

CORPORATE GOVERNANCE ISSUES IN FAMILY AND NON-FAMILY FIRMS: EVIDENCE FROM PORTUGAL

GOVERNO DAS SOCIEDADES NAS EMPRESAS FAMILIARES E NÃO FAMILIARES:
EVIDÊNCIA PARA PORTUGAL

GOBIERNO CORPORATIVO EN EMPRESAS FAMILIARES Y NO FAMILIARES: EVIDENCIA
DE PORTUGAL

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ABSTRACT

Family firms have idiosyncrasies which may influence corporate governance. In that regard, this work's contribution is twofold. First, it compares corporate governance of family and non-family firms. Second, it further examines these firms, discriminating between firms listed in the Portuguese stock market index and the others. The sample includes 37 Portuguese listed firms, 16 listed in the Portuguese stock index, the PSI 20. Following a quantitative analysis, the findings show that family firms, especially the ones listed in PSI 20, have more independent members, tend to comply more with corporate governance recommendations, and display more corporate governance information on their websites than other firms. This suggests that family firms try to avoid information asymmetries, so as to evade mispricing, sustain their sustainability, and reduce agency costs.

Keywords: family firms, corporate governance, Portugal, listed firms, PSI 20.

RESUMO

As empresas familiares apresentam características únicas que podem causar impacto no governo das sociedades. Este trabalho tem um duplo objetivo. Primeiro são comparados os modelos de governo de sociedades das empresas familiares e não familiares. Em segundo lugar estas empresas são analisadas em maior detalhe, discriminando entre empresas cotadas no PSI 20 (o índice de mercado português) e as restantes. A amostra inclui 37 empresas, 16 das quais do PSI 20. Utilizando uma análise quantitativa, os resultados mostram que as empresas familiares, especialmente as do PSI 20, apresentam mais membros independentes, cumprem mais recomendações de governo de sociedades e exibem mais informações sobre os modelos de governação nas suas páginas web do que outras empresas. Isso sugere que as empresas familiares tentam evitar as assimetrias de informação para precaver-se de erros de valorização, manter sua continuidade e reduzir os custos da agência.

Palavras-chave: empresas familiares, governo corporativo, Portugal, empresas cotadas, PSI 20.

RESUMEN

Las empresas familiares tienen características únicas que pueden influir en el gobierno de las sociedades. En ese sentido, la contribución de este trabajo es doble. Primero, compara los modelos de gobierno de sociedades de las empresas familiares y no familiares. En segundo lugar, examina al detalle estas empresas, discriminando entre las empresas listadas en el PSI 20 (el índice del mercado portugués) y las demás. La

muestra incluye 37 empresas, 16 del PSI 20. Utilizando un análisis cuantitativo, los resultados muestran que las empresas familiares, especialmente las que figuran en el PSI 20, tienen más miembros independientes, cumplen más recomendaciones del gobierno de sociedades y exhiben más información sobre los modelos de gobernanza en sus páginas web que las otras empresas. Esto sugiere que las empresas familiares intentan evitar las asimetrías de información para evitar errores de valorización, mantener su continuidad y reducir los costos de la agencia.

Palabras clave: empresas familiares, gobierno de sociedades, Portugal, empresas cotizadas, PSI 20.

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INTRODUCTION

Corporate scandals and failures, especially after the 2007/2008 financial crisis, lead managers and researchers to question the accuracy of corporate governance models and recommendations, as the existent ones were not efficient to protect minority investors and avoid corruption problems (Pieper, 2003). As a result, many countries revised their corporate governance recommendations, and Portugal was not an exception.

This work focuses on corporate governance reports of Portuguese listed firms. The main aim is to understand family and non-family firms' differences regarding corporate governance practices. Firm's corporate governance shows the relationships among the firm's stakeholders (Braga, Braga & Carvalho, 2010). As such, it should be in the agenda of all firms. Given that family firms present singular relationships, inherent to the family involvement in the firm, their corporate governance issues may be unique.

Family firms are typical all over the world. In Portugal, the Portuguese Association of Family Firms (Associação Portuguesa de Empresas Familiares, AEF, 2017) estimate that 70%-80% of the Portuguese firms are family type, contributing to 60% of the gross domestic product, and to 50% of the employment. Usually family firms are associated to small-size firms, but this assumption is not accurate. Large public firms with concentrate family ownership are rather common worldwide (La Porta *et al.*, 1999). Therefore, the analysis of family firms is very important.

Innumerable characteristics differentiate family and non-family firms. Some of them can act as advantages to the firms, namely: founder involvement and entrepreneurship; long-term relationships with stakeholders; minimization of agency costs between the principal and managers; while others may represent limitations, such as nepotism; suboptimal investment; and risk aversion, among others (Anderson & Reeb, 2003). For these reasons, the family nature of the firm may affect corporate governance, given the family influence on the firm's ownership, management, or succession, for instance (Leal, 2011).

Additionally, using a quantitative analysis, this study examines the corporate governance practices' differences of firms listed in the Portuguese Stock Index (PSI 20), as this stock index includes firms characterized by higher liquidity and more information transparency.

The analysis of the 2016 corporate governance reports of Portuguese listed firms show that both family and non-family firms present similar capital structure, although PSI 20 firms have less qualifying holdings and more free float than other listed firms. With regards to the corporate governance model, most firms adopt the hybrid or the monistic model, which is the more accurate model to surpass agency problems type I. The percentage of executives on the board of directors is similar in family and non-family firms; the main difference exists between PSI 20 firms and other firms. Other listed firms have more executives on the board of directors, and several firms do not have independent members. Family firms have family members representing around 25% of the board of directors and have less independent members than non-family ones. On average, the supervisory board has three persons. The statutory auditor is, in most cases, Deloitte or PriceWatterCoopers, two of the big 4 auditing companies. Finally, PSI 20 firms, specially family

ones, have more propensity to comply with corporate governance recommendations than non-family firms or other listed firms, corroborating the results of Ponomareva & Ahlberg (2016). In addition, family firms are more transparent in what concerns corporate governance information on their website. This posture may be taken to increase the financial investors' perception about the firm and to avoid agency costs type II (between major and minority investors).

This study's findings are relevant both to theory and practice. First, it contributes to the literature by combining the corporate governance and the family firms' issues, overcoming the scant attention that has been given to corporate governance in family firms. Second, while the majority of previous studies focus on large-size markets, this study analyzes a small open capital market, Portugal. The Portuguese market is mainly unexplored due to the lack of information and the small market dimension. Nevertheless, Portugal is an interesting case study. Not only are family firms prevalent and contribute to the country's economy, but also the 2007/2008 financial crisis had major impact in the economy, with multiple financial scandals and frauds, firms bankruptcy, and high public deficit. Third, this research alerts to the need to create specific corporate governance recommendations for family firms. Some countries already have some specific recommendations. Although there should be an international debate concerning these issues, each country needs to implement adaptations regarding cultural and legal specificities.

To practice, this work appeals to owners' and managers' attention to create a solid governance structure. Specifically it points to the adequate mechanisms to family firms and alerts to the need to implement them in order to promote the firm's perpetuation. It also helps advisers of family firms to establish an appropriate corporate governance. Finally, it assists investors and other stakeholders in understanding the complexity of family firms.

After this introduction chapter, section 2 presents the theoretical background on corporate governance issues. Information about the relevant theories to explain this thematic are in section 3, and the specificities of corporate governance of family firms in section 4. Section 5 describes the sample and methodology used. Results and its discussion are present in section 6. Finally the conclusion remarks are in section 7.

1. CORPORATE GOVERNANCE ISSUES

Corporate governance issues go back to the seminal work of Berle & Means (1932), when the separation of control and ownership gained prominence. From then on, the debate about the governance system emerged due to other reasons, such as: the privatization of firms and the need to protect small investors; the growing relevance of institutional investors, mergers and acquisitions; the integration of financial markets; the financial crisis; or firms bankruptcy (Becht, Bolton & Röel, 2002). Consequently, various researchers analyzed this topic and debated the improvement of governance systems (Colarossi, Giorgino, Steri & Viviani, 2008).

Corporate governance refer to the relationships among the firm's stakeholders. The Cadbury committee report published in the UK in 1992 was the first influential regulatory in this area. It argued that corporate governance is "the system by which companies are directed and controlled" (Cadbury, 1992:15). after that several codes of good corporate governance practices were published.

The OECD had the first one in 1999, revised in 2004 and 2015. It says that “corporate governance involves a set of relationships between a company’s management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined” (OECD, 2015:9). The IPCG (Instituto Português de Corporate Governance – Portuguese Institute of Corporate Governance, 2016:6) argues that “corporate governance should promote and potentiate the performance of companies, as well as of the capital stock exchange market and should establish the trust of investors, employees and the general public in the quality of the management and monitoring boards and the sustained development of companies”. Concluding, corporate governance is a set of devices that regulate the relationship among stakeholders, and establish the firm’s strategic orientation and performance.

The board of directors is responsible for the firm’s governance, and for mitigating the expropriation of investors’ wealth (Anderson & Reeb, 2003). As such, the board should set the firm’s aims and strategy, supervise the firm’s management and report to shareholders (Cadbury, 1992). All these issues are enclosed in the corporate governance report, which should be built on principles of transparency, traceability and manageability (Klein, 2010).

Corporate governance and board composition depends on the economic, legal, regulatory, and institutional contexts (OECD, 2015). In Portugal the CMVM (Comissão de Mercado de Valores Mobiliários – Securities Market Commission, 2017) requires, since 2001, that listed firms present a report in which they justify if the corporate governance recommendation are followed or not, and in the latter, firms should provide sufficient explanation about it. This is called the comply or explain principle. This report is mandatory since 2006, by the European Commission (IFC, 2015). In that year the Livro Branco was created (white book, AEP, 2011). This document summarizes corporate governance issues in Portugal. The last corporate governance code was published in May 2016 by IPCG with principles and best practices of corporate governance.

2. CORPORATE GOVERNANCE THEORIES

Two theories are relevant to explain corporate governance issues: the agency theory and the stewardship theory. On the one hand, the agency theory, firstly proposed by Jensen & Meckling (1976), argues that the segregation between ownership and managers creates agency costs. The owner can either accumulate the manager role or hire a professional manager, especially when he or she has insufficient knowledge to perform the job. A professional manager can act opportunistically, making decisions that favor his personal wealth at the expense of the interest of shareholders. This leads to agency problem type I. It can be done through the pursue of pecuniary or non-pecuniary benefits, aversion to different risk, or opting for short-term results instead of the company perpetuation, among others (Jensen & Meckling, 1976). To avoid this type of agency problem, the firm’s owner needs to monitor managers, which has some costs as well. This situation is more common in firms with disperse ownership, in which shareholders are motivated to monitor managers, to concentrate ownership and avoid the loss of wealth (Villalonga, Amit, Trujillo & Guzmán, 2015).

Later on, Shleifer & Vishny detected a type II agency problem, between major owners and minority investors (1986). This problem is more common in family firms or firms with concentrated ownership. Major owners have access to information that other owners do not. This lack of information transparency allows major owners to maximize their personal wealth, expropriating the one of minority investors. This situation can be minimized with the inclusion of independent members in the board of directors.

Another conflict of interests occurs between shareholder and creditors - agency problem type III. This is also called “asset substitution or risk shifting effect and the underinvestment” (Villalonga *et al.*, 2015). This problem is less prominent in family firms compared to non-family ones since the family wants to maximize the firm value rather than other shareholders’ wealth.

Finally, Villalonga *et al.* (2015) call attention to the agency problem type IV, which is unique in family firms. Family outsiders, non-shareholders, non-board members, and non-managers may have different aims than those of family members’ insiders. This is related with the socio-emotional wealth proposed by Gomez-Mejia, Haynes, Nuñez-Nickel, Jacobson & Moyano-Fuentes (2007). The family wants to preserve its identity, values and vision, to include family members in the firm, to sustain the firm for future generations, to disseminate its reputation, and other aspects that favor the family. However, to maximize the firm’s value, these intentions may not always be implemented. Therefore, conflicts may arise between the family in general and family managers and shareholders. These problems can be solved by creating special meetings of family members.

Based on the agency theory, the recommendations for a good corporate governance are: 1) create a board with family and non-family members, and with executive and non-executive directors to assure its objectivity, 2) separate the positions of CEO and chairman of the board, 3) the number of board members should be between 9 to 15, to avoid coalitions (Gubitta & Gianecchini, 2002, Colarossi *et al.*, 2008).

On the other hand, the stewardship theory argues that the human being is complex and that managers’ actions may not only be to satisfy self-interests (Donaldson & Davis, 1991). The executive manager wants to have a good performance. The impact of manager’s action on performance derives from the possibility (or no) of implementing his plans. Considering this theory and the perspective of family firms, it seems that the separation of ownership and control is not significant.

Building on this theory, the following suggestions about corporate governance can be drawn: 1) the involvement of the executive directors in the board is relevant to increase its effectiveness, 2) a combined leadership structure is better, 3) the board size should range between 5 to 9 to help communication (Gubitta & Gianecchini, 2002).

The two theories make different suggestions about firm’s corporate governance. Nonetheless, according to Colarossi *et al.* (2008) there is no reason to believe that one theory is better than the other.

3. CORPORATE GOVERNANCE OF FAMILY FIRMS

Usually corporate governance codes are designed to large and listed firms (Ponomareva & Ahlberg, 2016). However, each firm has specificities that can impact governance issues. Different type of owners may have different interests in the firms, and consequently use different mechanisms to achieve their strategic goals (Aguilera & Crespi-Cladera, 2012). For instance, family and non-family firms are two distinct groups. In family firms, the firm is always influenced by the family, which brings complexity to the governance structure (IFC, 2011). According to Gersick, Davis, Hampton & Lansberg (1997), three elements are related in these firms: family, business, and ownership.

Family owners may have conflicting motivations to run the firm. If, on one hand, family owners want to maximize the firm's value, on the other hand, family issues may overlap it (Gomez-Mejia *et al.*, 2007). Likewise, agency problem type II arises, as the family may expropriate minority investors' wealth to maximize personal benefits (Aguilera & Crespi-Cladera, 2012). Expropriation may include transactions of related parties on non-commercial terms, transferring the firm's assets to other firms owned by the family, buying a balcony in a theater or a stadium, favoring family members to labor market schemes that do not have qualifications for it, among others (Yasser, 2011). Therefore, to assure good corporate governance the firm should include independent members in the board of directors, so as to monitor family's decisions, and manage parental altruism.

Regarding managers, usually one family member is the CEO or exerts intensive control on an external CEO (Anderson & Reeb, 2003). This overcomes the opportunistic management, eliminating the agency problem type I. Nevertheless, this does not warrants that the most talented managers are performing the job. On the one hand, outside directors may have new ideas and other experience, which can be essential to promote the firm's growth. Further, these managers promote the equal treatment among all executives and shareholders, which can maximize the firm's value (Cadbury, 2000). On the other hand, accepting "non-family managers is one of the hardest issues for family firms" (Cadbury, 2000: 8). It leads to tensions within the family (agency problem type IV) as some family members, actively involved in the firm, may feel a loss of control and fear for difficulties to sustain the family's identity, while the family members who are only shareholders may prefer it to avoid expropriation. To surpass this problem, well trusted non-family members are a more consensual choice (IFC, 2011). Still, the manager may feel indebted to the family, and not manage the family opportunistic decisions (Ponomareva & Ahlberg, 2016).

Another difference between family and non-family firms concerns the remuneration practices (Leal, 2011). In family firms there is a tendency to favor family members. Therefore, the benefits of variable remuneration not always happen (Chami, 2001). It is crucial to establish an open door policy, with fairness and transparency of information.

Succession is a common problem of family firms. Aronoff (2001) argued, concerning the US market, that only 30% of family firms survives the second generation, and 15% the third one. In what regards the Portuguese market, AEP (2011) estimates that 50% of firms survive the second generation and 20% the third one. This goes in line with the proverb that the first generation

establishes the business, the second one enjoys it and the third destroys it. This happens mostly due to lack or insufficient succession plans, that would enable the firm's perpetuation of experience, values, and traditions (Aguilera & Crespi-Cladera, 2012). Usually, succession is forced by the founder's dead, disability, divorce or desire to stop working (IFC, 2011). The selection of incompetent successors, or the existence of rivalries between family members are also two other reasons of the succession failure (Aguilera & Crespi-Cladera, 2012). A possible solution is to develop a formal succession plan, with the involvement of all stakeholders.

Family firms can use different mechanisms to solve agency problems, especially the type II and IV ones, and sustain the firm for future generations (Leal, 2011). The most relevant are: family meetings, family councils and family protocols, as shown in the next figure:

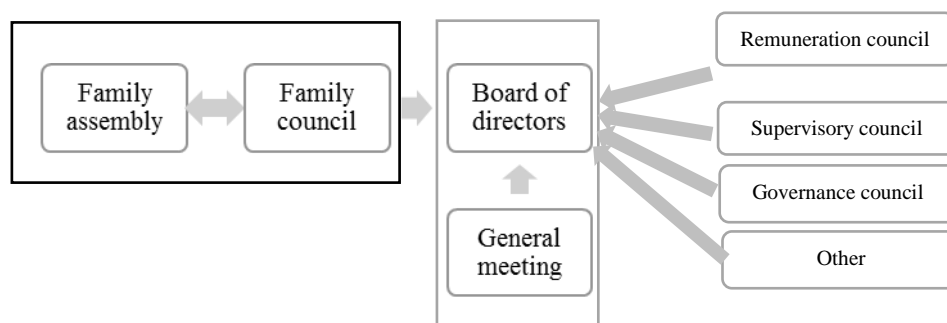


Figure 1: Corporate governance in family firms

Source: Adapted from AEF (2017)

A family assembly, also called family forum, happens once or twice a year with all family members involved in the business and other members chosen by the family (Vilallonga *et al.*, 2015). The main aim of this assembly is to discuss information about the family and the firm, to communicate the family values, mission and vision, to preserve the family culture and traditions, and to strengthen the family identity, trust and pride (Cabbury, 2000, IFC, 2011). Its size depends on the family, the firm's size and membership criteria (IFC, 2011)

The family council, also called family supervisory board, is a council elected by the family assembly to discuss family and business issues and deliberate about them (IFC, 2011). Usually this council arranges meetings and education for family members, drafts rules to discuss in family assembly, and advises about the best decisions to safeguard the family's values, needs and wishes (Vilallonga *et al.*, 2015). It also helps to solve family problems and conflicts that may have a negative impact in the firm. Its size depends on the criteria selected, but the ideal number is 5 to 9 members. This council should meet two to six times per year.

Finally, the family protocol is an instrument to establish the relationships between family members and the firm, to solve governance problems and the firm's succession (Leal, 2011). It should include the family's aims, principles and values, as well as the tasks and competences of the family council. Information of the recruitment, remuneration and succession should also be addressed. Finally, it

should establish the chosen mechanisms to solve conflicts.

Previous works found that family firms have increasingly adopted corporate governance codes, more than non-family firms (Ponomareva & Ahlberg, 2016). Only firms with strong corporate governance structures can be able to overcome succession problems. Klein (2010) argued that an optimal level of corporate governance mechanisms to family firms should take into account the complexity of the family, the business, the leadership and ownership.

In Portugal, the creation of a family firm is similar to the creation of a non-family one. The only exception is mentioned in article 8 of the CSC (Código das Sociedades Comerciais – Commercial companies code): the creation of firms between spouses, if only one has unlimited responsibilities in the firm. There is no regulation about family protocol, neither of family firm's corporate governance organization. Article 405 of the CSC establishes the principle of contractual freedom: the parts can create a contract, including clauses that are in line with their interests, if it is not contrary to any established law.

Regarding remuneration, the number 1 of article 255 of CSC establishes the rules of manager's remuneration. They should be deliberated by the owners or an owner council. The remuneration of the board of directors is established by the general council or other nominated to it (article 399, number 1, and articles 429 and 444 of CSC).

4. DATA AND METODOLOGY

This work analyses Portuguese listed firms of Euronext Lisbon. Portugal is an interesting case study as family firms represent around 70-80% of Portuguese firms and 50% of listed firms (Miralles-Marcelo, Miralles-Quirós & Lisboa (2014). Moreover, in 2015 the CMVM admitted a lack of self-regulation about corporate governance and delegate to the IPCG the responsibility to create a new corporate governance code that was published in May 2016.

In this work all available corporate governance reports of Portuguese listed firms of the year 2016 were analyzed. These reports were collected in the CMVM website. The information collected refers to capital structure, governing boards and commissions, remuneration, and assessment of corporate control. Additionally, the firm's websites were explored in order to validate if corporate governance information is published in the firm's website.

Based on these reports, and the familiar relations identified on it, the firms were manually classified between family and non-family firms. Family firms' definition is not unique, depending on the researcher and work analyzed (Miller, Breton-Miller, Lester & Cannella Jr, 2007). Family firms can be small, medium, and large firms; family-owned, family-managed or family-controlled (Klein, 2000). In this study, the concept of family-controlled firms is followed. Likewise, a firm is classified as family firms whenever the family is an owner of the firm and some family members are present on the board of directors, as executive directors or no. This definition is similar to that of Anderson & Reeb (2003), and Miralles-Marcelo *et al.* (2014). All the other firms are classified as non-family firms.

The total number of Portuguese listed firms in 2016 was 42, 18 firms set in the Portuguese Stock market Index PSI20. Although, not all the firms publish corporate governance reports, as it can be analyzed in the following table:

Table 1: Structure of the Sample

	Total	Fam	NFam
Number of firms	37	19	18
Number of PSI 20 firms	16	7	9

Family firms represent around 51% of the sample, showing that family firms are also large-size firms. Regarding the presence of family firms in the PSI 20 is slightly less, around 44%. Only 37% of family listed firms are in the PSI 20, while to non-family firms around 50% are in the Portuguese stock index.

This work focus on statistics comparison of family and non-family firms, to analyze the impact of family control on corporate governance.

5. RESULTS

One of the main concern of the corporate governance report is the firm's capital structure, as it can explain the relationship among shareholders. Therefore, the firm's capital structure of family and non-family firms are shown in the next figure:

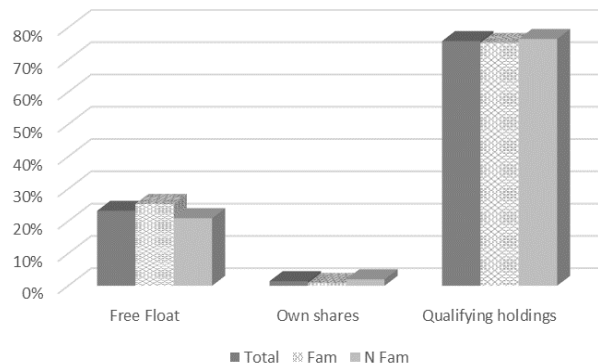


Figure 2: Capital Structure: family vs non-family firms

Figure 2 shows that in mean Portuguese listed firms have 23.20% of free float, and the number is slightly higher to family firms compared to non-family ones. According to the CMVM corporate governance report in 2014, the firms' free float (in mean) was 23.6%, inferring that this average is the normal one in the Portuguese market. The own shares are residual and are more relevant to non-family firms. Although, diverse firms do not have own shares. Similar results were found in 2014 (CMVM, 2014). Regarding qualifying holdings are in mean 75.78% (in 2014 the number was slightly smaller, 73.9%), and family and non-family firms have similar mean. Finally, the family detains (directly or indirectly) 53.23% of the firms ownership, showing that the family wants to be

the major owner to sustain its identity in the firm.

Additionally, the main differences between firms listed in the PSI 20 and the others is compared. Results are shown in the following figure:

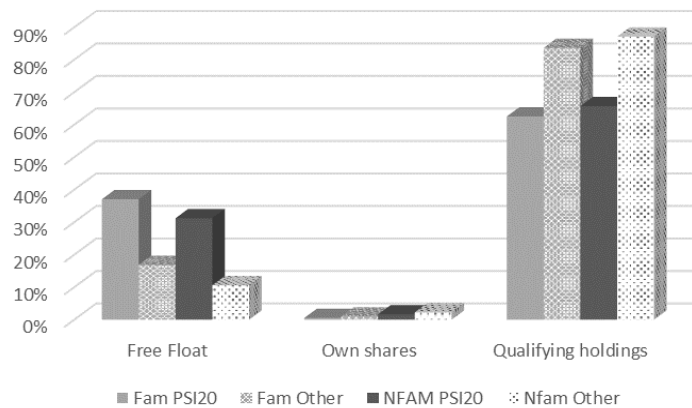


Figure 3: Capital Structure: PSI 20 vs other firms

PSI 20 firms, both family and non-family ones have higher free float and less own shares and qualifying participations than the others. To family firms, family ownership is also smaller to PSI 20 firms (39.57% vs 61.20%). Due to the liquidity of PSI 20 shares, these firms have less stable stakeholders (qualifying holdings), and less need to buy own shares to impact financial investor's perceptions about the firm's value.

Regarding corporate governance models, till 2006 only two types were allowed in Portugal: the hybrid or monistic model and the two-tier board or dualistic model. At that time all listed firms followed the hybrid model, more concerned with shareholders. With the reform of CSC (law decree 76-A/2006), as a result of the European Commission recommendation, a third model was indorsed: the Anglo-Saxon model (CSC, article 278). Nowadays there are two models one tier: monistic model (simple or reinforced) and Anglo-Saxon models, and one model two-tier: the dualistic model.

The monistic or hybrid model has a general meeting, a board of directors or a single director (if the firm is a small-size one), a supervision committee (or a single person, who should be independent) and/or statutory auditor (it is only required to the reinforced monistic model). This model is prone to solve agency costs type I since the boards are selected by shareholders in the general meeting. The Anglo-Saxon model has a general meeting, a board of directors, which includes an auditing committee and a statutory auditor, and a single supervisor. Finally the two-tier model has a general meeting, a general council, an executive board of directors, and a statutory auditor. This model is more accurate to solve agency problems type II, (between major and minority investors), since there is a higher separation between the boards and shareholders.

Figure 4 exhibits the corporate governance model adopted by family and non-family firms.

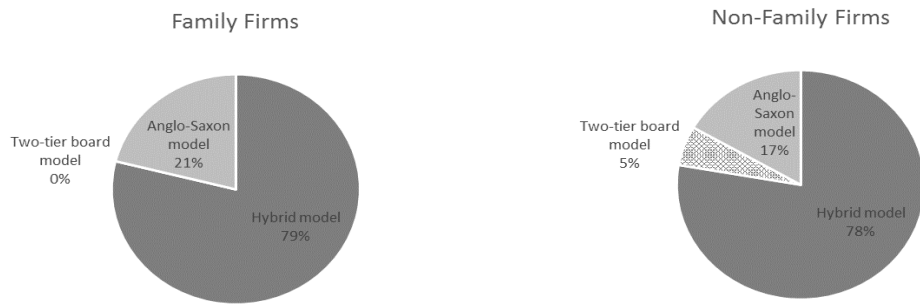


Figure 4: Corporate governance model: family vs non-family firms

Observing figure 4 the following facts emerge: there is only one firm with the two-tier board (a non-family firms); the majority of the firms prefer the hybrid model, while some use the Anglo-Saxon one (is usually used by firms with relationships with the US or the UK). Finally, the Anglo-Saxon model is more used by family firms than by non-family ones. Similar conclusions were found in 2014 (CMVM, 2014) showing the persistence of the corporate governance model.

Comparing PSI 20 firms and other firms the main conclusion is corroborate, the majority of the firms adopted the hybrid model, which was the only one used till 2006.

The next table shows the information about the number of executive, familiar and independent members on the board of directors (BOD), and the mean number of meeting of the board.

Table 2: Characterization of the board of directors: family vs non-family firms

	Total	Fam	N Fam
Executive/Total members	46.08%	46.71%	45.42%
Familiar/Total members	-	25.04%	-
Independent/Total members	24.02%	21.43%	26.74%
Number of the BOD meetings (mean)	9.86	9.65	10.06
Number of the executive BOD meetings (mean)	29.47	27.78	31.38

The executive members on the board of directors represent around 46.08% of the total members, meaning that non-executive members represent around 53.92%. Although, there are three firms in the sample that only have executive members on the board (two family and one non-family firm). Similar numbers were found in 2014 (CMVM, 2014). The number of executive members is slightly high to family compared to non-family firms.

In regards to family members, they represent on average 25.04% of the total board of directors. This number allows the family to sustain their identity and aims in the firm. Finally, independent members are 24.02% of the total board of directors, and this number is higher to non-family firms. One of the recommendations is to have independent members to protect investors from expropriations. Although, several firms (15 over 37 firms) do not have independent members, and this number is more representative to family firms, this can lead to agency costs type I and II.

The number of meetings is superior to executive board of directors than to board of directors in general, which is understandable since the executive members need to make strategical decisions about the firm. Not all the firms have executive board of directors, some only have a general board of directors. Finally, non-family firms meet more times than non-family firms.

The following table exhibits information of the board of directors (BOD) to PSI 20 versus other firms.

Table 3: Characterization of the board of directors: PSI 20 vs other firms

	Family		Non-Family	
	PSI20	Other	PSI20	Other
Executive/Total members	35.88%	53.93%	39.34%	52.18%
Familiar/Total members	17.93%	29.18%	-	-
Independent/Total members	28.39%	16.80%	21.66%	32.40%
Number of the BOD meetings (mean)	9.29	9.90	9.78	10.33
Number of the executive BOD meetings (mean)	23.00	31.60	39.83	6.00

The percentage of executive members increases to firms other than PSI 20, suggesting that non-executive members are more common in PSI 20 may be because financial investors request it to avoid agency costs type II (between major and minority investors). To family firms, the percentage of family members on the board of directors is also higher to firms other than PSI 20, which can be useful to add more objectivity to the board.

Regarding independent members, to family firms they are more common to PSI 20 firms, while to non-family firms are more common to firms other listed firms. Moreover, several firms, especially other than PSI 20, both are family and non-family firms, do not have any independent member on the board of directors.

The number of meeting of the board of directors is similar to both PSI 20 and other firms. Although the number, on average, of executive board of directors meeting is too small to non-family firms other than PSI 20. Although, as explained before, not all the firms have this type of meetings.

Next table show information about the supervisory board.

Table 4: Characterization of the supervisory board: family vs non-family firms

	Total	Fam	N Fam
Number of supervisory members (mean)	3.21	3.20	3.21
Number of the supervisory board meetings (mean)	7.95	7.37	8.56
Number of years of the statutory auditor in the firm (mean)	7.70	8.05	7.33
Number of members of the remuneration council (mean)	3.03	2.83	3.22

The number of members in the supervisory board is around 3 to both family and non-family firms.

Similar numbers were found in 2014 for the same sample (CMVM, 2014), and when the sample is split into PSI20 and other firms. They meet more often in non-family firms than in family firms (8.56 vs 7.37 times per year on average), and in PSI20 firms. On average the number of meetings was 7.95 times in 2016, but in 2014 the average was higher, 9.8 times (CMVM, 2014).

In mean, the statutory auditor has been working for the firm for 7.7 years. One family firm has the same statutory auditor for the last 28 years, while other firms, both family and non-family firms have change the statutory auditor in the last year. Finally, the number of members in the remuneration council is on average 3.03, and this board is slightly bigger to non-family firms. Next figure present information about the statutory auditor.

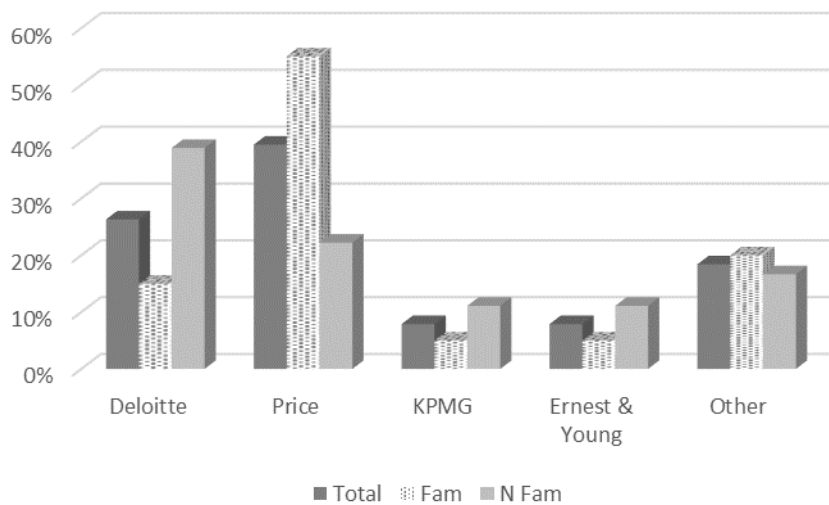


Figure 5: Identification of the statutory auditor

Analyzing the previous figure the following conclusions can be drawn: most of family firms select the PricewaterhouseCoopers, while non-family firms' first choice is Deloitte, two of the big 4 auditing companies. Similar results were found also in 2014 (CMVM, 2014).

The Portuguese listed firms create their corporate governance report in the sense of comply or explain. Not all the recommendation are appropriate to all firm. Mean results of assessment of corporate governance recommendations are illustrate in table 5.

Table 5: Assessment of corporate control recommendations: family vs non-family firms			
	Total	Fam	N Fam
% followed recommendations	74.60%	74.28%	74.93%
% non-followed recommendations	9.51%	10.19%	8.80%

Less than 75% of the recommendation are comply, and the percentage is similar to both family and non-family firms. Family firms have more recommendations not comply than non-family firms (10.19% vs 8.8%). This conclusion is different from the ones found by Ponomareva & Ahlberg (2016), where family firms have adopted more corporate governance recommendations. Although,

this difference can be explained due to the country analyzed or firm's specificities. In 2014, the CMVM show that some of the explanations given by firms that were not following the recommendations were not accurate, while others were a consequence of the commentaries given by the CMVM.

Table 6: Assessment of corporate control recommendations: PSI 20 vs other firms

	Family		Non-Family	
	PSI20	Other	PSI20	Other
% followed recommendations	82.08%	69.73%	77.05%	72.81%
% non-followed recommendations	6.21%	12.51%	5.98%	11.62%

Comparing PSI 20 and other firms (table 6), PSI 20 firms followed more the corporate governance recommendations than other firms, and family firms more than non-family firms, going in line with the result of Ponomareva & Ahlberg (2016). This may be explained because family firms need to exhibit more information transparency to avoid agency costs type II. Moreover, more liquid firms are more concerned to apply managers' plan, confirming the stewardship theory.

Finally, I have analyzed if Portuguese listed firms exhibit information about corporate governance and its report in their webpages. Results are shown in figure 6.

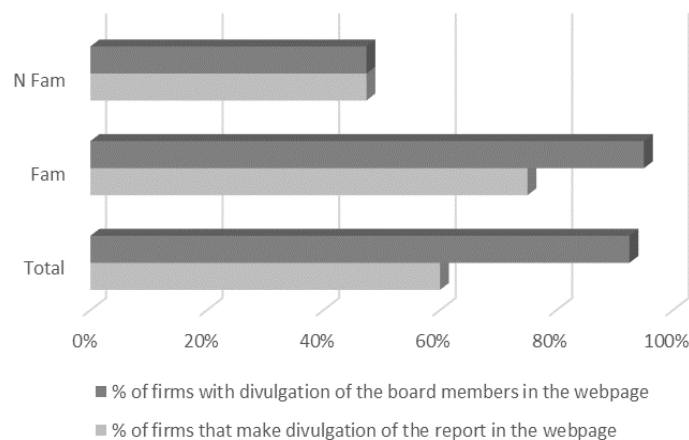


Figure 6: Divulcation of corporate governance: family vs non-family firms

Family firms have a higher tendency to share information about the firm, to avoid asymmetries of information which can cause some inferences in the firm's value. Therefore, diverse family firms make divulgation of corporate governance reports in their webpages. Moreover almost all show information about the boards' composition and others. Non-family firms are more concern to send this kind of information to the CMVM and not to share information with all stakeholders.

When PSI20 and other listed firms are compared, PSI20 firms divulgate more information in their webpages, but is still more relevant to family firms than to non-family ones.

Lastly, I try to found information about family councils and/or protocols, but this kind of

information is not public, at least is not available in the internet. It is important to point out that family council and familiar protocol are not required to Portuguese firms, and for that reason firms may not publish any information about it. Although I know that diverse firms have some specific councils for family members, and some firms have asked help to some professionals in the area. For instance, the AEF give this support to all of their members that need and asked for it.

CONCLUSIONS

Corporate governance is an area that gained prominence in the last years. Corporate governance recommendations are a set of rules developed to warrant better control within the firm, avoid information asymmetries, promote transparency and accuracy, and halt the corruption and self-enrichment of the board. These recommendations are not obligatory, but listed firms must follow the “comply or explain” principle.

The relevance and structure of corporate governance may be different depending on the type of firm. Family firms are more complex firms due to the existence of the family. Family members, both the ones directly and indirectly linked to the firm, have personal motivations to run the firm, which are not only related with the maximization of the firm’s value, but also with the maximization of the family aims (socio-emotional wealth).

This study analyzes the main differences of corporate governance between family and non-family firms. Particularly, it analyzes the corporate governance reports of Portuguese listed firms. Portugal was the chosen setting. The Portuguese market is mainly unexplored, due to the small-size dimension, and lack of information transparency. However, its analysis is relevant. Some frauds and corporate scandals occur in Portugal in the last years, calling the necessity to explore corporate governance issues. Additionally, in what concerns family firms, they represent around 70-80% of Portuguese firms and 50% of listed firms.

The main results show that capital structure, namely qualifying holdings, own shares and free float, is similar to family and non-family firms. The main difference is identified between PSI 20 and other listed firms. PSI 20 firms have less qualifying holdings and more free float. These facts explains why PSI 20 firms are the most liquid firms in the Portuguese stock market. Moreover, family members detain, in mean, more than 50% of the firm’s ownership, evidencing the family need to control the firm.

The majority of the firms opts for the hybrid model of corporate governance, which is the most appropriate to solve agency problem type I. Analyzing the board of directors, the percentage of independent members is higher to PSI 20 firms. Independent directors are important to ensure objectivity to the decisions. Yet, most firms prefer to have few or no independent members in order to control the firm’s decisions. Family members represent around 25% of the board members, which explains the firm’s actions to obtain socio-emotional wealth. In what regards the statutory auditor, most firms choose one of the big four auditing companies, namely Price or Deloitte, and on average they are in the firm for more than 7 years.

Around 75% of the corporate governance recommendations are followed, but not all are appropriate

for all businesses. The compliance with these recommendations is more usual for PSI 20 firms. Family firms, in particular, have a strong corporate governance structure so as to promote the firm's continuity in the future. Further, family firms are more concerned to publish corporate governance information in their website, to show that there is no asymmetry of information, and that financial investors can trust in the firm.

Even though this study enhances our understanding on corporate governance, it is not free of limitations. Only a small-size market was analyzed, and it is not possible to extrapolate results to other markets. Future works should analyze other markets to validate results, and draft international conclusions. Moreover, only one year – 2016 – was analyzed. It could be relevant to explain the differences in corporate governance reports before and after the new corporate governance report published in this year.

Additionally, the study only focused on public information. Further studies can analyze if family firms have especial corporate governance mechanisms, as family councils, family meetings and family protocol, information that must be gathered through surveys. The impact of the family firm's generation should also be taken into account, as one of the main challenges of family firms is succession. The assessment of corporate control impact on the firm performance and capital structure can also be analyzed to see if corporate governance is relevant to sustain the firm in the future.

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