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Abstract

This paper provides a comprehensive overview of corporate governance (CG) developments in Greece and has two objectives: to enrich the debate in this area and to contribute to the increasing literature by presenting the main aspects of the Greek CG framework; and to place the current CG developments and trends in Greece within the international debate, especially in the light of the recent debate to improve and convergence CG in the EU.

First, reviews the evolution of the CG debate in Greece and its implication at the EU level. Second, provides a short view of the institutional-economic environment in Greece, as it influences corporate governance practices. Then analyzes the CG mechanisms in the light of the recent key reforms. Finally, summarizes the findings and proceeds with some critical points and recommendations.

The general finding is that the development of regulatory reforms was mostly an endogenous process influenced mainly by the speculative events in the Greek capital market during 1999.

The evolution of the Greek CG may have significant implication, such as that the Greek market is a newly mature euro-area market and CG is supposed to be a key factor for the competitive transformation of the capital market and the business world. In addition, the evolutionary path of CG in Greece may have significant implication for the new EU member states.

The paper shows how the CG practices evolve in a small open economy influenced by speculative events and is valuable to policymakers, regulators and academics.

Keywords *Corporate governance, Disclosure, Corporate ownership, Greece*

Introduction

The upgrading of the Greek capital market to mature market status and the global competition for capital has boosted the corporate governance (CG) debate in Greece. In addition, the recent corporate failures and financial scandals around the world have increase awareness that proper CG is fundamental to the efficient operation of capital markets. The Greek economy sustained its high growth rate, despite the international economic slowdown, while the Olympic Games of 2004 put the Greek market in the international spotlight and will likely invite interest from foreign investors. Market transparency and investors' confidence is perhaps the greatest CG challenge facing the Greek capital market. This paper provides a comprehensive overview of CG developments in Greece and has two objectives. Firstly, I intend to enrich the debate in this area and to contribute to the increasing body of literature by presenting the main aspects of the Greek CG framework. Secondly, I aim to place the current CG developments and trends in Greece within the international debate, especially in the light of the discussions about the coordination of the efforts taken by and within member states to improve and converge CG in EU. The structure of the paper is similar to a recent paper published on Corporate Governance by Melsa Ararat and Mehmet Ugur. The authors provided an overview of the Turkish CG framework given the increased interest in CG matter and the significance of Turkey as an emerging market (Ararat and Ugur, 2003). In my paper the overview of the Greek CG may have significant implication as the Greek market is a newly mature euro-area market and CG is supposed to be a key factor for the competitive transformation of the capital market and the business world. In addition, the evolutionary path of CG in Greece may have significant implication for the new EU member states direction in this area.

The remainder of the paper is organized as follows. The first section briefly presents the CG debate and highlights the major trends in the EU. The second section presents the main aspects of CG in Greece and focuses on the recent developments. The last section summarizes the findings and proceeds with some critical points and recommendations for the potential future direction of the CG agenda in Greece.

Corporate governance: key issues and the reform agenda

Corporate governance: definition and agency problems

CG has been a widely discussed issue among academics, capital markets' regulators, international organizations and the business world. Shleifer and Vishny (1997), define CG as the way in which the suppliers of finance to corporation assure adequate returns on their investments. Agency theory is the fundamental reference in CG. The agency problems vary, depending on the ownership characteristics of each country. In countries with dispersed ownership structure (mainly the USA and the UK) the separation of ownership and control, as posed by Berle and Means (1932), refers to the inherent conflicting interests of opportunistic managers and owners (Fama and Jensen, 1983; Grossman and Hart, 1986; Williamson 1985). Investors usually use their exit options if they disagree with the management or if they are disappointed by the company's performance, signaling – through share prices reduction – the necessity for managers to improve firm performance (Hirschman, 1970). On the other hand, in countries with concentrated ownership structure (continental Europe, Japan and other OECD countries), large dominant shareholders usually control managers and expropriate minority shareholders, in order to extract private control benefits. The agency problem of CG is therefore posed as how to align the interests of strong blockholders and weak minority shareholders (Becht, 1997).

CG has significant implications for the growth prospects of an economy. Proper CG practices diminish risk for investors, attract investment capital and improve corporate performance. Especially, in an era of increasing competition and capital mobility CG has become a key element affecting the industrial competitiveness of countries (Maher and Andersson, 1999). Moreover, CG seems to affect the exchange rate policy. Castren and Takalo (2000) suggest that a partial reform of CG practices may actually render the exchange rate peg vulnerable to speculative attack. In addition, Johnson et al. (2000) and Mitton (1999) report how the weak CG worsened the 1997 Asian currency crises.

Corporate governance: the EU debate and transformation process

Recent events of corporate scandals and failures, mainly in the USA, have raised serious questions about the way the public corporations are governed. Corporate governance (CG) reforms have been demanded around the world, even if some countries face more serious problems than others do (Mayer, 2003). In the USA, the American Congress rapidly responded, by passing the Sarbanes-Oxley Act of 2002. The New York Stock Exchange followed by adopting new rules for listed companies. These actions are supposed to be the most significant reform in the US CG since the creation of the country's security regulation framework in the 1930s (Secretariat of the Economic Commission for Europe, 2003).

The European Commission (EC) on May 2003 presented an action plan on CG. The action plan closely follows the recommendations of the ''High level group of company law experts'' chaired by Jaap Winter. The experts' Group appointed by the EC in order to make recommendations on a modern regulatory framework in the EU for company law. The Group addressed a number of issues related to CG and proceeded with a set of recommendations to the EC (European Commission, 2002). Some of the recommendations are suggested to

formulate a European framework rule or a Directive. Other recommendations, according to the Group, should be a member state decision. The key features of the action plan are:

- requirement to publish an annual CG statement;
- improving the ability of shareholders to exercise the voting rights across countries;
- setting minimum independence requirements for the formation of nomination, remuneration and audit committees;
- setting minimum requirements for director independence;
- confirming collective responsibility of the board for financial and key non-financial statements;
- stiffening sanctions for board members (wrongful trading rule, directors disqualification, investigation by courts/regulators at instigation of minority shareholders); and
- studying the potential for abuses by pyramidal groups.

The above recommendations can be seen as an effort to design a sufficient and flexible corporate governance framework in the EU. The increasing interest to reconstruct CG arises also from the aspiration to create an integrated European capital market with common rules and a high degree of transparency by 2005. Hence, there is pressure to harmonize the national regulatory frameworks and perhaps ultimately create a single European market for corporate control (European Shadow Financial Regulatory Committee, 2002; Soderstrom et al., 2003). So far the competent US authorities have not recognized the relevant European standards as ''equivalent'', and have started to impose their new rules, in particular those enshrined in the Sarbanes-Oxley Act. Many questions arise regarding the potential relationship of the EU and US system: Should EU push for international standards and hope for mutual recognition? How easy is it for the EU countries to follow a single model? The EU countries face major issues where consensus cannot easily reached. Significant legal differences remain among member states. To a great extent, theses differences are the ones most deeply grounded in national attitudes and cultures, and hence, the most difficult to unify. The CG structures are shaped according to the special needs and priorities of each country. Hence, any attempt to homogenize and regulate CG practices, which, by their nature, present great degree of heterogeneity across countries, activity and time, may not be the best policy (Mayer, 2003). It is worthwhile also to mention that the European Commission (2002) clearly states that the adoption of an EU CG code would not achieve full information for investors and it would not contribute significantly to the improvement of CG in Europe.

The economic environment in Greece

The entrance of Greece in the Eurozone in January 2001 marked the start of a new era for the country. One should, however, be reminded that Greece industrialized in the early post-war years and experienced stagnation and significant structural problems for two decades until the mid-1990s. The Greek economy, after a long period of fiscal and monetary imbalances, has improved steadily over the last 8 years, as the government has tightened policy with the goal of achieving fiscal discipline and price stability. The Stability and Growth Pact[1] commits Greece to move towards a budgetary position close to balance or surplus to prevent budget deficits from exceeding the 3 percent ceiling, while the implementation of the euro-area monetary policy by the European Central Bank (ECB) results on price stability[2]. In 2003 the Greek economy continued to perform quite strongly. The GDP growth rate for 2003 is estimated to be 4 percent, well above the European average. The main driving forces of the economic activity was private consumption as well as private and public investment. Investment spending remained linked to the financial flows from the EU Structural Funds, the accelerating preparations for the Olympics, along with strong private investment.

However, Foreign Direct Investments (FDI) flows remain low in comparison with the EU. FDI inwards as a percentage of gross fixed capital formation increased from 5.9 in 1985-1995 (annual average) to 6.0 in 2001. However, in 2002 FDI inwards in proportion to Greece's gross fixed capital formation dropped sharply to 0.2. At the same time, the EU average increased from 5 percent in 1985-1995 (annual average) to 22.5 percent in 2002. Greece's inward FDI Performance Index is below the composite index for the EU countries. The inward FDI Performance Index in Greece dropped sharply from 1.27 in 1988-1990 (1.28 for the EU), to 0.1 in 1998-2000 (1.7 for the EU). Greece's underperformance compared to the EU can be also seen from the FDI stock inwards relative to GDP. The FDI stock inwards in the EU countries increased much faster compared to Greece. The EU's FDI stock inwards, as a percentage of GDP, from 6.1 in 1980 reached 31.4 in 2002, while in Greece form 9.3 in 1980 dropped to 9.0 in 2002 (UNCTAD, 2002, 2003).

Among the group of Mediterranean countries, Greece shows the second lowest level of estimated deterred FDI, in a range from 92 to 122 percent (with an Opacity Factor of 57[3]). In dollar terms, this would represent a gain in the range of $1.01 to $1.34 billion, if Greece could manage to reduce its opacity to the benchmark (Transparency International, 2002, 2003). The Opacity Index suggests that Greece can benefit from review of its governmental economic policy, and the transparency of its business regulatory regimen. To the degree that FDI is deterred and goes elsewhere, these two factors appear to be among the causes.

The governmental policy, as clearly stated in the Greek Stability and Growth Program submitted recently to the EU, is committed, among others, to step up reform efforts. A number of structural reforms in product, capital and labor markets (e.g. simplification of the tax system, continuation of the privatization of state owned assets[4], reforms in the area of public administration) will improve the functioning of markets, the competitiveness of Greek firms, and thus will enhance the productive capacity of the Greek economy.

The prospects for 2004-2006 are quite encouraging since the economic activity is expected to remain buoyant, unemployment is projected to further fall, and inflation is also expected to further decelerate, although it will remain at a level higher than the EU average. The Olympic Games that will take place in Athens in 2004 are expected to have significant externality effects on the economy and particularly on the tourist sector for the coming years. Moreover, as many projects that are co-financed by the EU Third Community Support Framework become more mature, they will result in higher flows of funds from the EU that will help to maintain a high level of activity mainly in the construction sector. These factors in combination with the projected strong private consumption and investment can sustain a high level of economic activity over the next few years.

The corporate governance framework in Greece

Traditionally Greek companies were, and most of them still remain, family owned. Family members were also board members and the company's executives. This kind of structure did not give rise to thoughts on efficient CG as there existed no agency problems between the owners and the management. However, the significant use of IPO's as means for raising capital in the late 1990s turned these companies from private-family owned to public listed companies, and offered the first sign that the long lasting operating methods had to be reconsidered. The discussion on CG in Greece is focused mainly toward protecting individual and minority shareholders' interests that are practically cut off from the decision making process of the firm. CG was first introduced in Greece in 1998 through an introductory paper published by the Athens Stock Exchange. A series of conferences and discussions led, then, to the adoption of a voluntary code of conduct in 1999 (initiated by the Hellenic Capital Market Commission (HCMC) in collaboration with all relevant agents in the Greek economy). In May 2002 the Ministry of the Economy amended the corporate law and incorporated fundamental CG obligations[5]. Moreover, the University of Athens has recently established a rating system for the listed companies in Greece based solely on CG criteria. The legislative framework of the Greek capital market is now fully harmonised with the guidelines and directives of the EU. Although improvements in CG have occurred in Greece, they are mainly confined to a small number of large listed companies that are more in tune with the international corporate stage.

La Porta et al. (1998) classified countries into legal families and examined whether laws pertaining to investor protection differ across countries and whether these differences have consequences for CG, by constructing different indices. Greece, a French origin company

law country, was rated 2 out of 6 for the shareholders' rights (lower compared both with the French family and the total sample average[6]). Greece was also rated 7 out of 10 and 6.18 out of 10 for the efficiency of the judicial system and the rule of law respectively. In both indices Greece scored better than the average French legal family, but worse than the total sample average. Finally, the accounting standards score of 55 out of 90 in Greece outperformed the French family and underperformed the total sample average. These evidences suggest that French civil law countries, including Greece, afford low legal protection to shareholders, especially regarding voting by mail and laws protecting oppressed minorities. The results also suggest that Greece be placed close to the world average regarding the quality of law enforcement and accounting standards. Its worth mentioning that Greece is rated worse than all the EU member states with respect to the rule of law and accounting standards (excluding Portugal).

However, the above rating results do not take into account the major structural reforms that took place after 1996 in the Greek capital market. New regulations have been recently introduced to restore pubic confidence, to protect (minority) shareholders' rights and to improve CG mechanisms. Certain rules and laws mandate a number of CG standards for the listed companies in Greece (see Table I).

Legal system overview

Greek companies are governed by Law 2190/1920. In addition, listed companies are governed by Law 3016/2002. The general meeting of shareholders is the main decision-making organ of the company and has exclusive competence in key areas[7]. The shareholders' right of vote in the general meeting corresponds to the shares they possess. There are two forms of shares, bearer and registered. In principle all shares are equal, with an exception to the preference shares, which give some exceptional rights to their owners[8].

One-tier board predominantly governs the listed companies in Greece, where shareholders directly elect the directors through the shareholder general meeting. While the basic company law (2190/1920) does not provide for the existence of a supervisory board controlling the management, the new law (3016/2002) solves the management supervision issue. At least 1/3 of the total directors must be non-executive, of which at least two must be independent[9]. The liability of the managing director (equivalent to a chief executive officer) is much stricter than that of other senior managers of board members.

It is also worthwhile to mention the special characteristics of the state-owned companies. Until 1996, the stated-owned companies in Greece were operated under a totally protective regime. The government appointed the board of directors and the top management. The main corporate goal departed largely from profit maximization. Low profits, losses, underinvestment and low product quality were the case in most Greek stated-owned corporations. Although a new law was enacted in 1996, mandating state-owned corporations to operate like other private companies, there are still many problems to be solved. CEO and board member selection is still not independent from political interventions

Table I Law and the quality of its enforcement (average ratings)

	Shareholders' rights (0-6)	Efficiency of the judicial system (0-10)	Rule of law (0-10)	Accounting standards (0-90)
Greece	2.00	7.00	6.18	55.00
French origin	2.33	6.56	6.05	51.17
English origin	4.00	8.15	6.46	69.62
German origin	2.33	8.54	8.68	62.67
Scandinavian origin	3.00	10.00	10.00	74.00
World	3.00	7.67	6.85	60.93

Note: Higher score indicates better rating
Source: La Porta et al. (1998)

and preferences, especially for listed companies where the dispersion of ownership is very low and the state is the dominant shareholder. Contemporary CG mechanisms have not been introduced yet (e.g. board committees, competent directors, performance-based compensation scheme), reducing international investment attractiveness.

The Ministry of National Economy has the responsibility to monitor and analyze the developments in the domestic and foreign capital markets, the processing and formation of proposals of government policy on capital markets issues, the harmonization of legislation with European law and supervision of observance of the law by all agencies of the capital market and the Stock Exchange.

The HCMC is the main independent regulatory decision-making body, operating under the supervision of the Ministry of National Economy. The HCMC issues statutory rules and regulations aiming at investor protection, the safeguarding of capital market's normal operation, the improvement of market transparency, the enhancement of efficiency of the trading, clearing and settlement systems and the efficient operation of capital market agencies and institutions. A central means for exercising prudential supervision of capital market entities by the HCMC is the license authorization function and the imposition of fit and proper EU standards for the granting of licenses. In order to ensure the smooth function of the capital market, the HCMC introduces rules and regulations and supervises compliance[10] with them, aiming at safeguarding the normal and smooth operation of market systems and the establishment of appropriate transparency standards (disclosure of information on financial performance, market transactions, ownership, structural changes, notification of corporate actions, etc.).

Investor service has been decisively enhanced by the creation of a new market institution: the Capital Market Ombudsman. The main objective of the new institution is the friendly settlement and mutual resolution of disputes occurring between individual investor-clients and market intermediaries that fall into the Ombudsman's jurisdiction, in a just and unbiased manner and through transparent and concise procedures.

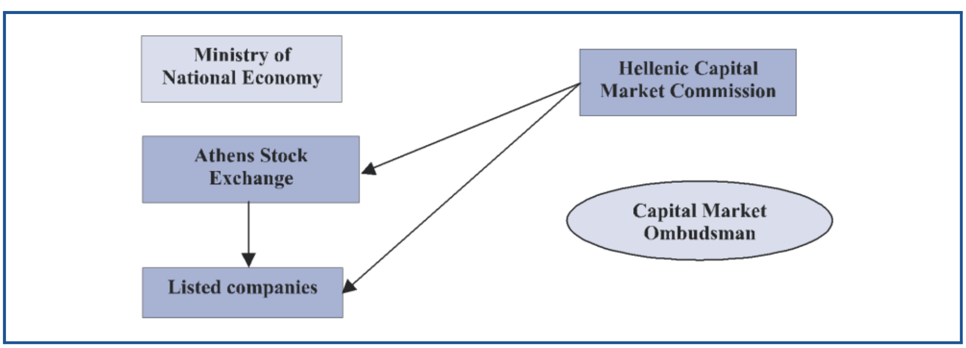
The Athens Stock Exchange (ASE) was founded in 1876 as a self-regulated public institution. In 1995, the ASE was transformed into a Societe Anonyme. In March 2000 Hellenic Exchange SA, a fully privatized company, was established as a holding company of the ASE. Currently, five different markets operate under the ASE: main market; parallel market; new market; Greek market of emerging capital markets; and secondary listings on ASE from stock exchanges outside Greece. For the issuing company to be listed on the main market, it should employ own funds amounting to at least e11,738,811.45, while for the parallel market, the company should employ own funds amounting to at least e2,934,702.86.

The fundamental supervisory relations governing the Greek capital market are illustrated in Figure 1.

The developments of the capital market

The Greek capital market has been transformed largely during the last four years. New markets were established and the HCMC completed a wide range of institutional changes. HCMC's

Figure 1 The fundamental supervisory relations governing the Greek capital market



regulatory activities were mainly directed at the protection of investors, the enhancement of market transparency, the protection of the systems of trading and clearing, the enactment of codes of conduct and the assurance of the smooth function of the capital market.

However, the Greek capital market has been experiencing a cycle of self-fulfilling expectations during the second and third quarters of 1999. At the end of the year 1999 the ASE General Index realized a total annual increase of 102.2 percent. Due to the rise of share prices of listed companies the total ASE capitalization recorded an annual increase of 194.7 percent (from e67,024.8 million in 1998 to e197,537 million in 1999), among the highest in the OECD countries. The total value of transactions increased from e41,708.1 million in 1998 to e173,027 million in 1999, realizing an increase of 194.7 percent. An increasing number of companies raised funds through the capital market. The total funds raised through initial public offerings (IPOs) amounted to e1,842.3 million in 1999 against e1,157.2 million in 1998 and e59.0 million in 1997, corresponding to an increase of 59.2 percent and 3,022.5 percent respectively. Listed companies raised e8,128.0 million in 1999, an amount that was 472.9 percent higher than in the previous year (see Table II).

The massive entrance of individual and institutional investors in the capital market, mostly through placements on small-and-medium-capitalization stocks, increased rapidly both stock prices and liquidity in the second and third quarters of 1999. Investors proceeded to short-term speculative placements and in a state of euphoria were betted, in full certainty that stock prices would increase further. The cycle of self-fulfilling expectations resulted on a significant divergence between actual prices and prices justified by corporate fundamentals (equilibrium prices). However, the manic phase always has an end. The Greek capital market's severe underperformance in 2000, 2001 and 2002 largely resulted from the previous speculative process. The ASE General Index realized an annual decrease of 38.8 percent in 2000, 23.5 percent in 2001 and 32.5 percent in 2002. Both the total value of transactions and the ASE capitalization decreased. In 2002, the total values of transaction in the ASE decreased by 38.9 percent and 85.7 percent in relation to 2001 and 1999 respectively. Total market capitalization during 2002 amounted to e65,759.7 million showing a decrease of 47.4 percent and 66.7 percent in relation to 2001 and 1999 respectively.

Throughout history, many speculative bubbles took place, with significant social impacts[11]. The group, not the individual, gives birth to a speculative bubble, making the task of improving judgment and confidence more difficult. The speculative events in the Greek capital market during 1999 led the HCMC and the state to take an active role, introducing rules, regulations and codes of conduct. All these measures were aiming at the protection of investors against market abuse, the improvement of the transparency of the market and the establishment of appropriate business ethics.

Disclosure and transparency

The disclosure framework in Greece is quite strong and in line with the EU trends. A major contribution during 2000 to the enhancement of transparency and disclosure regarding the

Table II The growth of the capital market in Greece, 1997-2002 (amounts in million of euros)								
	Value of transactions		Market capitalization			Fund raised through IPOs		
Year	Amount	Percentage change	Amount	Percentage change	Percentage of GDP	Amount	Percentage change	ASE general index (percentage change)
1997	17,081.4	–	28,793.3	–	29.6	59.0	–	58.5
1998	41,708.1	144.2	67,024.8	132.8	63.6	1,157.2	1,861.4	85.1
1999	173,027.0	314.9	197,537.0	194.7	169.4	1,840.0	59.0	102.2
2000	101,675.7	−41.2	117,956.3	−40.3	95.5	2,557.8	39.01	−38.8
2001	40,529.8	−60.1	96,949.5	−17.8	74.1	1,075.6	−137.8	−23.5
2002	24,771.0	−38.9	65,759.7	−47.4	46.9	92.5	−1,062.8	−32.5

Source: Athens Stock Exchange, HCMC

behavior of listed companies in the Greek capital market has been the enactment of HCMC rule: ‘‘A code of conduct for companies listed in the Athens Stock Exchange and their affiliated persons’’ (HCMC Rule 5/204/2000). The code sets behavior standards for ASE listed companies and specifies duties and obligations of companies’ major shareholders, the members of the board of directors, the executive management or other individuals or legal entities relating to them. The aim is to eliminate uncertainty in the market on corporate affairs and avoid speculation by company insiders or other persons that may have inside information.

An important element to the financial disclosure is the requirement for the listed companies to publish an annual report and a cash flow statement. The cash flow statement is structured along international accounting standards and constitutes the first step of implementing International Accounting Standards (IAS) in Greece (HCMC, 2000). The existence and operation of an audit department is a prerequisite for the approval of initial public offering of company shares or other securities, while auditors are obligated to be independent in performing their responsibilities. In addition, investment firms are now most strictly obliged to prepare semi-annual and annual financial statements, audited by certified auditors, which will be submitted to the HCMC within two months of the end of the semester and the calendar year.

Ownership structure and control

Dispersion in Greece is considered as middle to low. According to the HCMC (2001), in 370 listed companies in Greece, average ownership dispersion was 47.22 percent when the major shareholder is defined as the shareholder owning at least 5 percent. In total, according to the study, the 370 listed companies were held by 974 major shareholders, while the major shareholders per listed company were around 3. The results indicate that competition for control at the company level is quite little. Large families usually control most of the small-and-medium-sized companies and members of the controlling families are usually serving as the top management. In addition, the state controls large percentages of votes in a significant number of listed companies. Large capitalization firms display a more dispersed ownership and control structure (ownership dispersion was 54.04 percent) than medium and small capitalization firms. Large shareholders may act as an effective monitoring mechanism of management and, thereby, enhance firm performance. However, controlling blockholders can use their power to extract own private benefits, at the expense of minority shareholders. This kind of expropriation leads to sub-optimal levels of investment by minority. Therefore, the agency problem arises as a conflict between ‘‘strong blockholders and weak minority owners’’, rather than between ‘‘strong managers and weak owners’’ (see Table III).

The high degree of ownership concentration is consistent with the results in most other continental Europe countries. In Italy, Bianchi et al. (1997) showed that the largest shareholder in listed companies held on average 48 percent of total voting rights, while the largest three shareholders held 62 percent. Bloch and Kremp (2001) reported a significant degree of concentration of ownership (56 percent) for listed firms in France. A recent study by Faccio and Lang (2000), in a sample of 3,740 companies in five Western European countries (France, Spain, Italy and UK) documented a small degree of ownership dispersion (38.3 percent of companies are widely held).

Table III Ownership dispersion of the ASE-listed companies	ASE main market	ASE parallel market	New market	Total market	FTSE-20 companies	FTSE-40 companies
Ownership dispersion (%)	48.74	30.42	25.05	47.22	54.04	44.40
Number of major shareholders[a]	653	317	4	974	52	101
Capitalization (millions of euros)	91,500	8,204	46	99,750	55,411	15,630

Note: Shareholders owning a stake of at least 5 percent of the company's share capital
Source: HCMC, Research Division (2001)

Corporate governance actions: voluntary codes

A number of financial scandals and corporate failures in the 1980s in the USA and the UK boosted the debate on how best to make managers accountable to shareholders. Corporate collapses such as Maxwell, BCCI and Barings, and vast executive compensation increases resulted in a variety of domestic and international initiatives to restore public confidence. These initiatives consisted of a set of voluntary principles and regulations on corporate governance. Increasing attention in CG is also associated by the common belief that a sound CG regime enhances market liquidity and efficiency. Institutional investors, according to the investor opinion survey released by McKinsey & Company, are prepared to pay a premium for companies exhibiting high governance standards[12] (McKinsey & Company,
2002). More than 60 percent of investors state that governance consideration might lead them to avoid individual companies with poor governance.

The publication of the Cadbury Report (1992) introduced several new CG guidelines, while the initial impetus was given by the Principles and Recommendations of the American Law Institute and the Treadway Commission (1987) in the USA. Moreover, supranational authorities, like the OECD and the World Bank, developed a set of voluntary principles and recommendations driving the attention for a minimum respect of basic CG rules worldwide. These developments encouraged other countries to look into the necessity of establishing relevant voluntary CG codes.

Throughout the last five years, many countries have established various regulations and started to review their company law. Discussions focus on how to protect minority shareholders, enhance transparency and disclosure of information, improve board functions and structures, limit the rule of anti-take-over devices, and improve auditing processes. In many cases, the new regulations and laws are based on the previously developed voluntary CG codes.

The first major step toward the formation of a comprehensive framework on corporate governance has been the publication of the Principles of Corporate Governance in Greece on October 1999 by an ad hoc committee (Committee on Corporate Governance in Greece (CCG) (1999)) co-ordinated by the HCMC. The voluntary CG code suggest that a ''comply or explain'' approach should be adopted.

The Greek code contains 44 recommendations compiled on seven main categories:

1. The rights and obligations of shareholders.

2. The equitable treatment of shareholders.

3. The role of stakeholders in corporate governance.
4. Transparency, disclosure of information and auditing.
5. The board of directors;
6. The non-executive members of the board of directors.
7. Executive management.

The principles and best practice rules incorporated, were closely modeled according to OECD Principles of Corporate Governance (OECD, 1999). The ''comply or explain'' approach forces the listed companies to disclose the specific reasons explaining why the recommendations have not been complied with. The code refers to issues that are mandatory in the existing regulatory framework and thus the compliance degree is very high. Weak compliance appear, however, in issues that are not mandatory (a detailed compliance analysis is presented in the next section). In 2001 the Athens Stock Exchange asked listed companies to provide compliance information based on a checklist (qualitative criteria) in the spirit of the 1999 voluntary code and has recently issued a list of ''complying listed companies''. As of March 2003 only 33 listed companies, of which around 50 percent represent high capitalization companies, have adopted the ASE qualitative criteria[13].

In August 2001 the Federation of Greek Industries (FGI) introduced the Principles of Corporate Governance for all companies, but especially for the companies listed on the Athens Stock Exchange. Compliance with the Principles is voluntary. The main recommendations include:

B the establishment of board level committees consisting of a majority of non-executive directors; and

B the implementation of internal control by a specific department or individual.

The FGI Principles do not address the issue of equal/fair treatment of shareholders and the rights of stakeholders. They do not also contain any provisions dealing specifically with the protection of shareholders' rights, the ratio of non-executive directors, the compensation of non-executive directors and the separation between the CEO and the board chair.

Corporate governance rating and evaluation

In a period of volatile and uncertain markets, as shown by the recent corporate failures and poor governance structures, demanding institutional investors seek to place their funds in well-governed companies. Mainstream investors tend to examine and include in their overall investment strategy whether companies comply with specific internationally accepted CG standards. At the same time, as more investors evaluate CG when purchasing stocks and mutual funds, an increasing number of listed companies feel the pressure to take actions in order to adopt efficient CG policies and practices. As a response to the increase in demand for CG evaluations, some investment research firms and academic institutions are now developing CG rating services. A corporate governance score is derived mainly by analyzing to what extent a company adopts codes and guidelines of generally accepted CG best practices, and the extent to which local laws, regulations, and market conditions encourage or discourage corporate governance practices (Xanthakis et al., 2003).

A quite limited number of studies use a CG index in order to investigate whether within-country variation in CG affects firms' market value. Black (2001) examined the relationship between CG behavior and market value for a sample of 21 Russian firms by using CG rankings developed by the Brunswick Warburg investment bank. The author reported a powerful correlation between the market value and CG of Russian firms. Durnev and Kim (2003) found that higher scores on both the CLSA CG index and the S&P disclosure and transparency index predict higher firm value for a sample of 859 large firms in 27 countries. Gompers et al. (2001) showed the existence of a striking relationship between CG and stock returns. The authors used the incidence of 24 different provisions (primarily takeover deafness) to build a ''governance index'' and then they studied the relationship between this index and firm's performance. The ''Governance Index'' is highly correlated with firm value. Klapper and Love (2002) used data on firm-level CG rankings across 14 emerging markets and found a wide variation in firm-level governance across countries. Black et al. (2003) constructed a multifactor CG index based primarily on responses to a survey of all listed companies by the Korea Stock Exchange. They found a strong positive correlation between the overall CG index and firm market value, which is robust across OLS, 2SLS and 3SLS regressions, in subsamples, in alternate specifications of the CG index, and with alternate measures of firm value.

The Center of Financial Studies in the Department of Economics of the University of Athens launched a project financed by the ASE aiming at a pilot CG rating (Tsipouri and Xanthakis, 2004; Xanthakis et al., 2003). The target of the project was to apply the rating system to a number of companies on a voluntary basis and to quantify the compliance of Greek companies with international best practices (Tsipouri and Xanthakis, 2004). Specific targets were:

- to provide an independent and reliable tool for all investors who believe that a thorough examination of CG practices will lead to increased long-term shareholder value;
- to provide a comprehensive and specific rating regarding all CG criteria for each company, enabling firms to use their individual results in order to measure themselves against several benchmarks (high, average, sectoral average);
- to produce useful results of aggregated data for the relevant authorities (e.g. the ASE, the HCMC) and create an aggregate score for the Greek listed companies participating, thus demonstrating strengths and weaknesses to be taken into account for policy making; and
- form a basis for comparison with future exercises and offer a tool that will allow correlation of the results with stock value and profitability to check the extent to which investors pay a premium for companies with high ratings.

The listed companies' CG practices were assessed for the year 2001 through five main corporate governance indicators, which basically replicate the structure of the OECD principles:

(1) The rights and obligations of shareholders.

(2) Transparency, disclosure of information and auditing. (3) The board of

directors.

(4) Executive management.

(5) Corporate governance commitment, the role of stakeholders and corporate social responsibility.

The five main indicators were comprised of a total of 37 partial indicators. The final outcome was based on the answers, through face-to-face interviews, of 120 listed companies which together represented more than 85 percent of the capitalization of the market[14]. One of the main contributions of the project was the consensus that resulted from a very close collaboration between the ASE (which financed the project and had an interest in practical results), an academic research center (which could guarantee the methodology and impartiality) and representatives of the market participants (who provided thorough inputs and assured the practical value of the results)[15].

The total rating results demonstrated a relatively satisfactory outcome (70.4 points out of 100). Bigger companies received the better average percentage score (79.7 out of 100), and compliance deteriorated as firm size decreased (71.5 and 67.9 out of 100 for the medium and small capitalization companies respectively). The highest compliance in the Greek market is in the category of shareholders' rights, followed by transparency and CEO/Executive management. The board of directors category had a medium compliance score, while weak compliance appeared in the category that incorporate factors like commitment to CG, corporate social responsibility and the relations with stakeholders.

This ranking of the CG categories is largely influenced and justified by the impact of mandatory provisions, which are concentrated in the categories with the highest compliance scores. Weaker compliance is observed in the role of stakeholders and corporate social responsibility, the organization of CG, the effective role of the independent members of the board (which could be attributed to companies with family control and small pool of potential independent board members), disclosure of remuneration (even the best scoring companies declared this to be a deliberate policy, in line with local norms and protecting their executives from exposure) and risk management (only banks and insurance companies have taken some steps). Cost is another reason for low compliance in particular for the smaller companies.

Only very few of the companies we rated are internationally quoted. Some more are envisaging a dual listing. For them, the interest does not lie in their comparison with other Greek companies or with basic OECD principles, but on their potential to compete for funds globally. So far the Greek legislation cannot ensure satisfactory compliance with international standards. For this purpose, it is of crucial importance to increase the number of indicators in a future exercise to comply with international advances on the subject.

The above evaluation and rating effort indicates that CG reform has been posted as a top priority in many large listed companies. Pressure by demanding international institutional investors is the main driving force of the compliance process. However, the majority of medium and small capitalization (family-owned) companies have adopted the minimum mandatory requirements and lack further efficient CG mechanisms. Such as the competition for capital is increasing, the listed companies have to realize that proper CG is a prerequisite in order to attract international capital. Moreover, corporate governance may meet one of the most significant challenges that family-run businesses face: management succession. Keeping a business going across generations is hard. Failure to maintain the family business can stem from any number of causes. Corporate governance goes to the heart of these problems. Families need corporate governance both to operate the business and to promote family harmony (Zafft, 2003). It is also worth to mention that the Greek listed companies do not, in general, use CG rating services. There is no CG rating services provider operating locally, while the international companies (e.g. S&P, Deminor) face huge search and other costs to enter the Greek market. Of course the internationally exposed (high-capitalization) companies regularly use special advisory services in order to evaluate and reform their CG structures. The smaller companies adapt a narrow ''family'' interest that poses obstacles to necessary changes (see Table IV).

Conclusions, discussion and policy implications

The Greek capital market has been experiencing a large development during the last years. However, the development path has been quite volatile. After the cycle of self-fulfilling expectations during the second and third quarters of 1999 and the severe underperformance in the following years, investor confidence has been reduced. Listed companies alone were unable to restore public confidence. In this framework, voluntary and regulatory initiatives were proposed or adopted in response to external and internal forces, in order to restore public confidence. The main regulatory actions addressed issues like corporate transparency, disclosure of information and independent auditing. In this way, it is hoped that the Greek capital market will be an attractive investment option where the (minority) shareholder rights are sufficiently protected and exercised.

However, the majority of the listed companies in Greece lack sufficient corporate governance mechanisms (CG). The ownership concentration of the listed companies is still high, resulting on strong ties between the main shareholder and the management team. Family firms still dominate the Greek capital market. Internationally recognized board

Table IV The evolution of corporate governance in Greece

Date	Corporate governance activity
1998	The Athens Stock Exchange conducts a study on corporate governance
1999, April	OECD Principles on Corporate Governance
1999, October	Corporate governance code (voluntary) by the Committee on Corporate Governance in Greece (under the coordination of the Capital Market Commission)
2000	The Ministries of National Economy and Development set up a lawmaking committee on corporate governance (Rokkas Committee)
2000, July	Capital Market Commission rule: ‘‘Tender offers in the capital market for the acquisition of securities’’ (CMC Rule 1/195/2000)
2000, November	Capital Market Commission rule: ‘‘A code of conduct for companies listed in the Athens Stock Exchange and their affiliated persons’’ (CMC Rule 5/204/2000)
2001, August	Principles of Corporate Governance by the Federation of Greek Industries
2002, March	A corporate governance rating system is presented by the Center of Financial Studies of the University of Athens (a project funded by the Athens Stock Exchange)
2002, May	Law 3016/2002: ‘‘On corporate governance, board remuneration and other issues’’
2002, July	The Athens Stock Exchange establishes qualitative criteria covering corporate governance, transparency and communication with investors

structures, such as board committees, directors' independence and qualifications, and directors' education, have not been adequately established. In this way, the board is mostly acting as a passive organ in the company where it follows the decisions of the management. Non-executive board members, rather than act as shareholders' agents, do not efficiently supervise the management. This is the case in the majority of the (family) public companies in Greece, where significant costs result from bias in favoring family interests over the firm's interests (such as non-family shareholders), because of loyalty toward the family (Schulze et al., 2003). Even though the rules mandate specific requirements regarding board independence, it's difficult in practice to identify whether the board meets these rules. The existence of efficient board structure and procedures is mostly a matter of self-regulation. Listed companies have to realize that a well-functioned board is a comparative advantage in a competitive business world. This implies that the main challenge for the family-owned listed firms is to re-examine their CG policy, to adopt contemporary standards and to make a good trade-off between the agency costs of the private firm and that of the widely held public firm.

But why really should we expect family-owned firms to pursue corporate governance and to buy it? Better access to capital is the most commonly given reason. When investors refuse to put their funds in bad-governed companies, the cost of capital for such companies goes up, making them uncompetitive. But firms can obtain external financing in a number of ways besides issuing shares to the public. However, corporate governance may still meet one of the most significant challenges that family-run businesses face: management succession. As the business grows and markets evolve, finding sufficient managerial talent and experience within the family becomes harder. Families need corporate governance both to operate the business and to promote family harmony. This means putting in place open and fair decision-making and monitoring procedures, as well as possibly hiring non-family members as advisors, managers and directors (Zafft, 2003).

In addition, the role of institutional investors has to be re-examined. In Greece, institutional investors usually follow a passive voting for management and they rarely provide sufficient information for their investment policy to beneficiaries. Institutional investors need to re-examine their strategy and focus on well-governed companies. Full disclosure and comprehensive explanation of their voting policies to their beneficiaries will help in this direction.

Political forces that set the rules have also affected the developments of CG in Greece. In continental European countries and in Greece too, employment protection is high, in a sense that the State is charged with the task of sustaining a social pact between social parties. The market for corporate control, however, cannot efficiently operate when a new controlling shareholder is unable to break up employment contacts. In this way, the frequency of corporate control change (through take-overs) is negatively correlated with the degree of employment protection (Shleifer and Summers, 1988; Pagano and Volpin, 2002). Hence, significant policy implications emerge, such as many stated-owned companies that are privatized through public offerings of shares in Greece.

An efficient CG regime may prove to be a significant policy tool for the investment and growth prospective of the Greek economy. The regulatory framework of the Greek capital market has been fully co-ordinate with the EU standards. The challenge is now mostly for the business world to react and voluntarily adopt the appropriate CG structures, in order to achieve real convergence with the business systems of the developed world.

Notes

1. The Stability and Growth Pact adopted by the European Council at Amsterdam in June 1007.

2. Greece has cut its budget deficit below 1.5 percent of GDP (from 7.4 in 1996) and reduced inflation below 4 percent (from 7.9 percent in 1996). However, inflation continued to be higher than the EU average and decelerated only slightly during 2003. Debt continued to deescalate and is expected to be, at the end of the year 2003, at about 101.7 percent of GDP (from 111.3 in 1996).

3. The Opacity Index (high numbers indicate a high degree of opacity and low numbers indicate a low degree of opacity) offers a composite factor ranking for each country, based on opacity data in the following five areas that affect capital markets: corruption in government bureaucracy; laws governing contracts or property rights; economic policies (fiscal, monetary, and tax-related); accounting standards; and business regulations.

4. Privatization proceeds in 2002 reached e2.7 billion, thus topping the list of EU countries (as a ratio to GDP). Approximately the same amount has been raised during the January to October period in 2003. These proceeds have been mainly used for the reduction of the general government debt.

5. The amendment of corporate law opened a huge controversy between the representatives of the industrial federations and the state.

6. Greece is rated better than Belgium, Italy, Germany, but worse than France, Spain, Portugal and others.

7. For example, to make amendments to the company's articles of association, to elect board members, to appoint statutory auditors and to approve the annual accounts and dividends.

8. These exceptional rights include preferential payment of the first dividend, preferential repayment of the contribution in the case of liquidation and the right to collect a cumulative dividend for financial years during which no dividend was declared.

9. During their tenure, the independent non-executive board members are not allowed to own more than 0.5 percent of the company's share capital and to have a relation of dependence with the corporation or persons associated with it.

10. The HCMC is endowed with the authority to impose administrative sanctions (suspension and revocation of license, trading halts, imposition of fines) on all supervised legal and physical entities that violate capital market law and the rules. It is also endowed with the authority to submit indictments to prosecution authorities when punishable financial law violations are detected.

11. The first speculative bubble took place in Holland from 1620 to 1637 and involved rare and collectible tulips. Since then, it is well known the speculative short life of the South Sea Company in England (1711-1720), the Florida real estate craze (1924-1926), the speculative bubble during 1926-1929 in the US stocks, the ''tronics'' stocks (1962) and the crash of 1987 (Galbraith, 1993).

12. Premiums averaged 12-14 percent in North America and Western Europe, 20-25 percent in Asia and Latin America, and over 30 percent in Eastern Europe and Africa.

13. The adoption of the criteria is at the discretion of the listed companies, without prejudice to the existing legal requirements relating to corporate governance.

14. Approximately 15 per cent of the firms in the initial sample did not respond either because of

changes in their structure (M&As), reluctance to be part of the exercise, or simple lack of time.

15. In order to achieve the highest possible consensus and obtain market-oriented outcomes, a Special Advisory Committee on Corporate Governance was convened consisting of members of all the relevant agents of the Greek market to advise the researchers on practical matters related to their work.

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