

BOARD CHARACTERISTICS AND BOARD COMMITTEES IN THE GREEK CORPORATE GOVERNANCE FRAMEWORK

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Abstract

The paper investigates board characteristics and committees' structure in the Athens Stock Exchange (ATHEX) using unique data culled from the database of the Hellenic Observatory of Corporate Governance. The current corporate governance framework applying in Greece is also analysed while comparisons with the international experience are offered. In Greece, while the Law calls for the need to have a Committee comprising of non-executive BoD members, it permits the participation of non-BoD members that collectively fulfill the independence criteria as laid out by Law 4706. L.4449 introduced the current Audit Committee composition and operation framework and the accompanying tighter monitoring role on the part of the Hellenic Capital Market Commission (HCMC) and the Hellenic Accounting and Auditing Oversight Board (HAASOB), has undoubtedly overhauled all the audit framework. The average number of committees per listed firm in the Greek stock exchange almost reached the two-committee threshold only in 2018. Average board size is 7.85 members slightly smaller than the average size for major markets around the globe. This shows the potential for an increase in Board size given also recent evolvments necessitating the gender representation of at least 25% in the Board of public firms.

KEYWORDS

Board size, Audit Committee, Corporate Governance, Greek Corporate Governance Code

JEL CLASSIFICATION CODES

G32, G35

1 INTRODUCTION

The Greek capital market during the last ten years underwent significant changes that paved the way to a new era that is fast approaching. The significant decrease in the total number of listed firms (203 in 2016 over 280 in 2009) was coupled by the introduction of new legislation that has significantly changed the corporate governance (CG) framework (Grant Thornton, 2018). Legislation passed in 2010 has necessitated the adoption of a CG code by listed firms and the ensuing CG report that enables further the collection and analysis of CG data.

Board size is recognized as one of the most important elements of any board (Shleifer Vishny, 1997). Theory derived from academic and business research, suggests that increasing the number of directors comes both with costs and benefits (Florou and Galariotis, 2007). On the one hand, boards' capacity for monitoring and advising increases with board size, simply because there are more people to draw on. A larger group also pools more information and allows for greater diversity of backgrounds and viewpoints. As board size increases, "expertise" and "critical resources" of a firm and in turn company performance can be enhanced. More specifically, larger boards provide a larger number of interlocks, which are linked with increased effectiveness in the mitigation of organisational problems (Alzahrani and Lasfer, 2012). It is worth mentioning, that larger boards can provide increased access to critical for the firm resources. Furthermore, larger boards utilizing their capability to delegate duties, are able to replace directors more easily than smaller boards (Gutierrez and Surroca, 2014).

Sarbanes-Oxley has given prominence to the Board of Directors (BoD) as a basic tool towards resolving the agency problem. Regulatory authorities have ever since viewed the BoD as a major monitoring mechanism (Hillier et al., 2011). The BoD closely monitors the decisions of the managers and ascertains that decision-making within the company follows agreed schemes and formal documentation (Vafeas, 1999). BoDs that are more independent are believed to have greater monitoring power. In order to achieve independence a prerequisite remains the number of non-executive members in the BoD (Shivadasani και Zenner, 2004). The existence of independent non-executive members in the BoD guarantees more efficient monitoring of the management team's actions (Lei and Deng, 2014). The greater the number of independent members in the BoD the greater the autonomy and compliance with decisions that are not harmful to shareholders (CFA, 2016).

Board Committees are considered to perform many of the board's most critical functions (Kolev et al., 2019). The existence of Committees, namely the Audit, Remuneration and Nomination, is positively related with conditions enabling efficient control (OECD, 2019). Their widespread operation has also empirically proven to benefit the decision making process (Anderson and Reeb, 2004).

The participation of executive members in these committees hampers their monitoring role. The active involvement of the CEO in their formation will result in few outsiders being chosen for these positions. Many of those appointed under such schemes may have controversial vested interests in the firm (Rahman et al., 2020). For this reason sound corporate governance practices call for the need exclusively non-executive, and primarily independent members, to form these committees.

The prevalent Board committee is the AC. Following the evolution of corporate governance it became apparent that there is an imminent need to develop internal mechanisms that would ensure high quality in the produced financial information and protection of companies' assets. The AC is the committee that oversees internal and external audit quality. Its existence is believed to enhance board oversight, improve auditors' performance, reduce the asymmetry of information between managers and different stakeholders, thus mitigating the agency problem, and improve companies' disclosures like CSR (Dwekat et al., 2020). The introduction of organized internal audit departments under the supervision of the AC were the primary mechanisms towards achieving these goals.

This paper attempts to offer an exhaustive analysis of Greek corporate governance over the last 10 years using data from the Hellenic Observatory of Corporate Governance (HOCCG). The data have been drawn from all the listed companies in the Athens Stock Exchange (ATHEX) as the applied at the end of 2018. The results are significant since they show clearly how the most important organisational population of the Greek economy adopts principles and practices related to CG.

2 THE BOARD OF DIRECTORS IN THE GREEK FRAMEWORK TODAY

The average number of Board members for ATHEX firms for 2006 and 2018 are analytically shown in Diagram 1, depicting the variation of board size across the firms listed in ATHEX. Until 2009, the average board size had been increasing steadily, reaching an average of 8 directors (8.01). Before then average Board size was 7.75, 7.86 and 7.90 in 2006, 2007 and 2008 respectively, evidence that verifies this consistent average size increase. The next four years, the number of listed companies, and the average board size, decreased (7.60 average board size, 230 listed companies in 2013). From 2014 to 2016, the average board size fluctuated ending at 7.71 members in 2016, while the number of listed companies continued to decrease with only 203 listed companies in Athens Stock Exchange as of December 2016.

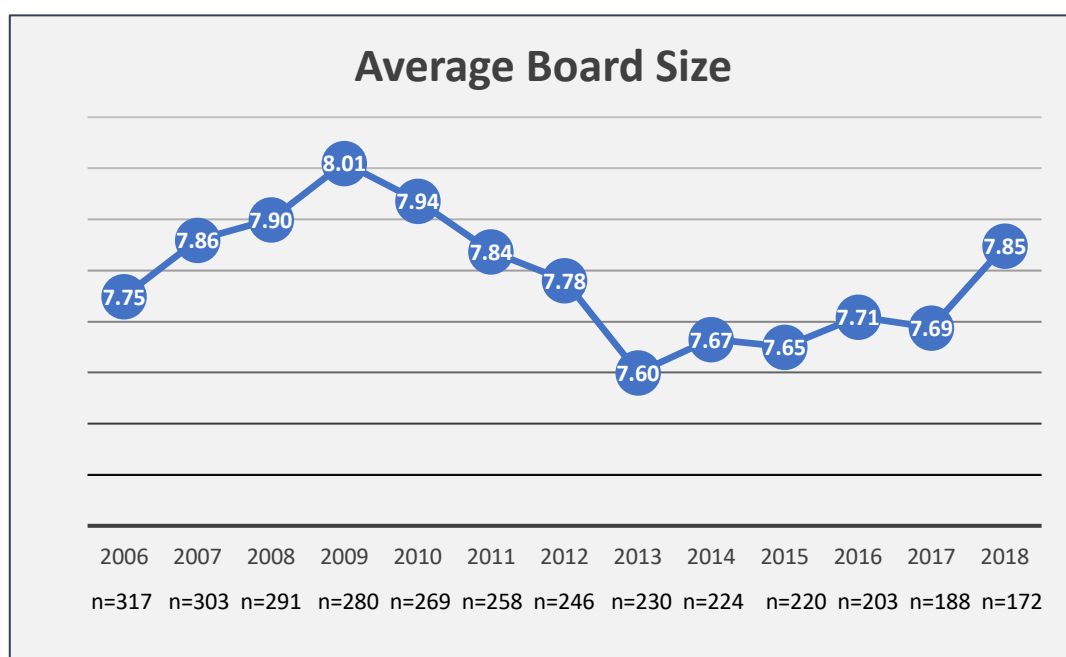


Diagram 1: Average Board Size 2009-2016

Directorships refer to the total number of seats existing in Boards, while the total number of directors is slightly smaller since in some cases, directors serve in more than one Board. As seen in Diagram 2, in total, 2,243 board seats (or directorships) existed in the boards of the listed companies in Greece in 2009. This was significantly reduced by 2016 as the total number of directorships dropped to 1,565 (-30.2%). This trend followed the previously discussed continuous decrease in the number of listed firms.

A closer examination of the data regarding the nature of non-executive board members revealed that the seats these members held are separated into non-executive dependent and independent ones.

In 2009, 956 seats were classified as internal directorships, whereas non-executive directorships were 1,287. The absolute number of independent non-executive directorships in 2016 was 517 representing an increase over 2009 (666 independent) as a percentage of the total number of directorships. More specifically, independent non-executive directorships were 33% in 2016, while they were 29.6% in 2009. Dependent non-executive directorships were 621 in 2009 (27.7% of total seats), while in 2016 they were 461 (29.5%).

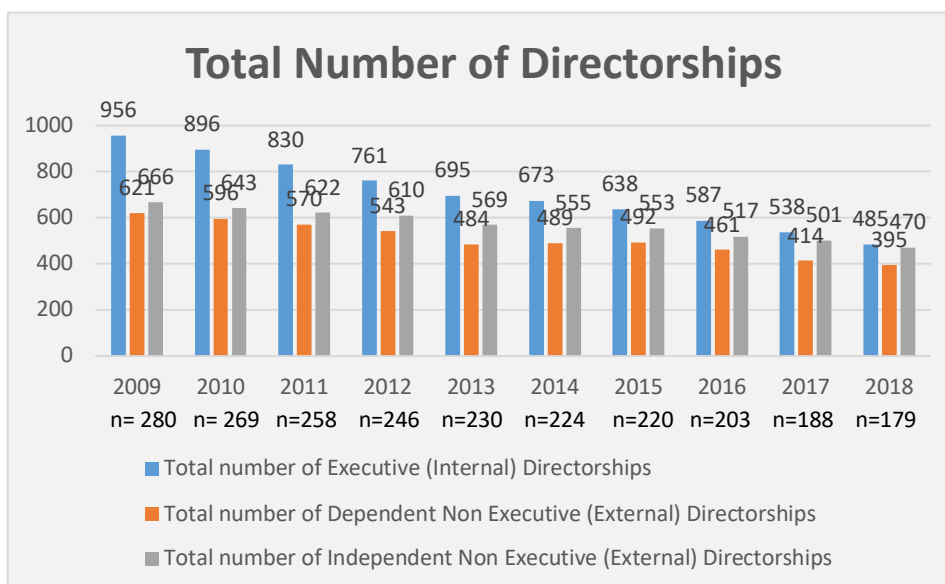


Diagram 2: Total number of directorships 2009-2018

During the examined years the total number of executive directorships decreased at a larger pace over those of non-executive and independent non-executive members (Diagram 3). The above finding is evident by the fact that average number of executive directorships was 3.4 in 2009 and was less than 3 (2.9) in 2016. On the contrary, average non-executive directorships were 2.7 in 2009 and 2.5 in 2016. They exhibited minimal variation around these values and the long-run trend is clearly slightly downward. Interestingly, independent directorships increased through the years from 2.4 per company in 2009 to 2.6 in 2016 showing a very slow, but consistent, tendency towards increasing further.

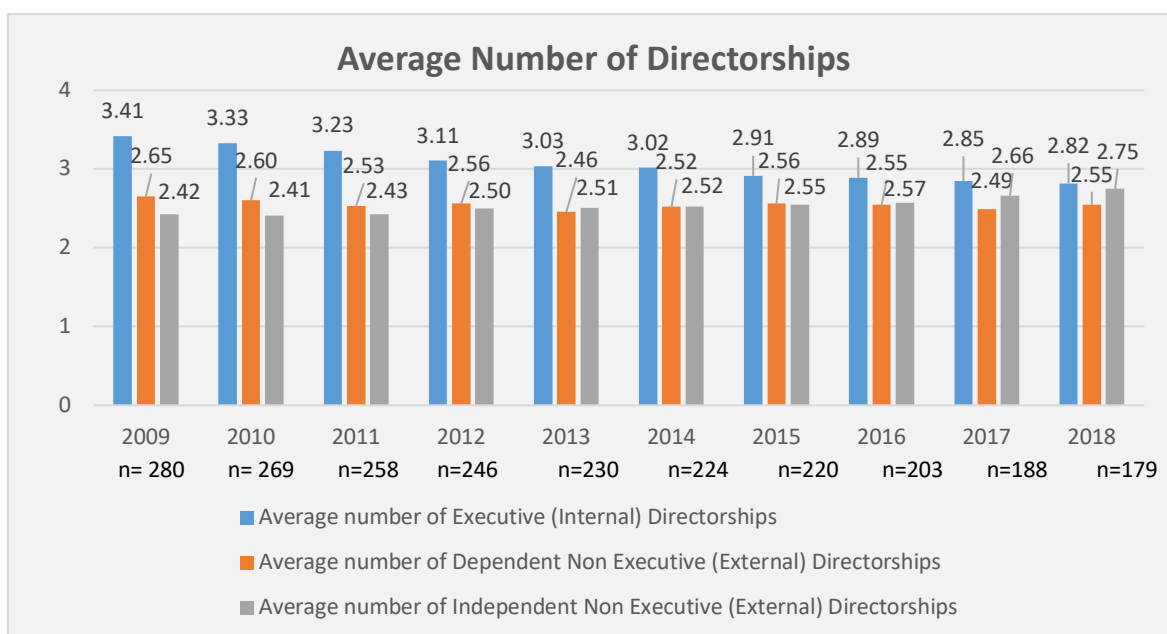


Diagram 3: Average number of directorships 2009-2018

Diagram 4 shows the distribution of executive directorships. Internal (executive) board seats are less compared to the external seats. CG good practices recommend that the existence of some executive directors

is imperative for the smooth operation of a Board. The vast majority of firms in 2009 had 1-6 executive directors. More specifically 88 companies had 3 directors, while all in all 200 out of 280 firms had 2 to 4 internal directors in 2009 (69.4%). In 2016 the total number of firms holding 2 to 4 directors was slightly higher (70.4%), showing that the tendency is towards companies holding a smaller number of executive directors. Firms holding more than 4 internal directors shrunk from 21.1% in 2009 to just 12.8% in 2016 underlying further the previous finding. One firm (Bank of Greece) throughout the aforementioned period held 13 executive directors, by far being a notable exception towards the tendency for fewer internal directors.

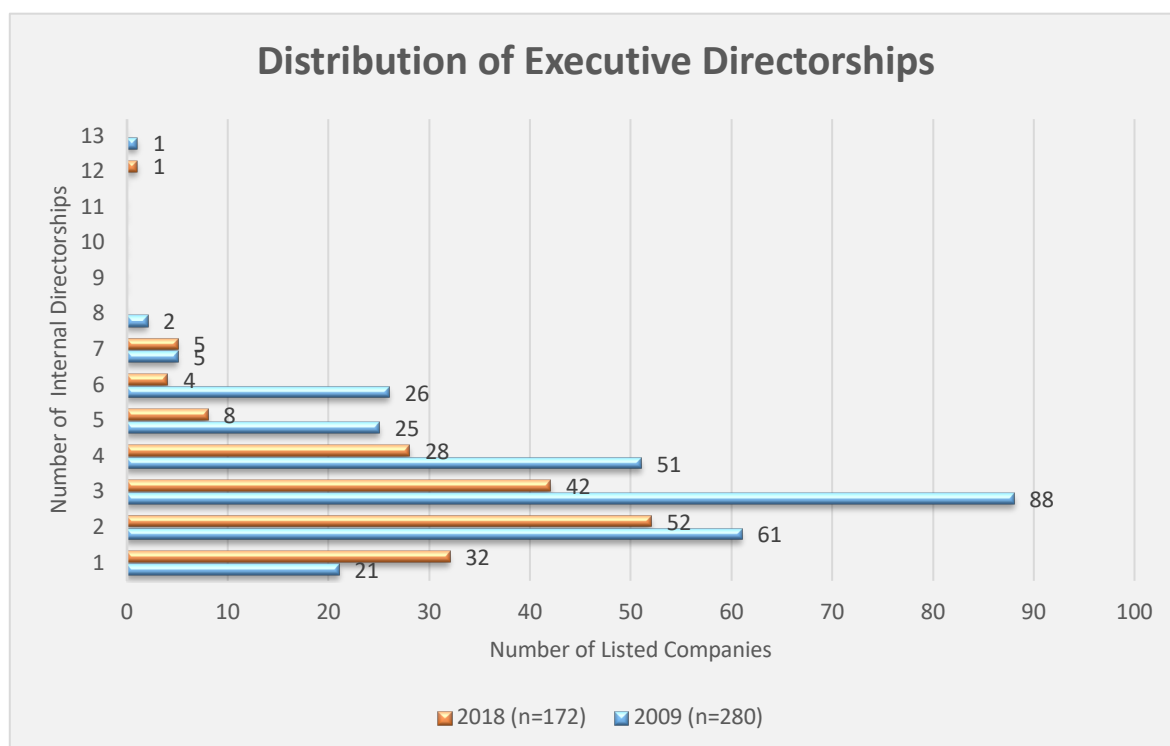


Diagram 4: Distribution of executive directorships in 2009 and 2018

As mentioned earlier, non-executive (external) board seats outnumbered internal board seats throughout the aforementioned period. For the year 2009 we identified 1,287 non-executive board seats, which exceeded the total number of internal directorships in 2009 by 331 seats. In 2016 with 978 non-executive board seats, the difference over executive directorships was even higher (391 seats). Diagram 5 depicts the distribution of non-executive directors in 2009 and 2016 respectively.

The majority of firms had 3 or 4 non-executive Board members in 2009 (58.9%) and the same applied in 2016 (52.3%). 73.9% of firms in 2009 had up to 5 directors, which largely applied in 2016 as well (72.4%). Likewise 5.9% in 2016 and 6% in 2009 had more than 10 external directors. As highlighted earlier the small shift that took place during this time is towards a slightly greater representation of independent non-executive directors over dependent external directors.

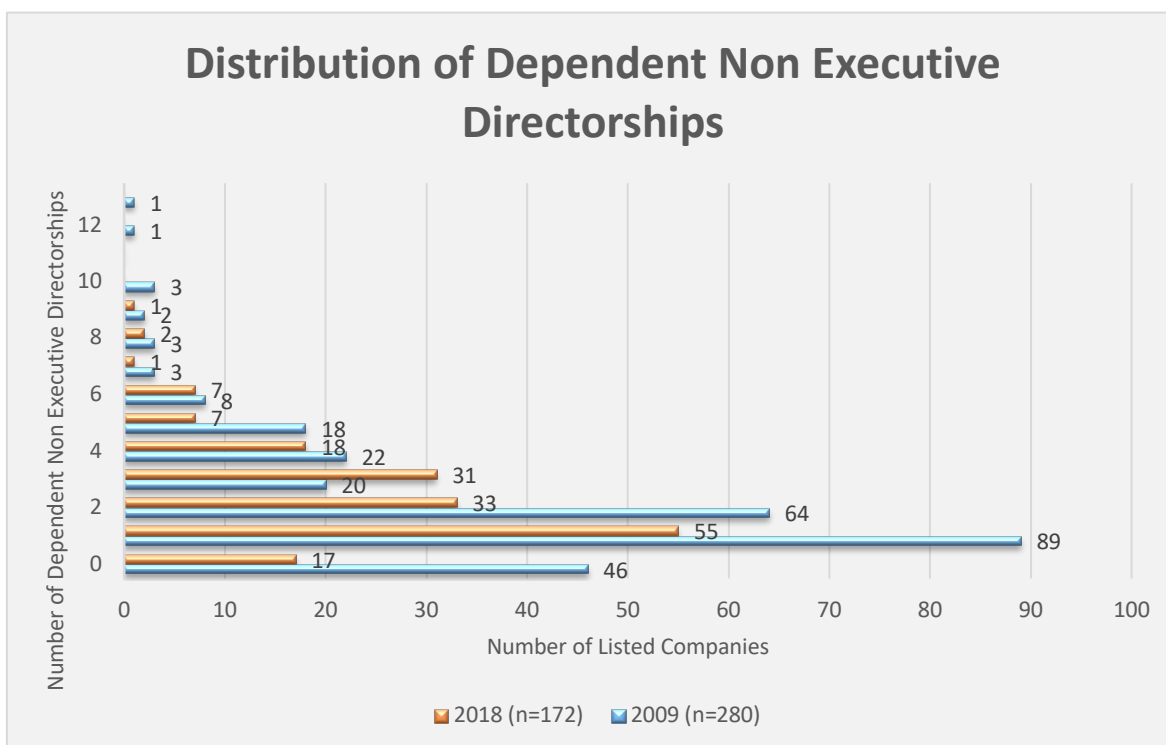


Diagram 5: Distribution of non-executive directorships (both dependent and independent) in 2009 and 2018

Diagram 6 presents the distribution of independent non-executive directorships in 2009 and 2016 respectively. As mentioned earlier the average number of independent directors slightly increased during the examined period. 194 out of 280 companies (69.3%) held at least 2 independent directorships in 2009, whereas in 2016, 127 out of 203 firms (62.6%). Therefore, 2 independent members, with few exceptions in the case of minority shareholders being represented at the Board, has been the minimum number of independent directors Greek firms were obliged to follow throughout the examination period given also the existing legislation. It appears that through time, in line with the small increase in average independent directorships, Greek firms have opted for an even larger number of independent directors. More specifically, 33.4% of firms in 2016 had more than two independent directors. This represents a significant increase over 2009 when the relevant figure was 25.3%. However, the large majority of firms were strictly in line with the absolute minimum requirements. Only 5 firms in 2009 and 2 firms in 2016 had no independent external board seats.

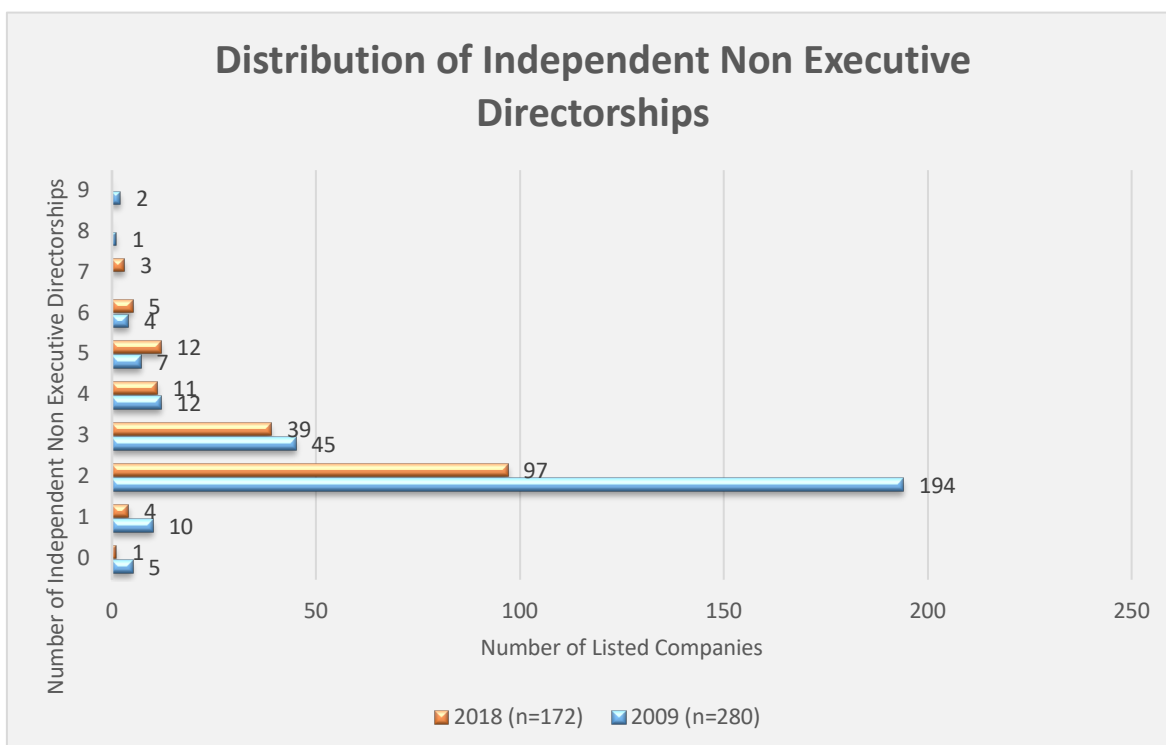


Diagram 6: Distribution of independent non-executive directorships in 2009 and 2016

One of the prevalent good practices of CG is the separation of roles of the Chairperson of the Board and the CEO. While the good practices of the Greek CG code call for the separation of the two roles a large number of firms in Greece and abroad do not separate the two roles. Part of the examined firms separated the two roles, but appointed as the Chairperson of the Board a director affiliated with the CEO. Our criterion for affiliation in this study was the identical last name. This leads us to surmise that, although job separation existed, an indication of affiliated status was present. This criterion (namely the last name) is naturally neither absolute nor scientific. However, its employment offers further insight into Boards that partially fulfil suggested good CG practices.

123 companies or 43.9% of the sample, separated the leadership roles, having two individuals serving as Chairperson of the board and CEO respectively, in 2009. On the other hand, 115 companies (41.1%) had duality as they trusted these seats to one individual for that year. Respectively, 85 firms (41.9%) separated the leadership roles in 2016, while 91 firms (44.8%) had duality in their boards in the same year. Notably, there was a critical 15% (42 cases) and 13.3% (27 cases) for 2009 and 2016 respectively, where the Chairperson is affiliated following the categorization provided earlier.

A closer examination allows us to infer that duality increased temporarily during the examination period approaching the 50% threshold of listed firms in 2013 and 2015 (46.5% and 48.6% respectively), but experienced a significant drop in 2016. The number of companies that separated the two roles during the examined period followed a steady downward trend in line with the decreasing number of listed firms. The highest percentage over the entire sample was observed in 2011 (109 out of 258 firms or 42.2%). As for the cases where the Chairperson is affiliated, with the exceptions of 2010 and 2013, when the percentage of affiliated Board Chairperson was observed above the 15% threshold (15.2%), the gradual long-term tendency is declining.

Lastly, when adding firms with duality and affiliated Chairperson over separated ones there appears to be, as previously documented in the case of the independent Board members, an extremely small, but gradual, trend towards more independent Boards. The corresponding figure was 58.9% in 2009 and 58.1% in 2016. These finding though is alarmingly weak considering that during the examined period the Greek CG Code was formed and the relevant directives towards the separation of roles in Greek firms were explicitly set out.

The above information is reflected in Diagram 7.

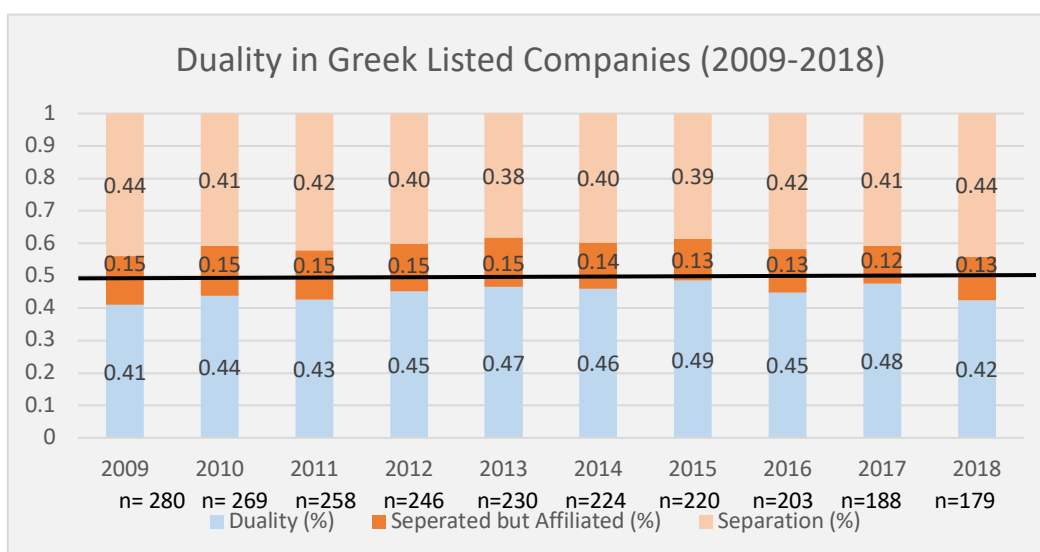


Diagram 7: Board leadership and CEOs 2009-2018

In 2009 there were 1,991 male and 214 female directors. Respectively, in 2016 we identified 1,352 male and 213 female directors. Male directors were 88.8% in 2009 while in 2016 they were 86.4%. Therefore, female directors representing 13.6% of total directorships in 2016 experienced a 21% percent increase during the examined 8-year period (Diagram 8). The above analysis reveals that women have been consistently a small minority in the Boards of the firms listed in ATHEX.

However, as shown in Diagram 9 women participation in Greek Boards has consistently increased over the examined period, ranging from 11 to 14%. This small, but gradual, increase is consistent with international standards. However, it is still lagging over developed markets' averages. The recent L.4706/2020 regulatory changes will undoubtedly change this finding in the years ahead of us.

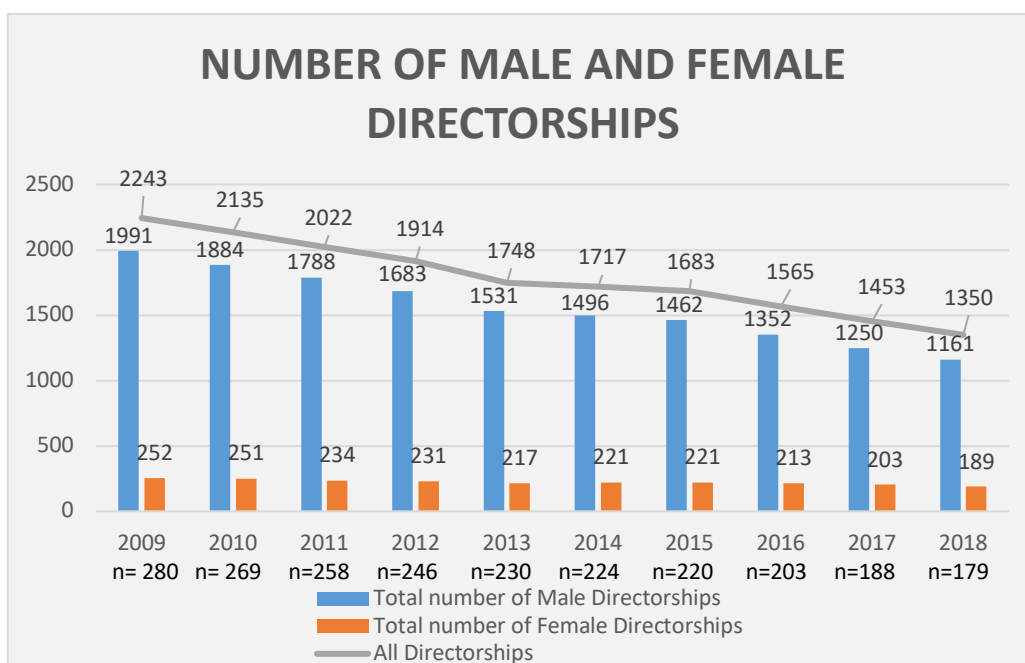


Diagram 8: Directorships' allocation by gender 2009-2018

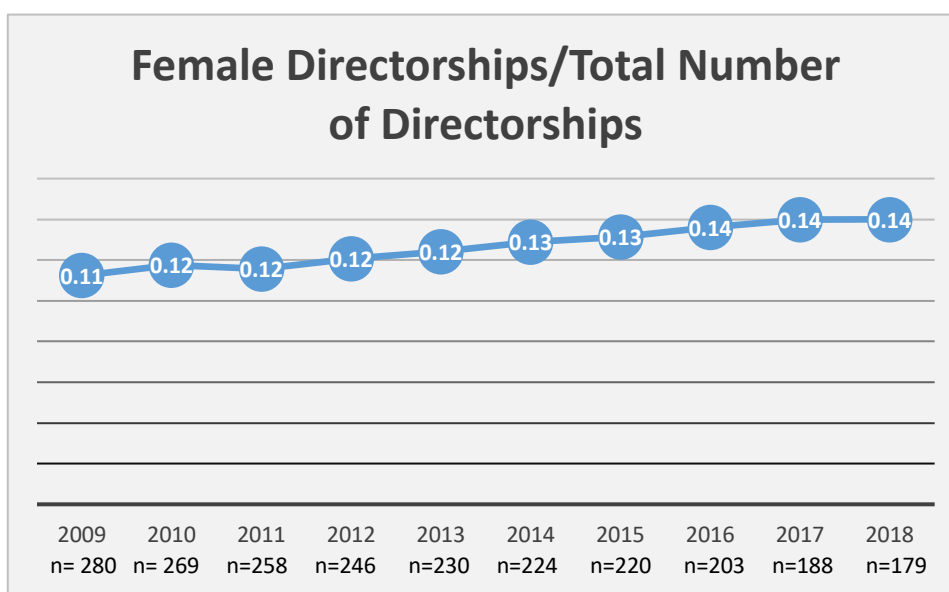


Diagram 9: Female representation in Boards 2009-2016

3 RECENT EVOLVEMENTS IN BOARD COMMITTEES

According to Chen and Wu (2016) all US public firms operate an Audit Committee (AC) while 98.1% and 84.8% respectively have a Compensation and a Nominating/Governance Committee. The size of these committees is a further aspect that academic literature has investigated. The average size for committees in Europe is 4.2 members for ACs while it is respectively 3.9 and 3.4 members for Nomination and Compensation Committees (Green and Homroy, 2018). It appears that smaller committees are less likely to be influenced by insiders (Singh et al., 2018). On the contrary, larger committees are more prone to manipulation. McKinsey (2018) claims that independent committees more efficiently introduce sound management practices. The frequency of committee meetings also directly influences monitoring quality and facilitates the proactive action process. This, in turn, enhances their supervisory role.

L.3693/2008 introduced ACs in Greece and since all public interest entities, including public firms, operate an AC. In 2010, following L.3873/2010 and the introduction of the CG code and the CG Statement, the Hellenic Federation of Enterprises, through its first CG Code, suggested as a good practice for public firms the formation of the Remuneration and Nomination Committee. The Hellenic CG Code of the Hellenic Corporate Governance Council kept the same reasoning in its renewed Corporate Governance Code in 2013.

Largely, firms appear to fulfill the minimum requirement by operating on average, simply, the AC. This is set to change following L.4706/2020 since henceforth companies will be obliged to operate a Remuneration and Nomination Committee.

Firms according to Greek CG laws are obliged to disclose detailed and timely information on Board Committees. The law that governs the formation of the AC is L.4449/2017. Previous legislation (L.3693) called for the need to have exclusively non-executive BoD members as members in the AC. Nine years after the initial implementation of L.3693 regulatory authorities relaxed the membership of the committee clause whereby AC members should also be serving BoD members. Today AC members should either be non-executive members of the BoD or non-BoD members elected directly from the General Assembly, the latter members fulfilling the prescribed characteristics for independent BoD members. The majority of the committee members have to be independent.

L.4706 has updated the list of characteristics that render an individual as independent. The numbers of independent members in the Boards has continuously been on the rise; thus allowing for the greater representation needed in the increasing number of Board Committees. The average number of independent directors in the ASE almost equals executive members. According to the HOCG database, since 2009 the number of independent non-executive members on the board has grown from 29.6 to 34.8 percent in 2018. Executive members were 42.6 percent while today they are only 35.8 percent. The sum of independent and non-executive directors in the Board today is 64.2 percent (57.3% in 2009).

The AC should have at least three members and they should be appointed under the provision that they have adequate knowledge of the firm’s operations and specialist audit knowledge. The latter should apply for at least one member of the Committee. The table shows the responsibilities of the AC according to L.4449.

Most firms are still reluctant towards disclosing detailed information on the internal audit practices through the CG Report or/and the CG Code. The same largely applies for the particular mechanism of communication underpinning the AC-Internal Audit department collaboration. It is reported that on average ACs assemble four times a year, presumably during the period coinciding with the 3-month interim financial results release. No further information is usually offered towards these meetings and the corrective action taken. In this respect it is often not clear to what extent the existing communication channels ensure that internal audit procedures commensurate with internationally accepted standards actually exist. The same largely applies for the involvement of the AC in the selection of external auditors and regulatory compliance.

Based on Diagram 10 the average number of committees per listed firm in the Greek stock exchange gradually approaches the two-committee threshold. The average number of committees per firm has been surprisingly steady through the years with 1.5 on average in 2009 and 1.6 committees in 2016. During the period 2011-2015 mean figure was 1.5 committees. Largely, firms appear to fulfil the minimum requirement by operating on average, simply, the Audit Committee.

This is set to change following L.4706/2020 since henceforth companies will be obliged to operate a Remuneration and Nomination Committee. The maximum number of committees is found in 2009 and 2010 with individual firms operating 9 committees (Hellenic Post Bank). Maximum number of committees has been 6 during 2011-2016.

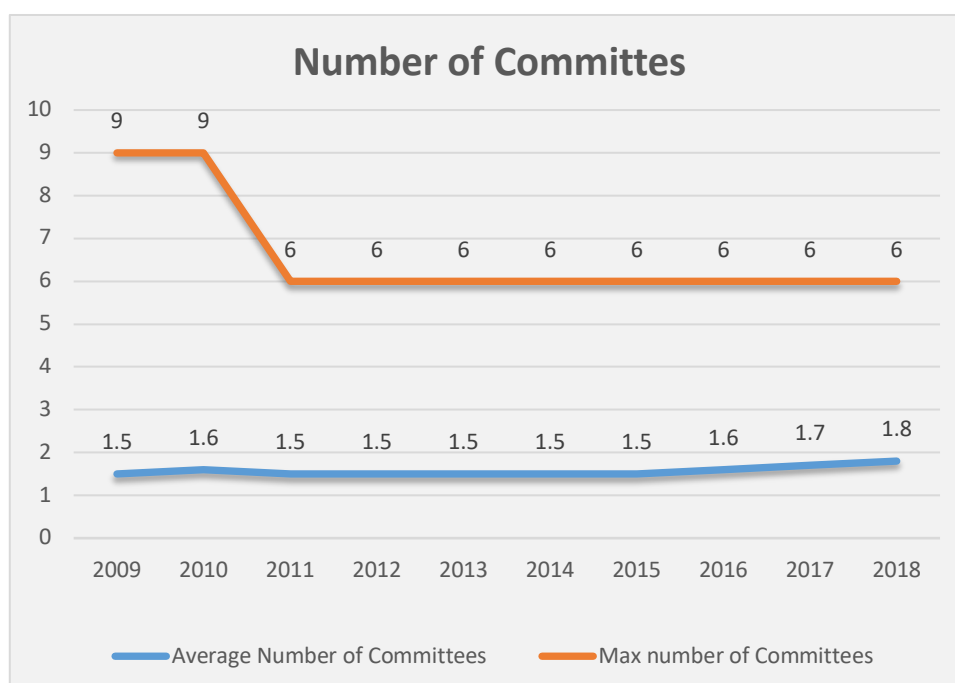


Diagram 10: Number of Committees 2009-2018

4 DISCUSSION

Codes and regulations remain silent regarding this important issue and they prefer to provide generic guidance.

Having reviewed the main CG codes (see FRC 2020, Australian CG Code, German Code, Japanese Corporate Governance Code and US Common sense Principles of CG), we can conclude that rightly the regulators do not impose strict regulations on the number of directors that any organization is choosing to have on its board. The main guideline is that “The board and its committees should have a combination of skills, experience and knowledge”. Other important issues that must be taken into consideration are length of service and all aspects of diversity. Recently the Law 4706/2020 has been passed through Greek parliament covering all aspects of CG for the companies listed in the Athens Stock Exchange. Indirectly indicates the minimum number of directors serving any board by clearly prescribing that any audit committee should consist of at least 3 members.

Nevertheless, our research on a number of issues pertaining to the function of boards alongside guidelines for the separation of the leadership structure (Chairperson/CEO), the number of independent directors, the number of committees formed as well as issues relating to board diversity allow us to conclude that a required minimum should be reconsidered and prescribed and as such as stricter guidelines might be formed.

The AC has evolved through time as the predominant Committee within firms that comply with CG under mandatory laws and directives. In Greece, while the Law calls for the need to have a Committee comprising of non-executive BoD members, it permits the participation of non-BoD members that collectively fulfill the independence criteria as laid out by Law 4706. The Greek legislative framework has kept pace international evolvments and complies with good practices that govern the operation of the AC.

L.4449 introduced the current Audit Committee composition and operation framework and the accompanying tighter monitoring role on the part of the Hellenic Capital Market Commission (HCMC) and the Hellenic Accounting and Auditing Oversight Board (HAASOB), has undoubtedly overhauled all the audit framework.

However, recent major accounting scandals (FF Group) and current cases of public firms under investigation for repeatedly misstating their official financial results (MLS), pose open questions towards whether the existing framework manages to successfully raise investors’ concerns in a fragmented capital market. Regulatory authorities (namely HCMC and HAASOB) should further enforce their supervisory role towards ensuring the sound operation of ACs and the ensuing protection of firm and public interest.

5 CONCLUSION

The second part of the HOCG report focuses on CG variables as monitored and kept on the HOCG database. When examining the average Board size it appears that after a steady decrease in average size initiated in 2009, when peak levels were reached (8.01 directors), average size appears to gradually stabilize at 7.7 directors. Directorships during this period tend to lean towards a more independent Board in line with international trends and good practices, as in 2016 we find only 2.9 internal directorships and 5.1 external ones (2.5 dependent non-executive directorships and 2.6 independent ones).

According to the Report’s most recent data the vast majority of firms have 2-4 executive directors in their Boards (70.4%). 72.4% of Boards had up to 5 external directors and the total number of external directors outnumbered executive ones by 3 to 2. 90% of Greek Boards also have at least one dependent non-executive member in line with the notion that, in the Greek setting, the concept of non-executive directors is still not equivalent to synonymous with independent ones as well.

The separation of the roles of the Board Chairperson and the CEO is one constantly revisited issue in the CG codes and the legislation. Despite the fact that good practices call for the separation of the roles, or at least the appointment of an independent Vice Chairman, it appears that only in 4 out of 10 firms the roles are clearly separated since, beyond the 44.8% of firms where the roles are filled by the same individual, in a further critical 13.3% of firms the CEO is affiliated with the Chairman. The Greek legislation has recently adopted the obligatory separation of the roles with the exception of firms that have an independent Vice Chairperson. Conclusively, the board leadership structure is still another dimension in which the ATHEX listed companies are, even slightly, continuously scoring better than the last time examined through our reports.

Women continue to be a minority in Greek Boards. Chairwomen duality is found in only 6 Boards in 2016. Gender under-representation has therefore been one of the main focuses of the recent Greek regulatory changes. Under the arrangements, applying from July 2021, Greek public firms will by Law have a minimum 25% representation of women in their Boards. During the period under examination women held 13.6% of available Board seats. Therefore, following the regulatory adjustments their representation is expected to double in the years to come.

The lack of internationalisation of the Greek capital market is also evident from the small representation of non-Greeks in the Boards of public firms (8.6% in 2016). At the same time the peculiarities of the market are further underlined by the under-representation of the Big Four acting as external auditors in the local market. This comes in sharp contrast with the tendencies towards the number of audit certificates they issue for UK public firms where they clearly dominate the market. Only 1 out of 4 firms in the ATHEX currently have a Big Four company auditing their financial statements. Lastly, ATHEX firms lag over their international peers towards the adoption of Committees beyond the Audit Committee. Greek firms operated 1.6 committees on average in 2016. This is set to change once again given the recent regulatory changes that necessitate the existence of a Remuneration and Nomination Committee for all public firms. However, once again the increasing number of committees operated by ATHEX firms is a sign that CG principles assume their fair share on Greek corporate agendas, and we expect this effort to be intensified in the coming years.

Conclusively, CG in Greece during the last decade has faced some critical regulatory changes that have paved the way for a brighter future. The CG code adoption, the introduction of the CG report as an integral part of the annual financial statements, and more recently the changes to the CG framework concerning the Board structure and committees, collectively represent major turning points for the enforcement of CG. The quest for solid governance structures in the Greek capital market, remains a lasting effort.

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