ICGN

International Corporate Governance Network

ICGN Yearbook 2010

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A Greek tragedy?

Greece has hit the headlines over the last year as one of the countries hardest hit by the sovereign debt crisis. But how does corporate governance in the country stack up? Dr Dimitrios Koufopoulos reports.

The financial crisis that nearly led to the collapse of the global economic system, has propogated a continuing discussion among professionals and academics. Many articles and papers have been written examining the causes of the crisis and to find possible ways to survive from this economic turmoil.

The deputy director of the OECD, Adrian Blundell-Wignall, explained the current financial crisis as being caused on two levels: firstly, by global macro policies affecting liquidity and secondly by a poor regulatory framework that, far from acting as a second line of defence, actually contributed to the crisis. Furthermore, the finger has also been pointed at corporate governance – not least since an increased pressure has been put on directors in order to improve transparency and accountability. It is widely acknowledged that some corporate failures in the recent years can find their root in weak corporate governance practices. Amongst other things, the issue of board composition is under extensive discussion: it has been suggested that in some cases boards were too big; that boards were not sufficiently independent; that some boards were too stale due to long non-executive and executive tenures; and that others were too old and too far from today's rapidly-changing financial markets.

Although the crisis is still at the centre of the global agenda, there are some countries that draw extra attention due to the severe economic situation they face. In Europe, there are a few countries that require special interest (Portugal, Spain), with Greece coming to the forefront early this year. The crisis in Greece is a result of a number of factors occurring during the last two to three decades; years of unrestrained spending, cheap lending and failure to implement financial reforms left Greece badly exposed when the global economic downturn struck. This situation also occurred in conjunction with partly-fiddled statistics covering debt levels and deficits that exceeded the limits set by the Eurozone.

This article aims to shed some light on the board characteristics of Greek companies in the context of the current financial volatility, by examining two important economic domains of the Greek economy: publicly-listed companies and state-owned enterprises (SOEs).

Evidence from Greece

A number of empirical studies have examined the extent to which Greek organisations follow recommended corporate governance principles.

The following section briefly presents findings on the board characteristics collected from five studies that have taken place since 2007 in Greece. All these studies were released by the Hellenic Observatory of Corporate Governance (HCOG) and capture the board characteristics of the Greek listed companies in the Athens Stock Exchange (ATHEX) for the years 2006 to 2008, and the features of Greek SOEs for the years 2002 to 2008.

Board size

The board size for listed companies has remained at consistent levels, with the average being between 7.8 and 7.9 members. The average board size for Greek SOEs was slightly higher, being from 8.0 to 8.8. Hence, we can assume that the majority of Greek boards that serve in listed companies and Greek SOEs follow the recommendations in Law

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2190/1920 that board size should not be more than 13 members. However, there are a few cases that exceed this number (mostly in the banking sector).

Board leadership structure

According to OECD recommendations and the new UK Corporate Governance Code, published this year, companies should split the roles of chair and CEO. Separating the roles guards against concentration of power, ensuring the chair can assess strategy and management objectively. Our sum of empirical data shows that the minority of Greek companies have a separated board structure, as most of them combine the above roles or, to be more precise, they do not have an independent leadership structure.

At a first glance, it seems that the majority of boards appear to have separate board structures. The percentage of the companies with a separate structure did not fluctuate significantly, varying from 56% to 57%. However, after a further examination, it was found that a high proportion of chairs and CEOs shared the same surname, and due to this fact it could be safely assumed that only 42% of boards had a separated and 'real' independent board structure without chair-CEO family ties. Therefore, we can presume that the majority of Greek listed companies either prefer the same person to hold the two positions or, in cases where there are two different persons, these are not truly independent.

For Greek SOEs, we have a completely different situation. The vast majority of firms had a separated leadership structure, and after 2005 dual roles become extremely rare.

Non-executive board members

The studies show that the number of non-executive board members represent more than one-third of the total number of directors in most boards, an instruction included in the Greek Law 3016/2002.

In the HOCG reviews, it was found that the average number of non-executive members in listed companies was 3.6 in 2006, 4.2 in 2007 and 4.3 in 2008. Based on an average board size of 7.9 directors, we can see that more than one-third of directors were non-executive. It is important to note the increasing presence of non-executive members in the boards of Greek listed companies through the years: this is a positive sign showing that companies are trying to follow corporate governance codes and their recommendations.

Independent non-executive board members

Notably, all studies show that the majority of boards in Greek companies have at least two independent non-executive members.

HOCG reports found that 58% of boards in 2006, 62% in 2007 and 68% in 2009 consist of at least two independent non-executive directors. Thus, we can surmise that most of Greek companies follow the law 2190/1920, which indicates that boards should consist of at least two independent non-executive directors.

In 2006, the average number of independent directors in listed companies was 1.7, suggesting that at that time many companies were not meeting the minimum requirement. This average has increased over the years to 2.4, which shows again that companies have made efforts to adapt.

Board committees

The Greek Corporate Governance Code recommends that boards should establish different committees (audit, remuneration, nomination etc.) that are responsible for the adequate internal operation of the organisation.

HOCG assessed the establishment of board committees in listed companies and found that only 12% of companies in 2006 had established committees: 11% had audit committees and 8% had committees regarding remuneration, nomination and succession. These percentages have considerably increased in both 2007 and 2008, with 32% and 24% of the companies having established committees.

Conclusions

An effort to improve the Greek corporate governance system is currently taking place.

A range of laws have been applied in order to help Greek boards to provide efficient corporate governance. However, the code published by the Committee on Corporate Governance in Greece has not been updated since 1999, and the last recommendations issued by the Federation of Greek Enterprises were in 2001. It is suggested that a reform of the code should be prepared, following the latest developments of codes from other countries.

Moreover, issues like induction and training of directors, included in the latest UK Corporate Governance Code, should be strongly suggested to Greek boards to update directors' skills, knowledge and familiarity with their companies so that they can fulfil their roles both on the board and on board committees.

ABOUT THE AUTHOR

Dr Dimitrios N. Koufopoulos is Senior Lecturer at Brunel University and Scientific Director of the Hellenic Observatory of Corporate Governance (HCOG). HOCG was established in 2007, to improve and disseminate corporate governance practices. It issues studies regularly on various economic sectors, and has already published reports on listed companies, SOEs, shipping companies and Greek football clubs. Its next report will be on the Greek healthcare organisations.