

# Determination of Significance of Term of “Systems of Corporate Governing” Internationally

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## Abstract

A “*System of Corporate Governance- S.C.G.*” (“S.E.D.”) provides:

- i. **The institutional frame of beginnings and rules of planning and application of suitable mechanisms of administration, follow-up and control of corporate activity aiming at the rational utilisation of productive resources**
- ii. **The total of proceeding that adopts a enterprise so that it ensures the protection of shareholders, but also the total of what has legal interests in this, as the social total.**

More specifically, specific difference of *S.C.G* - . between the states, is **the differentiation in the property and the control of enterprises** that prevails in every from them.

The *System of Corporate Governance -S.C.G* . are categorized in those in which are observed **diffusion of property of companies (outsider systems)**, eg U.S.A.. and G. Britain, and

in those that are characterized by **concentration of property or control of companies (insider systems)** as eg Germany and Japan.

In every case however the Systems of Corporate Governing **constitute only a part of wider economic horizon** in which function the enterprises, as macroeconomic policies, the degree of competition

in the products as well as remaining conditions of market.

## Basic frame of principles and rules of practices

The basic frame of principles and rules of practice of each *System of Corporate Governance* , is internationally constituted by the following basic categories:

### i. Rights of Shareholders

It provides **protection in the rights of shareholders** providing for them the occasion to participate actively, to vote and to be informed above in the rules and the processes of voting that condition the General Assemblies.

### ii. Equivalent treatment of Shareholders

It ensures the **equivalent treatment of all Shareholders**, minorities and foreigners. The total of shareholders should have the occasion of effective confrontation of violation of his rights.

### iii. Transparency and notification of information and control

They ensure the transparency of corporate operations and accelerate the processes convenient and valid disengagement of essential information to the shareholders but also the domestic and international institutional investors.

## Duties of the Board of Directors-B.o.D

- the practices of Corporate Governance ensure the strategies of growth of enterprise, the nomination and monitoring of her executives as well as the report to the shareholders, efficiency of activities of *Board of Directors-B.o.D*.
- Important element is **the segregation and the distribution of competences/Jurisdiction** between executive and not executive members of *Board of Directors-B.o.D*
- Necessary is the realisation of independent **internal controls of economic services and sworn controllers.**

## Historical data

The first principles and rules of Systems of Corporate Governing, were applied for first time through the relative provisions of Commercial Laws (Ltd, S. A.), so much in the USA, what in Western Europe in the beginning of our century.

Historical, the first *System of Corporate Governance* . were internationally focused afterwards 1933 in the main subject of **segregation between the property of shareholders and the power of administration of companies**, decreasing at parallel the dependence of growth of companies from the Banking System

Mainly afterwards 1950, and as the companies of Western Economies were developed, became continuously more evident the need of companies to correspond in the expectations of their **extended spectrum “stockholders”and stakeholders** as:

- Personnel
- Customers
- Shareholders
- Investors
- Governments
- Total of society
- Creditors

## The growth of criticism around the application of systems of effective Corporate Governing

The companies should correspond in their different expectations, maximizing simultaneously their value

To the decade 1970, the progressive reprocess of hegemonic place of enterprises of USA against Europe and Asia, they led to growth of **criticism** round the application of systems of effective Corporate Governing

In the decade 1980, so much in the USA . what in Europe, the importance of role of Corporate Governing continuously increases, as it is realised that it has the possibility of influencing entire societies:

- UNION CARBIDE –India
- EXXON (VALDEZ) –Alaska
- Collapse of Russian Economy.
- PARMALAT-Italy
- SIEMENS-Germany
- VOLKSWAGEN- Germany
- DEUTSHCE-POST- Germany
- MANNESMANN- Germany
- ENRON- USA

The former examples led to the **increase of reflection** round the planning and the application of Systems of Corporate Governance to the Western Societies.

The reflections were focused in simple questions as:

- The Financial statements- about the Economic Situation of companies - was “**cooked**” so that they satisfy simple the analysts and the budgets of Administrations?
- Are the employees of companies **remunerated satisfactorily** concerning executives?
- The members of *Board of Directors-B.o.D* of companies **are selected** by the proper (competent, experienced) administrators.
- Do the shareholders select men the ‘board of directors’-D.S. of companies, that **don’t function effectively** in the control of administration/management?

In our days, afterwards the most rapid collapse of ENRON, the object of admiration of analysts of Wall Street, as well as sector of “Telecoms” internationally, the criticism in the S.E.D. internationally is focused in the following points:

- **More information, precision and transparency** in companies general and financial position.
- **Transparency** in the systems of **internal control** of companies.
- **More Information and transparency in the competences/jurisdiction rights, responsibilities and obligations of shareholders, of Board of Directors** of .D. and **directors / (executives)** of the enterprises.
- Role of **Controlling/Auditing Companies** and **Investment Banks** .

Certain of the most recent reactions of enterprises world in the above events , are summarising in the following examples:

1. “**The Business Roundtable**”, one important group businessmen of U.S.A., proposed, new processes so that is **increased the independence of delegates of control** (audit committees) in the control of work of independent controllers

2. The “**new code of Corporate Governance**“, that was **adopted /passed recently in Germany**, which is focused on issues:

- Transparency in the information of economic data/elements and other sizes.
- Effectiveness in enterprise structures
- Reduction of protectionism in the repurchases-mergers and acquisitions.
- Analysis, assessment and justification of wages of executives
- Disengagement (no close ties) between banks and companies .

For example of the above we are referring:

3. **The Deutsche Bank strengthens the Department of her Corporate Governance**, in order to provide a more complete analysis of investments of Bank in action of developing markets aiming to reduce the complains and the restriction of reactions of shareholders of minority. This new department of

Bank, limits also the criticism that recently accepted the banks concerning the segregation of **role of departments of analysis and investment banking**.

4. The ‘**Financial Accounting Standards Board**’-(FASB) of the U.S.A., announced that in his priorities it is the creation of evident rules in the handling of **recognition of income** (revenue recognition project), aiming in the restriction “super-revenues” that records companies of software and energy traders.

Finally, the more general reflection that is in effect in our days is:

If is more effective the legislative regulation for each purchase – (or country) about/after a system of Corporate Governance, or such something is more effective to be in effect with the form of coding of rules of behaviour in corporate level.

## **PART B –**

### *Greek Reality*

The basic legal and institutional frame of operation and behaviour of all S.A.-(Societe Anonyme, Companies in Greece, is summarising in Law 2190/1920 and many additions of it. If it is evaluated the degree of plenitude and effectiveness of existing legal frame for the realisation /concretisation of the ‘System of Corporate Governance’ in our country we would observe the Table 1.

### *Conclusion*

The *Conclusion is that the* existing legal frame does not correspond in the modern needs of Corporate Governance, **mainly the listed companies**.

### **Because:**

Most Greek enterprises today **remain weak** against the foreign firms in matters like:

- **entrepreneurial culture,**
- as long as on **organisational and operational** issues, but also
- in the ways of **briefing to their investors / shareholders in a sound way.**

Table 1

Axons of Application of the System of Corporate Governance	Yes	No
It is provided sufficient information in the shareholders of companies?		√
Are satisfactorily protected the rights of minority of multimember companies;		√
Does exist clarity in the terms and conditions on mergers and acquisitions and new issues?		√
Axons of Application of the System of Corporate Governance.	Yes	No
Are ensured satisfactory levels of transparency in the internal processes of control, structure of relations and wages of different parts of each company?		√
The Board of Directors (Administrative Councils) of companies, are elected, behave functional and are remunerated according to the principles of Corporate Governance;		√

**Points of Differentiation**

The main points of Differentiation of Operation of Companies in Greece and abroad (general approach) they are analysed as follows:

**1. Legislation on aggressive repurchases**

- *It was very recently determined-poor experience.*
- The powerful monopolistic Institution of Body of Sworn Controllers (SOE)
- *Suppression of monopoly of SOL -1993*
- Weak Importance and Role of Internal Control.
- *Very recent application of these procedures.*
- Application of rules of internal control - *Almost non-existent*

**2. Type of Organisation of board of directors – of Companies**

- *Mainly familial type,*
- *Many times only a formal meetings* of the board of directors.

**3. Public Information of investors**

- *In limited degree*

**4. Depiction, plenitude and soundness of financial statements about Economic Situations**

- Application of rules of the *2190/IAS, UK-USA-GAAP*

- But, existence of institution audit committees - *Almost non-existent.*

The Greek listed companies in the markets of ‘ATHENS Stock Exchange-H.A.A.’, presents the following situation:

- Persisting low level of prices of many listed companies (maturation of capital market).
- The pressure the international and domestic competition.
- The need for pumping of capital from the international capital markets.
- The need for extension of Greek enterprises in foreign markets.
- The maximisation of sizes in certain from the Greek enterprises (eg Coca Cola – 3 E).
- Rationalisation and modernisation of Greek Banking System

**Challenge for application of modern system of Corporate Governance**

They conceive the direct challenge for application of modern system of Corporate Governance in our country, which will be give essential solutions and applications in the points in which are observed essential delay and differentiation by the financially developed economies of Europe and America.

## PROPOSITIONS

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### The need for new legislations and regulations Challenges, occasions and possibilities

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#### *Direct-overall objective*

The direct objective of relative Law is:

Greece must constitute a **place of sure and constant enterprising environment**.

*! How will be achieved the above objective?*

With the existence of a transparent and international recognized institutional frame of enterprising behaviour.

*Partial objectives should be:*

- The intensifying in the realisation of international financing transactions.
- Growth of international collaborations .
- Maximisation of efficiency of corporate governance of companies with starting line the **discrimination** between stockholders 1 **property** and **executive managerial staff** (executive management)

## RESEARCH QUESTIONNAIRE

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### Questionnaire about the effective application of corporate governance

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#### Fields of application

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1. Degree of Comprehension of Corporate Governance from the organisation.
2. Relation of corporate governance with formal Administration.
3. Degree of the effective approach to risk management from business organisation.
4. The process and possibility of transformation of Corporate Governance rules in a strategic advantage.
5. The System of Rules via which the operational organisms are managed and checked.
6. The organisation of operations of ‘Internal Control’

## Basic beginnings of corporate governance

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- a) About the adequacy of The CORPORATE STRUCTURE
- b) About the adequacy THE PROCESSES OF COMPANY

## Objectives of Rules of Corporate Governing

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- right (good) operational management.
- right (good) relation with the shareholders.
- good management and relations with of personnel.
- good management of suppliers /customers.
- good management of environmental obligations.
- Effectiveness of observation of legislative frame.

## THE REASONS OF CORPORATE FAILURES LEAD TO QUESTIONS AS:

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1. Effectiveness of Board of Directors.
2. Responsibility of Administrative Executives.
3. Wage of administration. .
4. Fraud within the company .
5. Management of risk.
6. Reports of economic elements and results.
7. Effectiveness of control.

## Key points of Safety in High Level

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- achievement of objectives .
- effective use of resources.
- integrity of administrative information .

## Key points in Functional Level

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- Integrity of economic information.
- Conformity with (approved) policies.
- Sufficient keep of assets
- How it ensures in all the parts that have legal interest in the company, receiving the right aspect and protecting their interests.

## Need for Corporate Governance

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- Differentiation about administration/property
- Multilateral stockholders participation forms through the Capital markets
- need for relations of confidence in the Capital markets
- Enlargement of corporate forms to deal with complexity.
- Social responsibility.

## Frame of Work

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- Reliability and quality of information.
- Guarantee on assets.
- Economic and effective use of resources.
- Achievement of placed Objective Aims and Objectives for operations or planning.