Ceteris Paribus: Corporate Governance Practices in the Philippines and Switzerland

Dr. Marie dela Rama, University of Technology Sydney, AUSTRALIA

Dr. Christophe Volonté, University of Basel, SWITZERLAND

Dr. Simon Zaby, University of Basel, SWITZERLAND

Abstract

This paper reviews compares and contrasts the corporate governance experience of the Philippines and Switzerland by comparing and contrasting the business environment and practices in these two countries. The comparison between an economically developed country and a developing one provides an insight into the challenges both countries face in implementing corporate governance reforms. The theoretical scope is explored by emphasising the institutional framework of both countries. Underlying economic measures are also provided placing the context of corporate ownership and board experience.

Stream

No. 7 Leadership and Governance (Competitive)

Keywords: Corporate governance, The Philippines, Switzerland, board of directors, governance case studies, corporate social responsibility
1.0 Introduction

This paper compares and contrasts corporate governance practices between a developing (or emerging) market (the Philippines) and a developed market (Switzerland) by highlighting the objectives and challenges of such control mechanisms within distinct institutional contexts. In essence, the paper seeks to answer the following question: How do corporate governance practices compare and differ between two dissimilar economies?

This paper also demonstrates how pervasive corporate governance reforms and practices — often demanded by international investors as a result of global capitalism — have been over the past decade and how this has impacted two, economically different countries. Corporate governance is shaped by each country's history and inherent socio-cultural norms.

The mechanisms of corporate governance reduce the possibilities of managers to expropriate money from the shareholders by setting rules, monitoring and incentives. The legal system sets boundaries and protects shareholders from illegal behavior. Corporate legal rules typically prevent managers from basic expropriation of shareholders such as stealing and/or tunneling. Corporate governance mechanisms are mostly voluntarily installed devices protecting shareholders. The legal environment — written legislation and law enforcement — differs across countries. These differences affect the way optimal corporate governance structures should be implemented. The requirements of the system of corporate governance practices also depend on the legal and corporate environment. For instance, in countries where shareholders' money may be used for corruption, other governance mechanisms may be important. The situation is the same if companies are actively controlled by families; that makes other corporate governance strategies necessary.

We relate the development of both countries to corporate governance and the institutional environment. Then, we briefly describe the historical development of both economies with regard to the economic and legal environment, and the corporate landscape, but also culture and politics. Based on this, we then point out differences in corporate governance practices that might arise because of these country-specific characteristics.
In this context, we show how — because of a differing institutional environment — the ownership structure and the board of directors may vary and how this is related to the structures of firms. Since corporate governance practices in Switzerland follow predominantly best practice, we stress practices in the Philippines in our comparison. Finally, the paper will compare and contrast the similarities and differences in both systems.

2.0 Theoretical Scope

In general, countries can be divided into two categories according to their economic development: advanced (or developed) countries and emerging (or developing) countries (see IMF, 2012).

In **developed countries**, the basic law generally protects the interests of stakeholders. Basic legal rules protect contractual rights and law is effectively enforced. Legal investor protection is higher than in less developed countries and corporate governance is seen as additional (voluntarily) devices ensuring that corporate managers do not waste shareholder' resources. Covenants are protected by debtor rights; criminal law is enforced to reduce corruption, environmental pollution etc. Labor law governs the relationship between employers and employees. Given these basic rules, one main purpose of corporate governance is providing practices and rules that optimize agency relationship, protecting of shareholder interests and creating a sense of trust that the managers and directors act in the best interest of the corporation. This becomes obvious due to the fact that, in developed countries, corporations typically are widely held and the fraction of institutional ownership such as pension funds is substantial.

In **developing countries**, legal reforms are aimed at sustaining economic development and trade, e.g., by protecting property rights. Investor protection is less developed and, as a result, corporate ownership is usually concentrated in the hands of a few (e.g. such as a high net-worth individuals and/or families) (see Claessens, Djankov & Lang, 2000). In these countries, illegal economic activities such as corruption and bribery often are prevalent and should be addressed by corporate governance and corporate social responsibility (CSR) which take other stakeholders such as the wider community into account as well.
**Corporate governance** protects shareholders from firm value-reducing activities of management. Corporate failures, as a consequence of weak corporate governance, create mistrust and can lead to bad resource allocations. As a result, corporate governance supports economic development by ensuring that investments from investors are not expropriated and economic confidence is assured. This is especially important for institutional-building and development of emerging economies, which in turn benefits society as a whole.

### 3.0 Comparison of the Philippines and Switzerland

**The Philippines** is an island archipelago located in South East Asia with a population of 104 million. It is considered a lower middle income country with a nominal gross national income per capita of USD 2,319 in 2012 (CIA, 2013). In recorded history it was a colony for several centuries under Spain and then nearly half a century by the USA. In the period since the end of World War Two, it has suffered various political instabilities with a period of dictatorship under Ferdinand Marcos (Celoza, 1997). The country continues to be erratic politically and economically, not yet achieving the stability that has marked the growth of its neighbors in the region. It is currently a democracy-in-progress with the most recent presidential elections held in May 2010. Instability in the country has meant a large outflux of its citizens and the economy is reliant on remittances which makes a significant proportion of its GDP (Bayangos & Jansen, 2011). **Switzerland** is situated in the midst of Europe with a population of roughly more than 8 million. The country comprises three major language areas (German, French and Italian) and a small Rhateo-Romanic fraction. The country, while not member of the European Union, is highly internationalized with around 25% of the population being non-Swiss citizens. The Swiss economy is relatively successful in international comparison and has a reputation of a so called "safe haven". In 2012, the nominal gross national income per capita was ranked 4th in the world (USD 78,754) (CIA, 2013). Switzerland's position is also due to a stable and strong institutional environment: it is one of the most developed economies and has one of the strongest democracies in the world, where the people can have the last word concerning single laws, after government, parliament and other stakeholders. As Switzerland is a
country with only few natural resources, there is a strong emphasis and focus on its intellectual resources such as the high tech industry which aims to develop new innovative products in the fields of e.g. biotech, medical engineering, new materials and green technology.

Since we are discussing corporate governance in two very distinct countries, it is important to compare differences in the countries’ characteristics. For that reason we use figures from the CIA (2013) Factbook about general economic and legal factors. In addition, we used broad indices (and sub-indices) made available by the Heritage Foundation (2013) and Transparency International (2012) to evaluate economic freedom and corruption, transparency, and governance, respectively, in the two countries.

<INSERT TABLE 1>

Table 1 shows significant differences between the two countries in economic terms. The Philippines is the 12th largest country in terms of population and has over 100 million inhabitants. Switzerland with its roughly 8 million people is only ranked 95th from 239 countries. However, gross domestic product (GDP) is higher in Switzerland than in the Philippines which translate into an almost 34 times lower GDP per capita.

It is interesting to note the comparison of the size of the respective stock markets. The stocks listed on the Philippine Stock Exchange are worth 202 Billion US Dollars in 2010 while the figure of the SIX Swiss Exchange is 1,229 Billion US Dollars. The ratio of market value of publicly traded shares to GDP is 0.84 in the Philippines and 1.97 in Switzerland. However, the stock market is relatively important in Switzerland due to some multinational companies such as Nestlé, Novartis, Roche and UBS. In comparison, the ratios are 1.09 in the United States, 0.42 in Germany, and 0.57 in China.\(^1\) Hence, the importance of the stock exchange also in the Philippines is relatively high suggesting that the legal environment and corporate governance are important factors. To compare the Philippines

\(^1\) Ratios: United States: 17,140,000 (market value of publicly traded shares in 2010) / 15,650,000 (GDP in 2012). Germany: 1,430,000 / 3,367,000. China: 4,763,000 / 8,250,000.
and Switzerland, we also looked at the so-called "Index of Economic Freedom", developed by the Heritage Foundation.

<INSERT FIGURE 1>

It becomes obvious that Switzerland has a degree of economic freedom above the world's average. Switzerland has one of the strongest systems for enforcing property rights, whereas the Philippines is below other countries in this context. This also holds account in terms of business freedom and investment freedom. However, the trade freedom and financial freedom of the Philippines shows clear signs of an upswing in that country's development. Furthermore, we also looked three factors of corruption, transparency and governance to compare the institutional system of the two countries.

<INSERT TABLE 2>

The Corruption Perceptions Index ranks Switzerland on the 6th and the Philippines on the 105th position from 176 countries surveyed (see Transparency International, 2012). Accordingly, the control of corruption differs significantly between the two countries (Philippines 22%; Switzerland 96%). The differences and relative positions of the Philippines and Switzerland are unaltered with respect to financial secrecy, press freedom, rule of law and judicial independence.

According to Hofstede (1980), culture is a set of shared values that separate one group of people from another. While it is difficult to assess a country's culture and hence its values, we use characterizations provided by Hofstede (2013) to approximate culture in both countries and make general comparisons.

<INSERT FIGURE 2>

Power-distance measures bias towards hierarchical structures. Filipinos and Swiss French are inclined to accept hierarchical structures where people accept their position within a society. In
contrast, Swiss Germans are more egalitarian and prefer decentralization. Both language groups in Switzerland are equally individualistic and value self-responsibility. In the Philippines, belonging to a group (e.g., family), loyalty, and responsibility for each other is important. In terms of the role of competition in a society, there are low differences between the countries. In both countries, people value success more than the quality of life. Filipinos do not value the avoidance of uncertainty in contrast to the Swiss who are rules-orientated with strong regard for precision or punctuality. In the Philippines practice comes before principles and there is a higher tolerance of crossing the norm. Both countries' people value traditions and are affected by social peer-pressure to succeed in life. Because there are significant differences on the economic, legal, and societal level, it is very interesting to note the corporate governance responses to these differences.

<INSERT TABLE 3>

4.0 Corporate Governance Practices

Corporate governance practices aim to reduce agency costs which accrue from the conflict of interests between shareholders and managers. A variety of mechanisms protects shareholders from managerial misbehavior, ensures that shareholders' interests are respected and thereby mitigates the so-called principal-agent problem (Mace 1971, Eisenhardt 1989, Lorsch & Maclver 1989, Clarke 2004). Good corporate governance reduces the likelihood of bad management decisions (Cadbury 2002, Clarke & Branson 2012). On the one hand, lower risk leads to lower costs of capital. On the other hand, investment solely into positive net present value projects leads to higher free cash flows. Both effects have a positive impact on firm performance. In addition, a CSR strategy takes also other stakeholders into account (Donaldson & Preston 1995; Ireland 1996). For instance, risk management, which is also a board task, has to consider corporate actions that may negatively affect society; these in turn lead to reputational costs and mitigating such costs is now an important board duty to “avoid disappointing certain [influential] people [and groups] who will then perhaps unreasonably attribute ethical and moral failure to the corporation” (Lea 1999: 159). Recommendations for corporate
governance practices or reforms have to account for a country’s institutional environment and firm-specific characteristics (Claessens et al 2000).

Countries providing weak legal investor protection and firms with poor corporate governance tend to have difficulty obtaining financial resources (Shleifer & Vishny, 1997). Empirical studies have documented a positive relationship between strong corporate governance and firm value (see e.g., La Porta et al., 2002; Gompers, Ishii, & Metrick, 2003).

The effectiveness of corporate governance devices such as the board of directors, large shareholders, the market for corporate control, the capital structure, executive compensation, and, not least, competition at various firm levels is affected by a country's institutional framework.

Additionally, CSR accounts for wrong managerial behaviour that may financially or non-financially affect a variety of stakeholders (Clarke 1998, 2004). CSR becomes especially important if the state is not able to maintain a basic legal system that protects stakeholder interests (e.g., employees' rights) and ensures that corporations are held liable for their potential misbehavior (e.g., environmental pollution) (Reed 2002). The legal environment in emerging countries is typically less developed than in advanced countries and therefore responsibility for all stakeholders becomes especially important for corporations doing business in such environments.

A weak state, therefore, may be used “as an excuse for government to abdicate both its supervisory role and the responsibility for necessary collective goods” (Lea 1999:161-162). In such cases, the state may neither have the resources nor the political appetite to compel financially powerful corporations to fulfill its obligations “on the grounds of morality” (as they provide superior economic opportunities in terms of investment and employment) and “authenticity” (as they portray themselves as socially responsible) (Reed 2002: 185-186). Therefore, corporate governance practices of corporations are shaped by the genuine relationship and dialogue between the private and public sector.

**Philippines**

To understand corporate governance practices in the Philippines, the context in which these practices occur must take into account the pre-existing business-economic condition: the Philippines
is a developing country with underdeveloped institutions, a small private sector controlled by a few families, a large public sector with a sometime predatory state.

The first corporate governance code was introduced in the Philippines in 2002, in the wake of the region-wide reform backed by the IMF, World Bank and Asian Development Bank after the East Asian Crisis of 1997. Parts of the code look at board governance, shareholder rights and disclosure. The 2002 code is overseen by the Securities and Exchange Commission (SEC). Corporations are expected to follow the code but due to resource issues, the code suffers from mandatory regulatory enforcement. Blue-chip companies tend to subscribe to the intentions of the code in order to assure foreign investor confidence. The board governance element codifies the introduction and existence of independent directors. However, this has been difficult to implement due to the largely family-controlled insider boards of the major corporations of the country. Nevertheless, unlike companies in developed countries, excessive managerial remuneration is not an issue.

Corporations in the country, by and large, have engaged in stakeholder relationships given the wide gulf between the haves and have-nots in the country. There is an inherent obligation on the former to contribute to the community and address issues of poverty. Programs of CSR are well established in the country such as providing infrastructure (e.g. work-sanctioned days off to build homes for the poor), and scholarships for students who are socio-economically disadvantaged.

The analogy of the Philippine corporation as an extended family takes a far more significant and socially embedded function in society. As religion is an important part of the society, large companies have their own chapels and places of worship. In shopping malls, masses are conducted daily. Work stops for the conduct of daily masses and prayers in-house at 9am, 12pm and 3pm. Social clubs exist in companies such as dance, photography, or art clubs. The relationship between an employer and employee in the Philippines is far more socially embedded than in other countries – the employment contract extends to a social contract with a strong emphasis on loyalty and reciprocity.

Switzerland

Until recently, Swiss corporation law is relatively flexible concerning corporate governance-related rules and leaves much freedom to firms. The law prescribes directors to act in the best interest
of the corporation. The *Swiss Code of Best Practice for Corporate Governance (SCBP)* consists of unbinding recommendations. These recommendations focus on shareholder interests as is customary in Anglo-Saxon countries. However, in contrast to the typical dispersion of ownership prevalent at U.S. companies, many Swiss firms are controlled by large shareholders, notably families and private individuals. Hence, a corporate governance strategy is also affected by the values advocated by these dominant shareholders (see Gantenbein & Volonté, 2012).

Since Switzerland is host to many large multinational firms, international corporate governance standards have been adopted without being imposed by Swiss law. For instance, most firms have installed an audit, compensation, and nomination committee. In addition, their international orientation gives them special responsibilities when dealing in different parts of the world, especially in emerging markets. Swiss law does not stipulate a CSR strategy, however, particularly those firms operating in emerging markets have introduced codes of conduct (e.g., Syngenta), maintain educational or health care programs for people in emerging markets (e.g., Nestlé and Novartis).

### 5.0 Corporate Ownership

In many countries, corporations are held by controlling families or individual shareholders. On the one hand, their control allows them to monitor more effectively the management and agency costs potentially decrease (see Shleifer & Vishny, 1986). On the other hand, they may also influence corporate policies for their own private benefits of control creating a principal-principal agency problem. Such private benefits are difficult to measure and include influence over the firm's resources, prestige or perquisites (Fama & Jensen, 1983; Dyck & Zingales, 2004). In this situation, the protection of minority shareholders' interests becomes especially crucial.

Shleifer and Vishny (1997) argue that the conflict between controlling and minority shareholders is stronger than the classical conflict between managers and shareholders in many countries. This is especially the case if controlling positions are based on a deviation of voting rights from cash flow rights such as dual class equity structures (see Masulis, Wang, & Xie, 2009; Gompers, Ishii, & Metrick, 2010). In Asia, but also in Continental Europe such structures are common and typically
negatively related with firm value (see La Porta, Lopez-de-Silanes, & Shleifer, 1999; Claessens, Djankov, & Lang, 2000; Faccio & Lang, 2002; Volonté & Zaby, 2012). In contrast, Li et al. (2011) indicate that large foreign shareholders have a positive effect on firms in emerging markets and Kim et al. (2010) show that higher levels of corporate governance attract foreign investors.

**Philippines**

In developing countries, ownership is highly concentrated. Ownership concentration is a manifestation of economic control (see Berle & Means, 1933 and Sales, 1979 for classifications of control). In the ground-breaking study by Claessens, Djankov and Lang (2000) of 2,980 East Asian listed corporations, the authors found more than two-thirds of firms are controlled by a single shareholder. In the Philippines, the top 15 families control 55% of corporate assets, and 46% of the GDP.

The concentration of wealth in a few people, families or groups is a "formidable barrier to policy reform" and could negatively affect "the evolution of the legal and other institutional frameworks for corporate governance and the manner in which economic activity is conducted." (Claessens, Djankov, & Lang., 2000: 110). Concentration of ownership in the private sector of the Philippines and most of East Asia is manifested in the widespread corporate form of family-owned business groups or conglomerates (Granovetter, 2001: 69–70). Family-owned business groups dominate the private sector landscape of the country with the Ayala Group and SM Group as prime exemplars. However, this corporate form is not unusual as business group structure dominate across the East Asian region with Japanese keiretsus and Korean chaebols (as the previous section mentioned) being prime examples of this type of private sector organizing.

Under the dictatorship of Marcos, there were moves by the President to expropriate businesses owned by conglomerates and transfer them to his cronies. Where majority ownership in a firm was below 50%, the firm was more prone to being taken over by the President's cronies. Therefore, a strategy adopted by some of the family-owned business groups was to attract a foreign investor to take a minority interest in a business to offset the political risk of expropriation. The raison d'être being if Marcos expropriated the business, a foreign government would intervene and put pressure on
Marcos not to expropriate the business. There was an assumption that a foreign government would interfere to defend the ownership stake of the foreign investor.

This resource-based view of the firm also justifies the continued dominance of family business groups in developing economies. If a fickle government came into power with the view of expropriating company assets, the interests of business groups are diversified enough to survive such a political move. This is one reason why the ownership strategy of business groups in developing countries such as the Philippines, is to ensure majority control is consistent and an explanation for their reluctance to relinquish majority ownership. A long-term view of the firm with majority control was far more important than a valuation discount in the short-term. In the Philippines, minority ownership made a firm vulnerable to state-backed expropriation as what happened with the brewery San Miguel Corporation during Marcos' dictatorship.

**Switzerland**

In modern industrialized economies such as Switzerland, large complex corporations user their competitive advantage in producing innovative goods and providing high quality services. These types of firms are typically financed by equity investors. In Switzerland, 60 percent of all exchange-listed companies are controlled by shareholders owning over 20 percent of voting rights. While these firms are smaller in size on average, there are also large firms that are controlled by shareholders. For instance, Roche and Richemont are majority-controlled by families. However, both firms are exhibiting a dual-class equity structure which discriminates minority shareholders in their voting rights (see Volonté & Zaby, 2012).

In March 2013, the Swiss people approved an initiative aimed to strengthen shareholder rights. Most importantly, managerial salaries now have to be approved by the general meeting. This mandatory "say-on-pay" is meant to reduce the leeway of so called "fat cats". As a result, flexibility of the Swiss corporation law is significantly reduced by these new corporate rules. In addition, Swiss pension funds are now required to vote on all agenda items in the best interests of their assureds and to disclose their voting behaviour. Switzerland has a mandatory pension plan system consisting of a federal social security fund (since 1948) and mostly privately organized employee benefit schemes
(since 1985). In consequence, similar to the United States, a relatively high fraction of personal wealth is invested in the equity market and people depend on its development. It will thus be interesting to observe how pension fund managers who have been used to be rather passive interpret their new roles as active shareholders.

6.0 Boards

The boards of directors are an essential factor in corporate governance. Corporate directors are delegates of, and elected by, shareholders to represent them and lead the company. They have the duty to act in the best interest of the corporation which, in general, is equal to looking after shareholder interests. This implies that its primary responsibility, upon which its legitimacy rests, is to reduce agency costs. The directors' responsibility is monitoring and advising the management board which is charged with the daily operational business and therefore board composition and structure is an important issue in corporate governance.

Philippines

Consensus-building is a fundamental feature of Philippine boards – a dysfunctional board rarely works and a conflicted board has a flow-on effect to the rest of the organisation. The role and nature of the relationship between the CEO and Chairman is pivotal in the board. If the CEO and Chair roles are unified, this is commonly referred to as CEO duality and power is heavily concentrated:

"The power of the chairman added to the power of the chief executive presents a formidable combination." (Cadbury, 2002: 110)

CEO duality may lead to what Finkelstein and D'Aveni (1994) point out its double-edged sword: "forcing boards to choose between the contradictory objectives of unity of command and [CEO] entrenchment avoidance." (1994: 1080). When the roles are separated, the Chairman must decide whether they are an executive or non-executive chair.
For Philippine corporations, the roles are normally combined. Or if they are separated, then the two individuals come from the same ownership interests or from the same business family typically with a founder generation-son/daughter combination. This duality is a reflection of the business being an extension of the family with the family's "identity or reputation" intricately linked to the business (Gersick et al., 1997: 37). This also reinforces the need for control by the family owners and a signal to the stock market the family's enduring interest.

With regards to board membership, most companies have the requisite board committees. The SEC Code also requires two independent directors. Their introduction to a family-insider and controlled board has been a revolutionary element in Philippine corporate governance. Unlike Anglo-American countries where the majority of company boards have independent directors reflecting the highly-dispersed ownership, Asian company boards have strong reluctance to have independent directors on their board. This is not only the case in the Philippines but also in other countries of the region such as Japan, Hong Kong and South Korea where a majority of the company board membership are made of executive, and not independent, directors.

Switzerland

Swiss corporation law imposes corporate directors the duty to act in the best interest of the company. SCBP states that shareholders' interests should be met, however, it consists only of recommendations, also in what is the best configuration of the board. Nevertheless, Swiss boards orientate themselves by these recommendations and best practices at the international level. For instance, the roles of the CEO and the chairman are separated in 87 percent of all firms (see Volonté, 2012).

The flexibility of the Swiss law manifests in the use of board system used by the companies. Swiss boards can either be one-tiered or two-tiered. One-tier boards such as in Anglo-Saxon countries or France can consist of executive (e.g., CEO) as well as non-executive directors, while two-tier boards strictly separate the management board from the board of directors such as in Germany. Volonté (2012) shows that culture is likely to affect the decision which board system to choose: boards in Swiss-French areas and in Roman Catholic cantons are more likely to be one-tiered and thus more
hierarchical; Swiss-German boards and boards in Protestant cantons are more likely to be two-tiered where powers are strictly separated. Both structures correspond to values attributed to those four cultural groups and to the two language regions' closest neighbours (France and Germany).

Since many Swiss companies are big multinational players, international standards of corporate governance do also affect the board membership of directors. Most boards are composed by independent and internationally experienced directors. About a quarter of all directors are foreigners and almost half of all board members have been working abroad. In addition, other business experiences of directors are high too: 50 percent of all directors have served or serve as CEO, 59 percent have financial experience, and 56 percent depict industrial experience (see Gantenbein and Volonté, 2013).

Some companies do also explicitly address CSR. In such a setting boards are likely to introduce ethical standards, codes of conduct an install specific board such as committees that govern compliance with CSR (see Gantenbein and Volonté, 2012).

A summary comparing the corporate governance practices between the two countries is provided in the table below:

<INSERT TABLE 4>

7.0 Discussion and Conclusion

The role of the government in developing countries is a pivotal one. The absence of government cannot be filled by the private sector alone as the latter does not have the legitimacy and isn't sufficiently capable - ideologically and operationally otherwise – to completely discharge its stakeholder responsibilities to fulfil wider community expectations. Functional government, rather than a functional private sector, is overwhelmingly far more important for a developing country than a dysfunctional government.
The government sets rules via its legal system that encourages economic activity. For instance, the enforcement of property rights is crucial for doing business and a source of competitive advantage. This paper has shown how important the institutional environment is for the strength of a country's corporate governance system and private sector development. In emerging countries such as the Philippines where politicised government institutions still dominate, regulatory enforcement of existing laws and codes become problematic. The private sector is asked to take on some of the public roles that government is unable to fulfil. This filters down to the way the companies and boards react to unstable political situations and how corporate governance reform is shaped and continues to be shaped by the existing private sector environment.

In developing countries, such basic rules are factual and the legal system is increasingly improved to guarantee minority shareholders protection and other corporate governance-related rules. Improving corporate governance has been argued to enhance capital allocation and is thereby beneficial for the whole society.

In Switzerland, the law provides basic rules to protect shareholders (e.g., duty of care of directors) and stakeholders (e.g., labour law), however, corporate governance-related rules are until now relatively unspecific. Many corporations influenced by the unbinding SCBP and their international orientation standards have adapted international standards of corporate governance. Many firms are controlled by families or individuals. However, most boards are composed by internationally experienced and independent directors, and CEO and chairman positions are predominantly separated.

This paper showed that corporate governance in the Philippines and Switzerland has been shaped by their respective histories, institutions and ownership structure. The practice of corporate governance continues to be an important element in attracting and assuring investor confidence. The experiences of companies in these two countries show the diversity of experience but also the global nature of corporate governance reforms.
References


**Figures and Tables**
Table 1: CIA Fact Book

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<thead>
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<th>Philippines</th>
<th>Switzerland</th>
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<tr>
<td>Government type</td>
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<td>confederation</td>
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<td>Legal system</td>
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<td>civil law / German</td>
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<td>Main religion(s)</td>
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<td>Catholicism/Protestantism</td>
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<td>Population</td>
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<td>GDP</td>
<td>240,700</td>
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<td>Stock Market value</td>
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<td>GDP per capita</td>
<td>2,319</td>
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<td>Stock Market value / GDP</td>
<td>0.84</td>
<td>1.97</td>
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</table>

Source: Stulz and Williamson (2003); CIA (2013) describes the legal system in the Philippines as being a mixed legal system of civil, common, Islamic, and customary law. 2 July 2012 est. 3 in Million Dollars, official exchange rate, 2012 est. 4 in Million Dollars, 31 December 2010.

Figure 1: Index of Economic Freedom

![Index of Economic Freedom](image)

Source: Heritage Foundation (2013).

Table 2: Corruption, Transparency, and Governance

<table>
<thead>
<tr>
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<th>Philippines</th>
<th>Switzerland</th>
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<tr>
<td></td>
<td>Score</td>
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<td>Score (max 10)</td>
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<td>1/71</td>
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</table>
Press Freedom Index (2011-2012)
Score (254) (1879) (350)
Rank 140\(^{179}\) 8\(^{179}\)
Score (65) (-6) (39)
Rule of Law (2010)
Percentile rank 35% 96%
Score (-0.5) (1.8) (0)
Judicial Independence (2011-2012)
Rank 102\(^{142}\) 5\(^{142}\)
Score (max 7) (2.9) (6.4) (4)


Figure 2: National cultural dimensions

![Bar chart showing national cultural dimensions for Philippines, Switzerland (German-speaking), and Switzerland (French-speaking).]

Source: Hofstede (2013).

Table 3: National cultural dimensions

<table>
<thead>
<tr>
<th>National cultural dimensions</th>
<th>Philippines</th>
<th>Switzerland German-speaking</th>
<th>Switzerland French-speaking</th>
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<td>Power distance</td>
<td>hierarchical society</td>
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<td>rather hierarchical society</td>
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<td>Individualism</td>
<td>collectivistic society</td>
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<td>strong preference for avoiding uncertainty</td>
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<td>Long term orientation</td>
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Source: Hofstede (2013).
Table 4: Comparative corporate governance practices between The Philippines and Switzerland

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<thead>
<tr>
<th>Corporate governance elements</th>
<th>The Philippines</th>
<th>Switzerland</th>
</tr>
</thead>
<tbody>
<tr>
<td>Institutional environment</td>
<td>Developing country, weak regulatory enforcement, post-dictatorship environment</td>
<td>Developed country, strong regulatory enforcement, old stable democracy</td>
</tr>
<tr>
<td>Main legal reform</td>
<td>SEC Corporate Governance Code 2002</td>
<td>New corporation law currently is on the way to legislative process</td>
</tr>
<tr>
<td>Corporate Ownership</td>
<td>Majority blockholders, usually family owners, concentrated shareholder base, weak minority investor protection</td>
<td>Controlling shareholders notably families and private individuals, extensive shareholder rights</td>
</tr>
<tr>
<td>Boards</td>
<td>One-tier board, majority of the board members are executives, 2 independent directors, chairman and CEO are from the same ownership interests</td>
<td>One-tier and two-tier boards, mostly independent directors, chairman and CEO are predominantly separated</td>
</tr>
</tbody>
</table>
Ceteris Paribus: Corporate Governance Practices in the Philippines and Switzerland

Dr. Marie dela Rama, University of Technology Sydney, AUSTRALIA

Dr. Christophe Volonté, University of Basel, SWITZERLAND

Dr. Simon Zaby, University of Basel, SWITZERLAND

Abstract

This paper compares and contrasts the corporate governance experience of the Philippines and Switzerland by comparing and contrasting the business environment and practices in these two countries. The comparison between an economically developed country and a developing one provides an insight into the challenges both countries face in implementing corporate governance reforms. The theoretical scope is explored by emphasising the institutional framework of both countries. Underlying economic measures are also provided placing the context of corporate ownership and board experience.

Stream

No. 7 Leadership and Governance (Competitive)

Keywords: Corporate governance, The Philippines, Switzerland, board of directors, governance case studies, corporate social responsibility