and functions have been established and are functioning –** the company has a written CG code, code of conduct/ethics, key policies/rulebooks on the board and treatment of shareholders; it has appointed a company secretary and/or CG officer/board committee that monitors compliance with such policies, rulebooks, and codes and coordinates periodic reviews of key CG-related policies and practices; board and management are familiar with applicable CG codes and relevant CG best practices; the company aligns its activities and operations with these standards.	0	30	0%	SOURCES OF INFORMATION: COMMENTS & REMARKS: SUMMARY RECOMMENDATIONS:
1.3.	**CG IMPROVEMENT PLAN: the company has developed/ implemented plans for improvements to its CG** - a senior member of the company is tasked with leading on the plan; these plans comprise analysis of the strengths and weaknesses of the company's corporate governance; include action points, proposed timings, and allocation of responsibilities; plans have been approved by the board, and implementation is monitored by management and the board.	0	20	0%	SOURCES OF INFORMATION: COMMENTS & REMARKS: SUMMARY RECOMMENDATIONS:
1.4.	**COMMUNICATION OF CG ISSUES WITH STAKEHOLDERS - The company appropriately communicates its CG-related activities to stakeholders –** The company periodically discloses to shareholders (and other stakeholders) its CG code/other key bylaws/ policies and reports alignment with national CG code/ relevant CG best practices along the lines of "comply or explain."	0	20	0%	SOURCES OF INFORMATION: COMMENTS & REMARKS: SUMMARY RECOMMENDATIONS:
			100	0%	

TABLE 7.2: CORPORATE GOVERNANCE ANALYSIS: FAMILY-OWNED BUSINESS continued					
		(1) Grading (1–10)	(2) Weight-ing %	(3) Score per category (in %)	(4) Comments & Remarks; Source of Information; Recommendations
2.	**Family Governance**		**15**		
2.1.	**<u>AWARENESS:</u> the members of the family owning the family business have taken time to consider the strengths, weaknesses, and challenges of the family business and how family governance can be of benefit –** the family has considered the strengths of family-owned businesses generally (such as high commitment, knowledge continuity, reliability, pride associated with the business, higher levels of trust) and in relation to the company; as well as corresponding weaknesses and challenges (complicated family issues, informality, lack of discipline, effects on the company of potential disputes, non-family members' perception, transparency, succession issues); the company has agreed on principles of strengthening family governance and addressing corresponding challenges.	0	25	0%	SOURCES OF INFORMATION: COMMENTS & REMARKS: SUMMARY RECOMMENDATIONS:
2.2.	**<u>FORMALIZATION:</u> the family has formalized its family governance framework with proper board and management structures –** family members have moved away from assuming multiple roles and responsibilities in the family business; clear distinctions have been established between owners (shareholders), managers (senior management), directors (board of directors), family members (family and its institutions); CEO and senior management succession has been addressed through family documents, having family legitimacy.	0	20	0%	SOURCES OF INFORMATION: COMMENTS & REMARKS: SUMMARY RECOMMENDATIONS:
2.3.	**<u>CONSTITUTION:</u> the family has adopted a family constitution or protocol addressing:** family meetings, family assembly, family council, and other institutions (such as education committee, share redemption committee, career planning/succession committee); established family structures to communicate family values, mission, and long-term vision to all family members; keep family members informed on major business accomplishments and issues; communicate rules/decisions that might affect family members' employment and succession of key position, dividends, and other benefits; establish formal communication channels that allow family members to share ideas, aspirations, issues; allow family members to come together and make necessary decisions.	0	25	0%	SOURCES OF INFORMATION: COMMENTS & REMARKS: SUMMARY RECOMMENDATIONS:
2.4.	**<u>POLICIES:</u> the family has developed key family governance policies to regulate family-member and non-family-member employment (together with the corresponding HR issues -** recruitment, promotion, employment termination); family directorships, succession planning, family and non-family share ownership, capital allocation, dispute resolution, transfer of shares.	0	20	0%	SOURCES OF INFORMATION: COMMENTS & REMARKS: SUMMARY RECOMMENDATIONS:
2.5.	**<u>PERSONAL AND PROFESSIONAL DEVELOPMENT:</u> appropriate mechanisms have been created to help personal and professional development of family members –** family has defined specific training and education needs for current future employed family members.	0	10	0%	SOURCES OF INFORMATION: COMMENTS & REMARKS: SUMMARY RECOMMENDATIONS:

TABLE 7.2: CORPORATE GOVERNANCE ANALYSIS: FAMILY-OWNED BUSINESS continued

		(1) Grading (1–10)	(2) Weight-ing %	(3) Score per category (in %)	(4) Comments & Remarks; Source of Information; Recommendations
3.	**Shareholders/Owners' Rights** *PLEASE NOTE: If the company realities do not require organization of GMS [general meetings of shareholders] (for example: single-owner company, or if the company has two owners, of which only one is the beneficial owner, etc.), or if it does not have minority shareholders, the provisions of this section should be graded accordingly, including possibility of assigning maximum grades.*		**15**		
3.1.	**<u>GMS:</u> GMS are convened and conducted in a manner to allow for meaningful participation of all (interested) shareholders –** preparation of GMS enables participation of all shareholders; the notice, agenda, and supporting materials are distributed sufficiently in advance; shareholders are encouraged to propose items to the agenda, to participate at the GMS, personally or by proxy, to ask questions; the dissemination of the results of the GMS are properly regulated and implemented.	0	35	0%	SOURCES OF INFORMATION: COMMENTS & REMARKS: SUMMARY RECOMMENDATIONS:
3.2.	**<u>DECISION MAKING:</u> decision making at GMS allows for equitable treatment of all shareholders –** voting rights of shareholders do not deviate from their ownership rights; effective representation of minority shareholders is provided by cumulative voting and/or other mechanisms protecting minority shareholders against unfairly prejudicial actions when controlling shareholders have conflicts of interests ("majority of minority provisions"); minority shareholders have the possibility to nominate and elect a board member.	0	35	0%	SOURCES OF INFORMATION: COMMENTS & REMARKS: SUMMARY RECOMMENDATIONS:
3.3.	**<u>RELATIONSHIP WITH SHAREHOLDERS:</u> the company pays attention to disclosures to shareholders -** the company has a policy and practice of full and timely disclosure to shareholders of all material transactions, including those with affiliates of controlling shareholders, directors, or managers; and complete, timely and accurate disclosure is made on all material shareholder and similar agreements; the company's annual report discloses principal risks (identity of controlling shareholders, degree of ownership concentration, cross-holdings among company affiliates, imbalances between voting power and overall equity position in the company) to minority shareholders.	0	30	0%	SOURCES OF INFORMATION: COMMENTS & REMARKS: SUMMARY RECOMMENDATIONS:
			100	0%	

TABLE 7.2: CORPORATE GOVERNANCE ANALYSIS: FAMILY-OWNED BUSINESS continued					
		(1) Grad-ing (1–10)	**(2) Weight-ing %**	**(3) Score per category (in %)**	**(4) Comments & Remarks; Source of Information; Recommendations**
4.	**Board Practices**		**20**		
4.1.	**<u>COMPOSITION:</u> the composition of the board allows it to properly fulfill its duties and responsibilities –** majority of board members are non-executive/independent directors; acceptable definition of independent director has been adopted by the company; The chairman of the board is an independent non-executive director; CEO and chairman are separate functions; competences, skills mix, and diversity on the board are comprehensive and adequate for the board to perform its duties; at least one member of the board has substantive knowledge and experience in financial issues.	0	25	0%	SOURCES OF INFORMATION: COMMENTS & REMARKS: SUMMARY RECOMMENDATIONS:
4.2.	**<u>OPERATION:</u> the board meets regularly, making decisions on an informed basis –** meeting agendas and adequate supporting materials are communicated to directors sufficiently in advance to enable them to make informed decisions; an annual calendar of meetings is scheduled and provides for at least six regular meetings, with at least one session devoted to strategy; the board as a whole deliberates independently of management; non-executive directors meet separately from executive directors at least once a year; independent members of the board or a committee comprising entirely independent directors approves all material transactions with affiliates of the controlling shareholders/directors/management.	0	25	0%	SOURCES OF INFORMATION: COMMENTS & REMARKS: SUMMARY RECOMMENDATIONS
4.3.	**<u>FUNCTIONS:</u> the board provides strategic direction and oversight of management –** the board meaningfully discusses strategy before adoption, and regularly oversees its implementation; the board's delegation of authority to management is such that the board does not become involved in day-to-day operations; the board has adopted a written policy/plan dealing with succession of all key positions in the company and has tested this plan; the board has adopted and implemented a remuneration policy for executive and non-executive directors in line with best practices; the board takes an active role in risk governance; the board is supported by a professional corporate secretary, appointed by the board.	0	25	0%	SOURCES OF INFORMATION: COMMENTS & REMARKS: SUMMARY RECOMMENDATIONS
4.4.	**<u>COMMITTEES:</u> the board has an adequate number of properly staffed committees -** in particular, audit, remuneration, and nomination committees; all committees have majority of non-executive directors, and at least the audit committee is composed entirely or of a majority of independent directors; the committees have their own budgets and can obtain professional advice on issues within their scope of authority. (NOTE: when having committees is not legally required, consider whether the size of the company and/or complexity of its business operations, etc., require appointment of committees. Grading should be made accordingly.)	0	10	0%	SOURCES OF INFORMATION: COMMENTS & REMARKS: SUMMARY RECOMMENDATIONS
4.5.	**<u>EVALUATION AND TRAINING:</u> the board undertakes meaningful evaluations –** at least on an annual basis; these evaluations result in specific proposals for improvement of the operation of the board as well as a list of areas in which the board as whole needs further training; an introductory training session is provided to new directors, and ongoing training is available as needed.	0	15	0%	SOURCES OF INFORMATION: COMMENTS & REMARKS: SUMMARY RECOMMENDATIONS

TABLE 7.2: CORPORATE GOVERNANCE ANALYSIS: FAMILY-OWNED BUSINESS continued

		(1) Grading (1–10)	(2) Weight-ing %	(3) Score per category (in %)	(4) Comments & Remarks; Source of Information; Recommendations
5.	**Control Environment**		**15**		
5.1.	**BOARD OVERSIGHT: the board oversees the company's control system –** the board (or its audit committee) is responsible for oversight and implementation of internal controls, risk management, and compliance policies and practices; a head internal auditor is hired/fired with the consent of the board/audit committee, and has direct access to the board/audit committee and meets with the board or committee at least once a year without management present; the board/audit committee reviews the external auditor's management letters and the management's response to them; key business processes are regulated in policies and procedures; directors, managers, and staff clearly understand their responsibilities in relation to the internal control system.	0	20	0%	SOURCES OF INFORMATION: COMMENTS & REMARKS: SUMMARY RECOMMENDATIONS:
5.2.	**INTERNAL CONTROLS: the company has a comprehensive system of internal controls –** i.e., the company has formal policies and procedures that provide reasonable assurance that management directives are carried out, that operations are efficient and effective, that financial reports and information are reliable, and that the company complies with applicable laws and regulations; the system of internal controls is designed on the basis of and in accordance with internationally recognized frameworks (such as COSO); the company has not had significant problems with regard to internal controls in the last three years.	0	15	0%	SOURCES OF INFORMATION: COMMENTS & REMARKS: SUMMARY RECOMMENDATIONS:
5.3.	**RISK MANAGEMENT: the company has a formalized risk management process,** based on established objectives that are based on an established risk register, and methodically analyzes relevant risks to achieve objectives; the board regularly reviews the company's risk register, the maintenance of which is a responsibility of a designated officer; the company has had no significant problems in relation to risk management in the last three years.	0	15	0%	SOURCES OF INFORMATION: COMMENTS & REMARKS: SUMMARY RECOMMENDATIONS:
5.4.	**COMPLIANCE: the company has established a compliance function –** the company has a formal, comprehensive compliance program covering compliance with laws, relevant regulations, and the code of conduct/ethics, with appropriate sanctions; the company has not had significant problems in relation to compliance in the last three years.	0	15	0%	SOURCES OF INFORMATION: COMMENTS & REMARKS: SUMMARY RECOMMENDATIONS:
5.5.	**INTERNAL AUDIT: the company has established an internal audit function,** which provides assurance through testing, opining, and making recommendations on improving the system of internal controls, undertakes risk assessments and opines on systems of risk management; the internal audit function has sufficient resources (including available budget) and objective and competent staff. The internal audit function is able to investigate all areas of the company's business and operations and reports to the board (or audit committee).	0	20	0%	SOURCES OF INFORMATION: COMMENTS & REMARKS: SUMMARY RECOMMENDATIONS:
5.6.	**EXTERNAL AUDIT: the company has an independent external auditor with appropriate standing –** the external auditor is a (internationally) recognized audit firm that conducts auditing in line with International Standards on Auditing; the external auditor provides a management letter to the company; the external auditor is selected on the basis of a tender process and is approved by GMS, which determines its compensation, which is not dependent on the audit results; the company has a policy of rotating the external auditor (or at least lead audit partners); the company's audits were unqualified for the last five years.	0	15	0%	SOURCES OF INFORMATION: COMMENTS & REMARKS: SUMMARY RECOMMENDATIONS:
			100		

TABLE 7.2: CORPORATE GOVERNANCE ANALYSIS: FAMILY-OWNED BUSINESS continued					
		(1) Grading (1–10)	**(2) Weighting %**	**(3) Score per category (in %)**	**(4) Comments & Remarks; Source of Information; Recommendations**
6.	**Transparency and Disclosure**		**10**		
6.1.	**<u>KEY POLICIES AND PRACTICES:</u> the company has policies and mechanisms for timely and accurate disclosure –** the company has a written information disclosure policy that seeks to make material information available to applicable regulators, shareholders, and the general public; the company discloses information on a CG or investor relations link on its website (including the company charter, code of conduct/ethics and CG code; list of members of management and directors, with corresponding biographies; annual report, overview of past GMSs with decisions adopted; contact information of the investor relations officer, etc.); the company, in particular, has policies on disclosure of related-party transactions and material off-balance-sheet activities; the company makes disclosures to the shareholders and general public on ultimate beneficial ownership of shares in the company (including by controlling shareholders/management).	0	35	0%	SOURCES OF INFORMATION: COMMENTS & REMARKS: SUMMARY RECOMMENDATIONS:
6.2.	**<u>MATERIAL INFORMATION:</u> the company has adopted a definition of material information –** the company has a clear definition of what constitutes material information and procedures for handling of such information; internal rules have been established and communicated to relevant staff; this definition at minimum refers to financial and operating results, shareholders and ownership structure, foreseeable material risk factors, and governance structures and policies.	0	15	0%	SOURCES OF INFORMATION: COMMENTS & REMARKS: SUMMARY RECOMMENDATIONS
6.3.	**<u>FINANCIAL DISCLOSURE:</u> the company regularly prepares and discloses financial information –** the company's financial statements are prepared in accordance with internationally recognized accounting standards; the company has no history of material restatements of its financial statements or of sanctions by regulators/stock exchanges (if applicable); the company discloses the following financial information regularly: results of financial and business activity; financial and economic ratios of the company; market capitalization; liquidity and obligations; capital structure, including working capital; and composition, structure, and value of fixed assets.	0	30	0%	SOURCES OF INFORMATION: COMMENTS & REMARKS: SUMMARY RECOMMENDATIONS
6.4.	**<u>ANNUAL REPORT:</u> the company publishes a comprehensive annual report –** through its annual report, the company discloses information on its strategy, financial results and notes on financial statements, risk management, related-party transactions, corporate governance, and corporate social responsibility, as well as remuneration to members of the board, management, and the external auditor; management's discussion and analysis is part of the company's annual report.	0	20	0%	SOURCES OF INFORMATION: COMMENTS & REMARKS: SUMMARY RECOMMENDATIONS
			100	0%	

TABLE 7.2: CORPORATE GOVERNANCE ANALYSIS: FAMILY-OWNED BUSINESS continued

Methodology:

Ranking on level of fulfillment of standards referred to in each category is to be made with points on a scale of 1–10 in the box in column (1) (1 indicating lowest fulfillment of the standards, and 10 highest).

Weighting of each of the six areas is set as a percentage next to the title of the area.

Weighting per category is set out in column (2).

Score overview in relation to each category is demonstrated as a data-bar in column (3).

Source of Information, Comments & Remarks, and Summary Recommendations for each question are noted in column (4).

An overview of results and final score is presented on the next sheet, titled "Overview of Results."

Grading suggestions for column (1):

0: If the company has absolutely **no practices or policies** referred to in the groups of questions in any given line (1.1, 1.2, etc.), a **0** (zero) score would be appropriate.

1–4: If the company has **minimum policies and practices**, a **1 to 4** score would be appropriate.

5–8: If the company not only has formally established functions or adopted documents, but the realities also indicate a **deeper understanding of the concepts** behind them, a **5 to 8** score would be appropriate.

9–10: Scores 9 and 10 should be reserved for **outstanding performance**—that which could be considered as best practice to be recommended to peer entities.

Complete corporate governance analysis product comprises:

a) This filled scorecard (based on an interview with relevant company representative(s) and review of key company documents, as appropriate).

b) A report of no more than three pages, containing analysis of the company policies and practices, and corresponding recommendations.

Source: Corporate Governance Scorecard for a Family-owned Business used by IFC in some of its advisory programs.

Scorecards can help companies improve their strategy, decision making, risk management, control, and organization

7.4 Sample Web-based scorecard

Below are the questions posed in Colombia's Confecámaras[35] Web-based scorecard, translated from the original Spanish. The scorecard is designed to follow the structure of Colombia's national governance code for small and family-owned businesses.[36] There are 17 "blocks" of themes, each containing a number of questions that permit a simple yes-or-no response.

Each question seeks to establish whether the company has achieved a progressively higher level of governance. These levels can be summarized as follows: 1) no implementation; 2) some implementation; 3) documentation to support implementation; 4) formal checking of implementation; and 5) iterative action based on the results of checking. These qualitative hurdles are described in Example 4.15 (on page 26) in Section 4.3.3, "Develop the scorecard structure."

The total number of questions is over 150, which may appear excessive, but the Web scorecard stops posing additional questions when it receives a negative response. In practice, the time required to complete the questionnaire is relatively short, due both to the simplicity of the questions and to the fact that most companies will fall short of perfect practice and will not need to answer all questions.

BLOCK 1:

Question 1: Does the company have an annual budget?

Question 2: Is the annual budget approved by the highest governance body of the organization?

Question 3: Does the company have a written policy that requires the annual budget to be approved by the highest governance body?

Question 4: Does the company regularly monitor the implementation of the budget?

Question 5: Does the company adopt corrective measures to identify gaps between the actual expenditures and the budget?

BLOCK 2:

Question 1: Does the company have a strategic plan that covers a period equal to or greater than two (2) years?

Question 2: Is the strategic plan approved by the general assembly of shareholders, the board of directors, or equivalent body?

Question 3: Does the company have a written policy that requires the strategic plan to be approved by the general assembly of shareholders, the board of directors, or equivalent body?

Question 4: Does the company regularly monitor the implementation of strategic plans that cover a period of two (2) or more years?

Question 5: Does the company adopt corrective measures if, during the follow-up of the implementation of the strategic plan, gaps are identified between actual execution and plan?

BLOCK 3:

Question 1: Has the company defined strategic objectives whose fulfillment must be within a minimum period of five (5) years?

Question 2: Have the strategic objectives been approved by the general assembly of shareholders, the board of directors, or equivalent body?

Question 3: Does the company have a written policy that requires strategic objectives to be approved by the general assembly of shareholders, the board of members, or equivalent body?

Question 4: Does the company regularly monitor the fulfillment of the strategic objectives for a period equal to or greater than five (5) years?

Question 5: Does the company adopt corrective measures if, during the follow-up of the implementation of the strategic objectives, gaps are identified between the plan and actual execution?

BLOCK 4:

Question 1: Has the company documented the officials of the company and what their responsibilities are in relation to the fulfillment of objectives?

Question 2: Does the company document who, how, and when it will evaluate those responsible for fulfillment of plans and the strategic objectives?

[35] See the Confecámaras website: http://www.confecamaras.org.co/gobierno-corporativo, in Spanish.

[36] Superintendencia de Sociedades, Cámara de Comercio de Bogotá, *Colombian Corporate Governance Guide for Closely Held and Family Enterprises (Guía Colombiana de Gobierno Corporativo para Sociedades Cerradas y de Familia).* (Confecámaras, 2009). http://www.supersociedades.gov.co/web/documentos/guia%20colombiana%20de%20gobierno%20corporativo.pdf.

Question 3: Does the company have defined performance indicators to assess fulfillment by managers of the strategic objectives?

Question 4: Does the company take action in accordance with the results of the performance evaluation of managers in achieving the strategic objectives?

BLOCK 5:

Question 1: Has the company identified key commercial legal requirements and internal regulations with which it must comply?

Question 2: Does the company identify areas in which it risks being in breach of the law?

Question 3: Does the company verify its systems of compliance for measuring and managing the risks of noncompliance with commercial legal minimums and internal regulation?

Question 4: Does the company adopt measures for managing the risks of noncompliance and document the risks of noncompliance and measures taken?

Question 5: Does the company improve the identified risk management processes and identify potential new risks of noncompliance with the law and other applicable regulations?

BLOCK 6:

Question 1: Has the company identified the accounting minimums with which it must comply?

Question 2: Does the financial reporting of the company conform to the minimum accounting standards required by law?

Question 3: Does the company ensure through a documented procedure the preparation of financial reporting that complies with required accounting standards?

Question 4: Does the company verify compliance with the documented procedure so that the preparation of financial reports conforms to the applicable reporting standards?

Question 5: Does the company improve the documented procedure so that financial information conforms to applicable accounting standards?

BLOCK 7:

Question 1: Is the information from the company shareholder register updated?

Question 2: Does the company have formal means to promote attendance at the meetings of the general assembly of shareholders, the partners, or equivalent body?

Question 3: Does the company verify that partners or shareholders were informed of the last meeting of the general assembly of shareholders, the partners, or equivalent body, especially those who were not present or represented?

Question 4: Does the company have information about its partners or shareholders in addition to the information contained in the company shareholder register?

Question 5: Are partners or shareholders surveyed annually to determine how they learned of the last meeting and the means considered most effective to call future meetings?

Question 6: Does the company employ means to promote increased attendance at the meetings of the general assembly of shareholders, the partners, or equivalent body?

BLOCK 8:

Question 1: Is meeting notice for the general assembly of shareholders, the partners meeting, or equivalent body provided with a minimum advance as established by law?

Question 2: Does the notice for the general assembly of shareholders, the partners meeting, or equivalent body contain at least the venue, date, and time of the meeting?

Question 3: Does the call for the general assembly of shareholders, the partners meeting, or equivalent body contain at least the venue and a description of the right of inspection, including the person with whom this right may be exercised, when this required by law?

Question 4: Does the call for the general assembly of shareholders, the partners meeting, or equivalent body contain at least the necessary mechanisms to ensure that partners are adequately informed of the issues to be treated?

Question 5: Does the company's corporate governance code or equivalent document indicate that the notice for the general assembly of shareholders, the partners meeting, or equivalent body contains at least the necessary mechanisms to ensure that partners are adequately informed of the issues to be treated?

Question 6: Does the company verify that the information provided in the notice is sufficient to allow partners or shareholders to be informed for the meeting?

Question 7: Does the notice for the general assembly of shareholders, the partners meeting, or equivalent body contain at least the order of the day, avoiding generic items?

Question 8: Does the company's code of good corporate governance or an equivalent document indicate that the call for the general assembly of shareholders, the partners, board, or equivalent body contains at least the place, opportunity, and person who may exercise the right of inspection, where required by law?

Question 9: Does the governance code of the company or an equivalent document indicate that the notice for the general assembly of shareholders, the partners meeting, or equivalent body contains at least the order of the day, avoiding generic items?

Question 10: Does the governance code of the company or an equivalent document indicate that the notice for the general assembly of shareholders, the partners meeting, or equivalent body contains at least the venue, date, and time of the meeting?

Question 11: Does the company take action to improve the information provided in meetings, based on the results of a check?

BLOCK 9:

Question 1: Does the company take corrective action upon discovery of noncompliance with rules and procedures?

Question 2: Does the company have rules and procedures for the general assembly of shareholders, partner meetings, or equivalent body?

Question 3: Do the rules and procedures:

- Regulate the participation and/or attendance of third parties at the meeting?
- Establish the mechanism by which members can be represented?
- Establish a procedure to determine who exercises the presidency and the secretariat of the meeting?
- Establish the duties and responsibilities of the members of the approving commission of the proceedings in the case in which this function has been delegated?
- Require that the topics proposed in the agenda and those that arise as an addition to it are discussed separately?
- Establish the procedure to be followed in the event of suspension of the meeting?

Question 4: Does the general assembly of shareholders, the partners meeting, or equivalent body comply with the rules and procedures?

Question 5: Do the rules and procedures:

- Require prior approval of the agenda?
- Establish mechanisms to be taken by management to ensure that decisions are taken in accordance with the quorum and majorities required by law and the statutes?
- Set the maximum time that will elapse between the time of notice and the conduct of the meeting?
- Create conditions that ensure active participation of the attendees and a dynamic decision-making process?

BLOCK 10:

Question 1: Does the company have a remuneration policy for managers?

Question 2: Transactions with related parties. Does the company assign responsibility and take remedial action where transactions have not been carried out in accordance with approved policy?

Question 3: Global disposition of assets. Does the company submit the policy for the execution of operations that represent a global disposition of assets for the consideration of the general assembly of shareholders, the partners meeting, or equivalent body?

Question 4: Transactions with related parties. Does the company have a policy for related-party transactions?

Question 5: Global disposition of assets. Does the company have a policy for the implementation of transactions that represent a global disposition of assets?

Question 6: Remuneration of managers. Does the company submit for the consideration of the general assembly of shareholders, the partners meeting, or equivalent body the adoption of the remuneration policy for managers?

Question 7: Remuneration of managers. Is the requirement to submit the remuneration policy to the general assembly of shareholders, the partners meeting, or equivalent body documented?

Question 8: Segregations. Does the company have written requirements that specify the need to submit a segregations policy for consideration of the general assembly of shareholders, the partners meeting, or equivalent body?

Question 9: Transactions with related parties. Does the company submit its related-party transactions policy to the general assembly of shareholders, the partners meeting, or equivalent body for their consideration?

Question 10: Segregations. Does the company have written requirements that specify the need to submit its policy for the realization of segregations to the general assembly of shareholders, the partners meeting, or equivalent body for their consideration?

Question 11: Transactions with related parties. Does the company have written requirements that specify the need to submit its related-party transaction policy for consideration by the general assembly of shareholders, the partners meeting, or equivalent body?

Question 12: Transactions with related parties. Does the company check that no related-party transactions take place without consulting the approved policy?

Question 13: Global disposition of assets. Does the company have written requirements that specify the need to submit its policy for the global disposition of assets to the general assembly of shareholders, the partners meeting, or equivalent body for their consideration?

Question 14: Global disposition of assets. Does the company establish responsibility and take remedial action where operations have not been carried out in accordance with the approved policy?

Question 15: Remuneration of management. Does the company check that no operations are carried out without consulting the approved policy?

Question 16: Segregations. Does the company have a policy for the realization of segregations?

Question 17: Global disposition of assets. Does the company check that none of these operations is carried out without consulting the approved policy?

Question 18: Segregations. Does the company establish responsibility and take remedial action when the operations are not carried out in accordance with the approved policy?

Question 19: Remuneration of management. Does the company establish responsibility and take remedial action where operations have not been carried out in accordance with the approved policy?

Question 20: Segregations. Does the company check that no operations are carried out without consulting the approved policy?

BLOCK 11:

Question 1: Does the company have a tax auditor?

Question 2: Is it true that neither management, partners, nor shareholders influence the independence of the tax auditor?

Question 3: Does the company comply with the procedures established for the selection of the tax auditor?

Question 4: Does the company establish a selection procedure for the tax auditor that ensures that at least three proposals are received from suitable and independent candidates?

Question 5: Is the procedure for the selection of the tax auditor formalized in the internal policies and procedures of the company?

BLOCK 12:

Question 1: Has the company established corporate governance bodies?

Question 2: Do these bodies fulfill different functions?

Question 3: Are the different functions of the governance bodies set down in the company statutes?

Question 4: Does the company check to see that each governance body fulfills the functions set down in the statutes?

Question 5: Does the company adopt corrective measures when the functions are not fulfilled as established in the statutes?

BLOCK 13:

Question 1: Does the company have established procedures to verify that the nomination of candidates for membership on the board of directors or equivalent body complies with the criteria established by law, company statutes, and other applicable internal regulations?

Question 2: Does the company improve the procedure for the nomination of candidates, taking into account past experience and the experience gained in the operation of the board of directors or equivalent body?

Question 3: Has the company documented this procedure?

Question 4: Is compliance with the procedure checked?

BLOCK 14:

Question 1: Does the company have a board of directors or equivalent body?

Question 2: Does the board of directors or equivalent body have an odd number of members and at least one (1) member who complies with the requirement not to be an employee or manager of the natural or legal person who provides audit services to the company or any of its affiliates or subsidiaries?

Question 3: Does the company have formal internal rules and procedures that specify that the board will have an odd number of members and that at least one board member meets the requirement not to be an employee or legal representative of the company (i.e., a non-executive director)?

Question 4: Does the company have formal internal rules and procedures that specify that the board will have an odd number of members and at least one member who meets the requirement not to be an employee or manager of the natural or legal person who provides audit services to the company or any of its affiliates or subsidiaries?

Question 5: Does the company have formal internal rules and procedures that specify that the board will have an odd number of members and that at least one member who meets the requirement not to have family ties with any of the above to the third degree of consanguinity, second of affinity, or first civil (i.e., an independent director)?

Question 6: Does the board of directors or equivalent body have an odd number of members and at least one (1) member who complies with the requirement not be associated with or directly or indirectly steer, orient, or control the majority of the voting rights of the company or determine the majority composition of the management, direction, or control bodies?

Question 7: Does the company have formal internal rules and procedures that specify that the board will have an odd number of members and that at least one (1) member meets the requirement not to be associated with or directly or indirectly steer, orient, or control the majority of the voting rights of the company or determine the majority composition of the management, direction, or control bodies?

Question 8: Does the board have more than one external member and periodically check the need to increase the number of external members?

Question 9: Does the company check that the board of directors has an odd number of members and that the status of the external members continues during the exercise of their office?

Question 10: Does the board of directors or equivalent body have an odd number of members, and at least one (1) member complies with the requirement not to be an employee or legal representative of the company?

Question 11: Does the board of directors or equivalent body have an odd number of members, and at least one (1) member complies with the requirement to not have family ties with any of the above, to the third degree of consanguinity, second of affinity, or first civil?

BLOCK 15:

Question 1: Does the board of directors or equivalent body approve the annual budget without delegating this authority?

Question 2: Does the board of directors or equivalent body approve the strategic plan without delegating this authority?

Question 3: Does the board of directors or equivalent body identify related parties without delegating this authority?

Question 4: Does the board of directors or equivalent body verify the proper function of the internal control system without delegating this authority?

Question 5: Are the most relevant results of the checks conducted by the board included in the annual corporate governance report?

Question 6: Does the board of directors or equivalent body establish the policy for dismissal of senior management without delegating this authority?

Question 7: Does the board of directors or equivalent body verify compliance with accounting policies without delegating this authority?

Question 8: Does the board of directors or equivalent body ensure compliance with corporate governance standards without delegating this authority?

Question 9: Does the board of directors or equivalent body determine the information and communications policy for the company?

Question 10: Does the company have these responsibilities formalized in its statutes?

Question 11: Does the board of directors or equivalent body have a succession plan to mitigate risks in the event of a change in the chief executive of the company without delegating this authority?

Question 12: Does the board of directors or equivalent body establish the remuneration policy for senior executives without delegating this authority?

Question 13: Does the board of directors or equivalent body check the risk management function of the company without delegating this authority?

Question 14: Does the board of directors or equivalent body manage the conflicts of interest of company officials without delegating this authority?

Question 15: Does the company provide ongoing training for the professionalization of its board of directors?

Question 16: Does the board of directors or equivalent body approve strategic objectives without delegating this authority?

Question 17: Does the board of directors or equivalent body periodically check on performance compared to the strategic plan?

Question 18: Does the board of directors or equivalent body establish policies for evaluating senior managers without delegating this authority?

Question 19: Does the above-noted procedure establish the form, frequency, and responsibility for the evaluation?

Question 20: Does the company have established procedures for the evaluation of the management of its board of directors or equivalent body?

Question 21: Does the board of directors or equivalent body establish policies for the appointment of senior executives without delegating this authority?

BLOCK 16:

Question 1: Does the board of directors or equivalent body have its own internal policies and procedures?

Question 2: Does the company assign a person to produce board meeting minutes that faithfully reflect and attest to the decisions taken?

Question 3: Does the board of directors or equivalent body have formal rules and procedures for termination or resignation of its members?

Question 4: Does the board of directors or equivalent body have formal rules and procedures for incompatibilities and incapacities of its members?

Question 5: Does the board of directors or equivalent body have formal rules and procedures for the frequency of meetings?

Question 6: Does the board of directors or equivalent body have formal rules and procedures for form, timing, and responsibility for board meeting notice?

Question 7: Does the board of directors or equivalent body have formal rules and procedures for conduct, development, and completion of board meetings?

Question 8: Does the board of directors or equivalent body have formal rules and procedures describing the duties and rights of members?

Question 9: Does the board of directors or equivalent body have formal rules and procedures that describe the information rights of board members, including documents that must be attached to the meeting notice?

Question 10: Does the board of directors or equivalent body have formal rules and procedures that describe their information rights, recognizing that any request for information from an individual board member must be approved by the board?

Question 11: Does the company assign someone to check that the board of directors or equivalent body complies with statutory requirements at meetings?

Question 12: Does the company take corrective actions when there is evidence of breach of statutory requirements?

BLOCK 17:

Question 1: Does the company publish annual financial reports?

Question 2: Does management report on the results of operations and the overall disposal of assets in addition to what is required under Article 47 of the Law 222 of 1995?

Question 3: Does the company have a formal requirement to report on the results of operations and the overall disposal of assets in the annual report?

Question 4: Does management report on transactions with owners or partners in addition to what is required under Article 47 of the Law 222 of 1995?

Question 5: Does management report on compliance with corporate governance practices in addition to what is required under Article 47 of the Law 222 of 1995?

Question 6: Does management report on transactions with management in addition to what is required under Article 47 of the Law 222 of 1995?

Question 7: Does the company have a formal requirement to report on transactions with parties related to management in the annual report?

Question 8: Does the company have a formal requirement to report on related-party transactions with individuals linked to the partners or shareholders in the annual report?

Question 9: Does management report on related-party transactions concluded with individuals linked to management in addition to what is required under Article 47 of the Law 222 of 1995?

Question 10: Does the company have a formal requirement to report on transactions with management in the annual report?

Question 11: Does the company check to ensure that related-party transactions with any and all related parties are included in the annual report?

Question 12: Does management report on related-party transactions concluded with partners or shareholders in addition to what is required under Article 47 of the Law 222 of 1995?

Question 13: Does the company report profits or losses generated from transactions with any and all related parties?

Question 14: Does the company have a formal requirement to report on related-party transactions with partners and shareholders in the annual report?

Question 15: Does the company have a formal requirement to report on compliance with the code on corporate governance practices in the annual report?

7.5 Sample pilot test and company feedback form

The engagement of companies is of great importance to the success of a scorecard project. For this reason, it is important to solicit feedback from corporate users to ensure that the scorecard and the scorecard project are properly designed and that they are constantly improved. Table 7.3 is a sample feedback form that can be given to companies either after pilot testing or after having completed a scorecard.[37]

The form is designed to elicit feedback on the format and content of the scorecard as well as on the process and outcomes. Feedback forms can be administered annually after the completion of a set of scorings and inform a discussion in preparation for subsequent years' scorings.

TABLE 7.3: SAMPLE FEEDBACK FORM

Question	Answer space
1. Format	
1.1. Was the scorecard sufficiently user-friendly?	
1.2. Would you prefer to work with paper, spreadsheet, or a Web-based scorecard?	
1.3. What would you suggest to make the actual scorecard easier to use?	
2. Process	
2.1. Did you fill in the scorecard alone?	
2.2. If yes, would the assistance of a corporate governance expert be useful when filling the scorecard in?	
2.3. How much time did it take to fill the scorecard in?	
2.4. Do you feel that the amount of time was about right, too little, or excessive?	
2.5. Was it necessary to consult other people to gather the information needed to fill in the scorecard?	
2.6. If so, what were the positions of the people who needed to be consulted?	
2.7. Should filling in the scorecard be a group/team exercise?	
2.8. How many other people were consulted when filling in the scorecard?	
2.9. Was it necessary to consult company documentation?	
2.10. If so, what were the main items of documentation that were consulted?	
2.11. What would you suggest to make the scorecard process better?	
3. Clarity and completeness	
3.1. Were there any questions that were unclear or difficult to understand?	
3.2. If so, which questions?	
3.3. If there were any questions that you thought were particularly useful or revealing, what were they?	
3.4. Were there any questions that should have been posed in the scorecard but were not?	

37 Source: IFC.

TABLE 7.3: SAMPLE FEEDBACK FORM continued	
Question	**Answer space**
3.5. Were there any questions that should not have been posed?	
3.6. Were there any questions you felt uncomfortable answering due to concerns regarding confidentiality?	
4. Scoring	
4.1. Did you feel that the weightings (importance given to) the different general indicator <u>categories</u> were correct?	
4.2. Did you feel that the weightings (importance given to) the different governance <u>indicators</u> were correct?	
4.3. Do you feel that the final aggregate score for the company was fair?	
4.4. Why or why not?	
4.5. What aspects of the scoring would you change?	
5. Reporting and feedback	
5.1. How important is it for you to have immediate feedback from the scorecard and reports?	
5.2. How important would it be to have results presented by a governance expert who is available for questioning and feedback?	
5.3. Do you feel that the results are best kept confidential, or that some results might be shared outside the company?	
6. Outcomes	
6.1. Did you find going through the scorecard process valuable?	
6.2. Do you feel that company staff learned something useful about corporate governance?	
6.3. Will there be any concrete results at your company as a result of the scoring?	
6.4. Did top executives and/or the board <u>read</u> the report findings?	
6.5. Did top executives and/or the board <u>discuss</u> the report findings?	
6.6. Was corporate governance put on the board's or management's agenda for future consideration?	
6.7. Did a governance <u>reform plan</u> result from the scoring, or will one result in future from the scoring?	
6.8. Would you recommend undertaking a scorecard evaluation to a friend or colleague at another company?	
6.9. What do you think was the single most important outcome of the scorecard exercise?	
7. Additional	
7.1. From what source did you first learn about the scorecard project?	
7.2. What was your primary motivation for participating in the scorecard project?	
7.3. Other comments:	

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