Making good corporate governance a 'sine qua non' for outstanding performance

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As a key variable of the business environment, efficient Corporate Governance affects the overall financial performance of firms, and constitutes a major factor determining investor confidence.

In the most recent years, the significant rise of international oil price, the persistence and maybe further widening of the US account deficit, as well as the sustainability of high fiscal deficits in most of the developed countries have rendered world economic growth uncertain and concurrently more investment intensive. Moreover, at the same time has been observed a drastic weakening of investors' trust, triggered by the disclosure of important irregularities in the management and audit practices of large multinational companies (e.g., Enron, World.Com, AIG, Ahold). This factor has had direct effects on the economic activity of firms and has increased the cost of finance for new investments, worsening the potentials of world economic growth.

Within this context, it becomes more and more evident that there is a synergy between Corporate Governance, financial stability and economic growth and that in order to offset the negative effects of the aforementioned factors, countries should, apart from the implementation of structural changes, manage the sensitive issue of investors' confidence in a more delicate way.

As a consequence, the notion of "Corporate Governance" has climbed up the agenda of modern corporations, policy makers, investors and other stakeholders worldwide. The fundamental rationale behind Corporate Governance is developed in the article of the famous American Economist Kenneth J. Arrow entitled "The Economics of Agency" and is primarily concerned with the incentives mechanisms of the different stakeholders involved within a company. Unless there is a control mechanism that ensures the protection of shareholders' interests, managers may govern the company in their own interest rather than in that of the company and its shareholders-owners.

As defined by the OECD, "Corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance".

As a key variable of the business environment, efficient Corporate Governance changes the rules of the game, as it affects the overall financial performance of firms, the interests and the means of action of the various stakeholders and the competition patterns within industries and even within countries. The externalities involved in good governance practices are only positive, both at the company and at the aggregate levels. At the micro-level, good governance is linked to better organizational and financial performance. A McKinsey survey of 200 global institutional investors in 2000 and 2002 showed that the latter would be willing to pay a significant premium for companies that were well governed. At the macro-level, the existence of an effective corporate governance system not only enhances investors' confidence but also helps to wipe off many of the factors contributing to the stiffness of the financial markets.

Today, as investors become increasingly sophisticated and the demand for transparency grows, Corporate Governance has been translated into a plurality of regulations and policies. One could argue that we live in the era of "Regulations' Bureaucracy". Companies do not need any more regulations in order to ensure efficient corporate governance. They should be themselves cognizant of the governance practices they ought to apply. This claim is coupled by the fact that the cost of new regulations is enormously increasing. Internationally, today, the implementation cost of the Sarbanes-Oxley Act of 2002 is estimated at 5.000.000 euros -1.000.000 euros per company*. Therefore, the best way to go is to educate companies about the importance of good Corporate Governance, to develop a culture of good practice rather than setting up more regulations.

In this context, and in order to "assess the governance practices employed by the Greek companies, currently listed on the Athens Stock Exchange", the Financial Engineering Research Center (FRC) of the Management Science Laboratory (MSL), under the scientific supervision of Professor A.N. Refenes, in cooperation with Grant Thornton, and collaborating with the Capital Market Commission and the Federation of Institutional Investors has conducted an extensive survey, between February and July 2005. The main objective was to portray the current level of Corporate Governance in Greece by gathering primary information from the public listed companies. In particular, the survey seeks to find out whether Greek companies apply good Corporate Governance practices (regulatory framework & international practices), both in form and spirit, which are the areas of relative weakness and which are the reasons for non-compliance. The ultimate goal of the survey is to communicate the Greek market why good corporate governance is important and to delve on the crucial issues for the evolution of the Corporate Governance system in Greece.

The survey was conducted via the "box-ticking" method to all enlisted companies in the Athens Stock Exchange (ASE). The questions were built on the main principles on Corporate Governance, as the latter are documented in the White Paper of the Capital Market Commission, the Law (No. 3016/2002) of the Ministry of Economics, and international Codes of Best Practice. We gathered 110 answers, representing about 53% of ASE's total capitalization, covering all the major industry sectors. The analysis of results is currently in progress and the findings will be presented in public on the 24th of November, in the context of a joint event between AUEB and Grant-Thornton.

The ambitious task of this research and joint project is to convince Greek companies that it is in their own highest interest to make "Excellent Corporate Governance" a distinctive corporate characteristic. Especially today, after the gradual decrease of the positive externalities of the Olympic Games on Greek economic activity, it is crucial for Greek companies to convince investors, both international and domestic, that they are well governed. In a business environment that aims at transparency, Greece should lead the way by promoting good Corporate Practice.

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* Source: Financial Executives International Survey, January 2004

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- Corporate Governance Encyclopaedia
- European Corporate Governance Institute
- International Corporate Governance Network
- OECD, Directorate for Financial and Enterprise Affairs