CORPORATE GOVERNANCE AND ITS EFFECT ON THE PERFORMANCE ON FAMILY AND NON-FAMILY COMPANIES LISTED ON THE CYPRUS STOCK EXCHANGE

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Andreas K. Georgiou

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ABSTRACT

The main aim of this research is to investigate the relationship between corporate governance and performance of firms operating in Cyprus and to apply these findings to a private university in Cyprus, namely the Frederick University of Cyprus (thereafter FUCy). The main objective of the research is to apply the research findings to the improvement of course programmes in accounting and finance and business administration. The research focuses on firms operating in Cyprus. However this research is supported by overseas research in the area.

In contrast to most previous studies it was found that family firms (thereafter FFs) have a negative impact on firm performance however the results of the study provide significant evidence that the implementation of corporate governance mechanisms by FFs can lead to performance benefits. It was found that FFs that operate in markets where there is full compliance with the CGC have a positive impact on firm values. Ensuring more effective corporate governance practices and adequate information disclosure are likely to increase the confidence of investors in the firm and make the FFs less risky to invest in. This will result in lower costs of capital and higher firm values as a result. Furthermore, the results of this study generally suggest that the adoption of corporate governance mechanisms has some important implications for FFs in the CSE. Corporate governance can greatly assist the FF sector via the introduction of better management practices and greater opportunities for growth through the utilisation of non-executive directors.

Effective corporate governance mechanisms are likely to result in boards exerting much needed pressure for improved performance by ensuring that the interests of the firms are served.

Empirical evidence also shows differences in the effect of corporate governance mechanisms for firms operating in the Alternative Market compared to the Main and Parallel Markets. For firms in the Alternative Market, a market with low corporate governance standards, the effect of several corporate governance variables was significant. For firms operating in AM, it was found that leverage and board size had a significant negative impact on Tobin's Q value, in contrast to the firms operating in the MM & PM. In addition, the number of meetings, insider ownership and the presence of audit committees plays a more important positive role in the AM compared to MM&PM. Substantial differences between markets are also shown for the relationship of corporate governance factors and ROA.

However in contrast to this there is significant evidence from the perception of CSE managers that the benefits of corporate governance are not fully understood. Further to this there is also evidence of a lack of corporate governance education to students on accounting and finance and business administration degree programs in Cyprus. This evidence is based on data received from a sample of students and faculty interviews at FUCy, one of three private universities operating in the Republic of Cyprus.

The main recommendation of the research is that a new module be introduced for both the accounting and finance and business administration degrees to meet the increasing need for corporate governance education. This will meet the needs of the Cyprus business world where the role of corporate governance in business is increasing. This module will cover the main aspects concerning corporate governance. It should be mentioned that in recent years major professional accounting bodies have increased the coverage of corporate governance in their courses and their syllabi. This addition will result in benefits to the students and improvements in the relevant degree programmes.

The research is divided into seven chapters. Chapter 1 is an introduction concerning the research area. Chapter 2 outlines the research statement, objectives, theoretical background and literature review on the subject. Chapter 3 outlines the methodology of the research whereas Chapter 4 outlines the actual project activity and what helped and hindered the activity. Chapter 5 provides an analysis of the findings of the research whereas Chapter 6 provides the conclusions, suggestions for future research and recommendations. Finally chapter 7 is a reflective account of the researcher’s personal and professional learning. It also discussed the impact the project has on the various stakeholders.

LIST OF ABBREVIATIONS

AM – Alternative Market

CEO – Chief Executive Officer

CGC – Corporate Governance Code

CSE – Cyprus Stock Exchange

FFs – Family firms

FIT – Frederick Institute of Technology

FUCy – Frederick University Cyprus

MD – Managing Director

MM – Main Market

NFFs – Non-family firms

PM – Parallel Market

ROA – Return on Assets

ROE – Return on Equity

SMEs – Small and medium sized enterprises

SN – Senate

UC – University Council

CHAPTER 1: INTRODUCTION

1.1 Chapter summary

This chapter aims to point out the main themes or problems that are being investigated and why there is a need for such research. It also aims to point out the need for the research and its importance. It will also illustrate the work context of the research and my position in it. Further to this it will justify why the project is appropriate to me to carry out. Finally the chapter will highlight the main assumptions and limitations of the research.

1.2 Project objectives and goals

The purpose of the project is to apply statistical analysis on Cyprus Stock Exchange (thereafter CSE) data and CSE firm's management interviews, to investigate the impact of corporate governance variables on performance of firms. I am a lecturer in Frederick University Cyprus (thereafter FUCy) and I am going to apply the corporate governance literature and research results in my work environment. Specifically, I will use the results of my study, together with the results of student questionnaires and faculty interviews in the work environment, to enhance corporate governance education at FUCy.

There are two main reasons for such research. Firstly, it aims to contribute to the literature concerning corporate governance research in Cyprus and secondly, it aims to be used in improving the quality of degree programmes in which I lecture in by examining the role of corporate governance education.

1.3 Importance of research work

1.3.1 Introduction

The research investigates the impact of several corporate governance variables on firm performance. The research separates into four main categories: board characteristics, ownership, control variables and corporate governance code (thereafter CGC) compliance. The first category involves variables like CEO duality, board size, board composition, frequency of meetings and board expertise. The second category involves the investigation of the impact of ownership variables like family and insider ownership. The third category involves the effects on performance of control variables such as age, size and leverage. Finally, the CGC adoption relates to adoption of the regulatory environment on corporate governance that also relates to the adoption of audit and remuneration committees.

1.3.2 The researcher's interest in the subject

My interest in corporate governance developed from my interest in developments in the Cyprus security markets where I wrote a number of research articles. In addition to this I was for eight years a financial correspondent for the Cyprus Financial Mirror (a Cypriot financial paper) where my job was to carry out financial analysis on the results of public companies listed on the CSE.

When I was required to pursue a doctorate for my career prospects at FUCy, I decided that the most natural choice for a project was an area connected to the CSE. The choice of corporate governance as the research area developed due to the fact that it was a new development in Cyprus (it was introduced in 2002) and that there was very little published research concerning corporate governance in Cyprus. Since I was interested in finding out if corporate governance had an impact on the performance of companies in the CSE, I decided to pursue a project in this area.

In addition to this I felt that it would also be of benefit if the research were applied to the organisation I work through module development with the aim of applying the research results to it.

1.3.3 Innovation of research

The project enhances previous literature results on the following dimensions:

1. It compiles a new database on corporate governance for firms listed in the CSE.
2. Unlike earlier research work, the project proposes a unified framework that explores the impact of several areas of corporate governance that range from board characteristics, ownership characteristics, control variables and corporate governance code compliance.
3. It also examines the effect of family firms (thereafter FFs) versus non-family firms (thereafter NFFs) and the effectiveness of corporate governance mechanisms in Cyprus that will add to the research literature on corporate governance.

1.3.4 The application of the research results

Research concerning corporate governance and performance on the CSE is important to the research project since it provides the basis of the conclusions regarding the impact of corporate governance mechanisms on performance.

The project outcome could be used as a basis for future publications (such as research journal articles) concerning the CSE and corporate governance where there is very little or no literature concerning this area. The publication could be geared towards the academic community (for its research content), professionals in the financial sector and students.

The researcher has taken action in doing this by presenting a research article at the IWBL 2010 Conference that took place in Larnaca and Limassol on 24-26 June 2010. This conference was organised amongst others by Middlesex University and FUCy. The theme of the paper is the application of corporate governance research to FUCy and is based on work on the researcher's doctorate project. Further to this it should be mentioned that after making the necessary minor revisions my paper will be published in the refereed research journal "Higher Education, Skills and Work-based Learning" published by Emerald.

1.3.5 Importance of the results for course programs at FUCy

The results have practical work-related implications regarding the improvement of the course programmes and research at Frederick University in the following ways:

1. The theoretical background, relevant literature and empirical evidence on corporate governance can be incorporated in accounting and finance and business administration modules.
2. The dataset of the study can be used by student for dissertations on the CSE and used by faculty staff in further research on corporate governance on the CSE.

Interviews by CSE firm managers intend to clarify whether current management perceptions are aligned to the statistical results. They intend to offer possible explanations for the empirical results especially where some of the results of the empirical data are ambiguous. The perceptions of the CSE managers will also be used to evaluate their knowledge on corporate governance issues and to examine their need for corporate governance education.

Student questionnaires show what students perceive concerning the current role of corporate governance education and insights concerning its future role. The faculty staff interviews provide information the current role of corporate governance education and its future role. The views of faculty staff are very important since they are a significant component of the organisation and they have the responsibility of making changes to course programs.

Hence the student questionnaires and faculty interviews will be used in the study in order to obtain information that can help to better structure the course content. Faculty interviews, for example, provide information regarding the way modules in this area can be incorporated (e.g., undergraduate or post-graduate courses) while student questionnaires help understand the interests of the students.

The School of Economic Sciences and Administration could also use the research (this is the school I works in) in developing research ideas that could ultimately lead to funding from the European Union (EU) concerning future research. Action has been taken towards this direction since a research proposal in the area of corporate governance research has already been made to the Research Promotion Foundation (IPE), a government organisation that funds research in Cyprus (and has access to EU funding).

Finally, the research could useful to the business community (both in Cyprus and abroad) concerning information on the CSE that could be used in making potential investment decisions.

1.3.6 Other applications of research results

The results can be presented to practitioners and in particular firms that are members of the CSE. These firms will be able to use the information based on the full sample of all firms listed on the CSE used in this study. They can also use the empirical results to gain insights on the relationship between corporate governance mechanisms and performance and invest their resources in the most important aspects.

1.4 Work-based Project Context: Frederick

1.4.1 Introduction

The work-based project will be based on a literature review and statistical analysis of the area of corporate governance and performance in the Cyprus environment (that is the CSE) that will be carried out by me the researcher. Using the results from both the literature review and the primary data from CSE, the results will be applied to the FUCy in the improvement on degree programs in which I lecture. Questionnaires designed to capture current students and faculty perceptions about the importance of corporate governance for future course program development are also examined.

The work context of the research can be explained by the fact that I am a lecturer at FUCy and Frederick Institute of Technology (thereafter FIT) lecturing mainly on the Limassol campus. The organisation also has a Nicosia campus where I have lectured in the past on professional courses for accountants. I have worked for both these organisations for over six years in total where I have taught accounting and finance subjects for students predominantly in the School of Economic Sciences and Administration. Though I was first employed by FIT in December 2003, I transferred to FUCy on 12 September 2007 after the government of the Republic of Cyprus accepted its application for university status (Frederick University, 2009). Despite this transfer I still teach occasionally for FIT when the need arises.

1.4.2 The change from college to university

FIT, a private college in Cyprus, was the brainchild of its founder Mr. Michael Frederickou that operated under a family business culture. Mr. Frederickou has significant influence in decision making with a material number of his family and relatives having administrative and academic positions in the firm. Another unique characteristic of FIT is the bulk of its staff members (that are mainly non-family members) have long service to the organisation and there is low staff turnover.

The change from college to university is resulting in a culture change. Though Mr Michael Frederickou is Chairman of the University Council of FUCy (Frederick University, 2009) and though his family members and relatives have positions in the organisation, FUCy is continuing to recruit outsiders to widen the quality of its staff in addition to most of the personnel that previously worked for FIT. The change from college to university has also resulted in new course programs being offered. One of these was the accounting and finance degree that started its operations in the academic year 2007-2008 in line with the time when FUCy obtained its university status.

1.4.3 Application of the results to course and research improvement at FUCy

One of the six schools in the new university was The School of Economics and Sciences. This evolved from FIT where it was known as the Department of Business Administration. The School of Economics and Sciences operates three degree programs in business administration, accounting & finance and maritime studies. The first is taught at the Nicosia campus whereas the other two are taught at the Limassol campus. It should be mentioned business administration and maritime studies degree courses operated under FIT structure and unlike the accounting and finance degrees have been running for some time. Both FIT and FUCy are associated and operate to the current date. Whereas FUCy offers undergraduate and postgraduate degree programmes, FIT primarily offers diploma programmes.

A problem had arisen in that under FIT the Limassol campus operated a business administration degree and under the university rules it was not allowed for this degree to be taught simultaneously on two campuses. However under the transitional rules, the Limassol campus is allowed to teach to business administration degree students that started the course at FIT. Though for the academic year 2009-2010 lessons are taught for the three degree programmes, no students can be taught lesson for business administration degree for the academic year 2010-2011.

The research results are to be applied predominately to the accounting and finance degree program however due to its similarity with the business administration degree it can also be applied to this course. Details concerning the outlines of these degree courses may be found in Appendix 9, p.40.

One of the strengths of these courses is the fact that they have obtained exemptions from the examinations of professional accounting bodies and more specifically the ACCA. The accounting and finance degree has achieved nine exemptions from the ACCA professional examinations whereas the business administration degree has achieved eight exemptions. It should be mentioned that to pass the ACCA examinations a student must pass or get exemptions for 14 modules. Hence the significance is that by successfully completing either of the two degree courses mentioned, a student would have gone a substantial way to acquiring an ACCA professional qualification. Details of the ACCA exemptions are given in Appendix 8, p 239.

Due to the specialist nature of the maritime studies degree, I decided not to apply the research findings to this course though this faculty is welcome to apply the research findings if it feels it is in its best interest to do so.

One aspect of the research is to consider how the School of Economic Sciences and Administration is aiming to improve its degree programs and the doctorate project covers three areas that are linked and could make an additional contribution to the program: Namely, the CSE, family businesses and corporate governance.

Finally, one of the aims of FUCy is to enhance its status concerning research. (Frederick University, 2009). The research from the project could be used as a start to further research concerning corporate governance in Cyprus. The FUCy could be used as a host research organisation that could lead to European Union (EU) funding for this research. This will result in benefits to both FUCy and the researchers involved in this research.

1.5 Why the project is appropriate to the researcher

There are a number of reasons why the project is appropriate to me. Firstly, it is in an area where I carried out prior research (that is through articles concerning the Cyprus securities markets) and has worked in jobs connected to the area (that is as through the analysis of the results of public companies in Cyprus). Hence due to this I have prior knowledge concerning the research area.

Secondly, my organisation requires me to be involved in research activity as part of the requirements of my job and the area of corporate governance is an area with many aspects that have not been researched in Cyprus that can provide me with material to pursue my research activity. I believe the project could be the start to me establishing a specialisation in corporate governance research on the CSE. For example there is little research concerning corporate governance announcements and share price performance and this could be a research activity avenue I will follow when hopefully I have completed my doctorate.

A third reason why the project is appropriate for me is that since I am an investor in the CSE, the research findings could be used by me in my future investment strategies.

Finally, the research findings could be used in developing a new module on corporate governance on degree courses in which I teach. Currently there is no module on corporate governance and the research could be used in determining the content of new modules in this area. It should be mentioned that professional accounting bodies such as the ACCA have within the past few years introduced corporate governance to a greater extent in their examinations. In addition a number of UK universities do have corporate governance modules in their degree courses.

1.6 Assumptions and limitations of research

1.6.1 Assumptions of research

The main assumptions of the research are as follows:

1. Though the type of market was introduced in 2004, the classifications were applied retrospectively to 2002-2003.
2. Concerning the classification between those companies fully complying, partially complying and not complying with the corporate governance code (thereafter CGC), it was assumed that any firm that does not satisfy all requirements is treated as partially complying with the CGC.

1.6.1 Limitations of research

The main limitations of the research are as follows:

1. Though the research wished to include variable concerning independent directors, it was excluded due to the difficulty of measuring this variable. This is because due to the small size of Cyprus it is probable that a director who on paper is independent may in practice not be independent due to close ties with other directors.

2. I had no access to all the financial statements for the research period of a small number of firms on the CSE and hence these companies were excluded from the statistical testing.
3. Whist information was obtained concerning directors with a professional or university degree, there was no data available concerning directors with financial expertise or audit committee members with accounting expertise. This data could only be obtained through interviewing senior officials of CSE firms. Due to cost and time considerations I did not do this. Hence the research models excluded variables for board financial expertise and audit committee members with accounting expertise.

CHAPTER 2: TERMS OF REFERENCE/THEORETICAL BACKGROUND AND LITERATURE REVIEW

2.1 Chapter summary

This chapter aims to point out the research aims, objectives and research questions. In addition it will aim to provide the theoretical background to the research through a literature review. The literature review provides evidence of the relationship between corporate governance mechanisms and performance. It also looked at the previous literature between FFs, corporate governance and performance. The literature is based on the corporate governance mechanisms of: board, ownership, CGC compliance and control variables.

2.2 Aims, objectives and research questions

Corporate governance is the system by which companies are controlled and directed (OECD, 1999). Many countries apply corporate governance practice through the use of a corporate governance code (thereafter CGC). Cyprus is no exception with it introducing a CGC in 2002.

A main question that needs to be addressed in the research is why there is a need for corporate governance in Cyprus. According to Cyprus Securities and Exchange Commission (2002) the aims of the CGC in Cyprus include: enhancing investor protection; making strong the supervisory role of the board of directors in public listed companies, ensuring there is higher financial disclosure quality and, securing the independence of the board of directors when making decisions. According to Ashbaugh et al. (2004) corporate governance is needed to reduce agency risk due to the risk that managers pursue their own interests at the expense of the shareholders. They add that corporate governance mechanisms are needed to monitor managers in order to restrict potential opportunistic behaviour. In addition they assert that corporate governance can also improve the quality of the information provided by the firm.

Hence corporate governance is about managing firms. In a significant number of businesses on the CSE, the firms are owned by one group of persons whilst being managed by another group of people. This separation of the ownership from management creates an issue of trust. The management must be trusted to run the firm in the interests of the owners and other stakeholders. If the information were available to all stakeholders in the same form at the same time, corporate governance would not be an issue at all. For example armed with the same information as the managers, the owners would not worry about managers investing in useless projects or a customer would not worry about a supplier firm not delivering the goods. However in the real world the information available is not the same to all stakeholders meaning there is a need for corporate governance mechanisms.

The study aims to look at what impact does corporate governance has on performance. Though there have been a number of studies that have examined the relationship between corporate governance and performance, there is no such published research for the CSE.

More specifically the study looks at whether corporate governance mechanisms have an effect on performance based on: the type of market, the type of firm and based on the perception of CSE managers. According to Maher and Andersson (1999) there are a number of potential channels of influence through which governance can affect performance. They assert that there is evidence that amongst the corporate governance areas that can influence performance are board and ownership factors. The main branch concerning ownership factors that would be looked at in the research is to examine the performance effects of FFs versus NFFs.

Another aim of project is to examine the current role of corporate governance education in FUCy based on data including student questionnaires and faculty staff interviews and to make suggestions on its future role in faculty course programs.

Following on from the aims of the project its main objectives are:

Firstly, to advance the international corporate governance research agenda by describing the corporate governance environment for the CSE and to examine the following corporate governance areas against performance: board characteristics (including CGC compliance variables); ownership characteristics and, control variables.

Secondly, to examine the effect of FFs versus NFFs on the effectiveness of corporate governance mechanisms on the CSE based on their market and accounting performance.

The final research objective is to apply the theoretical framework on corporate governance, previous literature on corporate governance, research evidence from the CSE and questionnaires/interviews to students/faculty staff to the development in degree programmes in accounting and finance and business administration.

Following on from the objectives of the project, the main research questions are:

Firstly, what is the effect on firm value of the implementation of board corporate governance mechanisms for CSE firms?

Secondly, is the extent of the relationship between Chief Executive Officer (thereafter CEO) duality positively related with market and accounting performance on the CSE?

Thirdly, what is the impact on market performance when CSE firms are listed in different markets where the extent of CGC compliance differs?

Fourthly, what is the effect on market and operating performance of the implementation of corporate governance mechanisms for FFs firms listed on the CSE?

Fifthly, what is the relationship between leverage and performance for both the CSE as a whole and for FFs?

Sixthly, what is the current role of corporate governance education at FUCy?

Seventhly, what is the extent of the relationship between corporate governance theories with the CSE empirical findings?

Finally, what recommendations can be made to enhancing corporate governance education at FUCy based on the research findings?

2.3 Statistical models description

The purpose is to test for the above relationship between performance and corporate governance mechanisms by testing a linear relationship of the form:

Performance = f (board characteristics, ownership, CGC adoption, control variables)

Where f (x) denotes linear function of x variables.

The following variables have been used for the independent and dependent variables:

Performance: Return on Assets (thereafter ROA) and Tobin's Q value.

Board Characteristics: Board size, board composition, board and management expertise, CEO duality and frequency of meetings

Ownership: FFs and insider ownership

CGC adoption: Audit committees and extent of CGC compliance

Control variables: Firm size, age, leverage, sales growth, type of market and type of industry.

2.4 Literature review

2.4.1 Corporate governance theory

The OECD (1999) defines corporate governance as "…a system by which business corporations are directed and controlled". Liandu (2002) defines it "as the way the management of a firm is influenced by many stakeholders, including owners/shareholders, creditors, managers, employees, suppliers, customers, local residents and the government".

In recent years some very high profile corporate failures that involved fraud and questionable business practices (such as Enron and WorldCom) have damaged the reputation of business managers. This has led to greater scrutiny of corporate governance and for the need for governments to tighten the regulations on corporate governance further. In the USA this was done through legislation (the Sarbenes-Oxley Act) whereas countries such as Cyprus introduced regulations via a CGC.

Therefore one of the objectives of corporate governance it is a way of mitigating potential conflicts between the principal and agent (Ashbaugh et al., 2004). The principal being the party that provides the finance (whether it is shareholders or debt holders) whereas the agent is represented by the management whose task is to manage in an efficient manner so that maximum returns are provided for the principal. According to Jensen and Meckling (1976) these agency conflicts may result in agency costs.

Agency costs include monitoring expenditures by the principle however may be due to losses due to the conflicts in interests between the owners and the managers. The agency costs may be reflected in a decrease in share price. Hence to increase firm value, one must reduce agency costs. This is how the link between corporate governance and firm performance may be viewed.

Disclosure and transparency are also attributes to effective corporate governance practice. The OECD (1999) asserts that a corporate government framework should ensure that timely and accurate disclosure is made on all material matters regarding the firm including the financial situation, performance, ownership and the governance of the firm.

Further to this Karamanou and Vafeas (2005) assert that sound financial disclosure (that is an objective of corporate governance) can bridge the information asymmetry gap between the managers and shareholders and can minimise agency problems. They also assert that poor financial disclosure that misleads investors will have an adverse effect on firm value. They found that effective board and audit committee structures might help the quality of disclosure and that will have a positive impact on firm value.

Another objective of corporate governance is investor protection. OECD (1999) states that an element that promotes good corporate governance practice is for the shareholder rights to be protected. According to ICAEW (2010) investor protection can be provided through an efficient legal and regulatory framework.

Corporate governance can be used as a key factor in improving economic efficiency and in building investor confidence. Further to this corporate governance will give incentives to the owners and management to adopt objectives that are in the best interests of the firm (OECD, 2004).

Economic models that are incentive-based to influence management behaviour may motivate some governance features.

One such economic model is an agency model that supports the view that managers have different interests to those of the shareholders. It assumes that human behaviour is opportunistic and self-serving. This may lead to decisions being made that meet the manager's interest and that are costly to the shareholders. According to Jensen and Meckling (1976) agency theory is concerned with aligning the interests of the managers and the owners. Those who support the agency model believe that the best option is that corporate governance mechanisms should be implemented to protect shareholders from management's conflict of interest (Fama and Jensen, 1983). Otherwise this will generally result in negative effects on financial performance.

According to OECD (1999) the agency model recommends that one way corporate governance mechanisms could be implemented is for the roles of chairman and CEO to be separate (that is non-CEO duality) since it will help the board to be in a better position to monitor management opportunism. Evidence on the area tends to be in line with the prediction that CEO duality is harmful for firm performance.

Yermack (1996) found that if the chairman and managing director are separate persons then this could have a positive effect on market performance as measured by Tobin's Q value. Sanda et al. (2003) found a positive relationship between firm performance and non-CEO duality. Lam and Lee (2008) found non-CEO duality is good for family controlled firms. Chahine and Tohme (2009) that used data from firms quoted on Middle East and North Africa Stock Exchanges found that new issues with firms that applied CEO duality under performed issues with non-CEO duality firms over a 6.5-year period.

Agency theory could be used in overcoming conflicts between large shareholders and small shareholders. According to Villalonga and Amit (2006) these conflicts could arise when a large shareholder who is in a controlling position extracts private benefits at the expense of smaller shareholders. The large shareholder who has a controlling stake could represent a family interest and would have greater incentives in monitoring the firm and expropriating assets at the expense of small shareholders leading to agency problems. From this there is an issue as to whether the large versus small shareholder conflicts can be detrimental to shareholder value. Claessens et al. (2002) found evidence that the excess of shareholder voting rights over cash flow rights has a negative effect on the firm value. On the other hand in a Swedish study it was found by Cronqvist and Nilsson (2003) that it is cash flow ownership and not excess voting rights that has a negative impact on firm value.

Another aspect that needs to be considered is whether governance is likely to affect firm performance. According to Ashbaugh et al. (2004) governance mechanisms that provide more independent monitoring of management will result in the firm having a lower cost of equity capital that leads to an increase in firm value. One way firm value may be measured (and is used as a performance measure in the research) is Tobin's Q value. According to Daske et al. (2008) higher values of Tobin's Q could reflect differences in cost of capital and/or differences in future cash flows. Tobin's Q value can capture future growth expectations in that it will (all things being equal) show a higher value if future cash flows are expected to increase even if the cost of capital stays constant.

Another measure that has been used to measure corporate governance is the return on assets (thereafter ROA). According to Yermack (1996, p.201) *"If corporate governance becomes less effective as board size increases, I expect lower profitability in companies with large boards, and I also expect less efficient use of assets. I estimate fixed-effects models of board size and three key financial ratios: sales over assets, return on assets, and return on sales."* In line with the argument of Yermack (1996) argument for board size, a similar argument is used for other corporate governance related variables used in this study. Kiel and Nicholson (2003), Cheng (2008) and Klapper and Love (2002) also argue that ROA measures the accounting performance that may be affected by corporate governance practice.

The stewardship model supports the view that managers are good stewards of the firm's resources. It asserts that if managers are left alone they will act responsibly and will effectively manage the assets they control (Donaldson 1990; Donaldson and Davis 1991; 1994). According to Donaldson and Davis (1994) stewardship theorists assert that senior management will not purposely put the shareholders in a disadvantage since they fear this will jeopardise their reputation.

In contrast to the agency model, the stewardship model implies that there is no need for corporate governance mechanisms to be implemented in order to obtain financial performance benefits. Supporters of the stewardship theory assert that CEO duality is a means to improving performance. According to Donaldson and Davis (1991) this is because CEO duality is a positive force leading to effective and efficient decision-making.

Lam and Lee (2008) using Hong Kong data, found evidence that CEO-duality is good for NFFs for this reason. Villalonga and Amit (2006) found that family management adds value when the founder serves as the managing director of the firm or as its chairman with a non-family managing director. Chen et al. (2005) detect a significant positive relationship between duality and market. Hermalin and Weisback (1998) explain that the CEO-duality and performance relationship may be endogenous since a CEO may be given a chairman's role as a result of CEO performing well. Hence they assert that the increase in performance may be due to the demonstration of high ability and not of duality per se.

In addition to the agency and stewardship models, the bonding hypothesis could also be examined in the research. According to Karamanou and Nishiotis (2009) under the bonding hypothesis, if controlling shareholders increase their disclosure in financial statements this will result in a reduced expropriation of the firm’s resources and an increase in investor protection. The idea behind bonding theory is that an increase in corporate governance mechanisms will result in an increase in firm value. One way this can be applied is for the firms’ to cross list their shares on a stock exchange where there is more stringent corporate governance mechanisms (such as US based stock exchanges).

According to Doidge (2004) controlling shareholders can use a US listing to bond themselves to reassure minority shareholders that there is less chance that they will be exploited. This can result in benefits to the firms themselves by reducing the cost of capital. Reese and Weisbach (2002) found that firms who cross list using the US exchange would more easily be able to raise equity finance in their home countries. Doidge et al. (2004) found that foreign firms with a US cross listing have a higher valuation than those who are not. They also found that the difference in value is negatively correlated to the level of investor protection in the firm’s home country.

Charitou et al. (2007) found that cross-listed firms have more independent boards and audit committees after a listing. They also found that the ownership structures change after a listing. In addition they found that there is a positive effect on the firm value of cross-listed firms after their listing and agree with the findings of Doidge et al. (2004). But Doidge et al. (2009) found that where the private benefits of control are high, controlling shareholders are less likely to cross list on the US exchange and lose these benefits. The bonding hypothesis theory could be applied to the research in that it implies that where firms introduce more corporate governance mechanisms this will result in a fall in the cost of capital and an increase in the firm value. This is in line with the research that examines the relationship between corporate governance and performance.

The research aims to investigate whether the relationship between corporate governance and performance in the CSE are in line with the agency model or the stewardship model and whether the bonding hypothesis applies. The following subsections I provide a background on the CSE, the corporate governance practices around the world and in Cyprus, and a detailed literature review on the evidence relating the corporate governance, performance and other variables used in this study.

2.4.2 Background to the CSE

The CSE is relatively new in Cyprus. According to Georgiou (1997) the capital markets existed in an undeveloped form through an over-the-counter market and it was only in 1996 when the CSE came into being via the Cyprus Securities and Stock Exchange law.

However though the first three years were successful there was a stock exchange bubble in 1999 that was the catalyst for a major stock market crash in 2000-2001 where many investors lost a lot of money. According to Cyprus Stock Exchange (1996-2007) the general index of the CSE fell from a peak of 849.3 points on 29 November 1999 to

129.09 points at 31 December 2001. In other words the market lost around 85% of its value in a 25-month period. According to Krambia-Kapardis and Psaros (2006) this CSE stock market crash triggered the introduction of corporate governance rules to the CSE in 2002.

An analysis of CSE firms based on industrial classification showed the following at 31 December 2007: ten firms belonged to the Banking and Insurance sector; eighteen firms to the General Financial sector; fifteen firms to the Retail sector, thirty four firms to the Industrial and Real Estate Development sector, four firms to the Technology sector and, forty one firms to the Other Services sector that includes hotels, travel and leisure firms amongst others (Cyprus Stock Exchange, 2008a).

The area of corporate governance is relatively new to Cyprus. According to Krambia-Kapardis and Psaros (2006) the move to implement corporate governance rules was as a result of the CSE collapse in share prices in 2000. According to the Cyprus Stock Exchange (2004) the collapse of the CSE in 2000 was partly blamed on insider trading and on negligence on the part of officials.

The move towards stricter corporate governance is generally grouped into those that concerned the directors, those that concerned the ownership and control and those concerning disclosure (see for example, Dennis and McConnell, 2003 and Abor and Biekpe, 2007).

As a result of the negative effects on the wealth of investors due to the bubble, the Cyprus Securities & Exchange Commission introduced the Code of Corporate Governance (thereafter CGC) in September 2002 for the CSE (Cyprus Securities & Exchange Commission, 2002). The aim of the CGC is to strengthen the monitoring role of the board of directors, to protect small shareholders, to adopt greater transparency and to provide timely information, as well as to sufficiently safeguard the independence of the Board of Directors in its decision - making. According to Krambia-Kapardis and Psaros (2006) the code was based on the Anglo-Saxon model that can be explained by the Republic of Cyprus's economic and historical links to the United Kingdom (UK).

Charitou (2005) stated that the CGC in Cyprus was mandatory for firms in the MM. He adds that for firms of the Parallel Market (thereafter PM) only Section C (that covers areas such as financial reporting, internal controls, the audit and compliance with the code) is mandatory. The Code is not mandatory for firm in the Alternative Market (thereafter AM). The data supports the view that corporate governance is a large determinant of the different markets but there seems to be also other factors.

According to the Cyprus Stock Exchange (2008a) on 31 December 2007, 141 firms were listed on the CSE of which 16 companies were listed on the MM, 16 were listed on the PM and the rest of companies were listed on the AM and Special Categories Market. This includes 19 investment companies. Hence the majority of companies listed on the CSE are not required to adopt the CGC since they are listed in the AM or Special Categories Market.

2.4.3 CGC development around the world and in Cyprus

Different countries take different approaches to corporate governance. According to Brigham and Ehrhardt (2005) the USA view to corporate governance is that of a set of rules and procedures to ensure that managers employ the principles of value based management. According to Fort and Schripani (2000) the United States provides an example of a country heavily rooted in a contractarian, shareholder-primacy approach, whereas Japan and Germany traditionally have appeared to be more aligned with communitarian ideals. Recent events suggest that these traditional distinctions are changing, with the resulting entities suggesting a convergence between the two models. According to Fort and Schripani (2000) the communitarian theory views the corporation as a separate entity, with social responsibilities not only to the shareholders but also to the firm's other stakeholders and society at large. On the other hand, the contractarian approach considers the firm's shareholders as the primary constituency to whom management is accountable. Voluntary contracting and market forces align the interests of management and shareholders.

Developments in corporate governance in the UK came into the forefront of UK debate with the establishment of the Cadbury committee in 1991 and the publication of the Cadbury report in 1992. The Cadbury committee was set up by the Financial Reporting Council, London Stock Exchange and the accounting profession to propose improvements to UK corporate governance. The main aim of the Cadbury report is the positive contribution to the promotion of good corporate governance. Its main recommendation is that a CGC should be introduced by recognised stock exchanges to assist in achieving high standards of corporate behaviour (Cadbury Committee, 1992).

The Cadbury report concludes that high standards of corporate behaviour will depend on the accountability and responsibility of three groups: the board of directors (to the shareholders); the shareholders (to the companies they own) and, the management and their advisors (to those who rely on their judgment).

The Cadbury report was subsequently improved by further reports by Greenbury (1995) and Hampel (1998) as cited by Foulks Lynch (2001) and this led to the publication of the Combined Code in 1998 and its revisions in 2003 and 2006.

Due to international developments on corporate governance, it was inevitable at some point that the Cyprus authorities would have to introduce regulations on corporate governance. Though a little slow by international standards nevertheless corporate governance in Cyprus took off in the 21st century. According to Krambia-Kapardis and Psaros (2006) this was caused by the collapse of the CSE in 2000-2001 and the fact that many investors incurred huge losses. A bubble whereby the market values of firms in 1999 were way in excess of their fundamental values caused the losses.

Krambia-Kapardis and Psaros (2006) asserted many firms took advantage of the weaknesses in the stock exchange computer system and the absence of any regulations on corporate governance to manipulate share prices. According to the Cyprus Stock

Exchange (2004) the collapse of the CSE in 2000 was partly blamed on insider trading and on negligence on the part of officials.

Hence as result the Cyprus Securities & Exchange Commission (2002) introduced the CGC in 2002 to improve the situation. This code is similar to the CGC introduced by the UK. For example the Financial Reporting Council (2006) highlights the influential role of non-executive directors, states that the role of the Chairman and CEO should be separated and requires companies to establish audit committees and remuneration committees. Though Cyprus has adopted an Anglo-Saxon model of corporate governance, Rwegasira (2000) implies that it is likely to be unsuccessful if not applied to widely dispersed owners.

According to Charitou (2005) the Cyprus CGC is mandatory for firms in the Main Market (thereafter MM) but not for firms quoted in the other markets such as the Parallel Market (thereafter PM) and Alternative Markets and Special Categories Markets (thereafter AM). Since at 31 December 2007, 16 firms out of a total of 141 firms were listed on the MM (Cyprus Stock Exchange, 2008a) this means that the bulk of firms on the CSE do not fully comply with the code.

In 2007 a second edition of the CGC was issued. The revised code proposes the establishment of three committees of the board of directors, namely the nomination committee, the remuneration committee and the audit committee (Cyprus Securities & Exchange Commission, 2007). In 2009 the CGC was amended to comply within the framework of EU harmonisation. The main amendments concern a clarification of the role of independent non-executive directors (thereafter INED) and states that at least 50% of board members must be INED for firms on the MM. The amendments are not to be implemented immediately since the CSE has given a period of transition until April 2011 for MM firms to comply with the new amendments (Cse.com.cy, 2009).

Another unique characteristic of the CSE is that the majority of firms are family controlled and that there is concentrated ownership (Krambia-Kapardis and Psaros, 2006). Hence the CSE is in a situation whereby most companies did not apply the rules to combat problems with the principal agent situation. However this does not automatically lead to poor performance since Ehikioya (2009) using data from the Nigerian Stock Exchange, found that higher concentrated ownership actually leads to better performance since this will motivate shareholders to better monitor and control the firm that will result in a greater market valuation.

Family businesses are a major aspect of firms listed on the CSE. There is no one definition of a family business. According to Handler (1989) the definition can range from small informal shops to large public companies. She asserts that the definition should be specific to account for these various forms. The definition that is applied to this research is from Dyer (1986) who defines a family business as *"an organisation in which decisions regarding its ownership or management are influenced by a relationship to a family."* Villalonga and Amit (2006) a number of conditions could be used to define a family including: the family or families are the largest shareholders; a family or families control at least 20% of the votes of the firm; there is at least one family officer or at least one family director and, the family members may be founding members (that is they were shareholders when the firm was established) or 2nd or later generations to the original founding members.

In this way the definitions given by Dyer (1986) and Villalonga and Amit (2006) will be combined to cover firms quoted on the CSE that fall into this category.

In the following sections of the chapter the previous research concerning corporate governance mechanisms and performance is reviewed. The literature review is separated into sections concerning corporate governance mechanisms and performance such as board, ownership, CGC compliance and control factors.

2.4.4 Board factors and corporate governance

There are various corporate governance board mechanisms that may be related to performance. These include amongst others board size, board composition, board and management expertise, frequency of board meetings and CEO duality. A summary of the previous literature concerning board factors and performance is explained below:

<u>Board size</u>

There has been a lot of research asserting that the board of directors is one of the most important corporate governance mechanisms in controlling and supervising managers (see e.g., Perry and Shivdasani, 2005). Relating to the effectiveness of the board, there is long debate of whether the size of the board can affect performance.

Lipton and Lorsch (1992) and Jensen (1993) support the view that large boards are ineffective while small boards are more effective and easier for the managing director to control. Jensen (1993) argues that when the board size is more than 7-8 individuals this creates an ineffective management of the board. He points out that the reasons for the ineffective management may be due to board culture (that is the inability of the board to confront-disagree with other members) and the lack of board member's equity ownership.

Yermack (1996) found that smaller boards are correlated with higher firm value. He provides empirical evidence using US data that firms with larger boards tend to correlate with lower Tobin Q values. Vafeas (1999) also reports a negative relation between board size and firm value as measured by market to book ratio.

Other researchers have different views on the matter. Cowen and Osborne (1993) found that performance of small businesses would improve when board size is increased and this increase is due to the introduction of non-executive directors. Their study focuses on family businesses alone. Coles et al. (2008) found that very small or very large boards are optimal and dispute the findings of Yermack (1996) since they found that complex firms need large boards with external directors. Cheng (2008) found that firms with larger boards have lower variability of financial performance due to the fact that large boards tend to make less extreme decisions through consensus and this leads to less variation in performance. Larmou and Vafeas (2010) using US data found that increases in board sizes for smaller firms with a history of poor operating performance will be associated with better market performance.

Hence it would appear from the above that the board size may show evidence of complex behaviour and its effect on performance should probably be seen in connection with other variables like the skills of the board, the percentage of non-executives in the firm and firm size and board meetings.

Board composition

Another corporate governance mechanism that is anticipated to affect corporate governance is board composition. The board may be composed of executive and non-executive directors. Executive directors are full time employees of the firm and have managerial duties whereas non-executive directors primary employment is outside the firm and are expected to provide advice on the firm's future strategy. Non-executive directors can be either independent of the firm and other management members or they may have some dependence either through connected business activities, or other relationships.

Non-executive directors that are independent are meant to monitor the management. Non-executive members that are dependent are meant to provide specialised knowledge, long experience and useful business links that can facilitate business activities.

Previous research has given mixed results concerning the relationship between board composition and performance. Baysinger and Butler (1985) found that there was a positive effect on stock returns if non-executive directors are appointed. Yoo (2005) found that there is a positive effect on financial performance where there are non-executive directors. He asserts that this is under the condition that executive directors have adequate firm-specific knowledge that is combined by the professional skills of non-executive directors.

Yoo (2005) also concludes that the link between financial performance and non-executive directors can only be supported if the non-executive directors are independent from the executive directors. This shows that the positive relationship between non-executives and good performance would appear to depend on the factors of the level of independence and expertise of non-executives. However, Bhagat and Black (1999) and Bhagat and Black (2002) found no significant relationship between board composition and performance using Tobin's Q value as a measure of performance.

Bhagat and Black (1999) gave a number of explanations as to why independent non-executive directors do not have a positive effect on performance. One of the reasons is that the monetary rewards from the firms to non-executive directors are minimal giving them little motivation to be seriously involved in a firm's strategy. Another reason is that they believe that the extent of the knowledge of the business by the non-executive director is of higher importance to the success of the business than whether they are independent from the executive directors.

The previous literature suggests an ambiguous effect of the percentage of non-executives and performance. Some authors argue that independence may be important but the majority of evidence suggests that more important is their level of skills. The analysis thus will include the percentage of non-executives while controlling for other factors and especially the board skill levels. In the project, it was very difficult to establish whether a non-executive member was independent from the board. It was anticipated in the research that non-executive board members in Cypriot firms are appointed either because of specialised knowledge or because of good business links that can facilitate business transactions.

Management turnover

Another link that could be considered is that between top management turnover and corporate performance and whether the recruitment and dismissal of top-level management will have an effect on performance.

Dahya et al. (2002) found that there was a negative relationship between corporate performance and top management turnover both before and after the implementation of the UK CGC. They assert that the increase in outside board members after the implementation of the CGC explained this phenomenon. This is in contrast to the argument that an increase in outside directors will have a positive effect on corporate performance.

The variable of management turnover and performance has not been considered due to the small size of the population of management turnovers. The population of CSE firms at 31 December 2007 is 141 and the bulk of firms have not changed their management during the period 2002-2007. Hence it was found that any analysis of this variable might lead to misleading results due to insufficiency of the data.

Board and management expertise

Other corporate governance mechanisms concerning the board are board and management skills. Although skills may have a broader meaning, in this study we measure skills by the educational background of the manager or board, a definition that was applied by Abor and Biekpe (2007) and Ehikioya (2008). Both these studies examined the relationship between corporate governance and performance in developing stock exchanges like the CSE.

However the Security and Exchange Commission in the USA defined expertise with respect to relative financial experience. This definition was not applied to the CSE due to the unavailability of this data that could be obtained via interviews of senior officials of CSE firms. Due to time and cost constraints of the project it was decided not to pursue this definition and to apply the definition by Abor and Biekpe (2007) and Ehikioya (2008) that have been used in studies for developing markets such as the CSE.

Concerning the relationship between skills and performance, Lybaert (1998) using data from small and medium size enterprises (thereafter SMEs) from Belgium found that there is a positive relationship between higher levels of education and firm performance. These results however were conflicted by Lawrie (1998) who found that management expertise is not such an important factor affecting performance when specialist staff skills are accounted for.

Abor and Biekpe (2007) who used data from Ghanaian SMEs found a positive relationship between management skills and performance but found a negative relationship between board skills and performance. The reason cited for the difference in the results is that a management skill is a more important variable in influencing performance than board skills.

Theoretical arguments are in favour of a positive relationship between board or management skills and firm performance. However, some prior studies have produced mixed results. Our goal is to investigate the association of board skills with performance measures (ROA and Tobin's Q value) for CSE firms. Due to the strong correlation shown between board and management skills, it was decided that in order for the regression model to be more robust that the management skills variable would be excluded.

<u>The frequency of board meetings</u>

There are two schools of thought concerning the frequency of board meetings to performance. One view is that a higher meeting frequency can increase performance. Conger et al. (1998) found that board meetings can be used to make the firm more effective. However, this is under the condition that the board is committed to managing and is not distracted by other issues. This will enable the board to monitor the management in an effective manner.

The second school of thought is that meetings are not useful and do not assist in enhancing performance. One reason is that the agenda for meetings are not set by the non-executive directors hence they may not be in a position to raise issues that they view are important in improving the performance of the firm.

Vafeas (1999) looks deeper into the factors affecting the frequency of board meetings. He found that there is a negative relationship between the number of board meetings and firm value as measured by market to book ratio. He found evidence to suggest that boards that have a higher number of board meetings are usually associated with firm poor performance and a board effort to improve firm operating performance. He found that share price declines follow higher board meeting frequency but he also finds that board frequency can subsequently increase operating performance.

CEO Duality

Another aspect of corporate governance board mechanisms that can affect performance is duality of the role of the chairman and chief executive officer (thereafter CEO). This is known as CEO duality. CEO duality is a corporate governance mechanism that can affect performance. The previous research into this area looked whether CEO duality will lead to better or worse performance. There are three views concerning CEO duality.

The first view supports that of non-CEO duality and the agency theory. Those who support non-CEO duality believe the best option is for the roles of chairman and CEO to be separated since it will help the board will be in a better position to monitor management opportunism. Evidence on this area tends to be in line with the prediction that CEO duality is harmful for firm performance. Yermack (1996) found that non-CEO duality could have a positive effect on stock returns. Sanda et al. (2003) also found a positive relationship between firm performance and non-CEO duality. Further to this Lam and Lee (2008) found non-CEO duality is good for family controlled firms.

The second view supported by stewardship theory supports the view that CEO duality can be successful since the managers may be good stewards of the firm's resources. Lam and Lee (2008) using Hong Kong data, found evidence that CEO duality is good for NFFs for this reason. Chen et al. (2005) detects a significant positive relationship between CEO duality and market value.

The third view states that there is no conclusive relationship between CEO duality and performance. This supports the view that a firm may be successful despite its board leadership. Daily and Dalton (1992) found no relationship between CEO duality and performance based on data from the Inc. 100 (the hundred fastest growing US private companies). Of course these firms, being in the 100 fastest league imply a well-structured management set-up that can perform well irrespective of board leadership composition. Brickley et al. (1997) considers the relationship between CEO duality and firm performance and found little evidence that combining or separating the roles of chairman and the CEO affects performance.

Based on the previous literature the corporate governance variable of CEO duality will be used to assess its impact on performance for firms listed on the CSE including FFs.

2.4.5 Ownership factors and corporate governance

The relationship between ownership factors and performance originates by research by Berle and Means (1932) who found a negative relationship between diffused shareholdings and performance. They stressed that when managers hold little equity in the firm and the shareholders are too dispersed to maximise firm value, firm assets may be used to benefit managers rather than the shareholders.

Jensen and Meckling (1976) explained the problems concerning the separation of ownership and control and asserted that the agency agreement (between owners and managers) may not work due to conflicts between the objectives of the owners and management.

Insider ownership

Hart (1995) and Shliefer and Vishney (1997) presented corporate governance mechanisms to deal with these conflicts between managers and the owners. Amongst the variables considered by Hart (1995) and Shleifer and Vishney (1997) was the insider ownership. There are two schools of thought for insider ownership.

The first is that there is a positive relationship between insider ownership and performance. Jensen and Meckling (1976) provided evidence that firm value is positively correlated with the level of insider ownership. They assert that this is because there will be reduced agency costs since there is goal congruence between the management and its shareholders. Kiel (2003) found a positive relationship between the board representation of insiders and firm value. Cole and Mehran (1998) found that the greater the increase in insider ownership is, the greater the improvement in performance will be due to goal congruence. Hence the implications of these research findings are that when insiders have large stakes they will be motivated to maximise their wealth and hence this will drive them to improve their performance.

The second school of though is that the relationship between insider ownership and performance is negative. This could be explained by the fact that insiders could make decisions that may be in their interests to the detriment of the other minority shareholders and the firm as a whole. Morck et al. (1988) found evidence that for this reason certain FFs that have high insider ownership had a negative effect on performance.

However in contrast to this Mishra et al. (2001) that used Norwegian data found a positive correlation between the founding family being in control and firm value. They also concluded that firm value was greater for younger firms with a smaller board of directors whereas the opposite was true for older companies. Randoy and Goel (2003) found that a high level of board and insider ownership had a positive effect on performance on founder firms and a negative effect if a non-founder leads the firm.

Based on the previous literature the corporate governance variable of insider ownership will be assessed against performance. The research aims to add to the literature by examining how insider ownership affects the performance on the CSE.

Family ownership

FFs are the most common form of business organisation in the world. This is no different in Cyprus where the majority of quoted companies are FFs. FFs operate differently from NFFs since they may set different objectives. Daily and Dollinger (1992) found evidence that family owners concentrate on long-term financial objectives whereas NFFs concentrate on short-term financial objectives in order to satisfy the objectives of their shareholders.

The implications of this are that FFs are more interested in the long-term picture of the firm and improving its profitability at the expense of short-term gain. This may not be to the liking of investors who tend to prefer short-term gains. However NFFs have a diverse range of shareholders who usually more interested in short-term gains (an increase in their investment) than the long-term picture of the firm.

Some studies assert that FFs are generally more efficient than NFFs. Fama and Jensen (1983) assert that the reason why FFs are efficient compared to NFFs is due to lower monitoring costs (that is lower costs related to corporate governance). Daily and Dollinger (1992) found evidence that these performance advantages are due to the unification of control and management, McConaughty (2000) supporting this by finding evidence that founding family CEO's have more incentives than NFFs that lead to efficiencies in monitoring.

Family ownership is a corporate governance mechanism that can affect performance though according to Martinez et al. (2007) there are two schools of thoughts concerning the costs and benefits of family businesses. One is that there are costs of family ownership in that they can appoint incompetent family members to manage the business whereas the other school of thought states that family ownership provides benefits in the form of long-term commitment and the ability to monitor managers. If the former statement applies then it anticipated that family ownership will have a negative effect on performance since incompetent family members are likely to make bad decisions that will results in negative effects on profitability and hence performance. On the other hand if the later statement is true then family managers will be motivated to perform well and this should have a positive effect on performance.

Past studies reflect these two schools of thought. Fama and Jensen (1983) and Mishra et al. (2001) found that founding family businesses offer a type of corporate governance that offers lower agency costs and better performance. McConaughty et al. (1998) found evidence that there is a relationship between family control and higher firm performance. They explain this by stating FFs are more motivated to increase firm value. Anderson and

Reeb (2003) that used US data of FFs and NFFs, found evidence that the benefits of FFs were in excess to their costs. They used ROA and Tobin’s Q value as measures of performance. These findings were also supported by tests on the Ghana Stock Exchange by Abor and Biekpe (2007).

Martinez et al. (2007) also found that FFs listed on the Chilean Stock Market have performance advantages over NFFs and explain this is due to FFs professionalising their management and by strengthening their corporate governance mechanisms.

Another issue that needed to be looked at was the relationship between family ownership and share price performance. Morck et al. (1988) found that founding family controlled firms operate more efficiently (based on market performance) and carry less debt than NFFs. However in contrast to this Slovin and Sushka (1988) found that on the death of block holders, there is no significant effect on market capitalisation. Kang (2000) found evidence of a positive relationship between family ownership and performance. He explains this phenomenon as being due to the family taking a leading role on the board. He also found that there is a positive association in performance (when measured by ROA and Tobin’s Q) when a family member has an ownership stake providing there is non-CEO duality.

However Gomez-Mejia et al. (2001) found that founding FFs may lead to management practices that may be to the detriment to the firm that will result in weaker performance.

Faccio et al. (2001) provided evidence that showed that FFs in East Asian countries incurred significant costs due to severe expropriations of assets by the family.

However not all research shows a relationship between family ownership and performance. Daily and Dalton (1992) concluded that there was no relationship between family ownership and performance. This was in conflict with Daily and Dollinger (1992) who found evidence that family-owned and managed firms have performance advantages due to the unification of ownership and control.

There has also been past research concerning the relationship of FFs and corporate governance board mechanisms. According to Chen and Jaggi (2000) it was found that the independence of directors if the firm is family controlled. They assert that this is due to the relationship these directors may have with the family members. They also found that FFs make fewer accounting disclosures than NFFs. Claessens et al. (1999), using Hong Kong data, found evidence that family controlled firms may exploit opportunities that are in conflict with the interests of minority shareholders with the result being the later are exploited. They found that the family control factor would have a negative affect on the effectiveness of corporate governance mechanisms.

In Cyprus a major research question that is unanswered involves the relationship between family ownership and performance. This is especially important since Cyprus has a family business culture with the vast majority of both private and public firms being family owned. Based on the previous literature the corporate governance variable of family ownership will be assessed against performance. The research aims to add to the literature by answering the research question examining the extent of the relationship between family ownership and the effectiveness of corporate governance mechanisms using a family interactions model.

Foreign ownership

There is very little research concerning the relationship between foreign ownership and performance. Concerning foreign ownership Yoo (2005) found a relationship between foreign investors and the financial performance of a firm. The sample of data used by Yoo (2005) was based on the Korean Stock Exchange that is an emerging market (as is the CSE). Yoo (2005) explained the reason for this link is that foreign investors are actively involved in monitoring these firms that has a positive effect on performance. In addition Yoo (2005) asserts that foreign board members have a positive effect on firm performance.

Due to the difficulties in measuring foreign ownership (due to fact that such shareholding may be under the limit for disclosure on the CSE) it was decided not to include foreign ownership in the empirical models.

2.4.6 CGC compliance and firm value

The research literature concerning committees and performance is not as extensive as other corporate governance mechanisms. Although stricter adoption of the corporate governance code may help a firm reduce agency costs, this does not necessarily imply that stricter adoption of the code will lead to better performance since the costs of adoption (economic and other) may outweigh the benefits. In fact, Chhaochharia and Grinstein (2007) found an overall negative relationship between corporate governance compliance relating to the Sarbanes-Oxley Act and firm value. This may relate to the complications and high costs arising in implementing the Sarbanes-Oxley Act. They also found that large firms that are less compliant with corporate governance rules earn positive abnormal returns whereas the opposite is true for small firms, i.e., small firms that are less compliant earn negative abnormal returns.

According to Cyprus Securities and Exchange Commission (2007) various committees such as the audit and remuneration are required by the Cyprus CGC in order to comply with the CGC. This is to ensure that the firm implements effective corporate governance practice. However as mentioned earlier, only firms on the MM are required to fully comply with the Cyprus CGC hence a large number of firms on the CSE do not operate these committees.

Klein (1998), using US data, found that if there were a lower percentage of non-executive directors on audit committees then the firm would register significantly greater ROA and share price returns than their corresponding firms. However the research on audit committees has been geared towards looking at the relationship between the effectiveness of audit committees and its impact on firm value.

The Blue Ribbon Committee (1999) as cited by Karamanou and Vafeas (2005) provided a number of characteristics that an effective audit committee should have. Firstly they promote the notion of independent directors should serve on audit committees since they are likely to ensure objective financial information is disclosed. Secondly, they recommend they should have financial skills and be able to interpret the information given to them (including audited accounts) correctly. Thirdly, the recommend that at least one member should have accounting or financial management expertise. Fourthly, it is recommended that audit committees should have at least three members and finally, they recommend that audit committees should meet as frequently as possible to effectively carry out their monitoring duties. Further to this DeZoort et al. (2002) state that an effective audit committee is a body with qualified members with the authority and resources to protect the interests of stakeholders.

The Sarbanes-Oxley Bill (2002). has followed the line of the Blue Ribbon Committee (1999). It states that the USA firms should include in their audit committees directors with financial expertise.

Karamanou and Vafeas (2005), using US data (Fortunes 500 firms) found that more effective audit committee structures are likely to lead to more accurate financial information being given to users of accounts and this will have a positive effect on share price performance. Further to this they found evidence that the market puts great emphasis on the independency of boards and audit committee structure (that is it consists of accounting experts) when bad news is announced. Karamanou and Vafeas (2005) also found evidence that corporate governance matters in firms and is associated with less information asymmetry between owners and shareholders.

Further to this Karamanou and Nishiotis (2009) add to the results of Karamanou and Vafeas (2005) by stated that that increased disclosure has positive, statistically and economically significant effect on firm value. They found that abnormal returns are registered when firms voluntarily adopt international accounting standards. They assert that increased disclosure is important for corporate governance in general.

Concerning the relationship between audit committees and firm performance, Defond et al. (2005) found that there is a positive effect on the share price (abnormal returns) when "accounting" financial experts are appointed to the audit committee as opposed to "non-accounting" experts. Defond et al. (2005) defines accounting experts as being those directors who have experience as financial accountants (whether in practice or industry) or as auditors. Chan and Li (2008) also found a positive relationship between Tobin's Q value and the independence of the audit committee. They state that this is the case if the majority of the non-executive directors are independent and have expertise in finance issues. Hence from the accounting research there is strong evidence to suggest that if accounting experts dominate the audit committee then this will have a positive effect on firm value.

The rules concerning audit committees concerning the CSE are not as strict as the USA. The Cyprus CGC (2002) states that the chairman of the audit committee should be experienced in accounting and finance policy though it does not define what this means. However it can be implied that the chairman of the audit committee should be a qualified accountant. The CGC does not require any other member to be experienced in accounting issues and this can be interpreted as being a weakness since non-accounting experts can dominate the committee. However the Cyprus CGC (2002) does state that the committee should be a made of a majority of independent non-executive directors.

Based on previous research, the regression model should have examined independent directors and the effectiveness of directors. However since the collection of such information was not available on the CSE. This is because there is no existing database for these variables. To obtain the data would require separate interviews of CSE firms to determine independent directors and accounting experts on the board and on the audit committees. It was felt that due to time and cost constraints that this information would not be pursued. However I have outlined this area as one for future research when hopefully I have completed my D.Prof degree.

If the variables of independent directors and the effectiveness of audit committees were introduced to my research then based on previous research they should have a positive effect on firm value. However I believe that concerning the CSE it is questionable that the independence of directors or audit committee effectiveness will have an effect on firm value. I have partially covered for these variables in the research by including for board composition and a dummy variable for the establishment for the audit committee. I believe that if both board composition and the audit committee dummies register positive coefficients in the model that are significant then this is a strong indication that the independence of directors and audit committee expertise are likely to have a positive impact on firm value. The explanation for this is that non-executive directors will include a majority of independent directors as laid down by the CGC and that the code also states that the chairman of the audit committee must possess accounting skills. I do admit that the independence of directors and audit committee effectiveness are areas that can contribute to the corporate governance literature on the CSE and intend to pursue this area once I have hopefully successfully completed my doctorate.

Though previous research has looked at the effects of committees on financial disclosure and on share price effects, little or no research has looked at whether the establishment of an audit committees have an effect on the firm's performance and a audit committee dummy variable intends to be used to examine if there is a relationship between the establishment of audit committees and firm value. In addition the regression models intend to examine if FFs that establish audit committees will affect firm value.

The research aims to investigate whether firm performance is higher when corporate governance mechanisms are adopted in different markets. In Cyprus, firms can participate in different markets depending on meeting certain criteria one important being a high degree of adoption of CGC.

2.4.7 Control variables and corporate governance

The control variables concerning corporate governance can be divided into various categories such as: age, size, capital structure and the market sector.

The research literature on control factors is not as extensive as corporate governance mechanisms such as directors and ownership but two studies by Both Anderson and Reeb (2003) and Martinez et al. (2007) found evidence that the control factors of age, size and capital structure have an effect on performance. They found evidence that there is stronger firm performance for FFs as opposed to NFFs when controlling for control factors such as size, debt and age. They also both found evidence to disagree with the notion that family ownership is less efficient and harmful for minority shareholders.

The capital structure of a firm could be related to ownership structure. According to Kim and Sorenson (1986) higher insider ownership was associated with higher leverage (that is gearing ratios). On the other hand Berger et al. (1997) found that leverage is significantly lower where a firm has no major shareholders. They assert that this can be explained by the fact that the managers in these firms will avoid debt for its governance role.

Ghaddar (2003) using Chilean data (where quoted companies are dominated by FFs) found evidence that the gearing ratio will be increased upon the arrival of a new major shareholder. He asserts that major shareholders play a major role in monitoring and making sure they act in the best interests of shareholders and that this may also be in the interests of the debt holders.

Ghaddar (2003) also found that firms that have a high insider ownership concentration are expected to have higher gearing than low insider ownership concentration. He asserts that this is because high levels of ownership will wish to avoid ownership dilution. He also found evidence to suggest that FFs (with a controlling interest) have higher levels of gearing than NFFs. He supports that an explanation for this is the avoidance of ownership dilution and the maintenance of control in their respective firms. Ghaddar (2003) states that another reason for explaining higher gearing in FFs is that higher gearing can overcome the wealth constraints of FFs by enabling them to expand their operations without reducing their ownership stake.

Anderson et al. (2002) using US data, found evidence that firms that were controlled by the founding family have lower cost of financing when compared to other firms. They assert that this is due to these firms having incentive schemes that result in fewer agency conflicts between ordinary shareholders and debt holders. They assert that debt holders perceive founding family ownership as having organisation structures that protect their interests. Anderson et al. (2002) also found that institutional shareholders (outside block holders) have no effect on the gearing ratios of founder family owned firms. A possible reason given for this is that the outside block holders have the confidence to allow the founding FFs to manage and monitor the businesses.

In Cyprus a major research question that is unanswered involves the relationship between control variables and performance. The research aims to add to the literature by answering the research question examining the extent of the relationship between control variables and performance.

CHAPTER 3: METHODOLOGY

3.1 Chapter summary

This chapter aims to point out the research methodology. It will focus on issues such as: philosophical paradigms, research approaches, data collection techniques, the area of triangulation, validity and reliability, sampling, data analysis methods, ethical considerations, operational definitions and the role of the worker researcher.

3.2 Philosophical paradigms

According to Collis and Hussey (2003) there are two main research paradigms: positivistic and phenomenological. A quantitative methodology comes under the positivistic paradigm that Collis and Hussey (2003) explain as being one that seeks the facts or causes of social phenomena with little regard to the subjective state of an individual. According to Bryman (2004) under positivism, hypotheses are generated and tested to allow explanations of laws to be assessed. Bryman calls this the law of deductivism.

The qualitative methodology comes under the phenomenological paradigm that Collis and Hussey (2003) explain as one that is concerned with understanding human behaviour from the participant’s own frame of reference.

Creswell (1994) asserts that under the epistemological assumption of a positivistic paradigm (quantitative) the researcher is independent from that being researched whereas under a phenomenological paradigm (qualitative) the researcher interacts with that being researched. Hence in the case of the practitioner researcher the later paradigm minimises the distance between the researcher and what is researched.

The research philosophy used in the project is mainly based on the positivistic paradigm since a major part is the use of empirical findings. However an element of the project uses a phenomenological philosophy since it aims to understand the human behaviour from the participant's own frame of reference through the use of interviews and questionnaires.

3.3 Research approach

3.3.1 Research designs

According to Bryman (2004) a research design provides a framework for data collection and data analysis. There are a number of research designs that the practitioner researcher (that is a person who carried out research concerning the organisation he works for) can adopt. The two research designs can be grouped as qualitative and quantitative. Research may solely use one of these designs or it may combine both.

According to Bell (1999) qualitative methodologies are concerned with analysing the individuals' perception of the world whereas quantitative methodologies collect facts and study the relationship of one set of facts to another by measuring them with scientific techniques. A quantitative methodology comes under the positivistic paradigm that Collis and Hussey (2003) explain as being one that seeks the facts or causes of social phenomena with little regard to the subjective state of an individual.

The research project aims to use a combination of both quantitative and qualitative research designs.

One research design that is used in the research is a quasi-experimental design. According to Gill and Johnson (1997) a quasi-experiment is the investigation of an environment that existed, or events that have occurred naturally, without the investigators direct intervention. The prime aim of the quasi-experiment is to analyse casual relationships between independent and dependent variables.

The research aims to include a quasi-experiment design since it aims to analyse the relationship between independent variables of corporate governance on the CSE (directors, ownership, family ownership CGC compliance and control variables) against the dependent variable that is the financial performance measurement of the CSE. The relationship is to be analysed using empirical methods. According to Gill and Johnson (1997) one of the reasons for choosing the quasi-experiment design is because it allows the research to be conducted in actual settings and any research findings can be extrapolated.

Another of the research approaches that have been proposed for the research is action research that is to be applied to both quantitative (e.g. questionnaires) and qualitative methodologies (e.g. interviews) though Collis and Hussey (2003) categorise as a phenomenological methodology since the practitioner researcher is close to what is researched. According to Bryman (2004, p. 537) action research is defined as being *"an approach in which the action researcher and a client collaborate in the diagnosis of a problem and in the development of a solution based on the diagnosis".* Concerning the research I am an employee in FUCy, the organisation being researched.

Gill and Johnson (1997) assert that action research is an approach whereby the researcher is in the role of a consultant by their intervention into some naturally occurring events. Blaxter et al (2001) assert that action research is suited for researchers working in their own work place and especially in the area of education.

A further research approach that is used in the research is the case study. According to Adelman et al (1977) as cited by Bell (1999) a case study is defined as being *"an umbrella term for a family of research having in common the decision to focus an inquiry around an instance."* Blaxter et al (2001) asserts that the case study uses a mixture of methods such as: observations, interviews and the study of documents amongst others. The case study aspect of the research is justified by the provision of statistical data for a particular period on a particular organisation, namely the CSE.

The research approach aims to combine a quasi-experimental design, case study with action research. The research is separated into two main sections.

The first section is the quasi-experimental design that involves an empirical analysis of the relationship between corporate governance, FFs and firm performance for those firms quoted on the CSE.

The results of the empirical analysis will then be applied in a number of ways. These are:

1. To add to the research work of the Faculty (Department) of Economics, Accounting and Finance in which I am a faculty member.
2. To be used as a basis for extending the faculty research in this area. Two members of the faculty have already made a research proposal to the EU for future funding for further research concerning corporate governance in Cyprus.
3. To apply the research findings to the organisation I work for as a lecturer by improving the course programs of the faculty based on the research findings.

The second main section is the action research approach that involves a number of aspects. Action research is carried out in three ways: The first aspect is the interview of managers in CSE firms. The interview findings for the sample will enable the data triangulation process to occur (that is they will be compared with the empirical findings). The purpose of the CSE interviews was to understand through each manager's perspective the impact of corporate governance mechanisms on performance. The CSE managers' interviews are intended to supplement the empirical results in providing explanations for the empirical findings. The perceptions of the CSE managers will also be used to evaluate their knowledge on corporate governance issues and to examine their need for corporate governance education.

The second aspect of action research is the questionnaires given and completed by students. Since students are important stakeholders in the courses of the faculty then their answers will be seriously considered in possible recommendations concerning amendments to faculty courses.

The third aspect of action research is the interviews carried out on the faculty staff of the university. These interviews are justified in that the faculty is an important stakeholder in the organisation, and their findings will be seriously considered concerning changes in the course programs.

A further research approach that is used in the research is the case study. The case study approach is used it aims is to provide statistical data on the CSE that is applied in the research and via the CSE database created by myself can be used for further research on the CSE.

3.3.2 Rational for research approach

One research approach used in the research is a quasi-experimental approach based on market data. Regarding the empirical investigation one approach that will be used is regression analysis of the ROA on corporate governance and family/non-family dummies. The performance of firms is to be measured using a panel data regression model as stated by Abor and Biekpe (2007) that measures performance against four sections of corporate governance mechanisms: board factors; ownership factors, CGC compliance and control factors. One of the proposed performance measures is the ROA since this measure combines the financial performance with the financial position. The rationale behind using panel data is that recent research by Abor and Biekpe (2007), Di Pietra et al (2008) and Ehikioya (2009) have found that using panel data regression techniques there is a good fit in the model when measuring the relationship between corporate governance mechanisms and firm performance using ROA.

The board factors include variables such as board size, composition and skill. The ownership factors include variables such as family ownership and insider ownership. CGC compliance factors are proposed to include the extent of CGC compliance and the establishment of audit committees. Control variables are proposed to include the age, size, and leverage of the firm. In addition control variables have been used for the type of market and the industry to which firms belong in. It should be mentioned that in the regression model a positive coefficient of family firm dummy would indicate that FFs on average have higher performance than NFFs.

Another statistical approach that is used is the probability of belonging to a high performance group based on firm corporate governance characteristics. Since the research tests a large sample of firms quoted on the CSE, the research will use descriptive statistics and more specifically significance testing (that is the t distribution technique) to assess if there are significant differences in the corporate governance and performance variables of family businesses as opposed to non-family businesses for performance.

It also intends to use the differences in the means and significant testing to explain differences in the corporate governance and performance variables between the markets. The rationale for using descriptive statistics is to identify significant differences in variables based on the type of firm and type of market to enable a better explanation of the relationship between corporate governance and performance on the CSE.

Action research is also used in the research that could apply both quantitative (e.g. questionnaires) and qualitative methodologies (e.g. interviews) though Collis and Hussey (2003) categorise as a phenomenological methodology since the practitioner researcher is close to what is researched.

According to Bryman (2004) it is a research design where the researcher and an organisation work together in the diagnosing a problem and development solutions based on the diagnosis. The rationale behind this approach concerning the research is I am carrying out research with the aim of making improvements to course programs in FUCy. Cohen and Manion (2000) describe action research as an on-the spot procedure that aims to deal with a problem in the current situation. Bell (1999) asserts those once the research project ends the practitioner researcher will continue to review, evaluate and improve the practice.

Blaxter et al (2001) also asserts that the strength of action research is that those involved in the research process are also participants in the change process hence there is an on-the job focus to the research. In the case of the research, I am a lecturer in the Economic, Accounting and Finance department and am involved in the design and modification of modules connected to degree programs of the School of Economic Sciences and Administration. This research could then be applied to improving the quality of the degree programs offered especially with respect to the area of corporate governance.

Another reason for the choice of action research that is relevant in this case is highlighted by Saunders et al (2003) who assert that the practitioner researcher had the advantage under this approach that he has knowledge of the organisation and its complexity something an outside researcher may not possess. This is true concerning myself since I have worked for the Frederick organisations for a total exceeding six years.

In addition to this the researcher will have access to syllabi of the degree programs something that an outside researcher would not have. Further to this, I have access to the Middlesex University and Infotrac research database in which he can access both articles from research journals together with business statistics useful to his research.

The case study approach is used since a main aim of the research aims is to examine the performance of firms connected to corporate governance on the CSE and this requires the analysis of statistical data of quoted companies on the CSE. In addition to this data from interviews/questionnaires from senior officials from these companies could be used to provide additional data for this study.

3.4 Data collection techniques

The data collected on the project is a mixture of primary and secondary data. According to Blaxter et al. (2001) primary data is original data that is collected at source, such as, survey data or experimental data whereas secondary data is existing data set that presents interpretations, conclusions or knowledge additional to, or different from that presented in the original data source.

The main source of secondary data is through documentary data. This has been used to collect data for the empirical analysis. The data used in the empirical analysis is to be mainly derived from the annual report and accounts of companies quoted on the CSE. This data is known as secondary data since it is derived from existing data.

According to Cresswell (1994) the advantages of documentary data are various. One advantage is it enables the researcher to obtain data from participants that they have given attention to complying. According to Blaxter et al (2001) another reason for using documentary data is that if the data were collected originally (i.e. primary data) then it would be time consuming and expensive for the researcher. Cresswell (1994) asserts that another advantage with documentary data is that the researcher can access the information at a time convenient to them. Further to this Bell (1999) asserts that the analysis of documentary data would be used to supplement information obtained from other methods (such as interviews and questionnaires).

On the other hand there are some limitations to documentary data. Cresswell (1994) asserts that one disadvantage is that documentary data may be unavailable to the public. In addition the documents may provide information that is inaccurate.

The annual reports were used as a source for data concerning corporate governance variables and performance data due to its availability to the public and due to the high likelihood it is reliable due to the fact that independent auditors audit the financial statements in the annual reports.

Another source of secondary data is that through the World Wide Web. The company announcements were found from the official CSE web site. However, the official stock exchange reports announcements are published from 2005 onwards. For the 2002-2004 period information from the financial web side xak.com has been used. This website stores CSE announcements online from 2000 onwards and is widely used by investors and is considered a credible resource. The same can be said for the stockwatch.com.cy web site that provided information for corporate governance mechanisms such as the profile of the firm and its directors. The web sites were to collect data since this was the cheapest source for obtaining corporate governance variables such as the frequency of meetings. In addition the web sites are reliable sources for data on firms that can be used in corporate governance variables.

One source of primary data is interviews. Information on governance issues is to be obtained through a sample of managers that work for CSE listed firms. The interviews will be semi-structured and will cover major issues concerning corporate governance and performance measures.

The method of interviewing that is used is telephone interviewing. The interview was first send by email to the contact person in the sample firm to enable the participants to be familiar with the terms included in the interview. A list of definition of technical terms was provided (See Appendix 5, p. 234). I telephoned the contact person and asked them if they wished to participate. If the answer were positive then the interview would take place over the phone.

There are a number of reasons that telephone interviewing was preferred over face-to-face interviews. The first is its lower cost when compared to face-to-face interviews. Secondly, since the groups of people interviewed are far apart (based on distance) I found it to be the most effective way for interviewing the participants in this case. Finally, telephone interviews are considered to be acceptable to the participants concerned (who are normally very busy) and it enables the information to be collected with the least inconvenience (Institute for Work Based Learning, 2008).

A number of questions were asked to interviewees concerning corporate governance issues. These responses to uniform standard questions will contribute to the final analysis of the research findings. In addition during the course of the interviews I asked follow-up questions in response to the answers given by the interviewees.

The recording method used for the interview was via hand written notes. Where possible the sample included management officials responsible for compliance of corporate governance in the firms concerned. The interview included questions covering the main aim of the project and the answers are used to supplement the findings from the statistical tests.

Interviews were also carried out to faculty staff. It was felt that by interviewing faculty staff useful data could be obtained concerning the course programmes and its relationship to corporate governance, FFs and the CSE.

The rationale behind the faculty staff interviews was that since it is an important stakeholder concerning course programmes in their departments, their views should not be ignored if the research results are to be valid. In addition they are in a position to understand the organisation’s culture and possible changes that may be of benefit to it concerning course programmes.

The interviews were carried out via an unstructured approach where lecturers were free to discuss what is of significance to them concerning corporate governance, family businesses and the CSE and their role to the course programs. The interviews were carried out on a face-to-face basis. I decided not to tape the interviews to preserve the interviewee's anonymity.

Another source of primary data used was questionnaires to students. The aim of the questionnaires was to obtain data from students, a major stakeholder in FUCy, concerning the current and future role of corporate governance in degree programs concerning the faculty in which I work in. The questionnaire mainly consisted of closed ended questions that were justified due to the fact that they enabled the analysis of the results to be easier for me. In addition I felt that it would make the completion of the questionnaire by the students easier to achieve.

3.5 Triangulation – Validity - Reliability

After determining the research approach, I had to decide on which are the best methods for collecting data. When carrying out research it is possible that more than one data collection method may be used in carrying out the research in order to obtain relevant and reliable conclusions. This approach is known as triangulation.

One data collection method that is used in the research is documentary data. The documentary evidence used for this research is related to the CSE and includes statistical data and company announcements. This data is known as secondary data since it is derived from existing data.

According to Blaxter et al (2001) one of the reasons for using secondary data is that if the data were collected originally (i.e. primary data) then it would be time consuming and expensive for the researcher. According to Bell (1999) the analysis of documentary data would be used to supplement information obtained from other methods (such as interviews and questionnaires).

Concerning the validity and reliability of the documentary data, the main source of the statistical data was the various annual reports of the firms. Most of the information used in the project was from audited information from authorised audit firms. In addition the stock exchange announcements were mainly derived from the web page of the Cyprus Stock Exchange that is the original source of these announcements

Another data collection method to be used in the research is interviews. This is known as primary data that is derived from the original source. Bell (1999) asserts that the advantage of this approach is its flexibility since unlike a questionnaire the researcher can follow up responses from the participants. The interviews are to be carried out with a sample of senior officials in companies quoted on the CSE. The sample will consist of both family and non-family quoted companies.

The purpose of the CSE interviews was to understand through each manager's perspective the impact of corporate governance mechanisms on performance. The questions concerning the relationship between individual corporate governance mechanisms and performance were designed to elicit the managers' interpretations of their impact on performance. For example a question concerning how the frequency of meetings affects performance yielded interpretations of the extent of the relationship and its cause. They enabled me to explore how CSE managers perceived the same situation as analysed by the empirical models and helped me to develop a deeper understanding of how particular corporate governance mechanisms affected performance. Another purpose of the CSE managers' interviews was to examine their knowledge in corporate governance issues and to apply it to FUCy concerning possible course in corporate governance.

The CSE managers' interviews are intended to supplement the empirical results in a number of ways. Firstly, if the interview results are in agreement with the empirical results they provided additional evidence to support the validity of the results. Secondly, they will provide information concerning the nature of the relationship between individual corporate governance mechanisms and performance. Thirdly, where the results of the empirical data are ambiguous, they will aim to provide possible interpretations of the relationship between corporate governance and performance.

Concerning the validity and reliability of the interviews I realised that one danger was for the answers were purposely misleading or biased. I attempted to mitigate this possibility at the beginning of the telephone interviews by assuring interviewees that the information given was to be completely confidential with respect to third parties and to board members. I also aimed to reassure the participants that the interview questions were not aimed to expose or criticise and that the manager's experience was to be used in the research. I believe this resulted in a frank and open conversation in which interviewees' revealed valid and reliable information.

After future consideration it was felt that by interviewing faculty staff useful data could be obtained concerning the course programmes and its relationship to corporate governance, family firms and the CSE.

The rationale behind the faculty staff interviews was to obtain additional evidence concerning the current and future role of corporate governance education in course programs. This information could be used in making improvements to course programs based on corporate governance education. Faculty staff interviews were used since they are in a position to understand the organisation's culture and possible changes that may be of benefit to it concerning course programmes.

I found a weakness of the faculty interviews was the small size of the sample that did not enable me to reach conclusions that were supported by statistical testing. However I used faculty staff interviews since the faculty is a very important stakeholder when designing course programmes in their departments and their views should not be ignored if the research results are to be valid.

A questionnaire is a data collection method to be used in the research. According to Collis and Hussey (2003) a questionnaire usually provides quantitative data and asks standardised questions to a sample of people. They also assert that it is an easy way of collecting information speedily and with a low cost.

In the research, questionnaires were given to a sample of degree students. The purpose of the questionnaires was to understand through each student's perspective the current role of corporate governance on course programs and to map out how they perceive the role should change if at all. It should be mentioned that students are important stakeholders with respect to the degree program and the questionnaire will provide information as to possible improvements that could be proposed in the degree programs to improve their quality.

Concerning the validity and reliability of the questionnaires, I realised that if the questionnaires were complex then the answers may not be reliable. To overcome this I tried to make the questionnaire easy to understand to students in order to get reliable answers. I believe that the answers of the questionnaire are generally valid since the answers given are in agreement with other evidence (that is syllabuses).

3.6 Sampling

The data used in the empirical analysis was derived from the financial statements of companies quoted on the CSE. Included in this are firms from both the industrial and service sector. The period covered for the empirical analysis was 2002-2007.

Information on governance and ownership issues were also obtained from interviews from the management of a sample of these firms.

The study sampled 101 firms out of a total of 141 firms quoted on the CSE on 31 December 2007. Appendix 3, pp. 228-231 lists the firms that were included in the sample. Investment companies that totalled 19 were excluded from the analysis since they mainly invest in firms that are included in the sample. Three firms were excluded from the sample due to lack of data and 18 firms were excluded for comparative purposes since they were not listed for the full six years covered in the research.

The sample was taken from three sub-markets of the CSE: the MM; the PM and companies that are not in these two markets. The latter sub-market is mainly derived of companies in the AM and those who have been placed by the CSE Council (in many cases temporarily) in a Special Categories Market. The market classification is given below in Table 1:

Table 1: Market classification of sample

	Banks & Insurance	General Financial	Retail	Industrial & real estate	Technology	Other Services	Total
Main (MM)	4	1	2	4	1	3	15
Parallel (PM)	1	1	2	5	0	4	13
Alternative & Special (AM)	5	10	8	20	3	27	73
TOTALS	**10**	**12**	**12**	**29**	**4**	**34**	**101**

Table 1 shows that the majority of CSE firms are listed on the AM where there is no requirement for CGC compliance. The sample can also be classified between family and NFFs. The firm classification is given below in Table 2:

Table 2: Firm classification of sample

	Family Firms	**Non-family Firms**	**Total**
Main (MM)	9	6	15
Parallel (PM)	10	3	13
Alternative & Special (AM)	58	15	73
TOTALS	**77**	**24**	**101**

The results in Table 2 are in agreement with Shleifer and Vishny (1986), Anderson and Reeb (2003) and Villalonga and Amit (2006) that conclude that FFs are at least as common amongst quoted companies than NFFs. This is due to the fact that the majority of CSE firms are FFs. The domination of FFs is also evident in the MM, PM and AM.

Information on governance issues was obtained through the interview of a sample of the management of quoted firms. The sample was to comprise of 21 interviews with the management of FFs and 9 interviews with the management of NFFs. This equates to 21.3% of the CSE population (141 firms at 31 December 2007). The interviews were semi-structured and will cover major issues concerning corporate governance.

Information on the relevance of corporate governance and family business issues to a degree program was applied through the submission of a questionnaire to a sample of students from the School of Economic and Social Sciences. The sample was intended to comprise of 40 students. This equates to approximately 30% of the population tested. The intended demographic characteristics of the sample were done to reflect the demographic characteristics of the population as follows: Concerning sex the proposed sample was to comprise of 60% females and 40% males. Concerning the course it was to comprise of 60% business administration students and 40% accounting and finance students. In finally, concerning the year of study it was to comprise of 40% 2^{nd} year students, 35% were 3^{rd} year students and 25% were 4^{th} year students.

The questionnaire consisted of uniform standard questions and students were encouraged to make general comments on the questions asked.

3.7 Data analysis methods

3.7.1 Multivariate regression models

The multivariate tests will use a cross sectional regression models with different specifications each that will use different variables that will be used to test the relationship between corporate governance and firm performance. The models will include control variables that have been shown in the literature to influence financial performance.

The multiple regression models have been used in previous corporate governance and performance studies such as Vafeas (1999), Villalonga and Amit (2006), Martinez et al (2007), Abor and Biekpe (2007) and Coles et al (2008) and Ehiyioka (2008). The multivariate model aims to measure performance against four groups of variables: board factors; ownership factors; CGC compliance and control factors.

The regression model proposed applies panel data as applied by Abor and Biekpe (2007), Di Pietra et al (2008) and Ehikioya (2009). This method is used where there is a considerable amount of cross sectional data (in the research these are the corporate governance mechanism variables) and where the numbers of periods are small (in the research six years are covered (i.e. 2002-2007). According to Di Pietra (2008) this model is applicable where the differences in the corporate governance variables vary at a greater extent across firms rather than across years for a specific firm. Hence since in the empirical analysis, financial statement data and corporate governance mechanisms variables are used that are firm specific, the statistical model used must be in a position to account for firm differences something the panel data approach does.

The traditional ordinary least square approach to regression was rejected since this approach considers all firm year observations as separate to each when they could be related. For example an observation for Firm A in 2002 would be shown separately from an observation in 2007 for Firm A when in fact the corporate governance variables are similar. In line with Abor and Biekpe (2007), Di Pietra et al (2008) and Ehikioya (2009) the panel data model proposed was that with fixed effects. Under this approach the difference across corporate governance mechanism variables can be captured in differences in the constant term. Hausman and Taylor (1981) state that the fixed effects approach is useful since it is an unbiased method of controlling for omitted variables when panel data is applied.

3.7.2 Data analysis of CSE managers interviews

The data analysis of interviews was carried out by content analysis. It is to be broken in two stages: In stage one for the uniform standard questions the responses of each of the participants are analysed into categories and analysed; in stage two the non-uniform responses will be separated and the researcher will aim to group them with other similar answers and compare to dissimilar answers.

The quantitative aspects of the interviews was analysed by a statistical program since it will enable the answers to be analysed via description statistics that will enhance the analysis of the data.

The interviews of the CSE firm managers aim to examine:

Performance = f (board characteristics, ownership, CGC adoption, control variables) from the perception of management.

Where f (x) denotes linear function of x variables.

3.7.3 Data analysis of questionnaires

A spreadsheet program carried out the data analysis of questionnaire since most of the answers are for uniform standard questions. The responses of each of the participants were analysed into categories and analysed. For non-uniform responses, the answers will be separated and the researcher will aim to group them with other similar answers and compare to dissimilar answers.

A statistical program carries out the data analysis of questionnaire since most of the answers are for uniform standard questions. The responses of each of the participants are analysed into categories and analysed (for example an answer could be classified into the following categories: Agree, Disagree, Strongly Disagree etc.). For non-uniform responses, the answers will be separated and the researcher will aim to group them with other similar answers and compare to dissimilar answers.

The quantitative aspects of the questionnaires were analysed by a statistical program since it will enable the answers to be analysed via description statistics that will enhance the analysis of the data. The student questionnaires aim to examine the current and future role of the areas of corporate governance, CSE and family businesses to the content of course programs.

3.7.4 Faculty interview data analysis

Discourse analysis was used to analyse the interviews. According to Bryman (2004) it is a method that analyses talk. The Institute of Work Based Learning (2008) states it is a qualitative analysis of interactive speech. It has been so that the researcher interprets what the interviewee has said after considering their motives, interests and power differentials.

Though there is no set format for analysing discourse analysis, the approach adopted was in line with Potter and Wetherell (1994) that applied three main devices. These are:

Firstly, by examining the interviewee's intentions by examining issues concerning corporate governance, family businesses and the CSE. Hence the answers given for certain issues by interviewees will be grouped and contrasted and compared. Secondly, by examining the details of speech and looking for motives behind them and finally, by examining the language to establish alternative perspectives and at the same time aiming to expose the interviews intention.

3.8 Ethical considerations

3.8.1 Ethical considerations: An introduction

In line with Gibbs (2004) and Gibbs and Costley (2006) an ethic of care has been adopted in the research to avoid the possibility of exploitation of the stakeholders in the research. With this in mind a number of ethical considerations have been adopted for the empirical, interviews and questionnaires data. In order to capture the major ethical considerations in the research, it was decided that the process would be assisted with the help of the completion of an Ethics Release Form that may be found in Appendix 1, p. 223. The completion of the Ethics Release Form is justified in that it ensures that an ethic of care is followed in the project. Further to this its content includes amongst others the following issues concerning participants: confidentiality issues; avoiding offensive material; the safekeeping of data and, ensuring there is no prejudice in the research process.

3.8.2 Ethical issues: Empirical data

A number of ethical issues must be considered in the collection of empirical data and where relevant must be stressed to participants. Some of these ethical issues that are based on a list on ethic principles by Blaxter et al (2001) and Bell (1999) include: Access to the annual report database of xak.com is only available through having a user name and password. An application had been successfully made and I have assured xak.com that the data would be used strictly for research purposes and that there is safekeeping of data. This is in line with the answer 8 of the Ethics Release Form in Appendix 1, 223.

Secondly, I have assured the officials of xak.com that they will get a copy of research made on corporate governance if they should wish.

Thirdly, I have assured firms that the information given in the annual reports and accounts given to him will be used solely for research purposes and not for commercial considerations.

Finally I offered the opportunity to firms and financial providers to state whether they want a copy of research work carried out on corporate governance and I have assured them that I will provide them with a copy once the research is ready for publication (that is a research article).

3.8.3 Ethical issues: Interviews

A number of ethical issues must be considered in the conduct of interviews and where relevant must be stressed to participants. In line with McNiff (2004) as cited by Gibbs and Costley (2006) a sensitive approach has been adopted against interview participants. This has been done to ensure that there is effective cooperation between the me and the interview participants. Some of these ethical issues include:

The results of the interviews are strictly confidential though the results of the total sample are published in the course of the research. This means that no reference should be given about the name of participants in the research report. This is in line with question 7 of the Ethics Release Form in Appendix 1, p. 223.

Secondly, the interviews will not be recorded by audiotape since this could make the participants uneasy about whether this information could be published. This is in line with the answer of question 8 in Appendix 1, p. 223.

Thirdly, the questions of the interview will be vetted so that they are not offensive or inappropriate to the participant. This is in line with the answer of question 6 in Appendix 1.

Finally, participation via the interviews is voluntary and no one will be prejudiced if they do not participate on the project. This is in line with the answer of question 3 in Appendix 1, p. 223.

3.8.4 Ethical issues: Questionnaires

A number of ethical issues must be considered in the questionnaire process where relevant must be communicated to participants. Some of these ethical issues include:

In line with the answer of question 5 in Appendix 1, p. 223, no minors are involved in the questionnaire process. The participant will not state their name in the questionnaire and procedures in the collection of the results will ensure that the questionnaires are answered anonymously. This is in line with question 7 of the Ethics Release Form in Appendix 1, p 223.

In addition the questions in the questionnaire will be vetted so that they are not offensive or inappropriate to the participant. This is in line with the answer of question 6 in Appendix 1, p 223. Finally, participation via the questionnaires is voluntary and no student will be prejudiced if they do not participate on the project. This is in line with the answer of question 3 in Appendix 1, p 223.

3.8.5 Ethical considerations-Faculty interviews

The researcher took steps to protect the confidentiality of faculty members that participated in the interviews. They were informed of the purposes of the study and I also give them oral assurances that their anonymity would be maintained when quoting them and that information would be omitted that would enable someone to identify them as the source. These points are in line with the answers of questions 3, 4 and 7 of the Ethics Release Form in Appendix 1, p 223.

3.9 Operational definitions

The research will aim to measure the relationship between corporate governance and firm performance. One measure of performance is profitability that is to be measured by ROA. ROA is defined as the profit before interest and taxes divided by total assets (Abor and Biekpe, 2007 and Ehiyioka, 2009). Another measure used for firm performance is Tobin's Q value that is a market price based performance measure. Tobin's Q value is measured as the book value of assets minus the book value of equity plus the market value of equity divided by the book value of assets (Coles et al, 2008). This measure was chosen since it is a method that captures the share price performance as opposed to financial performance measurement of the ROA.

The sales growth variable is defined as the change in sales on a year-to-year basis and has been used as a control variable when measuring market performance (Villalonga and Amit, 2006).

The definition that is applied to this research of family businesses is that found by Dyer (1986) who defines a family business as *"an organisation in which decisions regarding its ownership or management are influenced by a relationship to a family."* More specifically according to Villalonga and Amit (2006) a number of conditions could be used to define a family. These include:

- The family or families are the largest shareholders.
- They control at least 20% of the votes of the firm.
- There is at least one family officer or at least one family director.
- The family members may be founding members (that is they were shareholders when the firm was established) or 2nd or later generations to the original founding members. In this way the definition will cover firms quoted on the CSE that fall into this category.

The definitions for other corporate governance mechanisms concerning board factors, CGC compliance, ownership factors can be found in Appendix 2, pp. 224-227. Appendix 2, pp. 224-227 also states the sources of information for each variable.

3.10 Role as worker based (insider) researcher

I am required as part of my employment contract as a university lecturer to pursue research. During my time at FIT I have published an article in the research journal. In my time at both FIT and FUCy I have been a supervisor for countless research dissertations carried out by students. Hence it could be said that FUCy has a culture geared to academic research. In addition I have carried out projects as a worker researcher and one of these was research towards the development of a degree program for accounting and finance in which I was heavily involved since I proposed a number of new accounting modules for this course. The accounting and finance degree was introduced into the school's degree program in the 2007/08 academic year.

The research project for Module DPS 5260 will require research to be carried out on corporate governance and family businesses that could be applied to degree programs concerning the department. However in order for the research to succeed it is important that I have the help of other stakeholders such as colleagues in the department, the management of the university and students. Otherwise there may be difficulties in carrying out the research. To achieve this, the ethics of care has been applied. According to Gibbs (2004) this will prevent the possibility of stakeholders being exploited. Hence applying the ethics of care will increase the possibility of stakeholders effectively cooperating in the research.

Though it is anticipated that this support will be forthcoming, the benefits to the organisation of cooperating will be tangible since without any great cost, they will have a report that will make suggestions as to how the degree program may be improved based on academic research.

According to Costley and Gibbs (2006) one of the positive features on having work-based research is that the researcher will have inside knowledge of the problem and/or questions to be researched and of individual who work in their organisation. For example if research were carried on as to the effectiveness of the syllabus of accounting and finance, I would be in a position to recognise the syllabus well and recognise the different approaches to applying the syllabus. Gibbs and Costley (2006) support this approach since they assert that the researcher should take research in areas they are comfortable with. Further to this Armsby (2008) asserts that the worker researcher must take advantage of their privileged insider research position. However if an outside researcher were used to carry out the research and since they do not work in the organisation concerned, they may not be as familiar with the subject and hence the research may not be effectively carried out as would be the case with the worker researcher.

Another positive influence is that the worker researcher is more familiar with the sources of information needed to carry out the research than say an outside researcher. For example he is likely to be more knowledgeable regarding the type of information that can be obtained from the organisation’s library and its staff. An outside researcher may find it difficult to obtain information from an organisation since the organisation’s personnel may be less willing to cooperate with him.

Despite this the insider researcher must have due care for the stakeholders in the research. According to Gibbs (2004) an ethic of care is critical in insider research to prevent the possibility of the exploitation of stakeholders in the research. Gibbs and Costley (2006) further add that there is a risk that insider research may be unethical unless personal moral deliberation is applied to research ethics.

Further to the above I, the worker researcher, will be in a better position to understand the culture of the organisation and hence can better evaluate the effect of potential decisions on the running of the organisation. This is the case when evaluating changes to be made to a degree program.

In addition to the above the worker researcher will be in a better position than the outside researcher to understand the key people in the organisation. Hence this will assist me in the collection of data for the research whether it is for primary or secondary data.

Another positive feature of a worker researcher is that they would gain new knowledge that could be passed on to their students. In other words this will help me to improve the quality of my teaching and this will benefit students as well. For example a new teaching approach may be applied in the class that would make the lesson more interesting. This could lead to more input from students that will hopefully raise the standards of the class. It could also lead to more input from students via group work which is something they will face in the real world.

Hence the effect of the above is that the worker researcher is in a better position to understand the workings of the organisation and to make improvements that will lead to an improved working practice.

However there are also negative influences related to work-based research. The main negative influence of worker researchers is that they are too close to the problem. This means that they may be ignorant of the fact that fundamental changes are needed to a particular area that they are involved. For example I may not be willing to use a computer technology in my lecture because I may be uneasy about it. Yet it may be the case that computer technology could improve the quality of the lecture. This could be done for example through the use of PowerPoint presentations that could better convey information to students. According to Armsby (2000) the work-based research should be objective in their work and should tackle issues concerning potential bias in the research. An outside researcher would take a more objective and detached view and would be more likely to recommend radical solutions to a problem than a worker researcher.

Another negative influence is that the work-based researchers own expectations and values could restrict the scope of their work since they may be unwilling to expend a huge effort to their research work. An outside researcher would be more likely to be less biased and carry out the research as scheduled instead of being affected by their expectations. This is because they may be interested in gaining new knowledge rather than considering their professional interests.

Others may also negatively influence worker researchers especially in the organisation they work for. In some ways certain people in the organisation may affect the direction of the research. For example the dean of a department could influence the direction of the research of his subordinate. It is quite possible that it may not go in the direction the latter expects due to a lack of information not being provided by the organisation.

In addition to the above, the worker researcher may find that there is a conflict in interest between the findings of their research and his position in the organisation. This may have an adverse affect on their research work. To explain further, I may find that computers are a good way of increasing the quality of the lesson. However I may be uneasy in introducing them since this may mean a major change in my teaching approach. Hence this conflict could have an adverse affect on the findings of my research.

To conclude there are good and bad points in having worker researchers though an increase in researchers is a positive feature since it will enable more knowledge to be gained for the benefit of the community.

CHAPTER 4: PROJECT ACTIVITY

4.1 Chapter summary

This chapter aims to how the project activity was carried out. It aims to explain how the regression models, interviews and questionnaires were applied in the project.

4.2 Panel data regression models

Previous research by Yermack (1996), Mishra et al (2001), Villalonga and Amit (2006), Abor and Biekpe (2007) Martinez et al (2007), Coles et al (2008), Di Pietra et al (2008), Ehikioya (2009) amongst other have used regression models to establish the extent of the relationship between corporate governance and performance. Despite this there is an issue as to the type of model. That is whether the traditional model or panel data model of regression is to be used as proposed by Abor and Biekpe (2007), Di Pietra et al (2008) and Ehikioya (2009). The reasons for its adoption and the rejection of the traditional regression model have been explained in section 3.7.1.

Di Pietra et al (2008) and Ehikioya (2009) used a panel data model with fixed effects and with White (1980) heteroskedasticity consistent standard errors. White (1980) standard errors have been used to overcome the problem whereby the variances of independent variables are different.

Under the panel data model with fixed effects approach the difference across units can be captured in differences in the constant term. Hausman and Taylor (1981) state that the fixed effects approach is useful since it is an unbiased method of controlling for omitted variables when panel data is applied. The research originally used three forms of panel data variations. The first variation uses only fixed time effects (in order words without the firm dummy variables). The second variation is the use of fixed effects with time dummies though with the inclusion of industry dummies that would capture the industry effect. The third variation uses fixed effects with firm and time effects. Under this approach dummy variables for each firm (101) and each time period (6) is to be used though with inclusion of firm variables the industry dummies are excluded. The sign and significance of the coefficients in the three versions produce very similar results that are shown in the following section. This shows that results are robust to different model specifications.

Model 1 investigates the impact of corporate governance characteristics on performance. The model is defined as follows:

$$\mathbf{PERF_{it} = a_{it} + b_1\ LN\_SIZE_{it} + b_2\ LN\_AGE_{it} + b3\ \%LEVERAGE_{it} + b4\ SALES\_GROWTH_{it} + b5\ MD\ 1_{it} + b6\ MD\ 2_{it} + b7\ LN\_BOARD_{it} + b8\ \%NON\text{-}EXE_{it} + b9\ \%LN\_MEETINGS_{it} + b10\ LN\_BOARD\ SKILL_{it} + b11\ AUDIT\text{-}COM_{it} + b12\ DUALITY_{it} + b16\ FAMILY_{it} + b19\ INSIDER\%_{it} + b20MD1{*}CGC\_P + b21MD2{*}CGC\_N + b22MD3{*}CGC\_F + e_{it}}$$

The variable *it* represents a firm i at time t and e_{it} is an error term whereas a_{it} is a constant over time. The two performance measures (PERF) are the ROA, an accounting measure, and Tobin's Q value (that measures market performance). These two performance measures are to be used in all regression models. However it was decided that the returns on equity (thereafter ROE) was inappropriate for the research and hence was not applied as a dependent variable. The rationale behind this decision was that the smaller firms distorted the ROE results in the AM where their equity was small or even negative creating misleading results (e.g., a positive figure when profitability was negative). Since it was decided that the ROA has similarities to the ROE it was decided that the ROA would be used as a dependent variable in the regression analysis. In addition the ROA is a method used by various studies in the area such as: Randoy et al (2003); Abor and Biekpe (2007); Cheng (2008) and Ehikioya (2009) amongst others.

Klapper and Love (2004) justify the use of Tobin's Q value and ROA as performance measures. They state that Tobin's Q value is a measure of the market value of assets of a firm and ROA a measure of operating performance. They found that effective corporate governance is associated with a higher operating performance and a higher Tobin's Q value.

The independent variables have been derived from the literature review and empirical studies analysing the board, CGC factors, ownership and control variables (used to control performance) as outlined in section 2.4. The market dummy variables were included in order to capture the extent at which CGC compliance affects performance.

In addition the following corporate governance dummy variables where included testing for the presence of audit committees, the duality of board and executive director and whether a firm is family owned or not. Due to the strong correlation between audit and remuneration committees only the audit committee variable was used in the regressions.

In line with other studies such as Yermack (1996) and Villalonga and Amit (2006) the ROA has also been used as an independent variable for the models where Tobin's Q was used as an dependent variable since it is considered it controls for the current firm operating performance and profitability that has may have a significant impact on a firm's market value. It is also considered a proxy for cost of capital that influences firm value.

The management skills variable was omitted from the model since it was strongly correlated with the board skills that mainly capture management skills (who are executive directors anyway). Another feature of the model is that the natural logarithm of variables of board size, frequency of meetings, size of the firm, age and board skills have been used since the natural logarithm provides a better normalisation of variables and reduces the outlier effect compared to the case absolute numbers are used.

In addition a number of interaction variables were used in models 1-3 to examine whether there is a relationship between the type of market and CGC compliance. Three such dummy variables were used. The first MD1*CGC_P measures whether there is a reduction in performance for firms in the MM that partially comply with CGC; the second dummy variable MD2*CGC_N measures whether firms in the PM that do not comply with CGC have a reduction in performance and finally, MD3*CGC_F measure whether firms in the AM that fully comply with the CGC have performance benefits.

Using panel data time effects with industry controls, Model 2 aims to use the same variables in Model 1 and to differentiate the results between those markets that have some form of compliance with CGC (that is MM and PM) with those markets where no compliance with CGC is required (that is AM and Special Categories).

Model 3 aims to study the performance of FFs versus NFFs using interaction effects. The study tests the interaction effects of corporate governance variables in model 1 with family firm dummies. For example a variable of FF* DUAL is defined as a family firm that has CEO duality. This variable intends to capture differences in performance between FFs that employ CEO duality versus the CSE firms that do. In addition, the market interaction variables used in model 1 are also employed in this model.

Model 4 that is also based on model 1 uses variable changes in the regression model. It aims to measure the relationship between corporate governance board and ownership variable changes with changes in performance. The model will also include control variables in it. A changes model has previously been used by Karamanou and Vafeas (2005) when looking at the change if forecast status against changes in corporate governance mechanisms for board factors, ownership factors and audit committee variables. They also included control variables without changes.

4.3 The Management interview data process

It was planned that thirty managers would be interviewed concerning corporate governance issues. The sample was to be derived from the 101 CSE firms included in the empirical study mentioned before. The sample was to be distributed from managers who worked in firms that were in the MM, PM and the other markets such as the AM. The sample was also stratified according to the extent of compliance with the CGC in Cyprus and between FFs and NFFs.

Out of the thirty managers, five did not participate. This was down to various reasons such as: they were too busy to take part; they did not wish to take part or pressures from their peers made it difficult to take part. I believe that this is a good response rate since a number of managers originally were reluctant to participate due to fears of what their peers' reaction would be. When I reassured them that the interviews were confidential and for research purposes only a significant number agreed to participate in the interview process. Appendix 4, p 232 provides a list of firms whose managers participated in the interviews.

Once permission was received, the respective managers were contacted. The interviews took longer than expected. Though it was expected that they would take around 10 minutes, the actual time varied around 15-20 minutes. This was because for certain participants the questions set stimulated further discussion hence extending the duration of the interviews. The interviews were carried out by telephone between the dates 13

February 2009 to 20 March 2009. There were a number of reasons for using this approach.

The first was due to convenience. The geographic distance of participants made face-to-face interviews unfeasible since the participants were scattered over the island of the Republic of Cyprus and my work commitments made it difficult for me to visit them personally.

Secondly, was the issue of cost since telephone interviews are more cost effective than face-to-face interviews that involve more significant costs (e.g. travelling costs, loss of salary etc.). Thirdly, there was reluctance by many participants to be interviewed face-to-face though they were more willing to be interviewed by telephone since they were more comfortable in doing so. Fourthly, I found it was quicker to get the data using telephone interviews rather than the face-to-face approach where I would have been restricted in carrying out interviews due to the travelling distance. Finally, the telephone interview allowed me to ask follow-up questions something that is difficult to do under the email interview approach.

Before the interviews were carried out, I obtained the permission of the participants. This was done either by an email or by telephone.

Of the interview sample that did not participate in the interview, two managers did not respond and three individuals did not wish to participate in the interview. For those that did not respond a second email was sent out and again there was no response. I tried to contact the individuals three times by telephone but they were unavailable for contact.

Due to the high response rate of the interviews (that is 85% of the sample) and since the interview sample that responded mirrored closely the empirical sample with respect to FFs and NFFs, I decided not to further pursue the non-responses. I did this because I understand that these managers were reluctant to participate and felt it ethically wise not to pursue the matter further.

I used the shorthand approach in recording the answers from interviews. I did not tape the interviews due to the unavailability of the necessary equipment and due to sensitivities on the part of many interviewees concerning this issue.

The semi-structured interview format provided in Appendix 5, pp. 233-234 evolved before the data collection process as the researcher determined which questions were ineffectual and those that were effective. This process was done by piloting the interview questions with managers who were not in the sample and taking into account their feedback.

Concerning the interviews, the questions were not asked in sequence but rather were posed to accommodate the natural flow of conversation. The interviews were divided into five sections: the first was general information about corporate governance in the firm; the second involved question on corporate governance practices in general and the link to performance; the third involves questions on board composition and its effect on performance; the fourth concerns questions on ownership and its effect on performance and finally, the last section concerns questions on other factors (such as age and size amongst others) that affect performance.

A purpose of the interview was to understand how the various corporate governance mechanisms affected performance from the perspectives of management and to compare these to the empirical results and to show how they are linked together. Many of the variables that were included in questions were in line with the variables used in the empirical testing.

The first section of the interviews (general information) aimed to find out from the managers the extent of compliance with the CGC, the market and industry they belong to, whether the firm had significant family ownership and finally, how the firm assessed its performance in general together with interpretation(s) as to why the particular performance measure was chosen.

The second section (corporate governance and performance) was designed to elicit the manager's interpretations concerning the effects of CGC on measures of performance. Here the managers were free to also discuss other factors (apart from CGC) that affect performance. The section also aimed to find out from managers whether corporate governance mechanisms had an effect on performance as measured by sales, ROA and market performance. These three measurements were chosen since they are supported by various academic researchers as being the most appropriate for adopting financial performance measurements against corporate governance mechanisms. The participants were asked to measure the effect on corporate governance mechanisms for these three measurements on a scale of 1-3. A value of 1 represents a strong effect whereas a value of 3 represents a weak effect.

The third section was designed to elicit the managers' interpretations concerning aspects of the relationship between corporate governance board mechanisms and financial performance. More specifically it examined the relationship between financial performance against the following independent variables: audit committees; remuneration committees; non-executive directors, board size and the number of meetings. Most of these variables were used in the empirical testing mentioned previously. The participants were free to elaborate on the areas and if necessary to share their experiences concerning these areas.

The fourth section (ownership) looked at the effects of ownership on financial performance. It covered three main aspects of ownership and its relationship to performance. These were: family ownership, foreign ownership and insider ownership. Except for foreign ownership, these variables were also used in the empirical testing mentioned previously. The participants were free to provide comments on these three issues and to share their experiences they may have in these areas.

The final section looked at other areas that could affect performance such as age, firm size, leverage and the industry it operates in. The participants were encouraged to justify their views concerning the link (or non-link) for these variables.

Before and during the interview process I was aware of the fact that managers may be highly sensitive to questions about their superiors (the board). When I realised from the reaction of managers that was the case I dropped or amended the question. However this situation was not common since the pilot interviews (to managers not in the sample) helped to prevent this occurrence.

There was a methodological challenge that should be mentioned. This was the issue of whether the interviews were valid and whether the answers were purposely misleading or biased. I attempted to mitigate this possibility at the beginning of the telephone interviews by assuring participants that the information given was to be completely confidential with respect to third parties and to board members. I also aimed to reassure the participants that the interview questions were not aimed to expose or criticise and that the manager's experience was to be used in the research.

I found that these reassurances resulted in a frank and open conversation in which participants' revealed useful information. To this end the interview questions were designed to elicit explanations and interpretations of situations and reveal what managers believed about the relationship between corporate governance mechanisms and performance.

4.4 Management interview data analysis

Concerning the analysis of interviews, content analysis was adopted as planned. According to Robson (2002) it is a process whereby qualitative data (such as that obtained from interviews) is obtained and valid inferences are made from their content. According to the Institute of Work Based Learning (2008) this data could be analysed using statistical testing (that is descriptive statistics).

After designing the interview questions the record unit was designed. In some questions the recording unit was numbers, in others it was words and finally, some questions were answered using sentences. After this the answers were analysed into categories. Most of the questions were analysed using quantitative methods. This was done in various ways.

One approach was to analyse questions using dummy variables. An example of this is Question 1 in the interview (See Appendix 5, pp. 233) that asked the participants whether the firm complied with the CGC code. A yes answer was given a dummy variable of 1 whereas a no answer was given a dummy variable of 0. In this way using statistical analysis the relevant percentage of firms using the CGC code could be derived.

Another approach was to analyse questions on a scale of 1 to 3 with each value been given a value. For example in question 8 in Appendix 5, p. 233 the participants were asked to value the effect of corporate governance mechanisms on three performance measurements: Sales growth, ROA and Tobin’s Q value. A value of 1 represented a strong effect whereas a value of 3 represented a weak effect. This approach was less evident than the dummy variable approach that was used in most of the questions.

The quantitative data (for example dummy data and value data) of the interviews were recorded on a Microsoft Excel spreadsheet. Descriptive statistics was carried out for the whole sample and separately for participants who worked in FFs and NFFs. This distinction was done so as to analyse any differences in the relationship between corporate governance mechanism and performance from the viewpoint of managers.

Originally it was intended that the SPSS program would be used for the statistical analysis. However I used Microsoft Excel over SPSS for two main reasons: Firstly, I believe Excel spreadsheet is user-friendlier than SPSS. I believed that the time lost in learning the SPSS program did not justify any possible benefits SPSS had over Microsoft Excel in this case. Secondly, since the quantitative data from the interview analysis was not complex, I believed that Microsoft Excel was in a position to be as effective in its data analysis as SPSS.

However the analysis of qualitative data via the interviews (that is the answers given in sentence form) was more problematic to me. The approach used was to record this data and to compare with the answers from other participants. I then grouped these answers where there were similarities. An example of this was in Question 9 of Appendix 5, p. 233 where participants were asked to discuss about the other factors that affect performance measurements.

4.5 The Questionnaire data process

Information on the relevance of corporate governance, CSE and family business issues to a degree program was carried out through the submission of a questionnaire to a sample of students from the School of Economic and Social Sciences in Limassol. The proposed sample was to comprise of 40 students. This equates to approximately 30% of the population tested. The sample is to be taken from students in the Limassol campus since the changes to the degree courses are primarily for the accounting and finance course that is solely taught in Limassol. The sample will consist of students in both the accounting and finance and business administration degrees at the Limassol campus so that the research findings may be applied to these degrees.

The proposed sample was constructed in a way that it reflected the population characteristics of the population concerning sex, course and year of study. Concerning the year of study the first year students were not included in the sample due to the fact that they did not cover the areas of corporate governance (no business finance modules are offered to first year students). However 38 students participated in the questionnaire since two students were absent on the date when the questionnaires were given to students. Despite this the sample closely reflected the characteristics concerning sex, course and year of study.

The questionnaires were given to students and completed between 12 March 2009 and 18 March 2009. I designed the questionnaire and handed it out to students on these date when they had a lesson either with a colleague or myself. I obtained both the permission of the organisation (See Appendix 6, p. 236) and the colleagues concerned before carrying out the interviews. The students recorded their answers on the questionnaire sheet and handed it back to my colleague or me so that the answers could be analysed. Students were asked not to put their names on the questionnaires.

The demographic characteristics of the sample are as follows: The sample comprised of 23 females and 15 males. This is broken down into 22 business administration students and 16 accounting and finance students. In addition this was broken down into 15 students in the 2nd year, 13 students in the 3rd year and 10 students in the 4th year.

The questionnaire given to students can be found in Appendix 7, pp. 237-238. Nine statements were made which students could grade on a 1-5 scale. The first six statements were made on knowledge gained by students on family business, corporate governance and the CSE. The next three statements were made concerning the future development of modules concerning these three areas. Each of these statements were answered on a 1-5 scale with an answer of “1” meaning the students strongly disagreed with the statement up to an answer of “5” meaning they strongly agreed with the statement (See Appendix 7, p. 237). Finally there was a section for students to make any general comments.

The aim of the questionnaire was that the answers from the questionnaires would be used in determining the future role corporate governance in course programs and whether it could be lead its upgrade.

I found that an attempt was made to ensure the results were reliable, I believe the results may not be 100% reliable. This is because what I believe is a small number of students who though they did answer the questions set, may not be providing answers of what they really felt. A small number felt a duty to me to answer the questionnaire to help me out in my research though it's uncertain whether the results they gave were valid. Though I did not wish to pressure them to participate in the questionnaires, they felt a moral duty to do so. I believe that this problem is one that is common in the Cyprus culture where people are generally reluctant to participate in questionnaires and where the risk of unreliable answers is there. I do believe that having only nine questions for them to answer was the right decision since a higher number could have given invalid answers. I still believe that in the main the conclusions reached from the questionnaires are correct without guaranteeing every student provided reliable answers.

4.6 Questionnaire data analysis

Concerning the analysis of the questionnaires, content analysis was adopted as planned for the same reasons as for the CSE managers' interviews.

The nine statements on the questionnaire were to be answered a scale of 1 to 5 values.
The quantitative data (value data) of the interviews were recorded on a Microsoft Excel spreadsheet. Descriptive statistics was carried out for the whole sample and separately for the demographic characteristics of the sample to determine any differences in the relationship between sex, course and year of study.

Originally it was intended that the SPSS program would be used for the statistical analysis. However the choice of Microsoft Excel over SPSS can be justified by the same reasons, as was the case for the CSE managers' interviews.

However the general comments via the interviews (that is the answers given in sentence form) is more problematic to me for analysis purposes. The approach used was to record this data and to compare with the answers from other participants. I then grouped these answers where there were similarities.

4.7 Faculty interview data process

It was felt that by interviewing faculty staff useful data could be obtained concerning the course programmes and its relationship to corporate governance, FFs and the CSE.

The rationale behind the faculty staff interviews was that since the faculty staff is an important stakeholder concerning course programmes in their departments, their views should not be ignored if the research results are to be valid. In addition they are in a position to understand the organisation's culture and possible changes that may be of benefit to it concerning course programmes.

Five members of the faculty were interviewed out of its eight members. Of the three members excluded from the interviews, two were involved in the research and it was felt their inclusion in the interviews was unethical whereas the other member is a part-time visiting lecturer who has been at the organisation for a short time with little knowledge of the organisation.

The interviews were carried out via an unstructured approach where lecturers were free to discuss what is of significance to them concerning corporate governance, family businesses and the CSE and their role to the course programs. The interviews were carried out on a face-to-face basis. It was decided not to tape the interviews to preserve the interviewee's anonymity.

4.8 Faculty interview data analysis

Discourse analysis was used to analyse the interviews. According to Bryman (2004) it is a method that analyses talk. The Institute of Work Based Learning (2008) states it is a qualitative analysis of interactive speech. It has been so that the researcher interprets what the interviewee has said after considering their motives, interests and power differentials.

Though there is no set format for analysing discourse analysis, the approach adopted was in line with Potter and Wetherell (1994) that applied three main devices. These are:

Firstly, by examining the interviewee's intentions by examining issues concerning corporate governance, family businesses and the CSE. Hence the answers given for certain issues by interviewees will be grouped and contrasted and compared. Secondly, by examining the details of speech and looking for motives behind them and finally, by examining the language to establish alternative perspectives and at the same time aiming to expose the interviews intention.

CHAPTER 5: PROJECT FINDINGS

5.1 Chapter summary

This chapter aims to analyse the results from the descriptive statistics and the testing of the economic (regression) models. It also aims to analyse the questionnaires and interviews. It also aims to analyse the relationship between corporate governance and course programmes at FUCy.

5.2 Descriptive statistics: empirical data

To assess the differences in corporate governance, performance and other variables for the different markets of the CSE, we initially provide descriptive statistics for the MM, PM and AM as shown in Table 3. Significant testing between the means of these three markets is shown in Appendix 10.5, pp. 252-253 (which shows significance tests using equal and unequal variance assumptions).

According to Table 3 (and Appendix 10.5, pp. 252-253), there are statistically significant differences at the 1% level of the means between markets for the following variables: board size, non-executive directors, frequency of meetings, board skills, CGC compliance, firm size and age. The MM firms show to have higher values for these variables, followed by the PM and then the AM.

There are statistically significant differences at the 5% level between both the MM and PM against the AM with respect to the ROA variable. The data indicate that ROA is on average the highest in the MM then followed by PM and then the AM. In contrast to the ROA, the results of the ROE provide evidence of distortion due to negative equity in the AM as mentioned previously that has resulted in its exclusion from the regression models.

Tobin's Q, a variable that measures market performance, shows significant differences between the MM and PM under the equal variance assumption and significant differences between all markets under the unequal variance assumption (See Appendix 10.5, pp. 252-253). I will investigate subsequently whether this can be explained by the fact that MM firms apply the CGC to a greater extent than firms in the PM and AM and the market may reward these firms however we do not find a strong association. The MM shows to have the highest Tobin Q value followed by the PM and AM. Sales growth shows to be the highest in the AM, however it exhibits high volatility.

There are significant differences at the 1% level between the proportion of firms using audit committees (AUDIT-COM) between both the MM and the PM with the AM. This may be explained by the fact that firms on the AM are not obliged to establish audit committees.

Table 3: Comparison of means for different markets of the CSE

	Pooled sample estimates					
	Main (MM)-1		Parallel (PM)-2		Others (AM)-3	
Variable	**Mean**	**Variance**	**Mean**	**Variance**	**Mean**	**Variance**
ROA	0.0385	0.0039	0.0288	0.0051	-0.0125	0.0220
TOBIN Q	1.0595	0.1097	0.8470	0.0983	0.9579	0.4090
ROE	0.0621	0.2107	-0.0264	0.2028	-0.3293	11.3177
SALES GROWTH	0.1382	0.2125	0.1954	0.8649	0.5504	25.1964
BOARD	9.7579	12.3769	8.1325	5.4334	6.3551	4.9321
LN(BOARD)	2.2209	0.1104	2.0525	0.0918	1.7928	0.1115
EXE	2.8947	1.4143	2.8072	2.3770	2.3201	2.8973
LN(EXEC)	0.9544	0.2556	0.9635	0.2584	0.6728	0.4151
NON-EXE	6.8632	10.4811	5.3253	8.8319	4.0187	4.0605
LN(NON-EXEC)	1.8179	0.2295	1.5066	0.3864	1.2757	0.2849
%NON-EXE	0.6878	0.0213	0.6161	0.0570	0.6367	0.0597
MEETINGS	10.3579	49.4237	6.5181	3.5454	5.4252	2.9663
LN(MEETINGS)	2.1865	0.2541	1.8384	0.0706	1.6491	0.0810
BOARD SKILL	9.0211	12.3825	7.0361	6.8645	5.2991	5.0438
LN(BOARD SKILL)	2.1329	0.1289	1.8508	0.2605	1.5717	0.2213
AUDIT-COM	0.8000	0.1617	0.7590	0.1851	0.1075	0.0962
DUALITY	0.2842	0.2056	0.5422	0.2512	0.4439	0.2474
CGC_F	0.5684	0.2479	0.1325	0.1164	0.0350	0.0339
CGC_P	0.2316	0.1798	0.6627	0.2263	0.0771	0.0713
CGC_N	0.2000	0.1617	0.2048	0.1649	0.8879	0.0998
FAMILY	0.6947	0.2143	0.7229	0.2028	0.7874	0.1678
INSIDER%	0.4049	0.0689	0.4992	0.0613	0.4833	0.0628
BV-EQUITY	148.4196	97466.8022	17.0713	173.3832	13.1232	393.2081
LOG FIRM SIZE	3.9881	2.4038	2.1412	0.6081	1.3047	1.5655
AGE	36.7474	864.7015	28.7108	192.5251	23.2383	252.3693
LN(AGE)	3.3263	0.5662	3.2339	0.2632	2.9522	0.3764
DEBT	1455.8247	12828142.7052	11.4130	359.0676	7.2045	180.0250
LEVERAGE	0.5268	0.0852	0.3894	0.0866	0.3874	0.0750
ID1	0.2526	0.1908	0.0723	0.0679	0.0701	0.0653
ID2	0.0632	0.0598	0.0723	0.0679	0.1238	0.1088
ID3	0.1263	0.1115	0.1446	0.1252	0.1121	0.0998
ID4	0.2526	0.1908	0.3614	0.2336	0.2827	0.2033
ID5	0.0632	0.0598	0.0000	0.0000	0.0421	0.0404
ID6	0.2421	0.1854	0.3494	0.2301	0.3692	0.2334
MD1	1.0000	0.0000	0.0000	0.0000	0.0000	0.0000
MD2	0.0000	0.0000	1.0000	0.0000	0.0000	0.0000
MD3	0.0000	0.0000	0.0000	0.0000	1.0000	0.0000

Notes: The table reports means and standard deviation for different variables the MM, PM and AM firms based on pooled data for the years 2002-2007 for the CSE. The table also reports comparisons of means between the different markets for all variables reported using two alternative approaches: equal variance and unequal variance of the years 2002-2007 (for brevity we only report means and variances using the equal variance sample). The markets are separated with respect to the level of corporate governance compliance according to the official CSE classification. We have 95 firm-year observations in the MM, 83 firm-year observations in the PM and 428 firm-year observations in the AM.

A significantly higher proportion of directors have CEO-duality (DUALITY) in the PM and AM firms as opposed to the MM firms. The MM shows to have the lowest proportion of directors with CEO-duality. This may be explained by the fact that under the CGC, non-CEO duality is required for firms in the MM unless specific reasons apply.

Table 3 shows that there are significant differences across markets between ownership factors such as family ownership (the ownership stake of the family) and insider ownership (the percentage ownership of the board of directors). A higher percentage of FF are observed in the AM followed by the PM and then the MM. This immediately suggests that there is a negative relationship between FF and CGC compliance.

In addition Appendix 10.6, p 254 provides medians for all variables for each market and median comparisons based on Wilcoxon/Mann-Witney tests. Median comparisons reveal similar results to that discussed for the means. Due to skewed distributions for many variables median comparisons may be more meaningful. The comparisons reveal that median value of ROA, Tobin Q, ROE, sales growth, board size, % non executives in boards, number of meetings, board and management skilled members of the board are higher for the MM. PM values for these variables have the second highest medians except for the cases of % of non-executives and manager skilled members of the board where the AM has higher medians. In the case of % non-executives the differences between PM and AM are however not statistically significant. We also note that the differences between ROA and sales growth between the MM and PM do not show to be statistically significant.

Table 4 below shows the mean and variance for FFs and NFFs on the MM & PM (two markets that have some form of CGC compliance). Further descriptive statistics that include the median, maximum and minimum values can be found in Appendices 10.1 and 10.2. FFs represent 70.8% of this sample, 126 family firm years from 21 different firms.

The mean of Tobin's Q value of NFFs on the MM & PM is 0.06 higher than that of FFs though the difference is not statistically significant. The higher Tobin Q value registered by NFFs may be linked with the level of CGC compliance. Despite having slightly lower valuations (as evidenced by Tobin's Q), FFs on the MM & PM on average have higher ROA that is significant at the 5% level. The better operating performance of FFs is consistent with the findings of Villalonga and Amit (2006).

Table 4 also shows that on the MM & PM, FFs on average are smaller than NFFs with respect to firm size, assets and debt and these differences are significant at the 1% level. FFs are also on average significantly younger than NFFs on the same markets (30 years versus 40 years). Though on the MM & PM, FF register on average slower sales growth than NFFs this difference is not significant.

Table 4: Descriptive statistics of sample: Type of Business on MM & PM

	Pooled sample estimates				
	Family firms		Non-family firms		
Variables	**Mean**	**Variance**	**Mean**	**Variance**	**Significance**
MD1	0.5200	0.5010	0.5600	0.5020	
MD2	0.4800	0.5010	0.4400	0.5020	
MD3	0.0000	0.0000	0.0000	0.0000	
ROE	0.0689	0.3890	-0.0959	0.5750	**
ROA	0.0418	0.0569	0.0151	0.0844	**
BOARD	8.3300	2.6290	10.6300	3.6140	***
LN_BOARD	2.0744	0.2975	2.3069	0.3463	***
EXE	2.9100	1.2200	2.7100	1.6610	
LN_EXEC	0.9665	0.4801	0.9395	0.5649	
NONEXE	5.4100	2.7200	7.9200	3.5910	***
LN_NONEXEC	1.5603	0.541	1.9449	0.5516	***
NONEXE_P	0.6238	0.1907	0.7284	0.1958	***
MEETINGS	7.2700	2.4080	11.7100	9.0080	***
LN_MEETINGS	1.9362	0.3030	2.2374	0.6298	***
BOARD_SKILL	7.1800	2.6420	10.3100	3.6220	***
LN_BOARD_SKILL	1.8885	0.4513	2.2749	0.3443	***
AUDIT	0.7700	0.4230	0.8100	0.3980	
DUAL	0.4700	0.5010	0.2500	0.4370	***
CGC_F	0.3300	0.4700	0.4600	0.5030	*
CGC_P	0.4700	0.5010	0.3500	0.4800	
CGC_N	0.2100	0.4060	0.1900	0.3980	
FAMILY	1.0000	0.0000	0.0000	0.0000	
INSIDER_P	0.5816	0.1479	0.1272	0.1748	***
BV_EQUITY	39.1090	60.3351	203.6360	407.9820	***
TOBIN_Q	0.9419	0.3709	1.0053	0.2437	
LN_SIZE	2.7160	1.2276	4.1223	1.8029	***
AGE	30.1600	18.9630	39.8800	31.7770	***
LN_AGE	3.2375	0.5919	3.3941	0.7732	
DEBT	194.7715	960.0708	2205.9500	4503.1380	***
LEV	0.4394	0.2524	0.5200	0.3900	
SALES_G	0.1586	0.7719	0.1801	0.5697	
ID1	0.0600	0.2450	0.4200	0.4990	***
ID2	0.0000	0.0000	0.2300	0.4250	***
ID3	0.1900	0.3940	0.0000	0.0000	***
ID4	0.3700	0.4860	0.1300	0.3450	***
ID5	0.0500	0.2140	0.0000	0.0000	
ID6	0.3300	0.4700	0.2100	0.4120	

Notes: The table reports means and standard deviation for different variables for family and non-family firms based on pooled data for the years 2002-2007 for the MM and PM combined using the equal variances assumption. We have 126 family firm-years observations and 52 non-family firm-year observations. Statistically significance: "*" : 10% level, "**": 5% level, "***": 1% level.

Table 4 and Appendix 10.1, pp. 241-243 also show significant differences between FFs and NFFs for variables related to board governance and ownership on the MM & PM. According to Appendix 10.1, pp. 242, the average family ownership is 54.5% of the equity in FFs compared to average insider ownership of 58.2% meaning that non-family insiders do not own a significant portion of the equity in FFs.

Further to this FFs have a significantly lower: board size; percentage of non-executive directors on the board of directors; frequency of meetings, board skills and non-CEO duality. This provides further evidence that may indicate that NFFs have more effective corporate governance mechanisms and that the market rewards them with a lower cost of capital and higher firm value. The regression models will aim to establish whether this is the case.

Concerning the industry dummies, there is significant evidence that NFFs are more prevalent in the financial sector where there is a strong requirement for corporate governance procedures whereas FFs are concentrated in the retail, real estate and support services sectors where the requirement for corporate governance is not as strong.

Table 5 together with Appendices 10.3, pp. 247-249 and Appendix 10.4, pp. 250-251 provide descriptive statistics for the AM (markets where CGC compliance is not required). The descriptive statistics are broken down by FFs and NFFs. FFs represent 78.7% of this sample, 337 family firm years from 58 firms. The aim of Table 5 is to investigate differences in corporate governance and performance between FFs and NFFs within a market that uses the lowest corporate governance standards.

Concerning the performance measures of Tobin's Q and ROA, the descriptive statistics of the AM are in line with those of the MM & PM. Namely the NFFs have a higher but insignificant difference concerning Tobin's Q value whereas FFs are significantly higher than NFFs concerning ROA performance.

However there are a number of differences concerning control variables when comparing the MM & PM with the AM. The results of the AM that are in contrast to the MM & PM are as follows: FFs have a significantly higher firm size; FFs have an insignificantly higher leverage and, FFs have insignificantly higher sales growth.

There are two differences concerning corporate governance board mechanisms when comparing the MM & PM with the AM. The results of the AM that are in contrast to the MM & PM are as follows: Firstly, FFs have significantly higher board sizes at the 1% level and secondly, significantly higher board skills are registered in FFs. This may be in line with the fact that FFs in this market are on average larger firms.

In line with the results on the MM & PM, NFFs on the AM have a significantly higher: percentage of non-executives on the board of directors, frequency of meetings and non-CEO duality. These differences are significant at the 1% level. In addition NFFs establish more audit committees than FFs in both types of markets though the difference is insignificant.

Concerning family and insider ownership the AM registers a similar pattern to the MM & PM in that average family ownership is around 55% of the equity whereas on average non-family insiders own less than 5% of the equity of FFs.

In line with Table 4, FFs in the AM are concentrated in the real estate and support services sector whereas a significant portion of NFFs are in the finance sector.

The main conclusions that can be drawn from the descriptive statistics analysed is that despite higher on average operating performances (ROA) of FFs, investors reward NFFs that show (through adoption of corporate governance mechanisms like non-executives, higher number of meetings etc) with higher market value presumably through a reduction in the cost of capital. The results from the regression models in the next section will provide a greater insight into the relationship between corporate governance and performance.

Table 5: Descriptive statistics of sample: Type of Business on AM

	Pooled sample estimates				
	Family firms		Non-family firms		
Variables	Mean	Variance	Mean	Variance	Significance
MD1	0.0000	0.0000	0.0000	0.0000	
MD2	0.0000	0.0000	0.0000	0.0000	
MD3	1.0000	0.0000	1.0000	0.0000	
ROE	-0.3575	3.7086	-0.2249	1.5284	**
ROA	-0.0053	0.1240	-0.0371	0.2146	**
BOARD	6.5700	2.2920	5.5500	1.7210	***
LN_BOARD	1.8271	0.3309	1.6655	0.3149	***
EXE	2.7000	1.6790	0.9100	0.8250	
LN_EXEC	0.8077	0.6429	0.1700	0.3250	
NONEXE	3.8500	2.0530	4.6400	1.7420	***
LN_NONEXEC	1.2267	0.5526	1.4573	0.4113	***
NONEXE_P	0.5840	0.2366	0.8300	0.1618	***
MEETINGS	5.2000	1.3020	6.2600	2.6150	***
LN_MEETINGS	1.6163	0.2576	1.7704	0.3426	***
BOARD_SKILL	5.3600	2.3490	5.0900	1.8110	***
LN_BOARD_SKILL	1.5740	0.4940	1.5612	0.3721	***
AUDIT	0.0900	0.2850	0.1800	0.3830	
DUAL	0.5300	0.5000	0.1100	0.3140	***
CGC_F	0.0300	0.1700	0.0500	0.2290	*
CGC_P	0.0700	0.2470	0.1200	0.3280	
CGC_N	0.9100	0.2940	0.8200	0.3830	
FAMILY	1.0000	0.0000	0.0000	0.0000	
INSIDER_P	0.5961	0.1332	0.0658	0.0876	***
BV_EQUITY	14.5875	21.0459	7.7007	13.1981	***
TOBIN_Q	0.9103	0.5406	1.1341	0.8998	
LN_SIZE	1.3908	1.2114	0.9857	1.3484	***
AGE	22.9700	13.3350	24.2200	23.0710	***
LN_AGE	2.9806	0.5561	2.8469	0.7855	
DEBT	7.8190	12.4095	4.9275	16.5088	***
LEV	0.4156	0.2713	0.2831	0.2588	
SALES_G	0.5715	5.4996	0.4719	2.5724	
ID1	0.0600	0.2310	0.1200	0.3280	***
ID2	0.0700	0.2620	0.3100	0.4640	***
ID3	0.1400	0.3500	0.0000	0.0000	***
ID4	0.3000	0.4590	0.2200	0.4160	***
ID5	0.0500	0.2130	0.0200	0.1470	

ID6	0.3800	0.4860	0.3300	0.4730

Notes: The table reports means and standard deviation for different variables for FFs and NFFs based on pooled data for the years 2002-2007 for the MM and PM combined. There are 337 family firm-year observations and 91 non-family firm-year observations. Statistically significance: "*" : 10% level, "**": 5% level, "***": 1% level.

5.3 Findings for Economic (Regression) Models

Model 1 examines the relationship between corporate governance ownership mechanisms and performance using panel regression with three variations: fixed time effects only; fixed time and industry effects and fixed time and firm effects. The results are presented in Tables 6 using the performance measure of Tobin's Q value and Table 7 using the ROA as a performance measure. The CSE sample used in Model 1 consists of 606 family firm years from 101 firms.

In Appendix 10.7, pp. 254-256, correlations for the corporate governance variables and performance measures used in Models 1 have been provided. It can be seen that correlation between the various variables is generally not strong. This enhances the robustness of the model. Positive correlation is strong between board size and board skills since most members on CSE firm boards are educated. In addition positive correlation is strong between the family dummy and insider ownership. This is explained by the fact that insider ownership is significantly greater in FFs rather than NFFs. Further to this an analysis of the regression results concerning Tobin Q and corporate governance mechanisms that is stated in Table 6 is given below:

The results show that there is a significant negative relationship at the 1% level between ROA and Tobin's Q value. This result is in contrast to the findings of Yermack (1996). As will be seen subsequently this result is driven by the negative performance of firms in the AM.

There are very little differences between the sign of the coefficients between the three variations in Model 1. All three variations of Model 1 show that there is a significant positive relationship at the 1% level between firm size and Tobin's Q value. On the other hand there is a significant negative relationship between leverage and firm value and between age and firm value. The results concerning leverage would appear to indicate that the introduction of debt by CSE firms is either at sub-optimal levels or does not lead to decreases in cost of capital and thus has a negative effect on firm value.

The coefficients on the board size is significantly negative and provide evidence to support that smaller boards are more efficient and affect the firm value of CSE firms. The results also confirm the empirical results of Yermack (1996) that also documents a negative association between board size and Tobin's Q for US firms. Other studies including Vafeas (1999), Eisenberg at al. (1998) Karamanou and Vafeas (2005) and Abor and Biekpe (2007), Mishra et al (2001) and Coles et al. (2008) report a similar negative relationship between board size and firm performance. This result supports the view of Lipton and Lorsch (1992) and Jensen (1993) that smaller boards are more effective in planning and implementing their activities.

The fixed firm effects model provides significant evidence at the 5% level that there is a positive relationship between the percentage of non-executive directors on the board of directors and market performance on the CSE. This provides further evidence that investors view positively the introduction of corporate governance mechanisms by CSE firms and reward them with possible reductions in costs of capital that lead to higher firm values.

Further to this there is significant evidence at the 5% level that the frequency of meetings has a positive effect on market performance on the CSE. This shows that the market evaluates the higher frequency of meetings as a signal that corporate governance has improved in the firm and rewards these firms with possible reductions in their cost of capital that improves their firm value. Alternatively the positive relationship between the frequency of meetings and market performance may capture the fact that these firms have higher growth prospects that are reflected in the higher frequency of meetings necessary to plan and implement these prospects. Board skills show to have an insignificant effect on firm value. This result may be driven by the inability of the measure used to capture true management skills.

There is significant evidence at the 5% level of a positive relationship between CEO duality and market performance on the CSE that is in line with the stewardship theory. It also in line with the findings of Chen et al. (2005) that detects a significant positive relationship between CEO duality and market value. The results would appear to suggest that investors perceive CEO duality is not harmful for investor protection.

Table 6:Regression results: Tobin Q performance versus Corporate Governance Mechanisms: CSE Market (Model 1)

<u>Dependent Variable: Tobin Q</u>

Variable	**TIME EFFECTS**		**TIME EFFECTS WITH INDUSTRY**		**FIRM EFFECTS**	
	Coefficient	**t-Statistic**	**Coefficient**	**t-Statistic**	**Coefficient**	**t-Statistic**
CONSTANT	1.425	6.645 ***	1.335	5.922 ***	2.559	4.617 ***
MD1	0.071	0.739	0.062	0.635	-0.757	-2.227 **
MD2	-0.090	-1.030	-0.094	-1.076	-0.642	-1.967 **
ID 1	N/A	N/A	-0.050	-0.568	N/A	N/A
ID 2	N/A	N/A	0.088	1.044	N/A	N/A
ID 3	N/A	N/A	-0.007	-0.089	N/A	N/A
ID 4	N/A	N/A	-0.010	-0.177	N/A	N/A
ID 5	N/A	N/A	0.106	0.895	N/A	N/A
LN SIZE	0.064	3.006 ***	0.065	2.969 ***	0.253	7.610 ***
LN AGE	-0.054	-1.381	-0.040	-0.955	-0.251	-3.177 ***
LEVERAGE	-0.367	-4.382 ***	-0.367	-4.230 ***	-0.258	-1.914 *
SALES_G	0.000	-0.082	-0.000	-0.018	-0.001	-0.282
LN BOARD	-0.381	-3.208 ***	-0.337	-2.611 ***	-0.328	-1.627
% NON-EXE	0.143	1.352	0.115	1.060	0.545	2.411 **
LN MEETINGS	0.168	2.306 **	0.173	2.293 **	-0.101	-1.163
LN BOARD SKILL	0.014	0.178	-0.004	-0.040	-0.017	-0.107
DUALITY	0.103	2.161 **	0.104	2.142 **	.018	0.227
AUDIT-COM	0.077	1.016	0.079	1.029	-0.161	-2.234 **
FAMILY	-0.145	-1.505	-0.139	-1.425	-0.280	-2.200 **

INSIDER%	0.163	0.939	0.152	0.864	0.379	1.562
ROA	-0.915	-5.085 ***	-0.866	-4.704 ***	-0.262	-1.606
MD1*CGC_P	-0.198	-1.586	-0.205	-1.625	-0.061	-0.372
MD2*CGC_N	0.050	0.369	0.069	0.498	-0.011	-0.098
MD3*CGC_F	-0.188	-1.205	-0.172	-1.089	0.215	1.229
R-squared	0.197		0.200		0.646	
F Statistic	6.194		5.156		7.154	
Probability (F-statistic)	0.000		0.000		0.000	
Durbin-Watson stat.			0.770			

The method used was panel regression. The first results are: fixed time effects without industry, the second fixed time effects with industry and finally, time and firm effects. The sample consists of 101 panels (firms) and 606 firm observations.

The time period of the sample was the years 2002-2007.

Asterisks denote statistical significance at the 1% level (***), 5% level (**) or 10% level (*)

Further on in the chapter the relationship between CEO duality and performance is examined to see if there are any differences in the result based on the type of market and the type of firm. (FFs versus NFFs). The existence of audit committees has an insignificant effect on firm value for the two models, and a negative effect for the firm fixed effect model. This result is surprising, and given the inconsistency in the sign compared to other models, it may not be considered robust. In subsequent analysis focusing by market, the industry model is used which is more standard in the literature and we establish a positive relationship between the audit committees and firm performance for firms operating in the AM.

All models show a negative relationship between family ownership and performance (the fixed firm effects model provides significant evidence at the 5% level). This means that minority shareholders are worse off than they would have been under NFFs. Model 3 that will be analysed later will aim to establish if family firms that implement corporate governance mechanisms will have performance benefits. In contrast to this, the relationship between insider ownership and performance is positive however the relationship is not statistically significant (subsequently this shows to be significant for the AM). The result of family ownership is in contrast to Villalonga and Amit (2006), while the result with respect to insider ownership is in line with their results. It is not evident why investors seem to punish ownership arising from families versus ownership that relates to insiders.

There is no strong relationship between the level of corporate governance adoption and market performance. The interaction variables sought to investigate whether the market punishes firms with a lower market valuation in the MM or AM that exhibit lower quality of governance. However the results in Table 6 did not establish this. Furthermore, firms in the AM that fully comply do not seem to be rewarded by higher market valuations by market.

The Durbin Watson statistics has been used to detect the presence of autocorrelation in the residuals from the regression. This statistic has only been reported for the fixed time and industry effects that is to be used in further tests in Models 2 3, and 4. According to NLREG.com (2010) a value less than 0.8 usually indicates that autocorrelation is likely. The result given for the time and industry effects model using Tobin’s Q value is close to this limit.

Table 7 examines the relationship between corporate governance ownership mechanisms and ROA performance using panel regression with three variations: fixed time effects only; fixed time and industry effects and fixed time and firm effects. The CSE sample consists of 606 firm observations and 101 firms. The results for Table 7 are analysed below:

In line with the Tobin's Q measure there is a significant positive relationship between size and performance when ROA is used as an independent variable. This finding is consistent with the findings of Yermack (1996), Martinez et al (2007) and Ehiyioka (2009) who provide evidence that larger firm outperform smaller firms based on current performance.

Abor and Biekpe (2007) and Ehiyioka (2009) provide evidence concerning the positive relationship between age and ROA performance. They found that older firms perform better than younger firms based on current performance. In contrast the relationship between age and market performance is negative and significant at the 1% level. This is may be explained by the fact that older firms are more mature and profitable, however, they may exhibit lower growth prospects.

There is a significant negative relationship between leverage and ROA that is line with market performance. It was found that higher gearing on the CSE leads to poorer performance. This is in line with the findings of Villalonga and Amit (2006), Martinez et al (2007) and Abor and Biekpe (2007). Sales growth did not show to have a significant impact on operating performance.

The results give evidence of a significant positive relationship between board size and performance as measured by ROA. The result regarding the relationship between board size and current performance (that is ROA) also supports the view, at least for the CSE that firms with larger boards may provide for more efficient monitoring of the current activities of the firm. This result is in contrast to the result reported by Yermack (1996) regarding the relationship of board size with operating performance as measured by ROA.

In contrast to the relationship with firm value, there is a negative significant relationship between the frequency of board meetings with ROA. The results seem to be in line with Vafeas (1999) who reports a negative association between board meetings and ROA of recent years. He attributes increasing board activity as a reaction to these negative shocks in performance. The negative coefficient with respect to ROA in the research may be confirmatory of the same effects taking place in the firms listed in the CSE. The results also indicate that the market sees higher meeting frequency as a mechanism that can increase future performance (thus the observed positive association with Tobin's Q) that can be used to make the firm more effective.

Table 7: Regression results: ROA performance versus Corporate Governance Mechanisms: CSE Market (Model 1)

Dependent Variable: ROA

Variable	TIME EFFECTS		TIME EFFECTS WITH INDUSTRY		FIRM EFFECTS	
	Coefficient	t-Statistic	Coefficient	t-Statistic	Coefficient	t-Statistic
CONSTANT	-0.036	0.744	0.027	0.528	-0.124	-0.805
MD1	0.049	2.237 **	0.047	2.168 **	0.021	0.223
MD2	0.040	1.985 **	0.037	1.875 *	0.017	0.192
ID 1	N/A	N/A	0.005	0.245	N/A	N/A
ID 2	N/A	N/A	-0.062	-3.296 ***	N/A	N/A
ID 3	N/A	N/A	0.011	0.574	N/A	N/A
ID 4	N/A	N/A	0.028	2.117 **	N/A	N/A
ID 5	N/A	N/A	-0.056	-2.103 **	N/A	N/A
LN SIZE	0.022	4.640 ***	0.023	4.736 ***	0.010	1.075
LN AGE	0.018	1.944 *	0.005	0.475	0.015	0.702
LEVERAGE	-0063	-3.291 ***	-0.054	-2.788 ***	-0.087	-2.328 **
SALES_G	-0.000	-0.038	0.000	-0.363	0.001	0.425
LN BOARD	0.086	3.172 ***	0.055	1.909 *	0.016	0.278
% NON-EXE	-0.024	-0.970	0.001	0.049	-0.042	-0.670
LN MEETINGS	-0.054	-3.254 ***	-0.050	-2.938 ***	0.009	0.357
LN BOARD SKILL	-0.063	-3.446 ***	-0.049	-2.398 **	0.001	0.016
DUALITY	0.019	1.757 *	0.019	1.756 *	0.052	2.409 **
AUDIT-COM	-0.026	-1.472	-0.023	-1.306	-0.005	-0.230
FAMILY	-0.028	-1.271	-0.033	-1.505	0.012	0.336
INSIDER%	0.066	1.672	0.059	1.490	0.052	0.764

		*				
MD1*CGC_P	-0.011	-0.378	-0.012	-0.416	-0.042	-0.908
MD2*CGC_N	0.005	0.157	-0.009	-0.276	0.004	0.140
MD3*CGC_F	0.086	2.399	0.067	1.889	-0.005	-0.108
		**		*		
R-squared	0.205		0.237		0.487	
F Statistic	6.835		6.641		3.757	
Probability (F-statistic)	0.000		0.000		0.000	
Durbin Watson stats			1.160			

The method used was panel regression. The first results are: fixed time effects without industry, the second fixed time effects with industry and finally, time and firm effects. The sample consists of 101 panels (firms) and 606 firm observations.

The time period of the sample was the years 2002-2007.

Asterisks denote statistical significance at the 1% level (***), 5% level (**) or 10% level (*)

The board skills variable shows to have a surprisingly negative effect on performance. This may indicate that while education may in theory improve performance, it does not capture the richness of capabilities necessary for effective management.

The evidence found in our sample seems to support the view that CEO duality may help in improving both current performance with the owner-manager providing a more active monitoring of the activities.

There is also significant evidence at the 10% level of a positive relationship between insider ownership and performance. This together with the results of CEO duality indicates that there seems to be a better alignment of the goals of shareholders and managers. In contrast, there is a negative relationship between family ownership and performance though the evidence is insignificant.

There is significant evidence at the 10% level that CSE firms listed on the AM that will comply with CGC will on average have a positive effect on ROA. Earlier, it was shown that stricter compliance in the AM had a negative effect on firm value Tobin Q) so, as previously mentioned, these firms should do more to promote stricter compliance benefits to investors.

The Durbin Watson statistics has been used to detect the presence of autocorrelation in the residuals from the regression. This statistic has only been reported for the fixed time and industry effects that is to be used in further tests in Models 2 and 3. According to NLREG.com (2010) a value less than 0.8 usually indicates that autocorrelation is likely. The result given for the time and industry effects model using ROA (1.16) is well in excess of this limit meaning autocorrelation is less likely.

Model 2 aims to examine the relationship between corporate governance and performance for different markets. Two market groups are focused on: firms that are required to either fully or partly comply with the CGC (that is the MM & PM) and those in which firms are not required to comply with the CGC (that is the AM). The analysis is based on the panel data regression approach with fixed time and industry effects. This model has been chosen over the other two variants (that is fixed time effects and fixed firm effects) used in Tables 6-7 since it is the more standard model used in the literature (and is more parsimonious compared to the firm fixed effect model). Table 8 reports the results with Tobin's Q value used as the dependent variable measuring performance. The

CSE sample consists of 606 firm observations, the MM & PM sample consists of 178 firm observations and the AM consists of 428 firm observations.

The results of the control variables are similar to the results in Model 1 (See Table 6) and are the same amongst the type of markets. Table 8 shows that there is significant evidence of a positive relationship between firm size and Tobin's Q value though a negative relationship between leverage and Tobin's Q value. The results concerning leverage provide further evidence that the introduction of debt by CSE firms does not lead to decreases in cost of capital and increases in firm value. In may indicate that investors on the CSE are keener to invest in firms with low financial risk than otherwise.

Concerning the industry dummies there is a significant positive relationship between the Tobin's Q value with Industrial & Real Estate Development and Technology sectors for firms listed on the MM & PM.

The results for the AM show that there is a significant negative relationship at the 1% level between ROA and Tobin's Q value that also reported for the overall stock market but not the MM & PM. This indicates that the result for the overall market is mainly driven by the low operating performance of the firms in the AM market.

Table 8: Regression results: Tobin Q performance versus Corporate Governance mechanisms: Type of Market (Model 2)

Dependent Variable: Tobin Q

	ALL OF CSE		**MM & PM**		**AM**	
Variable	**Coefficient**	**t-Statistic**	**Coefficient**	**t-Statistic**	**Coefficient**	**t-Statistic**
CONSTANT	1.335	5.922 ***	1.178	3.789 ***	1.391	4.586 ***
MD1	0.062	0.635	N/A	N/A	N/A	N/A
MD2	-0.094	-1.076	-0.135	-1.305	N/A	N/A
ID 1	-0.050	-0.568	-0026	-0.235	-0.092	-0.722
ID 2	0.088	1.044	-0021	-0.163	0.071	0.678
ID 3	-0.007	-0.089	-0062	-0.716	-0.042	-0.361
ID 4	-0.010	-0.177	0.204	3.403 ***	-0.122	-1.575
ID 5	0.106	0.895	0.230	1.774 *	0.096	0.627
LN SIZE	0.065	2.969 ***	0.131	3.071 ***	0.048	1.697 *
LN AGE	-0.040	-0.955	-0.169	-2.597 ***	-0.038	-0.644
LEVERAGE	-0.367	-4.230 ***	-0.114	-1.105	-0.429	-3.607 ***
SALES_G	-0.000	-0.018	0.022	0.693	-0.001	-0.240
LN BOARD	-0.337	-2.611 ***	0.293	1.409	-0.527	-3.291 ***
% NON-EXE	0.115	1.060	0.257	1.844 **	-0.015	-0.109
LN MEETINGS	0.173	2.293 **	-0.062	-0.922	0.279	2.507 **
LN BOARD SKILL	-0.004	-0.040	-0.378	-2.591 ***	0.116	1.024
DUALITY	0.104	2.142 **	0.132	1.695 *	0.150	2.378 **
AUDIT-COM	0.079	1.029	-0.006	-0.052	0.224	1.937 *
FAMILY	-0.139	-1.425	-0.015	-0.166	-0.309	-2.141 **

INSIDER%	0.152	0.864	-0.102	-0.548	0.475	1.908 *
ROA	-0.866	-4.704 ***	0.000	0.001	-0.801	-3.708 ***
MD1*CGC_P	-0.205	-1.625	0.036	0.351	N/A	N/A
MD2*CGC_N	0.069	0.498	0.226	1.969 *	N/A	N/A
MD3*CGC_F	-0.172	-1.089	N/A	N/A	-0.267	-1.375
R-squared	0.200		0.443		0.230	
F Statistic	5.156		4.624		5.020	
Probability (F-statistic)	0.000		0.000		0.000	

The method used was panel regression with time an industry effects
The CSE sample consists of 606 firm observations. The MM & PM sample consists of 178 firm observations. The AM consists Of 428 firm observations.

The time period of the sample was the years 2002-2007.

Asterisks denote statistical significance at the 1% level (***), 5% level (**) or 10% level (*)

The results of corporate governance board mechanisms show a number of differences between the MM & PM compared to the AM. Larger board sizes are negatively correlated with firm value for AM firms. In contrast to this, a positive (albeit insignificant relationship) exists for firms on the MM & PM. A further difference between the markets is the significant positive relationship for firms in the MM & PM between the percentage of non-executives on the board of directors and market performance. The results are in line with those of Baysinger and Butler (1985) and Yoo (2005). It seems that investors on the MM & PM see board composition as a mechanism that can enhance investor protection.

Surprisingly, investors view the increase in skilled board members affecting value negatively. The number of meetings shows to be positively related with performance only in the AM while there is an insignificant relationship for the MM & PM. This result indicates that some activities of the board may be considered more important in the absence of corporate governance mechanisms. It indicates that in the absence of requirements to establish a minimum number of meetings, firms that report a high frequency signal a good level of governance. Board skills shows to have a negative effect on performance for firms operating in the MM & PM. This is a surprising result that cannot be explained but possibly the inefficiency (due to lack of information) of the measure used to capture management skills.

Further evidence is also provided by the positive relationship between CEO duality (that goes against the CGC) and market performance for all markets. Concerning CEO duality there is further significant evidence for the stewardship theory since both in MM & PM and AM report a positive relationship between CEO duality and Tobin's Q value.

In addition further evidence is also provided by the significant positive relationship between insider ownership and market performance on the AM. This supports the view that investors, especially for firms operating in the AM, view managers as good stewards of the firm's resources and that if left alone they will act responsibly and will effectively manage the assets they control. In line with the results of Model 1, there is a difference in behaviour concerning the relationship between family ownership and market performance which shows to driven mainly by the strong negative relationship for firms in the AM (while for firms in the MM & PM is negative but statistically insignificant)

There is evidence that investors do reward AM firms if they implement corporate governance mechanisms. One such case is the significant positive relationship between the establishment of audit committees and market performance that is viewed positively by investors. The implementation of audit committees in a market with low corporate governance levels may signal improvement in governance that can cause a reduction in cost of capital and an increase in firm value. This result is in contrast to the insignificant relationship shown for MM & PM where the establishment of such committees is standard.

There is no significant evidence to support a positive relationship between performance and CGC compliance. In fact, there is significant evidence at the 10% level to suggest that CSE firms listed on the PM that do not comply with CGC will on average have a positive effect on firm value. This goes against the evidence that shows that corporate governance mechanisms will have a positive effect on firm value.

Table 9 aims to examine the relationship between corporate governance and ROA performance across different markets similarly to Table 8. Like the previous table, the analysis is based on the panel data regression approach with fixed time and industry effects. The CSE sample consists of 606 firm observations, the MM & PM sample consists of 178 firm observations and the AM consists of 428 firm observations.

Table 9: Regression results: ROA Performance versus Corporate Governance mechanisms: Type of Market (Model 2)

Dependent Variable: ROA

	ALL OF CSE		**MM & PM**		**AM**	
Variable	**Coefficient**	**t-Statistic**	**Coefficient**	**t-Statistic**	**Coefficient**	**t-Statistic**
CONSTANT	0.027	0.528	-0.060	-0.867	-0.060	-0.867
MD1	0.047	2.168 **	N/A	N/A	N/A	N/A
MD2	0.037	1.875 *	-0.054	-2.899 ***	N/A	N/A
ID 1	0.005	0.245	0.025	1.231	0.033	1.133
ID 2	-0.062	-3.296 ***	0.028	1.184	-0.073	-3.083 ***
ID 3	0.011	0.574	0.026	1.616	0.013	0.495
ID 4	0.028	2.117 **	0.017	1.552	0.033	1.882 *
ID 5	-0.056	-2.103 **	0.025	1.028	-0.086	-2.466 **
LN SIZE	0.023	4.736 ***	-0.010	-1.233	0.031	5.015 ***
LN AGE	0.005	0.475	0.025	2.077 **	0.004	0.270
LEVERAGE	-0.054	-2.788 ***	-0.098	-5.617 ***	-0.026	-0.966
SALES_G	0.000	-0.363	0.015	2.641 ***	0.000	-0.418
LN BOARD	0.055	1.909 *	0.095	2.496 **	0.068	1.838 *
% NON-EXE	0.001	0.049	-0.023	-0.894	0.034	1.064
LN MEETINGS	-0.050	-2.938 ***	0.003	0.250	-0.066	-2.581 ***
LN BOARD SKILL	-0.049	-2.398 **	-0.081	-3.061 ***	-0.055	-2.124 **
DUALITY	0.019	1.756 *	0.036	2.530 **	0.012	0.820
AUDIT-COM	-0.023	-1.306	0.038	1.965 *	-0.027	-1.015

FAMILY	-0.033	-1.505	0.003	0.159	-0.031	--0.924
INSIDER%	0.059	1.490	-0.003	-0.092	0.033	0.585
ROA	N/A	N/A	N/A	N/A	N/A	N/A
MD1*CGC_P	-0.012	-0.416	0.011	0.561	N/A	N/A
MD2*CGC_N	-0.009	-0.276	0.029	1.350	N/A	N/A
MD3*CGC_F	0.067	1.889 *	N/A	N/A	0.053	1.178
R-squared	0.205		0.502		0.238	
F Statistic	6.835		6.117		5.492	
Probability (F-statistic)	0.000		0.000		0.000	

The method used was panel regression with time an industry effects
The CSE sample consists of 606 firm observations. The MM & PM sample consists of 178 firm observations. The AM consists Of 428 firm observations.

The time period of the sample was the years 2002-2007.

Asterisks denote statistical significance at the 1% level (***), 5% level (**) or 10% level (*)

In general the coefficients between the MM & PM with the AM are in the same direction. Consistently with the results in Table 7, a negative relationship is recorded between leverage and ROA performance. However a number of differences have been recorded. Concerning the control variables the main difference concerns the relationship between size and ROA performance whereby in contrast to the MM & PM, there is a significant positive relationship between firm size and ROA performance (which is the driver of the observed positive relationship for the overall market). On the other hand age and sales growth has an established positive relationship only in the MM & PM (while this was not observed when one looks at the overall market).

A number of corporate board related factors have similar relationship with ROA performance across markets. Board size and CEO duality shows a consistently positive effect on ROA for both markets. Similarly, board skills show consistently negative relationship with ROA across markets.

The main differences recorded concerning board mechanisms relates first to the frequency of meetings where the established negative relationship shows to be driven by the low operating performance of firms in the AM (See Table 3). A second difference appears in the impact of audit committees on ROA where is shown that a positive statistically significant effect exists for only in firms in the MM & PM. The percentage of non-executives on the board appears not statistically significant in both markets although a positive insignificant effect exists for firms in the AM.

Concerning whether there is a relationship between the type of market and CGC compliance there is significant evidence at the 10% level that CSE firms listed on the AM that will comply with CGC will on average have a positive effect on accounting profit. This result may however be endogenously driven, i.e., firm that have higher profitability are the ones more likely to move on to the establishment of (costly) corporate governance mechanisms. As previously mentioned these firms should also do more to promote the benefits of stricter corporate governance adoption to investors.

When comparing the results between market performance (Tobin's Q value) and operating performance (ROA) that are provided in Tables 6-9 it was generally found that the signs of the coefficients for the independent variables were the same. However two main differences were observed between Tobin's Q value and ROA results. The first difference concerns the relationship between board size and performance. The results give evidence of a positive relationship between board size and operating performance and a negative relationship with market performance. The results support the view that smaller boards are more effective in planning and implementing their activities. However, the result regarding the relationship between board size and operating performance shows the opposite effect reflecting the view that larger boards may provide for more efficient monitoring of the current activities of the firm.

The second difference between the results concern the frequency of meetings where logarithm of number of board meetings variable shows to have a strong negative association with operating performance and a strong positive association with market performance. This difference may be explained by the fact that an increase in the frequency of meetings may be carried out to negative shocks in performance and this would have a positive effect on the subsequent profitability of the firm. This seems to be reflected in the positive coefficient of the frequency of meetings variable with Tobin's Q value.

Model 3 aims to examine how family ownership interact with other variables in their effect on firm performance for firms in the CSE. The performance measures used in Model 3 are Tobin's Q value and ROA. The model tests the interaction effects of corporate governance variables in model 1 with family firm dummies. The sample consists of 606 firm observations for 101 firms. The results of Model 3 are shown in Table 10 and are analysed below:

The results regarding the other variables are similar with previous results, so the focus is on the results concerning the interaction between family and other corporate governance variables. There is a negative effect of the family variable with the Tobin's Q value established at a 10% of significance. Most of the interaction variables turn out to be insignificant, however, the results show that FFs that operate in the MM have higher Tobin's Q values. This may be an indication that FFs that operate in the MM signal higher investor protection and thus achieve reductions in their cost of capital that leads to an increase in firm value. Interestingly, the presence of non-executive directors in the boards of FFs shows to also enhance firm values.

This result is in line with what would be expected from an increase in investor protection provided by the presence of non-executive directors.

Though FFs have a higher proportion of CEO duality than NFFs (See descriptive statistics in Tables 4 and 5) there is weak evidence that show that FFs with CEO duality will have a negative impact of firm value. If this is contrasted to the results in Table 8 that show a significant positive relationship between CEO duality and Tobin's Q value (for the CSE, MM & PM and AM) then it may be inferred that NFFs with CEO duality will have a positive impact on firm value.

Table 10: Regression results: Family interaction results (Model 3)

	Dependent variables			
	Tobin's Q value		ROA	
Variables	**Coefficient**	**t-Statistic**	**Coefficient**	**t-Statistic**
CONSTANT	1.859	3.973 ***	0.404	3.901 ***
MD1	-0.651	-2.862 ***	-0.063	-1.234
MD2	-0.404	-2.113 **	-0.032	-0.754
ID1	-0.064	-0.653	0.014	0.630
ID2	-0.141	-1.523	-0.055	-2.692 ***
ID3	-0.013	-0.149	-0.002	-0.106
ID4	0.014	0.236	0.022	1.626
ID5	-0.104	-0.860	-0.063	-2.331 **
LN_SIZE	0.111	2.250 **	0.060	5.554 ***
LN_AGE	-0.106	-1.206	-0.016	-0.817
LEV	-0.384	-2.167 **	0.030	0.761
SALES_G	0.001	0.104	-0.000	0.020
LN_BOARD	-0.314	-1.020	-0.152	-2.202 **
NONEXE_P	-0.723	-1.963 *	-0.123	-1.499
LN_MEETINGS	0.313	2.205 **	-0.120	-3.829 ***
LN_BOARD_SKILL	0.010	0.038	0.072	1.270
DUAL	0.214	1.143	-0.063	-1.494
AUDIT	0.311	2.187 **	0.007	0.220
FAMILY	-0.888	-1.785 *	-0.441	-4.006 ***
INSIDER_P	-0.139	0.276	0.070	0.621
ROA	-0.910	-4.856 ***	N/A	N/A

MD1*CGC_P	-0.127	-0.882	0.032	1.001
MD2*CGC_N	0.424	2.574 **	-0.003	-0.072
MD3*CGC_F	-0.261	-1.612	0.086	2.368 **
FF*MD1	0.797	3.177 ***	0.115	2.056 **
FF*MD2	0.150	0.734	0.085	1.857 *
FF*LN_SIZE	-0.055	-1.013	-0.045	-3.741 ***
FF*LN_AGE	0.110	1.089	0.026	1.151
FF*LEV	0.032	1.156	-0.110	-2.381 **
FF*LN_BOARD	0.028	0.082	0.258	3.443 ***
FF*NONEXE_P	0.965	2.514 **	0.132	1.541
FF*LN_MEETINGS	-0.034	-1.262	0.011	1.948 *
FF*LN_BOARD_SKILL	-0.076	-0.278	-0.143	-2.348 **
FF*AUDIT	-0.165	-1.097	-0.036	1.066
FF*DUAL	-0.136	-0.699	0.084	1.922 *
FF*INSIDER_P	0.292	0.527	0.011	0.093
R-squared	0.232		0.278	
F Statistic	4.275		5.585	
Probability (F-statistic)	0.000		0.000	
Durbin-Watson stat.	0.811		1.264	

The method used was panel regression using fixed time and industry effects. The sample consists of 101 panels (firms) and 606 firm observations. The time period of the sample was the years 2002-2007. Asterisks denote statistical significance at the 1% level (***), 5% level (**) or 10% level (*)

There is weak evidence of a positive relationship between leverage and firm value for FFs. If this is contrasted to the results in Table 8 that show a significant negative relationship between leverage and Tobin's Q value (for both the CSE and MM & PM) then it may be inferred that there may be a negative relationship between leverage and firm value in NFFs. However this is based on inconclusive evidence.

A number of interaction variables show to be important for the model where ROA is the independent variable. First, similarly to the effect on Tobin's Q value, FFs operating in the MM show to have positive impact on operating performance. Larger firm size and leverage show to have a negative impact on ROA for FFs. Larger boards, a higher frequency of meetings and CEO duality enhances the operating performance of FFs. In contrast to intuition, board skills correlate negatively with the FFs operating performance that is the same as the results reported in Table 9.

Concerning the frequency of meetings, if this is contrasted to the results in Table 9 that show a significant negative relationship between the frequency of meetings and Tobin's Q value (for both the CSE and AM) then it may be inferred that there is a positive relationship between the frequency of meetings and operating performance of NFFs.

The Durbin Watson statistic has been used to detect the presence of autocorrelation in the residuals from the regression. According to NLREG.com (2010) a value less than 0.8 usually indicates that autocorrelation is likely. Concerning Model 3, there is less likelihood of autocorrelation in the ROA model that has a higher Durbin Watson statistic (value of 1.264) than the Tobin's Q value model (value of 0.811).

Model 4 is a changes model and aims to establish the relationship between the changes in the performance measure with a change in the corporate governance variable. Dummy variables have been omitted from this model due to the fact that in the majority (if not all cases) they are fixed. Hence the actual variables used are non-dummy variables. The performance measures used in the model are the same as for the previously three models: namely Tobin's Q value and ROA. The independent variables used in this model that involve percentage changes include: board size, board composition, frequency of meetings, board skills and insider ownership. The model also uses the control variables of size of the firm, age of the firm, leverage and sales growth. Changes in the ROA are only used for the Tobin's Q model. The data used was for the years 2003-2007 and 505 firm observations were used. The results are presented in Table 11 below and are analysed as follows:

There is significant evidence of a positive relationship between the changes in the board size and changes in firm value. This is in contrast to the results in Tables 5-9 that show that board size has a negative impact on firm value. However the change in board size could be linked to the appointment of more non-executive directors. It should be noted from the evidence in previous models that shows there is a positive relationship between the percentage of non-executives and market performance.

Table 11: Regression results: Changes in variables model (Model 4)

	Dependent variables			
	% Change in Tobin's Q value		% Change in ROA	
Variables	**Coefficient**	**t-Statistic**	**Coefficient**	**t-Statistic**
CONSTANT	0.217	2.136 ***	-2.861	-1.196
ROA % CHANGE	0.001	0.439	N/A	N/A
BOARD % CHANGE	0.614	2.651 ***	-0.349	-0.064
%NON-EXE % CHANGE	0.038	0.288	0.555	0.177
MEETINGS % CHANGE	0.102	1.518	0.533	0.336
BOARD SKILL % CHANGE	-0.218	-1.124	0.313	0.068
% INSIDERS % CHANGE	-0.005	-0.845	-0.001	-0.010
LN SIZE	0.009	0.689	0.180	0.583
LN AGE	-0.038	-1.115	0.957	1.193
LEVERAGE	-0.190	-2.886 ***	-1.952	-1.259
ID 1	0.093	1.354	4.428	2.744 ***
ID 2	0.039	0.590	0.078	0.050
ID 3	0.092	1.481	1.759	1.197
ID 4	0.108	2.308 **	0.192	0.175
ID 5	0.114	1.159	-0.289	-0.125
MD 1	-0.057	-1.074	-0.806	-0.643
MD 2	-0.126	-2.288 **	-0.090	-0.069
R-squared	0.049		0.010	
F Statistic	2.563		0.558	
Probability (F-statistic)	0.005		0.831	
Durbin-Watson stat.	2.142		2.428	

The method used was panel regression using fixed time and industry effects. The sample consists of 101 panels (firms) and 505 firm observations. The time period of the sample was the years 2003-2007. Asterisks denote statistical significance at the 1% level (***), 5% level (**) or 10% level (*)

Table 10 also shows weak evidence of a positive relationship between changes in non-executive directors and market performance. This provides further evidence that investors view positively the introduction of corporate governance mechanisms by CSE firms (via the appointment of non-executive directors) and reward them with possible reductions in costs of capital that lead to higher firm values.

Table 11 also shows that the changes model concerning changes in the ROA with a change in the corporate governance variables is weak with no significant findings. For this reason the results have not been analysed.

A positive feature of Model 4 is given by the Durbin Watson statistic. Concerning Model 4, there is no likelihood of autocorrelation in either the Tobin's Q model or the ROA model since the statistics are both well in excess of the limit for the likelihood of autocorrelation.

5.4 Findings for management interviews

Twenty-five managers in CSE firms would be interviewed concerning corporate governance issues. The sample was to be distributed from managers who worked in firms that were in the MM, PM and the other markets such as the AM. Of the total sample 18 managers were from FFs and 7 from NFFs. The overall split between family and non-family firms that is covered by question 5 of the interview (72% to 28%) was similar to the corresponding split from the sample of the empirical data (77% to 23%) as shown previously in Table 2. However the fact that a number of participants did not respond (primarily from those that did not comply with the CGC) meant that the sample of non-CGC compliance firms (that is firms in the AM) was lower in percentage terms when compared to the empirical sample. Details of the interview questions are given in Appendix 5, pp. 252-253. Table 12 provides descriptive statistics concerning the CSE interview sample separated between FFs and NFFs. Table 12 includes data for means, medians and provides details where the means between FFs and NFFs are statistically significant. Though the median data was provided for information purposes, it was decided they would not be used in the analysis for the reason that it could be misleading in that most questions analysed had no more than three possible answers. Hence the mean data was used in the analysis of the results in Table 12. The results from Table 12 are analysed below:

In line with the empirical data, the interview data shows that most FFs and NFFs do not comply with the CGC and that the firms that either comply or partially comply are similar in number. There are no significant differences between FFs and NFFs concerning compliance and partial compliance.

For those companies that partially comply with the CGC, Question 3 asked on which points they did not comply. Half of these firms stated that they did not comply due to CEO duality and 25% of these firms did not establish a remuneration committee. Other factors mentioned as reasons for non-compliance with the CGC include: annual meetings not exceeding the minimum number and non-executive directors on the board not exceeding the minimum requirement.

Question 4 asked the participants to classify their firms according to the market and industry. Table 12 shows that half of the FFs in the sample are listed in the AM (MD3) whereas NFF are equally split between MM (MD1) and AM (MD3).

I also followed an approach of including some of the larger size NFFs in the sample (these were included in both the MM and PM) to make the interview results more useful to users of the research.

Concerning the sample market classification, FFs are concentrated in the retail (ID 3), industrial (ID 4) and support services sector (ID6). This is also reflected in the population of CSE firms where a significant proportion of firms in these sectors are FFs. In contrast to this the participants of NFFs firms were more evident in the banking & insurance (ID 1) and finance sectors (ID 2). This is in line with the CSE population since these two sectors have a more stringent regulatory system that has reduced the presence of FFs.

When participants in FFs were asked about details of the family ownership, 77.2% stated their firms were controlled by the family/families (that is a stake in excess of 50%) whereas the remaining FFs consists of firms that has influential family ownership stakes that falls short of a controlling stake.

Question 6 asked the interview participants how their firms measured performance. Four choices were given: Namely sales growth; ROA; a market performance measure and finally, any other variables apart from the first three. Table 12 shows that the majority of FFs use the ROA measurement to assess their performance whereas the NFFs in their majority use a market performance measurement. Both results concerning the performance measures between FFs and NFFs are statistically significant.

The participants were asked to justify the particular measures chosen. Various reasons were given. Concerning ROA some participants stated that it was chosen since a primary objective of the firm was to maximise the return on capital employed and in addition a number of participants believed that if the firm maximised ROA it would have a positive effect on the firm's share price. Concerning the market performance some interviewees preferred it since it was a good measure of the share price performance of the firm.

However the interview data shows that CSE managers perceive that market performance will have a greater impact on corporate governance than ROA measurements. Despite this the interview data shows that managers' perceive that ROA will have an average impact on corporate governance. Also evident from the manager interviews is that they view profitability as an important measure of performance. This is further evidence together with its use in previous research justify its use for the CSE empirical models and especially for FFs where it is a widely used performance measure.

According to Table 12, a majority of interviewees (56% in FFs and 57% in NFFs) stated that the CGC had an effect on performance. Less significant were those that CGC had an effect on ROA. The bulk believed there was a positive relationship. The reasons given by interviewees included: the compliance with CGC will give a positive signal to the market that will result in a positive effect on the share price; compliance with CGC will lead to the firm to operate more efficiently and, compliance with CGC will have positive effects for large firms only.

However a significant minority believed there was no link between CGC and performance and this mainly consisted of small firm interviewees. The reasons given were numerous such as: that corporate governance was a waste of time and money and for this reason they did not comply with the CGC and it was asserted that there was no value added by complying with the CGC. Further to this a reason given by interviewees for the non-effect was that the CGC compliance was down to market requirements and was not done for its performance benefits.

The results of the interviewees concerning the CGC effect may be reconciled to the empirical evidence that shows that market performance is not positively affected by the use of corporate governance mechanisms that in theory should lead to better investor protection and better governance. This can be illustrated by the CGC mechanism of non-CEO duality whose aim is to protect investors and to lead to better corporate governance in firms. In contrast to what is stated in the CGC, the empirical data shows that CSE investors seem to prefer firms with CEO duality that over perform with regards to accounting and market performance.

Another example from the empirical data showing market performance is not linked positively by the use of corporate governance mechanisms is that CSE investors do not reward firms that operate CGC even if they are in a market where there is no compliance with CGC.

According to Table 12, the interviewees perceive there is little impact between the establishment of audit committees and performance. The main reason given by them for the weak link is that whilst interviewees believe that audit committee leads to a more effective audit, the benefits from this committee barely cover its operating costs. In contrast to this the empirical data provides mixed results with mainly weak evidence concerning the relationship between audit committees and performance. However the empirical evidence shows that investors on the AM look positively at the establishment of audit committees in contrast to the relationship shown on markets where there is some form of compliance (See Table 8). Hence investors on the AM would appear to reward firms that operate audit committees through a reduction in cost of capital and an increase in firm value.

Concerning the link between CEO duality and financial performance, Table 12 shows that CEO duality exists in 44% of the FFs interviewees and 29% of the NFFs interviewees. The results found in the empirical data in Table 4 and 5 show a similar trend. When the managers were asked whether CEO duality affects performance around half of the managers believed that CEO duality affects performance. There was not a significant difference in the results when looked at from the point of view of FFs and NFFs.

The interviewees explained that the positive effects of CEO duality can be explained due to numerous reasons such as: the avoidance of conflicts in management with the owners, that agency costs are reduced by CEO duality and, that CEO duality results in the effective management of the firm. The interview results can be reconciled to the empirical data that shows that investors perceive that CEO duality in general is not harmful to investor protection. It should be emphasized that this result goes against the current perception and the established requirements in the CGC that require CEO non-duality.

Question 14 in Appendix 5, p. 252 considers the extent of the relationship between non-executive directors and financial performance. Table 12 shows that all firms in the interview sample have non-executive directors. When managers were asked the percentage of non-executive directors on the board, Table 12 shows that around 2 in 3 directors on the boards of FFs were non-executive though the corresponding figure for NFFs was materially higher. This difference that is not statistical significant can be explained by the fact that the NFFs operate in industries where the regulatory framework is stricter and where there are requirements for the application of corporate governance procedures.

When interviewees were asked to state whether they perceived their was an effect between non-executive directors and performance, one in three managers in FFs perceived there was an effect, the corresponding result for NFFs was more than double at 71.4% (See Table 12). Various possible reasons were given for the possible link including: their valuable experience helps the firm; good quality non-executives give positive benefits to the firm; their advice is valuable and will lead to positive benefits and, though they benefit the firm their benefits are immaterial. On the other hand interviewees that were negative to the benefits of non-executives asserted that the non-executives have a monitoring role and not a value creating role and, non-executives offer prestige to the firm but no real benefits.

Though interviewees in FFs seems opposed to the benefits of non-executive directors, this is conflicted by the empirical evidence in Table 10 that provide significant evidence of a positive relationship between the percentage of non-executive directors and market performance and significant evidence of the a positive relationship between the percentage of non-executive directors and Tobin's Q value on the MM & PM (See Table 8). This raises the question whether interviewees in FFs do not understand the benefits of non-executive directors and see them as an unnecessary cost.

Questions 15 in Appendix 5, p. 252 look at the extent of the relationship between expertise and performance. More specifically it looks at board expertise. Table 12 shows a material difference in the perception of this relationship between managers in FFs and NFFs. It shows that managers in NFF believe that there is an effect between expertise and performance whereas managers in FFs are divided concerning the link between expertise and performance.

Table 12: Descriptive statistics of CSE Manager's interviews: Family and Non-family Firms

Question number	Variables	Family firms Mean	Median	Variance	Non-family firms Mean	Median	Variance	Significance
1	Comply CGC	0.280	0.000	0.212	0.290	0.000	0.235	
2	Part comply	0.330	0.000	0.235	0.290	0.000	0.238	
4	MD1	0.220	0.000	0.183	0.430	0.000	0.286	
4	MD2	0.280	0.000	0.212	0.140	0.000	0.143	
4	MD3	0.500	0.000	0.265	0.430	0.000	0.286	
4	ID 1	0.110	0.000	0.105	0.430	0.000	0.286	*
4	ID 2	0.000	0.000	0.000	0.430	0.000	0.286	***
4	ID 3	0.220	0.500	0.183	0.000	0.000	0.000	
4	ID 4	0.280	0.000	0.212	0.140	0.000	0.143	
4	ID 5	0.110	0.000	0.105	0.000	0.000	0.000	
4	ID 6	0.280	0.000	0.212	0.000	0.000	0.000	
5	Family ownership	1.000	1.000	0.000	0.000	0.000	0.000	
6	Assess Perform: Sales	0.330	0.000	0.235	0.140	0.000	0.143	
6	Assess Perform: ROA	0.670	1.000	0.235	0.140	0.000	0.143	**
6	Assess Perform: Market	0.000	0.000	0.000	0.710	1.000	0.238	***
7	CGC effect	0.560	1.000	0.260	0.570	1.000	0.286	
8	CGC effect: Sales growth score	2.610	3.000	0.369	2.570	3.000	0.286	
8	CGC effect: ROA score	2.280	2.500	0.683	2.430	3.000	0.619	
8	CGC effect: Market score	2.110	2.000	0.458	1.710	1.000	0.905	
10	AuditCom	0.170	0.000	0.147	0.000	0.000	0.000	***
11	RemCom	0.060	0.000	0.060	0.290	0.000	0.238	***
13	Duality	0.440	0.000	0.261	0.290	0.000	0.238	
13	Affect Duality Perf	0.500	0.500	0.265	0.570	1.000	0.286	
14	Non-Exe	1.000	1.000	0.000	1.000	1.000	0.000	
14	Non-Exe%	0.657	0.710	0.030	0.733	0.800	0.027	
14	Affect Non-exePerf	0.330	0.000	0.235	0.710	1.000	0.238	
15	Affect BoardExpPerf	0.440	0.000	0.261	0.710	1.000	0.238	
16	Affect MangExpPerf	0.500	0.500	0.265	0.710	1.000	0.238	*
17	Board	7.780	8.000	4.536	8.430	5.000	24.952	**
17	BoardPerf	0.720	0.000	0.212	0.710	1.000	0.238	
18	Meetings	6.720	0.000	1.740	10.430	6.000	79.952	***
18	Affect MeetingsPerf	0.440	0.000	0.261	0.290	0.000	0.238	
19	Affect FamPerf	0.780	0.000	0.183	0.140	0.000	0.143	
20	Foreign	0.060	0.000	0.060	0.140	0.000	0.143	
20	Affect ForeignPerf	0.220	0.000	0.183	0.430	0.000	0.286	
21	Insider	1.000	0.000	0.000	0.430	0.000	0.286	***
21	Affect InsiderPerf	0.940	0.000	0.060	0.430	0.000	0.286	***
22	AgePerf	0.330	0.000	0.773	0.570	0.000	0.286	
22	SizePerf	0.440	0.000	0.244	0.430	0.000	0.286	
22	GearingPerf	0.560	1.000	0.261	0.710	1.000	0.238	
22	IndustryPerf	0.780	1.000	0.183	0.860	1.000	0.143	

2	Do not comply	0.390	0.000	0.252	0.430	0.000	0.286

The interview sample consists of 25 managers in CSE firms. Of the sample 18 managers were from FF and 7 managers from NFF. Asterisks denote statistical significance at the 1% level (***), 5% level (**) or 10% level (*)

The explanation for this difference is due to the fact that most interviewees in NFFs are in the financial sector where there more complex regulations than other sectors and where these managers perceive that management and director expertise are vital if the firms are to perform well.

When managers were asked to justify their observations the main reason given by managers who believed in the link between expertise and performance is that educated managers can better cope with complex issues that will have a positive effect on performance. Mainly managers in NFFs gave this rationale.

On the other hand the main reason given by interviewees in FFs who believed in no link between expertise and performance is that they believe uneducated managers can be as effective as educated managers. The empirical data would appear to support the perception of managers in FFs since its shows a negative relationship between expertise and performance. It also shows that if FFs operate expertise to a greater extent then there would be no performance benefits.

Question 17 in Appendix 5, p. 252 looked at the link between board size and financial performance. Table 12 shows that the average board size for NFFs are significantly greater than for FFs. This can be explained by the fact that the larger firms in the

Republic of Cyprus are NFFs that have a board size greater than the average. Both FFs and NFFs interviewees strongly support the link between board size and performance. When asked to justify their results two main reasons were given for the perceived effect: The first is that smaller boards operate more effectively and perform much better. The majority of managers who believed in the relationship between board size and performance stated this reason. The second reason that was supported by fewer managers in the sample was that larger boards are bureaucratic, less efficient and less effective. These results are in line with the results shown in Table 8 that provide evidence of a statistically significant positive relationship between smaller board size and market performance.

But in contrast to this it was found that larger boards are more profitable based on the statistical data in Table 9. The result regarding the relationship between board size and current performance (that is ROA) also supports the view, at least for the CSE that firms with larger boards may provide for more efficient monitoring of the current activities of the firm.

It was found that the average frequency for meetings for NFFs is significantly greater than the corresponding figure for FFs at the 1% level. This can be explained by the fact that larger NFFs that are listed in the MM meet more frequently than FFs that are mainly quoted in the PM and AM. The empirical evidence in Tables 3 & 4 supports this.

When managers were asked if meetings have an effect on performance the majority of interviewees see no link between the number of meetings and performance. It was also found that more managers of FFs believed there was a link between these two factors whereas this was not the case with NFFs (See Table 12). The majority of persons who stated there was a link between meetings and performance found that there was a negative relationship and that having too many meetings may harm the decision making process.

The main reason for those that stated that there was no link between meetings and performance was that performance was not affected by the number of meetings but by the quality of management making these decisions. The empirical evidence regarding the frequency of meetings is in contrast to the interview data and indicate that the market believes that having too many meetings may actually enhance the decision making process. This raises the question whether CSE managers need to be explained the use of meetings as an effective corporate governance mechanism.

Question 19 looked at the relationship between family ownership and performance. Table 12 shows the link between family ownership and performance. Interviewees in FFs in contrast to interviewees in NFFs mainly perceived the link. When managers were asked to justify the relationship the main reason given by them was that with family ownership motivates the managers of the business to perform well since if they succeed their wealth will increase. On the other hand those that stated there was no link between family ownership and performance stated that the performance was not affected by the extent of family ownership but by the quality of the management team.

In contrast to the interviewees in FFs, the empirical data shows a negative relationship between family ownership and performance however it does provide significant evidence that the implementation of corporate governance mechanisms by FFs can lead to performance benefits. Evidence is provided in the following ways: Firstly, FFs that are listed in markets that have some form of compliance with the CGC have performance benefits concerning their market performance. Secondly, the market will look positively at FFs have a higher percentage of non-executive directors on the board of directors. Finally it was found that FFs that operate CEO duality outperform concerning operating performance.

When the interviewees were asked about whether there was a link between insider ownership and performance, Table 12 shows that the majority in FFs felt there was in contrast to interviewees in NFFs. When managers were asked to justify the relationship the main reason given by them was that with insider ownership the managers of the business are motivated to perform well since if they succeed their wealth will increase. On the other hand those that stated there was no link between insider ownership and performance stated that the performance was not affected by the extent of family ownership but by the quality of the management team. The empirical evidence shows that there is a significant positive relationship between insider ownership and performance on the AM suggesting that insider ownership may have positive benefits if backed by a quality management team.

Question 22 in Appendix 5, p. 252 looked at the relationship between other factors and performance. The sample was asked to comment on their perceptions concerning the relationship between performance and four factors: age, size, gearing and industry. Table 12 shows that the managers perceived that of the four factors the relationship between industry and performance was strong though they perceived the opposite of the relationships between the factors of age, size and gearing against performance.

When asked to explain their perceptions they general conclusions reached included the following: the performance of a company was affected by industry trends and the state of the industry would have an influence on how well or how poorly a business performed. Concerning gearing the general view was that the gearing effect on performance was related to the state of the economy. This could be reconciled to the empirical data showing a negative relationship between leverage and performance.

For the factors of age and size the general view was that no relationship existed with performance though some managers believed that older firms in general perform better than newer firms. There were also a significant number of managers who asserted that large firms perform better than smaller firms.

5.5 Findings of the questionnaire results

The aim of the student questionnaires is to obtain information concerning the present role of corporate governance on course programs and how students' perceive the future role of corporate governance should evolved in course modules. Since the areas of the CSE and family businesses are closely linked to corporate governance, questions concerning these two areas were also asked about their present and future role in course programs.

Thirty-eight students participated in the questionnaire since two students were absent on the dates when the questionnaires were administered. Despite this the sample closely reflected the characteristics concerning sex, course and year of study. The actual questionnaire distributed to students can be seen in Appendix 7, pp. 237-238.

The demographic characteristics of the sample are as follows: The sample comprised of 23 females and 15 males. This is broken down into 22 business administration students and 16 accounting and finance students. In addition this was broken down into 15 students in the 2nd year, 13 students in the 3rd year and 10 students in the 4th year.

Ideally it would have been preferred if the sample of students from accounting and finance were higher however this was not possible due to the lower student numbers (when compared to business administration) as a result of it being a newly established course. The accounting and finance has been operational from the 2007/2008 academic year meaning this is the third academic year of its operation.

The questionnaire given to students can be found in Appendix 7, pp. 237-238. I tried to make the questionnaires user friendly since if questions were complex then there was the risk that the answers would be unreliable. In addition I also felt that if the question were too long that this too could bore students who could give unreliable answers. For these reason only nine questions/statements were presented to students that could be graded on a 1-5 scale. The first six statements were made on knowledge gained by students on family business, corporate governance and the CSE. The next three statements were made concerning the future development of modules concerning these three areas. Each of these statements were answered on a 1-5 scale that ranged with an answer of “1” meaning the students strongly disagreed with the statement and an answer of “5” meaning they strongly agreed with the statement. Finally there was a section for students to make any general comments.

Table 13 presents the overall mean scores for student questionnaires based on gender. There was no significant difference in the results betweens male and female students. Though both male and female students perceive corporate governance, the CSE and family businesses as important areas to their relevant courses and there is general agreement among them that these subjects should be covered more in their courses. The importance of corporate governance as perceived by students can be linked with their agreement with the statement that corporate governance affects performance (See Table 13). In line with the sample both male and female students are satisfied with the course content concerning corporate governance, family businesses and the CSE.

Table 13: Overall Mean Score for Student Questionnaires based on Gender

	Overall Mean score	GENDER Male	Female	Significance
Family business affects performance	3,90	3,73	4,00	
Corporate governance affects performance	3,84	4,00	3,74	
Satisfactory course content on CSE	3,79	3,60	3,91	
Satisfactory course content on governance	3,76	3,60	3,90	
Satisfactory course content on family business	3,84	3,53	4,04	
Course material: useful knowledge	4,37	4,33	4,39	
New module: family business	3,97	3,80	4,09	
New module: corporate governance	3,97	3,67	4,17	
New module: CSE	4,26	4,27	4,26	

The questionnaire sample consists of 23 female students and 15 male students. Asterisks denote statistical significance at the 1% level (***),
5% level (**) or 10% level (*)

Table 14 presents the overall mean scores for student questionnaires based on degree courses. There was no significant difference in the results betweens the type of degree course. A material difference found between business and accounting students concerned CSE content since it was found that business students are relative happier with the course content on CSE than accounting students. A possible reason for this difference is that accounting students possibly expect more content to be introduced concerning the CSE.

Though both accounting and business students perceive corporate governance, the CSE and family businesses as important areas to their relevant courses and there is general agreement among them that these subjects should be covered more in their courses. There is also agreement between students on each degree course that corporate governance affects performance and this could be linked to why they want corporate governance to be covered more in the course (See Table 14).

Table 14: Overall Mean Scores for Student Questionnaires based on Degree Course

	Overall Mean score	TYPE OF DEGREE COURSE		Significance
		Business	Accounting	
Family business affects performance	3,90	3,82	4,00	
Corporate governance affects performance	3,84	3,68	4,06	
Satisfactory course content on CSE	3,79	4,05	3,44	
Satisfactory course content on governance	3,76	3,86	3,63	
Satisfactory course content on family business	3,84	3,86	3,81	
Course material: useful knowledge	4,37	4,32	4,44	
New module: family business	3,97	3,91	4,06	
New module: corporate governance	3,97	3,95	4,00	
New module: CSE	4,26	4,18	4,38	

The questionnaire sample consists of 22 business students and 16 accounting students. Asterisks denote statistical significance at the
1% level (***), 5% level (**) or 10% level (*)

A material number of business students in their general comments at the end of the questionnaire supported the introduction of a new module in corporate governance but that it should be an optional module. In contrast to this, some accounting students believed that that corporate governance should be offered as a core subject due to its increasing importance in the business world. Some also suggested that it should be linked to CSE developments.

Table 15 presents the overall mean scores for student questionnaires based on year of study. There was no significant difference in the results betweens the years of study. Though students in the 2nd, 3rd and 4th year perceive corporate governance, the CSE and family businesses as important areas to their relevant courses and there is general agreement among them that these subjects should be covered more in their courses.

Table 15 shows that though the agreement is cross-sectional, the fourth year students are not so strong in their agreement concerning the introduction of these three new modules. This could be explained by the fact that they are satisfied with the existing course material especially on corporate governance and the CSE and that they are not as keen on the introduction of new modules for family businesses, corporate governance and the CSE as other groups. Students in their general comments as to have given a number of reasons why second and third year students agree for the need for a module for corporate governance.

The first concerns the ambition of some to pursue the ACCA examinations where two years ago, corporate governance has been introduced as a module by the ACCA. These students argue that if corporate governance is introduced in the degree course it will assist them in their future studies. Another reason why students want a corporate governance module is due to its increasing importance in the business world. This could be linked to the evidence that shows that students' perceive that corporate governance affects performance. This perception is reflected in each of the years of study examined.

It has been found that students in the questionnaire sample perceive corporate governance, the CSE and family businesses as important areas to their relevant courses and there is strong agreement amongst them that these subjects should be covered more in their courses. The importance placed by students on corporate governance is supported by the fact that they perceive that it is a factor that affects performance. Since students are important stakeholders in the educational organisation of the researcher, I have taken their findings into consideration in formulating proposed changes to the degree programs.

Table 15: Overall Mean Scores for Student Questionnaires based on Year of Study

	Overall Mean Score	YEAR OF STUDY 2nd Year	3rd Year	4th Year	Significance
Family business affects performance	3,90	4,07	3,69	3,90	
Corporate governance affects performance	3,84	4,13	3,69	3,60	
Satisfactory course content on CSE	3,79	3,60	3,69	4,20	
Satisfactory course content on governance	3,76	3,73	3,54	4,10	
Satisfactory course content on family business	3,84	4,07	3,54	3,90	
Course material: useful knowledge	4,37	4,47	4,31	4,30	
New module: family business	3,97	4,07	4,08	3,70	
New module: corporate governance	3,97	4,20	3,85	3,80	
New module: CSE	4,26	4,40	4,46	3,80	

The questionnaire sample consists of 15 students in the 2nd year, 13 students in the 3rd year and 10 students in the 4th year.
Asterisks denote statistical significance at the 1% level (***), 5% level (**) or 10% level (*)

5.6 Findings of faculty interviews

It was felt that by interviewing faculty staff useful data could be obtained concerning the course programmes and its relationship to corporate governance, family businesses and the CSE.

The rationale behind the faculty staff interviews was that since it is an important stakeholder concerning course programmes in their departments that their views provide additional evidence concerning possible changes to course programs connected to corporate governance.

Five members of the faculty were interviewed out of its eight members. Of the three members excluded from the interviews, two were involved in the research and it was felt their inclusion in the interviews was unethical whereas the other member is a part-time visiting lecturer who has been at the organisation for a short time with little knowledge of the organisation.

The interview participants were asked to comment on the role of the CSE, family businesses and corporate governance on faculty course programs.

In contrast to student perceptions, faculty staff generally agreed that the role of the CSE in faculty degree programs was underweight and that upgrade was needed in the form of an increase in the content concerning the CSE in existing modules. The difference in the results can be explained by the fact that the faculty interviewed were lecturers in management, economics and quantitative methods where coverage of the CSE is not as great as those for accounting and finance. The lecturers in accounting and finance were involved in the research and were not interviewed and their answers may have been different to those of their colleagues since the stock exchange theory is covered to a great extent in finance modules.

The majority of faculty staff believed that though there was a need for course modules to include more content on the CSE, a new module entirely devoted to the CSE was out of the question for a graduate course. This was in contrast to the student perceptions that agree for a need of a CSE module. The reason for the difference was that faculty staff were divided amongst those who believe that stock markets has a role in a post-graduate programme or those who believe that aspects about the CSE could be included in existing advanced financial management modules (that is AFIN 306: Investment Analysis, Portfolio Theory and Management). Hence though both faculty and students view education on the CSE as being important, their disagreement was based on the where this upgrade would take place.

Concerning family businesses and their current role on the course it is agreed by all participants that the faculty course programs have not emphasised enough its importance to the Cyprus economy where the bulk of businesses are family firms. Participants also agree on the fact that the coverage of family businesses is underweight. This is in contrast to students that say that they are happy with the content concerning family businesses. The evidence would appear to suggest that the answers of faculty are more reliable since modules in management are general in their nature and do not specifically mention family businesses. One possible reason that students may be happy with the content on family businesses is if the lecturers in management use case study scenarios for family businesses that apply general management theories or economic theory.

Both students and faculty staff perceive that it is time for a new module that covers family businesses to be developed. They give as a reason the fact that since Cyprus has a strong family businesses culture that this should be reflected in course programs. Some interviewees believe it should form part of a module that covers small and medium sized business practice. However the interviewees believed this module should be offered to students as an optional module.

In line with the student’s perceptions it was generally agreed that the role of corporate governance should be upgraded on course programs, there is disagreement amongst the interviewees of the extent of the upgrade. The majority of participants believe this upgrade should be in the form of a new module if the course programs are to be up to date with recent developments. A reason given for this is that the course programmes should be in line with professional bodies such as the ACCA that has in recent years introduced a module on corporate governance.

Another reason given is that a module on corporate governance most be included on accounting and business degree programs due to the current business and social concerns about corporate and social responsibility.

However a minority of interviewees believed that the upgrade should be for corporate governance to be added on to new modules in finance.

To conclude there is general agreement by the students and faculty staff that the roles of the CSE, family business and corporate governance should be upgraded on the faculty's course programs. For family businesses the participants believe a new module should be introduced though many believe it should be small business oriented rather than family business oriented. Concerning the corporate governance the general view is that the upgrade should be in the form of a new course module due to its increasing importance in the business world.

5.7 The implication of the research findings on corporate governance education at Frederick University

The evidence from the literature review and the research results of the CSE provide evidence that the application of corporate governance mechanisms can have a positive effect on firm value. In addition it has been shown that one reason that corporate governance is important since it can resolve agency conflicts whether it is between the owners and the managers or between large shareholders and small shareholders. The theory also shows that corporate governance is perceived as protecting the interests of investors.

Since there is evidence to show that corporate governance is useful to the business world a question that may be asked is what is its role of corporate governance education at FUCy. Albaum and Peterson (2006) provided evidence of the important of students to corporate governance. They implied that business students could be treated as future leaders of corporations since they will become members of all stakeholders groups connected to corporate governance (that is they could become in the future managers, shareholders, employees, customers and suppliers amongst others).

Khan and Sethi (2009) also highlighted the importance of student education in corporate governance. They provided evidence showing there is a gap between what is taught in business schools about corporate governance and the requirements of the complex corporate sector. Connected to this is the increasing important role of corporate governance in the business world with the corporate failures in recent years of companies such as Enron, WorldCom, and Lehman Brothers that have been connected with a lack of effective corporate governance mechanisms.

The project deals with the areas of corporate governance, the CSE and family businesses. The areas of the CSE and family businesses have been chosen due to its relationship with corporate governance practice in Cyprus. It should be mentioned that the syllabuses of the course programs are not available to the public however I have access to this material. The available public information concerning the course programs is the course outlines that may be found in Appendix 9, p. 240 and a summary of each module that may be found in pages 98-99 of the FUCy prospectus of 2009-2010. The role of these three areas to the course programs concerning the accounting and finance and business administration degrees are outlined below:

Concerning corporate governance education at FUCy this area is covered spasmodically in various disciplines such as accounting, auditing and finance. Concerning the accounting modules it is covered in ABSA 308 where the disclosure requirements of corporate governance are covered. Further to this it is covered in the auditing modules of ABSA 408 and ABSA 409 that examine the role of corporate governance and the audit. Finally it is covered in the finance modules of AFIN 102 and 305 that briefly cover the key aspects of corporate governance in Cyprus. With the exception of ABSA 409 that is taught solely on the accounting and finance degree course all mentioned modules are taught on both programmes.

It should be mentioned that of the modules that cover corporate governance, AFIN 102 is covered in the second year of a degree course, ABSA 308 and ABSA 408 are covered in the third year whilst the remaining subjects being taught in the fourth year. There is no difference in the timing of these modules for either the accounting and finance or business administration degrees.

Linked to this there is little to no coverage in these degree programmes of corporate governance theory and the results of corporate governance research.

Further to this it should be mentioned that three of these six modules are optional courses on the accounting and finance degree program hence limiting the potential information provided to students concerning corporate governance education. For business administration students the situation is even worse since only AFIN 102 is a compulsory module (See Appendix 9, p. 240). Hence the evidence shows that there is very little taught on corporate governance education is either of the accounting and finance or business administration degree courses.

Another factor that should be looked at concerning the role of corporate governance education is the relationship between FUCy and the ACCA professional examinations. The degrees courses in accounting and finance and business administration are strongly influenced by the ACCA professional examinations since the ACCA has awarded a number of exemptions to FUCy for these degree programs. More specifically nine exemptions were awarded to the accounting degree program and eight exemptions for the business administration (See Appendix 8, p. 239 for details). Many accounting students have declared an intention to pursue the ACCA examinations after completion of their accounting and finance degrees. One factor in their intentions are that after acquiring nine exemptions this will leave them with only five modules to complete before qualifying as an ACCA professional accountant.

If one examines the ACCA syllabus it is evident that corporate governance is covered as a subject in itself. More specifically at the professional stage as module P1: Professional Accountant. According to Appendix 8, p. 239, FUCy does not have an ACCA exemption for this module for either of its accounting and finance or business administration degrees.

If one examines the syllabus of P1 that can be accessed from the ACCA students website, one can observe that this module covers the areas of corporate governance theory and looks at the various corporate governance mechanisms such as board and CGC compliance factors.

Hence it could be argued that the introduction of more corporate governance education to the two degree programmes at FUCy will to a greater extent not only help students in their business practice but also in pursuing the ACCA professional examinations since they will have prior knowledge on an area they will have to pass in their ACCA qualification. The evidence from the student questionnaires and faculty interviews support the case for more corporate governance education. Accounting students support a new corporate governance module that should be offered as a compulsory module in their degree program whereas business students though agreeing with accounting students concerning further corporate governance education stated that it should be offered as an optional module.

The CSE is not covered directly in any module though stock market theory is covered in most of the AFIN courses. The most detailed coverage is given in AFIN 305 and 306 that are both optional modules. Though students agreed with a module covering the CSE the faculty staff disagreed. They recognised that the role of the CSE in faculty degree programs was underweight and that upgrade was needed in the form of an increase in the content concerning the CSE in existing modules. By implication the faculty staff agreed with the notion that aspects of the CSE could be included in a corporate governance module.

Concerning family business there is no specific coverage in either of the courses. However it is embedded in management theory covered in the ABSO modules. However both students and faculty staff perceive that it is time for a new module that covers family businesses to be developed due to the Cyprus business culture that is heavily geared towards family businesses. Some interviewees believe it should form part of a module that covers small and medium sized business practice. However faculty staff believes this module should be offered to students as an optional module and some believe it should be connected to a module on SMEs.

CHAPTER 6: CONCLUSIONS AND RECOMMENDATIONS

6.1 Chapter summary

This chapter aims to provide conclusions concerning the relationship between corporate governance and performance based on the empirical and CSE manager interviews data. It also aims to examine whether there is a relationship between FFs using corporate governance mechanisms and market and accounting performance. Further to this it aims to provide conclusions concerning the current and future role of corporate governance education for degree programmes provided by FUCy. Based on the conclusions, the chapter will provide recommendations based on the research findings.

6.2 Conclusions

6.2.1 Outline of aims and objectives of project

The project aimed to looks at whether corporate governance mechanisms have an effect on performance based on: the type of market, the type of firm and based on the perception of CSE managers. Tied with this was the objective to advance the international corporate governance research agenda by describing the corporate governance environment for the CSE and to examine the following corporate governance areas against performance: board characteristics (including CGC compliance variables); ownership characteristics and, control variables. A second objective was to examine the effect of FFs versus NFFs on the effectiveness of corporate governance mechanisms on the CSE based on their market and accounting performance.

The second aim of the project was to examine the current role of corporate governance education in FUCy and to make suggestions on its future role in faculty course programs. An objective to this aim was to apply the theoretical framework on corporate governance, previous literature on corporate governance, research evidence from the CSE and questionnaires/interviews to students/faculty staff to the development of course modules in degree programmes in accounting and finance and business administration.

The following sections intend to give conclusions in relation to the project's aims, objectives and research questions.

6.2.2 General evaluation of findings

In previous research the importance of corporate governance has been examined mostly within the context of developed stock markets. However, less attention has been paid to the area with respect to developing markets and concerning the type of firm. This project investigated the effects of corporate governance mechanisms on the market and accounting performance of firms listed on the CSE.

In contrast to the evidence in most previous studies (e.g. Fama and Jensen, 1983; Morck et al., 1988; Anderson and Reeb, 2003; Villalonga and Amit, 2006) the study provides significant evidence that FFs are negatively related to firm value. According to Gomez-

Mejia et al. (2001) this may be due to management practices that may be to the detriment to the firm and to the exploitation of minority shareholders.
Despite this the results of the study provide significant evidence that the implementation of corporate governance mechanisms by FFs can lead to performance benefits. Further analysis of this relationship is given in the next section.

The results of this study generally suggest that the adoption of corporate governance mechanisms has some important implications for FFs in the CSE. Corporate governance can greatly assist the FFs sector via the introduction of better management practices and greater opportunities for growth through the utilisation of non-executive directors.

In addition it was found that FFs that operate in markets where there is full compliance with the CGC have a positive impact on firm values. Ensuring more effective corporate governance practices and adequate information disclosure are likely to increase the confidence of investors in the firm and make the FFs less risky to invest in. This will result in lower costs of capital and higher firm values as a result.

Another implication of a well functioning corporate governance system is that there will be easier access to internal and external finance. For example FFs that improve the quantity and quality of their disclosures are more likely to obtain external finance from financial institutions and debt holders.

However in contrast to this there is significant evidence from the perception of CSE managers that the benefits of corporate governance are not fully understood. This may be linked with the empirical evidence that show that investors do not reward AM firms with lower costs of capital if they have voluntarily complied with the CGC. This evidence shows that CSE managers may be lacking in corporate governance education. Further to this there is also evidence of a lack of corporate governance education to students on accounting and finance and business administration degree programs in Cyprus. This evidence is based on data received from a sample of students and faculty interviews at FUCy, one of three private universities operating in the Republic of Cyprus.

The importance of students to corporate governance education can be explained in that its role has been upgraded in the business world due to a number of large corporate failures and due to the fact that a number of governments such as the USA have in recent years introduced legislations to improve corporate governance practice. Further to this a number of other countries including Cyprus have introduced corporate governance regulations to be applied in their securities markets.

In addition to this a lack of corporate governance education will not be helping the business community in its aim of implementing effective management practices. The role of corporate governance education at the university level is important since accounting and finance and business students can be treated as future leaders of corporations since they will become members of all stakeholders groups connected to corporate governance.

6.2.2 General conclusions as related to the research questions

This section aims to provide the conclusions reached from the main research questions.

The first research question examined the effect on firm value of board corporate governance mechanisms for CSE firms. There is significant empirical evidence that board corporate governance mechanisms do have a positive effect on firm value. There is significant evidence of a positive relationship between the frequency of meetings and firm value and between the percentages of non-executive directors on the board of directors (board composition) with firm value. This is because the market evaluates the higher frequency of meetings and board composition as signals that corporate governance has improved in the firm and rewards these firms with possible reductions in their cost of capital that subsequently improves their firm value. It is also a signal by the market that these firms have higher growth prospects that are reflected in the higher frequency of meetings. In addition the investors relate the higher percentage of non-executive directors with a more effective monitoring of the activities of the firm and reward these firms with a lower cost of capital since they view these measures as protecting the shareholders in the firms. This resulting lower cost of capital leads to an increase in their firm value.

In contrast to the evidence provided by board composition and frequency of meetings, there is significant evidence that investors do not see the corporate governance mechanisms of large boards as a corporate governance mechanism that will improve market performance. On the other hand there is a significant positive relationship between board size and ROA also supports the view that CSE firms with larger boards may provide for more efficient monitoring of the current activities of the firm.

The second research question examines the extent of the relationship between CEO-duality and performance. There is significant evidence of a positive relationship between CEO duality and firm value for firms listed on the CSE. This relationship has been found in the MM & PM (where firms comply to some extent with CGC) and the AM (where there is no requirement of CGC). The results suggest that investors perceive CEO duality is not harmful for investor protection. However subgroup analysis based on the type of firm indicates that there is inconclusive evidence that CEO duality will have a negative impact on firm value for FFs.

The third research question examines the impact of market performance when CSE firms are listed in different markets where the extent of CGC compliance differs. Though the empirical evidence suggests a positive relationship between the implementation of corporate governance mechanisms and firm value, no significant evidence was established between the extent of CGC compliance in different markets and firm value. This may be linked with the empirical evidence that show that investors do not reward AM firms with lower costs of capital if they have voluntarily complied with the CGC. This evidence implies that these firms may not be effectively informing investors of their policy on CGC for the market to properly value their firms. It may also indicate that there may be other factors that have had a negative impact on their firm value.

However there is evidence that investors do reward AM firms if they establish audit committees. The implementation of audit committees in a market with low corporate governance levels may signal improvement in governance that can cause a reduction in cost of capital and an increase in firm value.

The fourth research question considered the effect on market and operating performance of the implementation of corporate governance mechanisms for FFs listed on the CSE. The results of the study provide significant evidence that the implementation of corporate governance mechanisms by FFs can lead to performance benefits.

This evidence is provided in the following ways: Firstly, FFs that are listed in markets that have some form of compliance with the CGC have performance benefits concerning their market performance. Secondly, the market will look at positively to FFs that have a higher percentage of non-executive directors. It would appear that the market would reward FFs that apply the corporate governance mechanisms of board composition and some form of compliance with the CGC with a lower cost of capital since they view these measures as protecting the smaller shareholders in the firms. This resulting lower cost of capital leads to an increase in their firm value.

There is also significant evidence that FFs implementing corporate governance mechanisms can have a positive effect on operating performance. First, similarly to the effect on Tobin’s Q value, FFs operating in the MM show to have positive impact on operating performance. Secondly, larger boards have a positive effect on operating performance. Thirdly, the corporate governance mechanism of frequency of meetings is positively related to the operating performance of FFs.

However in contrast to the above, the board skills variable shows to have a surprisingly negative effect on the operating performance of FFs. This may indicate that while education may in theory improve performance, it does not capture the richness of capabilities necessary for effective management.

The fifth research question examines the relationship between leverage and performance for both the CSE as a whole and for FFs. There is significant evidence of a negative relationship between leverage and firm value for CSE firms and this relationship would appear to be evident in NFFs. In contrast to this there is inconclusive evidence of a positive relationship between leverage and market performance.

The results concerning leverage would appear to indicate that the introduction of debt by CSE firms is either at sub-optimal levels or that investors are wary of firms that wish to increase their financial risk. Further to this it indicates that the introduction of debt does not lead to decreases in cost of capital and thus has a negative effect on firm value. It also indicates that the costs of financial distress outweigh the benefits of outside monitoring.

The sixth research question examines the current role of corporate governance education at FUCy. It was found that no module of corporate governance is covered on either the accounting and finance or business administration degree programs. Despite this corporate governance is covered partially in some accounting, finance and auditing modules however since most of these modules are optional meaning students may get very little in their degree course education. This minimal education is in contrast to the increasing importance given to corporate governance practice in the business world.

The seventh research question that examines the relationship between corporate governance theories and CSE empirical findings has been indirectly answered from the previous research questions. There is evidence that the stewardship theory, agency theory and bonding hypothesis can be applied to the CSE in some way.

Firstly, the significant evidence concerning the positive association between CEO duality with market performance and between CEO duality with operating performance shows that the stewardship theory applies to CSE firms and that if managers are left alone they will act responsibly and will effectively manage the assets they control.

It should also be mentioned that there is significant evidence that NFFs that apply CEO duality will have a positive impact on firm value. This suggests that the market will be more comfortable with the idea of CEO duality in NFFs since the Chairman/CEO is not likely to be a controlling shareholder and is less likely to dominate the board and expropriating assets at the expense of the shareholders.

Secondly, there is weak evidence that the agency theory may be applicable to FFs that apply CEO duality as shown with its negative relationship to market performance. This implies that agency problems could be caused by a family shareholder having a greater incentive in monitoring the firm and to expropriating assets at the expense of small shareholders.

Thirdly, evidence of the bonding hypothesis can be found in FFs that apply corporate governance mechanisms such as board composition and comply with the CGC. Both these variables infer that the controlling shareholders will increase their disclosure in financial statements and this will result in a reduced expropriation of the firm’s resources. As a result this will result in an increase in investor protection. The idea behind bonding theory is that an increase in corporate governance mechanisms will result in a decrease in the cost of capital of the firm hence increasing in firm value.

The eighth and final question concerning recommendations connected to corporate governance education will be included in section 6.3.

6.2.3 Suggestions for future research

This project has provided empirical evidence concerning the relationship between corporate governance and performance on the CSE. It has also examined the relationship by breaking it down into the type of market and the type of firm. This is an area where there has been very little research on the CSE.

The area of corporate governance and performance has interested me a lot and I intend to pursue further research in this area one I have hopefully achieved a doctorate qualification. They’re a number of areas that could be researched. One area that was not researched due to the unavailability of reliable information is whether independent directors if used by a firm can provide market performance benefits.

Another area of research that can be pursued in future is the relationship between foreign ownership and market performance. To do this a method must be found to collect information concerning the foreign ownership in firms. In this project difficulties were found in measuring this variable due to the fact that foreign investors who own less than 5% of a firm’s equity are not required to disclose their stake.

A third area that could be pursued in future is the breakdown of family ownership into founding family firms and to examine the relationship with performance. Though there has been research in this area in other countries, this line of research may provide interesting findings that give an even greater insight concerning the relationship between FFs and performance.

Finally, an area of research that could give interesting results is to examine audit committee effectiveness in the CSE. Though research has been carried out in other countries such as that by Karamanou and Vafeas (2005) it could provide insights as to whether including accounting experts will result in performance benefits for firms.

6.3 Recommendations

The project provides the following recommendations. Firstly due to the increasing importance of corporate governance to the business world combined with the lack of corporate governance education at degree courses at FUCy, it is recommended that a new module be introduced for both the accounting and finance and business administration degrees. This proposed name of this module is “Corporate Governance” and further details are given in Appendix 11, pp. 257-258. Due to its importance, it is suggested that this module should be compulsory for both accounting and finance and business administration degree programmes.

This module will cover the areas of corporate governance theory and corporate governance mechanisms that could be used. These areas are not currently taught in existing degree courses though are covered by professional bodies such as the ACCA and by other universities that offer modules in corporate governance. To offer a Cypriot dimension to the module, market information concerning the CSE will be included including the CGC in Cyprus. Since many students may seek or obtain work in the financial sector, the new module will offer them the opportunity to acquire knowledge that could be put to practical use.

Another need for the corporate governance module is that it will enable students to acquire knowledge should they wish to pursue the ACCA qualification after their degree and especially for the exam on module: P1 that covers issues on corporate governance.

Due to the importance of corporate governance to the business world, it is suggested that both accounting and finance students and business administration students should be offered this module as a compulsory module. It is advised that this module be included in either the 3rd or 4th years of the degree program since it is beneficial to students once they have acquired the required knowledge in accounting modules. This is also in line with the ACCA that offer the corporate governance module (P1) at the later stages of its professional examinations.

The second recommendation is based on the evidence that shows that CSE managers and CSE investors (and by implication the public) may be lacking in corporate governance education. It is recommended that corporate governance education be offered to these stakeholders.

This could be done via specialist courses that could be operated by universities such as FUCy. However for this proposal to be successful, the courses should be funded by the government through the Industrial Training Authority and through tax incentives to employers (that is the cost of the courses could be allowed as a tax expenses against firm's corporation tax). In addition further funding could be obtained through EU funds. Since the Industrial Training Authority in Cyprus finances training programs to the tune of 50% the cost to employers will not be so great if one also includes the tax saving.

The courses could follow a similar pattern to the module proposed in the degree courses though should be more practical in its orientation than that in the degree courses. The courses could be offered in the evenings so as not to disrupt the activities of firms with participants in the education program. It is recommended that the course should take around 40 hours in total to complete. It is also recommended that the universities could brand the education by offering a certificate to the individual.

CHAPTER 7: REFLECTIVE ACCOUNT OF YOUR PERSONAL LEARNING AND PROFESSIONAL JOURNEY

7.1 Chapter summary

This chapter intends to show a reflective account of my personal and professional learning. It also highlights the impact of the various stakeholders of the project.

7.2 Reflections on research methodology

After completing the project it is worthwhile reflecting and taking a critical view of the methodology used. By doing this a main benefit that may arise is that reflecting will enable me to learn about improvements that could be applied in future research in the area. Since I am a lecturer in a university that requires that lecturer's pursue research and have research publications, reflecting on what has happened in the project will be of benefit when submitting articles for publication.

We will first look at the methodology used and discuss its fit to the project undertaken and any changes or recommendations we would suggest for similar future studies. The project was divided into two main sections: a study concerning the relationship between corporate governance and performance for the CSE and the application of the research findings to corporate governance education at FUCy.

Concerning the section on corporate governance and performance, the research was divided into empirical data and interview data. Concerning the empirical data a panel data regression model was used to analyse the relationship between corporate governance and performance. There were four model variations concerning panel data: The first was a regression model for the CSE as a whole; the second model sub-divided the first model into regression models based on the types of markets; the third model built on the first by adding family interaction variables and the fourth was a changes model that looked at changes in the dependent variables and changes in the independent model.

This approach was based on previous research models used on other stock exchanges and it can be said that models 1, 2 and 3 worked well providing useful conclusions to the study. It should be mentioned that both the dependent and independent variables were justified through the literature review and this I believe made the results of the models valid. I believe following a panel data methodology that has been successfully used in other studies helped models 1-3 to work. What I did differently to other researchers in the area was that applied different independent variable combinations to them since I tried to relate the data to the CSE environment.

However I believe that my choice of independent variables could have been improved and would have lead to a more effective model. Hence I admit that I was asked to do it again some additional variables should have been included that would have provided even more conclusions about the CSE. One variable that should have been used was that of independent non-executive directors. In other studies this variable has been used and I did not include it due to difficulties in collecting the data. I believe that this variable would have given useful information on the CSE on whether independent directors affect performance.

Another variable that should have also been included was foreign ownership that again was excluded due to data collection difficulties. I learnt that maybe I could have got this information via interviewing senior officials or through inspected the share register of companies though in the project I did not do this due to the cost and time factor. However due to the increasing importance of foreign ownership on the CSE I believe that the relationship between foreign ownership and performance could be used by me in future research and as a basis of a future publication.

I also believe with hindsight that if a variable for audit committee expertise were included this would have provided some interesting results and would have added to the research literature in this area. I do believe that this is an area of future research that could be applied once hopefully I have passed by doctorate.

The changes model, that is model 4, did not work as well as I hoped. The evidence given was very weak and did not contribute to the conclusions of the project. Looking back I do not think it was down to methodological issues but down to the fact that it is not relevant for the CSE environment. If I were asked to do the research again I would not have included a changes model.

I learnt from the project how to analyse statistical data using real life data and this will benefit me in the future when I will carry out similar studies. This is some thing I intend to do soon since I am close to writing a research article based to be published in a refereed journal based on the results of the empirical data.

The second instrument used analysing the relationship between corporate governance and performance was the CSE manager interviews. I carried out the interviews to supplement the results from the empirical data. I generally believe that the CSE interview approach was right since the responses were used to help me interpret some ambiguous results found in the empirical data. It also enabled me to explain some conclusions found from the empirical data. Although not intended this way, it enabled me to determine that many CSE managers were lacking in corporate governance education and that there is a need for this in Cyprus. This was determined from the answers given.

The approach used to analyse the answers, content analysis, was the right approach and enabled me to draw conclusions from the interviews that could be compared to the empirical data.

However when looking back I believe that there where too many closed questions and that I should have included more questions for discussion (open questions) to obtain a better insight into the perceptions of managers concerning corporate governance. Hence if asked again I should have perhaps included more open questions and the results would have led to a better analysis of the interview results. I wrongly, did not include many open questions since I feared that CSE managers would have reacted negatively to this (due to time factors).

The second part of my study looked at the implication of the research findings on corporate governance education. To this end two instruments were used to collect primary data: student questionnaires and faculty interviews. These were done in order to collect data from two main stakeholders concerning course programs. Though I believe the two approaches were justified, I recognised there were weaknesses in the research design. Concerning the questionnaires, there were too many questions that did not add to the project’s results and were vague. If asked again to do the project I would have been more specific in questions asking them to quantify which modules gave them more relevant information on corporate governance. I also believe open questions on what they felt about the current and future role of corporate governance education would have helped the research findings. Concerning the faculty interviews though some data was provided on corporate governance education, I was hindered by the small size of the sample and could not form conclusions supported by statistical findings. If asked to do it again I should have increased the sample and maybe included staff from the Nicosia campus to participate.

To conclude I believe the approaches concerning panel data regression, the CSE manager interviews, student questionnaires and faculty interviews enables me to answer all of the research questions set though I do admit that each section could have been modified to get even better results.

7.3 Reflections on professional knowledge and practice

The study was motivated by my interest in the CSE and my belief that corporate governance education was underweight on the degree programme I lecturer in and that I need to provide evidence that it needed to be included in degree programs of my faculty. I was also motivated by my belief that research on the CSE was next to nothing and that I wanted to start to change this picture.

I also wanted to understand the relationship between corporate governance and performance on the CSE and develop a model that could be used for a basis for further research that could be published as research articles.

I also believe that the project has helped me to propose the introduction of a module in corporate governance that will benefit students. I also believe that my project has enabled me to gain insights as to how to develop future course modules for degree programmes in which I teach.

Another part of the study that had a positive impact on me was the data collected on the CSE that I could use in my lecturing via case study scenarios that could be set to students.

It was at this stage of the study that I realised the benefit and appropriateness of the D.Prof programme. The subject I was studying is best tackled from within the CSE and industry. It relies on experience and knowledge on the CSE through my eight years as financial correspondence for the Cyprus Financial Mirror. My position within FUCy as a lecturer was ideal to initiate and contribute to this area.   I realised that the professional doctorate is the best and most appropriate mechanism to address this issue and the D.Prof programme is an ideal match.

Overall I have a sense of great satisfaction in the fact that my area of study is very valuable, appreciated and timely to the academic profession in which I am a part of and will be of benefit to the organisation I work for in that it proposes changes to the degree courses I work in. I hope that my research will be the spark that will enable other researchers to expanding the research literature on the CSE.

7.4 Impact of research project on the various stakeholders

There are a number of stakeholders to the research project. These include: Middlesex University, the management of FUCy, School of Economic Sciences and Administration at FUCy, students at FUCy, academic community, Republic of Cyprus government, CSE authorities and managers of CSE listed companies. The research project will have different impacts on the various stakeholders. An explanation of the impacts on these stakeholders is given below:

Concerning Middlesex University one impact is the research project has assisted in the development in the relationship between themselves and FUCy. I was one of the first students of Middlesex University from FUCy on their D.Prof qualification and this could open the door to other lecturers in FUCy (who do not possess a doctorate) to follow the same route. The relationship can also be enhanced in that successful D.Prof candidates from FUCy could be trained by Middlesex University to supervise future D.Prof candidates.

The relationship developed due to the IWBL conference co-organised by Middlesex University and FUCy amongst others that took place on 24-26 June 2010. It should be mentioned that I presented a conference paper on corporate governance education that derived from the D.Prof project. The conference enabled me to learn more about work-based learning and helped me to further improve the content of my project. Further to this it should be mentioned that after making the necessary revisions my paper will hopefully be published in the refereed research journal “Higher Education, Skills and Work-based Learning” published by Emerald.

Concerning the management of FUCy the research project is expected to have a number of impacts. Firstly assuming I am successful in obtaining the D.Prof qualification, FUCy will have another member of its staff with a doctorate qualification that assist it in meeting the regulations of the Ministry of Education is Cyprus that state that at least 77% of the academic staff of a private university must have the doctorate qualification. Secondly, the research project will be used as a base for an application to the EU for research grants that if successful will result in extra income for FUCy (as the host organisation of the research).

Concerning the School of Economic Sciences and Administration at FUCy a number of impacts will results from the project. Firstly assuming I am successful in obtaining the D.Prof qualification, the School will have another member of its staff with a doctorate qualification that assist it in meeting the regulations of the Ministry of Education in Cyprus as mentioned previously. It should be mentioned that at the present time no accounting lecturer at FUCy has a doctorate qualification and if the researcher does obtain it then it will enormously help FUCy for the review concerning the accreditation of the BA degree in Accounting and Finance.

Secondly, the research can be used as base for research grants that will enhance the income of faculty staff and at the same time enhance the reputation of the School. Thirdly, the research could be used as a base for improving course programs and by enabling the School to keep up to date with recent developments (especially in the area of corporate governance). To this end what I have learnt from the project has enabled me to make a proposal concerning a corporate governance module and it is highly probable that my recommendations will be implemented in future changes in the course. Finally the research could be used as a base for further research in corporate governance and offer the School to be an important centre in Cyprus on corporate governance research.

Concerning the students at FUCy the first impact of the project is it will enable improvements to be made on the course due to the expected additional coverage of corporate governance, family businesses and the CSE. The second impact is that the research could be used as students as a basis for ideas for research when they are about to carry out their project dissertations.

The main impact on the academic community is that it is a contribution to the literature on corporate governance in Cyprus. It should be mentioned that the literature on corporate governance in Cyprus is small and that there is little research on corporate governance and performance in Cyprus. The impact on the academic community will be more felt when the research is published in a research journal that may happen soon with a publication in the research journal “Higher Education, Skills and Work-based Learning” published by Emerald.

Finally, the main impact to the government of the Republic of Cyprus and the CSE authorities is that the research results provide evidence as to possible changes in the CGC legislation and CSE regulations to enable more firms to comply with the CGC.

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APPENDIX 1: ETHICS RELEASE FORM

APPENDIX 2: OPERATIONAL DEFINITIONS

VARIABLE	DEFINITION	MEASUREMENT	SOURCES OF INFORMATION
ROA	Returns on assets	Profit before interest and taxes divided by total assets	Calculated from data in financial statements of firms. Where hard copies were not found online annual reports were available from the firm's web site or financial information web sites such as xak.com.
ROE	Returns on equity	Net income over total equity	Calculated from data in financial statements of firms
Tobin's Q	Tobin's Q value	Book value of assets minus the book value of equity plus the market value of equity divided by the book value of assets	Calculated from data in financial statements of firms and market data from CSE.
SALES G	Sales growth	Change in sales on a year-to-year basis	Calculated from data in financial statements of firms
LN	Log	Natural logarithm of a data variable	Calculated by spreadsheet program
BOARD	Board size	The number of members of the board including executive and non-executive directors.	From the corporate governance report or from financial statements of firms
EXE	Executive directors	The number of executive directors on the board of directors.	From the financial statements of firms
NON-EXE	Non-executive directors	The number of non-executive directors on the board of directors.	From the financial statements of firms
%NON-EXE	Percentage of non-executive directors	The proportion of non-executive directors on the board of directors.	Calculated from data in financial statements of firms
MEETINGS	Meetings frequency per year	The number of board meetings per year	From the corporate governance report of firms or if not

			available cse.com.cy and xak.com
BOARD SKILL	Board skill	Those board members who have obtained university degrees or professional qualifications.	Stockwatch.com.cy
MANAG SKILL	Management skill	Executive directors who have obtained professional and/or university degrees	Stockwatch.com.cy
AUDIT-COM	Audit committee	Dummy variable taking a value of 1 for firms with an audit committee and a value of 0 otherwise.	From the corporate governance report or from elsewhere in the annual report of firms
REMUN-COM	Remuneration committee	Dummy variable taking a value of 1 for firms with a remuneration committee and a value of 0 otherwise.	From the corporate governance report or from elsewhere in the annual report of firms
DUALITY	Role of managing director (CEO)	Dummy variable taking a value of 1 for firms with a managing director who is also chairman and a value of 0 otherwise.	From the corporate governance report or from elsewhere in the annual report of firms
CGC COMPLNCE	Corporate Governance Code (CGC) Compliance	Dummy variable taking a value of 2 for firms that fully comply with CGC, a value of 1 for those that partially comply and a value of 0 for non-compliance.	From the corporate governance report or from elsewhere in the annual report of firms (directors report).
CGC_F, CGC_P AND CGC_N	CGC Compliance dummies (F=Full Compliance, P=Partial and N=Non-compliance	Dummy variable taking a value of 1 for firms that met relevant compliance criteria and value of 0 otherwise.	From the corporate governance report or from elsewhere in the annual report of firms (directors report).
FAMILY	Family firms (control)	Dummy variable taking a value of 1 for family firms and a value of 0 otherwise.	Derived from data in stockwatch.com.cy

FOREIGN	Foreign firms (control)	Dummy variable taking a value of 1 for foreign firms and a value of 0 otherwise.	Derived from data in stockwatch.com.cy
FAMILY%	Family ownership	Ownership stake of the family or families.	Derived from data in stockwatch.com.cy
INSIDER%	Insider ownership	Ownership stake of the board of directors.	Derived from data in stockwatch.com.cy
MARKET CAP EUR	Market capitalisation	Measured at 31 December in Euros.	Cse.com.cy. Calculated for 2002-2005 from market cap CY
MARKET CAP CY	Market capitalisation	Measured at 31 December in Cypriot pounds.	Cse.com.cy Calculated for 2006-2007 from market cap EUR
TOTAL ASSET	Firm size in terms of total assets.	Measured at 31 December in Cypriot pounds.	Financial statements of firms
BV-EQUITY	Book value of equity	Measured at 31 December in Cypriot pounds.	Financial statements of firms Calculated for 2006-2007 from market cap EUR
BOOK_TO_ MARKET	Book value to market value	Book value of equity to market value in Cypriot pounds	Calculated from data in financial statements of firms and cse.com.cy
LN SIZE	Book value of equity	Natural logarithm of market capitalisation of equity	Calculated from data in financial statements of firms
LN ASSETS	Firm size in terms of total assets.	Natural logarithm of total assets	Calculated from data in financial statements of firms
AGE	Age	The number of years between the observation year and the firm's date of incorporation	Stockwatch.com.cy- company profile
GEARING	Gearing	Total debt to total capital	Calculated from data in financial statements of firms
LEVERAGE	Leverage	Total debt to Total debt plus market capitalisation of equity in Cypriot pounds	Calculated from data in financial statements of firms and cse.com.cy

INDUS CLASS	Sector dummies (from 1-6)	Dummy variable from 1-6 depending on sector to which the firms belong. 1= Banking and Insurance, 2= General Financial, 3= Retail, 4= Industrial and Real Estate Development, 5= Technology and 6= Other services.	Derived from market data in cse.com.cy
ID 1-6	Industry dummies	Dummy variable taking a value of 1 for firms that met relevant sector criteria and value of 0 otherwise.	Derived from market data in cse.com.cy
MARKET	Market dummies (from 1-3)	Dummy variable from 1-3 depending on market to which the firms belong. 1= MM, 2= PM, 3= Alternative, Special Categories and Others	Derived from market data in cse.com.cy
MD 1-3	Market dummies	Dummy variable taking a value of 1 for firms that met relevant market criteria and value of 0 otherwise.	Derived from market data in cse.com.cy

APPENDIX 3: COMPANIES INCLUDED IN EMPIRICAL SAMPLE

COMPANY NAME	INDUSTRY SECTOR
A&P (ANDREOU & PARASKEVAIDES) ENTERPRISES PUBLIC COMPANY LTD	Industrial and real estate development
A. PANAYIDES CONTRACTING PUBLIC LTD	Industrial and real estate development
A. TSOKKOS HOTELS PUBLIC LTD	Other services
A. ZORBAS & SONS PUBLIC LTD	Industrial and real estate development
A.L. PROCHOICE GROUP PUBLIC LTD	General Financial
A.S.G. (ANDY SPYROU) GROUP PUBLIC LTD	Other services
AGROS DEVELOPMENT COMPANY "PROODOS" PUBLIC LTD	Other services
ALKIS H. HADJIKYRIACOS (FROU-FROU BISCUITS) PUBLIC LTD	Industrial and real estate development
ALLIANCE INTERNATIONAL RE PLC	Banks and insurance
AMATHUS PUBLIC LTD	Other services
ANDREAS PETSAS & SONS PUBLIC LTD	Other services
AQUA SOL HOTELS PUBLIC COMPANY LTD	Other services
ASPIS HOLDINGS PUBLIC COMPANY LTD	Banks and insurance
ASTARTI DEVELOPMENT PLC	Other services
ATHOS DIAMOND CENTRE PUBLIC LIMITED	Retail
ATLANTIC INSURANCE COMPANY PUBLIC LTD	Banks and insurance
AVACOM NET PUBLIC COMPANY LTD	Technology
AVACOM PUBLIC COMPANY LTD	Technology
BANK OF CYPRUS PUBLIC COMPANY LTD	Banks and insurance
BLUE ISLAND PLC	Industrial and real estate development
C.A. PAPAELLINAS TRADING PLC	Retail
C.C.C. TOURIST ENTERPRISES PUBLIC COMPANY LTD	Other services
CAC PAPANTONIOU PLC	Retail
CARAMONDANI BROS PLC	Industrial and real estate development
CCC HOLDINGS & INVESTMENTS PUBLIC COMPANY LTD	Industrial and real estate development
CEILFLOOR PUBLIC COMPANY LTD	Retail
CHARILAOS APOSTOLIDES PUBLIC LTD	Industrial and real estate development
CHRIS JOANNOU PUBLIC LTD	Retail
CLARIDGE PUBLIC LTD	Other services
CLR PUBLIC CO LTD	General Financial
CONSTANTINOU BROS HOTELS PUBLIC COMPANY LTD	Other services

COSMOS INSURANCE PUBLIC COMPANY LTD	Banks and insurance
CYPRUS AIRWAYS PUBLIC LTD	Other services
CYPRUS FOREST INDUSTRIES PUBLIC LTD	Industrial and real estate development
CYPRUS TRADING CORPORATION PLC	Retail
CYVENTURE CAPITAL PUBLIC COMPANY LTD	General Financial
D & M TELEMARKETING PUBLIC LTD	Other services
D.H. CYPROTELS PLC	Other services
DIMCO PLC	Retail
DISPLAY ART PLC	Other services
DOME INVESTMENTS PUBLIC COMPANY LTD	Other services
ELLINAS FINANCE PUBLIC COMPANY LTD	General Financial
EUROPROFIT CAPITAL INVESTORS PUBLIC LTD	General Financial
EXELIXI INVESTMENT PUBLIC LTD	General Financial
G.A.P. VASSILOPOULOS PUBLIC LTD	Other services
HELLENIC BANK PUBLIC COMPANY LTD	Banks and insurance
K + G COMPLEX PUBLIC COMPANY LTD	Industrial and real estate development
K. ATHIENITIS CONTRACTORS DEVELOPERS PUBLIC LTD	Industrial and real estate development
K. KYTHREOTIS HOLDINGS PUBLIC LTD	Industrial and real estate development
KANIKA HOTELS PUBLIC COMPANY LTD	Other services
KARKOTIS MANUFACTURING & TRADING PUBLIC LTD	Industrial and real estate development
KEO PLC	Industrial and real estate development
KOSTAS MICHAELIDES CONSTRUCTION LTD	Industrial and real estate development
KRONOS PRESS DISTRIBUTION AGENCY PUBLIC COMPANY LTD	Other services
L.P. TRANSBETON PUBLIC LTD	Industrial and real estate development
LAIKI INVESTMENTS EPEY PLC	General Financial
LEPTOS CALYPSO HOTELS PUBLIC LTD	Other services
LIBERTY LIFE INSURANCE PUBLIC COMPANY LTD	Banks and insurance
LIBRA HOLIDAYS GROUP PLC	Other services
LOGICOM PUBLIC LTD	Technology
LORDOS HOTELS (HOLDINGS) PUBLIC LTD	Other services
LORDOS UNITED PLASTICS PUBLIC LTD	Industrial and real estate development
LOUIS PLC	Other services
MALLOUPPAS & PAPACOSTAS PUBLIC CO LTD	Retail

MARFIN POPULAR BANK PUBLIC CO LTD	Banks and insurance
MINERVA INSURANCE COMPANY PUBLIC LTD	Banks and insurance
MODESTOU SOUND & VISION PLC	Retail
MULTICHOICE (CYPRUS) PUBLIC COMPANY LTD	Other services
MUSKITA ALUMINIUM INDUSTRIES PLC	Industrial and real estate development
NEMESIS CONSTRUCTIONS PUBLIC COMPANY LTD	Industrial and real estate development
NEW MARATHON TOURS PUBLIC CO LTD	Other services
OPTIONS CASSOULIDES PLC	Other services
ORFANIDES PUBLIC COMPANY LTD	Retail
PANDORA INVESTMENTS PUBLIC LTD	Industrial and real estate development
PETROLINA (HOLDINGS) PUBLIC LTD	Retail
PHC FRANCHISED RESTAURANTS PUBLIC LTD	Other services
PHIL. ANDREOU PUBLIC LTD	Industrial and real estate development
PHILOKTIMATIKI PUBLIC LTD	Industrial and real estate development
PIERIDES HOLDINGS PLC	Retail
PIPIS BROS FARMS PUBLIC COMPANY LTD	Industrial and real estate development
PLYNTEX PUBLIC LTD	Other services
R.A.I. CONSULTANTS PUBLIC LTD	Other services
RENOS HATZIOANNOU FARM PUBLIC COMPANY LTD	Industrial and real estate development
ROLANDOS ENTERPRISES PUBLIC LTD	Industrial and real estate development
ROYAL HIGHGATE PUBLIC COMPANY LTD	Other services
SAFS HOLDINGS PUBLIC LTD	General Financial
SALAMIS TOURS (HOLDINGS) PUBLIC LTD	Other services
SEA STAR CAPITAL PLC	Other services
SFS GROUP PUBLIC COMPANY LTD	General Financial
SPIDERNET SERVICES PUBLIC LIMITED	Technology
STADEMOS HOTELS PLC	Other services
SUPHIRE HOLDINGS PUBLIC LTD	General Financial
TELIA AQUA MARINE PUBLIC LTD	Industrial and real estate development
THE CYPRUS CEMENT PUBLIC COMPANY LTD	Industrial and real estate development
TOP KINISIS TRAVEL PUBLIC LTD	Other services
TOXOTIS INVESTMENTS PUBLIC LTD	General Financial
UNIFAST FINANCE & INVESTMENTS PUBLIC COMPANY LTD	General Financial
USB BANK PLC	Banks and insurance
VASSILICO CEMENT WORKS PUBLIC COMPANY LTD	Industrial and real estate development

WOOLWORTH (CYPRUS) PROPERTIES PLC	Industrial and real estate development
XENOS TRAVEL PUBLIC LTD	Other services

APPENDIX 4: COMPANIES INCLUDED IN INTERVIEW SAMPLE OF MANAGERS

COMPANY NAME	INDUSTRY SECTOR
A. TSOKKOS HOTELS PUBLIC LTD	Other services
A. ZORBAS & SONS PUBLIC LTD	Industrial and real estate development
AVACOM NET PUBLIC COMPANY LTD	Technology
AVACOM PUBLIC COMPANY LTD	Technology
BANK OF CYPRUS PUBLIC COMPANY LTD	Banks and insurance
CAC PAPANTONIOU PLC	Retail
CLARIDGE PUBLIC LTD	Other services
HELLENIC BANK PUBLIC COMPANY LTD	Banks and insurance
K + G COMPLEX PUBLIC COMPANY LTD	Industrial and real estate development
KANIKA HOTELS PUBLIC COMPANY LTD	Other services
KEO PLC	Industrial and real estate development
LAIKI INVESTMENTS EPEY PLC	General Financial
LIBERTY LIFE INSURANCE PUBLIC COMPANY LTD	Banks and insurance
LORDOS HOTELS (HOLDINGS) PUBLIC LTD	Other services
LORDOS UNITED PLASTICS PUBLIC LTD	Industrial and real estate development
MALLOUPPAS & PAPACOSTAS PUBLIC CO LTD	Retail
MINERVA INSURANCE COMPANY PUBLIC LTD	Banks and insurance
MUSKITA ALUMINIUM INDUSTRIES PLC	Industrial and real estate development
ORFANIDES PUBLIC COMPANY LTD	Retail
PETROLINA (HOLDINGS) PUBLIC LTD	Retail
PHIL. ANDREOU PUBLIC LTD	Industrial and real estate development
SAFS HOLDINGS PUBLIC LTD	General Financial
SALAMIS TOURS (HOLDINGS) PUBLIC LTD	Other services
SFS GROUP PUBLIC COMPANY LTD	General Financial

APPENDIX 5: INTERVIEW QUESTIONS

General information

1. Does your firm comply with the Cyprus Governance Code fully?
2. If the answer to question 1 is NO, does your firm partly comply with the code?
3. If the answer to question 2 is YES, which points does it not comply with the code?
4. What is the market and industry sector your firm belongs to?
5. Is there a family that has a significant stake in your firm? If so give details.
6. How does your company assess its performance in general? (Sales growth =1, ROA = 2, Market performance =3, Other = 4). Explain

The effect of corporate governance practices in general on performance

7. Do you believe that the adoption of the corporate governance code has an effect on any kind of measure of performance? Justify your answer.
8. In a degree 1 to 3 (1 being strongest and 3 being weakest) what do you think is the effect of corporate governance mechanisms on performance as measured by Sales Growth, ROA, Market performance (growth) and other measures that your company may be using?
9. What other factors do you believe affect performance as measured by Sales Growth, ROA, Market performance (growth) and other measures that your company may be using? Have any of these factors affected your company's performance in the period 2002-2007. Please explain.

Board Composition

Committees

10. Do you think audit committees have an effect on performance? Justify your answer.
11. Do you think remuneration committees have an effect on performance? Justify your answer.
12. Do you think the formation of other committees has an effect on performance? If so, what kind of committees do you think will be valuable?

The role of directors

13. Does your company director have a dual role? Do you believe these affects performance? Please explain.
14. Does your firm have non-executive directors? What percentage? Do you believe they create value for the company? Justify your answer.
15. Do you think board expertise has an effect on performance? Justify your answer.

16. Do you think management expertise has an effect on performance? Justify your answer.

Other board factors

17. What is the firm's board size? What factors do you believe affect board size? Do you think the board size affects firm performance? If so, how?
18. How many meetings do you have on average per year? What determines the number of meetings taken? What topics do these meetings generally cover? Do you believe the numbers of meetings are linked to performance? Justify your answer.

Ownership

19. Is there a family that has a significant stake in your firm? Do you think more family ownership is linked to higher performance or vice-versa? If, so how?
20. Is there foreign ownership that has a significant stake in your firm? Do you think more foreign ownership is linked to higher performance or vice-versa? If, so how?
21. Is there insider ownership that has a significant stake in your firm? Do you think more insider ownership is linked to higher performance or vice-versa? If, so how?

Other factors

22. Do you think firm's age; size, leverage and the industry that the company operates have an effect on performance? Explain the sign you expect for each of these variables.

DEFINITION OF KEY TERMS FOR THE INTERVIEW

Industry classifications and sectors
ID 1: Banks and Insurance: applies to firms in the banking and insurance sectors.
ID 2: General Financial: applies to the firms in the financial sector (with the exception of firms in ID 1 and investment companies).
ID 3: Retail: applied to food and general retailers.
ID 4: Industrial & Real Estate Development: applies to manufacturers, construction firms and firms that operate in real estate.
ID 5: Technology: applies to firms in the computer sector (that is hardware, software and computer services).
ID 6: Other services: applies to firms in the following sectors: media, travel and leisure, hotels and support services.

Sales growth - the change in sales on a year-to-year basis.
Return on assets (ROA) - the profit before interest and taxes divided by total assets.

Board size is the number of members of the board including executive and non-executive directors. The non-executive percentage (board composition) is the proportion of non-executive directors to the board size.

Duality – when the chairman is also a CEO (two roles).

Family -an organisation in which decisions regarding its ownership or management are influenced by a relationship to a family.

Foreign ownership -an organisation in which decisions regarding its ownership or management are influenced by a relationship to foreign ownership.

Insider ownership – the percentage of shares owned in the firm by the directors.

Age – the age of the firm from the date of its incorporation.

Size – Total assets.

Leverage - total debt to total capital

APPENDIX 6: LETTER OF PERMISSION: ACCESS TO FUCy STAFF AND STUDENTS

APPENDIX 7: STUDENT QUESTIONNAIRE

Questionnaire on Course Evaluation

The following questionnaire aims at providing student feedback on the course they have undertaken. Provide your answers based on your experience concerning the course during your period as students at Frederick University Cyprus according to the guidelines below:

SEX:……………

COURSE:………….

CURRENT YEAR OF STUDY:……………..

SUBJECT:………………..

The questions below are answered on a 1-5 scale where

1=Strongly Disagree, 2=Disagree, 3=Neutral, 4=Agree, 5=Strongly Agree

Put the relevant figure in the tick box provided

Knowledge gained by students

1. Overall after taking this course you think that being a family business has an effect on corporate performance ☐
2. Overall after taking this course you think corporate governance has an impact on corporate performance ☐
3. Overall I learned a lot of useful information about the Cyprus Stock Exchange ☐
4. The course cov[illegible]d a lot of useful material on corporate governance ☐
5. The course took account of the unique characteristics of Cyprus business such as the domination of family businesses ☐
6. The course material provided useful knowledge that can be used by students in general in their future careers in business ☐

Future development of modules

1. An extra module that looked at family business management would significantly improve the quality of the course ☐
2. An extra module that looked at corporate governance would significantly improve the quality of the course ☐
3. An extra module that looked at more details on the firms operating in the Cyprus Stock Exchange would significantly improve the quality of the course ☐

GENERAL COMMENTS:

THANK YOU FOR COMPLETING THE QUESTIONNAIRE

APPENDIX 8: ACCA EXEMPTIONS TO FUCy

APPENDIX 9: DEGREE OUTLINES

APPENDIX 10: DESCRIPTIVE STATISTICS AND CORRELATIONS

10.1 Family firms in MM and PM

	N	Minimum	Maximum	Mean	Std. Deviation
C_CODE	126	1	101	52.14	25.617
Market	126	1	2	1.48	.501
MD1	126	0	1	.52	.501
MD2	126	0	1	.48	.501
MD3	126	0	0	.00	.000
ROE	126	-2.1724	3.1359	.068949	.3889781
ROA	126	-1.870770574110E-1	.254531722054	.04179827604250	.056890901665630
BOARD	126	4	18	8.33	2.629
LN_BOARD	126	1.386294361120E0	2.890371757896E0	2.07446467291453E0	.297458452057729
EXE	126	1	6	2.91	1.220
LN_EXEC	126	.000000000000	1.791759469228E0	.96651655350825	.480997343204195
NONEXE	126	0	14	5.41	2.720
LN_NONEXEC	126	.00000000000	2.63905732962E0	1.5603966707802E0	.54098899139497
NONEXE_P	126	.000000000000	.875000000000	.62383318647324	.190715277866978
MEETINGS	126	3	16	7.27	2.408
LN_MEETINGS	126	1.098612288668E0	2.772588722240E0	1.93616821852831E0	.302975285146286
BOARD_SKILL	126	1	15	7.18	2.642
LN_BOARD_SKILL	126	.00000000000	2.70805020110E0	1.8884782380344E0	.45127278292287
MANAG_SKILL	126	0	6	2.37	1.269
LN_MANAG_SKILL	126	.00000000000	1.79175946923E0	.7718717489145	.49122792466225
AUDIT	126	0	1	.77	.423
REM	126	0	1	.67	.470

DUAL	126	0	1	.47	.501
CGC	126	0	2	1.12	.722
CGC_F	126	0	1	.33	.470
CGC_P	126	0	1	.47	.501
CGC_N	126	0	1	.21	.406
FAMILY	126	1	1	1.00	.000
FOREIGN	126	0	1	.03	.176
FAMILY_P	126	.0859	.7704	.544476	.1638038
INSIDER_P	126	.0902	.7881	.581626	.1478743
MV_EUR	126	3.4	1668.9	76.098	215.6149
MV_CY	126	1.9899316	977.7000000	4.456213651E1	1.2631056471E2
TOTAL_ASSETS	126	8.05	7118.73	253.2452	1013.66006
BV_EQUITY	126	-49.92	346.84	39.1090	60.33512
BOOK_TO_MARKET	126	-7.389186862471E0	7.756189064129E0	1.59764177689007E0	1.475596973372785E0
TOBIN_Q	126	.286277359203	2.227045147425E0	.94188459093546	.370888841687367
LN_SIZE	126	.688100266286	6.885202874512E0	2.71613255452691E0	1.227606060545244E0
LN_ASSETS	126	2.085672091430E0	8.870484617710E0	3.88405682844076E0	1.318135724707956E0
AGE	126	5	104	30.16	18.963
LN_AGE	126	1.609437912434E0	4.644390899141E0	3.23748084073898E0	.591870196353272
DEBT	126	.00	6736.15	194.7715	960.07078
LEV	126	.000000000000	.902616558608	.43934973914330	.252383273799147
SALES_G	126	-9.649424527054E-1	8.297101449275E0	.15855590212712	.771885546846811
INDUS	126	1	6	4.32	1.424
ID1	126	0	1	.06	.245
ID2	126	0	0	.00	.000

ID3	126	0	1	.19	.394
ID4	126	0	1	.37	.486
ID5	126	0	1	.05	.214
ID6	126	0	1	.33	.470
T2002	126	0	1	.17	.374
T2003	126	0	1	.17	.381
T2004	126	0	1	.17	.381
T2005	126	0	1	.17	.381
T2006	126	0	1	.16	.367
T2007	126	0	1	.15	.359
Valid N (listwise)	126				

10.2 Non-family firms in MM and PM

	N	Minimum	Maximum	Mean	Std. Deviation
C_CODE	52	5	99	43.62	31.847
Market	52	1	2	1.44	.502
MD1	52	0	1	.56	.502
MD2	52	0	1	.44	.502
MD3	52	0	0	.00	.000
ROE	52	-2.7792	.2665	-.095869	.5750498
ROA	52	-2.91016675632E-1	.15420889640	.0151225516787	.08440266869027
BOARD	52	4	18	10.63	3.614
LN_BOARD	52	1.386294361120E0	2.890371757896E0	2.30695007274285E0	.346321797777845
EXE	52	0	6	2.71	1.661
LN_EXEC	52	.000000000000	1.791759469228E0	.93946523550592	.564858570661872
NONEXE	52	1	15	7.92	3.591
LN_NONEXEC	52	.00000000000	2.70805020110E0	1.9449797508440E0	.55164886726294
NONEXE_P	52	.166666666667	1.000000000000	.72838411588412	.195756279063198
MEETINGS	52	5	37	11.71	9.008
LN_MEETINGS	52	1.609437912434E0	3.610917912644E0	2.23740075911791E0	.629812338083134
BOARD_SKILL	52	4	18	10.31	3.622
LN_BOARD_SKILL	52	1.386294361120E0	2.890371757896E0	2.27488484772445E0	.344288757369693
MANAG_SKILL	52	0	5	2.63	1.621
LN_MANAG_SKILL	52	.000000000000	1.609437912434E0	.91483189232395	.557648965549540
AUDIT	52	0	1	.81	.398
REM	52	0	1	.75	.437
DUAL	52	0	1	.25	.437

CGC	52	0	2	1.27	.770
CGC_F	52	0	1	.46	.503
CGC_P	52	0	1	.35	.480
CGC_N	52	0	1	.19	.398
FAMILY	52	0	0	.00	.000
FOREIGN	52	0	1	.42	.499
FAMILY_P	52	0	0	.00	.000
INSIDER_P	52	.0000	.7435	.127205	.1748005
MV_EUR	52	9.80	5707.70	634.7443	1372.30250
MV_CY	52	5.73568520	3.34056841E3	3.7161832902E2	8.03342652100E2
TOTAL_ASSETS	52	22.92	18590.17	2436.1613	4876.71883
BV_EQUITY	52	-13.2	1983.8	203.636	407.9820
BOOK_TO_MARKET	52	-7.22679606114 4E-1	6.121326184 359E0	1.3266145411 0743E0	1.219927578559 199E0
TOBIN_Q	52	.558703315881	2.109318045 005E0	1.0052816223 7231E0	.2436642130384 94
LN_SIZE	52	1.74670722034 1E0	8.113896254 066E0	4.1223312899 5983E0	1.802851330110 488E0
LN_ASSETS	52	3.13200989184 7E0	9.830388225 375E0	5.5864400336 5741E0	2.102802361254 643E0
AGE	52	8	108	39.88	31.777
LN_AGE	52	2.07944154168 E0	4.682131227 12E0	3.3941378817 596E0	.7732153746001 0
DEBT	52	0	17417	2205.95	4503.138
LEV	52	0	1	.52	.390
SALES_G	52	-2.01291989664 1E0	2.877551020 408E0	.18014088173 744	.5696701899766 03
INDUS	52	1	6	2.69	1.986
ID1	52	0	1	.42	.499
ID2	52	0	1	.23	.425
ID3	52	0	0	.00	.000
ID4	52	0	1	.13	.345

ID5	52	0	0	.00	.000
ID6	52	0	1	.21	.412
T2002	52	0	1	.17	.382
T2003	52	0	1	.15	.364
T2004	52	0	1	.15	.364
T2005	52	0	1	.15	.364
T2006	52	0	1	.19	.398
T2007	52	0	1	.17	.382
Valid N (listwise)	52				

10.3 Family firms in AM

	N	Minimum	Maximum	Mean	Std. Deviation
C_CODE	337	2	100	50.16	30.039
Market	337	3	3	3.00	.000
MD1	337	0	0	.00	.000
MD2	337	0	0	.00	.000
MD3	337	1	1	1.00	.000
ROE	337	-6.151556420233E1	2.383664171819E0	-3.57507242199507E-1	3.708561048935846E0
ROA	337	-6.740724762726E-1	.181512799722	-5.82187443360452E-3	.124039853108578
BOARD	337	3	14	6.57	2.292
LN_BOARD	337	1.09861228867E0	2.63905732962E0	1.8271722483814E0	.33092661189246
EXE	337	0	7	2.70	1.679
LN_EXEC	337	.00000000000	1.94591014906E0	.8076565278759	.64289781943117
NONEXE	337	0	11	3.85	2.053
LN_NONEXEC	337	.00000000000	2.39789527280E0	1.2267000583758E0	.55261161356704
NONEXE_P	337	.0	1.0	.584	.2366
MEETINGS	337	3	10	5.20	1.302
LN_MEETINGS	337	1.098612288668E0	2.302585092994E0	1.61634091507842E0	.257614852678796
BOARD_SKILL	337	0	13	5.36	2.349
LN_BOARD_SKILL	337	.00000000000	2.56494935746E0	1.5744990185071E0	.49402350005815
MANAG_SKILL	337	0	6	2.13	1.591
LN_MANAG_SKILL	337	.00000000000	1.79175946923E0	.6431353057538	.60309242650389
AUDIT	337	0	1	.09	.285
REM	337	0	1	.05	.225

DUAL	337	0	1	.53	.500
CGC	337	0	2	.12	.411
CGC_F	337	0	1	.03	.170
CGC_P	337	0	1	.07	.247
CGC_N	337	0	1	.91	.294
FAMILY	337	1	1	1.00	.000
FOREIGN	337	0	1	.02	.143
FAMILY_P	337	.1965	.9916	.548658	.1332984
INSIDER_P	337	.1982	.9916	.596075	.1331598
MV_EUR	337	.172	365.010	14.16849	26.533367
MV_CY	337	.100433018	2.136308627E2	8.29244803474E0	1.552928987137E1
TOTAL_ASSETS	337	.0000	238.8900	28.455444	37.8792410
BV_EQUITY	337	-57.565	138.870	14.58746	21.045895
BOOK_TO_MARKET	337	-1.91550965872E1	1.86688488861E1	2.2687577219105E0	3.24835312196784E0
TOBIN_Q	337	.000000000000	4.333672490903E0	.91030464770183	.540583856170349
LN_SIZE	337	-2.298264257264E0	5.364249585132E0	1.39081630999337E0	1.211395395184651E0
LN_ASSETS	337	-2.80016549001E0	5.47600319494E0	2.6140945383821E0	1.25777072830772E0
AGE	337	4	64	22.97	13.335
LN_AGE	337	1.38629436112E0	4.15888308336E0	2.9806405506041E0	.55606704206304
DEBT	337	.0000	70.4260	7.819299	12.4095325
LEV	337	.000000000000	.975618839505	.41561690453458	.271251387450066
SALES_G	337	-9.736842105263E-1	8.343750000000E1	.57153982073344	5.499621114790602E0
INDUS	337	1	6	4.35	1.549
ID1	337	0	1	.06	.231

ID2	337	0	1	.07	.262
ID3	337	0	1	.14	.350
ID4	337	0	1	.30	.459
ID5	337	0	1	.05	.213
ID6	337	0	1	.38	.486
T2002	337	0	1	.17	.373
T2003	337	0	1	.17	.375
T2004	337	0	1	.17	.373
T2005	337	0	1	.17	.375
T2006	337	0	1	.16	.370
T2007	337	0	1	.17	.373
Valid N (listwise)	337				

10.4 Non-family firms in AM

	N	Minimum	Maximum	Mean	Std. Deviation
C_CODE	91	4	98	56.74	28.271
Market	91	3	3	3.00	.000
MD1	91	0	0	.00	.000
MD2	91	0	0	.00	.000
MD3	91	1	1	1.00	.000
ROE	91	-1.224274099884E1	3.059397884459E0	-2.24909167932341E-1	1.528413350166599E0
ROA	91	-1.291534008683E0	.308911513464	-3.70643207388022E-2	.214596234472535
BOARD	91	3	11	5.55	1.721
LN_BOARD	91	1.098612288668E0	2.397895272798E0	1.66547602791140E0	.314899415944870
EXE	91	0	3	.91	.825
LN_EXEC	91	0	1	.17	.325
NONEXE	91	1	10	4.64	1.742
LN_NONEXEC	91	.00000000000	2.30258509299E0	1.4573565695776E0	.41130646129403
NONEXE_P	91	.3	1.0	.830	.1618
MEETINGS	91	3	17	6.26	2.615
LN_MEETINGS	91	1.09861228867E0	2.83321334406E0	1.7704171628575E0	.34265120993021
BOARD_SKILL	91	2	11	5.09	1.811
LN_BOARD_SKILL	91	.69314718056	2.39789527280E0	1.5612216870576E0	.37207733227129
MANAG_SKILL	91	0	3	.89	.809
LN_MANAG_SKILL	91	0	1	.16	.317
AUDIT	91	0	1	.18	.383

REM	91	0	1	.10	.300
DUAL	91	0	1	.11	.314
CGC	91	0	2	.23	.539
CGC_F	91	0	1	.05	.229
CGC_P	91	0	1	.12	.328
CGC_N	91	0	1	.82	.383
FAMILY	91	0	0	.00	.000
FOREIGN	91	0	0	.00	.000
FAMILY_P	91	0	0	.01	.046
INSIDER_P	91	.0000	.4386	.065824	.0876395
MV_EUR	91	.43	166.65	11.6111	22.23765
MV_CY	91	.25125813	97.53591210	6.7956462565E0	1.30151180909E1
TOTAL_ASSETS	91	.07	274.06	28.5198	58.40324
BV_EQUITY	91	-2.28	61.99	7.7007	13.19813
BOOK_TO_MARKET	91	-2.825564740414E0	7.235927104228E0	1.57386279381294E0	1.637860399218705E0
TOBIN_Q	91	.207528721724	6.702437135521E0	1.13413815849222E0	.899816942382523
LN_SIZE	91	-1.381274469087E0	4.580220639418E0	.98569920005819	1.348391597295762E0
LN_ASSETS	91	-2.657832484942E0	5.613354358163E0	1.99252058414446E0	1.701332310709524E0
AGE	91	3	82	24.22	23.071
LN_AGE	91	1.098612288668E0	4.406719247264E0	2.84689153597343E0	.785483878922015
DEBT	91	.00	149.83	4.9275	16.50881
LEV	91	.000000000000	.945044104087	.28307835691670	.258839714602337
SALES_G	91	-9.583333333333E-1	2.240000000000E1	.47188701927214	2.572432503357032E0
INDUS	91	1	6	3.70	1.900

ID1	91	0	1	.12	.328
ID2	91	0	1	.31	.464
ID3	91	0	0	.00	.000
ID4	91	0	1	.22	.416
ID5	91	0	1	.02	.147
ID6	91	0	1	.33	.473
T2002	91	0	1	.16	.373
T2003	91	0	1	.15	.363
T2004	91	0	1	.16	.373
T2005	91	0	1	.15	.363
T2006	91	0	1	.18	.383
T2007	91	0	1	.19	.392
Valid N (listwise)	91				

10.5 Significance testing comparing means for the different markets

	Pooled sample estimates						Comparisons between markets					
	Main (MM)-1		Parallel (PM)-2		Others (AM)-3		Equal Variance			Unequal Variance		
Variable	**Mean**	**Variance**	**Mean**	**Variance**	**Mean**	**Variance**	**1 vs 2**	**1 vs 3**	**2 vs 3**	**1 vs 2**	**1 vs 3**	**2 vs 3**
ROA	0,0385	0,0039	0,0288	0,0051	-0,0125	0,0220		***	**		***	***
TOBIN Q	1,0595	0,1097	0,8470	0,0983	0,9579	0,4090	***			***	**	**
ROE	0,0621	0,2107	-0,0264	0,2028	-0,3293	11,3177					**	*
SALES GROWTH	0,1382	0,2125	0,1954	0,8649	0,5504	25,1964					*	
BOARD	9,7579	12,3769	8,1325	5,4334	6,3551	4,9321	***	***	***	***	***	***
LN(BOARD)	2,2209	0,1104	2,0525	0,0918	1,7928	0,1115	***	***	***	***	***	***
EXE	2,8947	1,4143	2,8072	2,3770	2,3201	2,8973		***	**		***	**
LN(EXEC)	0,9544	0,2556	0,9635	0,2584	0,6728	0,4151		***	***		***	***
NON-EXE	6,8632	10,4811	5,3253	8,8319	4,0187	4,0605	***	***	***	***	***	***
LN(NON-EXEC)	1,8179	0,2295	1,5066	0,3864	1,2757	0,2849	***	***	***	***	***	***
%NON-EXE	0,6878	0,0213	0,6161	0,0570	0,6367	0,0597	**	*		**	***	
MEETINGS	10,3579	49,4237	6,5181	3,5454	5,4252	2,9663	***	***	***	***	***	***
LN(MEETINGS)	2,1865	0,2541	1,8384	0,0706	1,6491	0,0810	***	***	***	***	***	***
BOARD SKILL	9,0211	12,3825	7,0361	6,8645	5,2991	5,0438	***	***	***	***	***	***
LN(BOARD SKILL)	2,1329	0,1289	1,8508	0,2605	1,5717	0,2213	***	***	***	***	***	***
MANAG SKILL	2,5579	0,9940	2,3133	2,9495	1,8692	2,3903		***	**		***	**
LN(MANAG SKILL)	0,8490	0,2051	0,7731	0,3322	0,5400	0,3468		***	***		***	***
AUDIT-COM	0,8000	0,1617	0,7590	0,1851	0,1075	0,0962		***	***		***	***

REMUN-COM	0,8000	0,1617	0,5783	0,2468	0,0631	0,0592	***	***	***	***	***	***
DUALITY	0,2842	0,2056	0,5422	0,2512	0,4439	0,2474	***	***		***	***	
CGC COMPLIANCE	1,3684	0,6394	0,9277	0,3362	0,1472	0,1961	***	***	***	***	***	***
CGC_F	0,5684	0,2479	0,1325	0,1164	0,0350	0,0339	***	***	***	***	***	**
CGC_P	0,2316	0,1798	0,6627	0,2263	0,0771	0,0713	***	***	***	***	***	***
CGC_N	0,2000	0,1617	0,2048	0,1649	0,8879	0,0998		***	***		***	***
FAMILY	0,6947	0,2143	0,7229	0,2028	0,7874	0,1678		*			*	
FOREIGN	0,1474	0,1270	0,1446	0,1252	0,0164	0,0161		***	***		***	***
FAMILY %	0,3412	0,0776	0,4360	0,0801	0,4333	0,0638	**	***		**	***	
INSIDER%	0,4049	0,0689	0,4992	0,0613	0,4833	0,0628	**	***		**	***	
MARKET-CAP EUR	430,5077	1126148,2460	20,4430	438,7899	13,6247	659,3100	***	***	**	***	***	**
MARKET-CAP CY	252,0622	385946,5844	11,9648	150,3056	7,9742	225,8438	***	***	**	***	***	**
TOTAL ASSETS	1634,2335	14936604,9118	40,2060	1723,7583	28,4691	1847,9860	***	***	**	***	***	**
BV-EQUITY	148,4196	97466,8022	17,0713	173,3832	13,1232	393,2081	***	***	*	***	***	**
BOOK_TO_MARKET	1,1024	1,4771	1,9947	2,1544	2,1210	8,9495	***	***		***	***	
LOG FIRM SIZE	3,9881	2,4038	2,1412	0,6081	1,3047	1,5655	***	***	***	***	***	***
LOG ASSETS	5,2663	3,6649	3,3685	0,5529	2,4819	1,9198	***	***	***	***	***	***
AGE	36,7474	864,7015	28,7108	192,5251	23,2383	252,3693	**	***	***	**	***	***
LN(AGE)	3,3263	0,5662	3,2339	0,2632	2,9522	0,3764		***	***		***	***
DEBT	1455,8247	12828142,7052	11,4130	359,0676	7,2045	180,0250	***	***	**	***	***	*
LEVERAGE	0,5268	0,0852	0,3894	0,0866	0,3874	0,0750	***	***		***	***	
INDUS CLASS	3,5368	3,5066	4,1928	2,4746	4,2103	2,7191	**	***		**	***	
ID1	0,2526	0,1908	0,0723	0,0679	0,0701	0,0653	***	***		***	***	
ID2	0,0632	0,0598	0,0723	0,0679	0,1238	0,1088		*			**	
ID3	0,1263	0,1115	0,1446	0,1252	0,1121	0,0998						
ID4	0,2526	0,1908	0,3614	0,2336	0,2827	0,2033						
ID5	0,0632	0,0598	0,0000	0,0000	0,0421	0,0404	**		*	**		***
ID6	0,2421	0,1854	0,3494	0,2301	0,3692	0,2334		**			**	
Market	1,0000	0,0000	2,0000	0,0000	3,0000	0,0000						
MD1	1,0000	0,0000	0,0000	0,0000	0,0000	0,0000						
MD2	0,0000	0,0000	1,0000	0,0000	0,0000	0,0000						
MD3	0,0000	0,0000	0,0000	0,0000	1,0000	0,0000						

Notes: The table reports means and standard deviation for different variables the main, parallel and AM firms based on pooled data for the years 2002-2007 for the Cyprus stock market. The table also reports comparisons of means between the different markets for all variables reported using two alternative approaches: equal variance and unequal variance of the years 2002-2007 (for brevity we only report means and variances using the equal variance sample). The markets are separated with respect to the level of corporate governance compliance according to the official CSE classification. We have 95 firm-year observations in the MM, 83 firm-year observations in the PM and 428 firm-year observations in the AM. Statistically significance: “*” : 10% level, “**”: 5% level, “***”: 1% level.

10.6 Medians and median comparisons between markets

	Median			Wilcoxon/Mann-Whitney		
Variable	Main (MM)-1	Parallel (PM)-2	Others (AM)-3	1 vs 2	1 vs 3	2 vs 3
ROA	0.034	0.029	0.018		***	**
TOBIN Q	1.001	0.828	0.790	***	***	***
ROE	0.074	0.039	0.016	***	***	***
SALES GROWTH	0.091	0.074	0.018		***	***
BOARD	9	8	6	***	***	***
EXE	3	3	2		***	***
NON-EXE	6	4	4	***	***	***
%NON-EXE	0.727	0.600	0.667	**		
MEETINGS	7	6	5	***	***	***
BOARD SKILL	8	8	5	***	***	***

The table reports medians and comparisons of medians between the different markets for all variables reported using Wilcoxon/Mann-Witney tests of the years 2002-2007. The markets are separated with respect to the level of corporate governance compliance according to the official CSE classification. We have 95 firm-year observations in the MM, 83 firm-year observations in the PM and 428 firm-year observations in the AM. Statistically significance: "*" : 10% level, "**": 5% level, "***": 1% level.

10.7 Correlations

	REM COM	MD1	MD2	MD3	ROA	BOARD	LN_BOARD	NONEXE_P	MEETINGS
REM COM	1.00								
MD1	0.55	1.00							
MD2	0.30	-0.17	1.00						
MD3	-0.67	-0.67	-0.62	1.00					
ROA	0.14	0.12	0.08	-0.16	1.00				
BOARD	0.40	0.41	0.14	-0.43	0.12	1.00			
LN_BOARD	0.41	0.38	0.17	-0.43	0.14	0.97	1.00		
NONEXE_P	0.17	0.09	-0.04	-0.03	-0.11	0.10	0.07	1.00	
MEETINGS	0.44	0.47	0.02	-0.39	0.02	0.44	0.36	0.11	1.00
LN_MEETINGS	0.49	0.49	0.08	-0.45	0.00	0.40	0.35	0.11	0.91
BOARD_SKILL	0.44	0.43	0.13	-0.44	0.05	0.92	0.88	0.16	0.49
LN_BOARD_SKILL	0.41	0.37	0.12	-0.39	0.03	0.80	0.83	0.15	0.36
MANAG_SKILL	0.12	0.15	0.07	-0.17	0.05	0.42	0.45	-0.62	0.14
LN_MANAG_SKILL	0.13	0.17	0.10	-0.21	0.07	0.45	0.47	-0.62	0.16
AUDIT	0.87	0.46	0.39	-0.67	0.12	0.37	0.39	0.13	0.41
DUAL	-0.09	-0.13	0.09	0.04	0.10	-0.14	-0.13	-0.21	-0.17
CGC_F	0.68	0.56	0.00	-0.44	0.05	0.42	0.40	0.13	0.53
CGC_P	0.43	0.06	0.50	-0.42	0.10	0.06	0.10	0.03	0.02
CGC_N	-0.85	-0.45	-0.41	0.67	-0.12	-0.35	-0.38	-0.12	-0.41

FAMILY	-0.11	-0.07	-0.04	0.09	0.08	-0.05	0.00	-0.36	-0.29
INSIDER_P	-0.12	-0.12	0.04	0.06	0.14	-0.04	0.02	-0.42	-0.28
MV_EUR	0.25	0.34	-0.05	-0.23	0.02	0.43	0.32	0.06	0.68
BV_EQUITY	0.25	0.37	-0.05	-0.25	0.04	0.44	0.34	0.06	0.57
TOBIN_Q	-0.01	0.08	-0.08	0.00	-0.17	-0.14	-0.19	0.10	0.08
LN_SIZE	0.45	0.59	0.08	-0.53	0.28	0.54	0.51	-0.03	0.51
AGE	0.21	0.24	0.05	-0.23	0.15	0.41	0.37	-0.03	0.40
LN_AGE	0.19	0.19	0.11	-0.23	0.22	0.38	0.37	-0.13	0.25
LEV	0.15	0.18	-0.03	-0.12	-0.08	0.30	0.26	-0.07	0.18
SALES_G	-0.03	-0.03	-0.02	0.04	0.00	-0.02	-0.03	-0.01	-0.01
ID1	0.22	0.22	-0.04	-0.15	0.04	0.28	0.26	0.08	0.46
ID2	-0.06	-0.06	-0.05	0.08	-0.23	-0.25	-0.27	0.25	-0.05
ID3	-0.06	0.01	0.03	-0.03	0.08	0.02	-0.02	-0.08	-0.09
ID4	-0.01	-0.03	0.06	-0.02	0.18	-0.02	0.04	-0.22	-0.09
ID5	-0.02	0.05	-0.08	0.02	-0.13	-0.07	-0.07	0.05	0.05
ID6	-0.04	-0.09	0.00	0.07	-0.05	0.01	0.02	0.03	-0.12
MD1*CGC_P	0.23	0.45	-0.08	-0.30	0.13	0.07	0.08	0.07	0.03
MD2*CGC_N	0.13	-0.07	0.43	-0.26	0.01	0.07	0.08	-0.05	0.01
MD3*CGC_F	0.28	-0.07	-0.06	0.10	0.00	0.02	0.04	0.13	0.06

	LN MEETINGS	BOARD SKILL	LN_ BOARD SKILL	MGT SKILS	LN MGT SKILLS	AUDIT	DUAL	CGC_F	CGC_P	CGC_N
LN_MEETINGS	1.00									
BOARD_SKILL	0.46	1.00								
LN_BOARD_SKILL	0.37	0.93	1.00							
MANAG_SKILL	0,14	0,43	0,43	1.00						
LN_MANAG_SKILL	0.15	0.44	0.44	0.96	1.00					
AUDIT	0.47	0.39	0.37	0.08	0.10	1.00				
DUAL	-0.14	-0.14	-0.16	0.03	-0.01	-0.06	1.00			
CGC_F	0.53	0.43	0.37	0.12	0.15	0.59	-0.34	1.00		
CGC_P	0.11	0.07	0.09	-0.03	-0.04	0.66	0.23	-0.18	1.00	
CGC_N	-0.48	-0.37	-0.35	-0.07	-0.08	-0.98	0.06	-0.58	-0.70	1.00
FAMILY	-0.26	-0.17	-0.14	0.19	0.18	-0.12	0.30	-0.12	-0.03	0.11
INSIDER_P	-0.28	-0.17	-0.13	0.26	0.25	-0.11	0.39	-0.22	0.08	0.09
MV_EUR	0.48	0.47	0.29	0,26	0,25	0.22	-0.11	0.35	-0.05	-0.21
BV_EQUITY	0.43	0.47	0.31	0,16	0,16	0.23	-0.11	0.35	-0.04	-0.22
TOBIN_Q	0.12	-0.10	-0.10	-0.13	-0.13	0.03	0.05	-0.03	0.06	-0.03
LN_SIZE	0.47	0.56	0.47	0.25	0.27	0.41	-0.06	0.40	0.14	-0.41
AGE	0.32	0.42	0.31	0.22	0.23	0.24	-0.07	0.23	0.06	-0.22
LN_AGE	0.20	0.35	0.27	0.27	0.28	0.23	-0.01	0.17	0.11	-0.22
LEV	0.11	0.25	0.16	0.21	0.20	0.08	-0.02	0.21	-0.08	-0.09
SALES_G	0.00	0.00	-0.01	0.02	0.02	0.01	-0.04	-0.03	0.03	-0.01
ID1	0.38	0.34	0.27	0.07	0.09	0.21	-0.09	0.25	0.03	-0.20
ID2	-0.02	-0.14	-0.10	-0.26	-0.24	-0.04	0.00	-0.14	0.09	0.03
ID3	-0.09	-0.14	-0.29	-0.04	-0.05	-0.01	0.17	-0.11	0.10	0.00
ID4	-0.07	-0.02	0.05	0.18	0.18	-0.01	0.05	-0.03	0.01	0.01
ID5	0.07	-0.03	0.00	-0.03	-0.04	-0.04	-0.09	0.05	-0.10	0.05
ID6	-0.13	0.00	0.04	-0.01	-0.02	-0.07	-0.07	0.02	-0.12	0.08

MD1*CGC_P	0.08	0.08	0.09	0.13	0.15	0.29	0.19	-0.08	0.41	-0.29
MD2*CGC_N	0.03	0.06	0.07	0.00	0.00	-0.11	-0.01	-0.07	-0.08	0.11
MD3*CGC_F	0.10	0.03	0.06	-0.08	-0.10	0.24	-0.14	0.41	-0.08	-0.24

	FAMILY	INSIDER_P	BV_EQUITY	TOBIN_Q	LN_SIZE	AGE	LN_AGE	LEV	SALES_G
FAMILY	1.00								
INSIDER_P	0.85	1.00							
MV_EUR	-0.20	-0.23							
BV_EQUITY	-0.18	-0.19	1.00						
TOBIN_Q	-0.13	-0.10	-0.02	1.00					
LN_SIZE	-0.10	-0.09	0.54	0.08	1.00				
AGE	-0.11	-0.11	0.52	-0.07	0.51	1.00			
LN_AGE	0.00	0.04	0.34	-0.11	0.43	0.92	1.00		
LEV	0.08	0.04	0.23	-0.22	0.01	0.20	0.15	1.00	
SALES_G	0.01	0.04	0.00	0.01	0.02	-0.04	-0.06	0.02	1.00
ID1	-0.25	-0.27	0.37	0.03	0.34	0.29	0.15	0.02	-0.02
ID2	-0.31	-0.31	-0.07	0.19	-0.14	-0.21	-0.23	-0.15	0.00
ID3	0.20	0.23	-0.05	-0.05	-0.08	0.05	0.12	0.11	-0.03
ID4	0.12	0.16	-0.07	-0.05	0.05	0.11	0.21	-0.17	0.06
ID5	0.07	0.04	-0.04	0.09	-0.05	-0.16	-0.22	-0.02	-0.02
ID6	0.07	0.04	-0.07	-0.09	-0.10	-0.12	-0.13	0.18	-0.01
MD1*CGC_P	0.02	0.07	0.04	0.07	0.24	0.10	0.12	0.01	-0.01
MD2*CGC_N	-0.05	-0.02	-0.01	0.01	0.07	0.05	0.07	0.00	-0.02
MD3*CGC_F	-0.04	-0.11	-0.03	-0.06	-0.06	-0.02	-0.05	0.06	0.00

	ID1	ID2	ID3	ID4	ID5	ID6	MD1* CGC_P	MD2* CGC_N	MD3* CGC_F
ID2	-0.11	1.00							
ID3	-0.12	-0.13	1.00						
ID4	-0.21	-0.22	-0.23	1.00					
ID5	-0.07	-0.07	-0.07	-0.13	1.00				
ID6	-0.24	-0.25	-0.27	-0.46	-0.15	1.00			
MD1*CGC_P	-0.06	0.05	0.09	-0.01	-0.04	-0.03	1.00		
MD2*CGC_N	-0.02	-0.03	-0.03	0.02	-0.03	0.04	-0.03	1.00	
MD3*CGC_F	0.02	-0.06	-0.06	-0.03	-0.03	0.11	-0.03	-0.03	1.00

APPENDIX 11: PROPOSED NEW MODULE SYLLABUS

<table>
<tr><td rowspan="2">AFBE 320</td><td rowspan="2">Corporate Governance</td><td>Lectures</td><td>Labs</td><td>Project</td><td>ECTS</td></tr>
<tr><td>3</td><td>No</td><td>No</td><td>5</td></tr>
<tr><td>Aims</td><td colspan="5">One aim of the module is to enable students understand the theory and mechanics of corporate governance. It also aims to enable students to understand Stock Exchange theory and practice with emphasis on the Cyprus Stock Exchange.</td></tr>
<tr><td>Learning outcomes:</td><td colspan="5">By the end of this course students should:
• Examine the history of corporate governance and the reasons for its implementation in many stock exchanges.
• Be able to define corporate governance and understand its role in effective management and control.
• Understand the various corporate governance mechanisms that affect performance.
• Be able to understand how the Cyprus Stock Exchange operates and its role in the financial system.
• Examine and understand the main principles in the regulations of the Cyprus Stock Exchange including the corporate governance code.
• Examine the role of efficiency market hypothesis theory.
• Examine the literature concerning the relationship between Corporate Governance and firm performance using evidence from various stock exchanges.</td></tr>
<tr><td>Description:</td><td colspan="5">1. History and evolution of the role of corporate governance in stock markets including Cyprus.
2. Corporate Governance Theory.
3. Relationships between Corporate Governance mechanisms and Performance including the factors of: directors, ownership and control.
4. How the Cyprus Stock Exchange operates in comparison to other markets
5. The role of the Cyprus Stock Exchange in the finance system.
6. The theory of the Efficient Market Hypothesis and its application to other markets including the Cyprus Stock Exchange.
7. Review of Stock Exchange regulations with emphasis on the Corporate Governance Code.
8. Research concerning the relationship between corporate governance and firm performance using evidence from various stock exchanges.</td></tr>
<tr><td>Textbook:</td><td colspan="5">Kaplan Publishing, ACCA Complete Text P1 PA: Professional Accountant, Kaplan Publishing, 2009</td></tr>
<tr><td>References:</td><td colspan="5">Mallin, C, Corporate Governance, Second Edition, Oxford University Press, 2007.
Monks, AG and Minow, N, Corporate Governance, Third Edition, Malden MA, Blackwell, 2004.</td></tr>
</table>

	Becket, Michael, *How the Stock Market Works,* Second Edition, Kogan Page, 2004.
Assessment:	• Final Exam: 60% • Coursework: 40%