Σύγχρονες Επιχειρήσεις, Σύγχρονη Ελλάδα

REVIEW
of the
Hellenic Observatory of Corporate Governance

Issue 2, June 2008

The current review is the second tangible outcome of the joint effort between the **SEV Hellenic Federation of Enterprises** and the *Brunel Business School,* **Brunel University** which combined forces by signing in January 2007 a Memorandum of Understanding for cooperation.

Setting up the **Hellenic Observatory of Corporate Governance (HOCG)** in Greece was a primary objective of the joint effort. The Observatory has been hosted by SEV, with the first issue of the Review published in July 2007.

The Review will be produced and distributed twice per year providing the readers with news, developments, research and other relevant information on issues relating to the emerging field of Corporate Governance (GC) and Board of Directors.

In this Issue you can read the findings from the second research report on corporate governance as well as a short article regarding shareholders rights

The Observatory aims in the long term to:

- *Become* a permanent forum for exchange of information
- *Disseminate* best corporate governance practices among Greek enterprises so that they are assisted in increasing their institutional capacity
- *Create* a comprehensive database regarding corporate governance of Greek organizations
- *Contribute* to academic research on corporate governance
- *Cooperate and* establish links with other organizations in Greece (i.e. Athens Stock Exchange (ATHEX), Hellenic Capital Market Commission (HCMC), Union of Listed Companies in Greece, etc) and abroad (BUSINESSEUROPE, European Corporate Governance Council (ECGI), with particular focus on the neighbouring transition economies
- *Facilitate* the establishment of national and regional fora for corporate governance

"To remain competent in a changing word, corporations must innovate and adapt their corporate governance practices so that they can meet new demands and grasp new opportunities. Similarly, governments have an important responsibility for shaping an effective regulatory framework that provides for sufficient flexibility to functioning effectively and to respond to expectations of shareholders and other stakeholders" (OECD, 2004: pp.13-14)

Corporate Governance in Greece:
Research Findings from the Second Annual Research

In the following pages, research findings –published for the second time through this issue - are discussed and presented regarding important elements on CG as far as the listed companies in the Athens Stock Exchange are concerned.
Some corporate governance guidelines, that the readers of this report may wish to get accustomed with, are laid out in the relevant legislation, including the Greek Capital Market Commission's Corporate Code of Conduct (1999), the Law 2190/1920 and the Law 3016/2002.

Methodology

Sample
The current study consists of all the Greek companies listed in the Athens Stock Exchange (ASE) up to 31st December 2007. Data- from secondary sources- was collected between the last two weeks of December 2007 and the early beginning of 2008. The ASE site (www.athex.gr) was the main source used for the data collection. In addition, all companies' data concerning corporate governance was double checked by visiting the websites of the respective companies. The analysis is based on 304 companies.

Variables analyzed

Board size was measured by the absolute number of directors
Board composition captures the number of executives and non executives sitting on the Board. Then, the non-executives were separated in dependent (affiliated) and independent. In the few cases where data regarding the internal or external status of members was not found, it was considered as missing data. The same was applied, when there was not accurate information regarding the status of the non-executive directors.
Board leadership structure: Companies adopt either separate board structure (Chairman different from the CEO/MD) or joint structure. Within those companies that employed the separate structure a simple criterion of affiliation was examined (although this is neither absolute nor scientific). The surnames for the 2 persons sitting on the Chairpersons-CEOs positions were checked and in the case that they were identical, they were then classified as separate but affiliated.
Gender of the members of the board was ascertained by examining the names and surnames of all the board members and the percentage of female Chairperson and CEOs was also noted.
Foreigners on the board were counted by examining their surname origin. All members with Cypriot names were measured as Greeks.
Committees**:** Data regarding the number of Board committees established and currently operating within the Greek Boards were gathered from the internet sites and annual reports of the respective companies. Then they were re-grouped into 4 main categories. The Annual reports of 2007 were not available, so wherever necessary data from the Annual reports of 2006 was were used.
The total number of committees in each company was calculated and each committee's name was documented.
Internal Auditor: Data regarding the existence of Internal Auditors - after the implementation of Law 3016/2002 - was collected from the Annual Reports and the Organizational charts of the firms.
Internal Code of Conduct: Law 3016/2002 requires that Listed Companies have an internal code of conduct. Data was collected from the annual reports and the internet sites. We used a binary variable (Yes-No) to capture this variable. "No" indicates that companies do not mention the existence of an Internal Code of Conduct, neither in their annual reports nor in their internet sites.

The findings regarding *Internal Auditors* and *Internal Code of Conduct* should be interpreted with caution, since it may be lack of transparency and the current quality of the annual reports that is portrayed here.
Audit Firm. The data of this variable was found in the annual reports by examining the name of the audit firm.
Company size was measured with the absolute number of employees based on the information provided by the ATHEX site and was re-classified into 4 major groups: up to 50 employees, 51-250, 251-500 and 501 and over. In the cases that the ASE website included both Company and Group size, we have assumed that the size indicated was the company's size.
Industry Classification ATHEX classifies listed companies in **17** main categories and **65** subcategories
http://www.ase.gr/content/gr/Companies/ListedCo/Profiles/sectors.asp#anchor9500
We have adopted this approach and consequently, we re-classified the companies into two major sectors:

- manufacturing (Oil & Gas, Chemicals, Basic Resources, Construction & Materials, Industrial Goods & Services, Food & Beverage, Personal & Household Goods,)
- services (Health Care, Retail, Media, Travel & Leisure, Telecommunications, Utilities, Banks, Insurance, Financial Services, Technology).

Years listed in the Stock Exchange: the number of years that the company is listed was calculated from the number of years that elapsed since the year that the company joined the ATHEX until 2007.
Companies' Age: The companies' Age is measured derived from the year of their establishment. Furthermore, in order to present these findings the companies have been divided in three groups based on three different time periods. These periods are 1990 up to present, 1971 up to 1989 and finally companies that have been established earlier than 1971.

Research Findings

The results portray some important elements of the current status of Board of Directors in the listed companies at the ASE.

Board size: Small size is preferred

The average number of directors is 7.86 with a standard deviation of 2.54; 173 (57%) of these companies have from 5 to 7 board members (**Figure 1)**.
As it can been seen companies in Greece clearly prefer seven board members to sit on the Boards meeting. In total 2378 directors serve on the Boards of the listed companies in Greece. It is worth mentioning that banks favor big boards; Bank of Cyprus has a Board consisted of 18 members, Emporiki Bank has 17 and Pireaus Bank and EFG Eurobank have 16 member.

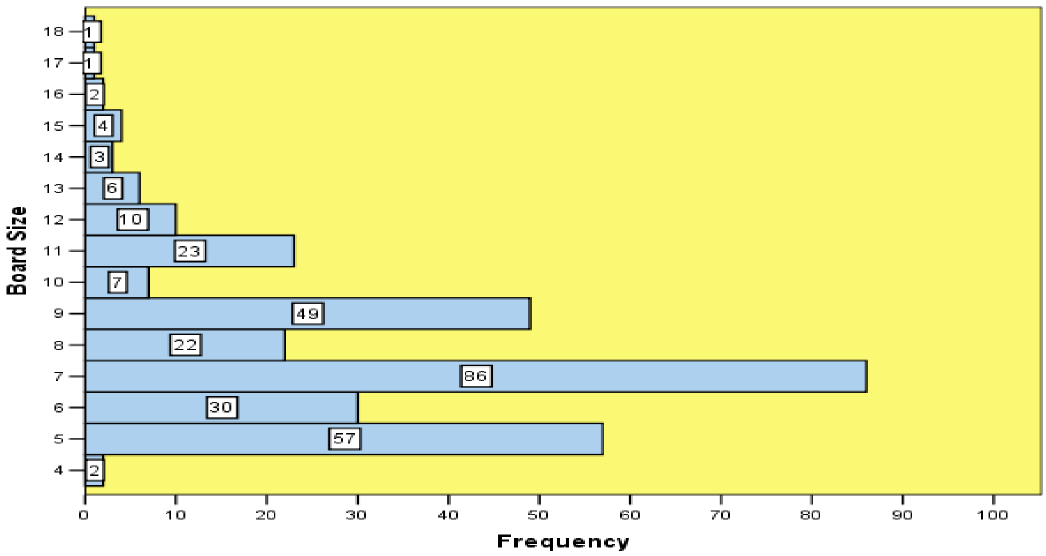

Figure 1: Board Size (n=303, X= 7.86, St. Dev. = 2.54)

Board composition: the Executive (Internal) members are not the majority

1073 directors, on average 3.58, are characterized as Executive (Internal) board members. 207 (69 %) companies have from 2 to 4 Executive directors as board members **(Figure 2).**

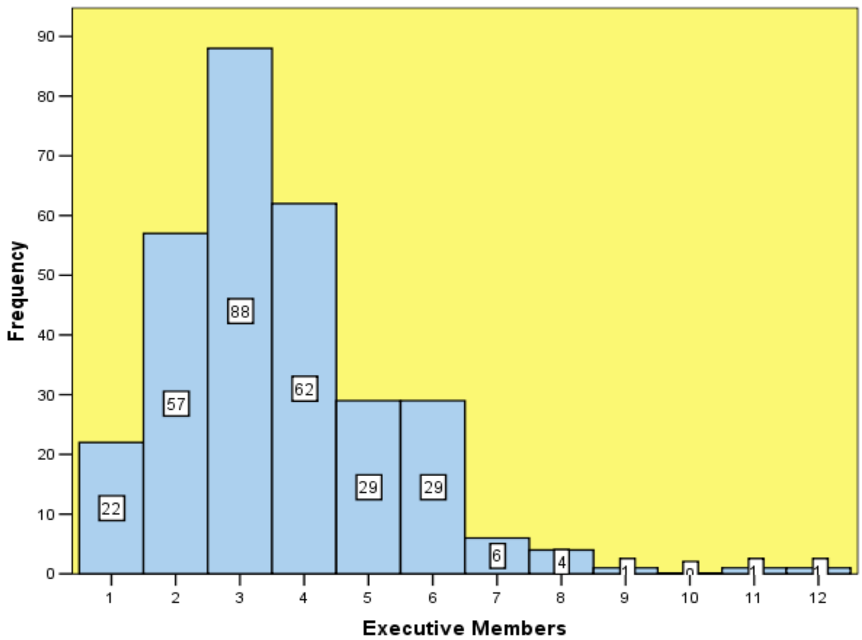

Figure 2: Executive Members (n=300, X= 3.58, St. Dev. =1.70)

On the other hand, 1281 directors are Non-Executive (External) and the average number per board is 4.27 members; 190 (62%) of those companies have from 2 to 4 directors **(Figure 3)** with the vast majority of the listed companies having 3 at least.

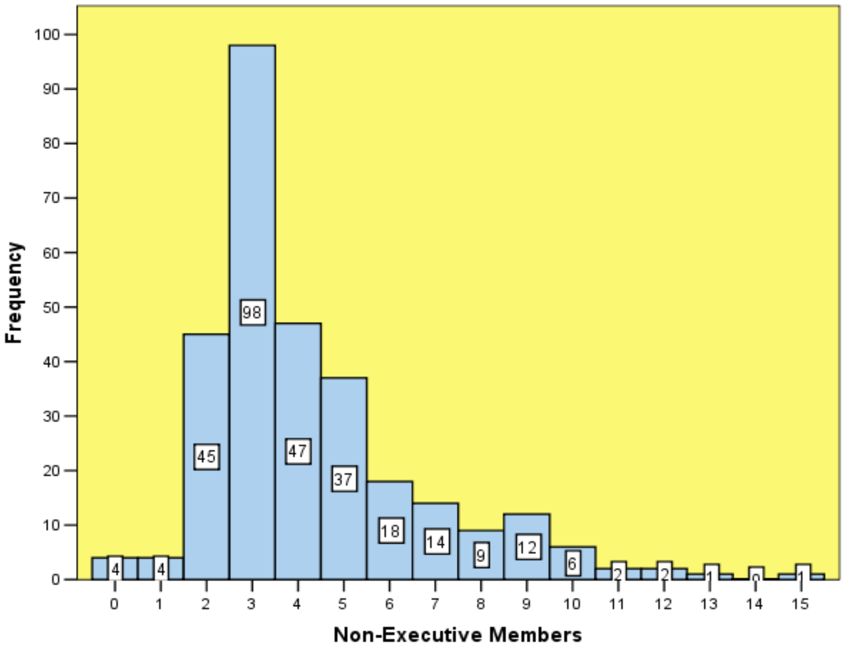

Figure 3: Non-Executive Members (n=300, X= 4.27, St. Dev. =2.37)

Nevertheless, a closer examination on the data regarding the Non-Executive (External) Directors reveals that in total 592 directors- on average 2.02- of those are affiliated or dependent Non-Executive (external) board members.
It is worth mentioning that 58 (19.8%) of the listed companies have only one Non-Executive (external) dependent director (**Figure 4a).**

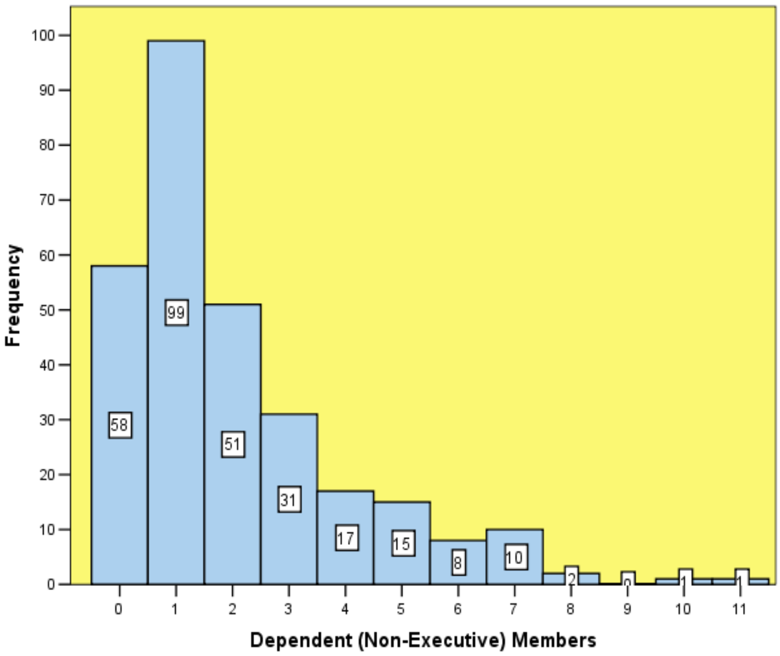

Figure 4a: External But Dependent (Affiliated) Members (n=293, X= 2.02, St. Dev. =1.99)

Furthermore, there are 674 Non executive (external) independent board members, which is translated in 2.3 on average. 220 (75%) companies are having exactly 2 independent members **(Figure 4b**) which reveals that most of the companies comply with Law 3016/2002 that requires the existence of at least two *Non executive* and *independent* members in a board.

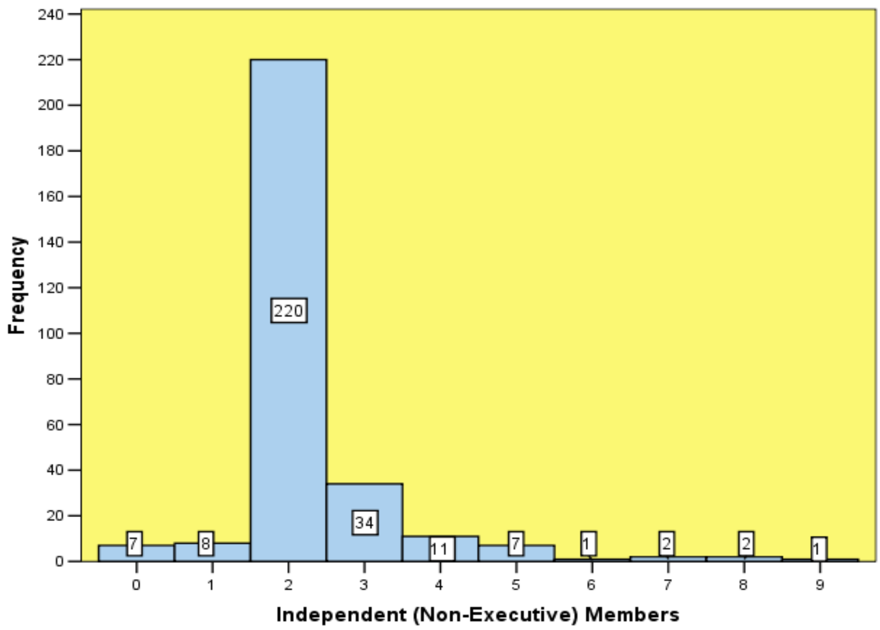

Figure 4b: External and Independent Members (n=293, X= 2.3, St. Dev. =1.08)

Board Leadership Structure: The same person rules
56% (165) of the companies have adopted a separated board structure **(Figure 5)**. On closer examination of these figures we realized that in 14% of the whole population, although the Chairperson and the CEO were indeed different persons, they shared the same surname which leads us to suspect that although job separation existed strong indications of affiliated (dependence) status was present. We have to note that our criterion (this is surname) is neither absolute nor scientific. Nevertheless, we thought that by employing it, we may give a more realistic portrayal of reality. On the other hand, a joint structure (duality) was employed by the 44% (131) of the listed companies.

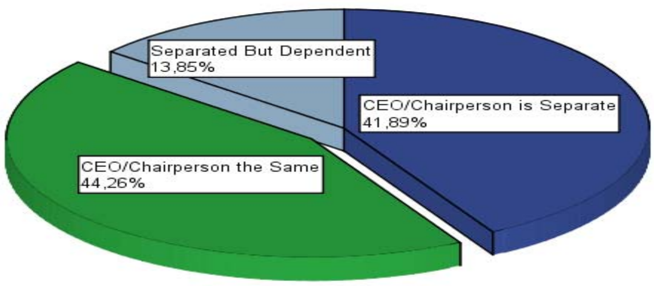

Figure 5: Duality Including Separated but Dependent (Related/Affiliated) (n=296)

Foreigners: 238 (78, 5 %) of the companies do not have any foreigner as a member of their Board, while 36 (12 %) of the Boards have at least one foreigner as a member **(Figure 6).** It is interesting to note that here are 12 companies that have 4 or more foreign members in their boards **(Table 1).**

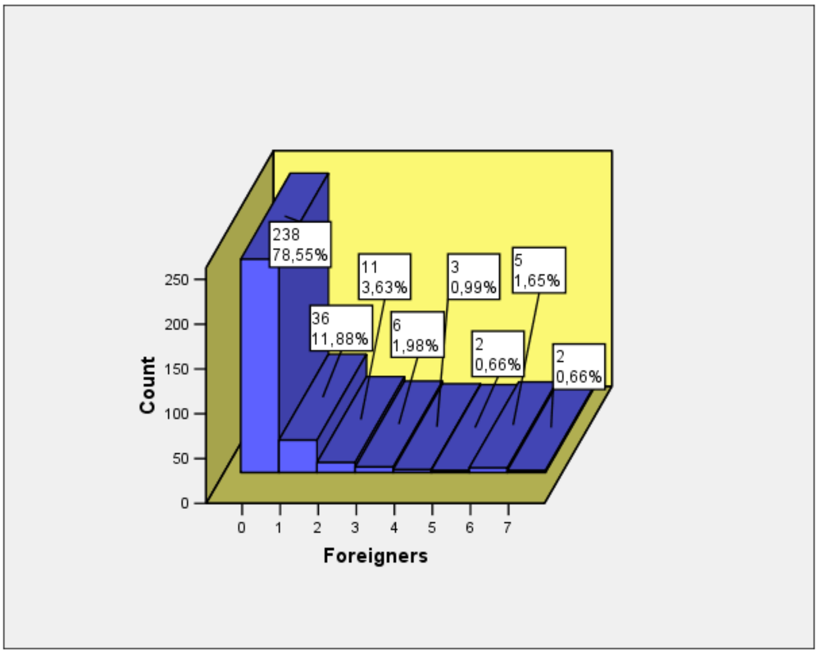

Figure 6: Foreigners (n=303, X=0.47, sd=1.21)

Table 1: Companies with 4 or more Foreigners in their board of Directors

	Company	*Foreigners*
1	COCA-COLA E.E.E. S.A.	7
2	EMPORIKI BANK OF GREECE S.A.	7
3	HERACLES GENERAL CEMENT COMPANY S.A.	6
4	PETROS PETROPOULOS S.A.	6
5	TEXAPRET S.A.	6
6	"ALFA-BETA" VASSILOPOULOS S.A.	6
7	CH. ROKAS S.A.	6
8	CROWN HELLAS CAN S.A.	5
9	GENERAL BANK OF GREECE S.A.	5
10	FASHION BOX HELLAS S.A.	4
11	ATTICA PUBLICATIONS S.A.	4
12	MARFIN INVESTMENT GROUP HOLDINGS SA	4

Gender: Women are underrepresented

Out of the 2,378 directors that served as Board members, only 258 (10,8%) are women while 2.120 (89,2%) are male. Moreover, only 25 (7.8%) of the listed companies seem to have entrusted their fortunes on women. Similarly, only 8 companies (32% of those companies that women are present on the top jobs *or* 2.6% of the whole population) have the same female as both the Chairperson and CEO. Additionally, 8 companies have a woman as a chairperson while 9 (36% or 3% of the total population) companies have entrusted the every day operations in a female CEO **(Table 2)**. In short, there are only **25** women that serve on the top jobs; that is 1% of the total number of directors or 9.6% of the total number of female directors.

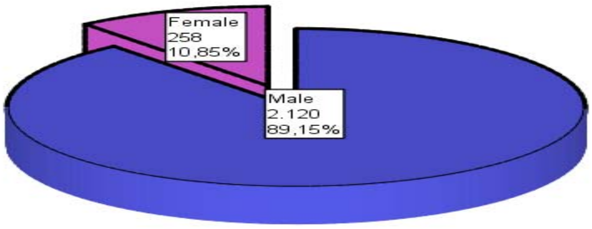

Figure 7: Gender of Board Members

Table 2: Female Chairpersons and CEOs

No	Company Name	Chairperson (N=318)	CEO (N=311)
1	ELTON S.A.	*PAPATHANASIOY PANAGIOTA*	*PAPATHANASIOY PANAGIOTA*
2	N. LEVENTERIS	LEBENTERI ARETI	
3	S & B INDUSTRIAL MINERALS S.A.	KIRIAKOPOULOU AIKATERINI	
4	MOCHLOS S.A.		STEGGOU, K ZOI
5	MICHANIKI S.A.		EMFIETZOGLOU, P MELINA
6	GALAXIDI FISH FARMING S.A.	*PANTELEIMONITOU ATHANASIA*	*PANTELEIMONITOU ATHANASIA*
7	HIPPOTOUR S.A.	*CHANDRI-TERZI ALEXANDRA*	*CHANDRI-TERZI ALEXANDRA*
8	X. BENRUBI S.A.		BENROUBI, S ALIKI
9	ZAMPA S.A.		BALOPOULOU STILIANI
10	EMPORIKOS DESMOS S.A.	*VRIONI, F TALEIA*	*VRIONI, F TALEIA*
11	VARANGIS AVEPE S.A.	VARAGI ELENI	
12	FINTEXPORT S.A.	BRANOPOYLOU I AIKATERINI	
13	ELMEC SPORT S.A.	FAIS I LOUSI	
14	VARVARESSOS S.A. EUROPEAN SPINNING MILLS	*BARBARESSOU, G ANASTASIA*	*BARBARESSOU, G ANASTASIA*
15	ALISIDA S.A.		SPIRAKI MARIA
16	KARELIA TOBACCO COMPANY INC. S.A.	KARELIA VICTORIA-MARGARITA	
17	AXON S.A. HOLDING		STAMATAKI, N VASILIKI
18	ATLANTIC SUPER MARKET S.A.		LAOUTARI VARVARA
19	ALMA- ATERMON S.A.	*VRIONI, F. TALEIA*	*VRIONI, F. THALEIA*

20	**X. K. TEGOPOULOS EDITIONS SA**		TEGOPOULOY C ELENI
21	**LIVANIS PUBLICATIONS SA**	LIVANI, A PANAGIOTA	
22	**NAYTEMPORIKI PUBLISHING S.A.**	ATHANASIADOU, G EIRINI	ATHANASIADOU, G MARIETTA
23	**PROTON BANK S.A.**	FRAGKOY N AGGELIKI	
24	**INTERINVEST INTERNATIONAL INVESTMENT S.A.**	*SAKELLARIDI CHRISTINA*	*SAKELLARIDI CHRISTINA*
25	**ILYDA SA**		PAPADOKOSTAKI, G MARIA

Internal Auditors and Internal Code of Conduct:
One of the most important elements of the Law 3016/2002 is for companies to have an Internal Auditor or Internal Audit Department. 245 (81%) of the listed companies have incorporated an internal auditor in their organizational structure, while 59 companies (19%), seem that have not complies yet, based on the secondary data available from the companies sites (**Figure 7)**.

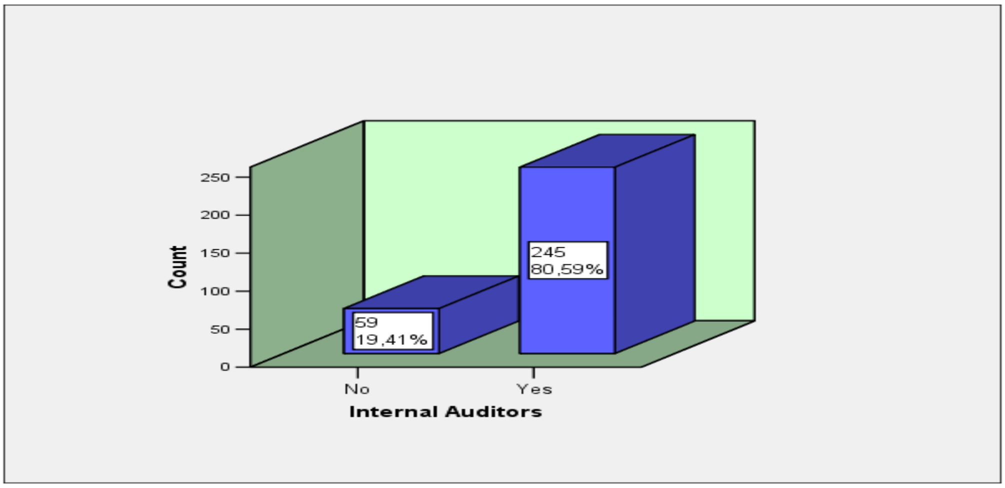

Figure 7: Internal Auditors (X=304)

In addition, 130 (43.77%) of the companies state clearly that they have adopted an Internal Code of Conduct that the Greek Law suggests **(Figure 8)**.

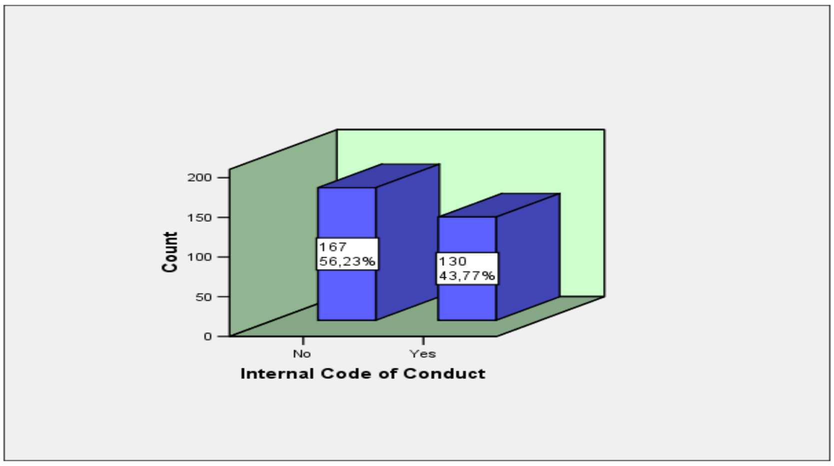

Figure 8: Internal Code of Conduct (X=304)

Audit Firms:
The dominant audit firms are SOL S.A. Certified Public Accountants – Auditors and BDO Philippides Ltd Chartered Accountants with 29% (88) and 14% (42) market share respectively. In short, 8 firms audit the 87 % (264) of the listed companies in Greece **(Figure 9)**.

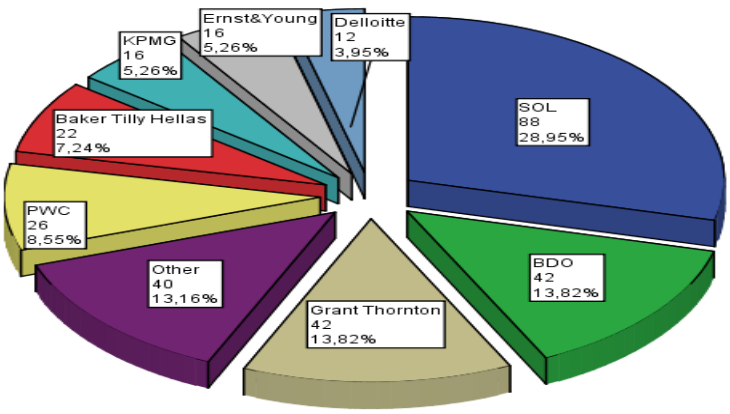

Figure 9: Internal Auditors (X=304)

Board Committees: Rarely in place
Only 99 (32%) of the listed companies appeared to have established committees, with 62 of them having exactly one **(Figure 10)**. Audit committees appear to be the most popular with 88 (29%) of the companies having one.
Committees regarding Nomination, Remuneration and Succession have been set up in 35 (12%) companies and committees regarding Finance and Economics are present in 40 companies with a relatively low percentage of 13% **(Table 3).**
In addition, 9 companies seem to have 5 or more committees in operation **(Table 4)**.

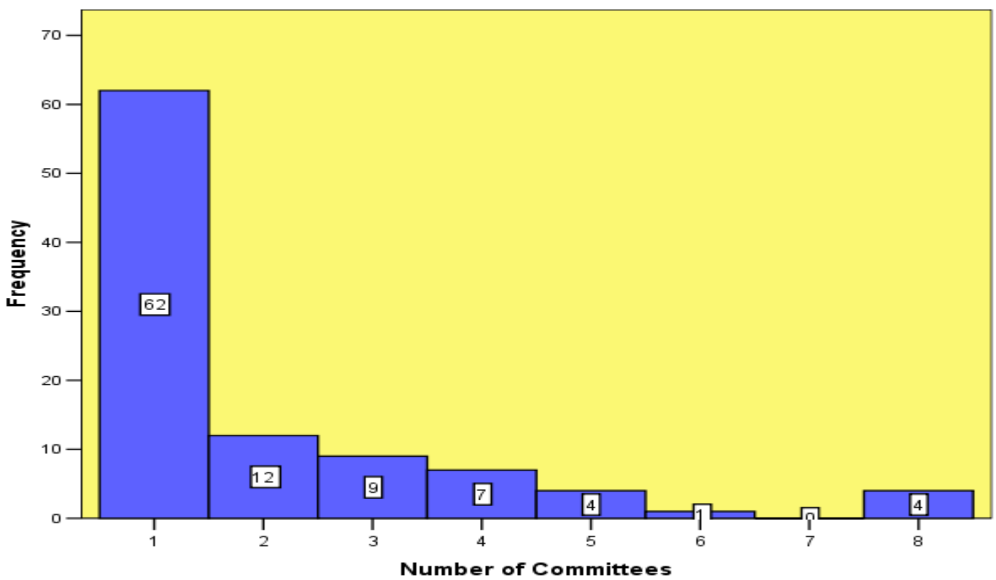

Figure 10: Board Committees (n=99, X= 2.01, St. Dev. =1.735)

Table 3: Frequency of Committees

COMMITTEES	*SUBCOMMITTEES*	*Freq.*
Audit 88 (29%)	Audit Committee	88
Nomination/ Remuneration/ Succession 35 (12%)	Compensation and Succession Planning Committee	2
	Nomination Committee	5
	Remuneration Committee	8
	Succession Planning and Corporate Governance Committee	4
	Executive Compensation Committee	1
	Human Resources and Succession Planning Committee	1
	Executive Compensation and Evaluation Committee	1
	Financial and Remuneration Committee	1
	Salaries and bonuses Committee	1
	Succession and Nomination Committee	1
	Corporate Governance and Nomination Committee	1
	Succession Planning Committee	1
	Compensation Committee	2
	Human Resources Committee	4
	Nomination and Remuneration Committee	2
Finance and Economics 40 (13%)	Risk Management Committee	7
	Procurement Committee	3
	Investments Committee	14
	Financial and Economics Planning Committee	1
	Fee and Supply Committee	2
	Commercial committee	1
	Banking and Credit Committee	1
	Assets and Liabilities Committee	2
	Retail Banking Operations Development Committee	1
	Top Lending Committee	1
	Lending Committee	1
	Credit Committee	1
	Leasing Committee	1
	Bargain Assets Committee	1
	Pricing Policy Committee	1
	Auxiliary Fund Activation Committee	1
	Write - off Committee	1
Various 30 (10%)	Pension Plan Committee	1
	Administrative Issues Solving Committee	1
	Environmental Issues Committee	1
	Quality Assurance Committee	2
	Strategic Planning Committee	2
	Chairman's Committee	1
	Management committee	1
	Committee of shipping sector	1
	Group executive committee	1
	Board audit committee	1
	IT Committee	2

	Steering Committee	1
	Member Audit Committee	1
	Corporate Social Responsibility Committee	2
	Ethics Committee	1
	Collections Committee	1
	Executive Committee	9
	International Steering Committee	1

Table 4: Companies with 5 or more committees

	Company	Committees
1	PIRAEUS BANK S.A.	8
2	PROTON BANK S.A.	8
3	EFG EUROBANK ERGASIAS SA.	8
4	HELLENIC EXCHANGES S.A. HOLDING	8
5	ASPIS BANK S.A.	6
6	HELLENIC PETROLEUM S.A.	5
7	TITAN CEMENT COMPANY S.A.	5
8	F.G. EUROPE S.A.	5
9	BANK OF CYPRUS PUBLIC COMPANY LTD	5

Company size: Large companies overrepresented in the ASE
Listed companies have on average 730 employees and a standard deviation of 2,214. Only one quarter can be categorized as large (over 500 employees) while the vast majority of them which is 156 (53.34%), based on the European Union classification, can be classified as small-medium sized organizations (up to 250 employees) **(Figure 11)**.

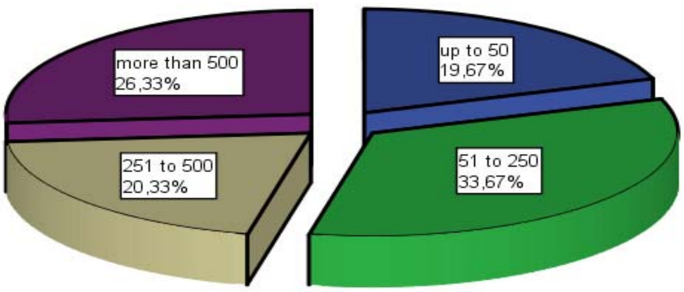

Figure 11: Company size (Employees) (n=292, X= 730, St. Dev. =2,214)

Companies' Age: One fourth established in the last two decades

Companies were categorized in three different groups based on the year of their establishment. 78 companies (25.7%) have been established from 1990 up to present, 138 (45.39%) of the companies have been established in the period 1971 to 1989 and there are also 88 companies that are much older as they have started their business earlier than 1970 **(Figure 12).**

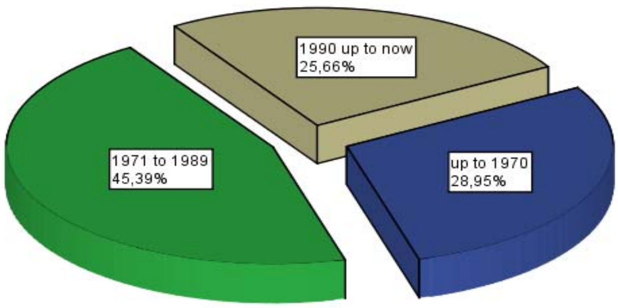

Figure 12: Companies' Age (Year of Establishment) (n=304, X= 1974, St. Dev. =23, 7)

In **Table 5** the companies that have been delisted from the Athens Stock Exchange in 2007 are presented, while in **Table 6** the two new entrants are shown. Also, there were four companies that during year 2007 have changed their name, which might also mean a change of industry, or activities as in the case of Corfil S.A.

Table 5: Companies de-listed from ASE in 2007

1	LAMDA DETERGENT SA
2	ALUMINIUM OF GREECE S.A.
3	PANTECHNIKI S.A.
4	DELTA PROJECT SA
5	THEMELIODOMH S.A.
6	DELTA ICE-CREAM S.A.
7	EBIK SA
8	ELAIS - UNILEVER S.A.
9	RADIO A. KORASSIDIS COMMERCIAL ENTERPR.
10	G. LEVENTAKIS TEX S.A.
11	NOTOS COM HOLDINGS S.A.
12	PROMOTA HELLAS S.A
13	PHOENIX - METROLIFE S.A.
14	INFORMATICS S.A.

Table 6: Companies that went public in 2007

1	KORRES NATURAL PRODUCTS
2	AEGEAN AIRLINES S.A.

Table 7: Companies that changed their name in 2007

Old Company Name	Changed in 2007 into:
SP. TASOGLOU S.A. - DELONGHI	VELL GROUP S.A.
NAUSSA SPINNING MILLS S.A.	UNITED TEXTILES S.A.
CORFIL S.A.	PRAXITELIO HOSPITAL S.A.
VETERIN S.A.	ALAPIS S.A
NICK GALIS YOUTH CENTERS & ASSISTED LIVING S.A	SAOS ANONYMOUS SHIPPING COMPANY OF SAMOTHRACE

Views and Opinions

This section is edited by Dr Dimitrios N. Koufopoulos and expresses views and ideas which hopefully will foster and create the basis for a fruitful dialogue within the domain of Boards, Governance, Transparency and Accountability.

Intriguing Issues on Democracy, Voting rights, Ownership and Control

Despite the fact that the General Elections in Greece are over, a common theme for discussion in our political life concerns the degree of the proportionality that the Electoral Law allows. Thus, political parties never lose sight of how they can *create* a law that provides the winner of the general elections with additional seats or in essence extra voting rights.

Having in mind that DEMOCRACY may mean completely different things all over the world, the issue that we are concerned with in our current article is the extent that democracy exists and practice in the Corporate World.

The Commission, (in its May 2003 Action Plan on Company Law and Corporate Governance) proposed to carry out a study on the deviations from the principle of proportionality between capital and control existing in the Member States of the European Union. Stakeholders confirmed the need for such a study in their response to the spring 2006 consultation, conducted on the future priorities of the Action Plan.

The study was commissioned in September 2006 and led by Institutional Shareholder Services (ISS), which was associated to a European network of leading academics, the European Corporate Governance Institute (ECGI) and the Shearman & Sterling Law firm. The report was accompanied by detailed surveys of the academic literature, empirical evidence on the "one share-one vote” issue and a comparative legal study covering 16 Member States of the European Union as well as Australia, Japan and the US.

The objective of the study was to identify existing deviations from the proportionate allocation of capital and control across EU listed companies, to evaluate their economic significance and whether such deviations have an impact on EU financial markets. Charlie McCreevy- Internal Market and Services Commissioner- said:

> "*The study provides a useful factual background to the issue of proportionality between capital and control – known as the "one share, one vote" issue. Previously we didn't have a clear picture of how this issue affects European listed companies and whether it*

has an impact on their economic performance. Now that these facts are on the table we will examine, with an open mind, the question of whether there is a need for Commission action in this field".

The study has identified thirteen situations where proportionality between ownership rights and control rights deviates. Four approaches or mechanisms allow blockholders to enhance their control through voting rights (multiple voting rights shares, non-voting-shares, non-voting preference shares and pyramid structures), five mechanisms where control is locked-in (priority shares, depository certificates, voting right ceilings, ownership ceilings and supermajority provisions) and finally four generally mechanisms like partnerships limited shares, golden shares, cross-shareholdings and shareholder agreements.

Some of the study's findings can be summarized as follows:

1. *27 percent of the companies in the study's sample –across the 19 countries- had **pyramid structures**[1] in place.*
2. *24 percent of the surveyed companies used multiple voting rights for some shares (as an approach for enhancing control).*
3. *France, Sweden, Hungary Italy and Spain had the highest proportion of increase control mechanisms in place.*
4. *Investors have expressed strongly their preferences against Control Enhancing Mechanisms (CEM) and they were more likely to place a discount on companies that used them*
5. *Greece –based on a sample of 31 companies- is using primarily the **Pyramid structure** and the **Ownership ceiling**[2] as a major control enhancing mechanism.*

But what are the advantages of the "one share–one vote" approach?

Basic democratic principle: "A minority shareholder in a company with double voting rights can acquire a controlling stake, without paying the premium the market normally requires for control; such minority shareholders frequently maintain close relationships with management, often reflected in a spider's web of shareholdings and directorship".

Transparency*:* "in companies with extensive double voting rights, who knows who controls the company? This is an issue for employees as well as for capital markets. Both need to know who is taking decisions on their behalf. It is an issue for minority investors when only the **Board** knows where its voting support lies".

Despite the above points companies should have the right to determine their shareholder structure which may be routed in both company related issues as well as family history. Nevertheless, it is essential that companies should make "*their corporate arrangements publicly available during their IPO and post-IPO stages"* so that investors can make informed decisions.

After the publication of the study in May 2007 Commissioner McGrevey had declared that "weighted the findings of the study and all the other arguments which have advanced. My conclusion is that there is no need for action at EU level on this issue".

A final note on democracy and equality brings to mind Plato and Aristotle who in their wisdom have spoken about the **arithmetic** and **proportionate (natural)** equality; most of us remember the former and very rarely the latter.

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[1] An entity (i.e. family or a company) controls a company, which in turn holds a controlling stake in another company; this can be repeated a number of times
[2] A restriction prohibiting investors from taking a participation in a company above a certain threshold

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