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ΕΛΛΗΝΙΚΟ ΠΑΡΑΤΗΡΗΤΗΡΙΟ ΕΤΑΙΡΙΚΗΣ ΔΙΑΚΥΒΕΡΝΗΣΗΣ

THE IMPORTANCE OF BOARD SIZE

Board size is recognised as one of the most important elements of any board. Before providing some facts about the different board sizes as they appear in the literature, it is worth starting with a generally accepted conclusion. Based on latest studies and some new trends, it can be argued that while there is still a place for larger boards of directors less is more. Having said this, it is important to add that in the case of designing boards -and as such deciding on the optimum number of directors serving a board-one size does not fit all.

Theory derived from academic and business research, suggests that increasing the number of directors comes both with costs and benefits. On the one hand, boards' capacity for monitoring and advising increases with board size, simply because there are more people to draw on. A larger group also pools more information and allows for greater diversity of backgrounds and viewpoints. As board size increases, "expertise" and "critical resources" of a firm and in turn company performance can be enhanced. More specifically, larger boards provide a larger number of interlocks, which are linked with increased effectiveness in the mitigation of organisational problems. It is worth mentioning, that larger boards can provide increased access to critical for

the firm resources. Furthermore, larger boards utilising their capability to delegate duties, are able to replace directors more easily than smaller boards.

On the other hand, large boards may underperform because of frictions in group decision making. Increased board size hinders initiative and strategic actions, while unproductive interactions may develop as well. At some point, the benefits of more directors are outweighed by free-riding, slower decision making, and coordination and process problems. A smaller group size allows for increased participation and social cohesion with easier communication and coordination. Additionally, a smaller board has the ability to exercise a controlling role more efficiently due to its more flexible and less bureaucratic processes. The extant literature has mostly found a negative correlation between board size and firm performance, in terms of profitability and firm value.

BOARD SIZE IN THE GREEK LISTED COMPANIES

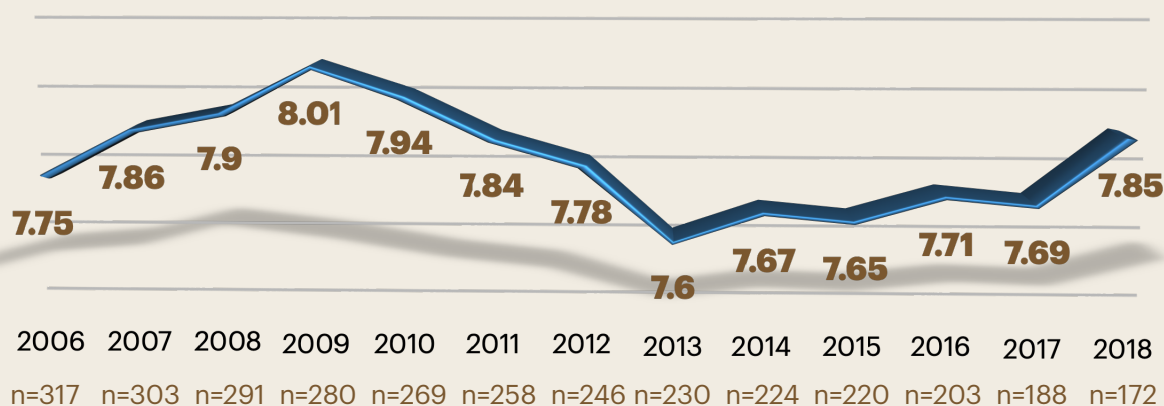
Based on Diagram 1, findings from the research carried out by the Hellenic Observatory of Corporate Governance are displayed and discussed. 317 companies were listed in the Athens Stock Exchange in 2006 and the average board size was 7.75. Until 2009, the



average board size has increased steadily, reaching an average of 8 directors, while the number of listed companies steadily decreased (n=280).

The next four years, the number of listed companies and the average board size follow the same pattern, showing a

Diagram 1: Average Board Size in Athens Stock Exchange



significant decrease (7.60 average board size, 230 listed companies in 2013).

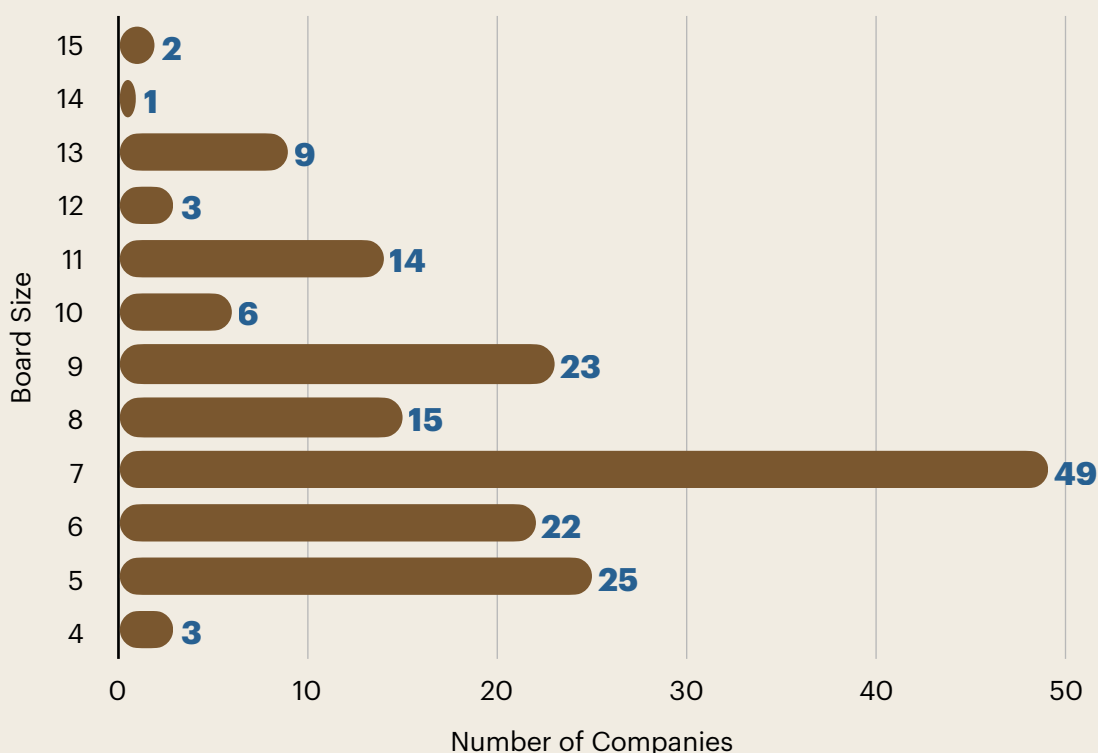
From 2014 to 2018, the average board size fluctuated ending 7.85 in 2018, while the number of listed companies showed a considerable decrease with only 172 listed companies in Athens Stock Exchange as of December 2018.

Diagram 2 offers further insights on the actual distribution of directors occupying seats in the companies listed in the Athens Stock Exchange for 2018. Here, 72 companies (or 41%) have preferences for either 7 or 9 board members. Moreover, it is worth stating that we have a significant number of listed companies (50 or 29%) that have chosen to operate their boards with an even number of board members. Taking a closer look on the data, we can see

that a handful of companies have either a very small or a relatively large number of directors. More specifically, N. Varveris - Moda Bagno, Varangkis A.B.E.P.E. and ALTEC A.B.E.E. have only 4 board members serving on their boards, while ElvalHalcor S.A. has 14 board members, Titan and Viohalco SA/NV have 15 board members.

By comparing the average Board Size of companies listed in the Athens Stock Exchange with international indices we report substantial disparities. The smallest difference can be observed with S&P SmallCap 600 where the average board size is 8.5 while the companies listed in Russel 3000 have an average board size of 9.1, S&P 1500 9.6 and S&P MidCap 400, 9.7. The biggest differences are reported with FTSE 150 which has an average board size of 10

Diagram 2: Board Size in Athens Stock Exchange 2018



and the S&P 500 which has an average board size of 10.9.

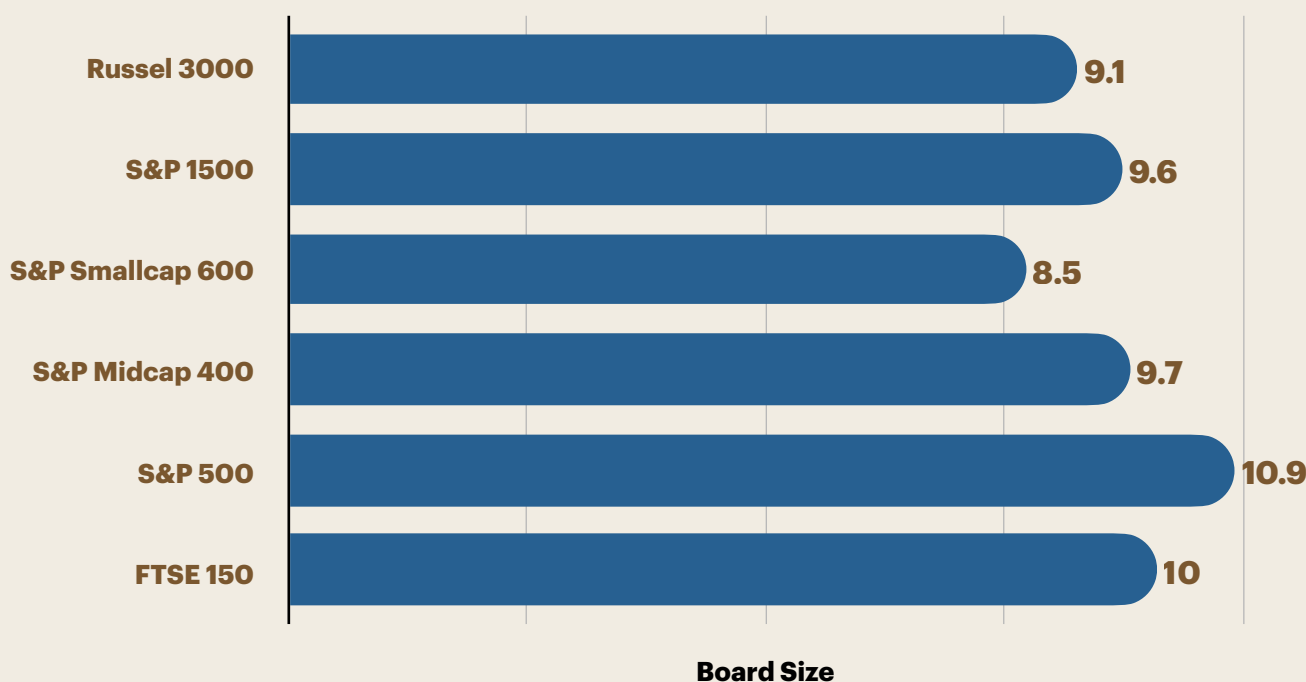
RECOMMENDATIONS REGARDING BOARD SIZE

Codes and regulations remain silent regarding this important issue and they prefer to provide generic guidance.

Having review the main Corporate Governance codes (see FRC 2020,

do not impose strict regulations on the number of directors that any organisation is choosing to have on its board. The main guideline is that “The board and its committees should have a combination of skills, experience and knowledge”. Other important issues that must be taken into consideration are length of service and all aspects of diversity. Recently the Law 4706/2020 has been passed through Greek

**Diagram 3: Board Size in International Indices 2019
(Based on data by EY and Spencer and Stuart)**



Australian Corporate Governance Code, German Corporate Governance Code, Japanese Corporate Governance Code and US Commonsense Principles of Corporate Governance), we can conclude that rightly the regulators

parliament covering all aspects of Corporate Governance for the companies listed in the Athens Stock Exchange. Indirectly indicates the minimum number of directors serving any board by clearly

prescribing that any audit committee should consist of at least 3 members.

Nevertheless, our research on a number of issues pertaining to the function of boards alongside guidelines for the separation of the leadership structure (Chairperson/CEO), the number of independent directors, the number of committees formed as well as issues relating to board diversity allow us to conclude that a required minimum should be reconsidered and prescribed and as such as stricter guidelines might be formed.

Dr. Dimitrios N. Koufopoulos

Director of the Global MBA programme at the University of London, Visiting Professor in the School of Law, Centre for Commercial Law Studies, Queen Mary University of London, UK, Honorary Research Fellow at Birkbeck University and Founder and Director of Research at the Hellenic Observatory of Corporate Governance.

Dr. Ioannis Gkliatis

Senior Lecturer, Hertfordshire Business School, University of Hertfordshire, Senior Research Fellow of the Hellenic Observatory of Corporate Governance.

Konstantinos Athanasiadis

Senior Research Associate, Hellenic Observatory of Corporate Governance, PhD Candidate Birkbeck University.

Michail Fygkioris

Research Associate, Hellenic Observatory of Corporate Governance.

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Email us: info@hocg.eu



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