REFORMING THE CORPORATE GOVERNANCE IN GREECE: AFTER THE INTRODUCTION OF LAW 4706/2020

Georgia N. Kontogeorga [*], Georgios L. Thanasas [**], Vassilis S. Smaraidos [***], Dimitrios N. Angelaras [****]

* *Corresponding author,* Hellenic Court of Audit, Athens, Greece
Contact details: Hellenic Court of Audit, Tsocha and Vournazou 4, 115 21 Athens, Greece
** Department of Management Science and Technology, School of Economics and Business, University of Patras, Patras, Greece
*** University of Patras, Patras, Greece
**** Department of Law, Democritus University of Thrace, Komotini, Greece

How to cite this paper:
Kontogeorga, G. N., Thanasas, G. L., Smaraidos, V. S., & Angelaras, D. N. (2022). Reforming the corporate governance in Greece: After the introduction of Law 4706/2020. *Corporate Law & Governance Review, 4*(1), 45–53.
https://doi.org/10.22495/clgrv4i1p4

Copyright © 2022 by Authors

This work is licensed under a Creative Commons Attribution 4.0 International License (CC BY 4.0).
https://creativecommons.org/licenses/by/4.0

ISSN Online: 2664-1542
ISSN Print: 2707-1111

Received: 16.12.2021
Accepted: 25.07.2022

JEL Classification: G3, G34, G38
DOI: 10.22495/clgrv4i1p4

Abstract

Good corporate governance undoubtedly is a key to sustainable private sector development and a basic element for healthy firms (Kostyuk, Braendle, & Capizzi, 2018). However, in Greece, the relevant legal framework was until recently anachronistic, whilst recent scandals in the Greek capital market revealed the regulatory gaps in the internal and external control mechanisms applied by listed companies and exacerbated the need for a significant reform in the corporate governance legal framework in force. The purpose of this article is to enrich the literature in this area and to present an overview of the state of corporate governance in Greece and particularly the innovations introduced by the new Law 4706/2020 on corporate governance as well as the good practices recommended by the recently adopted new code. By comparing the previous and the new corporate governance laws, as well as the existing literature in the field, our paper concludes that the adaptation to the general principles of corporate governance is quite difficult for most of the traditional Greek firms which are based on family ties. Furthermore, the financial crisis, and the current COVID-19 pandemic, created a highly unfavourable and challenging economic environment for Greek firms.

Keywords: Corporate Governance, Corporate Governance New Code, Legal Framework on Corporate Governance in Greece, Greek Firms, Reforms, Innovations

Authors' individual contribution: Conceptualization — G.N.K., G.L.T., V.S.S., and D.N.A.; Methodology — G.N.K., G.L.T., V.S.S., and D.N.A.; Investigation — G.N.K., G.L.T., V.S.S., and D.N.A.; Formal Analysis — G.N.K. and G.L.T.; Writing — Original Draft — G.N.K. and D.N.A.; Writing — Review & Editing — G.N.K. and G.L.T.

Declaration of conflicting interests: The Authors declare that there is no conflict of interest.

Acknowledgements: This paper has been supported by the funding programme "MEDICUS" of the University of Patras, Greece.

1. INTRODUCTION

Corporate governance is defined as the "procedures and processes according to which an organization is directed and controlled" (European Central Bank [ECB], 2005, p. 219). Its purpose is to help build an environment of trust, transparency, and accountability necessary for fostering long-term investment, financial stability, and business integrity, thereby supporting stronger growth and more inclusive societies (Organisation for Economic Co-operation and Development [OECD], 2015).

Corporate governance has changed in recent years to adapt to company practices and regulatory developments. The corporate governance framework now covers a wider range of topics that goes beyond the shareholder-centric approach. In general, those more controversial topics currently addressed are often closely linked to political and social choices (gender diversity in boardrooms, employee representation, etc). International Finance Corporation (IFC) suggest that European and national policymakers need to find ways to resume competitiveness; they need to find better long-term shareholders' engagement and stronger accountability for delegated decision-making power for all corporate actors (IFC, 2015, p. 8).

Within this framework, Greece reformed recently its anachronistic legal framework. Moreover, scandals in the Greek capital market, namely Folli Follie, had previously revealed several regulatory gaps in the internal and external control mechanisms applied by listed companies and had signalled the need for a significant reform in the corporate governance legal framework, more precisely Law 3016/2002 as well as the harmonisation with the European standards of corporate governance.

In 2020, the Greek Parliament enacted Law 4706/2020 on corporate governance, provisions for capital market modernisation, transposition of European Union (EU) Parliament and Council Directive 2017/828 into Greek law, implementing measures for EU Regulation 2017/1131, and other provisions. The new Law introduces a deep reform in corporate governance, and it is structured around two main axes, namely the new corporate governance framework applicable to companies listed on the Athens Exchange and secondly the modernisation of the Greek capital market.

The recently enacted Law 4706/2020 is part of the governmental plan to attract more investors to the Greek capital market and boost the Greek economy by the adoption of best-practice corporate governance at an EU and international level. This law was an initiative of the Hellenic Capital Market Commission (HCMC).

The law brings a deep reform to corporate governance, replacing the existing provisions of Law 3016/2002, and transposes Shareholders Directive II into Greek law. The corporate governance changes set out in the revised legal framework should be viewed in conjunction with the related provisions of Law 4548/2018 amending the Law on sociétés anonymes (SAs), the new audit legislation, and existing best practices, requiring a more holistic approach from companies (Nikolaidis, 2020).

The purpose of this paper, which is divided into eight sections, is to enrich the literature in this area and to present an overview of the state of corporate governance in Greece and particularly the innovations introduced with the new Law on corporate governance. The rest of the paper is structured as follows. Section 2 presents the literature review on corporate governance and the necessity for reforms in the legal framework of corporate governance at the European and global levels. Section 3 presents an overview of the corporate governance legislation in Greece. Section 4 discusses the ownership structures of companies in the country, while Section 5 is the issue of mergers and acquisitions (M&A). The main changes/ innovations of the new Law are presented in Section 6. Shareholder activism and corporate governance and firm performance are discussed in Section 7 and Section 8, respectively. Finally, Section 9, the last section, summarizes the basic conclusions drawn from our research.

2. LITERATURE REVIEW

Corporate governance has been a widely discussed issue among academics, capital markets regulators, international organizations, and the business world, without, however, the adoption of a single common definition for corporate governance (Spanos, 2005; Tsene, 2021). Corporate governance refers to including all legal and economic institutions for managing and controlling private companies. The regulatory framework of corporate governance strives to reduce the agency conflicts resulting from the separation of ownership and control (Freidank & Weber, 2009). Good corporate governance may increase the value of the company in the long term, and thus, it is in the interest of the company and its stakeholders (Ceschinski, Freidank, & Handschumacher, 2020).

In the light of the global financial crisis, optimal standards of corporate governance are considered necessary to ensure transparency and accountability but also to improve value creation. OECD (2021b) notes that in the context of rebuilding our economies in the wake of the COVID-19 crisis and promoting stronger, more transparent, and fairer economic growth, good corporate governance plays an essential role. It fosters an environment of market confidence and business integrity that supports capital market development. The quality of a country's corporate governance framework is decisive for the dynamism and the competitiveness of its business sector and the economy at large. Corporate governance has significant implications for the growth prospects of an economy. Proper corporate governance practices diminish the risk for the investor, attract investment capital and improve corporate performance (Spanos, 2005).

As far as the European context is concerned, European Commission's Directive 2006/46/EC required all listed companies to produce a corporate governance statement in their annual report to shareholders. Europe 2020 and the EU Action Plan (2012) are examples of the European Commission's published long-term plans for developing corporate governance practices, increasing competitiveness, and developing sustainability among European companies. These and other EU corporate governance reforms have succeeded in bringing about substantial convergence in corporate governance regimes among member states. Yet the EU still faces significant challenges in ensuring that corporate governance initiatives, such as gender diversity and "say on pay", are well accepted (IFC, 2015, p. 11).

In addition, several global corporate scandals and company failures and consequentially the loss of trust by investors in an organization's management have triggered extensive discussions and debates on the topic of corporate governance (Kraus, 2011). As a result, numerous countries established regulatory frameworks, which discuss and deal with an organization's management and

control: with these frameworks, we imply the so-called Corporate Governance Codes (Welge & Eulerich, as cited in Eulerich, van Uum, & Zipfel, 2017).

In this challenging context, Governments have had to adapt their regulatory frameworks significantly to respond to the circumstances imposed by the COVID-19 pandemic by, for example, accommodating virtual shareholder meetings and remote electronic voting. Stricter requirements for both companies and institutional investors to disclose voting results, and for companies to improve their disclosure of related party transactions, have reinforced the accountability of shareholders and companies (OECD, 2021b).

In our paper, will we focus on Greece which is a unique case, not only due to the fiscal crisis over the last decade which led to the slumping of domestic economic activity and the severe recession that ensued (Rompotis, 2020), but also because it had an anachronistic legal framework in corporate governance, dated 20 years ago.

The need to attract investor capital after a decade-long sovereign debt crisis and the unravelling of the Folli Follie scandal, where the controlling shareholders of one of Greece's largest companies were able to reap substantial gains through an elaborate fraud scheme involving market manipulation and self-dealing, led to significant reforms in the Greek corporate governance framework with the introduction of Law 4706/2020 (Seretakis, 2021).

3. OVERVIEW OF THE LEGAL FRAMEWORK OF CORPORATE GOVERNANCE IN GREECE

The corporate governance framework for Greek companies with securities listed on a regulated market consists, on the one hand of the adoption of compulsory legal rules and, on the other hand, of the application of the principles of corporate governance and the adoption of best practices and recommendations through self-regulation. More specifically, it includes Law 4706/2020, the decisions of the HCMC issued by the delegation of the law, certain provisions of Law 4548/2018 on public limited companies and authorities, and best practices and recommendations for self-regulation. All the above are incorporated in the Corporate Governance Code or Code, which has been published in June 2021 by the Hellenic Corporate Governance Council (HCGC, 2021).

The Hellenic Corporate Governance Council (HCGC) was established in 2012 and is a joint initiative of the Athens Stock Exchange (ATHEX) and the Hellenic Federation of Enterprises (SEV), in the legal form of the civil non-profit company. The current members of the HCGC are ATHEX, SEV, the Hellenic Bank Association (HBA), the Hellenic Fund and Asset Management Association (HFAMA), and the Hellenic Corporation of Assets and Participations (HCAP) (HCGC, 2021, pp. 4–5).

The new Code replaces the former Hellenic Corporate Governance Code for listed companies, which was issued in 2013 and it is drafted based on the principle of "comply or explain" (HCGC, 2021, p. 5). This is a long-awaited reform since Greece was the only country in the EU that did not have a widely endorsed and applied the above-mentioned principle in its corporate governance code, while other European parliaments in all of the 28 member states had introduced or revised their national corporate governance codes in the last 10 years (IFC, 2015, p. 5).

According to this principle, companies applying the Code either comply with all its provisions or explain the reasons for their non-compliance with its special practices. In line with the Code, for each financial year, a company should: include in its annual report a separate section with the Corporate Governance Statement, which should contain, in conjunction with the provisions of Law 4548/2018, a statement that it has voluntarily decided to comply with this Code. Such explanation should not be limited to a simple reference to the practice the company does not comply with but should be clearly and specifically justified.

The new Code consists of Parts and Sections, and it is addressed to the Greek companies with securities, listed on a regulated market, operating in Greece. It is also addressed to the Greek companies with securities, negotiated in a Multilateral Trading Facility, such as the Alternative Market of the Athens Exchange, which has chosen to be subject to Law 4706/2020. However, there are some exceptions such as the Bank of Greece, and specific provisions relating to supervised companies (e.g., banks).

It is noteworthy that the Code does not address the issues that constitute compulsory legislation (laws and regulatory decisions), which are already particularly extensive. On the contrary, the Code establishes principles beyond the mandatory framework of corporate governance legislation and addresses those matters which are either 1) not regulated by law or 2) regulated, but the applicable framework allows for selection or derogation, or 3) they are regulated in their minimum content. In such cases, the Code either complements the mandatory provisions or introduces more stringent principles, drawing on experience from European and international best practices, always guided by the characteristics of the Greek business and the Greek stock market (HCGC, 2021, p. 6).

The most important changes introduced by the new Law concern:

- the transposition of EU Directive 2017/828 of the European Parliament and the Council, as regards the encouragement of long-term shareholder engagement (Shareholders Directive II or SRD II), into Greek law;
- the establishment and operation of a new form of Greek Alternative Investment Fund (AIF) in the form of a mutual fund;
- the publication requirements applying to securities offered to the public or admitted to trading on a regulated market, and the measures implementing EU Regulation 2017/1129 of the European Parliament and the Council (Prospectus Regulation).

The new law is effective as of 17 July 2020 except for the provisions on corporate governance rules. the majority of which will come into force twelve months following the publication of the Law in the Government Gazette, i.e., on 17 July 2021 (Papachristou & Kontogiannis, 2020).

According to the new Law, the HCMC has issued the following decisions:

a) Circular Decision No. 60/18.09.2020 with the Guidelines for the Suitability Policy;

b) Decision No. 1A/890/18.09.2020 of the board of directors of the HCMC, which regulates the sanctions in the case of violation of the provisions of the Law; and

c) Decision No. 1/891/30.09.2020 of the board of directors of the HCMC regarding the evaluation of the system of internal audit. The provisions of the Law entered into force 12 months after its publication, on 17 July 2021 (Masouros, 2022).

4. OWNERSHIP STRUCTURES OF COMPANIES IN THE COUNTRY

The share of global market capitalization held by countries classified as having dispersed ownership is no longer dominant. The market share of countries with concentrated ownership structures has increased from 20% to 34%, since the adoption of the Principles of Corporate Governance in 1999.

An important global development with respect to corporate ownership structures is the increase in ownership concentration at the company level. While this is a global development, the OECD report "Owners of the World's Listed Companies" shows that there are important country and regional differences with respect to the different categories of shareholders that make up the largest shareholders at the company level; differences that again have implications for the focus of regulatory considerations and priorities (De La Cruz, Medina, & Tang, 2019). In a number of markets, company groups are the common and sometimes dominant pattern of shareholding. In several Asian economies for example, including India, Indonesia, and Singapore, and some other emerging markets such as Chile and Turkey, private corporations and holding companies hold more than 30% of the total equity capital in publicly listed companies. In other Asian economies, including Japan, Korea, Malaysia, and Hong Kong (China), and several European markets, including Austria, France, Italy, Germany, and Greece, private corporations on average hold between 18% to 34% of the capital (OECD, 2021a, p. 112).

In addition, the COVID-19 crisis has not only had immediate negative social and economic impacts but also forces for structural changes in the corporate sector and capital markets. Some businesses will recover after a temporary downturn while others will be phased out. Yet other businesses and sectors will find new opportunities for innovation and growth.

As a first response to the sharp decline in company incomes and the liquidity challenges that followed, governments and central banks around the world provided generous support to a broad range of companies. Given that the impact of the pandemic is not likely to be short-lived and as liquidity challenges are likely to eventually turn into solvency problems for some companies, distinguishing between viable and non-viable companies is becoming increasingly important for a better allocation of available resources. According to OECD (2021a, p. 122), 14 of the 33 countries have improved their insolvency regimes from 2010 to 2016. Among the countries that experienced the biggest improvements were Chile, Germany, Greece, Japan, Portugal, and Slovenia.

In general, the Greek stock market is mostly dominated by family-controlled firms. Spanos (2003) mentioned that in Greek listed companies, like in other European countries, ownership is concentrated. Large families usually control most of the companies and members of the controlling families usually serve as the top manager, while Kapopoulos and Lazaretou (2007) argued that the Greek listed firms cannot be considered as having a diffused ownership structure, though the dispersion of shares is rather low. Authors studied profitability-based performance using data for 175 Greek listed firms. Their findings imply that few shareholders control the firm's management. They also provide evidence that medium- and small-sized firms are usually controlled by a family and there is no separation of ownership and control.

In their research, Lazarides, Drimpetas, and Koufopoulos (2009) confirmed this conclusion. According to the authors, members of the family or the controlling group are actively involved in management. If managers are not members of the family or the controlling group, they are closely connected with these groups and their decisions are subject to their control and monitoring. What is more, institutional investors are not actively involved in managing or in controlling and monitoring the decisions and actions of the controlling group.

Within this context, we could argue that Greek firms, in their large majority, are mainly family-controlled. However, regarding the banking sector, the situation seems to differ. According to recent OECD data, the listed banks are mainly characterized by dispersed ownership. At the end of 2012, of the 256 companies listed on the ATHEX, 212 companies (82.8%) were groups (OECD, 2017, p. 12).

5. MARKET FOR CORPORATE CONTROLS (M&A)

Companies in the global economic environment are forced to adapt to the new era by implementing new management practices, modifying their productive processes, developing new projects through strategic partnerships, and introducing new activities. As Tampakoudis, Subeniotis, and Dalakiouridou (2011) noted, both economic globalization and business internationalization rapidly change bearing their impact on the level of competition. In other words, these companies worldwide follow the new era of popular practices such as mergers and acquisitions, aimed at improving competitiveness and increasing market power by reducing production costs and giving access to quality raw materials to innovate their technology.

Although mergers and acquisitions are not considered a new phenomenon, as business consolidation has already been applied since the previous century, the number of mergers between companies has increased over the years. The global context and the current financial crisis have contributed to all of the above (Andrade & Stafford, 2004; Bruner, 2002).

According to Tampakoudis et al. (2011), "In Greece, mergers and acquisitions demonstrate a recent upward trend with the number and value of corporate combinations increasing steadily,

indicating, in turn, positive future prospects" (p. 118). As the business environment denotes, international and domestic factors introduced the framework in Greece for the increase of mergers and acquisitions and set the appropriate grounds for future development.

As Greece is a member of the EU and the Eurozone, it is easy for international investors to invest in the domestic market. International funds, according to the standards of European laws, provide alternative financing methods with low-interest rates and increasing liquidity through financial institutions and funds. On the other hand, the domestic market underwent major reforms, introducing market liberalization, harmonizing Greek accounting standards to International Financial Reporting Standards (IFRS), privatizing parts of the public sector, and modifying legislative codification. All the above assisted in developing an active and modern market as regards corporate control.

6. MAIN CHANGES OF THE NEW LAW

6.1. Board of directors' practices

Stiles and Taylor, as cited in Tsene (2021) considers that the mechanisms of corporate governance connected with the board of directors have long been considered of growing importance for organizational performance, as they constitute the critical link between the shareholders of a company and the managers.

The new law includes significant changes to the composition and operation of the board of directors. It seeks to strengthen the role of the board of directors, enhance the independence of board members and delineate their responsibilities (Seretakis, 2021). More specifically, according to Law 4548/2018 on public limited companies and authorities, article 86, para. 1, "the Board of Directors is competent to decide on every act concerning the management of the company, the administration of its assets, and the general pursuit of its purpose".

The Law 4706/2020 on corporate governance, article 8, para. 1 and 2 notes that "The Chair of the Board of Directors is a non-executive member. If the Board of Directors, by way of derogation…, appoints one of the executive members of the Board of Directors as Chair; it shall obligatorily appoint a Vice-Chair from among the non-executive members".

The provisions of the new corporate governance law also introduce the principle that the composition of the board of directors should reflect the knowledge, skills, and experience required to exercise its responsibilities, according to the economic model and the company strategy ("fit and proper" principle), which had not been included in the previous law.

More concretely, the new Law 4706/2020, article 3, para. 1c provides that, "The Company has a policy of suitability for the members of the Board of Directors, which is approved by its Board of Directors and includes at least the provision of diversity criteria for the selection of the members of the Board of Directors".

The policy of suitability for board members is one of the most important changes introduced by the said law. Other newly introduced practices include various criteria for independence, the remuneration and the nomination committees, the enhanced role of internal audit, the gender quota, etc., which are presented in more detail in the following sections, while other special practices complement the new law.

As far as independence is concerned, the new law, by adopting the relevant recommendation of the European Commission on this issue, provide increased criteria for the independence of the members.

6.2. Members of the board and gender quota

According to Law 4548/2018 on public limited companies and authorities, article 77, para. 3, "The number of members of the Board of Directors shall be determined by the Articles of Association or by the General Meeting, within the limits provided for in the Articles of Association. Without prejudice to article 115 of Law 4548/2018, the Board of Directors shall consist of at least three (3) members and not more than fifteen (15). Where the articles of association provide for a minimum and maximum number of members of the Board of Directors, the exact number of members shall be determined by the general meeting" (see also section 2.1.1, of HCGC, 2021, p. 13).

One of the most important innovations of the new Law is the gender quota. In addition to the special practices, there are some mandatory provisions. The Law 4706/2020, article 3, para. 1b, mentions, "The selection criteria of the members of the Board of Directors shall include at least sufficient representation by gender in a percentage not less than twenty-five percent (25%) of all the members of the Board of Directors. In the case of a fraction, this percentage shall be rounded to the previous integer".

The Code recommends — among others — the following special practices concerning this issue:

"2.2.13. The company adopts a policy of diversity that is part of the suitability policy.

2.2.14. As regards gender representation, diversity policy includes specific quantitative representation objectives by gender.

2.2.15. The company ensures that the diversity criteria concern, in addition to the members of the Board of Directors, senior and/or senior management with specific representation objectives by gender, as well as timetables for achieving them" (HCGC, 2021, p. 16).

As OECD (2021b) noted "there is high variance in average annual growth in the percentage of women on boards across Austria (4%), Belgium (10%), Germany (28%), and Greece (14%). In the case of Greece, it is worth noting that the quota law was only recently adopted in 2020, and came into force in 2021, which explains why it is currently below the mandated threshold with 13.1% of women on boards in 2019" (p. 172).

Consequently, we expect that the positive trend concerning the percentage of representation of women on boards in Greece will continue in the years to come due to the provisions of the new corporate governance law.

6.3. Remuneration practices

Another important innovation of the new corporate governance law concerns the obligation of the company to have a remuneration committee and a nomination committee (Law 4706/2020, articles 11 and 12). Some of the SRD II provisions, relating to the obligation of companies to adopt a remuneration policy, submit a remuneration report to the shareholders' general meeting, and the approval process of related party transactions, had already been transposed into Greek legislation through Greek Law 4548/2018 on sociétés anonymes (Papachristou & Kontogiannis, 2020).

The new Code also recommends some relevant special practices which concern the linkage of the additional remuneration of the members of the board of directors with the achievement of certain objectives as well as its transparency, since it should be clearly visible in the remuneration report.

6.4. Internal control system

The new corporate governance law emphasises the system of internal control. The scandal of Folli Follie revealed several weaknesses in the control mechanisms. Some of the mandatory provisions include the following: "The Board of Directors shall ensure that the functions established by the System of Internal Controls are independent of the business areas they control, and that they have the appropriate financial and human resources, as well as the powers to operate them effectively, in accordance with the requirements of their role. The reporting lines and the distribution of responsibilities are clear, enforceable and duly documented" (Law 4706/2020, article 4, para. 3), and "The Company has an internal audit department, which is independent from other business units within the Company, in order to monitor and improve the Company's functions and policies regarding its system of internal controls" (Law 4706/2020, article 15, para. 1).

The Code also mentions the following special practices for this issue:

"6.8 The company shall design an adequate and effective internal control system (ICS) for financial and non-financial information. The ICS reference model shall include, but is not limited to, the following:

- control environment,
- risk management,
- control mechanisms and safety valves,
- information and communication system and
- monitoring of the ICS.

6.9 The company's control environment includes all the structures, policies, and procedures that provide the basis for the development of an effective ICS, as it provides the framework and structure for achieving the fundamental objectives of the ICS" (HCGC, 2021, p. 33).

7. SHAREHOLDER ACTIVISM

Shareholder activism is an act that is applied mostly to companies listed on the stock exchange and involves the active participation of minority shareholders within the company. The rationale behind shareholder activism relates to monitoring the level and quality of corporate governance applied by each company in respect of the company's shareholders (Cossin & Caballero, 2013).

Shareholder activism is a new trend aiming to defend the capital market on one hand, and the other hand in creating share profitability. This act dictates the implementation of corporate governance practices, which increase the company's value and consequently that of its shares. The above ensures the consolidation of the company and the profitability of the investment portfolio of shareholders (Coles & Meyer, 2008).

Although Greece is a developed country and follows the European acquis by adopting the European laws and directives, shareholder activism still remains in an infant stage. In 2016, the Hellenic Investors Association (SED), introduced shareholder activism in Greece and began promoting this act to protect shareholders in the country. Moreover, the HCMC strongly supported this act in order to inform shareholders in Greece regarding shareholder activism and force them to organize themselves and support their interests and rights.

The typical Greek corporation (especially the non-listed one) is dominated by the close and personal relationship between the majority shareholders and the management that subsequently results in the business being run like a general partnership. The corporate governance and management of corporate affairs are not assigned to professional directors and managers, but it is often exercised by the majority shareholders themselves or their relatives and their loyal employees. As a result, the management of the company does not often exercise good corporate governance; related party transactions are the norm across corporate Greece, and minority shareholders are often the victim of abusive share capital increases and "tunneling" tactics orchestrated by the majority and the management. As a result, a growing number of Greek corporations have recently witnessed a surge in pressure exercised by minority shareholder activists who are looking to do away with wasteful tactics employed by the management (Massouros & Nikolaidis, 2021).

Besides the acts of the SED and some of the HCMC, no major events of shareholder activism had been reported in Greece until recently. Nevertheless, the new Greek core law on corporations, which transposed, inter alia, the EU Shareholder Rights Directive, provides concrete measures that enhance the engagement of shareholders in corporate governance as well as the transparency of their participation. The Law on société anonymes and the new Law on corporate governance provide an array of rights under which shareholder activism in Greece may play a greater role in the future (Massouros & Nikolaidis, 2021).

8. CORPORATE GOVERNANCE AND FIRM PERFORMANCE

Based on agency theory, the importance of corporate governance is to reduce agency conflicts between those who control and those who own the residual claims in a firm. In other words, corporate governance as a mechanism helps to align management's goals with those of the stakeholders that are to increase firm performance (Fooladi &

Nikzad Chaleshtori, 2011). Corporate governance provides a framework for firm practices and behaviour. Its purpose is to create an atmosphere of trust among the four groups involved, namely:

- the shareholders,
- the board of directors,
- the management acting in an executive capacity,
- the remaining members who have an interest in the firm, such as the stockholders, the creditors, the government, etc.

Insufficient rules of corporate governance have led large firms to economic scandals, mainly due to illegal acts of top financial executives. In turn, their actions destroyed the trust that existed between the investors and the firms and magnified the precariousness in international markets.

In Greece, there were no large financial scandals such as Enron in the USA (or similar), but the Stock Exchange has lost its credibility towards investors who have lost trust in the financial decisions of management teams of listed firms. However, some recent scandals, such as the one with the Folli Follie Company, divulged several weaknesses in both internal and external control mechanisms. In addition, most of the listed companies in Greece do not have adequate corporate governance mechanisms. Listed companies' ownership concentration remains high, which has created a strong bond between the main shareholder and the management team. Family firms are still predominant in the Greek capital market. Internationally recognized Board structures, such as board committees, or issues regulating the director's independence and qualifications, and the education of the director have yet to be addressed in most sectors, except for the banking sector, which is the oldest sector in Greece (over 100 years) (Tsifora & Eleftheriadou, 2007).

Usually, the board mainly works as a non-active component in the company, complying with managerial decisions. Non-executive board members do not monitor the management effectively, in lieu of acting as shareholder agents. This is the situation in most of the (family-owned) public companies in Greece; it is quite widespread that the board serves the family's interests rather than the firm's.

Although regulations define certain requirements concerning board independence, it is hard to decipher whether the board actually fulfils these demands. The point that listed companies should acknowledge is that a well-operating board holds a highly competitive advantage in the business world. What this indicates is that the greatest obstacle family-owned listed firms need to overcome is revising their corporate governance policy, introducing modern standards, and establishing appropriate ratios between the private and public firm's about provided agency costs.

Many studies examine the mechanisms of corporate governance in publicly traded Greek firms and check the connection between their governance standards and the performance of the firm. Out of the total set of principles in corporate governance, four different performance ratios have been selected, that is, Tobin's Q, ROA, NPM, and EBITDA margin. Apart from the classical firm-specific factors that have been examined as potential firm performance determinants (e.g., age, size, liquidity, leverage) we also included corporate governance mechanisms such as the board size and composition, leadership structure, and auditing. Our results highlight the importance of board size and board independence as the two governance characteristics that enhance corporate profitability.

However, the role of these governance mechanisms weakens during the crisis, while auditing by Big 4 auditors seems to provide the appropriate impetus for corporate performance. Regarding firm-specific determinants of corporate performance, we see that the effect of leverage on performance is strengthened during the crisis. This result is not a surprise in the sense that the Greek debt crisis was swiftly linked with a disruption in bank lending and exclusion from international financial markets. In addition to leverage, liquidity is another significant determinant of profitability during the crisis.

Companies with an expanding board of directors achieve better internal control of the firm and hence perform better than companies with a smaller number of members on the board of directors. Also, firms that introduced corporate governance systems are characterized by high profitability ratios.

Furthermore, firms with an expanded group of shareholders do better than firms with a small group of shareholders or family-owned firms. In brief, the study strongly suggests that firm performance is in direct relation to corporate mechanisms.

9. CONCLUSION

The implementation of corporate governance in Greece was sharply implemented about two decades ago. The structure of the traditional Greek firm is purely based on family ties, which consequently makes adaptation to the general principles of corporate governance difficult. Nevertheless, the banking sector (the oldest in Greece with more than 100 years of activity), the shipping industry, the construction industry, the refinery, and the fuel sector, due to the nature of their large-scale financial operations and activities, are highly extrovert and have adopted the general principles of corporate governance.

Of course, these findings do not imply that family-controlled firms are always better governed than widely held ones. Family control does help to protect shareholders' interests against managerial abuses since the controlling owner and the managers are often the same people. Moreover, the controlling family is likely to commit more human capital to the firm and to care more about its long-run value (Bertrand & Schoar, 2006). However, families, like managers in a widely held company, can abuse their power and use corporate resources to their own advantage (Enriques & Volpin, 2007).

Today the traditional Greek firm is operating in an unfavourable economic and highly competitive environment. However, we cannot recognise that the new legislative framework introduced several innovations. Among them, the appointment of board members, their evaluation as well as board diversity. For the very first time, the new law includes provisions regarding gender balance so that a percentage of at least 25% of all board members

must be women. This is a substantial innovation in the corporate governance framework, although it could be contested that the implementation of this rule by Greek listed companies could raise certain difficulties (Tsene, 2021). Despite the difficulties and the necessary time for the implementation of the newly introduced provisions, we must admit that the new law is in the right direction.

REFERENCES

1. Andrade, G., & Stafford, E. (2004). Investigating the economic role of mergers. *Journal of Corporate Finance, 10*(1), pp. 1–36. https://doi.org/10.1016/S0929-1199(02)00023-8
2. Bruner, R. (2002). Does M&A pay? A review of the evidence for the decision-maker. *Journal of Applied Finance, 12*, 48–68. Retrieved from https://faculty.darden.virginia.edu/brunerb/Bruner_PDF/Does%20M&A%20Pay.pdf
3. Ceschinski, W., Freidank, C.-C., & Handschumacher, F. (2020). Which characteristics determine the quality of corporate governance reporting? Concepts, reporting practices and empirical evidence from Germany [Special issue]. *Corporate Ownership & Control, 17*(4), 279–291. https://doi.org/10.22495/cocv17i4siart6
4. Coles, R. M., & Meyer, B. (2008). *Shareholder activism: Proactive defense and informed response* (ICR Corporate Governance White Paper). Retrieved from https://corpgov.law.harvard.edu/wp-content/uploads/2008/05/shareholderactivism.pdf
5. Cossin, D., & Caballero, J. (2013). *Shareholder activism: Background literature review*. Retrieved from https://www.imd.org/uupload/IMD.WebSite/BoardCenter/Web/212/Literature%20Review_Shareholder%20Activism.pdf
6. De La Cruz, A., Medina, A., & Tang, Y. (2019). *Owners of the world's listed companies* (OECD report). Retrieved from https://www.oecd.org/corporate/ca/Owners-of-the-Worlds-Listed-Companies.pdf
1. Enriques, L., & Volpin, P. (2007). Corporate governance reforms in Continental Europe. *Journal of Economic Perspectives, 21*(1), 117–140. https://doi.org/10.1257/jep.21.1.117
2. Eulerich, M., van Uum, C., & Zipfel, S. (2017). Comparing corporate governance codes in Germany and Eastern Europe — An analysis of different corporate governance characteristics. *Corporate Ownership & Control, 14*(3–1), 170–179. https://doi.org/10.22495/cocv14i3c1art2
3. European Central Bank (ECB). (2005). *Annual report 2004*. Retrieved from https://www.ecb.europa.eu/pub/pdf/annrep/ar2004en.pdf
4. Fooladi, M., & Nikzad Chaleshtori, G. (2011). Corporate governance and firm performance. Paper presented at the *International Conference on Sociality and Economics Development (ICSED 2011)*. Retrieved from https://ssrn.com/abstract=2259541
5. Freidank, C.-C., & Weber, S. C. (2009). Entwicklung erster Ansätze zur konzeptionellen Ausgestaltung des externen Corporate-Governance-Reporting. In C.-C. Freidank, & P. Altes (Eds.), *Das Gesetz zur Modernisierung des Bilanzrechts (BilMoG): Neue Herausforderungen für Rechnungslegung und Corporate Governance* (pp. 303–337). Berlin, Germany: Erich Schmidt Verlag.
6. Hellenic Corporate Governance Council. (2021). *Hellenic Corporate Governance Code*. Retrieved from https://www.esed.org.gr/en/code-listed
7. International Finance Corporation (IFC). (2015). *A guide to corporate governance practices in the European Union*. Retrieved from https://cutt.ly/1ZtSpgP
8. Kapopoulos, P., & Lazaretou, S. (2007). Corporate ownership structure and firm performance: Evidence from Greek. *Corporate Governance: An International Review, 15*(2), 144–158. https://doi.org/10.1111/j.1467-8683.2007.00551.x
9. Kostyuk, A., Braendle, U., & Capizzi, V. (Eds.). (2018). *Corporate governance: New challenges and opportunities*. Sumy, Ukraine: Virtus Interpress.
10. Kraus, P. (2011). *Die Auswirkung von Corporate Governance und Nachhaltigkeit auf den Unternehmenserfolg: Eine Betrachtung im Kontext der wertorientierten Unternehmensführung*. Lohmar, Germany: Josef Eul Verlag.
11. Law 4548/2018, amendments to the law on societes anonymes. *Government Gazette, 104 — 13.06.2018*.
12. Law 4706/2020 on "Corporate Governance of Societe Anonymes, contemporary capital markets, integration in the Greek legislation of the Directive (EU) 2017/828 of the European Parliament and the Council, measures for implementation of the Regulation (EU) 2017/1131 and other provisions". *Government Gazette, A' 136 — 17.07.2020*.
13. Lazarides, T. G., Drimpetas, E., Koufopoulos, D. N. (2009). Ownership structure in Greece: Determinants and implications on corporate governance. Paper presented at the *International Conference on Applied Economics — ICOAE 2009*. https://doi.org/10.2139/ssrn.1348508
14. Masouros, P. (2022). The corporate governance review: Greece. *The Law Reviews*. Retrieved from https://thelawreviews.co.uk/title/the-corporate-governance-review/greece
15. Massouros, P., & Nikolaidis, A. (2021). The shareholder rights and activism review: Greece. *The Law Reviews*. Retrieved from https://thelawreviews.co.uk/title/the-shareholder-rights-and-activism-review/greece
16. Nikolaidis, N. (2020, September 30). Corporate governance evolution in Greece: Impact on boards and investor confidence [LinkedIn post]. Retrieved from https://www.linkedin.com/pulse/corporate-governance-evolution-greece-impact-boards-nicolaidis?trk=pulse-article_more-articles_related-content-card
17. Organisation for Economic Co-operation and Development (OECD). (2015). *G20/OECD principles of corporate governance*. https://doi.org/10.1787/9789264236882-en
18. Organisation for Economic Co-operation and Development (OECD). (2017). *Corporate governance factbook 2017*. Retrieved from https://www.oecd.org/daf/ca/OECD-Corporate-Governance-Factbook-2017.pdf
19. Organisation for Economic Co-operation and Development (OECD). (2021a). *The future of corporate governance in capital markets following the COVID-19 crisis*. https://doi.org/10.1787/efb2013c-en
20. Organisation for Economic Co-operation and Development (OECD). (2021b). *OECD corporate governance factbook 2021*. Retrieved from https://www.oecd.org/corporate/OECD-Corporate-Governance-Factbook.pdf
21. Papachristou, E., & Kontogiannis, A. (2020). Significant reforms of Greek capital markets legislation by new law 4706/2020. *Zepos & Yannopoulos*. Retrieved from https://www.zeya.com/newsletters/significant-reforms-greek-capital-markets-legislation-new-law-47062020

22. Rompotis, G. G. (2020). Board structure, firm performance and risk: Recent evidence from Greece. *Corporate Board: Role, Duties and Composition, 16*(2), 35–46. https://doi.org/10.22495/cbv16i2art3
23. Seretakis, A. L. (2021). Report from Greece: The new corporate governance framework. *European Company Law, 18*(6), 196–198. https://doi.org/10.54648/EUCL2021026
24. Spanos, L. J. (2003). The evolution of corporate governance in Greece. Paper presented at *the 1st LSE PhD Symposium on Modern Greece: Current Social Science Research on Greece*. Retrieved from https://moam.info/the-evolution-of-corporate-governance-in-greece-london-school-of-_5a00bef41723dd3565c581eb.html
25. Spanos, L. J. (2005). Corporate governance in Greece: Developments and policy implications. *Corporate Governance, 5*(1), 15–30. https://doi.org/10.1108/14720700510583430
26. Tampakoudis, I. A., Subeniotis, D. N., & Dalakiouridou, E. (2011). The market for corporate control in Greece: A critical assessment of the wealth effects to a bidder-companies' shareholders. *International Journal of Economic Policy in Emerging Economies, 4*(2), 117–139. https://doi.org/10.1504/IJEPEE.2011.039563
27. Tsene, C. E. (2021). The Greek paradigm of corporate governance and board of directors. *Corporate Law & Governance Review, 3*(2), 8–19. https://doi.org/10.22495/clgrv3i2p1
28. Tsifora, E., & Eleftheriadou, P. (2007). Corporate governance mechanisms and firm performance: Evidence from Greek manufacturing sector. *Management of International Business & Economic System, 1*(1), 181–211. Retrieved from http://mibes.uth.gr/vol1_2007/Tsifora-Eleftheriadou%20181-211.pdf