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CORPORATE GOVERNANCE FOR A.S.E. LISTED FIRMS

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Abstract

The present paper focuses on the level of compliance and application of corporate governance from the corporations listed in the Athens Stock Exchange (A.S.E.) and attempts to highlight improvements from the adoption of best practices suggested by corporate governance recent trends worldwide. In order for the research to be conducted, a series of qualitative and quantitative variables were used, as derived from the financial statements of 162 public companies. A more extensive analysis regarding the level of compliance with corporate governance was conducted in 25 companies with the highest and 25 corporations with the lowest score, whose classification in these positions was the result of a rating system that was created for this purpose.

Keywords: Corporate governance, Greek Code of corporate governance, Sarbanes - Oxley Act, Agency Theory, Rating System

JEL classification: G10, G23, G34

1. INTRODUCTION

Companies around the world should be able to attract funding from investors in order to expand and grow. Before investors decide to invest their funds in a particular company, they wish to be as sure as they can be that the specific company is financially sound and will continue to be so in near future. In order to be assured, investors rely on the published annual reports and accounts of the specific company and any other information available to the general public, and expect that these financial statements represent a true picture of the company at the present time.

However, many aspects of the company are not reflected effectively in these published reports (Mallin, 2007). According to Aghimien (2010) the basic operation of an efficient

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financial market is the ascertain that investors should take sound investment decisions which rely on the availability of timely and reliable financial information. A range of large corporate failures, such as those of Enron and WorldCom in the US, emerged despite the fact that the annual reports and accounts fairly represented their positions (Arnold and De Lange, 2004). These failures have negatively affected all stakeholders (shareholders, employees, suppliers of goods and services). It is obvious that weak governance is associated with increased likelihood of these adverse financial reporting results (particularly fraud and reformations).

It is believed that the lack of effective corporate governance can even lead today in such collapses. It should therefore be given emphasis on improving corporate governance, because only the adoption of good corporate governance rules can help to prevent corporate failures and restore investor confidence (Carcello et al., 2011). To address the growing concern of investors regarding the integrity of published financial reports of companies, the US Congress enforced the Sarbanes - Oxley Act (Lobo and Zhou, 2010). There were conflicting views as to whether the companies benefited from its practice. Many were those who considered that the costs of implementation were high. But its supporters believed that in the long-term costs associated with compliance to SOX would be reduced and the biggest benefit that businesses would be able to reap would be the enhanced investor confidence (Coates, 2007; Garneau and Shahid, 2009).

The aim of this paper is to approach, analyze, report and present how listed in the A.S.E. companies comply with corporate governance best practices. The originality of this study is shown by the fact that particular emphasis has been given to capturing data which are usually not monitored. Such evidence relate to the remuneration of the Board of Directors members and Management Executives, the presence of women within the board and the number and type of Board of Directors committees within companies.

2. EMPIRICAL RESEARCH

Taking into consideration the annual financial statements of listed companies in the Athens Stock Exchange[1] for the financial years 2011 - 2012 and according to the annual corporate governance reports, which companies are obliged to prepare after application of the law L.3873/2010, an array of information that help us to better understand the operation of each company and its compliance or not with the law are collected. The hand-collected data used involve a number of variables, either quantitative or qualitative, which in brief are:

- The type of Code of Governance which companies follow (Code of SEV-Hellenic Federation of Enterprises, Private, United Kingdom),
- Shareholder composition - members are divided into large shareholders and minority shareholders - and how many shareholders are family members or participate simultaneously at these Board,
- Composition of the Board (Executive, non-executive and independent non-executive members),
- The mandate of the members to the Board,
- The degree of affinity,
- The participation of women in the Board of each company,
- The separation of the roles of Chairman from those of Chief Executive Officer,

- The appointment of Vice President when observed duality between the President and CEO,
- The number of meetings held in the year 2012,
- The establishment of committees, which are set from any company for the years 2011-2012,
- The remuneration of the Board and Managers in the respective years and finally,
- A more detailed analysis for companies which follow good practices of corporate governance used the ratios of equity and return on assets (ROE-Return on Equity, ROI-Return on Investment).

The above data were culled from 162 companies out of 243 listed companies on the regulated market during the period October - November 2013. Companies that were not included in the analysis were those in the category of probation (46 companies), under delisting of shares from the A.S.E. (3 companies) and in suspension (32 companies). These companies were excluded from the sample given the fact that placing them in one of the above categories suggests the failure to comply with regulations set by the A.S.E. Rulebook and the Hellenic Capital Market Commission (HCMC) and their joint examination would alter the results of the investigation, either because there are no updated financial statements, or because their results are extreme values of variables examined.

The results of the statistical analysis show that 65.68% is the average percentage of control by shareholders who hold more than 5% of the voting rights. This percentage includes major shareholders of a company, institutional investors, owners – founding members and Greek or foreign hedge funds. It is remarkable that almost only one third of the shares on the stock market are the free float with a percentage of 34.32%.

In recent years, as Greek companies grow, they cease to be family run and the management is gradually practiced by professional managers rather than the founding members. Although 79 companies of the sample are family companies, an equally large number of listed companies (65 companies) are not a family company.

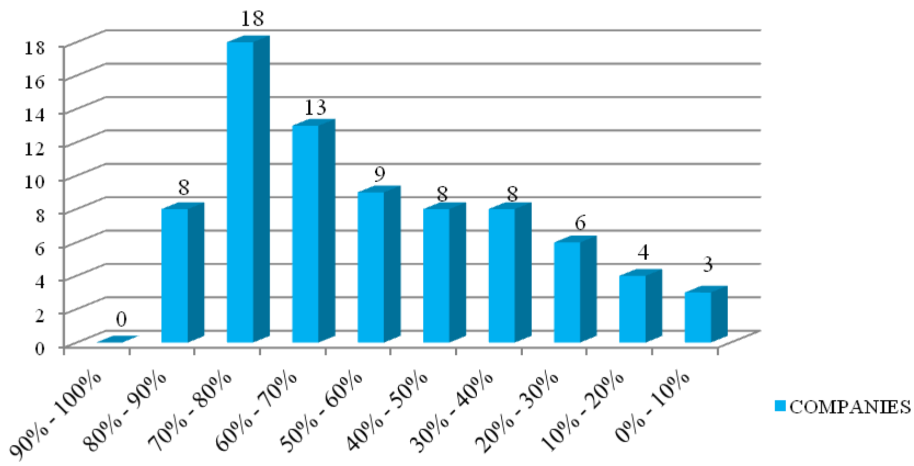

Figure no. 1 – Cumulative percentage of controlling by family members

In 49 companies, the cumulative percentage of family members is more than 50%, as opposed to 30 companies in which the percentage is below 50% (Figure no. 1).

An important aspect of the Board composition is its size. Huse (2007) raises the question of how many members should Boards have. The overall conclusion is that the Board should not be too large. Ideal size is considered to be seven or eight members. On the other hand, there is the argument that if the number of Board members is too small, the Board will not have sufficient competency to tackle its various tasks. The Spanish Code recommends a wider range of five to fifteen members and suggests companies with numerous councils to adapt gradually to the size that consider appropriate for their characteristics (Gutierrez and Surroca, 2014). The corporate governance Code of SEV maintains a wide range regarding the size of the Board, which defines as ideal size seven to fifteen members. Companies for the year 2012 appear to comply with the specific practice of the Code of SEV and follow the international trend that wants the members of the Board to decrease, so that there is flexibility in decision making and management of the various issues that arise. Companies in Greece consisting of multimember board are mainly bank or former public companies.

The representation of women within the Board around the world is very low. Although in some countries such as the US and New Zealand there has been some improvement in the representation of women on Boards, the number of women in managerial positions is much smaller than the number of men managers. According to Oakley (2000), some reasons for the lack of women directors are a deficiency in career opportunities and stereotypes based on gender (Kang and Payal, 2012). Empirical research results confirm the above. In 64 out of the total of 162 selected companies there are no women in the Board. Also in 57 companies, only one woman participates within the Board and 5 women in just one company.

This separation is recommended as a method for assuring the necessary balance force and growth reliability and the ability of the Board takes its decisions independently. Two out of three of the sampled companies seem to comply with the Code of corporate governance and separate the leadership roles of CEO and Chairman of the Board, while the rest, 55-60 companies, do not separate these roles.

59 companies do not separate the roles of leadership. 53 of these for 2012 follow the specific practice of Code of SEV and appoint Vice President from among its independent members.

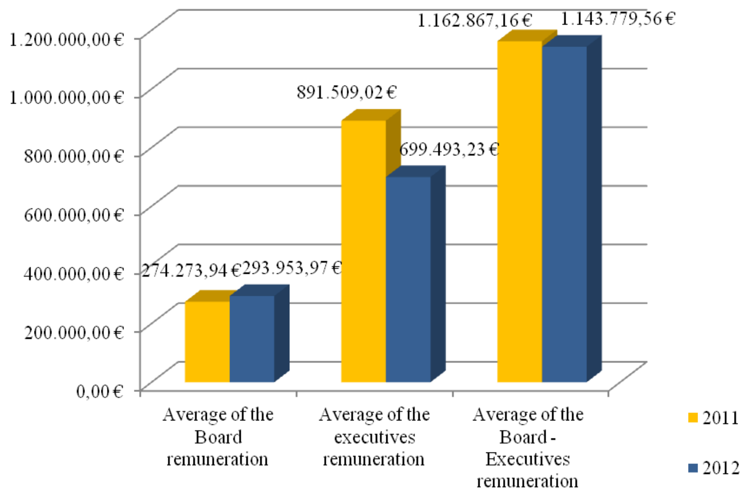

Figure no. 2 – The average remuneration for the years 2011 – 2012

It is clear that the high wages are paid to the board members and executives, but also to companies that report Board and Management remunerations separately, there was a decrease in 2012 as shown in Figure no. 2, in columns 2 and 3. Only as regards the remuneration of board members, which traditionally are at lower amounts, is observed a slight increase of 20.000,00 € about average.

The majority of companies for both examined years, present negative return on assets. These results are a consequence of the economic crisis that Greece is experienced since 2009. Only 61 companies in 2011 and 58 companies in 2012 show positive return rates. Most companies present a negative rate of return on equity. In 99 companies, this indicator ranges with a negative rate for 2011. The following year the companies increased to 101, a fact that confirms that 2012 was the worst year in terms of corporate results.

3. RATING SYSTEM OF GOOD CORPORATE GOVERNANCE OF THE LISTED COMPANIES

To evaluate the performance of a company we considered both the quantitative and qualitative collected data. Occasionally, empirical studies try through a strategic tool, a Balanced Performance Card - Scorecard, to seek and imprint a balanced picture of business performance. The Scorecard is an indicator, which quantifies the qualitative parameters of corporate governance and through it, is recognized the degree of implementation by companies. Essentially the Scorecard, according to Kaplan and Norton (1992), is a system that attempts to link the daily operation of businesses with their long-term vision and the strategy that they want to follow. Based on previous studies, such as Gounaridi (2011) which was designed to determine how feasible and workable is the Scorecard in Greek listed companies in terms of corporate governance, as well as other dealing with this issue (Kokla, 2010; Papadopoulou, 2012; Chavan, 2009; Nørreklit et al., 2012), we tried to create a rating system to examine and evaluate compliance with the rules of good corporate governance for listed companies in the A.S.E.

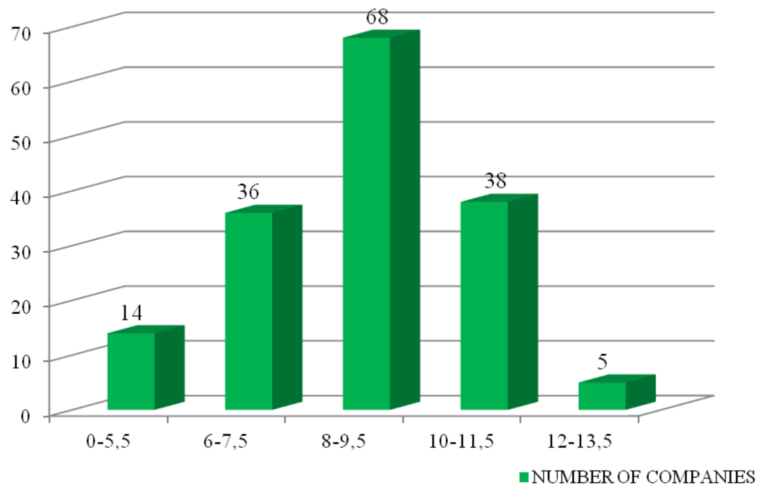

Figure no. 3 – Classification of companies based on the rating system

With the help of a rating scale the 162 companies were ranked according to the total score which brought together those that implement good governance level and those that do not. Finally, we confirmed the theory with the results of the 25 companies with the highest and lowest score and examine whether it was indeed a fair ranking of these companies in their respective positions. The grading scale followed is 0, 0.5 and 1; where 1 is the score for actions that contribute to the strengthening of corporate governance, with 0.5 for those which applying an intermediate practice and with zero for those which deviate from the idealized practices established by the Code. We relied on theory, good practices in corporate governance and ongoing literature to determine the rating allotted to each company.

The majority of companies seem to comply and adopt good elements of governance Code. Only 5 companies follow best practices and this is clearly shown by their high grade ranking (Figure no. 3).

3.1. Comparative correlations of 25 companies with the highest and lowest score concerning to the adoption of good practices of corporate governance

The companies, which have a high rating (64%), have appointed at least one woman within their Board. In contrast, only 44% of companies that received the lowest rating have designated women on their Board. For the companies with the highest score, in 96% of the cases the major shareholders, are not a members of the Board. As a result decisions are heavily in favor of the interests of all shareholders. It seems clear that all companies, which received the highest score, comply with this practice. In contrast, 24 companies with the lowest score seem to have a close degree of relatedness between their members.

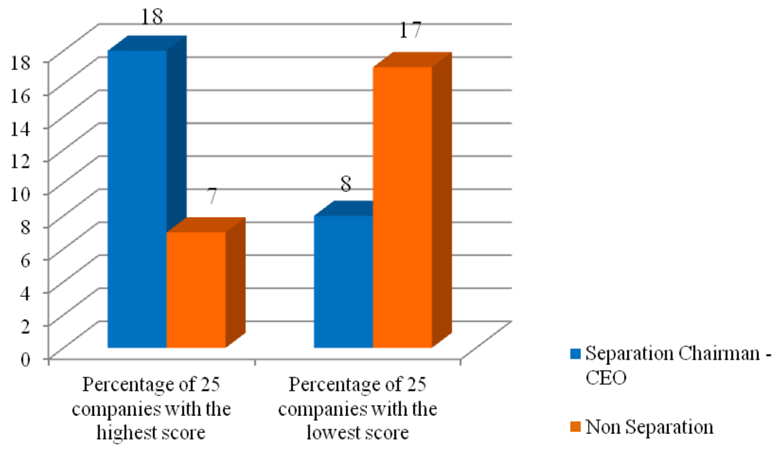

Figure no. 4 – Separation the roles of Chairman – CEO

In Figure no. 4, 18 companies with the highest score have proceeded with the separation of competencies of the President than the CEO. In contrast 17 companies, which constitute the majority of companies did not progress to the separation of the two roles. In contrast 17 companies, which constitute the majority of companies, have not enforced the separation of the two roles and only 8 companies, although they separated these roles, are ranked in the lower range of the scale, because they do not apply other good practices of corporate governance. Among the companies with the lowest score, although the majority does not separate the two roles, 15 of them seem to have adopted a specific practice of SEV's Code and have appointed a Vice President on their Boards.

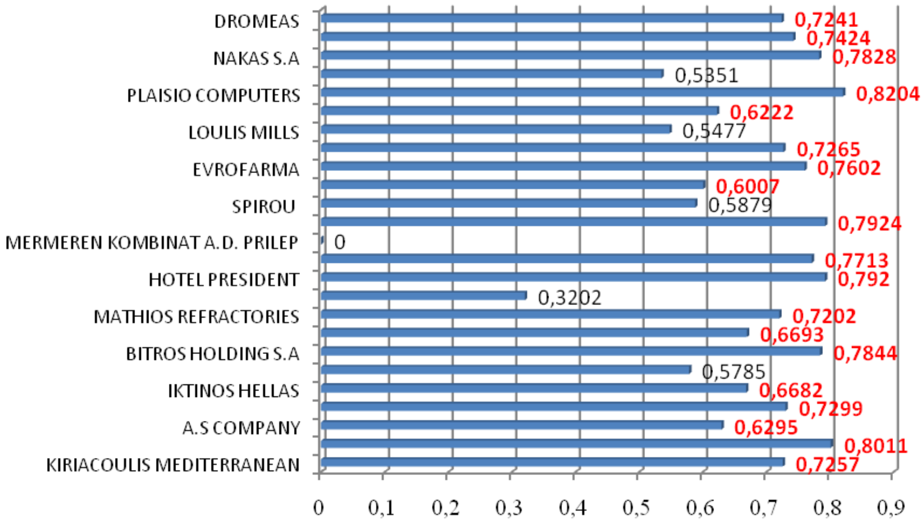

Figure no. 5 – Cumulative family control rate of 25 companies with the lowest score

According to Figure no. 5, in companies with the lowest score, family members present a high degree of ownership's concentration, something which derogates significantly from that specified in the Code. Specifically, in 19 of the 25 companies the percentage of control which family members hold, exceeds 60%. Conversely, the companies which received the highest score are those in which at percentage of 100% the main shareholders are not members of the family, something that is in accordance with the provisions of the Code of corporate governance.

Companies with the lowest scores are actually those which have not established committees in their Boards apart from the prerequisites from the existing legislation. More specifically, apart from the Audit committee that all companies are required to have, only two companies have created further committees (Remuneration or Nomination) and only two companies have created all three main committees. Conversely, companies with the highest score are those which have created committees. Ten of those companies apart from the recommendation of the reported committees have proceeded with the creation of others, as it is deemed necessary for clearer and transparent procedures in the specific areas of companies. Something similar is not observed in the companies with the lowest score since only 3 companies have created additional committees.

In Figure no. 6, the average ROA for the 20 companies[2] with the highest score reached in both years to positive, despite the decrease suffered in 2012 can be noticed. More specifically, in 2011 the average return on assets stood at 2.33%. In 2012 there was an anemic growth performance of the assets of these companies. Conversely, the average indicator return on assets for 25 companies with the lowest score in both years moved into negative growth rate of -1.20% in 2011 and -0.84% in 2012. A conclusion which emerges is the convergence that tends to present the above ratio in 2012 compared to 2011 for both examined categories of companies. This is, due to the inability of the companies with the highest score to make the best use of all their assets due to the Greek financial crisis that peaked in 2012.

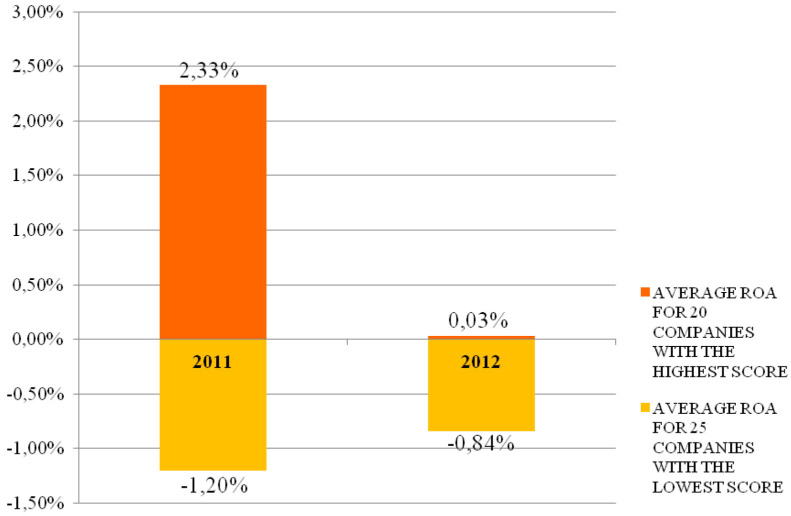

Figure no. 6 – Average ROA of 25 companies with the highest and 25 with the lowest score

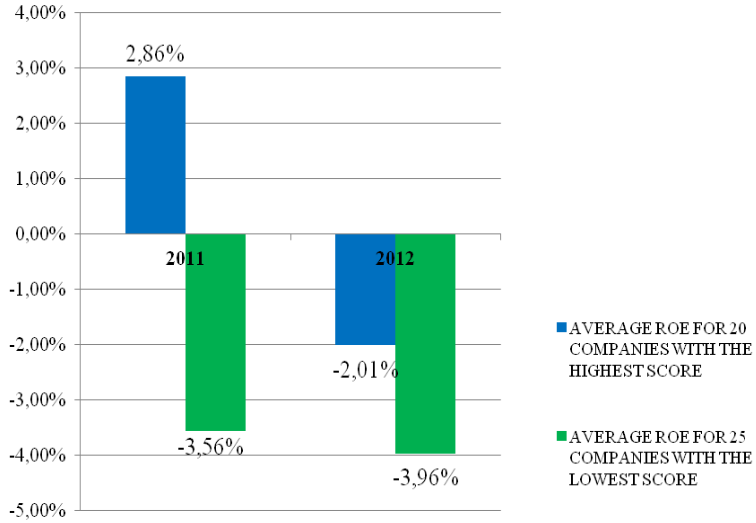

Figure no. 7 – Average ROE of 25 companies with the highest and 25 with the lowest score

In Figure no. 7, the average return on equity for the 20 companies with the highest score, sustained a major negative change, while in 2011 it was around 2.86% and in 2012 stood at -2.01%. Regarding 25 companies with lowest score, significant change in the indicator is not observed, which in both years continues to be in negative levels of the order of 3.5% to 4%, as shown above.

4. CONCLUSIONS

A series of important conclusions regarding the degree of compliance of listed companies in the A.S.E. in relation to corporate governance practices and the changes that occurred in the two years examined (2011-2012) can be extracted from our empirical study.

In particular, the majority of the sample companies follows the corporate governance Code of SEV (110 companies), while only 49 have created a personal Code, that is adapted to the needs and their field of activity.

Another equally important conclusion from our research is that the main shareholders (i.e. those holding above 5% of voting rights) represent 65.68% of the overall shareholding. In Greece the continental system of corporate governance is followed. This is confirmed by the fact that, 79 companies from all the examined companies are family owned and in their majority, family members hold a controlling right of over 50%. However, equally important is the number of non-family controlled companies, which are reflecting the trend that exists in recent years to have the management exercised by professional managers rather than founding members.

An important aspect of the composition of the Board is its size. The optimum size of the Board differs from country to country and has become a subject of scrutiny by many researchers. More specifically, 50% of our sample companies did not seem to follow suggested practices of the Code, having within their Board fewer than 8 members in the two examined years.

An important element in successful governance of companies is, as defined by the Code of corporate governance of SEV, the diversity as to the composition of the Board. The majority of companies appoint at least one woman in their Board, but 39.5% of other companies do not appoint any. The majority of companies has separated the role of Chairman of the Board from that of the CEO (59 companies do not separate the two roles but appoint a Vice President).

It is important to mention that over 95% companies follow the practice of publicizing the remunerations, but do not fully comply with regard to their detailed disclosure. Moreover, the analysis shows that the average remuneration of managers decreased significantly in 2012 (by approximately 200,000 €), reduction which is the outcome of efforts by companies to reduce their operating costs in order to cope with the difficult and changing environment in which they operate.

Another impact of the crisis was the increasing losses of most companies. In the examined years, 2011-2012, a negative return on assets and equity is shown. In 101 companies in 2011 and 104 companies in 2012 the indicator ROA ranged from -5% to 0%. For the same price range of indicator ROE, the number of companies increased from 99 companies to 101 in 2011 and 2012, respectively.

As regards the 25 companies with the highest score the main shareholders in 96% of the cases do not participate in board. Another important element is that 64% of companies appoint at least one woman on their Board. In addition, the sample companies do not show a close degree of relatedness among their members. Also, the dominant shareholders do not belong to the family members.

It is important to mention that in 18 out of 25 companies the role of Chairman of the Board from that of CEO is separated, while the remaining seven companies do not make this separation. 6 companies out of these follow the specific practice of Code of SEV and appoint a Vice President.

The average ROA reached for both years is positive, despite a decrease in 2012. The average ROE sustained a large negative change since in 2011 it was 2.86% while in 2012 stood at -2.01%.

As regards the 25 companies with the lowest score, the main shareholders participate in the Board. Furthermore, only 44% of companies have proceeded to the appointment of women on the Board. Out of the 25, 24 companies report that among their members there is a close degree of relatedness. Also, 17 companies do not separate the role of Chairman of the Board from that of CEO, but 15 of them appoint a Vice President.

In addition, 19 of 25 companies with the lowest score present a high degree of ownership concentration. The average return on assets ratio for both years ranged among negative range from -1.20% in 2011 to -0.84% in 2012. On the other hand, the average return on equity in the two years does not present any significant change. Future research should attempt to delve deeper into the characteristics that underpin corporate governance practices employed by Greek firms and how they related to ongoing changes worldwide.

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Notes

[1] http://www.ase.gr/content/gr/Companies/ListedCo/Profiles/.

[2] From 25 companies with the highest rating the four banks (Piraeus, Eurobank, National and Marfin) and an investment company (Andromeda AOEL) were not included. These companies had extreme values for these ratios, which would affect the calculation of a representative average. More specifically, the extreme values of the Andromeda indicators was due to the reduction of the share capital held in 2012 by offsetting the losses while in the case of banks the reason was the implementation of the program PSI, which created serious capital losses, resulting in the creation negative equity.