

The importance of corporate governance in times of crisis

07/11/12



SODALI is considered as one of the leading international consultants in the field of Corporate Governance and Investor Relations. The Director of SODALI in Greece Ms. Aemilia Varfis speaks about the necessity of Corporate Governance especially in times of crisis such as the current one, and highlights the outperformance that shareholders reap when investing in companies that give emphasis to it.

Ms. Varfis also assesses the existing level of Corporate Governance in Greece, proposes solutions to improve the situation and considers the initiative of creating a corresponding index a "good idea".

- 1. Do you think that companies with good corporate governance acquire an additional competitive advantage over their competitors, or is it simply a source of increased operating costs and bureaucracy?***

Corporate governance should be viewed as a means to reduce risk, improve management efficiency and increase long-term value. It is NOT a compliance exercise. The answer to this question is obvious. Companies with good corporate governance are more likely to perform better and to reduce their cost of capital. This is clearly demonstrated by the example of the Novo Mercado in Brazil, which distinguishes companies for listing on the basis of the quality of their corporate governance. Companies listed on the Novo Mercado (i.e., those with higher corporate governance standards) consistently outperform their peers. Companies can implement good governance practices without incurring additional costs and bureaucracy.

- 2. Many argue that in times of deep economic crisis, corporate governance is a luxury. What is your view?***

Corporate governance is never a luxury. In times of crisis it is even more of a necessity than in times of prosperity. Good corporate governance is critical to the survival of companies in hard times.

3. How do you evaluate the level of corporate governance of companies listed on the Athens Exchange?

Most companies listed on the Athens Exchange have designed their own corporate governance codes or follow that of SEB, but the level of governance varies according to type of company. Some are much better than others but internationally recognised board structures, such as board committees, split Chairman and CEO, directors' independence and qualifications have not been adequately established in a lot of cases. There are ways to minimize the gaps through Board evaluation, appointment of Lead Independent Directors, Adequate disclosure on remuneration and improvements in communication with shareholders. This has become even more imperative now, with the financial crisis – investors are now more demanding and request high transparency and corporate governance standards in order to ensure appropriate returns on their investments. There is still definitely room for further improvement – especially in the case of state owned corporations – if they want to align themselves with better international standards.

4. What do you think are the key steps a company needs to undertake to upgrade the level of Corporate Governance?

Start with benchmarking to determine where the company stands in its governance practices versus peer companies, local requirements, proxy advisory firms' criteria and global standards. Review the company's ownership base to determine shareholder preferences. Where benchmarking reveals inconsistencies or shortfalls, examine carefully whether there are strategic/business reasons for the current practices. If so, prepare a clear written explanation for them. If not, change the practices as much as possible to conform to global best practice. But in every case be sure that the implementation of good governance practices is done with attention to the company's business goals and culture. Good corporate governance is not an end in itself, it is a means to improve the business. It is the responsibility of the board of directors to oversee the process of benchmarking and the implementation of governance practices that will be most effective for their company in light of its particular business circumstances.

5. How would you see the creation of a Corporate Governance Index, which several bodies have suggested such as (Helex, the Hellenic Federation of Enterprises (SEV) and Private Investors Association (SED))?

It is a good idea to create an index. Some investors, such as the California Public Employees Retirement System (CalPERS) have for many years been classifying portfolio companies by their governance practices and using the classification as a means to select targets for activism or for strategic investment. The so-called activist hedge funds take a similar approach, targeting poorly governed companies for investment and activist campaigns to create value. It is a proven technique of value investment in most markets (Japan being the exception).