

# **INTERNATIONAL HELLENIC UNIVERSITY**

## **Research Seminar Series**

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### **EFFICIENT CORPORATE GOVERNANCE MECHANISMS**

#### **An Application to the Shipping Business**

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#### **Extended Abstract**

The paper examines the impact of efficient corporate governance mechanisms on the financial performance of the shipping firms. Particular attention is paid to the mechanism of CEO duality / separation (that is separation or not of the Board of Directors' Chairman and CEO positions). The financial implications for shipping firms are assessed in case a CEO duality or separation approach in top management applies. The shipping firms represent an interesting case study, as they have turned from family-run firms into stock-market listed corporations. An increasing number of shipping firms are seen to go publicly listed on international capital markets. As a consequence, their managerial and ownership structure shift from a private, family-based into a public, multi-shareholder based model. At the same time, the corporate governance system shipping firms adopt gets under scrutiny. A good governance practice is postulated to be the choice of different persons serving as CEO and Chairman delegating top managerial responsibilities to the best interest of the shareholders. This mechanism, however, does not seem to always apply in the case of the shipping firms that appear to have preferred CEO duality.

The agency theory of the firm and the stewardship theory suggest diverging arguments as to the implications of the duality / separation governance mechanism.

Separation of BoD Chairman and CEO responsibilities can facilitate a more effective monitoring and control of top management and can improve the financial performance of the firm, whereas, firms failing to do so may underperform. On the other hand, CEO duality is counter-argued to induce positive implications for the financial performance of the firm, due to a uniform command chain and the elimination of conflicting and delayed decision-taking. However, past empirical findings in a numbers of diversified business sectors have produced contradictory evidence as to whether CEO duality / separation can have positive implications or not for the firm's financial performance.

Based on this framework, the paper investigates the hypothesis of CEO duality / separation as an efficient governance mechanism and its impact on shipping firms' financial performance. This issue has not been investigated in the shipping sector before. A cross-section panel data methodology is employed. It is seen that, as more shipping firms decide to go publicly listed on international capital markets, their top management governance model shifts from an introvert family-based framework into public multi-shareholdership, whereas a number of independent members is also including in the Boards. It is found that a number of shipping firms adopt the separation of CEO and Chairman positions as a governance measure which can exert a positive impact on firms' financial performance. Further empirical research on these issues would be useful.

**Keywords:** *efficient corporate governance mechanisms;*  
*firm financial performance;*  
*shipping business*