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Corporate Governance in Greece

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1. Introduction

In the last decade we witnessed a revolution in the market, in the direction of enhanced transparency and protection of shareholders' rights and interest. The corporate scandals that were exposed had a significant impact on capital markets enhancing the need for a more efficient monitoring system of corporate governance. Developed markets had already begun to implement in their philosophy the use of corporate governance principles, in an effort to enhance transparency and to secure the rights of the minority of shareholders. Further more, they aimed at regaining investors' confidence in the operation of the market and at securing the markets from speculative attacks. The new principles called for a variety of information to be reported in the annual reports (such as remuneration of the Board members, participation in share capital e.t.c).

Special committees were established, in order to investigate and suggest methods, which would protect and secure the smooth operation of capital markets. The result was the introduction of the first models of corporate governance. In response to recent corporate governance scandals, governments have adopted regulatory changes. Suggestions soon took the form of mandatory directives and were compulsory for corporations. The OECD Principles of Corporate Governance (2004), the Principles of Corporate Governance (2002) and the Sarbanes-Oxley Act of 2002 (the latter was the response of the American Congress to the wave of economic scandals and the transformation of corporate governance) are some of the first efforts for the implementation of Corporate Governance principles. Each country according to its unique futures of legislation and market operation, implemented a Corporate Governance model in order to maximize the transparency, and corporate governance practice, as those were the objectives of many proposed corporate governance reforms.

In Greece, the need for better corporate governance legislation and the improvement of the operation of the local market rose in 1999. That was a spectacular year for the Greek capital market, because it began with record earnings that soon turned into losses for investors and corporations. The first steps, for implementing corporate governance principles began in 2002 with the law 3016/2002, which was setting the ground for future legislation and application of an improved system of corporate governance, and continued with the 3604/2007 law, which transformed the corporate law 2016/1920, and provided a scene for creating a modern and more competitive local market. In the meantime, effort was made to encompass directives of EU regarding corporate governance principles without creating conflicts with the existent legislation.

The purpose of this study is to describe the first steps in the implementation of the principles of corporate governance in the Greek market. The second part of the study is a brief literature review of studies in corporate governance, as well as a description of the evolution of the new governance systems and their impact on the capital market. The third part describes the changes in the Greek capital market in the last decade, in order to understand the unique characteristics, which augment the need for changes in the operation of the market and in corporate governance, and the establishment of supervisory bodies of the capital market. In the forth part, there is a reference to the Greek legislation of corporate governance, the implementation of corporate governance principles in the Greek market and their impact in firms' governance. In the sixth part we make a brief reference in the debate of the evolution of the corporate governance principles in a global market and their impact on the local market. In the seventh part, the ranking system, which was developed by the Center of Financial Studies in the Department of Economics of the University of Athens, is applied in the Greek index of banks, to examine the extent of implementation of the legislation of the corporate governance in Greece. Finally, there is a presentation of the conclusions and suggestions about new domains that have to be studied in order to acquire more useful information about corporate governance principals and their effects on all forms of corporations.

2. Literature review

The term “Corporate Governance” is referring to the complex organized construction of a firm and the relationship between shareholders, the board of directors and managers (Tirole (2001)), or as a set of mechanisms that induce the self-interested controllers of a company to make decisions that maximize the value of the company to its owners (Denis, McConnell (2003)). Another widely accepted definition of the term was given by Shleifer and Vishy (1997): “Corporate Governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment”. In 2000, Melin and Nordqvist defined Corporate Governance in terms of small family owned companies as “the processes, principles, structures, and relationships that help the owner of the firm realize his particular vision, goals and objectives”.

In the last decade countries, members of the European Union, have introduced laws, after taking into consideration propositions of special committees, which studied the way corporations operate, and the way they are governed (OECD Principles of Corporate Governance (2004), Principles of Corporate Governance (2002), Committee on Corporate Governance in Greece: Recommendations for its Competitive Transformation (2002)). The purpose was to improve the governance of public companies, and at the same time to enhance the protection of small investor against the main investor. After the collapse of the stock market around the world and the economic recession, in Greece in 1999, effective laws in accordance to the corporate governance principles were necessary for the markets in order to continue to be competitive and attract foreign investors (Papathanassiou, Chirico (2003)).

In countries, with insufficient legal systems, where the minority shareholders are poorly protected against the domination of controlling shareholders, studies have shown that it is more expensive for the firms to be financed. Studies have documented differences among countries in ownership concentration in publicly traded firms, in the breadth and depth of capital markets, in dividend policies, and in the access of firms to external finance, and in the laws applicable to the corporate governance (Becht, Bolton, Roel (2002)). A common element to the explanation of these differences is how well investors, both shareholders and creditors, are protected by law from expropriation by the managers and controlling shareholders of the firm (La Porta, Lopez-de-Silanes, Shleifer, Vishy). Gomes (2000) addresses the agency problem between controlling shareholders and minority shareholders. Without any explicit corporate governance mechanism protecting minority shareholders, controlling shareholders can implicitly commit not to expropriate them. Stock prices of such companies are significantly higher and firms are more likely to go public because of this reputation effect. Moreover, insiders divest shares gradually over time, at a rate that is negatively related to the degree of moral hazard.

Many researches, examined the impact of the defense mechanisms used by the board of directors (golden parachute, poison pill e.t.c.), as measures to protect the firm from hostile takeovers, and secure the investment of shareholders. A numerous studies have examined the relationship between the composition of the board, ownership, anti-takeover measures, agency problem, and performance of the firm. Singh and Harianto (1989) investigate top management tenure, corporate ownership structure and board composition as predictors of different aspects of the golden parachute magnitude: size and the number of executives covered. They found that golden parachutes contracts involve higher levels of payments (in years' compensation) when top management is longer tenured. Mallete and Fowler (1992) indicate the impact of board leadership and poison pill decisions depend on the proportion of independent directors on a board. The impact of chief executive tenure on such decisions depends on the tenures of a firm's independent directors. The lower the equity holdings of inside directors and the higher the equity holdings of institutional investors the more likely companies are to pass such provisions. A more recent study that examines the legal environment faced by US corporations, suggest that the shareholder- manager conflict of interest and the effectiveness of mechanisms to narrow this divergence, are issues of continuing importance. They found out that these mechanisms act to control managerial discretion in management buyouts to some degree. At the same time, there appear to be significant frictions, which act to partially insulate managers from this type of governance (Easterwood, Seth and Singer (1997)).

Another issue for the investor is the quality of the reporting financial statement of pubic companies. The board of directors and the managers, under the pressure to meet the economic expectations, in combination with the security they feel for their position, are able to report more accurate financial statements. O'Sullivan (1997) and Holderness (1990) suggest that directors' and officers' insurance has an important governance role in publicly owned companies. Dalton, Daily, Ellstrand and Johnson (1998), review an extent research examining the relationship between board composition, board leadership structure, and firm's financial performance. The results demonstrate little consistency. In general, neither board composition nor board leadership structure has been consistently linked to firm financial performance. But, some studies have indicated that corporate performance and equity values are significantly associated with ownership distribution and corporate governance characteristics (Fuerst (2000)). Recent studies show, that in firms, which have effective board of directors and audit committee structures, managers are more likely to make a more precise and accurate forecast, with an elicit and more favorable market response (Karamanou and Vafeas (2005)). The empirical evidence of the research concluded that corporate governance is associated with higher financial disclosure quality.

Denis and Denis (1995), in their research documented that forced resignations of top managers are preceded by large and significant declines in operating performance and followed by large improvements in performance. However, forced resignations are rare and are due more often to external factors (e.g., block holder pressure, takeover attempts, etc.) than to normal board monitoring. Following the management change, these firms significantly downsize their operations and are subjects to a high rate of corporate control activity. Normal retirements are followed by small increases in operating income and are also subject to a slightly higher than normal incidence of post turnover corporate control activity. Forbes and Milliken (1999), with their recent research developments underscore the need for research on the processes that link board demography with firm performance.

Recent economic scandals, which involved everything from insider trading to outright theft, such as ImClone (2001), Enron, WorldCom (2002), Tyco (2002), Adelphia (2002), HealthSouth (2002), Qwest (2002), NYSE (2003), Parmalat (2003)

AIG (2005), Fannie Mae (2006), and the mutual fund scandals brought particularly small investors' and middle class attention to the dangers and costs of poor governance. That had an impact on the global market and appeared to have shaken the confidence of investors, in the way a corporation is governed and operates and in the reporting financial statements, enhancing the need for a better and more sufficient corporate governance rule and at the same time a greater ability for adaptation by the firm. Gillan and Martin (2002) examined the financial engineering, to the point that the incapability of the board of the firm to monitor correctly some operations of the firm shows the difficulty, of corporate governance in practice.

Economic scandals had a large impact on investor's confidence in the market and the way corporations were operating. The only way for a corporation (mainly for listed corporations in stock markets around the world), to gain the confidence of the investor, was by implementing in a more satisfactory way corporate governance practice. Studies have shown that markets that have applied corporate governance practice in a satisfying way, experience an explicit growth.

It is not unusual for investors to show preference in markets where corporate governance practice is largely and well used. It is widely believed that corporate governance has significant implications for the growth prospects of an economy, as it has as a result to diminish the risk of investor, attract investment capitals and improve corporate performance. Especially, with the globalization of the market and the easier access of investors to foreign economy markets, which have as a result the increase of competition and capital mobility, the proper practice of corporate governance has become a key element affecting the industrial competitiveness of countries (Mather and Andersson (1999)). A survey conducted by the World Bank group in 1998, reveled that markets are vulnerable to market fluctuations, usually because the flow of international capital often represents speculative investment portfolio placements. Hence, proper corporate governance mechanisms can affect investors' confidence and retain economic stability.

Another study has shown correlation between the corporate governance practice in a market and the exchange rate policy of countries. Especially in emerging markets that have weak corporate governance laws, corporate governance is underdeveloped, firms are unable to find foreign investors to raise foreign capital, and the shock to revenues has no significant result, due to a weak financial accelerator. After a partial reform, the inflow of foreign capital to firms, in the form of investment, has as a side effect the enhancement of the financial accelerator. When the market is under a currency peg, the policymaker cannot diminish the impact of a shock by adjusting the exchange rates. Shocks are multiplied by a financial accelerator, increasing the expectation of growth for the market, which has as a result the collapse of the currency peg and thus the dilution of the credibility of the peg (Castren and Takalo 2000). An earlier study examined the impact of weak implementation of corporate governance in the emerging market of Asia, and the effect it had in the currency crisis in 1997 (the result was to have a negative impact and enhance the currency crisis. Johnson et al (1999), Milton (1999)).

It is interesting to see the extents of corporate governance principles in family firms. The key characteristic of the majority of family firms is that the main owner is usually involved in the key decision making of the firm. (Melin and Nordqvist (2000), Daily and Doillinger (1992)). Furthermore, there is an interest in the actual way that the main share controller (owner-family) exercises its power and influence over the firm (Pettigrew (1992), Daily and Doillinger (1992)). Due to the size of family firms and the very small dispersion of stocks (the main owner is the family), most of the times the owner acts as a manager or in some cases the manager is a person who has strong attachment to the family, and that has as a result the minimization of the agency cost (Fama and Jensen (1983), Randoy et al (2003), Schulze et al (2003)). Studies have shown that some of the characteristics of family companies can produce a number of advantages, in comparison to large listed companies, with a high dispersion of stocks. Cadbury (2000), believe that long-term perspective, clear identity and family commitment are some of these characteristics. Altruistic behavior and trust, are some key characteristics of the family firms, especially when all the members are working in the firm, having as a result the reduction of asymmetric information among family members, the commitment of corporate leaders to the firm’s long-term performance and strategy (Kang (2000), Berghe and Carchon (2003)). De Paolo and Scoppa (2001) believe that altruism within family firm’s members could produce superior contracts for the firm.

There are cases where the above advantages of the family owned firms might turn into disadvantages, especially when there is poor use of corporate governance. In family owned firms, it has been observed that owners can favor family interest at the expense of the firm's interest, due to the loyalty towards family (Randoy et al. (2003), Schulze et al. (2003)). It has also been argued that altruism in family relationships can produce inefficiencies. Family firms may encourage internal labor market schemes, favoring family members, rather than competent recruitment processes. As a result of these preferences, there might be a significant monitoring cost, especially in cases where the quality of applicants for executive managerial positions is reduced, in order to favor family members (Berghe and Carchon (2003)). This preference in family members in expense of other employees in promotions has incentives to be engaged in shirking and opportunistic behaviors (Baldridge and Schulze (1999)).

Implementing sufficient corporate governance practices, family firms will be able to undertake the cost and be more competitive in an intensely competitive environment. Giving opportunities to skilled persons outside the family, hiring professional managers and establishing independent board comities are some steps towards implementing better corporate governance. Melin and Nordqvist (2000) showed that a combination of influential actors and the strategic arena might be important in the strategy process of the family firm.

3. The evolution of Athens Stock Exchange and the Greek Capital Market.

a. The evolution of Greek Capital Market for the years 1999-2006.

In the year 1999 the Greek market produced an extraordinary bloom, mainly through a self-fulfilling cycle, which had as a result, at the end of the year, the ASE General Index to record a rise of approximately 102%. As a result of the continuous rise in share prices, the total capitalization recorded an annual increase of 130.512,20 € millions, which was an increase of 194,7% (in the year 1998 the total capitalization of the ASE was 67.024,8€ millions and at the end of 1999 the capitalization was approximately 197.537€ millions). In the year 2000, the total capitalization was €117,956.24 millions, 40.29% lower in compare to the previous year (including the main market and the parallel market). The following years (2001, 2002) the total capitalization of the ASE continued to decline, following the course of the General Index. In the year 2001 it was 17.81% lower (€96,949.50 millions, even though the New Market operated for the first time), and for the year 2002 it was 32.17% lower (€65,759.68 millions). For the years 2003 to 2005, an increase in the total capitalization of ASE was witnessed. In the year 2003 the capitalization was €84,547.10 million (a 28.57% increase since 2002), and for the following years the increase was 8.98% for the year 2004, 26.65% for the year 2005 and 35.34% for the year 2006. The capitalization for each year was € 92,137.94 millions for 2004, €116,690.71 millions for 2005 and €157,928.72 millions for the year 2006 (Appendix Table 1, Table 2).

The highest rising of capital funds through the ASE was recorded in the year 1999. Examining more closely the years, 1997, 1998 and 1999, there is an extraordinary increase regarding the number of corporations, which went public for the first time. In the year 1997 the IPO amounted to 59 millions Euros, whereas in the year 1998 it was €1,157.2 millions (respectively 24 new companies went public and exchanged stocks in the main or the unlisted market). For the following year (1999) the total value of corporations that went public for the first time was € 1,842.3 millions. Respectively, 37 new companies began to trade their shares, in the main and unlisted market. The increase of the IPO for the year 1999 is justifiable, since corporations took the opportunity to accumulate capital, by exploiting the capital market growth. For the year 2000, when the Greek market was in descent, there where 49 corporations that went public for the first time. Taking into consideration, that the Athens General Index was 38.8% lower than in 1999, 49 was a large number. In that year the capital raised by new companies in the ATHEX was €1,446.734 millions. It is a large capitalisation raised from the new listed companies in the ATHEX, taking into the consideration that only 49 corporations entered in ATHEX. For the year 2005, the capital that was raised from the 8 newly listed corporations was €81.86 millions, where for the year 2004, the capital that was raised, was €9.312 millions for the 10 corporations that went public for the first time in that year. For the year 2001 the listed companies were 349 and for the year 2002, the number slightly decreased to 342 firms. The listed companies in the year 2003 were 355 (16 newly listed) where as in 2004 there were 360. In 2005 the listed companies were 356 and in the year 2006 there were 317 (Appendix Table 3, Table 4, Table 6).

Small and medium capitalization firms, in 1999, led the rapid growth of the market, since they were preferred by individual and institutional investors, creating a rapid increase in stock prices and liquidity. The rise of the stock, created in a short period of time, created also wealth for investors, enhancing their desire for the market, to continue emerging in a similar pace. In reality, that desire was driven by investor willingness to buy shares, even at a high price. According to the theory of stock evaluation, a stock should sell at the discounted present value of the stream of future returns, something that at the time did not occur. Stock price appreciation was both unjustifiable and unsustainable for the Greek market at that time. Investors continued to make short-term placements, in order to achieve higher earnings, according to their expectations and according to previous earnings. The cycle of self-fulfilling expectations resulted in a significant divergence between actual prices and prices justified by corporate fundamentals (equilibrium prices).

The continuous buy and sell cycle by the same investors came to an end. The overestimated capital market and the high prices of stocks had a negative impact on new investors who were interested in investing in the Greek capital market, especially when these prices were in contrast with the reporting financial statements and the real possibilities of the Greek market.

After a blooming year (1999), the Greek market entered the phase of degression. In the following three years (2000 through 2002), the Greek capital market experienced a severe underperformance, as a result of the previous speculative process. The ASE General Index, having experienced a dramatic increase in the year 1999, was facing a dramatic decrease in the year 2000. Total value of transactions and the ASE capitalization decreased, showing the end of a very profitable period for the ASE. The ASE General Index realized an annual decrease by 38.8% for the year 2000, by 23.5% for the year 2001 and by 32.5% for the year 2002. The total value of transactions, in the ASE decreased by 38.9% and 85.7% in relation to 2001 and 1999 respectively.

The following year, the General Index started to record earnings. For the year 2003 the earnings were at 29.5%, for the year 2004 at 23.1%, for the year 2005 at 31.5% and for the year 2006 at 19.9%. Comparing the General Index of the year 2006 to that of 1999, we observe that it is still remaining lower by 3.2% (Appendix Table 5).

Examining closely the Share Ownership structure in ASE for the years 2002 to 2005, when the stock market was rising again, in a more reasonable pace than 1999, an increase in foreign investors placements can be noted, showing their interest and the belief that the operation of the Greek Capital Market had improved. In the year 2002 foreign investors owned 22% in value of the stocks traded in the Athens Stock Exchange. In the following years, with the exception of the year 2004, they continued to increase their placements in the Greek capital market. For the year 2003 the share of foreign investors increased to 37%. The following year, the percentage decreased to 31%, to increase again to 36% in the year 2005 and 2006. That can be explained by taking into consideration, that in 2002 the 3016/2002 law was enforced on listed companies, enhancing the transparency of the operation of the market and influencing the ascension of the capital market to some extent.

The bubble of the Greek market had as a result the creation of a shock in the operation of the Greek market and to the bodies responsible for monitoring the smooth operation of the market. Individual and institutional investors were facing a tremendous loss. The speculative events in the Greek capital market during 1999 led the Hellenic Capital Market Commission and the state to take a more active role in protecting investors and the smooth operation of the market, by making it less vulnerable to tendencies similar to those of 1999. The authorities in order to prevent circumstances similar to those of 1999 introduced stricter 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.

b. The role of Athens Stock Exchange (ASE) and Hellenic Capital Market Commission (HCMC)

The Athens Stock Exchange was founded in 1876 and issued the first Stock Exchange Law based on the French Commercial Code. The Stock Exchange began to operate as a self-regulated public institution. The first securities, which were traded on the new market, were Bonds of the Greek state and shares of The National Bank of Greece. In 1990, the Central Securities Depository was established as a joint stock company, and Athens Stock Exchange was transformed into a Societe Anonyme. The Greek State was the sole shareholder. In 1997, the partial privations of ASE, through private placements started. The privatization was completed in 2003, with the transfer of the remaining percentage of the Greek State to seven Greek Banks. Under the ASE operate: the Main Market, the parallel Market, the New Market, the Greek Market of Emerging Capital Markets, and the Secondary Listing on ASE from stock exchanges outside Greece.

In the year 2003, the Athens Stock Exchange transferred the supervisory responsibilities to the Hellenic Capital Market Commission. The Hellenic Capital Market Commission (HCMC) is an independent decision-making body, in the form of a Public Law Legal Entity operating under the supervision of the Ministry Of National Economy. It is established in Athens and the laws 148/67, 1969/91, 2166/93, 2324/95 and 2396 regulate its operation. The Commission’s operation does not burden the state budget and its resources originate from fees and contributions paid by the supervised entities. Its main objective is to promote the establishment of sound conditions for the operation of the capital market and to enhance public confidence both in the quality of supervision and market behavior.

In order to achieve this objective the Commission sets the general terms and conditions governing the organization and operation of the capital market and issues instruction on compliance procedures. It also introduces proposals and directives ensuring the proper functioning of the market. The legislative framework of the Greek capital market is fully harmonized with the guidelines and directives of the European Union.

The capital market entities supervised by the HCMC include brokerage firms, investment firms, mutual fund management firms, portfolio investment companies, real estate investment trusts and Investment intermediation firms. Moreover, the HCMC oversees the compliance of ATHEX-listed companies with capital market legislation, concerning legitimacy issues related to investor protection. The members of the boards of directors and the executive managers of the aforementioned entities must comply with the rules and regulations set by the Commission. Entities and organizations subject to supervision by the HCMC also include organized markets and clearing houses, such as the securities and derivatives markets of the Athens Exchange and the "Hellenic Exchanges" company, and are responsible for the clearing and the settlement of transactions on securities and derivatives, as well as investor indemnity and transaction security schemes, such as the Common Guarantee Fund and the Supplementary Fund. The Hellenic Capital Market Commission is responsible for the approval of prospectuses, which contain all the information that investors require during public offerings and listing of securities in organized markets.

The Commission is endowed with the authority to impose administrative sanctions (suspension and revocation of license, trading halts, imposition of fines) on any supervised legal and physical entity that violates capital market law. Being a national regulator, the Commission concludes bilateral and multilateral agreements and memoranda of understanding with other countries' regulatory authorities for the exchange of confidential information and co-operation on issues that fall under its competence. The HCMC is an active member of the Committee of European

Securities Regulators (CESR) and the International Organization of Securities Commissions (IOSCO).

Investor protection was enhanced with the creation of a new market institution, the Capital Market Ombudsman. The main role of the new institution is to assist in disputes between financial intermediation firms and their clients, and to see that disputes occurring between individual investor-clients and market intermediates are resolved with friendly settlements and mutual resolutions.

4. The evolution of Greek Corporate legislation towards Corporate Governance Principles.

a. The Corporate law 2190/1920

The Corporate Law 2190/1920 defines the operation of the Societes Anonymous in the Greek capital market. According to the law provisions, in the memorandum of association must be quoted: the corporate name and the scope of the corporation, the procedures on how the capital was raised, the analysis of the number and type of shares issued and traded in the Athens Stock Exchange, the proceedings for the election of the board members and their obligations, and the composition of the auditor committee. The memorandum of association also quotes the rights of the shareholder and the obligations of the General Meeting, which should be called at least once a year. In the General Meetings, the shareholders can vote according to the number of shares they possess (one share represents one vote, with the exception of preferred shares, which can be equal to more than one vote). According to the memorandum of association, the holder of preferred shares may have more privileges, such as preferential payments of the dividends, the right to collect a cumulative dividend for financial years during which no dividend was declared, and in case of the increase of equity, preferred share holders have the right of first refusal, which means that they have to be asked first if they want to buy the newly issued stocks and only the remaining stocks can be offered to other investors. Owners of preferred shares have another advantage to the rest of the shareholders, because in case of liquidation of the firm they are going to be compensated first from the other shareholders.

Except from the divisions regarding the administration of the corporation, a number of provisions define economical subjects, such as the accounting charts, the form of the Balance-sheet and how to publish it, reserves and how to be preserved.

In the last decade, the revolution in the global economy, the interest of foreign investors to invest in the Greek capital market, the bubble of the stock market in 1999, and the need for more transparency in corporate transaction, are evidence that the 2190/1920 law did not respond to the needs of modern market in Greece and to the way corporations were operating. There was not any reference in equal treatment of shareholders and the rights of stakeholders. Also it did not contain any provisions dealing specifically with the protection of shareholders' rights, the ration for non-executive directors, the compensation of non-executive directors and the separation between the Chief Executive Officer (CEO) and the President of the Board of Directors.

b. The White Paper "Principles of Corporate Governance in Greece: Recommendations for its Competitive transformation" and Corporate law 3016/2002 (Corporate Governance).

In Greece for the first time the discussion for implementing corporate governance policies, began in late 1998. The Hellenic Capital Market Commission, observing the development of the mature market, and realizing the need for more transparency in the operation of the Greek capital market, on the base of the Corporate Governance, in co-operation with the ASYK SA, began to prepare a draft for a future discussion and objectives of more specific rules for the basic corporate governance principles, and how they could be implemented in firms. The result of that dialogue was a White Paper titled "Principles on Corporate Governance in Greece: Recommendations for its Competitive Transformations". The purpose of this paper was to be a draft for future discussion on how corporate governance policies could be implemented in the operation of firms in the Greek Market. The methodology for the promotion of the Corporate Governance principles had been the subject of wide discussions and disputes, especially during the period 1999-2002 (which is estimated to be the transitional period for studying the influence in the operation of the listed corporations). After a trial period and according to supplementary provisions, the voluntary form of the proposal, would take the form of legislation.

The White Paper describes the main principles of Corporate Governance and how they can be implemented in the operation of the organizations. Recommendations were developed in collaboration with all relevant agents of the Greek economy and were made on the basis of internationally accepted Corporate Governance principles.

The principles and best practice rules incorporated in the recommendation were closely modeled according to OECD Principles. Even though, the recommendations of the Committee were voluntary, they were referring mainly to listed companies, and were quoting a proper way of organizing and operating a corporation.

In the end the paper contained 44 recommendations compiled on seven main categories, which reflected to all aspects of a company:

- The rights and obligations of shareholders and particularly institutional investors to use their voting rights in a manner to the interest of small private investors. It also discourages multiple voting procedures and the issuance of non-voting privileged shares.
- The equitable treatment of shareholders. All shareholders of the same class should be treated equally and actions and transactions based on insider information or undertaken for private benefit should be prohibited.
- The role of stakeholders in Corporate Governance. According to the code, the corporate governance framework should recognize the rights of stakeholders in the corporation, as established by law, and encourage active participation between corporations and stakeholders in creating wealth, jobs and the sustainability of financially sound enterprises. The general meeting of shareholders, according to the Corporate Governance principles, will be responsible for monitoring the management to some extent, and to approve the efficient operation of the board, ensuring that right procedures have been followed
- Transparency, disclosure of information and auditing. The Corporate Governance principles recommend that the corporate governance framework should ensure the full, timely and detailed disclosure of information on all material matters, including its financial situation, performance, ownership structure and governance of the corporation. The code also recommends the establishment of an internal Audit Committee consisting solely of non-executive directors, which will supervise the internal control, and to some extent will supervise and the executive members.

- The board of directors. According to the recommendations, the board should be composed by no more than 13 members (executives and no-executive), with a majority of non-executive directors recommended. For the first time, there was a distinction between the chairman and the board members and the role each had in managing and controlling the firm. The code also recommends the establishment of procedures allowing the Board of Directors to obtain external advice. Furthermore, the board would be responsible for the adaptation and application of the Corporate Governance principles in a more efficient way. Another obligation of the non-executive members is to ensure the efficient application of Corporate Governance Principles.
- The non-executive members of the board of directors. The White Paper explains the criteria that every director should meet in order to be considered as an independent. It also mentioned the importance of a committee, which would approve the compensation of the executives and non-executives, and the way compensation should be calculated. On that subject, it recommends that the compensation of non-executive directors should be comparable to the time they devote for board meetings and decision-making and that it should not be tied to the corporation’s performance. Total compensation of non-executive directors should also be reported separately and with the required justification in the corporation’s annual report.
- Executive management. The code recommends performance-based compensation for executives, proposes the establishment of a compensation committee consisting of a majority of non-executive directors to review management compensation, and recommends the appointment of the Chief Financial Officer (CEO) in the top management team.

The first regulatory intervention in Greece took place in November 2000, when the Hellenic Capital Market Commission issued the prescriptive Decision No. 5/204/2000 which set forth the business conduct rules for the listing companies in ASE, as well as their associated firms in order to promote corporate transparency, protect investors interest against corporate mismanagement and enhance the investors’ confidents in the Greek Capital Market.

In August of 2001 the federation of Greek industries introduced the principles of Corporate Governance for all companies, but especially for the companies listed on the Athens Stock Exchange. Compliance with the Principles was voluntary. The main recommendations included:

- The establishment of board level committees consisting of a majority of non-executive directors.
- The implementation of internal control by a specific department or individual.

In the proceeding years the voluntary recommendations for the adaptations of the corporate governances principles showed signs of satisfactory implementation. There were a number of legislative laws, which aimed to commentate issues regarding the transparency of the operation and the rational organization of firms. For example, the 2836/2000 law granted to the Hellenic Capital Committee Market authorization to issue behavior codes for the firm and the board members, defined the obligations of the board members, and defined the creation of a board with the responsibility to monitor these obligations. These recommendations were compulsory for listed companies. At the same time, studies made by the Hellenic Market Capital Committee, revealed that a small number of firms had implemented in their operation Corporate Governance Principles, merely, because there was not a complete effort to satisfy and explain the advantages of implementing these principles, to the operation of the firm. Furthermore these studies revealed that only the compulsory principles were implemented.

In the spring of 2002 the Hellenic Parliament enacted law 3016/2002 on Corporate Governance. The objective was to set rules regarding the structure and obligations of the board of directors, the company's internal control mechanisms and transparency, and on matters of use of capital raised by the listed companies.

It is the first time, that a corporate law specifies the principle of maximization of the interest of shareholders. According to a general provision, it is stated that, "The essential obligation and duty of the Members of the Board of directors of the listed companies is the continuous solicitation of the general interest of the company". The members of the Board of directors and any other third person, to which certain powers have been appointed, are prohibited from soliciting their own interest conflicting with the interest of the Company. In case of such conflicting interest they have the obligation to report.

Regarding the composition of Members of the Board of Directors, it is stated that, at least 1/3 must be non-executive, among which at least two must be independent. The Article 4 of the law defines the term of independent, as the person or persons that hold less than 0.5% of the share capital or has no dependence relations with the company or with persons associated to it. Executive members are responsible for the daily administration of the Company, where as non-executives devise strategies for the entirety of corporate matters, which supervisory issues are also subsumed. The Board of Directors is responsible for monitoring and determining the sufficiency of executive and non-executive directors.

According to article 6 of the law, listed companies are obliged to have an Internal Mechanism Regulation, which must at least encompass the requirements of the specific article. Furthermore, according to the Internal Mechanism Regulation, listed companies are obliged to have an Internal Control Body. The minimum powers of the Body are defined in the article 8 of the 3016/2002 law.

Special reference is been made to the procurements in case of share capital increase. The Board of Directors is obliged to submit to the General Assembly, a report, where the general directions of the investment plan of the company and an indicative schedule for the accomplishment of the plan, are described. In case the previous share capital increase was made in a time period greater than three years, the Board of Directors has to prepare a statement in which it will describe the effectuated use of the capital that had been drawn.

In the case where the Hellenic Capital Market Commission observes deviation from the rules established by the 3016/2002 law, it has the authority to impose a fine of maximum €587,000.

c. The evolution from 2190/1920 law to 3604/2007 law

Law 2190/1920 is considered to be the most important pledge of legislation. Societes Anonymes in Greece have been drastically and extensively reformed through the enactment of law 3604/2007. The latter has introduced significant changes in the legal regime of the incorporation and operation of Societes Anonymes by incorporating European directives, attempting a structural reform of the legislation, and introducing provisions, which were necessary for the Greek legislation, in order to keep up with the modern trends and global competition.

The new provisions have as result to limit the intervention of regulatory authorities in the incorporation and operation, to enhance minority shareholders' rights, to increase flexibility in the formulation of the company's Memorandum of Association, regarding provisions that are relative to the description of the company's main operation.

According to the provisions of the 3604/2007 law, it is possible for a SA firm to be incorporated by only one shareholder. Regarding the formulation of the Memorandum of Association, it is possible to include provisions, different from the ones suggested by law. In case of reduction of capital, the auditors report confirming the ability to satisfy creditors' liabilities is a prerequisite for the capital reduction. In case of raising capital the General Meeting has the option to authorize the board of Directors to determine the price of the new shares to be issued, facilitating the "book building" process.

Regarding shares and stock options, the law offers the company the option to issue preferred shares, following a respective declaration from the General Meeting to the shareholders, which will describe the way stocks will be distributed. Furthermore, there are provisions, which define the conditions under which Board members and employees may participate in a capital raise scheme. It is easy for a company, in some extent and under provisions, to acquire its own shares representing up to 1/10 of its paid share capital without any other preconditions.

New provisions of the law make significant changes in executive and non-executives compensation. Loan, credit and guarantees granted from the company to members of the board, top executives and persons that exercise control over the company, are only exceptionally permitted, under strict conditions and only for the facilitation of certain transactions. The General Meeting can now approve other contracts with these persons.

Under the new law, it is possible for a legal entity to become member of the Board and if this is stated in the Memorandum of Association, deputy Board members may be elected. A single member of the Board may call the General Meeting in order to elect a new Board.

Minority shareholders rights are enhanced and better protected, through a number of provisions of the law. Lower percentages are required for the exercise of certain rights of minority shareholders, such as the convocation of the general Meeting and the filing of a lawsuit aiming at the annulment of a General Meeting resolution. A percentage of 1/20 of the shareholders may request from the court the resolution of the board of directors, in case it becomes evident that the management is not performing its duties.

5. The European Union debate and the transformation process and the Corporate Governance models

Each capital market has unique features, which are directly related to the ownership structure, financial regulation and traditions. The transformation of capital markets has risen the debate across countries, because they consider it to be a sign of convergence not only of the market but, and of the unique features of each countries.

a. The European Union and the debate against convergence.

In the last decade, a number of economic scandals were witnessed around the world. These scandals had a tremendous impact on capital markets around the world, and made investors suspicious about the way firms were being monitored. Furthermore, the awareness that in these scandals firms and people beyond suspicions were implicated, indicate the difficulties that had to be faced in order to monitor and at the same time to secure the transparency and efficiency of the operation of the local capital market. There were cases of economic manipulation (such as Enron), which had an impact in the global market, enhancing the need for more effective measures of protecting and securing the smooth operation of the capital markets.

In the shade of light of the corporate scandals, corporate governance reforms have been demanded around the world. In some countries the need for changes in the operation of the market was more obvious than in others. The Sarbanes-Oxley Act of 2002 was the response of the American Congress, in an effort to secure even more the American capital market from economic manipulation. The New York Stock Exchange adopted new rules for listed companies. These actions are considered to be the most significant reforms in the US corporate Governance principals since the enforcement of the country’s security regulation framework in the 1930s (Secretariat of the Economic Commission for Europe, 2003).

At the same time, in the EU, there was a discussion on how to improve the capital market, by implementing new corporate laws, which would reflect the needs of modern economy, in conjunction with corporate governance. The ambition was to create an integrated European capital market with common rules and a high degree of transparency, by the year 2005. In order to achieve that goal, a harmonized national regulatory framework was needed for the creation of a single European market with corporate control (ESFRC (2002), Soderstrom et al. (2003)).

Even though, in the EU harmonization regarding company laws has been achieved, significant legal differences remain among members, enhancing the debate for self-regulated or mandatory rules and regarding the implementation of the corporate governance principles in the operation of the capital markets. Unique characteristics between the members of EU present the most difficult to harmonize, enhancing, at the same time, the voluntary corporate governance codes, express a relatively common view of what constitutes good corporate governance practices and how to apply them (Weil, Gosthal and Manges (2002)). Another unique feature of corporate governance is the ability to express in parameters the special needs and priorities of each country. Furthermore, in the same capital market, corporate governance principles can be implemented in accordance with the special needs of each type of firm. Hence, any attempt to homogenize and regulate corporate governance practices, which, by their nature present a great degree of heterogeneity across countries, activity and time, may not be the best policy (Mayer (2003)).

The EU, respecting the diversity in corporate governance of the member states, has focused on protecting minority shareholders, by controlling block holders or managers, who might pursuit their own interest, rather than that of the corporation. Usually, this conflicting relationship is associated with the information that can be accessed, the transparency in the operation of the firm and the external and internal auditing practices. Investors, in order to make decisions and exercise their voting rights, need information about the performance and the operation of the firm. Quality audit standards and independence are two key elements for reliable examination of the company’s performance and operation. Unfortunately, disclosure and auditing practices are very difficult to be self-regulated, but can provide significant information to investors. In order to ensure the quality of information and auditing procedures, regulatory actions should be taken. So far, except from the laws that every member of the EU has implemented to their capital market, the EU has published European rules and Directives, compulsory for its members.

In order to set the main principles for the members, and at the same to have a plan, the EU assigned to a committee called "High Level group of Company Law Experts" to make recommendations, based on a modern regulatory framework on how to implement corporate governance principles. The proposed rules provide the potential future direction of the corporate governance framework in the EU with significant implications to the listed companies of each member state.

The recommendations of the committee were referring to the information that listed firms should report in their annual report and accounts, as well as to the information on their website, regarding the corporate principles they had implemented, the composition of the board of directors (executives and non executives), and the executive management.

Hansman and Kraakman (2001) report that governance systems in Germany, Japan and the US show signs of convergence towards each other. There are three principal factors driving economies towards consensus: the failure of alternative models, the competitive pressures of global commerce and the shift for interest group influence in favor of an emerging shareholder class. Large shareholders are on the increase in US firms, while board structure in Germany and Japan is moving more towards the US Model of a single-tier board that is relatively small and has both insiders and a meaningful number of outsiders.

Changes of the unique characteristics of a capital market, such as ownership structure and financial regulation (which are considered to be key components of a corporate governance system), can be considered as a signs of convergence.

b. Models of Corporate Governance

Systems are made by many components, and that also applies to corporate governance systems. The ownership structure, financial regulation and capital markets are key components of a governance system and are responsible for the existence of different corporate governance models. From the ownership structure and the method the corporation chooses to be financed, we can distinguish between the market oriented model and bank oriented model. In the first, corporations turn to the market to raise funds, from investors willing to take on a risk. This model is common in the UK. In the second model, the main investor is usually a bank. Having a large capital at its disposal (through deposits), it can finance a number of firms. The second model is common in the EU, especially in Germany. Another feature of the bank-oriented model is the ability of the corporation to have access to more than one source for raising capital (bank, pension funds, finance services etc). These sources may act competitively to each other, offering lower cost of finance. In some developed capital markets, it is possible for a corporation to have secondary source of finance (through capital investment), as has been observed in Germany and France.

Mueller (2003) concluded that the labor market and its regulation, debt structures, bankruptcy laws and banking supervision, influence corporate governance systems. Since all corporate governance models are directly connected to the ownership structure, the Outsider and Insider systems are two models of corporate governance based on the ownership structure. The main difference comes from the relationship of equity providers, who through their investment (buying shares of the corporation) have some ownership rights and claim a share from the earnings of the firm. An investor, through voting rights, is able to have control of the governance of a corporation and the assets of the firm to some extent, and to merit a share of the generated profits. Other characteristics of the Insider model are the participation of the investor in more than one board, and the large concentration of shares to a small number of investors. Gugler and Yurtoglu (2001) have shown that in countries that use the insider system, a concentrated ownership is common. In these countries, a group of controlling shareholders has the control of the firm. The most cited examples for an insider system are Japan and countries of continental Europe like Germany, France, Italy, Switzerland and Austria.

In the Outsider model, it is common, for the investor to have a more active participation in the management and operation of the firm through a number of actions which express the preference or the dislike of the actions of the present board, such as, exit from the corporation by selling all the shares, or, by becoming the main shareholder, in order to be able to control the board (through the majority of votes). The rule "One share, on vote" is the rule used to distribute control rights among shareholders in outsider system-countries.

The higher dispersed ownership in the market has been observed in countries where the outsider model is more common (in the UK and the USA). The phrase "One share, one vote" best describe the rights of the shareholders in the management of the corporation.

A fundamental characteristic of the insider system is concentrated ownership. Control is exerted by a group of controlling shareholders. This model is common in Continental Europe (Germany, France, Italy, Switzerland and Austria). A research made by OECD revealed that, in Italy, 60% of the capital market is controlled by a small number of investors, where as at the same time period that percentage for the USA and the UK is 5%. In Italy, high concentration of ownership can be observed. A small group investors, (rarely more than five), may control up to 90% of the shares of a corporation. In Germany the percentage is significantly lower, at 41% and in the UK at 21%. Another characteristic of the continental model, except from the share of institutional investors in the capital market, is the enhanced interest in the social role of corporations in the community, which is in contrast with the Anglo-Saxon model. The Anglo-Saxon model is usually met in large capital markets with large cash flows. The main objective of the board and management of a corporation is to create value for the firm, which is translated in an increase of value of shares.

Observing more closely countries where the Insider model is implemented, we can distinguish two different systems. The first system, known as the "Germanic" system is common in European countries and, has as main feature the unidirectional control and relationship between different corporations (Gugler et al. (2004)). The second system was developed in Japan. Due to the specific characteristics of the market, such as the disperse of ownership in a large number of investors, the labor market and conditions of work (it is common for a worker to remain working in one firm till retirement) and the active participation in the board and the corporate decisions, and in correlation with the way corporations are linked together, through interlocking directorships, due to crossholdings of one company to another's share, that model was developed excessively. Usually, in these groups, there is a main bank involved which holds shares in the companies of the group, and therefore has representatives in the companies' supervisory boards (Edward and Fischer (1994))

6. Corporate governance rating systems

As demand for well-governed companies increase, some investments research firms and academics institutions have developed Corporate Governance ratings. A corporate Governance score is derived, mainly by analyzing the extent to which a company adopts codes and guidelines of accepted Corporate Governance practices, in accordance with the local laws, regulations and market conditions, which encourage or discourage corporate governance practices (Spanos (2005), Xanthakis et al, (2003)).

There is a small number of firms and academic institutions which have and offer domestic and cross-boarder corporate governance ratings, in an effort to provide a tool in order to determine the extent to which corporations comply with the standards and rules of Corporate Governance Principles, and to advise the investors, which operation has implemented in the culture and operation more Corporate Governance Principles.

Corporations have created databases, evaluating firms, according to indicators they have created. Such a corporation is Governance Metrics International, which was established in 2002, and developed a system of corporation Governance ratings based on public data source and private information. The purpose is to produce information regarding the compliance of listed firms to Corporate Governance principles. The system is based on approximately 600 data points for each company, in seven main categories: board accountability, financial disclosures, shareholder rights, compensation policies, market control, shareholder base and corporate reputation. The rating system is in accordance with the international codes of the OECD, the Commonwealth Association for corporate Governance and the Business Roundtable. Firms are rated in a scale of 1 to 10. A private company in Belgium, the Corporate Governance Authority (CGA) has created another system of rating, which is called: Corporate Governance Ratings. The main purpose of this rating system is to provide ratings for corporate governance and index listed firms around the world. The rating system was based on OECD principles and mainly evaluates the commitment of the firm in corporate governance principles, the rights of shareholders and General Meetings, compensation, stock option, supervisory and objectiveness, buy-out, transparency and independency. Firms, that are in the Eurotop 300, Stoxx and DJ average have been evaluated according to that rating system.

In 2001, Standard and Poor's, lunched a new service based on the evaluation of the extent that Corporate Governance principles, had been implemented, in the operation of the corporation. In order to do so, that new service takes into consideration public and non-public information. The rating is consisted by four basic elements: ownership structure and influence, shareholder's rights and stakeholders' relations, financial transparency and information disclosures and board structure and process (Standard and Poor's (2001), Bradley (2004)). The German Society of Financial analysts developed a scorecard system, based on seven categories: corporate governance commitment, shareholder and the general meetings, co-operation between management board and supervisory board, management board, supervisory board, transparency and reporting and auditing of the annual financial statements. The German approach has found application in many countries of East Asia (Indonesia, Philippines) and in Latin America. (Strenger (2004)).

Black in 2001 examined the relationship between corporate governance behavior and market value in a sample of 21 Russian firms, using the Brunswick Warburg investment Bank Corporate Governance rating. The result of the study indicated an increase in firm value, as the number of Corporate Governance principles that were implemented increased. Black reported a strong correlation between the market value and corporate governance of Russian firms. Durnev and Kim (2003), having examined a sample of 859 large firms in 27 countries, concluded that there is high correlation between the firm's value and CISA Corporate Governance index in relation with the S & P disclosure and transparency index. The higher the rating of the firm, the more value increased. Klapper and Love (2002) used data on firm-level Corporate Governance ranking across 14 emerging markets and found a wide variation in firms' level of corporate governance across countries. Black et al (2003) constructed a multifactor Corporate Governance index, based primarily on responses from a survey that was conducted among all listed companies in the Korea Stock Exchange. They discovered a positive correlation between the overall CG index and firm’s market value. Schillofer and Zimmermann (2004) constructed a broad corporate governance rating related to the German Corporate Governance Code and documented a positive relationship between governance practices and firm’s valuation for listed German firms. Bauer, Gunster and Otten (2004) used Deminor Corporate Governance Ratings for companies included in the FTSE Eurotop 300 index, and concluded that firms with high rating had higher common stock return and enhanced firm value.

In Greece, in the last five years, there has been effort to implement the philosophy and principles of Corporate Governance in the operation of listed firms. The Center of Financial Studies in the Department for Economics of the University of Athens in collaboration with the Athens Stock Exchange launched a project, aiming to establish a Corporate Governance rating for listed firms. The purpose of the project was to create a methodology to evaluate the implementation of the Corporate Governance principles, in a broad number of firms on voluntary basis (Tsipouri and Xanthakis, (2004)).

The effort was to provide an independent and reliable mechanism, in disposal of all investors, who were interested to invest in companies, where corporate governance principles were implemented. The metric system was designed for a small capital market that aims to attract international investors. Furthermore, the firms could easily use their individual result in order to measure themselves against several benchmarks. One more scope of the emprise was to produce useful data for the relative authorities (ATHEX, HCMC), and for the listed companies, showing their strengths and weakness, regarding the implementation of Corporate Governance principles. This rating system would also be used as a tool to examine the correlation between the increase in stock value and profitability and investors willingness to pay a premium for companies with high ratings.

Having studied corporate governance index of countries with expertise in the field and similar capital markets, data was gathered through a questionnaire, which was send to the Greek listed firms. The questions on the questionnaire had been constructed according to the principles of the OECD and the Hellenic code of

Corporate Governance, and covered 5 main category-indexes: rights of shareholders, transparency, control and public information, Board members, Manager and executive members and commitment in corporate governance.

The weighting of the five most important indexes was in accordance with the nationally accepted corporate governance principles and the Greek capital market and it was assigned according to the priority of the index (it ranged between 0 and 2). The most important index was transparency, public information and monitoring (30%), Board meeting (25%), Rights of shareholder (20%), CEO and executive members (15%) and commitment to corporate governance principles (10%). The firms that were examined were FTSE/ASE-20, FTSE/ASE mid 40, Small Cap-80

7. Implementation of Corporate Governance in Greek Banks

Research finds that banks are critically important for industrial expansion, the corporate governance of firms, and capital allocation. When banks efficiently mobilize and allocate funds, this lowers the cost of capital to firms, boosts capital formation and stimulates productivity growth. Thus, the functioning of banks has great influence on the operations of firms and the prosperity of nations.

Banking crises dramatically advertise the enormous consequences of poor governance of banks. Banking crises have crippled economies, destabilized governments and intensified poverty. When bank insiders exploit the bank for their own purposes, this can increase the likelihood of bank failures and thereby curtail corporate finance and economic development.

Banks however have two related characteristics that call for a separate analysis of the corporate governance of banks. Firstly, banks are generally more opaque than other financial firms. Although information asymmetries plague all sectors, evidence suggest, that these informational asymmetries are larger in banks (Furfine, (2001)). In banking, loan quality is not readily observable and can be hidden for long periods. Moreover, banks can alter the risk composition of their assets more quickly than most non-financial industries, and banks can readily hide problems by extending loans to clients that cannot service previous obligations. Morgan (2002) finds that bond analysts disagree more over the bonds issued by banks than by non-financial firms.

Secondly, banks are frequently very heavily regulated because they are of great importance for the economy. Due to the opacity of banks assets and activities, and because banks are ready source of fiscal revenue, governments impose an elaborate array of regulations on banks. Many government regulations adversely distort the behavior of bankers and inhibit standard corporate governance processes. In terms of ownership, the World Bank (2001) calculated that in the late 1990s 40% of the world's population lived in countries where the majority of banks assets were held in state controlled banks. When the government is the owner, this changes the character of the governance of banks. The pervasive hand of government regulation and the ownership of banks warrant an independent discussion of the governance of banks.

Over the last yeas, the Greek banking sector has experienced a major restructuring. Important changes that are frequently highlighted by both academics and practitioners are the establishment of the single EU market, the introduction of the euro, the internationalization of competition, the interest rate liberalization, the deregulation, and the recent wave of mergers and acquisitions.

Greek banking has also experienced considerable improvements in terms of communication and computing technology, as banks expanded and modernized their distribution networks, which apart from the traditional branches and ATMs, now include alternative distribution channels such as internet banking. As mentioned in the annual report of the Bank of Greece (2004), in recent years, Greek banks have also taken major steps towards upgrading their credit measurement and management systems, by introducing credit scoring and probability default models. Furthermore, they expanded their product and service portfolio to include activities such as insurance, brokerage and asset management, and at the same time increased their off-balance sheet and non-interest income.

Finally, another attribute that is worthwhile mentioning is the increased trend towards globalization that is focused on the wider market of the Balkans (Albania, Bulgaria, FYROM, Romania, Serbia) and is added to the previously limited international activities of Greek banks in Cyprus and USA. The performance of the subsidiaries operating abroad is expected to have an impact on the performance of parent banks and consequently on future decisions for further internationalization attempts.

a. Sample and data.

The dataset includes public information on 27 different corporate governance indicators for 13 banks (based of the FTSE/ATHEX Banks, Appendix Table 13) for the years 2004 and 2006, as they figure in the corresponding list of the Stock

Exchange (FTSE/ATHEX Banks). The companies included in our sample represent 100% of the capitalization of the market, for the specific index. The data is taken from the firms' annual reports as of year-end 2004 and 2006 and compared with the provisions of 3016/2002 law. Furthermore, it must be underlined that in our sample, there are three banks, the National Bank of Greece, the Agricultural Bank of Greece and the Greek Postal Savings bank, in which the Greek Government is the main shareholder and controls the management, and therefore there are difficulties in the implementation of corporate governance principals. The National Bank of Greece is the biggest bank in Greece in capitalization and size. In contrast with the Agricultural Bank of Greece and the Greek Postal Savings bank, the National Bank of Greece offers to its clients a full range of bank products and services. The Agricultural Bank of Greece, even though it offers to its customers a large range of bank services, it is mainly used to promote the Greek Government's policy for the agricultural sector. Greek Postal Savings Bank offers deposit services and limited products of loan. Expect from the National Bank of Greece, the two other banks, are used to promote the social character of the Greek Government.

b. Results.

Table 1 shows the total corporate governance (CG) rating results for the years 2004 and 2006. It is obvious that there has been a relatively satisfactory improvement, from 83% for the year 2004 to 87.6% for the year 2006. The highest compliance in the FTSE/Athex banks is in the category of shareholder rights, followed by CEO and Executive management. The category of the Board of directors had a respectively high compliance score, in contrast with the category of the Corporate governance commitment, the role of stakeholders and corporate social responsibility, which climbed from 64,5% to 76,2% for the year 2006. The role of the mandatory provisions is obvious as the categories in which they are enforced present the highest compliance score. Taking into consideration, the relatively small period of time that the 3016/2002 law had been enforced, and the time corporations had to adapt, the total ranking of corporations might be considered as satisfactory (Appendix Table 8).

The result in table 9 shows that the rights of shareholders are well protected in Greece. This was expected, since most of the provisions of corporate law and corporate governance law, define the obligation and rights of the shareholder.

According to table 10, transparency, disclosure of information and auditing practices have high rating, due to in-time and understandable publication of the financial statements and the equal treatment of all investors and financial analysts regarding information dissemination for important corporate events. The application of the IAS principles is responsible for the significant improvement (from 68.9% in 2004 to 100% in 2006). The improvement was expected, since EU Directives regarding the reporting financial statements of listed companies, according to the IAS standards, were in effect since 2005. Furthermore, the expansion of Greek banks in the Balkan area and the effort to attract foreign investors enhanced the need for a more accurate and transparent reporting system. Regarding disclosure of Board Directors and executive staff members' remuneration, the ranking is respectively low (at 59.2% in 2004 and at 65.4% in 2006). This is interesting, because taking into consideration that all banks have special committees responsible for the remuneration of the executives (and non-executives), there is a hesitation in reporting their remuneration. Respectively, high ranking had the company's risk management system, something that was expected due to the fact of the globalization of the services that banks offer, including investment in foreign markets.

Regarding the Board of Directors (Appendix Table 11), the performance shows a significant improvement. Corporations seem to have implemented sufficiently the provisions of Corporate Governance, regarding the Board of Directors. There is a clear distinction between the role of the chairman and that of the CEO. The number of non-executives in the Board of Directors has increased respectively from previous years, and the independence of the non-executives is higher. Regarding the establishment of Board committees, there is a dramatic increase, something that was expected due to the globalization of the market and the increased operation of the Greek Banks in the Balkan territory. Unfortunately, there is no information regarding the election frequency of the non-executive Board directors.

Table 12 is referring to CEO and executive management. Even though the ranking is respectively high, in the indicator for the disclosure of share ownership of the executive management staff is very low. That is understandable taking into consideration, that shares are usually given to the executives as remuneration (as we saw earlier, the indicator for the remuneration is low). The indicator for the duties and responsibilities of CEO is very high (100%), which means that they are well defined and the one for the existence of position of Chief financial Officer fluctuates at the same level.

Table 13 provides some interesting information, regarding the Corporate Governance commitment, the role of stakeholders and CSR. It demonstrates that all banks have written Corporate Governance rules (with the exception of the Agricultural Bank of Greece and the Greek Postal Savings Bank, which are being governed by the Greek government, as means to apply its social policy), and have special notices for their social responsibility and environmental awareness. Furthermore, interesting are the findings of the indicator regarding the existence of a Corporate Governance committee or an individual entrusted with Corporate Governance compliance issues (from 74.2% in 2004 to 100% in 2006).

8. Conclusion

Most corporate governance reforms involve increased transparency. Yet, discussions of disclosure generally focus on issues other than governance, such as the cost of capital and product market competition

In the last five years, important steps have been made towards upgrading the Greek corporate legislation. The 2190/1920 law, which designates the operation and the management of corporations, was based on data of an economic era that had ended. In order to improve and upgrade the Greek capital market, new provisions and directives, which will reflect the evolution of developed capital market, were necessary. The 3016/2002 law, and later the 3604/2007 law, were efforts to modernize the capital market and the operation of firms (mainly the listed), following the example of developed markets, but only concerned a limited range of the crucial subjects of corporate governance. These laws do not contain any provisions regarding the remuneration of the executives and non-executives, and the reporting information regarding the corporate governance is limited to describing the composition of different boards and their scope. Significant steps have been made in securing the shareholder and minority shareholders' rights, in monitoring the procedures and performance of management, and in enhancing the transparency of the operation.

Looking more closely at the ATHEX index of Banks, the sufficient implementation of the law's provisions regarding corporate governance principles, is evident. That was expected mainly for two reasons. First, because banks are heavily regulated by law and second, due to the expansion of business in new markets, mainly in Balkan territory, and the effort to attract foreign investors. Even though, the annual reporting statement includes limited information on the subject of governance, crucial information can be retrieved. It must be noted, that the corporations of our sample are in early stage of implementing corporate governance principles. In order to valuate the firms, the Corporate Governance Index was used, which was created by the Athens University and was designed especially for the Greek market. One can examine public information and make comparative analysis that allows the ranking of firms. If someone wants to examine even deeper the extent to which Corporate

Governance principals are implemented in a firm, then it is necessary to enrich the exercise with more indicators that are customized and result from in-depth research and interviews.

Future research could extend the present study towards numerous directions. First commercial banks could be compared with cooperative banks, as the latter ones have not received attention in previous studies in Greece. Secondly, domestic banks could be compared to foreign banks, which have received only limited attention and not in the context of efficiency. Finally, it would be worthwhile to consider a longer period of time and examine the impact of the environmental factor, inflation and stock market capitalization on the efficiency of the Greek banking sector.

It would be interesting for further research to find the Corporate Governance Index for all listed corporations and examine the rates for the different categories of the market. It would be worthwhile to examine the measures that have been taken by firms in order to be protected from hostile take-overs, in correlation with the remuneration of the Board Members, and the proceedings for election of members in the board. Furthermore, a study regarding the influence of the new corporate law in the operation and the reporting information is considered to be very useful, especially for investors, since it will examine the quality of the reporting information. Another field of research is to examine the effect of Corporate Governance principles in family owned firms and compare the differences in correlation with publicly owned firms.

Even though, the Greek legislation has made major steps in updating the laws and the operation of the capital market, there are significant differences with the emerged capital markets. A comparison regarding the impound legislation of the EU members, will contribute considerable information, regarding the steps needed for the harmonization of the Greek legislation with the legislation of the EU.

Appendix

TABLE 1: MARKET CAPITALISATION (IN MILLION euro)

	2000		2001			2002			2003		
	Main Market	Parallel Market	Main Market	Parallel Market	New Market	Main Market	Parallel Market	New Market	Main Market	Parallel Market	New Market
SHARES	107,283.90	10,672.34	89,178.46	7,720.80	50.24	60,449.32	5,188.29	122.07	78,167.26	6,111.38	268.46
FOREIGN BONDS	225.21	-	80.70	-	-	-	-	-	-	-	-
CORPORATE BONDS	59.99	-	369.54	-	-	472.55	-	-	941.33	-	-
PUBLIC BONDS	76,656.58	-	80,703.12	-	-	114,097.29	-	-	134,278.19	-	-

	2004			2005			2006			
	Main Market	Parallel Market	New Market	Main Market	Parallel Market	New Market	Big Capitalisation	Smal and medium Cap.	Special & Stock Exch.	Under Supervision
SHARES	86,686.14	5,346.35	105.45	110,628.57	5,957.38	104.76	143,783.71	10,703.19	2,525.82	916.00
FOREIGN BONDS	-	-	-	-	-	-	-	-	-	
CORPORATE BONDS	932.68	-	-	1,203.46	-	-	189,554.58	-	-	
PUBLIC BONDS	156,971.96	-	-	161,190.43	-	-	1,994.30	-	-	

Source: Athens Stock Exchange

TABLE 2: TOTAL CAPITALISATION (IN MILLION EURO) AND YEAR FLACTUATION %

YEAR	2000	2001	2002	2003	2004	2005	2006
CAPITALISATION	€ 117,956.24	€96,949.50	€65,759.68	€ 84,547.10	€92,137.94	€116,690.71	€ 157,928.72
FLACTUATION	40,29%	-17.81%	-32.17%	28.57%	8.98%	26.65%	35.34%

Appendix

TABLE 3: TOTAL CAPITALISATION RAISED BY NEW LISTINGS (IN THOUSAND EURO)

	2000			2001				2002			
	Main Market	Parallel Market	TOTAL	Main Market	Parallel Market	New Market	TOTAL	Main Market	Parallel Market	New Market	TOTAL
SHARES	1,446,733.82	0.00	1,446,733.82	1,446,733.82	45,120.36	1,497,054.46	2,988,908.64	30,650.00	50,560.00	20,200.00	101,410.00
FOREIGN BONDS	-	-	-	-	-	-	-	-	-	-	-
CORPORATE BONDS	-	-	-	-	-	-	-	-	-	-	-
PUBLIC BONDS	-	-	-	-	-	-	-	-	-	-	-

	2003				2004					2005			
	Main Market	Parallel Market	New Market	TOTAL	Main Market	Parallel Market	New Market	EAGAK	TOTAL	Main Market	Parallel Market	New Market	TOTAL
SHARES	54,225.85	58,326.01	8,780.55	121,332.41	65,385.50	26,352.23	9,312.50	3,515.25	104,565.48	58,561.15	19,900.00	3,399.00	81,860.15
FOREIGN BONDS	-	-	-	-	-	-	-	-	-	-	-	-	-
CORPORATE BONDS	-	-	-	-	-	-	-	-	-	-	-	-	-
PUBLIC BONDS	-	-	-	-	-	-	-	-	-	-	-	-	-

	2006				
	Big Capitalisation	Smal and medium Cap.	Special & Stock Exch.	Under Supervision	TOTAL
SHARES	725,311,769.00	-	-	-	72,531.18
FOREIGN BONDS	-	-	-	-	-
CORPORATE BONDS	-	-	-	-	-
PUBLIC BONDS	-	-	-	-	-

Source: Athens Stock Exchange

TABLE 4: TOTAL CAPITALISATION RAISED BY NEW LISTINGS (IN THOUSAND EURO) AND YEAR FLACTUATION %

Appendix

YEAR	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
CAPITALISATION	€ 59,000.00	€ 1,157,200.00	€1,842,300.00	€ 1,446,733.82	€ 2,988,908.64	€ 101,410.00	€ 121,332.41	€ 9,312.50	€81,860.15	€ 72,531.18
FLACTUATION	40,29%	1861.36%	59.20%	-21.47%	106.60%	-96.61%	19.65%	-92.32%	779.04%	-11.40%

Appendix

TABLE 5: Average Annual Percentage Change of the ATHEX General Index, 1996-2006										
	Placement year									
YEAR	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
1997	58.50%									
1998	71.20%	85.00%								
1999	81.00%	93.40%	102.20%							
2000	38.00%	31.80%	11.30%	-38.80%						
2001	22.70%	15.00%	-1.80%	-31.60%	-23.50%					
2002	11.00%	3.40%	-10.60%	-31.90%	-28.20%	-32.50%				
2003	13.50%	7.30%	-3.70%	-20.00%	-12.60%	-6.50%	29.50%			
2004	14.60%	9.50%	0.30%	-12.80%	-4.80%	2.40%	26.20%	23.10%		
2005	16.40%	12.00%	4.30%	-6.60%	1.60%	9.00%	28.00%	27.20%	31.50%	
2006	16.80%	12.90%	6.10%	-3.20%	4.40%	11.10%	25.90%	24.70%	25.60%	19.90%

Note.: The results are based on the following formula: (Xt / Xo)(1/t) -1, where Xo and Xt represent the closing values of the ATHEX General Index at the year-base 0 and at the year t, respectively

Source: Hellenic Capital Market Commission

Appendix

TABLE 6: NEW LISTINGS ON THE ATHEX					
	MAIN MARKET	PARALLEL MARKET	NEW MARKET	EAGAK	ATHEX TOTAL
1998	11	13	-	-	24
1999	14	23	-	-	37
2000	18	35	-	-	53
2001	12	8	1	-	21
2002	7	10	5	-	22
2003	1	12	2	-	15
2004	4	4	2	1	11
2005	3	2	1	-	6
2005	1	1	1	-	2
2006	2	-	-	-	2

Source: Athens Stock Exchange

TABLE 7: ATHEX Composite Share Price Index (YEAR-END VALUES)		
	ATHEX Composite Share Price Index	% CHANGE
1998	5737.55	
1999	5535.09	102.19%
2000	3388.86	-38.77%
2001	2591.56	-23.53%
2002	1748.42	-32.53%
2003	2263.58	29.46%
2004	2786.18	23.09%
2005	3663.9	31.50%
2006	4394.13	19.93%

Source: Athens Stock Exchange

TABLE 8 : TOTAL CG RATING RESULTS BASED ON PUBLIC DOMAIN INFORMATION FOR THE FTSE/ATHEX BANKS		
Corporate governance indicator	**2004**	**2006**
The rights and the obligations of shareholders	100	100
Transparency, disclosures of information and auditing	82.3	84.1
The board of directors	72.8	79.3
CEO and executive management	86.1	92
Corporate governance commitment, the role of stakeholders and corporate social responsibility	64.5	76.2
Total CG index	**83.0**	**87.6**

Appendix

TABLE 9 : THE RIGHTS AND THE OBLIGATIONS OF SHAREHOLDERS (maximum=100%)		
Corporate governance indicator	**2004**	**2006**
The equal treatment of shareholders	100	100
Absence of takeover defense	100	100
Existense of organized and autonomus shareholder department	100	100
Voting procedures in the GMS	100	100
Mechanisms of sufficient and timely information about the dates, place and agenda of the GMS	100	100
Mechanisms through which shareholders are sufficiently and timely informed on the proposals submitted in the agenda of the GMS	100	100
Total index	**100**	**100**

TABLE 10 : TRANSPARENCY, DISCLOSURE OF INFORMATION AND AUDITING (maximum=100%)		
Corporate governance indicator	**2004**	**2006**
Report of the annual and semi-annual financial statements with clear and understandable way	100	100
In time publish of the annual and semi-annual financial statement	100	100
Equal treatment of all investors and financial analysts regarding information dissemination (fair disclosure) for important corporate events	100	100
Detailed analysis of any deviation from previously announced earnings targets and strategic goal	93.6	98
Application of an internationally recognized accounting and auditing system for the balance sheet consistent with the IAS	68.9	100
Disclosure of board directors and executive staff members' remuneration	59.2	65.4
Specific discussions of the company's risk management system on the annual report	73.9	81.6
Total index	**88.6**	**94.2**

Appendix

TABLE 11 :THE BOARD OF DIRECTORS (maximum=100%)		
Corporate governance indicator	**2004**	**2006**
Division between the role of the chairman and the CEO	90.1	95.4
The composition of the board of directors	84.4	90
Non-executive board directors' independence	75.3	81
The size of the board of directors	87	91
Board meetings frequency	100	100
Establisment of board committees	65	73.1
Non executive board directors' election frequency	0	0
Total index	**74.2**	**78.2**

TABLE 12 : CEO AND EXECUTIVE MANAGEMENT (maximum=100%)		
Corporate governance indicator	**2004**	**2006**
The duties and responsibilities of the CEO	100	100
Disclosure of share ownership of the executive management staff members	55.1	64.4
Existence of position of Chief Financial Officer	100	100
Tota index	**89.2**	**90.1**

TABLE XIII : CG COMMITMENT, THE ROLE OF STAKEHOLDERS AND CSR (maximum=100%)		
Corporate governance indicator	**2004**	**2006**
Existence of written CG rules in the company	59.1	100
Existence of a Corporate Governance Committee or individual entrusted with CG compliance issues	64.5	100
Existence of an efficient CG framework talking account the interest of all stakeholders	77.9	100
Corporate social responsibility and environmental awareness	85.1	100
Total index	**74.2**	100

Appendix

TABLE 13: INDEX COMPOSITION OF FTSE/ATHEX BANKS	
BANK	SITE
ALPHA BANK SA	www.alpha.gr
ASPIS BANK SA	www.aspisbank.gr
AGRICULTURAL BANK OF GREECE SA	www.ate.gr
BANK OF CYPRUS PUBLIC COMPANY LTD	www.bankofcyprus.gr
NATIONAL BANK OF GREECE SA	www.nbg.gr
EFG EUROBANK ERGASIAS SA	www.eurobank.gr
MARFIN POPULAR BANK PUBLIC CO LTD	www.laiki.com
PROTON BANK SA	www.proton.gr
BANK OF ATTICA SA	www.atticabank.gr
EMORIKI BANK OF GREECE SA	www.emporiki.gr
GENERAL BANK OF GREECE SA	www.geniki.gr
PIRAEUS BANK SA	www.piraeusbank.gr
GREEK POSTAL SAVINGS BANK	www.ttbank.gr

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