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Dealing with "Unionistic Corporate Governance" in Greece

Theocharis Papadopoulos
Athens University of Economics and Business
Hult International Business School, London
theocharis.papadopoulos@faculty.hult.edu

Christos Triantopoulos
Athens University of Economics and Business
ctrianto@aueb.gr

Abstract

While the majority of private Greek corporations move towards an Anglo-Saxon market-orientated model of corporate governance, a number of important organizations still operate under a different model. We call this a "unionistic corporate governance" model and is dominant in almost every state owned enterprise in Greece. It is a distorted expression of the corporatist philosophy that prevailed in the wider Greek public sector according which unionists, managers and politicians ally and assure benefits in expense of the society. However, the implementation of the Economic Adjustment Program -especially the 2nd one- affected the "*unionistic acquis*" and established rules that deteriorate the maneuvering leeway for the main actors. As previous attempts to modernize the regulatory and legal framework failed to change the regime, it is imperative to keep a close eye on the outcomes of the recent reforms and impose further measures to the same direction.

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1. Introduction

According to Shleifer and Vishny (1997) corporate governance is the way in which the suppliers of finance to corporation assure adequate returns on their investment. Agency theory and agency problem are central in the relevant literature. Agency problem refers to the potential conflict of interest between shareholders (*principals*) and managers (*agents*) and the arising *agency costs*. Two main different groups of corporate governance models are evident worldwide: a diffuse *shareholder model* and a concentrated *blockholder model* (Gourevitch and Shinn, 2005). In the shareholder model managers are supervised by shareholders via an elected board of directors and although board members hold relatively small portions of the total stock, their vote is necessary for major decisions. In the latter model managers are supervised by "insiders" (concentrated blockholders), with little formal protection of the outsiders (minority shareholders)[1]. Concentration of ownership allows the overcoming of free riding problems in corporate control thus improving the control of managers (Grossman and Hart, 1988) but at the same time generates private benefits of control and blockholders may hurt the interests of minority shareholders or debtholders (Vives, 2000).

2. Corporate Governance in Greece

It has been already argued that ownership concentration is the main indication for corporate governance and all previous studies describe ownership in Greece as highly concentrated. In La Porta *et al.* (1999) Greek corporations are mainly family owned (50% with a mean of 30%) and state owned (30% with a mean of 22%). If we lower the threshold from 20% to 10% the family ownership percentage increases to 65% (with a mean of 35%). According to Claessens and Tzioumis (2006), the percentage of Greek listed companies without at least one shareholder exceeding a 25% stake is 20% with a mean of 45%. Karathanassis and Drakos (2004) also find a high degree of concentration using data from companies quoted on the Athens Stock Exchange (ASE). In the same line are also Kapopoulos and Lazaretou (2007) and Gourevitch and Shinn (2005) who rank Greece second regarding its level of owner concentration and first among OECD countries (75 with a mean value of 47). Finally, most recent research supports previous findings on high levels of concentration but also identifies a convergence toward the Anglo-Saxon model, partly due to a wider Europeanization process (Papadopoulos 2011). Other scholars find a global convergence of corporate governance policies and frameworks towards shareholder model (Van der Elst, 2000; Hansmann and Kraakman, 2002; Wojcik, 2006).

3. "Unionistic" Corporate Governance

During the last 10-15 years, most corporations in the Greek private sector seem to adopt characteristics and structures of the Anglo-Saxon market-orientated model of

[1] While shareholder model has the main basic characteristics in the Anglo-Saxon economies where is mainly applied, there are several varieties of the blockholder model. In particular, large shareholder blocks may be held by financial institutions, banks or other firms in one version. Another possibility is the family network, in which personal ties are used to control managers. A different version is state ownership model, where public authorities supervise firms through a variety of mechanisms.

corporate governance. However, a number of important companies still operate in a different sub-model, which could be described as "*unionistic*" corporate governance, a distorted expression of the corporatist philosophy that prevailed in state owned enterprises (SOEs) and organizations of the wider Greek public sector. The main characteristics of the "*unionistic*" corporate governance -compared to the other types of corporate governance- are:

(a) The management is appointed and manipulated by the party in power since state directly or not controls the majority of shares. The criteria of the appointment of the management and the members of the board were mainly based on the political background of the candidates and not on their professional and academic profile or their expertise.

(b) The absence of either adequate internal (transparency and accountability) or substantial external (market control) control mechanisms. In particular, the ownership status of the organization created for decades a "protective mantle" from external control of the market forces that allowed the institutional inertia within the organizations.

(c) The strong linkages between political parties and trade unionists as both recruitment and career progress in these organizations are based on political affiliations rather than meritocracy. Thus, the reliance of staff's hierarchy on political affiliations and not to the employees' productivity and expertise harmed significantly the capacity and competitiveness of the organization.

(d) The direct formal or informal involvement of trade unionists in corporate governance. In particular, the traditional confrontational philosophy (sometimes maximalist) of the trade unionists and the usually passive stance of the management -because of the absence of substantial accountability and clear business mandate from the shareholders (i.e. the state)- didn't allow the emergence of corporatist situations that could help the organization to exploit its potentials.

(e) The production network of an organization (i.e. raw material, rents, supplies, cooperation and relations with other economic actors, contract works, etc.) is not based mainly on cost efficiency logics and quality criteria but is usually determined by state-led regimes or intervention and political or other business oriented preferences. So, a common result was the establishment of a rent-seeking[2] network around the production process that through the powerful influence to the political system created a diachronic situation of inefficiency –even with the rotation of the idiotype "stakeholders".

(f) The nonalignment of interests between organizations and their basic actors, management and employees, since irrespectively of goal achievement or profitability, managers and employees retain (or even increase) their high levels of prosperity in terms of salaries, bonuses and other benefits. Some representative examples of this model include Public Power Corporation (DEI), Hellenic Telecommunications

[2] More about rent-seeking tactics and groups in Greece in Kazakos (2001), Mitsopoulos and Pelagidis (2009), and Michas (2011).

Organization (OTE) -prior to privatization), Hellenic Railways Organization (OSE) and other large state owned enterprises and organizations in Greece.

Particularly, in the "*unionistic*" corporate governance sub-model we have a double agency problem which differs from those faced in other models. The principal in this case is the state (or even the society as a whole) and the agents are the managers and the employees. Employees, as members of powerful unions advance their status from productive resources to agents with managing powers. Managers and employees build a strong coalition in expense of the state (or society). At the same time, a second agency problem arises when politicians (agents) act against their principal's (society) interests and tolerate if not encourage such coalitions. They do so by appointing political affiliates for top management positions, by recruiting political supporters in SOEs, and by offering them "scandalous" privileges, which put them in a much better position when compared with the unprotected private sector employees.

Considering the theoretical background of the abovementioned game, Gourevitch and Shinn (2005) describe a series of coalitions that might arise between the difference actors and lead to different outcomes or corporate governance models (Table 1). The main actors in their model are owners (O), managers (M) and employees/workers (W). In pairs they form coalitions against the third party and the winner of this battle will define the prevailing corporate governance regime.

Table 1: Coalitions and Corporate Governance

Coalitional Lineup	Winner	Political Coalition Label	Predicted Outcome
Pair A: Class Conflict			
O+M vs. W	O+M	Investor	Diffusion
O+M vs. W	W	Labor	Blockholding
Pair B: Sectoral			
O vs. M + W	M + W	Corporatist compromise	Blockholding
O vs. M + W	O	Oligarchy	Blockholding
Pair C: Property and Voice			
O + W vs. M	O + W	Transparency	Diffusion
O + W vs. M	M	Managerism	Diffusion

Source: *Gourevitch and Shinn (2005)*

In Table 1 we would add not a pair but a triplet (Table 2). Contrary to the other coalitions our triplet does not antagonize anyone. They all win in the expense of the society (or public interest), which keep on funding this situation (increased taxes) and / or bearing the public debt generated by the inefficient management (increased deficit). There is no conflict because the well-structured and organized interests are not challenged by the un-coordinated society, especially as long as the state is able to borrow from the international markets and there is no further increase of the tax burden. It is a win without a "fight" but with many "losses".

The theoretical explanation of the political-economic environment that allowed the existence and growth of this phenomenon is based on the "public choice" theory.[3] According to this approach the government, bureaucratic structures, and interest groups are constituted by individuals who behave exactly like the actors of the private sector who continuously seek ways to maximize their gross benefit. The gross benefit

[3] The theory of "public choice" is based mainly in the works of Buchanan, Tullock, Olson, and Riker in the mid 60s.

is translated into its re-election and ability to manage public funds (Kroszner and Strahan, 2000), transforming *homo politicus* into nothing more than a *homo economicus* in a political market (Kazakos, 2006). We can argue with Buchanan (1987) that politics "*is a structure of complex exchange among individuals, a structure within which persons seek to secure collectively their own privately defined objectives that cannot be efficiently secured through simple market exchanges*". So, economic elites or / and interest groups, among which are also the trade unions, may exercise control over the governmental policies and remain powerful even if governments change.[4]

Table 2: Coalitions and "Unionistic" Corporate Governance

Coalitional Lineup	Winner	Political CoalitionLabel	Predicted Outcome
Pair A: Class Conflict			
O+M vs. W	O+M	Investor	Diffusion
O+M vs. W	W	Labor	Blockholding
Pair B: Sectoral			
O vs. M + W	M + W	Corporatist compromise	Blockholding
O vs. M + W	O	Oligarchy	Blockholding
O + M + W	O + M + W	Distorted corporatism	Blockholding (SOEs)
Pair C: Property and Voice			
O + W vs. M	O + W	Transparency	Diffusion
O + W vs. M	M	Managerism	Diffusion

In particular, in Greek SOEs politicians (or government or the political system) own and exert controlling rights as if they were major blockholders in a concentrated ownership model. However, in a concentrated ownership model the controlling shareholders have an ethical claim on control based on the fact that they bear most of the risk and the will pay most of the cost for any potential losses. This is not the case with the political system and SOEs. The government appoints the CEO and controls the board of directors but political personnel faces no financial or other punitive results in case of inadequate or impotent management. Negative economic results, financial losses or unexploited opportunities cause minor or no distress to the political overseers that usually have a small planning horizon.[5] On the other hand, decisions that could put in stake the benefits of the employees and even more the unionists would trigger fierce reaction.

In this context, where an organization is not managed according to market or financial targets but on the basis of political and personal pursues, the main actors ended in a "golden balance" within a "*unionistic*" corporate governance model, where all won in the expense of organization's efficiency and profitability. This strange "win-win-lose" game, with society being the loser, could not have been played without the support of a "*generous*" state that kept covering (if not opening new ones) black financial holes, justifying its behavior on the rhetoric of "general public (or national) interest". Greek state was offering subsidies, tax exemptions, and guarantees for loans, building a protective environment, away from the "vicious" market forces, for its protégés. The cumulative effect of these policies was a further increase to the fiscal deficit and public debt which had to be maintained in the face of dynamic trade union actions,

[4] More about the "capture" of the governmental policies in a democracy in Stigler (1971) and Acemoglu and Robinson (2008).
[5] In Greece after 1974, the electoral cycle, even though is set to last four years, its average duration is about three years.

including the occupation of ministries, power plant blackouts, and cancellations of flights etc.

The diachronic situation considering the corporate governance scheme in Greece is successfully summarized in an OECD's report for a Greek sustainable recovery (2010) that underlines five main recommendations regarding the corporate governance of SOEs. In particular, OECD suggests that is crucial to "*[...] (a) depoliticize boards and managements of SOEs so as to make them more professional and accountable, (b) stop Ministries' day-to-day interference in the affairs of SOEs and transfer responsibility for performance to management and boards, (c) enforce boards' accountability for the financial performance of the company and strengthen their ability to hold management accountable, (d) consider privatization for SOEs in competitive sectors such as finance, drawing on recent OECD best practices in this area, and (e) strengthen competition and regulatory frameworks for other sectors dominated by SOEs, so as to improve efficiency [...]*".

4. Efforts for Change

The Greek political system, during the last three and a half decades, had two major policies in order to face the forces that had shaped "*unionistic*" corporate governance in organizations of the wider public sector and, especially, the SOEs.[6] The one was a large scale privatization program (as a public policy[7]), where the change of the ownership and the management -after selling the total assets or the majority of a SOE- would create new corporate governance environment inside the enterprises and also dynamics for a broader corporate governance reform, and the other was a legal and institutional reform that would lead to an updated corporate governance regime of the SOEs, allowing them to become compatible and efficient in a market economy. The latter reformative policy could prevent the privatization of a profitable SOE or alternatively would increase its value. The pre-reform employment regime (permanence of employment, many discrete allowances, unionistic benefits, extensive and generous insurance and pension schemes, lump sum schemes, etc) and the rooted inefficiencies (union's involvement in management, lack of training procedures, low level of human capital, etc) are a crucial factor that reduces assets' value. In any case, public revenues are higher after a reform in corporate governance than in the case of privatization without any changes in the relevant institutional regime.

The policy that was chosen by the political system in Greece -according to the factual approach[8]- had been the promotion of a privatization program, aiming -first of all- to the fiscal results, because of the revenue raising from the sale and the relief of the state budget from the relative subsidies or the loan guarantees, to the improvement of the investment and economic environment, because of the broader spill-over effects

[6] According to Zahariadis (1995), the state involvement in corporate management has shifted in the last decades from direct methods of control (ownership) to indirect methods (regulation).

[7] Privatization program is approached as a public policy that seek to reform the state ownership structures in order to face inefficient resource allocation as a result of various incentive distortions, like electoral cycles, moral hazard, principal – agent problems etc (Pagoulatos, 2005).

[8] The choice of the political system is described, considering the results, by the *actual approach* (Masciandaro and Quintyn, 2009) and not by the *narrative approach* as the willingness of relative reforms was always in the political agenda and rhetoric but was never translated into actual policies.

towards a non-monopolistic economy, and to the modernization of the corporate governance regime in the SOEs (Pagoulatos, 2005; Pagoulatos and Zahariadis, 2011). Particularly, the privatization program and the public listing of firms in the stock market created a disciplinary framework of efficiency improving corporate governance, as convergence with higher international accounting and corporate governance standards was the prerequisite to attract international institutional investors (Goyer, 2003; Schmidt, 2003; Lutz and Eberle, 2004; Pagoulatos, 2005).[9] Surely, alongside the domestic incentives for the promotion of a privatization program, there where, also, pressures or opportunities from the external environment considering the role of SOEs in the Greek economy, as the EU integration process towards a common market with a common currency, the internationalization of the financial and funding transactions, the tremendous changes in technology and innovation, and the liberalization of international markets (Rapanos, 2009).

In this framework, the privatization program started during the '90s as the previous decade was the one during which, among others, the public sector extremely enlarged, the state's intervention and "guidance" in key sectors of the economy expanded through methods of central planning and the "socialization" of failed private enterprises[10], and the institutional and political environment for the development of the "*unionistic*" corporate governance sub-model was created (Kazakos, 2001; Pagoulatos, 2003; Rapanos, 2009; Sotiropoulos, 2009; Kazakos, 2011). Thus, during the '80s (a) the further nationalization of parts of the country's industry and the banking market increased in historically high levels, (b) the expansion of employment in the public sector and (c) the increase of workers' participation in state owned enterprises resulted the opposites of the expected results as the efforts -through the "socialization" process- failed to restructure or improve the efficiency of the enterprises and -simply- led to huge fiscal deficits and high levels of public debt (OECD, 1988; Kazakos, 2001; Rapanos, 2009; Kazakos, 2011). So, after a decade of nationalization and under the EU pressure (Pagoulatos, 2005) the '90s was the first decade of privatization and was divided into two periods. The first one was the 1991 - 1993 period, during which the government tried to implement a privatization program oriented in the sale of either the public enterprise as a whole or of a majority stake of the public enterprise (see Table 1). However, this privatization tactic cannot be characterized as successful because the program faced many political and social obstacles and stopped in 1993 after the elections (Pagoulatos, 2005; Kazakos, 2011). According to Kazakos (2011), one of the significant factors for this failure was the strong unions of the public sector that aggressively responded to the privatization program.[11]

[9] This was the case for the large SOEs, where the objective was the access to domestic and international capital market in order to raise funding for technological investment and modernization, to implement strategic alliances and to maintain a competitive size in the global and European markets (OECD, 2001; Pagoulatos, 2005).

[10] In 1983 the government established a public holding group for ailing enterprises (Industrial Restructuring Organization) in order to control a big number of private firms for restructuring purposes partially with illegal methods.

[11] As Kazakos (2011) underlines, "*Several factors were responsible for this early failure, among them the instability of a government which could only count on a marginal majority, a still unfavorable public opinion, internal tensions in the governing party between liberals and conservatives, serious policy design mistakes as a result of lacking experience and an aggressive opposition, dominating the unions of the public sector and still promising to renew the populist politics of the '80s.*"

The period after 1996 was characterized by a gradualist and non-conflicting tactic (see Table 1), which emphasized the retention of public control over the under privatization enterprises, while the overall environment was certainly more conductive than during the first period (Pagoulatos, 2005; Pagoulatos and Zahariadis, 2011).[12] However, the fundamental element of this gradualist tactic was that, substantially, it didn't affect the unionist system that was developed during the '80s. On the contrary, on a large scale this tactic retained it as (a) the partial privatization (sell of minority stakes) led to retention of the union-party-ministerial bureaucracy control upon the enterprises (Kazakos, 2011), while this situation remained in many even in cases when the state lost the majority stake given either the wide dispersion of the rest of the enterprise's shares or the participation of quasi-public institutions and organizations in the enterprise's ownership (Pagoulatos, 2005)[13], (b) the workforce in SOEs remained in high levels[14] as this area of the broader public sector (with the local government) was the most attractive for the political system to expand its "*clientelism*"[15] because of the quasi-public management nature and the core public employment scheme (with full benefits and "*permanency*"), (c) the wage level kept an increasing trend -alongside the rest of the public sector- that was not related to the enterprises' profitability and efficiency, while the extra benefits for the workers remained in place or increased[16], (d) the partial privatization movements were accompanied by generous voluntary retirement schemes for a large number of (old) employees under the pressure of the unions (Pagoulatos and Zahariadis, 2011) and changes -in the cases of the state banks- in the pension system structures, affecting negatively the sustainability prospects of the pension system (Kazakos, 2011).[17] This situation and privatization logic, mainly, continued and after 2000.

Thus, even though that the unions' power was limited slightly as a result of the openness of the markets[18] and the entrances of strategic partners in the management (with majority stakes in some cases), the fundamental elements of the institutional and

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[12] The reasons for the more conducive environment were the opposition consensus, policy learning, favorable economic and market conditions, and the ideological and leadership shift of the government (Pagoulatos, 2000a; Pagoulatos, 2000b; Pagoulatos, 2005). Furthermore, Rapanos (2009) states that the entrance -through "*equitization*"- of these enterprises to the stock market had positive effects in terms of profitability and in terms of revenues raising from the privatization.

[13] A characteristic case is that of the National Bank of Greece, as even though the state's percentage of share decreased in single digit levels the wide dispersion of the rest of the company's shares and the entrance in the company's ownership of the Greek Church and the pension and insurance funds allowed the state to remain in control (Pagoulatos, 2005).

[14] Based on estimation of the Greek Ministry of National Economy, in 1997 employees in public enterprises were about 130.000 (Kazakos, 2011).

[15] About "*clientelism*" in the Greek political system and economy, among many others, see Tsoukalis (1997), Kazakos (2001), Pagoulatos (2003) and Featherstone (2008).

[16] According to Pagoulatos and Zahariadis (2011), considering the OTE's privatization case, underline that "*during the first public offering in 1996, a number of shares were distributed to OTE employees*" and that "d*uring 1996 – 2004, a consensus-seeking policy of industrial peace was pursued by OTE's management, concordant with the government policy at macro-level. Very favorable enterprise-level collective labor agreements were signed, and an extensive bonus system was applied until 2004.*"

[17] Particularly, the merger of the banking market's pension funds weakened the general Social Insurance Foundation by taking out of it the pension funds of private banks and consolidating already existing pension privileges of the state bank employees (Kazakos, 2011).

[18] Limited union power in a non-monopolistic environment is a reason why privatization, which evolved parallel with the gradual market liberalization, did not lead to increasing but decreasing labor tension as the pressure instrument of "strike" was seriously weakened (Pagoulatos and Zahariadis, 2011).

political environment that allowed the development of "*unionistic corporate governance*" in SOEs remained in place as the focus of the partial privatization program was on the temporary fiscal dimension of the policy (one-off revenues) and not on the structural one (midterm economic benefits). So, the government in order to achieve the fiscal targets of revenues-raising and subsidies-saving didn't change "*much in the way the system works*" and tried to retain "peace" with the unions by neglecting the second reformative policy that could change the corporate governance regime of the SOEs: institutional reforms.

Table 3: Privatizations in Greece, 1991 – 2011

Date	Company (Share %)	Value (US $ mil.)
04/1991	Olympic Marine S.A. (100%)	5,11
09/1991	Chios Bank (100%)	15,80
10/1991	Elvim S.A. (100%)	8,86
11/1991	Minion S.A.	6,62
12/1991	Thraki S.A. (100%)	8,37
01/1992	Thessalian Paper Mills S.A. (100%)	2,45
03/1992	Hercules Cement S.A. (69.8%)	644,18
06/1992	Chandris	200,00
12/1992	Elefsis Shipyards S.A. (100%)	373,80
01/1993	Bank of Athens (66.7%)	31,36
07/1993	Hellenic Sugar Industry (20%)	12,20
03/1996	OTE S.A. (7.6%)	430,90
02/1997	Thessaly's Cotton Ginning (100%)	2,74
05/1997	CosmOTE S.A.	97,68
06/1997	OTE S.A. (12.4%)	1123,90
12/1997	Athens Stock Exchange (39.67%)	78,70
04/1998	Bank of Macedonia – Thrace (36.98%)	74,33
04/1998	Geniki Bank (14.5%)	55,80
04/1998	OTE S.A. (3.5%)	399,90
05/1998	National Bank of Greece (10%)	87,20
06/1998	Hellenic Petroleum S.A. (23%)	272,70
09/1998	Bank of Central Greece	58,39
11/1998	OTE S.A. (15%)	1019,50
04/1999	Chalkis Shipyards S.A. (100%)	9,31
04/1999	National Bank of Greece (4%)	553,30
04/1999	Olympic Catering	10,90
06/1999	Athens Paper Mills S.A. (100%)	120,00
07/1999	OTE S.A. (14.1%)	979,20
10/1999	National Bank of Greece (4%)	302,90
11/1999	Duty Free Shops S.A. (25%)	173,16
12/1999	ETVA (25%)	398,00
12/1999	Hellenic Petroleum S.A. (11.5%)	458,10
12/1999	EYDAP (25%)	210,90
02/2000	Hellenic Petroleum S.A. (15%)	355,00
07/2000	EPA Thessaly (49%)	35,13
07/2000	Athens Stock Exchange (60%)	66,80
12/2000	CosmOTE S.A. (11.02%)	403,60
12/2000	Agricultural Bank of Greece (7%)	300,80

04/2001	OPAP S.A. (5.5%)	79,70
06/2001	OTE Leasing S.A. (100%)	20,94
08/2001	Thessaloniki Port Authority S.A. (25%)	15,00
08/2001	EYATH S.A. (25.45%)	14,40
10/2001	Hellenic Shipyards S.A. (51%)	5,30
12/2001	Public Power Corporation S.A. (15.09%)	391,70
06/2002	OTE S.A. (8%)	627,80
07/2002	OPAP S.A. (19%)	437,90
09/2002	Olympic Catering (58%)	15,75
12/2002	Public Power Corporation S.A. (13.2%)	323,90
05/2003	Hellenic Petroleum S.A. (16.65%)	384,19
07/2003	OPAP S.A. (24,6%)	710,40
07/2003	Piraeus Port Authority S.A. (25%)	61,50
10/2003	National Bank of Greece (11%)	577,10
10/2003	Public Power Corporation S.A. (15.7%)	714,30
03/2004	Geniki Bank (50.01%)	154,62
08/2004	Hellenic Petroleum S.A. (8.21%)	237,13
11/2004	National Bank of Greece (7.46%)	725,50
07/2005	OPAP S.A. (16.4%)	1518,58
08/2005	OTE S.A. (10%)	1036,90
05/2006	Agricultural Bank of Greece (7.23%)	421,30
05/2006	Hellenic Postbank (35%)	793,03
06/2007	OTE S.A. (10.7%)	1485,99
07/2007	Hellenic Postbank (20%)	701,10
12/2007	Hellenic Postbank	36,00
05/2008	OTE S.A. (3%)	681,14
10/2008	Marine of Peace and Friendship Stadium	54,50
11/2008	Container Terminal of Piraeus Port Authority (-)	63,38
12/2008	Hellenic Postbank (-)	32,42
03/2009	Olympic Airlines (100%)	225,04
04/2009	Athens Airport Fuel Pipeline Company (17%)	2,63
04/2009	Olympic Fuel Company S.A. (65.94%)	9,22
05/2009	Casino Corfu (100%)	10,81
07/2009	OTE S.A. (5%)	957,08
06/2011	OTE S.A. (10%)	548,80
09/2011	OPAP Licenses	1137,66

Source: *Privatization Barometer (2009), Ministry of Finance (2009), Rapanos (2009) and Ministry of Finance (2012)*

5. Dealing with the Unionistic Acquis

After the ‘80s there was no substantial reformative initiative considering the SOEs governance and employment regime until 2005, when the first legislative initiative took place (3429/2005) in order to establish a framework considering the function, governance, control and employment of SOEs. In particular, the key components of the law 3429/2005 were, among others, about: (a) the composition and the function of the board of directors and the management of the enterprise, (b) the development of internal regulation, (c) the organization of internal audit department, (d) the submission of strategic and business plan to the interministerial committee about the SOEs in order to approve it, (e) the submission of financial statements in the Ministry of Finance in specific deadlines, (f) the entrance of SOEs' new staff hiring in the transparent procedure of the Council for Civil Personnel Selection (ASEP), and (g) the provision for (light) sanctions' imposition by the interministerial committee to the SOEs that diverge from the submitted plan. However, even though the 2005 law could be characterized as "breakthrough" -for Greece's standards- with remained weaknesses considering the OECD guidelines for SOE corporate governance (Rapanos, 2009), the results weren't the expected ones and the SOEs' losses continued, contributing to the country's fiscal problem.[19] These poor results could be attributed, mainly, to the fact that the framework didn't introduce (transparent) automatic procedures and retained the "privilege" of the government to decide about the enterprise's performance (party-ministerial bureaucracy control) and to the absence of strict financial and funding constraints related with the management's accountability.

Thus, the law 3429/2005 couldn't by itself hurt significantly the "*unionistic acquis*" and this weakness was also reflected in the reaction that was not as aggressive as in other relative initiatives. Such an aggressive reaction from every part of the political spectrum was noticed in 2008, when a legislative initiative was taken in order to enhance the framework established in 2005 by setting wage constraints with an amendment in the law 3691/2008. In particular, this amendment (a) change the wage scheme for the SOEs' new staff hiring in order to harmonize with the broader employment conditions in the private sector and not with the business collective agreement which was characterized by a large divergence from the performance of the enterprise, (b) gave the competence at the interministerial committee to set ceilings in the annual wage increase of business collective agreement for the SOEs with losses, and (c) modernize the institutional framework for the appeal to the Organization for Mediation and Arbitration so as in the cases of SOEs with losses both parts (employer and employees) must agree to appeal (i.e. for the annual wage increase) and not to be a unilateral decision of employees that was the process until then. These constraints enhanced the effectiveness of the framework and affected significant the "*unionistic acquis*", as they hurt the direct union's benefits from the development of the "*unionistic*" corporate governance, which were the SOEs' workers high earnings. However, the amendment's provisions were never implemented as after to 2009 elections the government decided to "freeze" them and, particularly, reverse the reform considering the wage scheme for the SOEs' new staff hiring -as promised before the elections. Thus, in January 2010, the government promoted the hiring of new staff in one of the largest SOEs based on the wage scheme of the enterprise's employment regulation and not on the employment conditions in the private sector (Zervos, 2010).[20] Nevertheless, this reform reversal wasn't translated into change of the law, because after May 2010 the laws that followed Greece's entrance into the

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[19] According to Rapanos (2009), in 2008 total SOEs' losses amounted around 1,6 billion Euros that mainly where covered from state subsidies that increased also, while in the cases of profitable SOEs the level of profitability were very low.

[20] The President and CEO of Public Power Corporation (S.A. announced in the 33rd conference of the PPC Workers Union (GENOP-DEI) that during that day the new employees (80 of totally 2.035 new hiring according to "Kathimerini" newspaper) had been hired according to the PPC's Personnel Status Regulation with the consent of the Ministry of Environment, Energy and Climate Change and that this process would continue with intense pace.

EC/ECB/IMF Support Mechanism[21] retained and partly (considering the Organization for Mediation and Arbitration provisions) expand the reform that was attempted in 2008.

Undoubtedly, during the first two years in the EC/ECB/IMF Support Mechanism, the implementation of the Economic Adjustment Program affected the "*unionistic acquis*", mainly, because of the extended wage reduction and benefit cut in the broad public sector, as there weren't any significant movements considering the two policies that could face the forces that had shaped "*unionistic*" corporate governance. However, during 2012 and after an extended electoral period that increased the liquidity of the political environment and put at stake the country's future in the Euro area the government's attitude against the framework of SOEs changed. Firstly, the government decided a series of measures that affected the core of the "*unionistic acquis*", like (a) the targeted movements in order to abolish special privileges and harmonize with the previous law on wages[22], (b) the abolition of the supplementary pension awarded to union officials who served as presidents and general secretaries of primary and secondary organizations (law 4093/2012), (c) the further harmonization of the SOEs' special wage regime with the one of the public sector and, thus, reducing significantly salaries and allowances (law 4093/2012), (d) the reductions in the remuneration, allowances, expenses and earnings in general of President, Vice President, CEO and Board members (law 4093/2012), and (e) the implementation of the relative law considering the strikes.

Furthermore, what seemed to change the institutional environment that allowed the development of the "*unionistic*" corporate governance was the legislative initiative that was added as an automatic financial constraint mechanism to the framework established with the 3429/2005 and its amendments. It was an initiative in law 4111/2013 about the establishment a new type of financial controls in all bodies within General Government -and SOEs- which are harmonized with the new standards that impose cost reduction of the auditing process and the simplification and flexibility of the auditing regimes' operations. Particularly, this initiative (a) set a monitoring mechanism for the annual SOEs' budget according to which they have to submit to the Ministry of Finance their budget and quarterly targets for the basic revenue / expense accounts and (b) introduced an automatic "financial correction" mechanism according to which (i) in case of quarterly shortfalls from the targets by 10% then every kind of state financial support is reduced by the shortfall's rate, (ii) in case of shortfalls that exceeds 10% then the board's remuneration payment is suspended until the achievement of the initial budgetary targets, and (ii) in case of an annual shortfall that exceeds 10% the board's term of office is considered as de facto expired. However, the "automatic" dimension of the correction mechanism is slightly undermined by the law's provision which states that a SOE can review its budget after a ministerial decision (by the Minister of Finance) that clarifies the factors that justify such a review.

So, in general, this initiative introduced the structural elements of automatic audit procedures and strict financial constraints that were absent but necessary for the full

[21] See laws 3833/2010, 3845/2010, 3871/2010, and 3899/2010.

[22] Particularly, the government pressured for and achieved the cut of the high "family benefit" for the managers of PPC and moved the LARKO's management for not harmonizing the enterprise's wages with the previously adopted laws (3833/2010, 3845/2010, 3899/2010, 3986/2010 and 4024/2011).

and efficient implementation of the 2005 law. In the new framework, the environment that allowed the development of the "*unionistic*" corporate governance at the expense of public debt lost fundamental characteristics as the accountability of the enterprise's management became directly connected with its viability and remuneration and the enterprise's performance is reverse and negatively related with the subsidy of the state. So, theoretically there is no managerial and financial room left for the actors of the "*unionistic*" corporate governance to exploit the benefits of it.

In practice, the first year in force (2013) of the financial constraints mechanism was 2013 and its implementation can be characterized as a "flexible" year of adjustment to the new framework. Particularly, during the first three quarters of 2013, according to the bulletin of the Ministry of Finance, the compliance to the financial constraints of the General Government legal entities with budget over EUR 20 millions increased from 50% of the entities that submitted data in the first quarter to 65% in the third quarter.[23] Furthermore, in the first quarter of 2013 30% of the SOEs that submitted data diverged from the 10% threshold, while this rate increased to 55% during the second quarter of 2013 (Ministry of Finance). Considering the "financial correction" mechanism, even though every bulletin of the Ministry of Finance ends up underlying the corrective process[24], it is crucial to evaluate the first year of the framework's implementation with the data of the financial year. However, in parallel with the initiative to harmonize the wage bill of SOEs and General Government legal entities, there were cases in 2013 (i.e. Athens Urban Transport Organization, Center for Renewable Energy Sources and Saving, Industrial Property Organization, etc) that the management and the board of director were changed because of inefficient management of the organizations.

6. Conclusions

There is no doubt that steps to the right direction have already been made as the sovereign debt crisis and the strict fiscal adjustment program that followed it eliminated the room for the broader political system to retain the strange "win-win-lose" game of the "*unionistic acquis*", with society being the loser that had to pay the bill. However, the recent policies answer mainly to the last two or three of the OECD recommendations mentioned above and they don't address the need for depoliticising boards and management neither stop the constant interference in day-to-day activities by political patrons. Allowing the board to elect the CEO would be a step forward (Frederick, 2011) provided always that the board would also be free of political interference. Depoliticizing the unions would be another important step. Under the current regime, unions in most cases are colonized by the political parties and serve as a greenhouse for future political candidates. If the political system is reluctant to relax its grasp on SOEs, further privatization initiatives might be another indirect way to reform the corporate governance regime. In any case, an improved corporate

[23] During the first nine months there were cases of the specific General Government entities that have not submitted data because of financial problems; abolition; protests and occupations.

[24] Every bulletin of the Ministry of Finance considering the General Government legal entities end up underlying "*[…] for the legal entities which present deviations […] from their targets, the competent authorities have to take all the necessary measures for reducing the deviations. In case of not conformation, the provision of the legislative act incorporated in the law 4111/2013, will be activated and implemented […]*".

governance framework in SOEs would increase their market value and the respective revenues in a case of privatization, improve their economic results relieving the fiscal deficit as long as they remain under state ownership, and also enhance the quality of customer service provided possibly with a lower cost.

So, there is still much to be done regarding the implementation of the current institutional framework, the promotion of the privatization program, the disengagement of SOEs from the political network of parties and trade unions, and the development of a “market-harmonized” transparent framework of corporate governance rules. Particularly, if unions in SOEs continue to serve as “nurseries” for political parties and the SOEs’ management continues to be a field of political settlement or bargain, the results of any reform will not be the expected ones and corporate governance reforms in the wider public sector will be stillborn efforts.

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