

Corporate Governance Rating and Family Firms: The Greek Case

Spanos Loukas*

Ph.D. Candidate, Dept. of Economics, University of Athens

Tsipouri Lena

Associate Professor, Dept. of Economics, University of Athens

Xanthakis Manolis

Associate Professor, Dept. of Economics, University of Athens

Corporate governance (CG) studies have mostly focused on highly dispersed corporations. However, there is an important need for research exploring the governance structure of family-owned firms. The main characteristics that distinguish the family firm from the other types of corporations are the presence of one or more controlling family and the involvement of the owners in the management. Family firm is the most common form of business in Greece. Hence, the governance structures and the performance of the family firms affect the growth opportunities of the capital market. The aim of the paper is to explore the main aspects of CG of family-owned listed companies in Greece. For this purpose, we apply a specific CG rating methodology, using five core CG criteria to distinguish family from non-family firms: shareholders' rights and obligations; transparency, disclosure of information and auditing; board of directors; CEO and executive management and corporate social responsibility and corporate governance commitment. The overall research objective of the study is to develop a CG rating methodology on the current state of corporate governance in Greece. Each firm is rated among the 120 total number of companies (both family-owned and widely-held). The results disclose the potential strengths and weaknesses of the existing corporate governance framework of the family-owned firms and provide specific policy recommendations.

Keywords: *family firms, corporate governance rating, Greece.*

JEL: *G32; G39*

The authors are grateful to participants at the 2004 Family Firms and Corporate Governance Conference (Istanbul) for helpful comments and discussions. Loukas Spanos acknowledges financial support from the General Secretary of Research & Technology in Greece and the European Union.

* Corresponding author: 5, Stadiou street, 2nd floor, 105 62, Athens, Greece, e-mail address: lspanos@econ.uoa.gr

Introduction

The family firm is an important form of business in many countries. In Continental Europe, a relatively small number of families controls a sizable number of corporations. Families control 43.9 per cent of Western European firms¹ (Facio and Lang, 2001). Even in large public companies, in many countries including the US², concentrated ownership is very common (La Porta *et al.*, 1999). In countries with dispersed ownership structure (mainly the US and the UK) the separation of ownership and control, as posed by Berle and Means (1932), refers to the inherent conflicting interests of opportunistic managers and owners (Fama and Jensen, 1983; Grossman and Hart, 1986; Williamson 1985). Investors usually use their exit options if they disagree with the management or if they are disappointed by the company's performance, signalling - through share prices reduction - the necessity for managers to improve firm performance (Hirschman, 1970). In countries where the principal ownership structure is control by a family, typically playing an active role in management, the agency problem of corporate governance (CG) sight as how to align the interests of strong controlling shareholder(s) and weak minority shareholders (Becht, 1997). The risk of insider expropriation is the main concern that potential investors face when a few large shareholders own and manage the firm (Leechor, 1999)

CG has mainly focused on highly dispersed corporations. Since little research has been done to the issues of CG in family firms (Berghe and Carchon, 2003; Melin and Nordqvist, 2000; Wortman, 1994; Daily and Dollinger, 1992), additional research is necessary. In this paper we explore the governance characteristics of the family-controlled listed firms in Greece. The main characteristics that distinguish the family firm from the other types of corporations are the presence of one or more controlling family and the involvement of the owners in the management. Greek family groups are important in the country. Families often use the holding companies as investment vehicles to control indirectly a variety of listed and non-listed companies in different industries. Hence, the governance structures and the performance of the family firms affect largely the growth opportunities of the Greek capital market. We use the CG rating results of: "CG rating methodology for the ASE listed companies"³ (Tsipouri and Xanthakis; 2004, Xanthakis *et al.*, 2003).

Literature on family firms and corporate governance

The principal characteristic among the majority of the family firms is that the main owner (family) is usually involved in the key-decision-making of the firm (Melin and Nordqvist, 2000; Daily and Dollinger, 1992). This feature is crucial for the governance analysis of the family firms. Melin and Nordqvist (2000), define CG in family firms as "the processes, principles, structures, and relationships that help the

¹ Families control 71.6 per cent of companies in Germany, while in the UK, where family control is less pronounced, they control 33.8 per cent of companies (Facio and Lang, 2001).

² Kang (2000) calculated that families control as much as 30 per cent of the largest public US companies and involve in management of as much as one third of these.

³ A project funded by the Athens Stock Exchange (ASE).

owner of the firm realize his particular vision, goals and objectives". Particular emphasis is given on the actual way that the owner family exercises its power and influence over the firm (Melin and Nordqvist, 2000; Pettigrew, 1992). Family can be a real source of competitive advantage for the firm (Mustakallio and Valkamo, 2002; Cadbury, 2000). A very common argument favoring family firms is that agency costs are minimized, since the owner (family) and the management are the same person or at least different persons coming from the same family (Randoy *et al.*, 2003; Schulze *et al.*, 2003; Fama and Jensen, 1983; Jensen and Meckling, 1976). Long-term perspective, family commitment and clear identity are also just some of the strengths points associated with family firms (Cadbury, 2000). Altruistic behavior and trust can also produce many advantages in the family firm's context, e.g. collective ownership by all family members working in the firm, reduction of information asymmetries among family members and commitment of corporate leaders to the firm's long-term performance and strategy (Berghe and Carchon, 2003; Kang, 2000; and Stark and Falk 1998). For instance, De Paola and Scoppa (2001) believe that altruism within family firm's members could produce superior contracts by the firm.

On the other hand family-owned firms are associated with costs and inefficiencies. Confusing family and business matters, family owners could favor family interests over the firm's interests (e.g. non-family shareholders), because of loyalty toward family (Randoy and Jenssen, 2003; Schulze *et al.*, 2003). It has been also argued that altruism in family relationships can produce inefficiencies. Family firms may encourage internal labor market schemes favoring family members (within-family promotion), rather than competent recruitment processes. Reducing the quality of applicants for executive managerial positions may eventually cause significant monitoring cost (Berghe and Carchon, 2003). Moreover, when family members are promoted, while non-family members receive fewer opportunities, the latter have incentives to be engaged in shirking and opportunistic behaviors (Baldrige and Schulze, 1999). The problem of assessing the family's insiders is also evolved in family firms. It is easy to understand that with a family hierarchy, assessment practices based on business competence are difficult to apply (Cadbury, 2000).

Good governance practices family firms will be able to face their risks and to prosper in an environment of intense competition. The importance of bringing external board members', establishing independent board committees, hiring professional managers and securing efficient succession in family firms are focused by the relevant literature (Schwartz and Barnes, 1991; Huse, 1990; Jonovic, 1989). Finally, Melin and Nordqvist (2000) attempting to fill an important gap in research, focused on the structural and the processual elements of CG in family firms in order to better understand how family firms are governed and managed. Their study shows that the combination of influential actors and the strategic arena may be important in the strategy process of the family firm (Melin and Nordqvist, 2000).

The corporate governance framework in Greece

The family firm is an important and common form of business organisation in Greece. The common feature among most family firms is the fact that the ownership is closely tied to a group of people - the family. The family usually involves in the direct management of the firm. As indicated in the brief literature survey above the role of

families and other large blockholders controlling listed companies is controversial. As elsewhere, in Greece the family ownership can be an effective mechanism of monitoring or yet another obstacle to corporate change and a source of inefficiency. The main problem of the family-owned companies is the danger that power be exerted at the expense of the minority shareholders. Hence, the discussion on corporate governance (CG) in Greece focuses mainly on protecting individual and minority shareholders' interests that are practically isolated from the decision making process of the firm. The notion of CG was first introduced in Greece in 1998 through an introductory paper published by the ASE. A series of conferences and discussions led, then, to the adoption of a voluntary code of conduct in 1999, initiated by the Hellenic Capital Market Commission (HCMC) in collaboration with all relevant agents in the Greek economy. A major contribution during 2000 to the enhancement of transparency and disclosure regarding the behavior of listed companies in the capital market has been the enactment of HCMC rule: "A code of conduct for companies listed in the ASE and their affiliated persons" (HCMC Rule 5/204/2000). In May 2002 the Ministry of the Economy amended the corporate law and incorporated fundamental CG obligations⁴. The legislative framework of the Greek capital market is now fully harmonised with the guidelines and directives of the EU. In August 2001 the Federation of Greek Industries (FGI) introduced the Principles of Corporate Governance for all companies, but especially for the companies listed on the ASE. Although improvements in CG have occurred in Greece, they are mainly confined to a small number of large listed companies that are more in tune with the international corporate stage (Tsipouri and Xanthakis, 2004; Spanos 2004).

The developments of the capital market

The upgrading of the Greek capital market to mature market status and the global competition for capital has boosted the CG debate in Greece. The Greek capital market has been transformed largely during the last four years. New markets were established and the HCMC completed a wide range of institutional changes. HCMC's regulatory activities were mainly directed at the protection of investors, the enhancement of market transparency, the protection of the systems of trading and clearing, the enactment of codes of conduct and the assurance of the smooth function of the capital market (Spanos, 2004).

One should also be reminded of the recent experience of the Greek capital market. In particular, the Greek capital market experienced a cycle of self-fulfilling expectations during the second and third quarters of 1999. The massive entrance of individual and institutional investors in the capital market, mostly through placements on small-and-medium-capitalization stock rapidly, increased both stock prices and liquidity. The cycle of self-fulfilling expectations resulted in a significant divergence between actual prices and prices justified by corporate fundamentals (equilibrium prices). However, the bubble phase always has an end. The Greek capital market's severe underperformance in 2000, 2001 and 2002 largely resulted from the previous speculative process. The ASE General Index realized an annual decrease of 38.8% in 2000, 23.5% in 2001 and 32.5% in 2002. Both the total value of transactions and the ASE capitalization decreased. In 2002, the total values of transaction in the ASE decreased by 38.9% and 85.7% in relation to 2001 and 1999 respectively. Total

⁴ The amendment of corporate law opened a huge controversy between the representatives of the industrial federations and the state.

market capitalization during 2002 amounted to €65,759.7 millions showing a decrease of 47.4% and 66.7% in relation to 2001 and 1999 respectively. The speculative events in the Greek capital market during 1999 led the HCMC and the state to take an active role, introducing rules, regulations and codes of conduct. All these measures aimed at the protection of investors against market abuse, the improvement of the transparency of the market and the establishment of appropriate business ethics. Good CG is seen as an important tool in this context (Tsipouri and Xanthakis, 2004; Spanos, 2004; Mertzanis, 2001).

Table 1: The growth of the capital market in Greece, 1997 - 2002
(Amounts in millions of Euros)

Year	Value of transactions		Market capitalization			Fund raised through IPO's		ASE General Index, % change
	Amount	% change	Amount	% change	% of GDP	Amount	% change	
1997	17,081.4	-	28,793.3	-	29.6	59.0	-	58.5
1998	41,708.1	144.2	67,024.8	132.8	63.6	1,157.2	1,861.4	85.1
1999	173,027.0	314.9	197,537.0	194.7	169.4	1,840.0	59.0	102.2
2000	101,675.7	-41.2	117,956.3	-40.3	95.5	2,557.8	39.01	-38.8
2001	40,529.8	-60.1	96,949.5	-17.8	74.1	1,075.6	-137.8	-23.5
2002	24,771.0	-38.9	65,759.7	-47.4	46.9	92.5	-1,062.8	-32.5

Source: Athens Stock Exchange, Hellenic Capital Market Commission

Ownership structure and disclosure

Ownership dispersion in Greece is considered as middle to low. Greece presented high concentration of ownership among the French civil law countries, with 67 per cent average ownership concentration⁵ (La Porta *et al.*, 1999). According to a recent study of the HCMC (2001), in 370 listed companies in Greece average ownership dispersion was 47.22% when the major shareholder is defined as the shareholder owning at least 5 per cent⁶. In total, according to the study, the 370 listed companies were held by 974 major shareholders, while the major shareholders per listed company were 3. The results indicate that competition for control at the company level is low. Large families usually control most of the small-and-medium-sized companies and members of the controlling families are usually serving as the top manager. Large shareholders may act as an effective monitoring mechanism of management and, thereby, enhance firm performance. However, controlling blockholders can use their power to extract own private benefits, at the expense of minority shareholders. This kind of expropriation leads to sub-optimal levels of investment by minority. Therefore, the agency problem arises as a conflict between "strong blockholders and weak minority owners", rather than between "strong managers and weak owners".

⁵ In order to construct measures of ownership concentration La Porta *et al.* (1999) the authors took, for each country, the average and the median ownership stake of the three largest shareholders among its ten largest non-financial, privately-owned domestic firms.

⁶ Dispersion is calculated 35.7 per cent when the major shareholder is defined as the shareholder owning at least 1 per cent.

Table 2: Ownership dispersion of the ASE listed companies

	ASE Main Market	ASE Parallel Market	New Market	Total Market	FTSE-20 companies	FTSE-40 companies
Ownership dispersion	48.74%	30.42%	25.05%	47.22%	54.04%	44.40%
Number of major shareholders*	653	317	4	974	52	101
Capitalization (mil of €)	91,500	8,204	46	99,750	55,411	15,630

Source: Hellenic Capital Market Commission, Research Division (2001) www.hcmc.gr

* Shareholders owning a stake of at least 5% of the company's share capital

The corporate governance rating methodology

The target of the study was to develop a methodology on corporate governance (CG) rating and apply it to a broad number of companies on a voluntary basis (Tsipouri and Xanthakis, 2004). To compare family and non-family firms performance we applied the ratings of "CG rating methodology for the ASE listed companies"⁷ (Tsipouri and Xanthakis; 2004, Xanthakis *et al.*, 2003). Specific targets were:

- To provide an independent and reliable tool for all investors who believe that a thorough examination of CG practices will lead to increased long-term shareholder value.
- To provide a comprehensive and specific rating regarding all CG criteria for each company, enabling firms to use their individual results in order to measure themselves against several benchmarks (high, average, sectoral average).
- To produce useful results of aggregated data for the relevant authorities (e.g. the ASE, the HCMC) and create an aggregate score for the Greek listed companies participating, thus demonstrating strengths and weaknesses to be taken into account for policy making.
- Form a basis for comparison with future exercises and offer a tool that will allow correlation of the results with stock value and profitability to check the extent to which investors pay a premium for companies with high ratings.

The methodology consisted in the creation of a questionnaire reflecting the five chapters of the Greek CG voluntary code, which basically replicate the structure of the OECD principles (1999). The answers to this questionnaire were integrated into a number of indicators, which did not have a 1 : 1 correspondence to the questions. The indicators were then assigned with weightings, depending on their priority, so that a composite final overall score could be obtained. More specifically the questionnaire consisted of five main category-indicators:

- The rights and obligations of shareholders.

⁷ A project funded by the Athens Stock Exchange (ASE).

- Transparency, disclosure of information and auditing.
- The board of directors.
- Executive management.
- Corporate governance commitment, the role of stakeholders and corporate social responsibility.

The total number of questions was 54, categorised into questions, which directly lead to indicators suitable for the CG rating (32 questions), questions combined into one indicator (16 questions leading to five indicators only) and questions used for clarification and control not leading to any indicator (six questions). Of the former 32, five questions received *ipso facto* the highest score because they refer to issues that are mandatory in the existing regulatory framework. The reason the latter were included was to show potential international investors that all listed firms in the Greek market comply with these minimum standards. The questions were thus integrated into 37 indicators, of which six were for shareholder rights, nine for transparency, 12 for the Board, five for the CEO and the executives and five for general issues like corporate social responsibility.

Weighting was the greatest difficulty, as it inevitably had to include subjective judgements. The way we proceeded was to first have each of the senior members of the research team individually assign priorities amongst and within each category. Fortunately, their assigned priorities coincided to a large degree, and where they did not, agreement could be reached after discussion. Then, a score of 0 (inadequate), 1 (intermediate) and 2 (top performance) was assigned per indicator. These weightings were presented to the Advisory Committee and were confirmed or altered to reflect the priorities and the evaluation of the participants in the market.

Our results are based on a sample of 120 listed companies, which together represent more than 90 per cent of the capitalisation of the market. We broke down the sample into two categories: family firms (80.8 per cent of the total sample) and non-family firms (19.2 per cent of the total sample). We take family firms to include all enterprises that are owned, managed and influenced by a family or families. The collaboration with the ASE helped to “open doors” more easily, because it ensured that the confidentiality clause was taken seriously.

The results for individual companies were not published or made publicly available. The benefit to the companies rated is that they received and discussed their own individual ratings with the researchers and could compare them with the average and use them as a benchmark for future improvements (Tsipouri and Xanthakis, 2004).

The structure and processes of corporate governance in family firms: presentation of results

The total rating results shown in Table 3 indicated that family firms received lower scores compared to the non-family firms. The highest compliance in the Greek market, including family firms scoring, is in the category of shareholders' rights, followed by transparency (CEO/Executive management for the family firms) and CEO/Executive management (transparency for the family firms). Board of directors had a medium compliance score, while very low score appears in the last category

which incorporate corporate governance (CG) commitment and corporate social responsibility issues (e.g. environmental awareness and stakeholders' interests).

Table 3: Total Corporate Governance Index (maximum=100)

Corporate governance indices	Total firms, % (no. 120)	Family firms, % (no. 98)	Non-family firms, % (no. 22)	ASE General Index, % (no. 40)
The rights and the obligations of shareholders	90.9	89.8	95.4	92.8
Transparency, disclosure of information and auditing	71.9	68.9	83.9	75.3
The board of directors	67.3	64.2	78.5	71.2
CEO and executive management	71.8	70.5	76.5	75.0
Corporate governance commitment, the role of stakeholders and corporate social responsibility	30.4	27.8	43.8	35.1
Total CG index	70.3	68.4	78.1	73.7

However, the spread in scores between family firms and non-family firms and between family firms and those of the ASE General Index companies vary across categories. The impact of mandatory provisions resulted on high convergence both between family and non-firms and family and ASE Index firms. It came as no surprise that the spread is considerably increasing in the CG commitment/Corporate social responsibility category. In addition, the spreads in scores between the family firms and the non-family and ASE Index sub-sample were found to be quite large in "the board of directors" (directors' independence, board committees establishment) and "transparency" (application of International Accounting Standards, risk management).

Table 4: Spread in scores between family & non-family firms and family and ASE Index firms

Corporate governance indices	Spread between family & non-family firms (%)	Spread between family & ASE Index firms (%)
The rights and the obligations of shareholders	5.6	3.0
Transparency, disclosure of information and auditing	15.0	6.4
The board of directors	14.3	7.0
CEO and executive management	6.0	4.5
Corporate governance commitment, the role of stakeholders and corporate social responsibility	16.0	7.3
Total CG index	9.7	5.3

Shareholders rights appear to be well protected in Greece (Table 5). The one-share, one-vote rule is legally imposed and any shareholder can be represented at the general meeting by a special authorised agent, who will be either a spouse or another shareholder of the company. Family firms follow the framework defined by law regarding the timing and the range of issues submitted to the annual general meeting. What seems to be weak in the family firms is their internal organisation. Primarily as a matter of cost there are still family-owned listed companies without an effective autonomous shareholder department. Moreover, the use of modern technology (e.g. e-mail, website) as an information mechanism is not sufficiently used by many family-owned firms. The authorisation to vote by tele-transmission, including the Internet, is basically a problem attributed to the legal framework.

Table 5: The rights and the obligations of shareholders (maximum=100)

Corporate governance indicators	Total firms, % (no. 120)	Family firms, % (no. 98)	Non-family firms, % (no. 22)	ASE General Index, % (no. 40)
The equal treatment of shareholders	100.0	100.0	100.0	100
Absence of takeover defense	99.1	100.0	96.0	97.4
Existence of organized and autonomous shareholder department	85.4	81.3	100.0	91.0
Voting procedures in the GMS	98.1	98.8	96.0	97.4
Mechanisms of sufficient and timely information about the dates, place and agenda of the GMS	83.3	81.3	91.0	85.9
Mechanisms through which shareholders are sufficiently and timely informed on the proposals submitted in the agenda of the GMS	83.5	82.2	89.0	86.5
Total index	90.9	89.8	95.4	92.8

The disclosure framework in Greece is quite strong and in line with the EU trends (Table 6). The enactment of HCMC rule: "A code of conduct for companies listed in the Athens Stock Exchange and their affiliated persons" (HCMC Rule 5/204/2000) sets behavior standards for listed companies and specifies duties and obligations of companies' major shareholders, the members of the board of directors, the executive management or other individuals or legal entities related to them. The aim is to eliminate uncertainty in the market on corporate affairs and avoid speculation by company insiders or other persons that may have insider information (equal treatment of all investors). The weak points of the family-owned firms are associated with accounting practices and risk management. Family firms provide their balance sheet statements in accordance with the Greek accounting principles and rarely with the IAS. However, the statutory provisions are in the process of being amended. The large majority of family firms do not have appropriate systems to handle issues of risk exposure and risk management. Only banks and internationally quoted companies have taken some steps toward ensuring appropriate risk management systems. Finally,

the disclosure of managerial remuneration declared to be a deliberate policy, even by the best scoring (large non-family) companies, in line with local norms and protecting their executives from exposure⁸.

Table 6: Transparency, disclosure of information and auditing (maximum=100)

Corporate governance indicators	Total firms, % (no. 120)	Family firms, % (no. 98)	Non-family firms, % (no. 22)	ASE General Index, % (no. 40)
Report of the annual and semi-annual financial statements with clear and understandable way	100.0	100.0	100.0	100.0
In time publish of the annual and semi-annual financial statement	100.0	100.0	100.0	100.0
Equal treatment of all investors and financial analysts regarding information dissemination (fair disclosure) for important corporate events	100.0	100.0	100.0	100.0
Detailed analysis of any deviation from previously announced earnings targets and strategic goal	93.4	95.2	88.0	92.3
Application of an internationally recognized accounting and auditing system for the balance sheet consistent with the IAS	19.8	8.4	64.0	33.3
Disclosure of board directors and executive staff members remuneration	50.5	50.0	52.0	48.7
Specific discussion of the company's risk management system on the annual report	19.8	8.4	64.0	28.2
Agreement between external and internal auditors on important focus area of the audit	95.3	94.0	100.0	100.0
Total index	71.9	68.9	83.9	75.3

As observed in the results of Table 7, family firms are "undergoverned" in terms of board of directors. Typically, the principal shareholder often serves as the CEO or chairman of the board and has the decisive vote in major corporate decisions. Even when the separation of the chair and CEO functions is the case, the two roles are usually interconnected. Board structures and operations are poor. External influences, from the independent non-executive directors in family firms are not so powerful, even though the law (3016/2002) now requires that all listed companies have at least two independent non-executive directors. Most boards in family-owned firms have a majority of related directors, usually coming from the family. Independent director

⁸ Listed companies have to include in the notes of the accounts details of the compensation paid to the members of the board of directors and of the management during the last financial year. No distinction, however, is made as to the nature of the compensation.

attendance at board meetings is not adequate. Making corporate boards more independent and effective is a huge challenge in family firms. They also score very low in the establishment of board committees. The committee most commonly encountered on Greek boards is the audit committee. The family, on a more informal arena exercises strategic decision-making processes, through private interaction between the most influential actors. Many family firms confirm also that they do not have a formal orientation program for new directors. A note-worthy feature is that Greek firms seem to have a universal problem in the frequency of changing non-executive directors. Finally, it came as no surprise that domestic family control significantly reduces board size.

Table 7: The board of directors (maximum=100)

Corporate governance indicators	Total firms, % (no. 120)	Family firms, % (no. 98)	Non-family firms, % (no. 22)	ASE General Index, % (no. 40)
Division between the role of the chairman and the CEO	52.8	53.0	48.0	43.6
Succession plan	77.8	77.7	80.0	88.5
The composition of the board of directors	59.9	50.0	96.0	66.7
Non-executive board directors' independence	60.9	54.3	72.0	56.5
Existence of specified rules regarding board operations and duties	100.0	100.0	100.0	100.0
The size of the board of directors	94.3	98.8	80.0	92.3
Board meetings frequency	100.0	100.0	100.0	100.0
Establishment of board committees	17.5	11.7	41.0	29.5
Sufficient access of the non-executive directors to the company's executive management	88.2	85.5	98.0	93.6
New board member's rotation and training procedure	59.9	59.0	66.0	56.4
Non-executive board directors' remuneration	91.3	87.0	100	96.8
Non-executive board directors' election frequency	0.0	0.0	0.0	0.0
Total index	67.3	64.2	78.5	71.2

Table 8, indicating ratings of the CEO and executive management, shows that the family firms underperform non-family firms in all the categories. The liability of the CEO, according to the Greek law, is much stricter than that of other senior managers of board members. The major weaknesses lie in not having performance-pay schemes

for the executive management and in not having the position of Chief Financial Officer (CFO). Disclosure of share ownership information of the executive managers seems to be a universal problem.

Table 8: CEO and executive management (maximum=100)

Corporate governance indicators	Total firms, % (no. 120)	Family firms, % (no. 98)	Non-family firms, % (no. 22)	ASE General Index, % (no. 40)
The duties and responsibilities of the CEO	94.3	92.8	100.0	97.4
Executive management staff member's remuneration	47.6	45.2	60.0	55.1
Disclosure (in the GMS and/or in the company's annual report) of share ownership information of the executive management staff members	43.9	42.8	44.0	42.3
CEO's election frequency	99.5	99.4	100.0	100.0
Existence of position of Chief Financial Officer	79.2	78.3	84.0	87.2
Total index	71.8	70.5	76.5	75.0

The degree of compliance is very low in the final CG indicator for both family and non-family firms, as suggested by Table 9. Family firms do not have their own specific corporate governance guidelines and do not make a clear statement of their own commitment towards environment. However, family-controlled firms are encouraging long lasting relationships in local communities with different stakeholders and are usually responding to their specific needs. It is also worth to mention that a Greek network of socially responsible companies was created and the Athens Stock Exchange is in the process of creating a new index of "good" companies.

Table 9: Corporate governance commitment, the role of stakeholders and corporate social responsibility (maximum=100)

Corporate governance indicators	Total firms, % (no. 120)	Family firms, % (no. 98)	Non-family firms, % (no. 22)	ASE General Index, % (no. 40)
Existence of written CG rules in the company	12.7	7.2	38.0	23.1
Easy availability of the company's CG rules to the stakeholders	1.9	1.2	12.0	2.6
Existence of a Corporate Governance Committee or	15.6	12.7	32.0	24.4

individual entrusted with CG compliance issues				
Existence of an efficient CG framework taking account the interests of all stakeholders	46.2	45.2	50.0	47.4
Corporate social responsibility and environmental awareness	84.4	82.5	92.0	84.6
Total index	30.4	27.8	43.8	35.1

Conclusions and issues for further investigation

The main conclusion from this paper is that the family firms are demonstrated poor governance compared with non-family firms and the ASE Index companies. There are many weaknesses that threaten family firms: not having appropriate risk management systems; not following appropriate norms of company board structure and management (e.g. directors' independence, board committees' establishment, CFO position); lacking CG commitment; confusing family matters and business matters and so on. On the other hand, there are some family firms that are successful in having good governance practices (e.g. recruit competent and independent board members, employ professional managers on influential positions, and develop internal CG guidelines). Having good governance practice will build confidence among capital providers (e.g. potential investors) allowing greater access to capital. The crucial question, hence, is how can family firms make this critical transition? Outsider experts, like competent independent directors and qualified managers, will facilitate the transition. Hiring and promotion decisions must be made professionally by family owner. Facing this challenge family-run firms facilitate also another key-issue: management succession (Zafft, 2003). As the business grows, finding sufficient and competent managers and experience within the family becomes harder. Corporate governance structures can put in place fair decision-making and monitoring procedures, as well as hiring non-family members on influential positions (Zafft, 2003).

References

Baldrige, D. and Schulze, W. S. (1999) Fairness in Family Firms, *1999 Best Paper Proceedings of the Academy of Management*.

Becht, M. (1997), *Strong blockholders, weak owners and the need for European mandatory disclosure*, European Corporate Governance Network, Executive Report, October.

Berghe, L. A. A. and Carchon, S. (2003), "Agency relations within the family business system: An explanatory approach", *Corporate Governance: An International Review*, Vol. 11, No. 3.

Berle, A. and Means, G. (1932), *The Modern Corporation and Private Property*, The Macmillan Company, New York.

Cadbury, A. (2000), *Family Firms and their Governance: Creating Tomorrow's Company from Today's*, Egon Zehnder International, UK.

Daily, C. M. and Dollinger, M. J. (1992), "An Empirical Examination of Ownership Structure in Family and Professionally Managed Firms", *Family Business Review*, Vol. 5, 2, pp. 117-136.

De Paola, M., and Scoppa, V. (2001), "The role of family ties in the labour market: An interpretation based on efficiency wage theory", *Review of Labour Economics and Industrial Relations*, 15, pp. 603-624.

Faccio, M. and Lang, H. (2001), "The ultimate ownership of western European corporations", *Journal of Financial Economics*, No. 65, pp. 365-395.

Fama, E. and Jensen, M. (1983), "Separation of Ownership and Control", *Journal of Law and Economics*, Vol. 26, pp. 301-325.

Grossman, S. and Hart, O. (1986), "The costs and benefits of ownership: A theory of vertical and lateral integration", *Journal of Political Economy*, Vol. 94, pp. 691-719.

Hellenic Capital Market Commission (2002), "A code of conduct for companies listed in the Athens Stock Exchange and their affiliated persons" (HCMC Rule 5/204/2000), Athens.

Hellenic Capital Market Commission (2001), "Ownership Dispersion in the ASE listed companies", Monthly Bulletin, September.

Hellenic Capital Market Commission (2000, 2001, 2002, 2003), *Annual Report*, Athens.

Hirschman, A. (1970), *Exit, Voice, and Loyalty: Responses to Decline in Firms, Organizations, and States*, Harvard University Press, Cambridge, Mass.

Huse, M. (1990), "Board composition in small enterprises. *Entrepreneurship and Regional Development*, Vol. 2, pp. 363-373.

Jensen, M. C. and Meckling, W. H. (1976), "Theory of the Firm: Managerial Behaviour, Agency Costs and Ownership Structure", *Journal of Financial Economics*, Vol. 3, pp. 305-360.

Jonovic, D.J. (1989), "Outside review in a wider context: An alternative to the classic board", *Family Business Review*, Vol. 2, pp. 125-140.

Kang, D. (2000) *The Impact of Family Ownership on Performance in Public Organizations: A Study of the U.S. Fortune 500, 1982-1994*. 2000 Academy of Management Meetings, Toronto, Canada.

La Porta, R., Lopez-de-Silanes, F., Shleifer, A. and Vishny, R. (1998), "Law and Finance", *Journal of Political Economy*, No. 106, pp. 1113-1155.

La Porta, R., Lopez-de-Silanes, F. and Shleifer, A. (1999), "Corporate Ownership Around the World", *Journal of Finance*, Vol. 54, pp. 471-517.

Leechor, C. (1999), "Protecting minority shareholders in closely held firms", World Bank, Finance, Private Sector, and Infrastructure Network, Washington, D.C.

Melin, L. and Nordqvist, M. (2000), *Corporate Governance Processes in Family Firms. The Role of Influential Actors and the Strategic Arena*. ICSB World Conference 2000.

Mertzanis, H. V. (2001), "Principles of Corporate Governance in Greece", *Corporate Governance: An International Review*, Vol. 9, pp. 89-100.

Mustakallio, M. and Valkamo, J. (2002), "Distinctive challenge of family firm governance: Research findings and practical experiences in Finnish family firms", F.B.N. Annual World Conference, Helsinki.

OECD (1999), *OECD Principles of Corporate Governance*, May.

Pettigrew, A. M. (1992), "On studying managerial elites", *Strategic Management Journal*, Vol. 13, pp. 163-182.

Randoy, T., Jenssen J. and Goel, S. (2003), "Family Firms and Corporate Governance: Altruism and Agency Consideration", presented at the European Academy of Management Meeting, Milan, Italy, 2003.

Schulze, W.S, Lubatkin, M. H. and Dino, R. N. (2003), "Toward a theory of agency and altruism in family firms", *Journal of Business Venturing*, Vol. 18, No. 4, pp. 473-490.

Schwartz, M.A. and Barnes, L. B. (1991), "Outside boards and family businesses: Another look", *Family Business Review*, Vol. 4, pp. 268-285.

Spanos L. (2004), "Corporate governance in Greece: developments and policy implications", forthcoming in *Corporate Governance: The International Journal of Business in Society*

Stark, O. and Falk, I. (1998) Transfers, Empathy Formation, and Reverse Transfers, *American Economic Review*, 88, 2, pp. 271–276.

Tsipouri, L. and Xanthakis, M. (2004), "Can corporate governance be rated? Ideas based on the Greek experience", *Corporate Governance: An International Review*, Vol. 12, No. 1, pp. 16-28

Williamson, O. E. (1985), *The economic institutions of capitalism*, The Free Press, New York.

Wortman, M. S. (1994), "Theoretical Foundation for Family-Owned Business: A Conceptual and Research-Based Paradigm", *Family Business Review*, Vol. 7, 1, pp. 3-127.

Xanthakis, M., Tsipouri, L. and Spanos, L. (2003), *Corporate Governance: Concepts and Ratings*, Papazisis Publishing House, Athens (in Greek).

Zafft, R. (2003), "When corporate governance is a family affair", Financial, Fiscal and Enterprise Affairs Directorate, OECD.

Authors

Spanos Loukas (Corresponding author)

Loukas J. Spanos is research economist at the Center of Financial Studies, University of Athens, Department of Economic Sciences. He read for a BA in Economics at the University of Athens from 1994-1998. From 2001 he is taking a PhD, specialising in corporate governance. His research is funded by the Greek Ministry of Development and the European Union. Since 1999, he has been a Research Fellow of the Ryoichi Sasakawa Young Leaders Fellowship Fund (SYLFF), The Tokyo Foundation. He is academic member of the European Corporate Governance Institute (ECGI).

Tsipouri Lena

Lena J. Tsipouri is Associate Professor at the University of Athens, Department of Economic Sciences. She studied economic sciences at the Universities of Athens and Vienna, completed her doctoral studies at the University of Paris II and received a Fulbright postdoctoral research grant for MIT. Previous jobs were at the Ministry of National Economy and international organisations. She is involved in consulting work for the EU, the OECD and the UN. Recent publications and scientific research concentrate in technological change, the role of infrastructure and public policy, regional development, the emerging importance of the information society and issues on corporate governance.

Xanthakis Manolis

Manolis D. Xanthakis studied economics, business administration and finance in Athens and Toronto, Canada, and has a PhD in Financial Economics. He is Associate Professor in Finance, at the University of Athens, Department of Economic Sciences, with experience in the private sector (1977–81). He was president of the Athens Stock Exchange and the Central Securities Depository (1994–98). His field of specialisation is finance and industrial organisation. Currently, he is Chairman of the Board of Marfin Bank.