Corporate Governance Scorecards Training and Consultation, June 2, 2014, IFC

Step-by-step process in developing scorecard

Step 2 – Recruit the institutions to lead and implement the project

The Hellenic Corporate Governance Council experience

1. Background

Good corporate governance is a central issue to sustaining growth, especially in the Greek market where a significant part of the investment carried out in the Athens Exchange comes from abroad. The Hellenic Corporate Governance Council (HCG Council) recognizes the value of good corporate governance and undertakes a broad range of governance activities. One of these activities is to establish a permanent system to monitor and assess the compliance of companies with the Hellenic Corporate Governance Code (the HCG Code).

2. The Hellenic Corporate Governance Council

The HCG Council was established in 2012 and is a joint initiative of Hellenic Exchanges (HELEX) and Hellenic Federation of Enterprises (SEV) to serve as the body for corporate governance in Greece. The purpose of the HCGC is to:

- ensure the Hellenic Corporate Governance Code is well understood, accepted and endorsed by Greek companies and to warrant the continued relevance and implementation of the Code over time
- monitor and enforce the application (compliance with) of the Code

The HCG Council is a 15-member body comprised of Greek and foreign experts from various professional areas: Law, Business, Investment, Banking, Regulation, Consulting.

3. The Model

In December 2012 the HCG Council set up subcommittee, the HCG Code Monitoring and Assessment Committee (Assessment Committee), to propose a system for the monitoring and assessment of compliance of listed companies on the Athens Exchange with the HCG Code, and relevant legislation and listing rules. The Assessment Committee will issue a monitoring report each year to be approved by the HCG Council. The Assessment Committee formed a working group, composed of technical experts, for the design and implementation of the necessary operational tools and processes of the systems. The working group consists of HCG Council members and experts from academia, the Athens Exchange, the Hellenic Capital Market Commission (regulator) and CG consultants. Executives from listed companies, involved in corporate governance activities (internal auditors, board secretaries, legal advisors), are also participate in the working group.

The project owner (HCG Council) has developed the HCG Code in order to promote the continuous enhancement of the Greek corporate institutional framework and broader business environment as well as the improvement of the competitiveness of its members and of the Greek economy as a whole. The double role (HCG code owner and project owner) of HCG Council ensures the commitment to project success, while there is appropriate knowledge to align the objectives of the HCG Code with those of the scorecard.

The participating institutions were selected so as their operations to cover the full range of project’s relevant matters. On the other hand there should be no conflict of interest with their activities and the ultimate purpose of the project.

For the selection of the individuals of the working group, key criteria were their experience and knowledge to the subject but also their availability, competence to contribute and their commitment to the promotion of the concept of corporate governance.
The members of the working group participate, depending on their experience, in subgroups (see below for the work streams and a brief description of the project).

4. Challenges
- Get volunteers of diverse background and experience (regulators, exchange, academia, legal, consultants etc.) to participate in the working group
- Avoid conflicts of interest among working group members
- Funding

5. Scorecard objectives
There are two aspects to monitoring:
- Compliance by individual companies
- Overall impact of the HCG Code

The major objectives of the monitoring activity will be to:
- Educate companies, their boards and their shareholders on good governance and encourage them to do better both in complying and in improving their explanations.
- Identify any obstacles in applying the provisions of the HCG Code or areas that need improving
- Check for unintended consequences
- Produce policy recommendations to the regulator
- Produce a Corporate Governance Index

6. System Work Streams
i. Development of Scorecard and Scoring Criteria: The special practices (provisions) of the HCG Code are broken down further to questions that make up the scorecard questionnaire. There are four levels based on the HCG Code incorporating both published and possibly interview-based data with the first level to include four main areas (The board and its members, System of internal controls, Remuneration, Relations with shareholders) and a total of 281 questions. Each question may score between 0 and 100.

ii. Development of company data directive (instructions) to facilitate companies to answer certain questions, the possible adequate data, and the good explanations for divergence: Generation of data and disclosure quality assurance procedures, including assessment of quality of explanation and adequacy of reference to alternative practices used.

iii. Development of ex-post validation procedures for data input and ratings: Generation of a set of procedures for the validation of collected data as well as the ratings.

iv. Development of statistical processing for ratings and reporting: Includes the definition of the weighting system for each level of the scorecard, the statistical processing at company and aggregate level and international benchmarking and design of the Annual Monitoring and Assessment Report and other sub-reports. An overall index will be constructed based on aggregate data as well as several sub-indices, e.g. disclosure index, shareholders’ rights index, independence of board index, RPT index, individual company ratings etc.
v. Development of on-line system: An on-line software web application for the collection of corporate responses, the statistical processing and the generation of reports.

vi. Design and operation of on-line system simulation exercise: use of volunteer companies as pilot.