

DUALITY OF ROLES AND CORPORATE GOVERNANCE IN GREECE

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Abstract

Duality of the role of President of the Board of Directors (BoD) and CEO has been regarded as a good practice of corporate governance. These two roles are the ones with the most power and authority within the corporation. The paper depicts the formulating factors of duality of roles in Greece. Literature has linked duality with performance, organizational stability, ownership concentration and balance of power and control within the firm. The paper, using a Probit regression analysis, examines whether these relationships are valid in Greece. Statistical – econometric analysis has shown that financial performance is not related with concentration of power and control. The same conclusion is can be drawn for ownership concentration. There is a trend of change but this trend hasn't the same dynamic or driving factors as the ones that are reported by Kirkbride and Letza (2002) and Muth and Donaldson (1998). The hypothesis posed by Heracleous (2001) and Baliga, Moyer and Rao (1996) are more likely to be true in the case of Greece. Overall, duality in Greece is affected by the historical development of the firm, its organizational scheme and even more by the balance of power and control within the firm.

Keywords: Corporate Governance, Duality, CEO, Greece

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1. Introduction

Duality of the role of President of the Board of Directors (BoD) and CEO has been regarded as a good practice of corporate governance. These two roles are the ones with the most power and authority within the corporation. President's role is to monitor and supervise Board's functions. The Board is responsible for hiring, monitoring and defining the level of remuneration of the CEO and the other executive managers. Power accumulation through the combination of the two roles may have a positive element (easiness to make decisions) and a negative (the possibility of expropriation of the enhanced position to procure private benefits or to pursue private goals).

The effectiveness of duality, as well as the other good practices of corporate governance, has been questioned. Donaldson and Davis (1991) and Williamson (1985) argue that duality of roles will be in the best interest of shareholders. Empirical studies show that duality has a positive effect on profitability (Kirkbride and Letza, 2002; Muth and Donaldson, 1998). On the contrary Heracleous (2001) and Baliga, Moyer and Rao (1996) argue that duality is just a symbolic gesture of the BoD and that there is no significant correlation of duality and organizational and financial performance.

Lam and Lee (2008) argue that "CEO duality has been the dominant board leadership structure of US corporations, in which 70 percent-80 percent of

them combine the roles of chief executive officer (CEO) and chairperson (Rechner and Dalton, 1991; Rhoades, et al. (2001)". Power concentration has been seen as a factor that may lead to power misuse and control inefficiency and to an idle board of directors (Daily and Dalton, 1993). Duality feeds the circle of entrenchment of CEOs position and their capability to misuse assets or to engage themselves in fraudulent activities and away from shareholders' – stakeholders' goals.

Duality of roles is considered by OECD and other important corporate governance documents, one of the most important mechanisms of monitor and control. As Fama and Jensen (1983) argue, lack of duality, according to the agency theory, may be the cause of problems, especially in the area of obtaining competitive advantage.

Lack of duality or distinction of roles may cause conflicts of interests, due to the fact that the person responsible for monitoring is the person that has to be monitored (Jensen, 1993; Brickley, Coles and Jarrell, 1997). Donaldson and Davis (1991) argue that the two roles should be combined in order the firm to have a strong and clear vision of its goals. CEOs should be trusted with this power because they are self-actualizing. Others like Elloumi and Gueyie (2001) support the notion that role combination may be the instrument to conserve the status quo, rather to create change. The paper tests the above theories for a Continental Europe system country, using data from Greece.

2. Corporate Governance status in Greece

Greek firms are mainly family or controlled by a group of stockholders. Free float is relatively small in percentage (20-50%) and the ability to achieve control through the capital market is limited. The members of the family or the controlling group are actively involved in management and normally, there is no distinction between management and ownership. The Board of Directors can be characterized as one tier. Managers that are not members of the family or the controlling group are closely connected with these groups and their decisions are subject to their control and monitoring. Institutional investors, although the catalyst for the adoption of CG mechanisms, have not actively been involved in management or in controlling and monitoring the decisions and actions of the controlling group.

Mertzanis (2001) (before the new law for the CG in Greece was enacted) noted: "the prevailing framework of corporate governance in Greece is not simply considerably outdated, but may cause potential problems, due to inadequate transparency and accountability, regarding the provision of cost-efficient finance that is required to increase investment and raise national competitiveness". So the Hellenic Capital Market Committee (2000) and the Committee on Corporate Governance have made 44 basic recommendations (compiled in seven main categories: rights and obligations of shareholders; the equitable treatment of shareholders; the role of stakeholders in corporate governance; transparency, disclosure of information and auditing; the board of directors; the non-executive members of the board of directors; Executive management. They have also proposed the adoption of IAS (now IFRS)). Only a small number of these recommendations have been adopted and introduced.

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Greece has the same characteristics as Spain, Italy, Portugal, and other countries that are ranked in the Continental Europe corporate governance system. Determination of the factors that affect duality is done by using Probit Regression models. Two main hypotheses were tested: a) Duality is

affected by variables like the quality of corporate governance and its mechanisms, ownership concentration, board of directors' structure and composition and firm's size, b) duality is a simple gesture that has no effect on performance.

Spanos (2005) notes that "the majority of medium and small capitalization (family-owned) companies have adopted the minimum mandatory requirements and lack further efficient CG mechanisms. As long as the competition for capital is increasing, listed companies have to realize that proper CG is a prerequisite in order to attract international capital. Moreover, corporate governance may meet one of the most significant challenges that family-run businesses face: management succession". The need for CG mechanisms is identified by all market participants as a substitute for trust (as a bonding and problem solving element) among the major stockholders or family members, but they cannot agree on what the mechanisms/processes will be. Also, there are strong resistive forces mainly by the major stockholders/family members who are not willing to pass power and information to "non-trust worthy" stockholders or professional executive managers. As a result the governing/administrative bodies do not function according to statutes or laws and the process that they provide, but according to the common will of the family members. Furthermore, an effective market for corporate control does not exist.

The BoD is mostly acting as a passive body in the company where it follows the decisions of the management. Non-executive board members, rather than act as shareholders' agents, do not efficiently supervise the management (Schulze et al., 2003). This is the case in the majority of (family) public companies in Greece, where significant costs result from bias in favouring family interests over the firm's interests (such as non-family shareholders), because of loyalty toward the family (Schulze et al., 2003). Even though the rules mandate specific requirements regarding board independence, it's difficult in practice to identify whether the board meets these rules (Spanos (2005). In countries with concentrated ownership structure (continental Europe, Japan and other OECD countries), large dominant shareholders usually control managers and expropriate minority shareholders, in order to extract private control benefits. The question is therefore posed as how to align the interests of strong block-holders and weak minority shareholders (Spanos, 2005, p. 16; Becht, 1997).

On the other hand, investors usually use their exit options if they disagree with the management or if they are disappointed by the company's performance, signaling – through share price reduction – the necessity for managers to improve firm performance (Spanos, 2005, p. 16; Hirschman, 1970). The lack of market liquidity creates

problems in the effectiveness of the shareholders exit option and governing problems (since the main governing body is the general shareholders meeting, but participation is not an easy task). The cost of involvement with management and control for the minor stockholder is greater than the cost of exit and so they may easily choose to sell their stock (“they vote with their feet”) if they are not content with the managements’ choices. The shareholders encirclement does not necessarily mean participation in the company administration. Moreover, family firms disclose less narrative information than non-family firms, where family-firms may disclose more information than non-family firms in some selected areas of interest, such as data information about share price policy and number of diagrams used in the interim report (Mavridis, 2002). In countries where business has traditionally been based on relationship and trust, corporate information is thought of as secret; and it is accepted practice to keep different sets of books, e.g. one for taxes, one for outside investors, and one for the majority shareholder (Fremond and Capaul, 2002, p. 18).

3. Duality of roles in Greece

In family firms the reality of duality of roles (CEO and Chairman of the Board of Directors) simply

does not exist. Ownership structure and power balance prohibit any real diffusion of power and control. In the Anglo-Saxon countries role separation is considered an indication of the need for strong leadership. Role separation in Greece is implemented as a good practice for the diffusion of the risk of exploitation of the dominant position to maximize benefits and utility for the person that holds both roles. Only 38,95% years 2001-2002) and 33,64% (years 2003-2006) of the firms are applying this practice. What is odd is that although the relevant Greek Law that promotes corporate governance was enacted in 2002, the percentage is decreased and not increased.

Stratifying variables using the CeoChair (duality) variable highlights some interesting points. The first point is that ownership concentration (Own and Herf variables) doesn’t seem to fluctuate over time. Both strata have the same, more or less, concentration of ownership as a mean or variance. This is not the case for the financial performance variables (ROE, TRS, TQ), excluding the PE variable. Firms that use the best practice of duality of CEO and Chairman role have significantly less reported financial performance. This is an indication that the theory of Kirkbride and Letza (2002) and Muth and Donaldson (1998) don’t have the same validity as it is reported for the Anglo-Saxon countries.

Table 1. Stratification of the sample

	2001	2002	2003	2004	2005	2006	Total
Mean of Own variable							
No Duality	0,531	0,589	0,538	0,521	0,510	0,491	0,527
Duality	0,583	0,567	0,526	0,504	0,518	0,488	0,532
Total	0,551	0,581	0,533	0,515	0,513	0,490	0,529
Mean of Herf variable							
No Duality	0,220	0,286	0,235	0,225	0,225	0,201	0,230
Duality	0,253	0,232	0,221	0,204	0,193	0,170	0,214
Total	0,233	0,265	0,230	0,217	0,215	0,193	0,225
Sum of ROE variable							
No Duality	0,216	0,137	3,113	2,167	0,191	0,157	0,990
Duality	0,342	0,200	0,244	0,379	0,118	0,273	0,260
Total	0,265	0,161	2,030	1,505	0,167	0,189	0,732
Mean of Total Return on Shareholder (price premium plus dividends)							
No Duality	-8,200	-2,283	1,126	-0,285	2,702	1,539	0,608
Duality		-4,795	2,582	1,139	3,681	4,134	1,204
Total	-8,200	-3,245	1,691	0,252	3,028	2,238	0,815
Sum of TQ variable							
No Duality	66,521	39,258	81,969	41,902	64,047	74,649	368,345
Duality	31,518	26,816	31,776	31,604	25,916	23,493	171,123
Total	98,039	66,074	113,744	73,506	89,963	98,143	539,468
Sum of PE variable							
No Duality	12,014	7,594	8,363	8,297	14,459	16,845	11,540
Duality	15,721	10,817	12,845	13,267	11,543	14,734	13,087
Total	13,465	8,844	10,054	10,138	13,505	16,269	12,085

Strong leadership (role combination) may be seen as risk minimizing factor. Investors consider strong leadership, especially in times of financial or stock market crisis, a factor of firm's survival and development. One third (1/3) of the sample's observations are disclosing duality, where as the two thirds do not use this practice. T-tests comparisons for the equality of means show that the only differences can be found on the variables of age (YEARF) and the Board of Director's size (BoD). Older firms and with fewer members on the BoD are not willing to experiment or to adopt practices like duality of roles. This may depict a firm with a more concentrated system of governance.

4. Sample - Methodology

The study's time horizon is from 2001 to 2006. Sixty firms, that are ranked in the two major stock indexes (FTSE-20 and FTSE-40) of the Greek Capital market and they are consider to be the biggest firms in terms of capitalization and with the highest free float, are used. Their annual reports are the basic source for the data collection. The data was supplemented by information collected by the

corporate web sites. Total sample size is 303 observations. To address the issue limited variable models (Probit) can be used. The Probit model has some significant statistical problems (normality of residuals, heteroscedasticity) and the usual measures of fitness are inefficient. One of the main advantages of probit models is that they allow the use of panel data and also they can take into account the factor of time. A correlation matrix has shown that independent variables are not correlated in a manner ($-0,3 > r <= 0,3$) that may create problems of result reliability and colinearity. The use of panel variables helps to identify the quality variables that formulate the depended variable. Finally, marginal effects methodology can be applied. Four variables for the construction of panels were used in the present research (see Table 2).

5. Model construction

The dependent variable (CeoChair) records the decision of the firm to not use the practice of duality of roles. The dependent variable is binary and the dependent variables are a mix of binary, ordinal and continuous variables. The model is:

$$\text{CeoChair}_{it} = \alpha + \beta_1 \text{ROA}_{it} + \beta_2 \text{TQ}_{it} + \beta_3 \text{CG}_{it} + \beta_4 \text{MERGER}_{it} + \beta_5 \text{DE}_{it} + \beta_6 \text{HERF}_{it} + \beta_7 \text{OWNCEO}_{it} + \beta_8 \text{BOD}_{it} + \beta_9 \text{BEXEC}_{it} + \beta_{10} \text{BPS}_{it} + \beta_{11} \text{BDIS_P}_{it} + \beta_{12} \text{BDISI_P}_{it} + \beta_{13} \text{PRICE}_{it} + \beta_{14} \text{TA}_{it} + \beta_{15} \text{EMPL}_{it} + \beta_{16} \text{SMCAP}_{it} + \beta_{17} \text{OC_S}_{it} + \beta_{18} \text{OC_S2}_{it} + \beta_{19} \text{YEARF}_{it} + u_{it} \quad (1)$$

Where: $i = 1 \dots N$, $t = 1 \dots T$

Table 2. Variables

Variable	Type	Description
Variables		
Own	Percentage	Sum of ownership percentages of the biggest five shareholders
Herf	Percentage	Square of the sum of ownership percentages of the biggest five shareholders
ROA	Continuous	Return on Assets
TQ	Continuous	Tobin's Q
CG	Ordinal	Quality of CG
MERGER	Binary	M-A (1), no M-A (0)
INVP	Continuous	Investments as a percentage of assets
DE	Continuous	Debt Ratio (Debt / Equity)
OWNCEO	Binary	Main shareholder is the CEO (1), No (0)
CEOCHAIR	Binary	CEO is the President of the Board of Directors – duality of roles (1), No (2)
AUDITC	Binary	An Audit Committee exists (1), No (2)
HERF_G	Binary	Above the median of the Herf variable (1), below (0)
BOD	Ordinal	Number of members in the Board of Directors
BEXEC	Ordinal	Number of executive Board members
BPS	Ordinal	Number of firms that the Board members participate as Members of their Board of Directors
BDIS_P	Ποσοστό	Secessions – Resigns of board members to the total number of board members
BDISI_P	Ποσοστό	Secessions – Resigns of board independent members to the total number of board members
TA	Continuous	Total assets
SMCAP	Continuous	Stock market capitalization
PE	Continuous	Price to Equity capital
PRICE	Continuous	Stock market share price
PREMPL	Continuous	Earnings / employees
EMPL	Continuous	Number of employers
OC_S2	Continuous	Square of Own Capital to Sales
YEARF	Continuous	Foundation year

6. Findings -Statistical results

The fitness of the model is satisfactory (McFadden Pseudo R-square is 0,2807, Log Likelihood Function is -142,3664 and Estrella is 0,34987). The model can predict the 86,082% (167/194) of the cases that there isn't duality of roles (CeoChair variable = 0) and the 64,22% (70/109) of the cases that there is duality of roles (CeoChair variable = 1). The total predictability power of the model is 78,218%, which is quite high.

Chi square tests indicate that at least one of the independent variables is statistically significant ($X^2[17]$ (prob) = 111,1465 (.0000)). The test to identify which independent variables are statistical significant (at the level $\alpha=0,05$ or $\alpha=0,10$) are shown in the Table 3 that follows. Six (6) out of seventeen

(17) variables are found to be statistically significant. An interesting statistical finding is that the constant-intercept term of the model is statistically significant. This fact may be interpreted as an autonomous trend to establish the practice of duality. Although this is a statistical fact, the theoretical explanation is not easy. The trend may not be attributed, as a whole, on the will of the firm to implement good practices, but it may as well be attributed on the historical and ownership development of the Greek firms. It is not uncommon the role of the chairman of the board to be exerted by the founder of the firm and the role of the CEO by its descendants or the roles to be exerted by two members of the dominant group of shareholders.

Table 3. Independent variable statistical significance tests

Variable	β	St. Error	Statistical Significance
Constant	28,4837977	9,99791011	0,0044**
ROA	-0,03060132	0,05775142	0,5962
TQ	-0,08586130	0,07551556	0,2555
CG	-0,18337809	0,05989781	0,0022*
HERF	0,17568834	0,50236631	0,7265
INVP	0,77549197	1,03261264	0,4527
DE	0,00884463	0,01061562	0,4047
BOD	-0,07022059	0,04017174	0,0805***
MERGER	-0,04754640	0,23348848	0,8386
BEXEC	0,02021963	0,04626161	0,6621
BPS	-0,04749163	0,02948950	0,1073
BDIS_P	-0,06262628	0,36206598	0,8627
OWNCEO	1,37575648	0,21168948	0,0000*
YEARF	-0,01434561	0,00499800	0,0041*
TA	-0,803293D-05	0,167589D-04	0,6317
EMPL	-0,137513D-04	0,242791D-04	0,5711
SMCAP	0,00020742	0,817059D-04	0,0111**
OC_S2	0,00081037	0,00034876	0,0201**

* $p < 0,01$

** $p < 0,05$

*** $p < 0,10$

The model was further processed to reduce the independent variables, in order to contain only the variables that are statistically significant. The fitness of the final model, is satisfactory (McFadden Pseudo R-square is 0,2619, Log Likelihood Function is -146,1078 and Estrella is 0,32745). The model can predict the 56,082% (167/194) of the cases that there isn't duality of roles (CeoChair variable = 0)

and the 65,138% (71/109) of the cases that there is duality of roles (CeoChair variable = 1). The total predictability power of the model is 78,548%, which is quite high. The test to identify which independent variables are statistical significant (at the level $\alpha=0,05$ or $\alpha=0,10$) are shown in the Table 4 that follows. Six (6) out of seventeen (17) variables are found to be statistically significant.

Table 4. Independent variable statistical significance tests (Final Model)

Variable	β	St. Error	Statistical Significance
Constant	24.2551189	6.97103977	0.0005*
CG	-0.20739152	0.05023130	0.0000*
BOD	-0.08840334	0.03634757	0.0150**
OWNCEO	1.34395387	0.20017816	0.0000*
YEARF	-0.01215407	0.00344951	0.0004*
SMCAP	0.00018710	0.513562D-04	0.0003*
OC_S2	0.00077650	0.00033142	0.0191**

* p< 0,01
 ** p< 0,05
 *** p< 0,10

Finally, the data were regressed using marginal effects. Marginal effect is the change of possibility due to the change of the independent variable by one unit. Four variables were used to measure their

marginal effects on the dependent variable (OwnCEO, Merger, AuditC, HerF_G) (see Table 5).

Table 5. Marginal Effects

Variable	Values of Group Variables		
	OWNCEO=0	OWNCEO=1	All observations
ONE	6.69673	8.36527	8.69971
CG	-0.05726	-0.07153	-0.07439
BOD	-0.02441	-0.03049	-0.03171
OWNCEO	0.37106	0.46351	0.48204
YEARF	-0.00336	-0.00419	-0.00436
SMCAP	0.00005	0.00006	0.00007
OC_S2	0.00021	0.00027	0.00028
Variable	MERGER=0	MERGER=1	All Obs.
ONE	8.57985	9.06742	8.69971
CG	-0.07336	-0.07753	-0.07439
BOD	-0.03127	-0.03305	-0.03171
OWNCEO	0.47540	0.50242	0.48204
YEARF	-0.00430	-0.00454	-0.00436
SMCAP	0.00007	0.00007	0.00007
OC_S2	0.00027	0.00029	0.00028
Variable	AUDITC=0	AUDITC=1	All Obs.
ONE	9.05229	7.59390	8.69971
CG	-0.07740	-0.06493	-0.07439
BOD	-0.03299	-0.02768	-0.03171
OWNCEO	0.50158	0.42077	0.48204
YEARF	-0.00454	-0.00381	-0.00436
SMCAP	0.00007	0.00006	0.00007
OC_S2	0.00029	0.00024	0.00028
Variable	HERF_G=0	HERF_G=1	All Obs.
ONE	8.39076	8.97421	8.69971
CG	-0.07174	-0.07673	-0.07439
BOD	-0.03058	-0.03271	-0.03171
OWNCEO	0.46492	0.49725	0.48204
YEARF	-0.00420	-0.00450	-0.00436
SMCAP	0.00006	0.00007	0.00007
OC_S2	0.00027	0.00029	0.00028

As Table 5 shows the marginal effects of Herf_G and Merger variables do not present any interest. The estimated coefficients are not very different than the ones of pooled data regression. A positive effect has been spotted when the AuditC (existence of Audit Committee) variable is used. The existence of audit committee, a widely accepted good practice, increases the possibility of firms to adopt the practice of duality of the two major roles of management and governance. This finding may not be the causal effect of the audit committee existence but more likely a parallel effect of the adoption of corporate governance good practices and principles or of the historical development of the firm itself. The variable that produces different estimators is OwnCEO (a major shareholder is the CEO). When the CEO of the firm is not a major shareholder, then the possibility of duality of roles increases. This finding is consistent with the previous assumption that as a firm divert from its family past or tight

control of dominant shareholders, they tend to adopt governance mechanisms like the ones of the good corporate governance practices.

7. Conclusions

The variables that are found to be statistically important have a mixed impact on duality of roles. Three variables have a “positive” impact (negative sign) and three have a “negative” impact (positive sign). Two of the variables that are reported to have a positive impact (CG and BOD) are closely related with the enactment of the corporate governance law in 2002. On the contrary firm’s age, stock market capitalization, shareholder active participation in managing the firm and own capital to sales ratio have a positive impact on duality.

Statistical – econometric analysis has shown that financial performance is not related with concentration of power and control. The same

conclusion is can be drawn for ownership concentration. There is a trend of change but this trend hasn't the same dynamic or driving factors as the ones that are reported by Kirkbride and Letza (2002) and Muth and Donaldson (1998). The hypothesis posed by Heracleous (2001) and Baliga, Moyer and Rao (1996) are more likely to be true in the case of Greece. Elloumi and Gueyie's (2001) theory is more likely to be valid in Greece. Firms that need or want to create stability or to conserve status quo use duality of roles. Overall, duality in Greece is affected by the historical development of the firm, its organizational scheme and even more by the balance of power and control within the firm.

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