

Has corporate governance evolved?

Analysis of SBF 120 firms over the period 2000-2015

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I. Introduction

- Early 2000s, Enron and Worldcom → SOX in the US and LSF and Report Bouton (2002) in France.

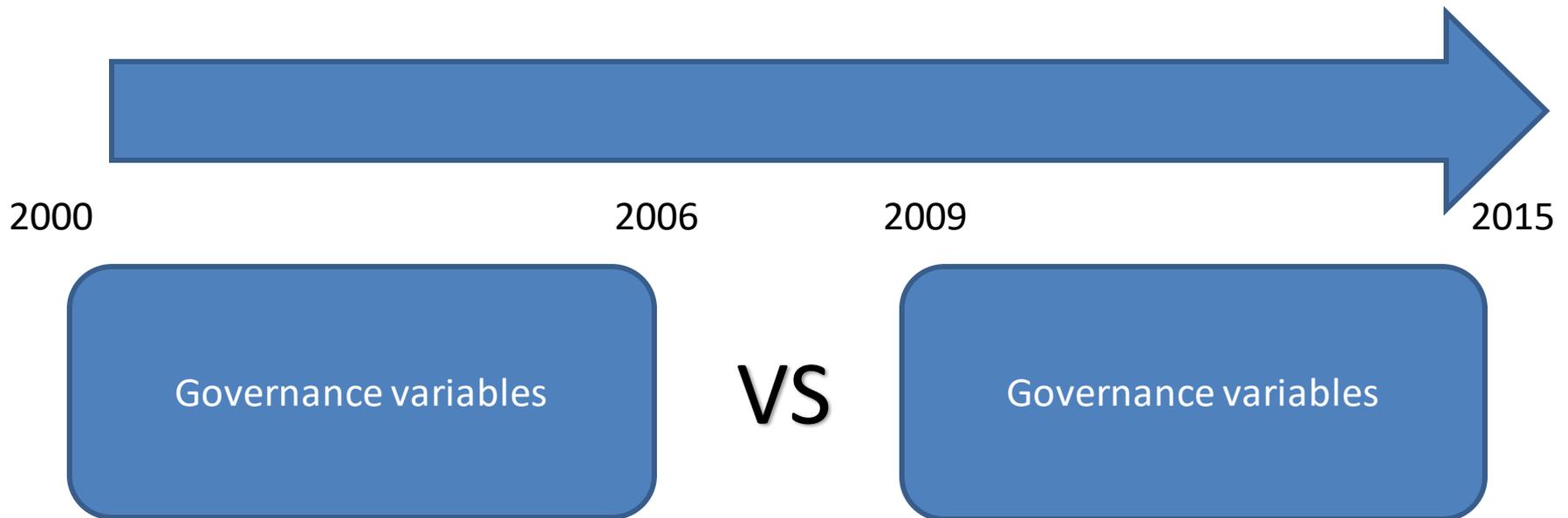
Godard and Schatt (2005) report a very significant evolution of board characteristics following the publication of the governance reports Viénot (1995, 1999) and Bouton (2002).

Elage and Mard (2018) analyze the compliance scores of the SBF120 companies with the recommendations of the codes over the period 2006-2013. They report a stable score over the period 2006-2008 and then a very clear increase as from 2009.

I. Introduction

➤ Aim of the paper :

Analyze the evolution (over the period 2000-2015) of variables regarding the board of directors that are debated within the codes of governance.



II. Corporate governance codes and recommendations

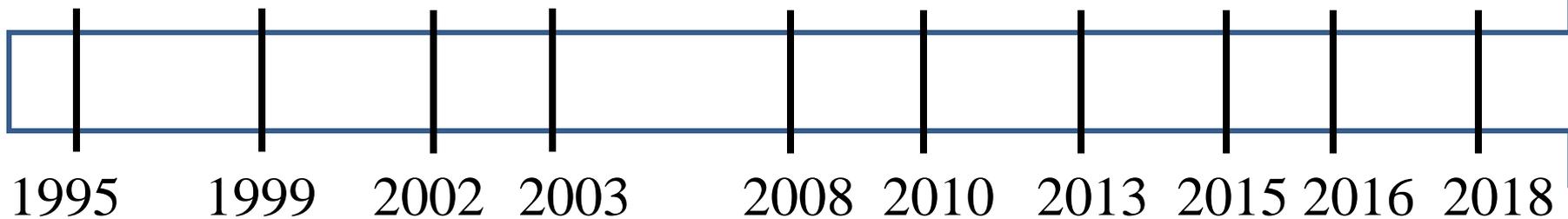
➤ Corporate governance code

- 1992 UK **Cadbury** Report
- Although laws exist in Europe (eg the French LSF of 2003), corporate governance recommendations in France are generally provided in **codes** of "good" practices (soft law).
- An important feature of European codes is the application of the "**comply or explain**" principle, initiated by the Cadbury Code and which spread in most European national codes.

II. Corporate governance codes and recommendations

➤ Corporate governance codes

In **FRANCE**,



➤ 1995: **Vienot I**

➤ 1999: **Vienot II**

➤ 2002: **Bouton**

➤ 2003: **AFEP-MEDEF**

➤ 2008: companies are legally required to refer to a code and the code is supplemented by recommendations on compensations.

➤ 2010-2018 : Amendments to the code (gender diversity, independence of the board, say on pay, CSR, ...)

II. Corporate governance codes and recommendations

➤ Recommendations

- Although codes tend to be more complete, the most emblematic recommendations focus on **board** and **executive compensation**.

- 6 variables are taken into consideration:

Board size

Board indep.

Board gender diversity

CEO duality

Meetings of the board

CEO compensation

II. Corporate governance codes and recommendations

➤ Recommendations

➤ Board size

In favor of small boards

Agency theory (Jensen, 1993; Yermack, 1996): More efficient

Ciampi (2015): greater involvement

In favour of larger boards

Dépendance des ressources:

→ More external links

(Goodstein and al., 1994)

→ Diversification of expertise (Zahra and Pierce, 1989)

- According to French **law** NRE (New Economic Regulation) in 2001, boards can gather between 3 and 18 members (Godard and Schatt, 2005).
- **The codes**, in reference to the idea of "one size does not fit all", do not advice on an ideal size of the turnover.

H1 : Board size of SBF120 firms did not change between the two sub-periods.

II. Corporate governance codes and recommendations

➤ Recommendations

➤ Board Independence

➤ **Resources dependence** theory (Pfeffer and Salancik, 1978): independent directors

→ more expertise;

→ better access to external resources (Dalton et al., 1998).

➤ **Weisbach** (1988), independent directors more competent to **monitor** the actions of the CEO.

➤ However, independent directors may have a **superficial understanding** of the specificities of the firm (Aglietta and Riberioux, 2004).

➤ **Crisis in 2007-2008** → need for control strengthening

H2 : The proportion of independant directors in the board of SBF120 firms increased between the two sub-periods.

II. Corporate governance codes and recommendations

➤ Recommendations

➤ Gender diversity

Pro's

Information / decision-making perspective

- ✓ *Diversity of experience*
- ✓ *More compétences and knowledges*
- ✓ *CSR valorisation*

Con's

Identity and social categorisation

- ✓ *Stereotypes and expectations*
 - ✓ *Lack of communication*
- Conflicts → difficult consensus.

- In France, AFEP-MEDEF code introduced, in 2010, recommendations on the presence of women on boards. In 2011, the **Zimmerman-Copé** law sets a mandatory quota of 40% of the under-represented gender in boards as of January 1, 2017 in large listed companies.

H3 : The proportion of women in the board of SBF120 firms increased between the two sub-periods.

II. Corporate governance codes and recommendations

➤ Recommendations

➤ CEO duality

Pro's

- ✓ *Unification of the decision-making process*
- ✓ *Low communication costs*
- ➔ *Less rigidity in decision-making process*

Con's

Agency theory:

- ✓ *Control over the CEO more difficult*
- ✓ *Entrenchment risk*
- ✓ *Impact on the dynamics of decision-making*

- **OCDE (2004)** recommends to separate functions.
- In France, law is not in favor of any possibility. It is up to the board to decide and explain its decision. The **AFEP-MEDEF code also does not pronounce** on the superiority of one or the other of these choices.

H4 : The proportion of firms of SBF120 characterised by CEO duality did not vary between the two sub-periods.

II. Corporate governance codes and recommendations

➤ Recommendations

➤ Board meetings

In favour of more meetings

Increased control;
Counters CEO entrenchment.
(Linck and al., 2008)

In favor of less meetings

Jensen (1993) doubts about the efficiency.
Agenda fixed by the CEO → Focus on
routine tasks and no real control. Role more
reactive than proactive.

- Code AFEP-MEDEF, "The frequency and duration of the meetings of the board of directors are such that they allow for an in-depth examination and discussion of matters falling within the Board's jurisdiction". Since 2016, the code recommends organizing **at least one meeting** each year **without** the presence of executive corporate officers.
- Following the **subprime crisis, increased responsibilities** of boards, particularly in terms of control.

H5 : the frequency of board meetings of SBF120 firms increased between the two sub-periods.

II. Corporate governance codes and recommendations

➤ Recommendations

➤ CEO compensation

- **Agency theory**, setting up compensation contracts **reduces conflicts of interest** between shareholders and executives
- **Core et al. (1999)**, "excessive" compensation may reflect a **weak governance** structure
- Tosi et al. (2000) Meta-analysis : link between managerial remuneration and performance is **unconfirmed**.
- In France, lower pay than in the USA and GB (Broye and Moulin, 2012) and special **attention** in the literature (St-Onge and Magnan, 2008, Amar and Marais, 2017) and governance **codes**.
- **December 2008**, the code takes the name of "Corporate Governance Code of listed companies" (with **subtitle** "Principles of corporate governance resulting from the consolidation of the report of Afep and Medef October 2003 and their recommendations of January 2007 and October 2008 on the compensation of the executive officers of listed companies ")

H6 : CEO compensation in SBF120 firms decreased between the two sub-periods.

III. Data and methodology

➤ Data

- IODS database → governance data for SBF120 firms
- Annual reports

133 firms over the period 2000-2015

2000

\bar{X}_{t_0}

\bar{X}_{t_1}

2015

Governance
2000-2006

VS

Governance
2009-2015

III. Data and methodology

➤ Methodology

- Student's means comparison test for paired samples
- Wilcoxon signed ranks test
- Propensity scores test

IV. Résultats

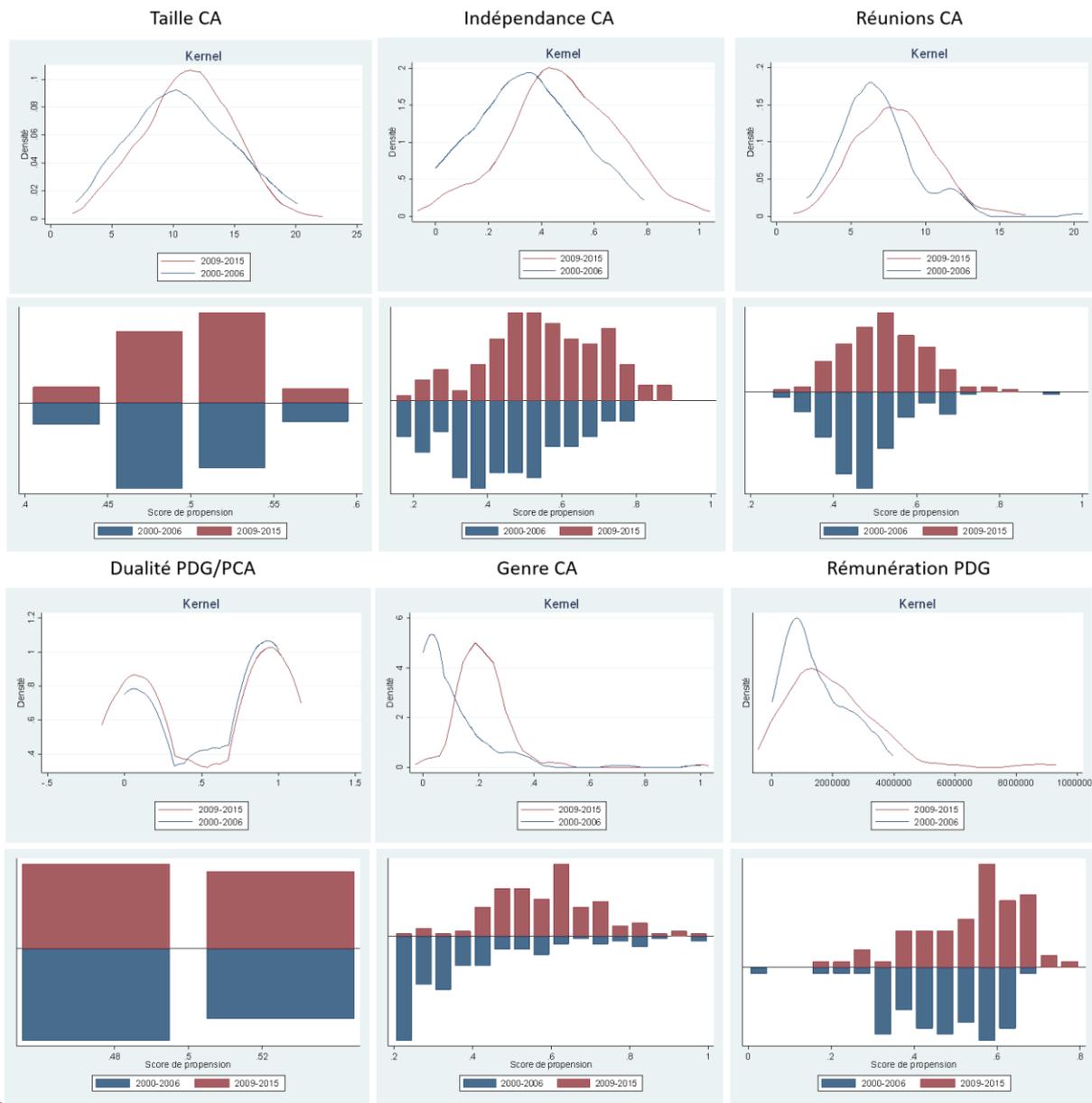
➤ Descriptives

	Obs.	Mean		Std error		Min		Max	
		2000-2006	2009-2015	2000-2006	2009-2015	2000-2006	2009-2015	2000-2006	2009-2015
Board size	132	10,65	11,20	4,08	3,54	2	3	20,14	20,14
Board Independence	131	0,35	0,48	0,19	0,20	0	0	0,79	0,97
Board meetings	131	6,80	7,90	2,65	2,54	2	2	20,57	20,57
CEO duality	132	0,56	0,53	0,43	0,43	0	0	1	1
Board gender	132	0,10	0,22	0,14	0,11	0	0	1	1
CEO compensation	75	1.207	1.948	836	1.428	12	85	3.389	8.775
CEO compensation (inflation)	75	1.412	1.948	977	1.428	14	85	3.962	8.775
Total assets	132	37535.02	65398.2	133561.3	255803	11.11	15.49	959041	1972973
Total assets (inflation)	132	43878.44	65398.2	156133.1	255803	12.99	15.49	1121119	1972973

On average, board size, independence, frequency of meetings, proportion of women, and CEO compensation **increased** between the two sub-periods.

Only the percentage of companies characterized by the combination of CEO and PCA has decreased.

IV. Résultats (Descriptives)



IV. Results

➤ Tests to compare the two periods

	Student	Wilcoxon	Propensity score
Board size	3.1551***	3.612***	1.36
Board indep.	9.0645***	7.608***	29.67***
Board meetings	5.3135***	5.351***	11.41***
CEO duality	-0.6456	-0.558	0.2
Board gender	11.7613***	8.334***	53.53***
CEO compensation (inflation)	4.083***	4.050***	10.75***

- Verified hypotheses : Board Independence, Board Meetings, Board Gender and CEO duality
- Board size increased
- CEO Compensation increased

IV. Discussion and conclusion

➤ Discussion

➤ Board size

SBF 120 firms have opted for an increase of their **network** (Goodstein, Gautam and Boeker, 1994) and their **expertise** (Zahra and Pearce, 1989).

➤ Indépendance CA

13% increase between the two sub-periods.

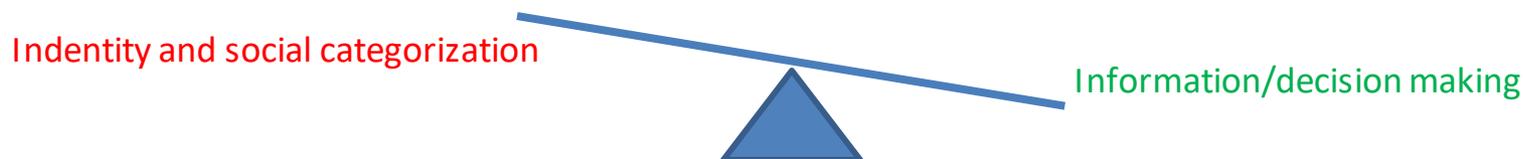
The crisis episode seems to have convinced companies of the need for **greater control** (Weisbach, 1988).

Advantages (diversification of expertise, better access to resources, broadening of organizational knowledge).

➤ Diversité de genre

From 10 to 22%

Amendment of the AFEP-MEDEF code in 2010, **Zimmerman-Copé law** of 2011 and valuation of CSR.



IV. Discussion and conclusion

➤ Discussion

➤ CEO duality

AFEP-MEDEF code does not provide recommendations.

No clear preference and no significant change.

➤ Board meetings

On average, **an additional meeting** on an annual basis. The crisis → need to improve the effectiveness of the board particularly via an increased frequency of meetings (Linck et al., 2008).

➤ CEO compensation

Compensation, on average, **increased**.

The code recommends a framework for the decision-making relating to the remuneration of directors but the company decides.

However, the code reminds that executive compensation must be **competitive** and aim to promote performance.

Remuneration remains an **adequate way to attract and retain effective leaders** as observed by Jensen and Murphy (1990).

IV. Discussion and conclusion

➤ Conclusions

- ❖ **Godard and Schatt (2005)**: very significant evolution of board characteristics following the publication of the governance reports Viénot (1995, 1999) and Bouton (2002).
- ❖ **Elage and Mard (2018)** report a stable score over the period 2006-2008 and then a very clear **increase as from 2009**.
- ❖ **Our study**: also positive evolution between 2000 and 2015.

→ « *comply or explain* » **efficace**.

- ❖ However, signal theory (Ross, 1979) → **cosmetic** conformism?

→ Research avenue 1: qualitative case analysis

- ❖ Study on large listed companies (significant shareholder pressure)

→ Research avenue 2: analysis on a **heterogeneous population**.

- ❖ Diagnosis **rather encouraging** for code writers!