Delphic Hierarchy Process (DHP): A methodology for the resolution of the problems of the evaluation of Corporate Governance Quality

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Abstract

The recent failure of the self-regulation of the market, as well as the failure of the managers of the companies to deter possible bankruptcies and the expansion of the financial crisis, led to the need of the formulation of new mechanisms, principles and regulations. For this reason, Corporate Governance (CG) appears to be more timely than ever for the promotion of the effectiveness of both the companies and the markets. At the same time, the need of a transparent and scientific methodology of evaluation of CG emerges as an additional tool to investors as well as all interested parties. To this direction, Daines, Gow and Larcker (2010) come to “make a breakthrough” and to prove that the commercial rating of evaluation of CG do not offer useful information to shareholders, put into question all previous evaluation efforts which do not provide reliable, measurable, necessary and transparent clues.

The purpose of the current paper is twofold: First of all, to demonstrate the problems of methodology which appear in the evaluation of the quality of CG – and primarily to cover the inefficiencies of previous researches. And secondly, to present a new model of CG’s quality evaluation. Specifically, the structure of an older research by Florou and Galarniotis (2007) is adopted and at the same time the tools of methodology for the resolution of any problems that may come up are combined. In particular, a quality method is used (the modified Delphi Method) – for the elicitation of the evaluation criteria – a quantitative method (Analytical Hierarchy Process) – for

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priority weightings of the criteria. The combination of the two methods above, is mentioned by Khorramshahgol and Moustakis (1988) as Delphic Hierarchy Process (DHP) as well. This particular practice, allows us to study each clue of the problem separately, to break the process into separate steps and to support our decision, providing information relative to decision problems.

Last but not least, this development paper summarizes the first findings of this current research and goes on to suggest some vital points for further research.

Development Paper

Key words: Corporate Governance, Corporate Governance Code, Evaluation, Modified Delphi Method, Analytical Hierarchy Process, Delphic Hierarchy Process

JEL Classification: G18, G34, M48

1. Prolegomena

1.1. The rise of corporate governance evaluation

Recently, considerable attention has been devoted to the evaluation of corporate governance. A trend that generated “by the spontaneous demands of investors, governmental monitoring departments and public corporations” (Wei-An, 2008: 12). While at the same time, we also must not leave out the “institutional investors”, who have been pushing firms to adopt the so-called Best Practices in Corporate Governance (Koehn and Ueng, 2005: 111) [1]. However, we could say that this evolution was not accidental at all, because the rapid increase of theoretical research on corporate governance (see for example, Jensen and Meckling, 1976; Shleifer and Vishny, 1997; Hermalin and Weisbach, 2003; Denis and McConnell, 2003; Kiel and Nicholson, 2005), and the extension on empirical research (see for example, Gompers, Ishii and Metrick, 2003; Klapper and Love, 2004; Larcker, Richardson and Tuna, 2005; Black, Jang and Kim, 2006; Brown and Caylor, 2006; Bebchuk Cohen and Ferrell, 2009) foreshadowed the research on corporate governance evaluation (see for example, Tsipouri and Xanthakis, 2004; Florou and Galarniotis, 2007). As a
consequence, this scientific field was rapidly developed, because of the highly published financial scandals from various companies.

And indeed, the reasons of the evolution in CG’s quality evaluation research were quite few, as many benefits for the states, the shareholders, the companies and the stakeholders have emerged (see section 2.2). Furthermore, the fact that the corporate governance advice has resulted in being big business for many proxy advisory and corporate governance rating firms should not be missed out (Daines, Gow and Larcker, 2010: 439). From our point of view, we could mention that a growing demand for providing assessments for companies is observed, as investors would derive either by choosing firms with good governance or by avoiding firms with poor performance. Although the question which must be answered is: Is the situation indeed like that?

Lazarides and Drimpetas (2011: 137) are supporting that “Corporate governance (CG) rating, benchmarking or evaluation is a tool that has been developed to predict or to trace factors that lead to success or failure and has been a focal point for academics, practitioners, and regulating and monitoring authorities since the 1980s”. At the same time, the governance advisory firms support that the various ratings could act as a navigator to the various investors in order to get higher profits either by investing on firms with good governance or by avoiding those bad governance. While, ISS claims that “we expertise to help the financial community make more informed investment decisions on behalf of the owners of companies” [2]. Similarly, GMI supports that “Our ratings and research tools help investors and other corporate stakeholders manage risk based on a thorough and objective analysis of key corporate governance, environmental and social factors” [3].

For all the above reasons, the investors, the equity analysts, the institutional investors, the various mutual funds and so on, have started taking the various ratings into consideration more seriously. The consequently question raised is: To what extent these ratings identify important governance effects? Or more precisely, the extent to which these improvements of the ratings create value for the shareholders. The evidence about the value of these commercial ratings and their ability to predict performance or future events is scarce (Daines, Gow and Larcker 2010: 440). Koen and Ueng (2005) reached the same conclusions, while they find that commercial metrics are not good indicators either for the quality of a firm’s earnings or for its ethics.
On the other hand, the published researches of the academic community regarding measurement and total quality of CG evaluation issues are scarce (Xanthakis, Tsipouri and Spanos, 2003: 56). On top of that, the international literature has not decided for the use of a unique practice as the correct one for the CG evaluation. This means, that the methodology varies per researcher. While, many academic studies such as Gompers, Ishii and Metrick (2003) have been blamed for not evaluating the CG but the anti-takeover measures (i.e. the external mechanisms, while the internal should be evaluated) (Cremers and Nair, 2005). This opinion is also enhanced by the Holmstrom and Kaplan (2001) who state that, in recent years the anti-takeover mechanisms for the discipline of the managers are less important.

This study makes two contributions to literature. First, it demonstrates the problems of methodology which appear in the evaluation of the quality of CG – and primarily it covers the inefficiencies of previous researches. The second contribution is the use of a comprehensive measure of corporate governance and the creation of a corporate governance index (CGI) to measure the overall quality of corporate governance practices of the companies listed on the Athens Stock Exchange Market. Specifically, the structure of an older research by Florou and Galarniotis (2007) is adopted and at the same time the tools of methodology for the resolution of any problems that may come up are combined. In particular, a quality method (the modified Delphi Method) – for the elicitation of the evaluation criteria – and a quantitative method (Analytical Hierarchy Process) – for priority weightings of the criteria are used. This particular practice, allows us to study each clue of the problem separately, to break the process into separate steps and to support our decision by providing information relative to decision problems. This means that our research tries to prove the existence of transparency, both in the calculation of the rating as well as the evaluation of the quality of CG and in the scientific argument of each obtained criteria considered as important.

In contrast to the commercial evaluation indexes of CG, we attempt to highlight the best practices for both the assessed ones and the assessors. The result indicates that each effort to rate and evaluate the quality of each country’s (listed public companies) CG must take into consideration the diversity of the CG system, the legislation and ownership structure, since the culture and beliefs of each nation are different. This means that there is no perfect measure of corporate governance quality.
but there is one best adjusted measure of corporate governance quality for every country.

The remainder of the paper is organized as follows. The first section explains the reasons for which corporate governance evaluation is important. The second section presents the debate between commercial indexes versus self-constructed indexes and proposed some vital directions. The third section presents the Delphi and Analytical method while the forth section determines the proposed model. The fifth section explains the process that will be followed for the implementation of the model. Finally, the sixth and the last section summarizes the findings and goes on to present some vital points for further research.

2. Corporate governance is what matters

2.1. The Scope of corporate governance

“The social historian sees the 21st century as the era of corporate governance, just as the 20th had been that of management” (Tricker, 2009: 4). And probably there is a considerable number of reasons since a tremendous amount of academic literature have been produced in the last years. However, the question that has to be answered first is the following: what does CG mean?

This question, of course, cannot be answered with a common accepted definition. And indeed, this is much too logical as the definitions of corporate governance are influenced by theory emanating from a variety of academic disciplines (Padgett, 2011: 2). One of the most widely used definition of CG is “the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment” (Shleifer and Vishny, 1997: 737). By contrast, Demb and Neubauer (1992: 187) define CG as “the process by which corporations are made responsive to the rights and wishes of stakeholders”. So which is the correct definition? In our point of view, we think that a reconciliation of shareholder and stakeholder model is needed and we therefore define CG as the plethora of mechanisms, both internal and external, that gives at least the fair value in shareholders and in parallel protects the interests of all stakeholders.

On a scientific basis, the principle which is underlined by CG derives from the problems arisen from the separation between the ownership and control that occurred in modern models of CG (finance paradigm) (Berle and Means, 1932). This paradigm
seeks to conceptualize the conflict of interest between managers and owners (Fama and Jensen, 1983).

However, we believe that CG has begun to evolve from a variety of academic disciplines. A typical example is that of EU according to which the initial efforts were based on the shareholder’s model while the progress and the changes that have occurred throughout the recent years highlight a more broad approach for the stakeholder’s model on CG.

This is because the purpose of CG is not limited only to the possible ways in order to introduce the necessary disciplinary mechanisms to manage the classic principal-agent conflict of interests and to protect shareholders. But in parallel, to protect the interests of all stakeholders. However, we agree with the Aguilera’s and Cuervo-Cazurra’s opinion (2004: 417) that at least two possible ways exist in order to increase technical effectiveness or respond to legitimation demands: either countries to reinvest on their legal systems to heighten the shareholder’s protection or to introduce new corporate governance practices into the existing system.

This obviously means that the objective of corporate governance is to strengthen the mechanisms which provide assurance to people that they will get a return on their investment and also that those who have a legal interest will be protected.

2.2. Corporate governance risk matters

The Corporate Governance has significant repercussions both on the perspective of an economy’s development and on corporate development. These are identified respectively to microeconomic and macroeconomic level (Lazarides and Drimpetas 2011: 30). At a microeconomic level we could say that “a better governance enables firms to access capital markets on better terms, which is valuable for firms intending to raise funds” (Doidge, Karolyi and Stulz, 2007: 2), while firms with higher CG quality make more informative disclosures (Beekes and Brown, 2005). This has a serious impact on the corporate development as greater disclosure lowers the cost of capital that arises from information asymmetries (Leuz and Verrecchia, 2000). At a macroeconomic level we might say that “a good corporate governance is often seen as a means of attracting foreign direct investments at more favorable rates, restoring confidence to markets and protecting us from future crises” (Mallin, 2010: 8-9). In general we may say “a good corporate governance is not only important because it
provides the cornerstone for the integrity of corporations, financial institutions and markets, but also is central to the health and stability of the world’s economy” (Baker and Anderson, 2010: 15-16).

All the above have increased the need for corporate governance evaluation because more and more investors, corporations, institutional investors and states pay particular attention on these assessments. More specifically, the benefits that result from the various evaluation methods could be classified into three categories: i) International-Governmental, ii) Investment and iii) Corporate.

According to the first category, the benefits from evaluation of CG are many. This means that the states have the ability to control the competitiveness of the listed companies about issues such as transparency, disclosure, integrity, ethics, accountability etc, compared to those of other developed companies. This is an important tool for the public institutes of economic policy and the various regulatory authorities (for example Capital Market Commissions) in order to initiate legislative changes or decide on specific policy actions. This is due to the fact that the investors are interested to invest in countries with stronger and better-imposed laws and regulatory frameworks. On the other hand, it must not be ignored that the various rating agencies of corporate governance are providing assessments for both country and state level (Standard & Poor’s, 2002).

Referring to the second category, the investors tend to pay more for the stock of a well-governed company than they do for shares of a company with similar financial performance but poor governance practices (Felton, Hudnut and Van Heeckeren, 1996; Coombes and Watson, 2000). And indeed, the benefits are more since the companies with better corporate governance have greater assurance to pay a return on the investments and little possibility for a corporate scandal to occur.

Finally, the benefits from the evaluation of corporate governance are important for the companies as well. First, they can identify where they are, in contrast to their competitors. Second, they can take advantage of their competitor’s weaknesses or they can improve their own. Third, they can assess their performance in connection with their efforts to create a modern management model. Finally, it is worth mentioning that companies are interested in their image because bad ratings can make good press (Brown, 2005).
In conclusion, we could say that CG would be characterized as an index of security and a guarantee of success for a long term investment. (Lazarides and Drimpetas, 2011: 32).

3. Commercial Indexes versus Self-Constructed Indexes
3.1. Advantages and disadvantages

In recent years, there is an intense mobility over the construction of governance ratings on the part of academics. Specifically, they are choosing three ways for the indexes construction: The first one is to collect the required information from commercial service providers’ datasets. The second to collect the available information (from the firms) including proxy statements and annual reports by themselves (hand-collected information) and finally to collect information via customers sent by the research team and filled in by the companies (Bozec and Bozec, 2011).

Regarding the first category, this is the most popular as it is the less time consuming. Specifically, the researchers are using the evaluations of CG – made by the companies such as Risk Metrich/ Institutional Shareholder Service (ISS), Governance Metrics International (GMI) and Credit Lyonnais Securities Asia (CLSA) – directly and compare the evaluation indexes with the corporate profitability.

However, there is a number of problems concerning the choice on commercial ratings. Firstly, there is no absolute transparency regarding the way of each index determination [4]. More specifically, each firm does not publish every chosen variable in its corporate governance rating, for each sub-index determination. Furthermore, it is worth mentioning that there is no common practice regarding the selection of the company’s variables that are included into the governance score as there is an intense differentiation between them (Van den Berghe and Levrau, 2003). Finally, there is no single weighting on each indicator and dimension. This obviously means that the indexes can significantly be affected by the analysts’ subjective views, which are based on their experience and knowledge of the companies covered (Zheka, 2006). We could therefore say that the absence of a common methodology on companies’ evaluation, the existence of subjectivity, the lack of transparency on the way of evaluation and the various academic researches such as Koehn and Ueng (2005),
Daines, Gow and Larcker (2010) etc., put into question all the previous efforts, which do not provide reliable, measurable, necessary and transparent clues.

The second category, which is the hand collection of all the required data from the researchers by themselves gains in popularity year after year. The main and obvious reasons are: i) the problems the first category presents, ii) the weakness to provide clear answers (which means that it gives mixed results) on empirical research on corporate governance, regarding the connection of CG evaluation with the company’s profitability and iii) the fact that academic indexes are less subjective than commercial ratings (see Bozec and Bozec, 2011).

However, there are also many methodological problems in this category. First of all, there is no theory to provide guidance on variables that should be included in a governance quality index (Florou and Galarniotis, 2007: 982). Another disadvantage is the absence of a certain practice or theory, regarding the number of categories (or dimensions of corporate governance) that are required for the various variables classification and the generation of a comprehensive CG’s evaluation framework.

Finally, the most important disadvantage of this category is that a number of researchers (such as Alves and Mendes, 2004; Drobetz, Schillhofer and Zimmermann, 2004; Florou and Galarniotis, 2007; Cheung, Connelly, Jiang and Limpaphayom, 2011; Black, Jang and Kim, 2006; Cheung, Jiang, Limpaphayom and Lu, 2010; Garay and Gonzales, 2008) do equally weight all the variables within each category in order to obtain an average score. For them, the same goes for all the categories in order to obtain an average corporate governance score at each level separately and overall. In our point of view, this approach does not reflect the relative importance of the governance proxies. More specifically, we believe that governance categories are not equally significant. Even more, we support that the above practice has several errors.

As for the third category, which refers to the data collection via customers (sent by research team and filled by companies), we believe that it also presents several problems. First, the companies which do not respond might be those with a poor performance (self-selection bias). Second, the companies which do, might overestimate the quality of their governance (self-report bias) (Bozec and Bozec, 2011; Drobetz, Schillhofer and Zimmermann, 2004).
3.2. Proposed Directions On Future Studies For Avoiding Methodological Problems By Using Self Constructed Indexes

The increasing interest from the academics to create self-constructed indexes, as well as our concern about an interdisciplinary issue for which very little has been written and which is still at an elementary stage, leads us to the creation of a summary of the various instructions that helps researchers to alleviate the above mentioned concerns.

In order to confront the first methodological problem that is the fact that “there is no theory to provide guidance on variables that should be included in a governance quality index” (Florou and Galarniotis, 2007: 982), we believe that the article of Aguilera’s και Cuervo-Cazurra’s (2004) combined with the methodology of the first (Florou and Galarniotis, 2007) gives an informative answer to solution of this problem [5]. More specifically, Aguilera and Cuervo-Cazurra (2004) argue that codes of CG are developed in response to a combination of endogenous and exogenous pressures to solve deficiencies in a country’s CG system [6]. While in addition they support that “One of the functions of such codes is to compensate for deficiencies in the legal system regarding minority shareholders protection”. This means that the codes of CG that are implied in a country and are adopted by a legislation can be complementary for the following reason: “Codes of good governance complement the legal system by reducing legal flaws regarding the protection of shareholders, they are a rapid way to fill gaps in the legal system, provide a means for holding managers and directors accountable, and generally improve corporate governance, without the immediate need to modify the existing legal system”.

All the above prove that a governance quality index must evaluate the CG system of each country. This means that a holistic approach should not exist; for example the use of a common code for each country’s CG evaluation. Instead, we propose that the variables which should be included in a governance quality index is a combination of Florou and Galarniotis’ (2007) practice along with the Aguilera’s and Cuervo-Cazurra’s (2004) empirical conclusions. More specifically, each country’s CG system must be evaluated after taking into consideration the variables of the different CG systems by benchmarking their governance structures (in the case of Greece into three levels)
[7]: (a) the minimum requirements under governance regulation (as it has been formed through the passage of time in each country); (b) the incremental recommendations of the code (middle level) (we suggest the evaluation of the CG code which receives the widest acceptance from the total number of the companies). More specifically, either the code that companies are obliged to apply or the one that is applied from the majority; (c) the additional international best practices, stipulated by the strictest code internationally (which in any case should match with the CG system of each country) [8]. That is due to the fact that the exogenous forces (because of the globalization and the transformation of the ownership firm’s structure and competition, the economic integration and the foreign institutional investors) seek to pressurize the best companies in order to adopt the International best practices. These companies adopt various international practices before the national code’s or legislation’s application [9].

Furthermore, in order to confront the second methodological problem which states that “the fact that there is no common practice or theory referring to i) the number of categories that are required for the evaluation of the corporate governance and ii) the classification of the variables these categories include”. A comprehensive evaluation framework for the corporate governance must be created taking into account the view of experts through a prestigious scientific methodology [10]. More specifically, we believe that the variables must be classified into “clear” sub-indexes. For this reason, all the variables which are going to be used for the evaluation should first be recognized and afterwards be classified into the sub-categories. These should investigate the individual aspect of CG (based on the literature) but their classification should not be confusing [11]. This makes the Modified Delphi Method necessary for the elicitation of the experts’ opinion.

Finally, based on the most common practice, the one that uses a unique weighting for both the categories and the variables, we could say that this approach does not reflect the relative importance of governance proxies. More specifically, we believe that the governance categories do not weigh equally (which means they are not equally significant), while this specific practice has many errors. The unique weighting, in our point of view, means no weight at all (for the variables and the categories), because in this way the number of variables that are classified in the categories are equally and randomly weighed [12]. For this reason, we propose a scientific methodology that gives transparency to the whole procedure while at the
same time gives a solution to this important drawback. The recommended methodology is the **Analytical Hierarchy Process** which confronts the above mentioned problem through the choice of the proper panel of experts.

In conclusion, we must refer to some issues which worth attention and are referring to this methodology (the Delphi Hierarchy Process): Firstly, it is crucial for the used variable to have only binary answers (yes/no) in order to avoid potential bias and subjectivity. Secondly, the used variables for the quality of CG evaluation must be complementary and not overlapping each other. Thirdly, the categories that are used in the AHP must range between 5-9. And finally, the results (from the AHP) must be tested on how sensitive or stable they are (sensitivity analysis) while at the same time it must be verified that they include (in the hierarchy) the various changes of the factors (Saaty, 1994: 112).

### 4. Delphi Method

The Delphi method was originally developed in the 1950’s by RAND Corporation, Santa Monica, California, in operational research (Cuhls, n.d.). However, Delphi method with all its features as are known nowadays (or today) was first used by RAND Corporation in a military plan, which for security reasons was published twelve years later (Dalkey and Helmer, 1963). It is worth mentioning that Delphi studies increased rapidly, and the representative fact was that of Linstone and Turoff (1975) who highlighted that at the beginning of 1960, studies could be counted in three digits and at the decade of 1970 those could be counted in four digits. Needless to say that Delphi method is an attractive method for graduate students completing masters and PhD level research (for further analysis, see Skulmoski, Hartman and Krahm, 2007).

The Delphi technique is a method of eliciting and refining group judgments. The rationale for the procedures is primarily the age – old adage “Two heads are better than one”, when the issue is one where exact knowledge is not available (Dalkey, 1969: v). Or, even better, “N+1 heads are better than one” (Hill, 1982). As a consequence, Delphi method is used in forecasting tasks because of the lack of appropriate or available information for using statistical procedures (Rowe and Wright, 2001: 125).
According to Rowe and Wright (1999) there are four key features to classical Delphi (1) anonymity; (2) iteration; (3) controlled feedback; (4) statistical aggregation of group response. However, the classic technique can be effectively modified to meet the needs of the given study (Skulmoski, Hartman and Krahn, 2007: 3; Adler and Ziglio, 1996; Delbeq, Van de Ven and Gustafson, 1975; Linstone and Turloff, 1975).

Moreover, we must take into consideration that the modified Delphi technique is similar to the classic Delphi in terms of procedure and intent. The major modification includes the beginning of the process with a set of carefully selected items. While, the primary advantages of this modification to the Delphi is that it (a) typically improves the initial round response rate, (b) provides a solid grounding in previously developed work and (c) reduces the effects of bias due to group interaction, assuring anonymity, and providing controlled feedback to participants (Custer, Scarcella and Stewart, 1999; Dalkey, 1970, 1972; Judd, 1972).

This means that either the classical or the modified Delphi method could be used as … “a mode to produce ideas and facilitate the consensus among experts who have the required expertise to share, but are not in contact” Weaver (1971:268). More specifically, the nature of the Delphi method is to reduce the burdens of the impartial consensus that happens at face to face meetings (Keeney, Hasson, Mc Kenna, 2006; Lummus, Vokurka, Duclos, 2005; MPhil, Lovell, Harris, 2006).

4.1. Analytical Hierarchy Process (AHP)

The Analytical Hierarchy Process (hereafter AHP) was established by Saaty in 1970’s as a theory of decision making. More specifically, this is a methodology which is based on the Greek term hierarchy [13]. This means that AHP constitutes a structure for problem solving. As a procedure it is well organized and helps researchers to cope with the rational and intuitive selection process of the best alternative solution compared to various criteria. Basically, with this methodology the decision maker can break the problem into smaller parts and compare them into pairs in order to develop priorities in each hierarchy (Saaty, 1994: 5).

“The simplest form used to structure a decision making problem is a hierarchy consisting of three levels: the goal of the decision at the top level, followed by a second level consisting of the criteria by which the alternatives, located in the third level, will be evaluated” (Saaty and Vargas, 1994: 1)
5. Description of the proposed model

The proposed model follows the structure that Khorramshahgol & Moustakis (1988) and Azani & Khorramshahgol (1990) applied. Basically, we’re referring to a methodology which merges both AHP and Delphi method [14].

This methodology, called DHP evaluates CG through the following six steps:

**Step I. Select a monitor team to conduct the Delphi inquiry.**

This team should consist of experts (basically academics) who recognize the problems that appear in the evaluation of the quality of CG totally.

**Step II. Selection of the participating experts by the monitor team.**

The sample could not be randomly chosen because of the nature of both the research and the questions that have to be answered. For this reason, the candidates are selected through the technique of purposeful or judgmental sampling or that of the snowball effect.

**Step III. The use of the Modified Delphi method for the elicitation of experts’ opinion about the questioned issues.**

This particularly means that the monitor team should design a well structured and predetermined questionnaire for the elicitation of experts’ opinion regarding: i) the international best practices (The International Code that refers to the best practices which have to be evaluated on the upper level and should be further based on the
Greek CG system). These practices have to be stipulated by the strictest code internationally matching to each country’s CG system. ii) the appropriate criteria (the main categories) that have to be used for the evaluation of CG’s quality in each specific country.

Step IV. The formation of another Delphi method in order to set up a pairwise comparison matrix for the criteria, the sub-criteria and the alternatives.

The criteria that have to be used in the creation of the pairwise comparison matrix are identified from the previous step, that of the Modified Delphi Method, while the sub-criteria are basically identified by the best classification of the various collected variables (law, CG code, international code). Furthermore, regarding the alternatives, those are used in case our problem requires a preference or choice between alternative situations (for example between companies with different capitalization or between private companies and State Owned Enterprises (SOEs)). For this consolidation of the individual pair-wise comparison judgment the use of the geometric mean method is proposed (McCarthy, 1992).

Step V. Obtaining priorities of the pairwise comparison matrix.

In this step, the priority among criteria, sub-criteria and alternatives is represented by the eigenvalues and this proposed procedure is repeated until stability to the results is reached.

Step VI. Sensitivity analysis.

In this last step it is necessary to conclude on how sensitive the final classification of the alternatives against changes is. More specifically, this means to conclude on how robust the evaluation model of CG is.

6. Implementation of the proposed

The reason of this particular study is to present a new model of CG’s quality evaluation (CGI$^G$ index) and apply it to all listed on Athens Stock Exchange companies on a voluntary basis [15]. More specifically these specific targets can be described that:

i) They provide an independent, reliable, impartial, transparent and scientific tool which is furthermore important to both the academics and the business world practice as well as to any stakeholder.
ii) They scientifically prove the differences that exist in the organization and management style of the family firms, the non-family firms and the State Owned Enterprises on ASE.

Moreover, for this reason we performed a preliminary research before addressing to experts in order to analyze: i) the legislative framework of CG that the companies are obliged to apply to and ii) the annual reports of the Board members. This was conducive to the decision of which code (Greek and International) we could use in our evaluation.

Based on the CG statements (that companies should apply to anyway) we conclude to use, apart from the legislative framework, the proposed SEV code as a middle level and the Combined Code (2010) as the upper level (Those results are recorded in Table I).

Secondly, analyzing those three chosen frameworks we extracted 125 complementary variables (not overlapping) in order to evaluate the total number of the 249 listed companies (that come under FTSE ASE) and verify the variables that really should be estimated and have available data (either on annual CG statements or web sites). The overall process led us to the evaluation of 73 variables for which we could find data. The next step was to categorize those variables into 5 criteria and 16 sub-criteria according to the classification that most companies apply to be based on SEV code (2010).

Finally, regarding the updating of the methodology, the criteria and the weighting, we addressed to the experts for the elicitation of their opinion about i) the international code usable to the evaluation ii) the criteria that are necessary and iii) the weighting of the various criteria, sub-criteria and alternatives.

7. Conclusions and some vital points for further investigation

The evaluation of CG’s quality is a new scientific field which receives prominent attention because of “the spontaneous demand of investors, governmental monitoring departments and public corporations” (Wei-An, 2008: 12). Over time we ascertain that the corporate governance risk matters and has significant repercussion both on the perspective of an economy’s development and on corporate development. This is further supported by the fact that the corporate governance is practically and
scientifically approached by five basic options: Accounting, Auditing, Business Administration, Finance and Law (Caramanis, 2008: 127).

However, what is required is the empirical research that failed to establish clear evidence for the commercial rating and the performance. On the one hand, this puts into question the fact that the commercial rating of CG’s evaluation offers useful information to shareholders while on the other hand, enhances the debate over the construction of governance ratings from the perspective of academics.

Our research comes to solve the methodological problems that appear through the evaluation of CG’s quality using self-constructed indexes while at the same time covers the inefficiencies of the previous studies. More specifically, what is proposed as a practice is the use of Delphic Hierarchy Process (DHP) for the resolution of the problems of Corporate Governance’s Quality while this proposed model is applicable to all listed on Athens Stock Exchange companies on a voluntary basis.

During the preparation of this article many issues occupied us causing several questions regarding the framework of the CG’s evaluation. Most of the studies evaluate the structure of the companies as well as the relationship between the company and the shareholders but what is missing is the evaluation of the overall human capital and that of Board members. Furthermore, Aggestam & Kennan (1999) mention that the intellectual capital of the enterprise might be enhanced by recruiting capable managers, executives and others involved in corporate governance. More specifically, they refer to what constitutes the core of each company which up to now is not evaluated generally. A famous Greek phrase mentions that the fish rots from the head down and obviously deserves proper attention for further research. The knowledge, the experience, the skills, the team spirit and the incentives constitute issues to ensure what CG invokes… “the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment” (Shleifer and Vishny, 1997: 737). In our point of view, the survival of each company depends more on the attitudes and expertise of board members than on the structure of the Board (Keenan and Aggestam, 2001: 267). We propose for further research the creation of a model which could evaluate or take into consideration the human capital of the Board of Directors.
Notes

1. The institutional investors could be banks, hedge funds, mutual funds, pension funds, investment companies, insurance companies etc.
2. For more details see http://www.issgovernance.com/about
3. For more details see http://www.gmiratings.com
4. Healy and Palepu (2001) are pointing out the importance of the information disclosure and are highlighting the information asymmetry that is created.
5. We agree with the view of Standard and Poor’s (2002) that there is no model of corporate governance that works in all countries and all companies. However, we disagree with the fact that there is a code which could be applied as a cornerstone to the evaluation of CG’s quality in each company.
6. The recommendations of the best practices regarding the behavior and structure of a firm’s board of directors.
7. It depends on the extent of each country’s CG system. In Greece, for example, the international best practices of the developed countries are adopted. In contrast, the UK’s CG system is a standard of best practices. As a consequence, in the case of CG’s quality evaluation the legislation and the code that is applied by the listed companies would be sufficient.
8. As Florou and Galarniotis refer (2007: 983), an index that includes all governance norms is discouraging because the data collection costs enough. Certainly, to our belief it is the only way to evaluate the real quality of corporate governance.
9. This specific practice could be applied only in countries that adopt a comply-or-explain approach to corporate governance meaning. This means that it could be applied only in European countries and Canada which follow a principle-based approach. (For more details see Bozec and Bozec, 2011).
10. For more details see: Larcker, Richardson and Tuna (2005: 2).
11. This means that all the non-observable variables (those which cannot be verified through the annual corporate governance statement or the corporate web-site) should be omitted.
12. When we choose a common weighting for each category and all the variables that are included to these, then the variables are weighed from the category’s weight as well as from the number of the questions. This further means that, if
the number of variables varies across different categories, then equal weighting of each category leads to unequal weighting on individual variables.

13. Babiniotis (2008: 772) is referring to the term of hierarchy as a graduated scale which is structured on the relationship between the upper and the lower level.


15. Annual reports of 2011 were used to extract the relevant information.

References


Beekes, W. and Brown, P. (2005). Do better governed Australian firms make more


Accessed 19 February 2012.


Websites

http://www.issgovernance.com/about
http://www.gmiratings.com

Appendix
Table 1: Corporate Governance Codes applied by ASE listed Companies – based on 2010 Annual Financial Reports

<table>
<thead>
<tr>
<th>Corporate Governance Code</th>
<th>Number of Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>SEV (2011)</td>
<td>171</td>
</tr>
<tr>
<td>LAW</td>
<td>5</td>
</tr>
<tr>
<td>SEV (2011), OECD (2004), EU</td>
<td>9</td>
</tr>
<tr>
<td>CSE (2011)</td>
<td>2</td>
</tr>
<tr>
<td>LAW, Regulation of MF and PIC</td>
<td>2</td>
</tr>
<tr>
<td>OECD (2004), HCMC (2011)</td>
<td>1</td>
</tr>
<tr>
<td>LAW, OECD (2004)</td>
<td>1</td>
</tr>
<tr>
<td>LAW, HCMC (1999)</td>
<td>1</td>
</tr>
<tr>
<td>HCMC (1999), OECD (2004)</td>
<td>1</td>
</tr>
<tr>
<td>SEV (2011), CSE (2011)</td>
<td>1</td>
</tr>
<tr>
<td>Combined Code (2010)</td>
<td>1</td>
</tr>
<tr>
<td>CGCs not included in any of the above categories</td>
<td>36</td>
</tr>
<tr>
<td>TOTAL COMPANIES</td>
<td>242</td>
</tr>
</tbody>
</table>

Notes: The definition of the above Corporate Governance Codes and Principles are on the appendix

Source: Author

1. Definitions of the Corporate Governance Codes and Principles in Table 1:


EU: The EU Member States’ generally accepted principles of Corporate Governance


_CSE (2011):_ The Cyprus Stock Exchange’s Corporate Governance Code (February, 2011)


*Regulation of MF and PIC: The Mutual Funds and Portfolio Investment Companies’ regulation of conduct.*

_HCMC (2011):_ The Hellenic Republic Capital Market Commission’s newsletter for the implementation of the Corporate Governance Code (February 2010)

*CGCs not included in any of the above categories:* Corporate Governance Codes compiled and applied by the Companies which are not based in any of the above ‘patterns’. 