Has corporate governance evolved?

Analysis of SBF 120 firms over the period 2000-2015

ATINER ATHENES – July 2019
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I. Introduction


**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 gouvernance codes and recommendations

➢ Corporate gouvernance 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 gouvernance codes and recommendations

➢ Corporate gouvernance 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, ...)

Université de Mons
II. Corporate gouvernance codes and recommandations

➢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 gouvernance codes and recommandations

➢ 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 gouvernance codes and recommandations

- **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

\[ H2 : The \text{ proportion of independant directors in the board of SBF120 firms increased between the two sub-periods.} \]
II. Corporate gouvernance codes and recommandations

➢ Recommendations

➢ Gender diversity

<table>
<thead>
<tr>
<th>Pro’s</th>
<th>Con’s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information/decision-making perspective</td>
<td>Identity and social categorisation</td>
</tr>
<tr>
<td>✓ Diversity of experience</td>
<td>✓ Stereotypes and expectations</td>
</tr>
<tr>
<td>✓ More compétences and knowledges</td>
<td>✓ Lack of communication</td>
</tr>
<tr>
<td>✓ CSR valorisation</td>
<td>→ Conflicts → difficult consensus.</td>
</tr>
</tbody>
</table>

➢ 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 gouvernance codes and recommandations

➢ 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.

\[ H4 : \text{The proportion of firms of SBF120 characterised by CEO duality did not vary between the two sub-periods.} \]
II. Corporate gouvernance codes and recommandations

➢ **Recommendations**

➢ **Board meetings**

<table>
<thead>
<tr>
<th>In favour of more meetings</th>
<th>In favor of less meetings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased control;</td>
<td>Jensen (1993) doubts about the efficiency. Agenda fixed by the CEO → Focus on routine tasks and no real control. Role more reactive than proactive.</td>
</tr>
<tr>
<td>Counters CEO entrenchment.</td>
<td></td>
</tr>
<tr>
<td>(Linck and al., 2008)</td>
<td></td>
</tr>
</tbody>
</table>

➢ 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.

\[ H5 : \text{the frequency of board meetings of SBF120 firms increased between the two sub-periods.} \]
II. Corporate gouvernance codes and recommandations

➢ Recommendations

➢ CEO compensation

➢ Agency theory, setting up compensation contracts reduces conflicts of interest between shareholders and executives

➢ Core at 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 ")

\[H6 : \text{CEOs compensation in SBF120 firms decreased between the two sub-periods.}\]
III. Data and methodology

Data

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

133 firms over the period 2000-2015

III. Data and methodology

- **Methodology**
  - Student’s means comparison test for paired samples
  - Wilcoxon signed ranks test
  - Propensity scores test
IV. Résults

➢ Descriptives

<table>
<thead>
<tr>
<th></th>
<th>Obs.</th>
<th>Mean</th>
<th>Std error</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board size</td>
<td>132</td>
<td>10,65</td>
<td>11,20</td>
<td>4,08</td>
<td>3,54</td>
</tr>
<tr>
<td>Board Independence</td>
<td>131</td>
<td>0,35</td>
<td>0,48</td>
<td>0,19</td>
<td>0,20</td>
</tr>
<tr>
<td>Board meetings</td>
<td>131</td>
<td>6,80</td>
<td>7,90</td>
<td>2,65</td>
<td>2,54</td>
</tr>
<tr>
<td>CEO duality</td>
<td>132</td>
<td>0,56</td>
<td>0,53</td>
<td>0,43</td>
<td>0,43</td>
</tr>
<tr>
<td>Board gender</td>
<td>132</td>
<td>0,10</td>
<td>0,22</td>
<td>0,14</td>
<td>0,11</td>
</tr>
<tr>
<td>CEO compensation</td>
<td>75</td>
<td>1.207</td>
<td>1.948</td>
<td>836</td>
<td>1.428</td>
</tr>
<tr>
<td>CEO compensation (inflation)</td>
<td>75</td>
<td>1.412</td>
<td>1.948</td>
<td>977</td>
<td>1.428</td>
</tr>
<tr>
<td>Total assets</td>
<td>132</td>
<td>37535.02</td>
<td>65398.2</td>
<td>133561.3</td>
<td>255803</td>
</tr>
<tr>
<td>Total assets (inflation)</td>
<td>132</td>
<td>43878.44</td>
<td>65398.2</td>
<td>156133.1</td>
<td>255803</td>
</tr>
</tbody>
</table>

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

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

➢ 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!