

# Are E Services Exporters Ready for B2B?

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## Introduction

**B**2B (or business to business) electronic commerce is a buzzword in business. It refers to a popular type of electronic commerce which involves transactions among business buyers as opposed to B2C electronic commerce, which are transactions between business buyers and ultimate consumers. While electronic commerce will reach about USD1.2 billion in 2002, the biggest bulk of electronic commerce transactions will be in B2B (Bandyopadhyay, 2001). This figure implies that electronic commerce will have a serious impact on world trade, especially on exporter-importer trading networks. Are our electronic services exporters ready for B2B?

Electronic services exporters include firms exporting IT and IT enabled services. The IT services industry includes the exports of computer software and computer services (Tullao and Teehankee, 2000). On the other hand, the exports of IT enabled services include call centers and other customer services, animation, remote education, medical and legal transcription, back office operations such as revenue accounting and insurance claims processing (retrieved on February 14, 2002 at [www.citem.com.ph/e-services](http://www.citem.com.ph/e-services)).

Call centers, the newest sunshine industry of the Philippines and considered as the most promising electronic service export, refer to answering services provided by firms to their customers. This can be outsourced to another company, maybe in another country such as the Philippines, as it may be cost-effective to do so. Normally, these are 1-800 numbers that can be outsourced to another company or even another country (such as the Philippines).

Medical transcription refers to the conversion of medical records such as results of medical investigation and doctors' dictation and lectures to computerized format ([www.citem.com.ph/e-services](http://www.citem.com.ph/e-services)). Likewise, legal transcription



refers to the conversion of legal records such as court records to computerized format. There are large export markets for these services in developed countries such as the US.

Electronic commerce, through Electronic Data Interchange (EDI), has been used in the Philippine export industry (Toral, 1999). EDI is a technology that enables firms to exchange data electronically with their suppliers (Sawabini, 2000). Although considered by some as the first generation of electronic commerce, EDI is a subset of electronic commerce (Sawabini, 2000). The introduction of Internet in the Philippines in 1994 made electronic commerce more visible as businesses were able to choose products and to pay for products online (Toral, 1999). Some firms have been able to integrate electronic commerce in their operations while other firms have continued to use traditional commerce.

The ability to integrate electronic commerce in the firm's operations is hampered by the need to improve the telecommunications structure (phone density, faster downloading time, etc.) and low Internet connectivity. This is

### 3. Expert State

Firms in this state have reengineered their business process to function effectively in the electronic market (Grewal et al, 2001). As experts, these firms are doing the complete transaction loop; from product promotion, accepting orders and payments and customer services, etc., online.

## Discussion of Research Findings

### A. Respondents' Profile

#### A1. Asset Size

Fifty-nine exporting-firms, which exhibited at the Electronic Services Fair held last February 7-9 at the World Trade Center, participated in the research on electronic commerce readiness of exporters of electronic services. Only small and medium firms were included in the study. Of the 59 respondents, 25 were small based on assets-size and 34 were medium. It appears that majority of the respondents, or 57.6%, have more resources based on total assets versus small-sized firms, or 42.4%. Thus, they will have more resources to enhance their electronic commerce infrastructure versus small-sized firms.

#### A2. Average Age of Employees

Eighty-four percent of the respondents have employees whose average age will be from 21-31 years. This implies that the respondents have very young staff.

#### A3. Number of Years that the Firm has been in the Export Business

Seventy-one percent of firms have been in the export business for only 1-5 years. This implies that most respondents are new in the export business.

#### A4. Number of Years that the Firm has been Involved in the Electronic Marketplace

Fifty four percent of firms have been involved in buying and selling through electronic means like the Internet for 1-2 years. Thus, most of the respondents have little experience in electronic commerce.

#### A5. Computer Proficiency of Staff

Seventy five percent of the respondents' staff are very proficient in computer use. Thus, the exporting firms have existing IT capabilities for electronic commerce.

#### A6. Attendance in E Commerce Seminars and Training Programs

Ninety one percent of the respondents' staff attend electronic commerce seminars and training programs. Thus, there are firm efforts to enhance electronic commerce readiness.

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**When communicating with buyers, firms ranked email as the most important way of communicating, telephone as second most important and fax as the third most important**

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#### A7. Promoting Products Online

Ninety one percent of the respondents promote their products online. Of this percent, 81.8% use their own website to promote their products online.

#### A8. Ways of Communicating with the Importers

When communicating with buyers, firms ranked email as the most important way of communicating, telephone as second most important and fax as the third most important. This shows that email, which is the most preferred way of communicating with buyers, has been widely used not only among firms exporting electronic services but among firms exporting gifts, toys, houseware, fashion accessories, semiconductors and electronics as indicated in the CITEM/

PTTC survey.

#### A9. Activities in which the Internet has been used

The most frequent activity in which the Internet has been used is email. The use of Internet mostly for email validates the PTTC and CITEM survey which concluded that exporting firms used the Internet primarily for email. The other activities where the Internet has been used are conducting marketing research (2<sup>nd</sup> most frequent activity), searching for suppliers (3<sup>rd</sup>), searching for importers (4<sup>th</sup>), searching for electronic catalogues (5<sup>th</sup>), buying online (6<sup>th</sup>), travel arrangements (7<sup>th</sup>) and joining discussion groups (8<sup>th</sup>).

#### A10. Business Applications of Existing Hardware and Software

The firm's existing hardware and software are most frequently applied to sales (ranked 1<sup>st</sup>), management information systems (ranked 2<sup>nd</sup>), finance/accounting (ranked 3<sup>rd</sup>), customer service (ranked 4.5<sup>th</sup>), HRD/Personnel (ranked 4.5<sup>th</sup>), research and development (ranked 6<sup>th</sup>), purchasing (ranked 7<sup>th</sup>) and manufacturing (ranked 8<sup>th</sup>). This implies that business applications using existing software and hardware capabilities are geared towards making the firms increase its market share or towards the efficiency motive.

### B. Factors Influencing Firms to be Electronic Commerce Ready

#### B1.1 Firm's Ability

- Learning (Age-Based of Number of Years in the Electronic Marketplace)

Thirty percent of the respondents agree that they are electronic commerce ready because of the number of years of involvement in the electronic marketplace. The mean score of 2.37 further validates this finding.

- Learning (Effort-Based or Firm's Efforts to Learn and Develop Skills to Enhance Electronic Commerce Capability)

aggravated by the need to improve user confidence on the security of online transactions.

In spite of these challenges, there are firms which are more electronic commerce ready than other firms. Thus, there must be factors that affect the firm's electronic commerce readiness.

Based on the model of Grewal and his colleagues (2001), the nature of participation of firms in B2B electronic commerce will depend on factors such as ability and organizational motivation. Ability will be measured through learning, which can be age-based and effort-based. Age refers to the number of years that the firm has been involved in the electronic marketplace while efforts refer to the firm's efforts to develop skills to manage an electronic market. On the other hand, organizational motivation refers to the efficiency motive or to the legitimacy motive. Efficiency motive includes the firm's goal to improve profitability, reduce transaction costs, use technology to improve sales, increase market share, gain competitive advantage, etc. (Bansal and Roth, 2000). Legitimacy motive refers to the firm's desire to improve the appropriateness of its actions within an established set of norms, values and beliefs (Suchman, 1995). These factors serve as the study's independent variables.

The study's dependent variables are the electronic commerce readiness states. Electronic commerce readiness refers to the firm's ability to integrate electronic commerce in their operations (Retrieved on November 27, 2001 at [www.bridges.org](http://www.bridges.org)). These states are as follows (Grewal et al, 2001; as cited in Toral, Pricewaterhouse Coopers, 1999):

### 1. Passive State

Firms in this state carry out no business in the electronic market and are unwilling to devote resources to engage in electronic commerce (Grewal et al). These firms do not have an online capability and do not have websites. The use of Internet is only for emailing.

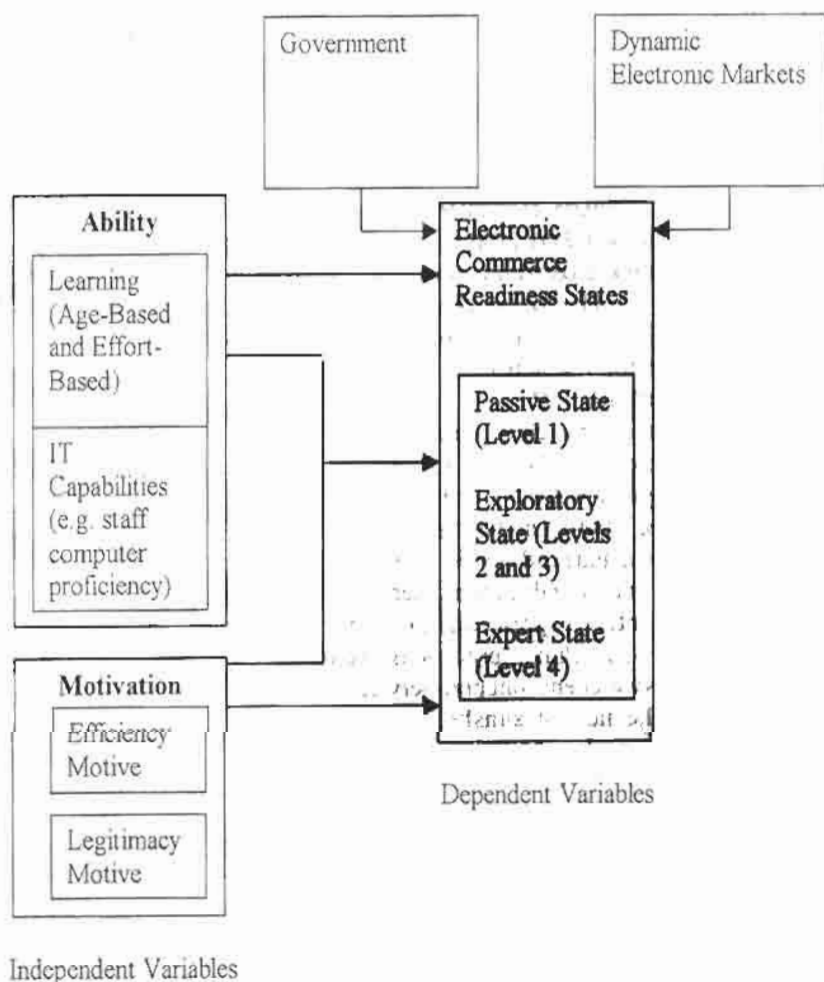
These firms do not want to search outside of their domains for new opportunities and, thus, do not need to make major changes in their operations (Miles and Snow, 1978). They perceive change but do not respond until they are forced to do so by environmental pressures (Miles and Snow).

### 2. Exploratory State

Firms in this state do not know the requirements to conduct operations in the electronic market but are willing to devote resources to learn about it (Grewal et al). These firms test the wa-

ters to understand electronic commerce. They regularly experiment with potential responses to emerging environmental trends (Miles and Snow). Firms in this state will only adopt to changes, which appear to be the most promising based on the experience of their competitors (Miles and Snow). Firms have websites, which serve as company brochures and accept orders online, use the Internet for emailing and provide online customer support.

The study's theoretical framework is shown in Figure 1.



Thirty six percent of the respondents *strongly agree* that the firms' efforts to learn e commerce motivate them to be e commerce ready. The mean score of 2.05 implies that respondents *agree* to this statement.

### B1.2 IT Capability

Based on research findings, respondents in the expert state have an average of 34 computers while those in the exploratory and passive states have an average of 15 and 22 computers, respectively. Given this date, it is difficult to conclude that the readiness state is related to the number of computers.

Most respondents or 54% used the internet once in 2 days.

Based on Table 1, the firm's IT capability is ranked as the most important factor influencing firms to be electronic commerce ready. The ranking of firm's IT capability as number 1 factor, which influenced firms to be electronic commerce ready, validates the general perception that electronic services firms are electronic commerce ready because of their IT infrastructure. Thus, electronic services firms have unique IT strengths.

As Porter has stressed, one of the essential conditions for the firm's success should be to exploit unique strengths as this will lead to its competitive success. Consistent to this argument, the respondent firms should exploit its unique IT capability in electronic commerce to be successful. The survey results show that responding firms have existing hardware and software capabilities coupled with computer-proficient staff who continuously exerts efforts to improve their knowledge of electronic commerce.

Table 1 also shows that the pressure from customers and competitor, or the efficiency motive, is ranked as the second most important factor while firms' efforts to learn electronic commerce is ranked as the third most important factor.

Based on the results, 40.7% of the respondents *strongly agree* that their IT

Table 1: Factors Influencing Firms to be Electronic Commerce Ready  
(n: 59, 9 as the most important and 1 as the least important)

Rank	Factors	Frequency	Percent
1	Others	44	74.58
2	Profitability	28	47.46
3	Computer-proficient staff	28	47.46
4	Adhering to social norms	28	47.46
5	Need to be legitimate in our industry association	26	44.07
6	Number of years of firm's involvement in electronic marketplace	19	32.20
7	Firm's efforts to learn electronic commerce	21	35.59
8	Pressure from customers and competitors	26	44.07
9	Firm's IT capability	24	40.68

capabilities motivate them to be electronic commerce ready. The mean score of 2.05 shows that respondents *agree* that their IT capabilities motivate them to be electronic commerce ready.

Furthermore, 44.1% of the respondents *agree* that they are involved in e commerce because of their computer-efficient staff. The mean score of 2.22 further validates that respondents *agree* that their electronic commerce readiness is due to their computer-efficient staff.

## B2. Motivation

### B2.1 Efficiency Motive

Forty-four percent of the respondents *agree* that their importers motivated them to be electronic commerce ready. However, the mean score of 2.61 implies *neutrality*.

When asked if they are adopting electronic commerce to prevent their importers from buying from competitors, 36% of the respondents *agree* that they have to be e commerce ready to prevent their importers from buying from competitors. The mean score of 2.64 implies *neutrality*.

Forty two percent of the respondents *agree* that profit motivates them to be e commerce ready. The mean score of 2.15 implies that respondents *agree* that profitability will motivate them to be e commerce ready.

### B2.2 Legitimacy Motive

Thirty four percent of respondents are neutral when asked if they are engaged in e commerce because it is required by the industry association. The mean score of 2.8 further validates this neutrality.

## C. Assistance Needed by the Firm to be E Commerce Ready

The most important training needs of the firms are promoting products online (ranked 1<sup>st</sup>), use of Internet (ranked 2<sup>nd</sup>), using electronic mail (ranked 3<sup>rd</sup>), computer aided designs (ranked 4<sup>th</sup>) and knowing online marketplaces (ranked 5<sup>th</sup>).

The institutions/persons which can help firms to become electronic commerce ready, ranked from most important to least important, are government, importer/buyer/customer, industry association and supplier. This implies that PTTC can offer training programs on promoting products online, use of Internet and computer aided designs.

## D. Level of E Commerce Readiness

According to the survey, 45.8% of the respondents describe their firms to be in the expert state, 35.6% in the passive state and 18.6% in the exploratory state. This shows that there are different levels of readiness among firms exporting electronic services.

### E. Significant Relationships Between Variables

Based on Pearson chi-square values, there is no significant relationship between electronic commerce readiness states and company size, number of years in export business and average of the total firm employees at 0.05 level of significance.

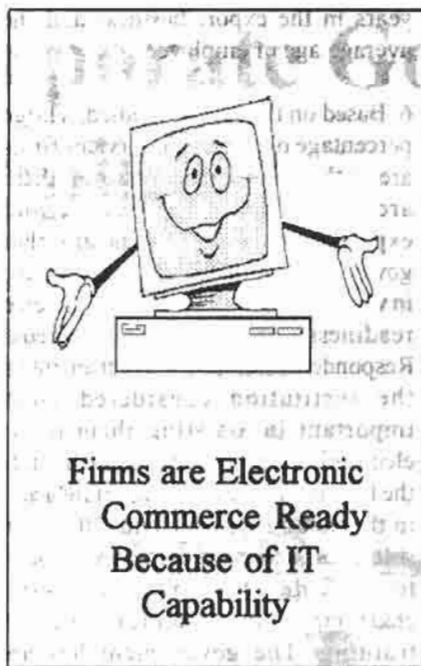
However, when predictors were reduced to only Q2 (average age of total firm employees), Q14 (number of computers), Q15 (number of computers linked to the Internet), Q16 (frequency of Internet usage) and Q17 (staff computer proficiency), the analysis of variance is equal to 3.429 at .009 level of significance. Thus, there is a significant linear relationship. This is further validated by the t value, which is equal to 2.411 at .01 level of significance. This means that there is a significant linear relationship between the independent variables, such as average age of employees, number of computers in the company, computers linked to Internet, frequency of Internet usage and staff computer proficiency and the electronic commerce readiness states. It can be inferred that based on the sample size studied, these are the factors that affect the electronic commerce readiness of the firms surveyed.

## Conclusions

### 1. Major Characteristics of Electronic Services Firms

Based on the sample studied, the firms exporting electronic services have the following dominant characteristics:

- 1.1. mostly medium in size
- 1.2. average age of most employees are in the range of 21-31 years
- 1.3. most of them have been in the export business from 1 to 5 years
- 1.4. most of them have been involved in the electronic marketplace from 1-2 years



The respondent firms, mostly medium-sized, have more resources to engage in electronic commerce versus small-sized firms. With young employees whose average age will be 21-31 years of age, majority of these firms have 1 or 2 years of experience in the electronic marketplace. In spite of the little experience of 1 to 2 years, most of the respondents described their firms to be in the expert state of electronic commerce readiness.

Compared to the majority of the gifts, toys, houseware, fashion accessories, semiconductor and electronics firms, which were surveyed by PTTC and CITEM and which have been in the export business for more than 5 years, the respondent firms have less years in the export business. This also reflects the fact that the electronic services industry is a young industry compared to gifts, toys, houseware, fashion accessories, semiconductor and electronic firms. In spite of their little export experience, most of the respondent firms have progressed to the

expert state of electronic commerce readiness because of their IT capabilities.

### 2. Factors Affecting Electronic Commerce Readiness

2.1 IT Capability is Ranked as the Number 1 Factor Motivating Respondents to be Electronic Commerce Ready and IT Capability Mean Score Indicates that Respondents Agree that Firms are Electronic Commerce Ready Because of IT Capability

Based on the sample size studied, the factor which has been ranked as the number 1 motivator of firms to be electronic commerce ready is the firm's IT capability. Most of these firms have very proficient computer staff. They have existing hardware and software capabilities. The business applications of the firms' existing software and hardware are geared for sales. This implies that most of these firms are motivated by the efficiency motive as well.

2.2 Ability (Age-Based and Effort-Based) Mean Scores Show that Respondents Agree that Ability Motivates Firms to be Electronic Commerce Ready

Respondents agree that they are electronic commerce ready because of the number of years of involvement in the electronic marketplace. This is validated by the mean score of the statement pertaining to the years of electronic marketplace involvement in the Likert scale. Respondents strongly agree that the firm's efforts to learn electronic commerce through attendance in seminars and training programs have motivated them to be electronic commerce ready. The mean score indicates that respondents agree that efforts to learn electronic commerce have motivated them to be electronic commerce ready.

### 2.3 Efficiency Motive Mean Scores Show Neutrality

Although respondents *agree* that their importers have motivated them to be electronic commerce ready, the mean scores indicate *neutrality*. However, respondents *agree* that the profit will motivate them to be electronic commerce ready. The mean score further supports this.

### 4 Legitimacy Motive Mean Score Show Neutrality

Most of the respondents are *neutral* when asked if they are engaged in electronic commerce because of legitimacy motive. Further, this *neutrality* is further supported by the mean score.

3. This study validates the CITEM and PTTC survey, which shows that Internet is used mostly by exporting firms for email. The Internet is not commonly used by exporting firms to conduct market research, search for suppliers, search for importers, search for electronic catalogs, buy online, etc. This implies that PTTC can undertake training programs on how to maximize the use of Internet to promote electronic commerce readiness.

4. Within the electronic services industry, there are three levels of electronic commerce readiness based on the sample studied: passive, exploratory and expert. A large percentage of the electronic services firms studied, or 45.8%, belong to the expert state. On the other hand, 35.6% are in the expert state and 18.6% are in the exploratory state.

5. Based on chi-square tests, there are no significant differences in the e-commerce readiness states when firms are grouped according to the company size based on capitalization, number of

years in the export business and the average age of employees.

6. Based on the sample studied, a large percentage of electronic services firms are in the expert state. However, there are still firms in the passive and exploratory states. This means that government should assist these firms, in whatever state of electronic commerce readiness, in their training needs. Respondents ranked the government as the institution considered most important in assisting them to be electronic commerce ready. Although the firm is still the most important actor in the trading system (Dent, 2001), it still relies on the state or the government to provide them the necessary electronic commerce infrastructure and training. The government has an important role in providing assistance to exporting firms.

7. The theory of dynamic firm capabilities focuses on three important features of the firm: its strategy, its structure and its core capabilities (Nelson, Richard, 1995). In adopting electronic commerce as its strategy, its hardware and software can be its structure and its core capabilities can be its learning. Learning is based on the number of years of involvement in electronic commerce and its efforts to learn electronic commerce. Backed by its unique strengths in its structure and its core capabilities, respondent firms can accomplish its strategy of adopting electronic commerce. These firms have more chances of being in the expert state because of its structure and its core capabilities.

Are electronic services exporting firms ready for B2B? Based on the respondents studied, most of the electronic services firms are more than ready for B2B. The factor that influenced these firms to be electronic commerce ready is their IT capabilities.

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# Code of Corporate Governance in the Philippines

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## Introduction

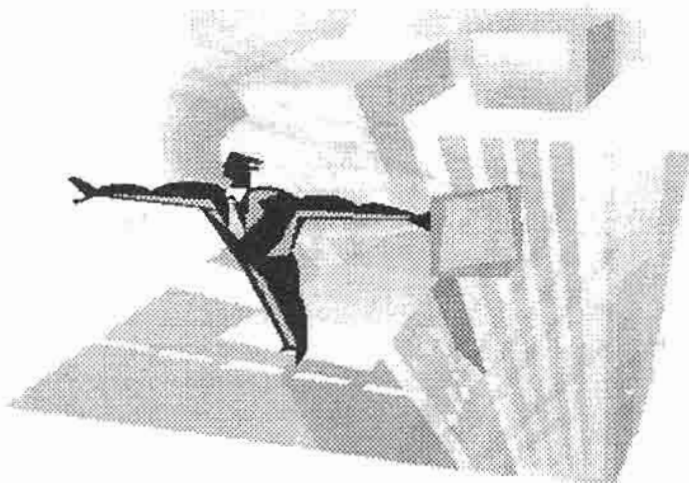
Recently the terms "governance" and "good governance" are increasingly being used in various literature. The concept of "governance" and "good governance" is not new. It is as old as human civilization.

Simply put, "governance" means: the process of decision-making and the process of implementing (or not implementing) a decision. In particular, good governance may be defined as comprising the processes and structures that guide political and socio-economic relationships, with particular reference to "commitment to democratic values, norms and practices, trusted services and just and honest business" (Okot-Uma, 2002).

Good governance can be conceptualized as part of a development process. Whatever definitional format it may assume, there is general consensus among practitioners that good governance should among other things, be participatory, transparent and accountable in characteristics.

## Participation

Participation by both men and women is a key cornerstone of good governance. Participation could be through legitimate intermediate institutions or representatives. It is important to point out that representative democracy does not necessarily mean that the concerns of the most vulnerable in society would be



taken into consideration in decision making. Participation needs to be informed and organized. This means freedom of association and expression on one hand and an organized civil society on the other hand.

## Transparency

Transparency means that decisions taken and their enforcement are done in a manner that follow rules and regulations. It also means that information is freely available and directly accessible to those who will be affected by such decisions and their enforcement. It also means that enough information is provided in easily understandable forms and media.

## Accountability

Accountability is a key requirement of good governance. Not only governmental institutions but also the private sector and civil society organizations must be accountable to

the public and to their institutional stakeholders. Who is accountable to whom varies depending on whether decisions or actions taken are internal or external to an organization or institution. In general an organization or an institution is accountable to those who will be affected by its decisions or actions. Accountability cannot be enforced without transparency and the rule of law.

## The concept of corporate governance

Governance can be used in several context such as corporate governance, international governance, national governance and local governance. Governance in business corporations is an old art but a new science. Long before the rise of modern corporation to a dominant position among the various organizational forms of conducting business operations, corporate policies flourished and those who governed the

affairs of the corporation were well aware that their business was the governing of men as well as the administering of property and the manipulation of things. Corporate governance constitutes supervision or monitoring of management performance and ensuring the accountability of management to shareholders and other stakeholders.

Government, one of the actors in corporate governance, ensures the accountability of directors and management through the rule of law. The Securities and Exchange Commission (SEC) spearheaded efforts towards good corporate governance. SEC issued Memorandum Circular 2, Series of 2002 otherwise known as the "Code of Corporate Governance" which was approved under resolution no. 135 dated April 4, 2002. The code is now effective and must be followed under pain of penalty.

THE CODE OF CORPORATE  
GOVERNANCE  
SEC MEMORANDUM CIRCULAR  
NO. 2, SERIES OF 2002

#### OBJECTIVE

To actively promote corporate governance reforms aimed to raise investor confidence, develop capital market and help achieve high sustained growth for the corporate sector and the economy.

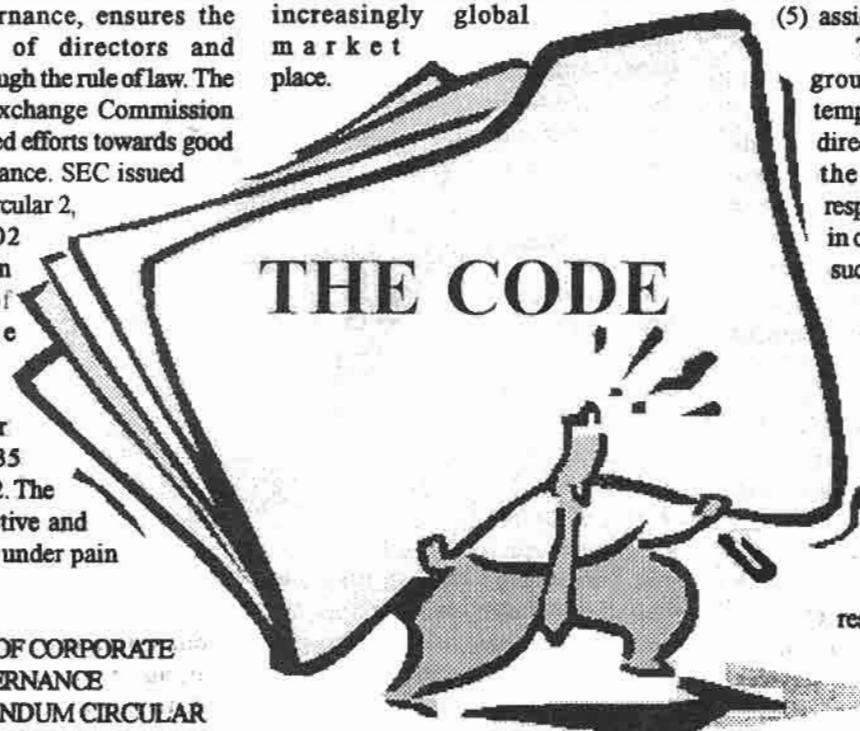
#### SCOPE

The code applies to: (1) corporations whose securities are registered or listed, (2) corporations who are grantees of permits/licenses and secondary franchise from the Commission, (3) public companies and (4) branches or subsidiaries of foreign corporations operating in the Philippines whose securities are registered or listed.

## FEATURES OF THE CODE

### I. Definition of Corporate Governance

The code defines corporate governance as a system whereby shareholders, creditors and other stakeholders of a corporation ensure that management enhances the value of the corporation as it competes in an increasingly global market place.



## THE CODE

### II. Board Governance

The Board of Directors (Board) is primarily responsible for the governance of the corporation. It needs to be structured so that it provides an independent check on management. As such, it is vitally important that a number of board members be independent from management.

The Board shall be composed of at least five (5) but not more than fifteen (15) members elected by shareholders. The Board may include a balance of executive and non-executive directors (including independent non-executives), having a clear division of responsibilities

such that no individual or small group of individuals can dominate the Board's decision making.

The Board may provide for additional qualifications of a director such as, but not limited to, the following: (1) educational attainment; (2) adequate competency and understanding of business; (3) age requirement; (4) integrity/probity; and (5) assiduousness.

The code provides various grounds for permanent and temporary disqualification of directors. It clearly prescribes the duties, functions and responsibilities of each director in order to foster the long-term success of the corporation and secure its sustained competitiveness in a manner consistent with its fiduciary responsibility, which should be exercised in the best interest of the corporation and its shareholders.

A director's general responsibility is one of trust and confidence. Aside from exercising leadership, prudence and integrity in directing the corporation towards sustained progress over the long term, he should also act in the best interest of the corporation in a manner characterized by transparency, accountability and fairness. A director assumes certain responsibilities to different constituencies or stakeholders who have the right to expect that the institution is being run in a prudent and sound manner.

To ensure good governance of the corporation, the Board should establish the corporation's vision and mission, strategic objectives, policies and procedures that may guide and direct the activities of the company and the means to attain the same as well as the mechanism for monitoring

management's performance. While the management of the day-to-day affairs of the institution is the responsibility of the management team, the Board is, however, responsible for monitoring and overseeing management action.

One of the specific duties of the director is to ensure the continued soundness, effectiveness and adequacy of the company's control environment. The control environment is composed of: (a) the Board which ensures that the company is appropriately and effectively managed and controlled, (b) a management that actively manages and operates the company in a sound and prudent manner, (c) the organizational and procedural controls supported by an effective management information system and risk management reporting system, and (d) the independent audit mechanisms to monitor the adequacy and effectiveness of the organization's governance, operations, information systems, to include reliability and integrity of financial and operational information, effectiveness and efficiency of operations, safeguarding of assets, and compliance with laws, rules, regulations, and contracts.

### III. Board Committees

The Board shall constitute Committees in aid of good corporate governance. Such committees are the following:

- A. The *Audit Committee* which shall be composed of at least three (3) Board members, preferably with accounting and finance background, one of whom shall be an independent director and another should have related audit experience. The Chairman of this committee should be an independent director. He should be responsible for inculcating in the minds of the Board members the importance of management responsibilities in maintaining a sound system of internal control

and the Board's oversight responsibility.

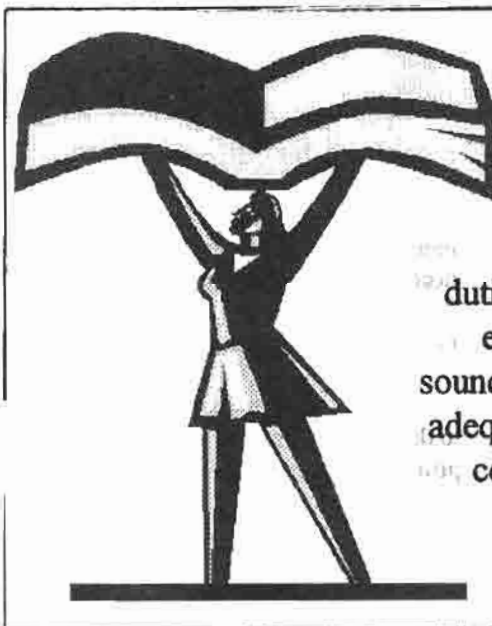
- B. The *Nomination Committee* which may be composed of at least three (3) members, one of whom should be an independent director who may review and evaluate the qualifications of all persons nominated to the Board as well as those nominated to other positions requiring appointment by the Board and provide assessment on the Board's effectiveness in directing the process of renewing and replacing Board members; and
- C. The *Compensation or Remuneration Committee* which may be composed of at least three (3) members, one of whom should be an independent director. It may establish a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of corporate officers and directors, and provide oversight over remuneration of senior management and other key personnel ensuring that compensation is consistent with the corporation's culture, strategy and control environment.

### IV. The Corporate Secretary

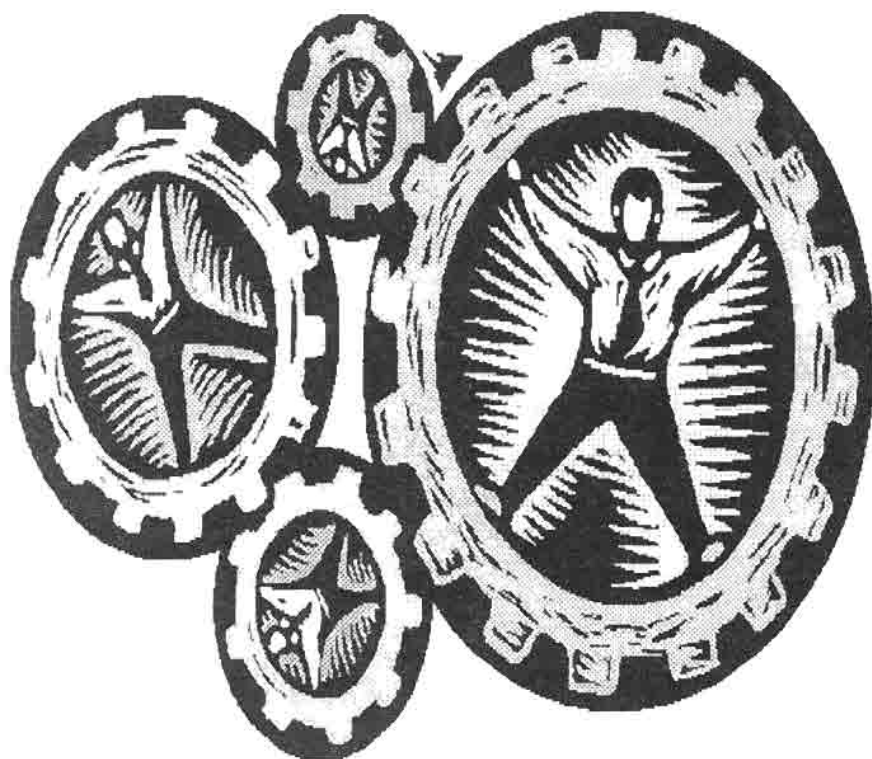
The Corporate Secretary, who must be a Filipino, is an officer of the corporation. Perfection in performance and no surprises are expected of him. Likewise, his loyalty to the mission, vision and specific business objectives of the corporate entity come with his duties.

He should work and deal fairly and objectively with all the constituencies of the corporation, namely, the Board, management, stockholders and other stakeholders. He should have the administrative skills of the chief administrative officer of the corporation and the interpersonal skills of the chief human resources officer. If the Corporate Secretary is not the general counsel, then he must have the legal skills of a chief legal officer. He must also have the financial and accounting skills of a chief financial officer, and, lastly the vision and decisiveness of the CEO.

Since there are different individuals on top of various corporate activities, the Corporate Secretary should be fully informed and be part of the scheduling process of the different activities. As to agendas, he



“One of the specific duties of the director is to ensure the continued soundness, effectiveness and adequacy of the company's control environment.”



should have the schedule thereof at least for the current year and should put the Board on notice before every meeting. It is a very important discipline to get the Board to think ahead. He should serve as an adviser to director's responsibilities and obligations.

The Corporate Secretary should make sure that directors have before them everything that they need to make an informed decision. When the Board makes a decision, it is covered by a business judgment that can be arrived at by the members acting in good faith with the assistance of the Corporate Secretary who should review carefully the information presented to the directors at the time they are to make a decision.

#### *V. Supply Information*

In order to fulfill their responsibilities, Board members, should be provided with complete, adequate and timely information prior to Board meetings on an on-going basis.

Management should have an obligation to supply the Board with complete, adequate information in a timely manner. Reliance purely on what is volunteered by Management is unlikely to be enough in all circumstances and further inquiries may be required if the particular director is to fulfill his or her duties properly. Hence, the Board may have separate and independent access to the company's senior management.

The Board should have a procedure for directors, either individually or as a group, in the furtherance of their duties, to take independent professional advice, if necessary, at the corporation's expense.

#### *VI. Accountability and Audit*

The Board is primarily accountable to the shareholders and Management is primarily accountable to the Board. The Board should provide the shareholders with a balanced and understandable assessment of the corporation's performance, position and prospects on

a quarterly basis. The Management should provide all members of the Board with a balanced and understandable account of the corporation's performance, position and prospects on a monthly basis. This responsibility should extend to interim and other price sensitive public reports and reports to regulators (if required). It should be primarily responsible in making financial reporting and internal control.

The Board, through the Audit Committee, shall recommend to the stockholders a duly accredited external auditor who shall undertake an independent audit and shall provide an objective assurance on the way in which financial statements shall have been prepared and presented. Such external auditor cannot at the same time provide the services of an internal auditor to the same client. Other non-audit work should not be in conflict with the functions of the external auditor.

The external auditor should be rotated every five (5) years or earlier or the handling partner shall be changed.

The reason/s for the resignation, dismissal or cessation from service and the date thereof of an external auditor shall be reported in the company's annual and current reports. Said report shall include a discussion of any disagreement with said former external auditor on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which if not resolved to the satisfaction of the former auditor, would have caused making reference to the subject matter of the disagreement in connection with its report.

If an external auditor believes that the statements made in an annual report, information statement or proxy statement filed during his engagement is incorrect or incomplete, he shall also present his views in said reports.

#### *VII. Stockholders' Rights and Protection of Minority Stockholders' Interests*

The Board shall be committed to respect the following rights of the stockholders:

1. Voting Right
2. Pre-emptive Right
3. Power of Inspection
4. Right to Information
5. Right to Dividends
6. Appraisal Right

### *III. Evaluation Systems*

The management may establish a performance evaluation system to measure the performance of the Board and top-level management of the corporation.

### *IX. Disclosure and Transparency*

A dominant theme in all issues related to corporate governance is the vital importance of disclosure of material information to the public. The more transparent the internal workings of the company and cash flows, the more difficult it will be for management and controlling shareholders to misappropriate company assets or mismanage the company.

The most basic and all encompassing disclosure requirement is that all material information, i.e., any thing that could potentially affect share price, should be publicly disclosed.

The Board shall therefore, commit at all times to full disclosure of material information dealings. It shall cause the filing of all required information for the interest of the stakeholders.

### *X. Commitment to Corporate Governance*

Corporations shall promulgate and adopt their corporate governance rules and principles in accordance with this Code. Said rules shall be in manual form and available as reference by the directors. It shall be submitted to the SEC, which evaluate the same and their compliance with this Code taking into

account the size and nature of the business. The said manual shall be available for inspection by any stockholder of the corporation at reasonable hours on business days. The Chairman of the Board shall be specifically tasked with the responsibility of ensuring adherence to the corporate governance code and practices.

Unless mandated by law, other corporations are likewise encouraged to observe this Circular in the absence of any mandated corporate governance rules adopted by other agencies.

### *XI. Administrative Sanction*

Failure to adopt a manual of corporate governance as specified therein shall subject a corporation, after due notice and hearing, to a penalty of P100,000.00.

### *XII. Transitory Provision*

All corporations affected by this Code shall submit their manual by July 1, 2002 to be effective January 1, 2003.

## **Conclusion**

From the above discussion, it seems that corporate governance is difficult to achieve in its totality. Very few countries and societies have come close to achieving good governance in its totality. However with the legal framework already in place in the Philippines, we can say that the government's pursuit for good governance is in its right direction.

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# NOTES

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