



**SCHOOL OF
ECONOMICS &
MANAGEMENT
LISBON**

**MASTER OF SCIENCE IN
FINANCE**

**MASTERS FINAL WORK
DISSERTATION**

**CORPORATE GOVERNANCE AND
PORTUGUESE LISTED COMPANIES' PERFORMANCE**

BY MAFALDA VINAGRE TIERNO

JUNE 2014



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ABSTRACT

Through the evaluation of the impact of corporate governance theories on Portuguese Listed Companies and its development on Portugal, this dissertation helps to understand how does performance in Portuguese listed companies relates to Corporate Governance variables. This study, is based on a sample of 38 Portuguese firms, during the period of 2005 to 2012. The main conclusions are the higher levels of board independence that evidenced higher levels of performance, and the CEO and Chairman role duality showed benefits on companies' performance. Also, the Latin model systems have been losing observations to the Anglo-Saxon model, additionally, statistically the majority of Portuguese Listed companies are controlled by families.

ACKNOWLEDGEMENTS

I would like to thank to everyone who helped me, either by personal or by technical support, during the period of producing my master thesis.

I will start by thanking to all my family and friends, specially the closest ones, for all the unconditional and loving support, and understanding during my studies. I would specially like to thank to all the important opinions and contributions for my dissertation.

I would also like to give a special thank to my university colleagues and friends, who also studied the Corporate Governance issue, and shared essential information and understandings, in order to make this thesis possible.

I would also like to thank, to my master thesis advisor, Professor Telmo Francisco Salvador Vieira, for his availability, technical support, cooperation and patience.

I am thankful to Professor Pierre Hoonhout, for the helpful advises on econometric matters.

Finally, I am grateful to Fernando Silva from CMVM, for providing me the important insights of CMVM's understandings on the Corporate Governance matters.

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1. Introduction

The corporate governance definition most widely used is the definition given by the committee named after its chairman, Sir Adrian Cadbury, the UK's Cadbury Committee on Corporate Governance, in its report "*Code of Best Practices*" submitted in December 1992. The committee described corporate governance as, "*the system by which companies are directed and controlled*" (Committee on the Financial Aspects of Corporate Governance, 1992, p.14). The issues regarding the governance of corporations had been mentioned since the first economic theories, as Adam Smith (1776), or Berle & Means (1932). With Jensen & Meckling (1976) they gain particularly visibility, but it was since Cadbury's report that the concept of "*Corporate Governance*" has increased its relevance.

Nowadays and at an international level, Corporate Governance has been an increasingly controversial subject whether for theorists, politicians or companies. In the wake of the recent management and financial scandals in corporations around the world, as the Enron collapse or WorldCom, Vivendi and Parmalat scandals, Corporate Governance increased its importance and was recognized as being the core in understanding the way organizations are run. The occurrence of financial scandals was not different for Portugal, where for instance we had the BPN (Banco Português de Negócios) case, that led the financial institution to nationalization and the former directors accused of financial crimes. Or the scandal in BCP (Banco Comercial Português) that carried a collective dismissal of part of the financial institution board of directors, and accused of financial crimes by the new board members. These events bring up questions such as the ones stated by Clarke (2004), p.1: "*how to ensure the power of organization is harnessed for the agreed purpose, rather than diverted to some other purpose*". With the obvious need to combat fraud and facilitate the access to capital markets, questions like these increase the importance of searching for new paradigms on Corporate Governance.

Laying on the Portuguese listed companies' database, the research question of this thesis is, how does performance in Portuguese listed companies relates to Corporate Governance variables? According to the law, there is not one single Corporate Governance model applied by Portuguese companies. Among the 38 companies, from PSI Geral, considered for the empirical research, in the last year, 28 companies apply the Latin Model, 9 companies applied the Anglo-Saxon Model and 1 company were in a Germanic Model. Obviously the Latin Model outstands in the Portuguese companies, but can we say that it is the most efficient model? Does the board composition impact the company's performance? How does the level of participation of different stakeholders on decision making influence the firm's wealth?

This dissertation is divided into five chapters: the introduction, the literature review, the methodology and sample description, the research results and findings and the conclusion. The main body starts in the second chapter with the Literature Review, which summarizes the relevant prior research that will serve as an overview of Corporate Governance main concepts, models, theories and studies concerning its relationship to performance. Also, is presented a brief corporate governance legal framework, since its worldwide emergence and its replication to Portugal, where is included the summary of the main actual legal codes, regulations and recommendations which concern the Portuguese Companies. This is followed by the methodology and sample description, chapter three, which mainly comprises the description of the statistical model that supports the empirical research. There is described the dependent and independent variables, the hypothesis to test in the model, as well as its key assumptions and limitations. In the end of the chapter, the sample is described in detail. The fourth section, the Research Results and Findings, presents and analyzes the results of the econometric model regarding the dependent and independent variables. Finally, the conclusion, part five, highlights the main conclusions of the research. Plus it mentions the importance and contributions of the research, as well as some recommendations for future research. All

important appendices indicated throughout appear at the end of the document, after the references listing.

2. Literature Review

2.1 Corporate Governance Concept and Definitions

The definition of corporate governance most widely used is the definition given by the committee named after its chairman, Sir Adrian Cadbury, the UK's Cadbury Committee on Corporate Governance, in its report "Code of Best Practices" submitted in December 1992. The committee described corporate governance as, "*the system by which companies are directed and controlled*" (Committee on the Financial Aspects of Corporate Governance, 1992, p.14).

But later OECD provided a wider definition for Corporate Governance concept in their "*Principles of Corporate Governance*":

"Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined."

In *OECD Principles of Corporate Governance(2004)*, p.11

2.2 Corporate Governance Main Theories

Regarding corporate governance theories, historically, we can go back to the eighteenth century, and state the book published by the Scottish philosopher and economist Adam Smith, called "*An Inquiry into the Nature and Causes of the Wealth of Nations*", when

referring to joint-stock companies (companies owned by multiple shareholders without limits to ownership, each one owning the portion of the company, including its profits or losses, and the ability to transfer their own shares to other shareholders), Adam Smith mentioned the main corporate governance issue:

"The directors of such companies, however, being the managers rather of other people's money than of their own, it cannot well be expected that they should watch over it with the same anxious vigilance with which the partners in a private copartnery frequently watch over their own."

In Smith (1776), p.606-607

Proceeding with more contemporaneous perspectives, the most commonly known and studied corporate governance theory is the **agency theory**. It arose with Berle & Means (1932) from the debate on the separation of ownership and control of wealth, present in the concept of modern corporations, where despite the capital owners would prefer to manage their own companies, the capital requirements of modern economies, led to multiple owners, each one intending to maximize their own wealth, and thus the need of contracting agents with the responsibility of maximizing all shareholders' utility. Despite having influenced legal and economic theory in the United States law, there were some controversy between the neoclassical researchers, so this article was reviewed in 1965, by Berle, in some kind of a debate with an early article published by Peterson, in the same year, with the aim of defending the concept of the modern corporation, against Peterson's more classical economic view of the corporation. Berle (1965) points out some measurable facts as the size and scope of large corporate activities, the distribution of ownership, the change from wealth-holding to stock-holding, and the source of power over the capital, in order to prove that the trends identified on "*The Modern Corporation*

and Private Property" are becoming real as "Most "owners" own stock, insurance savings and pension claims and the like, and do not manage; most managers do not own" (Clarke, 2004, p.4).

The agency theory gained particular relevance with the concept of firm presented by Jensen & Meckling (1976). Jensen & Meckling started by introducing a new definition for the firm, as a nexus of contracts among individual factors of production in opposition to the classical view of the firm as a single product entity with a commitment to the maximization of the profits (Clarke, 2004). Plus they characterized the firm by the existence of divisible residual claims on the assets and cash flows of the organization.

But the main topic of their working paper is the agency relationship that is defined as:

"a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent. If both parties to the relationship are utility maximizers, there is good reason to believe that the agent will not always act in the best interests of the principal."

In Jensen & Meckling (1976), p.5

They describe agency costs as the sum of monitoring expenditures by the principal, bonding expenditures by the agent and the residual loss.

The big agency problem refers to the separation of management and finance, based on the previous mentioned agency conflicts and deriving from the theory on property rights and finance theory, thus Jensen & Meckling developed a theory of the ownership structure of the firm. They referred to the "ownership structure" rather to the "capital structure" because they want to refer not only to the capital separation between debt and

equity, but also the division of equity between the fraction held by managers ("*inside equity*") and the fraction held by anyone outside the firm ("*outside equity*").

Later Fama & Jensen (1983) continued the debate on the topic, focusing on the main problem of determining when the separation of the three main functions of corporate agents, the decision making, the decision control and the residual risk bearing, it's better than combining the three functions on the same agent. They argued that separation of "*ownership*" and "*control*" benefits from the specialization of management and risk bearing, and also on an effective common approach to controlling the implied agency problems, on open corporations, large professional partnerships, financial mutuals and nonprofit organizations. They concluded that it is efficient to combine decision management and control functions by restricting residual claims to decision makers, and it's effective for proprietorships, small partnerships and closed corporations.

In order to bring together the interests of managers and shareholders, during the years theorists proposed a wide diversity of internal and external corporate governance mechanisms. For instance, starting with Fama (1980) that indicated efficient capital and labor markets, that act as an external mechanism of the market for corporate control. Or, Fama & Jensen (1983) that presented the importance of board of directors, in ensuring the monitoring of top executives. Some theorists propose some more controversial practices such as golden parachutes (Jensen, 1984).

Despite some critics to agency theory as stated by Learmount (2002) like the tendency to see the firm only in contractual terms, the assumption of the utility-maximizing self-interested human behavior, and the tendency to pursuit the protection of shareholder's capital as the "*corporate governance problem*", there are some theorists that emphasize the relevance of agency theory, as Eisenhardt (1989) in her assessment and review of

agency theory stresses out that the theory offers an important understanding of information asymmetries, risk bearing, corporate control and incentives in organizations. She also points out the similarity of agency theory with political models, as both assume a self-interested behavior of a pursuit of individual goals that conduct to organizational conflicts, or Daily, Dalton, & Cannella (2003) that underline the simplicity of the theory, that reduces the corporation to two participants managers and shareholders, who are self-interested humans, unwilling to sacrifice personal interest in the behalf of the corporation.

In opposition to the agency theory, Donaldson & Davis (1991), developed the **stewardship theory**, with its roots on psychological and sociological theories. They contested the assumption of a self-interested manager, with the intention of maximizing his own economic gains, with the theory of a steward manager. This steward manager will behave in a collectivist way, by understanding that the individualistic behavior will bring a lower utility than the pursuit of the organizational goals. By doing so, the steward will protect and maximize shareholders wealth, and thus his own utility functions will be maximized. With this view, the steward should have an extended authority, in order to maximize the benefits of having steward director, because the steward can be trusted. Thus, the amount of monitoring and bonding costs will be diminished, since the steward will be motivated to act towards the organization objectives. In a corporate structure, this means that the CEOs, who are stewards, will also chair the board of directors. Later Davis, Schoorman & Donaldson (1997) made a comparison of agency theory and stewardship theory, based on the psychological and situational factors. In the psychological level they characterized stewards by reacting to intrinsic rewards, such as growth, achievement, affiliation and self-actualization, with a high value commitment with the corporation and a personal power, achieved by expertise and reference power. While agents react to extrinsic rewards like tangible or exchangeable commodities with a measurable value,

externalize organizational results, in order to avoid the blame, with an institutional power, attributed by its position on the company. By the situational factors, they position stewards with a long term commitment, oriented to the company's performance, and a collectivist thinking. Contrary to agents who are identified with a control orientation, with the aim of controlling cost, that has a short term commitment and an individualistic way of thinking. Davis, Schoorman & Donaldson (1997) conclude that the choice between agency and stewardship relations between managers and shareholders depends on the assessment of the motivations of each other. So managers choose to behave as stewards or agents. If the shareholder chooses the opposite relationship, the part choosing the agency relationship is opportunistic, and the part choosing the steward relationship is betrayed. But when both managers and shareholders choose the agency relationship, the costs of the firm will tend to be minimized, and if they both choose a stewardship relation, the potential performance of the company will tend to be maximized.

Another very important theory is the **stakeholder theory**, which despite its long history has had a lower impact on corporate governance policies, regarding agency theory. It was introduced by Freeman & Reed (1983), who define organizations as multilateral agreements between the enterprise and the stakeholders. They state that internal stakeholders (as employers, managers or owners), as well as external stakeholders (as customers, suppliers or competitors), interact with the company through formal and informal rules, while the governments and local communities engage with the company using formal and legal rules. As Blair (1996) concluded, if the aim of the corporation is to maximize the total wealth created by the company, rather than just the value added to the shareholders, the managers should concern with all the stakeholders. Clarke (1998) draws attention to the fact that this type of concept of the firms, and the ideology of "corporate citizenship - an organization with the mature appreciation of its rights and responsibilities" (Clarke, 2004, p.11) - is most commonly seen in European and Asian

business values, than in the Anglo-Saxon economies behaviors. But despite not being commonly seen on Anglo-Saxon countries, the pursuit of shareholder value, was specially criticized during the 1990's, when a fast increase of importance of the capital markets was verified. So, the debate arose in UK, and led to the publication of the "Review of Modern Company Law" (DTI, 2000), where it is concluded that boards of directors should pursue an "enlightened shareholder value", by equilibrating the interests of shareholders with the interests of other stakeholders. This publication led to changes in UK law, that reflected the principles already assumed in company law within the other European countries.

Following the idea of the need of pursuing all stakeholders interest, and although the importance given by the agency theory to the board of directors, was very criticized, for instance by authors like Mace (1971), that argued that the power of board of directors is overcome by the power of successful CEO's, there are authors as Lawrence & Lorsch (1967), Pfeffer (1972), or Hillman, Cannella, & Paetzold (2000), who seem to design a very important task to the board of directors, as being a link that connects the company to its external forces.

2.3 Corporate Governance Models Around the World

In order to acknowledge the different Corporate Governance models, I relied on the "*Taxonomy of Systems of Corporate Governance*" proposed by Weimer & Pape (1999). They focused on the debate of the lack of coherent framework on Corporate Governance in an international context and proposed four types of systems, the Anglo-Saxon systems, the Germanic systems, the Latin systems and the Japanese system, that they define according to eight characteristics. They describe the Anglo-Saxon model, with the principle of "*one share, one vote*", based on the pursuit of shareholder value, and that is characterized by a one-tier board that includes both executive and non executive directors, both appointed and dismissed by shareholders. In Anglo-Saxon countries, stock

markets play an important role, in discipline managers, by allowing control to be transferred from inefficient to efficient management teams, so there are short-term economic relationships, and market flexibility, where the interest of managers and shareholders are align by the use of stock option plans. As for the Germanic model, it is based on the principle of the firm as an autonomous economic entity that is constituted by a diversity of stakeholders, and it is characterized by a two-tier board, split into the Management Board and the Supervisory Board, where shareholders appoint and dismiss the second one, and the second one appoints and dismisses the first one. In Germanic countries, the different stakeholders, as relevant shareholders, employees and industrial banks, play an important role, and the mutual-cross shareholdings are a mechanism for corporate control. There is a high ownership concentration and the economic relationships are stable and for a long period. Finally, the Latin model, since it is the last one that is used in the European countries, and consequently with interest for this research, this model has a mixed view of the firm, between the instrumental and institutional views. It can be a two-tier or one-tier system, and it's not common to distinguish between executives and non executives, so the power, is highly concentrated on the presidents figure. All the different stakeholders have an important role, but the main ones are the largest shareholders, as for firms, governments, financial holdings or cross-shareholdings. The corporate control is mainly imposed by laws and regulations, and it is based on long-term economic relationships. In the end, they concluded that there are two different systems, the Market-oriented systems, where an active external market for corporate control is used by independent shareholders to influence managerial decision-making, and the Network-oriented systems, where oligarchy groups sway managerial decision-making, by stable relationships.

Nevertheless the existence of such diversified corporate governance models there is a stream that defend a theory of convergence of corporate governance models towards the

Anglo-Saxon model. Like Nestor & Thompson (2000), argues that the globalization pressures, rose the need for firms to adapt their governance models. This convergence can be attributed to globalization of market capitals, new financial instruments, deeper integration of markets, international competition or the rapid emergence of new financial intermediaries.

2.4 History of Corporate Governance Legal Framework: Worldwide emergence and its replication to Portugal

The main legal events concerning Corporate Governance history, gathered from Costa & Santos (2011) and Santos (2009), go back to 1987 with the Treadway Report. This report comes from a committee lead by James C. Treadway Jr, that incorporated people from several American institutions and organizations concerned with Financial and Accounting matters. In their report they proposed 11 recommendations for the Audit Boards, which were the committees that supported the corporate governance financial matters in American companies.

Later and although it appeared after two reports on the USA, the Cadbury Report (1992), came as a world reference on Corporate Governance. It emerged after the British financial scandals. The Committee on Financial Aspects on Corporate Governance, lead by Sir Adrian Cadbury, focused on the composition of Audit Boards, the responsibilities concerning the external auditors and board of directors, and the disclosure of financial information.

After the Asian crisis in 1997/1998, in 1999 the OECD published the "*Principles of Corporate Governance*", one of the most influential guidelines that were revised in 2004.

In 2002, in response to the financial scandals of American companies (as Enron, WorldCom, and so on...) appeared the Sarbanes-Oxley Act, a very strict regulation that imposed several rules concerning audit and security mechanisms, in order to ensure transparency and avoid frauds.

In what concerns Portugal, and once again referring to the work of Costa & Santos (2011) and Santos (2009), as well as the relevant work of Silva et al. (2006), under the title of "*Livro Branco sobre Corporate Governance em Portugal*", the first legislation concerning corporate governance matters, even if not called by the name "*Corporate Governance*", appear in 1986 with the introduction of *Código das Sociedades Comerciais*, that contained the basic rules on corporate management and control for all types of corporations. This code has been revised several times since 1986, and the last update, at the time of writing is dated from 2011. Referring to *Código das Sociedades Comerciais*, one of the most relevant topic concerning Corporate Governance, comes from the 2006 revision of the code (Batista & Farinha, 2009), where the Portuguese legislation, without seeking to impose strict or uniform models, incorporated, by law, three different governance models. As stated in Article 278^o, of *Código das Sociedades Comerciais (Appendix 2)*, companies can choose between:

- **Latin Model** (Ordinary System) - with a board of directors and a supervisory board, that might be just one manager or a sole inspector;
- **Empowered Latin Model** - equal to the Latin Model, but where there is an external statutory auditor, that, according to law, is mandatory for some companies;
- **Anglo-Saxon Model** (One-Tier System) - with a board of directors, that must include an audit committee and a statutory auditor;
- **Germanic Model** (Two-Tier System) - with an executive board of directors, a general and supervisory board and a statutory auditor;

- **Empowered Germanic Model** - equal to the Germanic Model, but with the existence on the general and supervisory board, of a committee for financial matters, that for some companies, according to law, is mandatory.

These models are illustrated on Appendix 4.

But the first legal approach to Corporate Governance, as so-called, was in 1999, with the introduction by CMVM of "*Recommendations on Corporate Governance of Listed Companies*". Following the OECD Principles of Corporate Governance, these recommendations, again, without imposing strict and uniform models, mentioned topics such as disclosure of information, exercise of voting rights, shareholder representation, institutional investors, corporate rules and structure, and functions of administration boards.

Afterwards in 2001, the "*Recommendations on Corporate Governance of Listed Companies*" were revised and followed by a CMVM Regulation, achieving the form of duties, even if only for listed companies, the regulations concerned information disclosure on Corporate Governance practices. Despite of the formal character of CMVM regulations, as no strict models were imposed, the only obligation adopted was the "*comply or explain*". Imported from the Cadbury Report, the concept of "*comply or explain*" means companies are obliged to report whether or not they adopted the recommendation, and if not adopted, or even if partially adopted, companies have the obligation to explain the reason of not following the recommendation, or why it doesn't apply to the business model of the company. The CMVM's recommendations and regulations were revised in 2003, 2005, 2007 and finally in 2010, in order to keep up to date the adaptability of the recommendations. Meanwhile, in 2006, the Portuguese Institute of Corporate Governance published the "*Livro Branco Sobre Corporate Governance em Portugal*" (Silva et al., 2006),

with the intention of summarizing the development of Corporate Governance in Portugal, as well as to add some comments and reflections, in order to act like a guide of best practices. But, recalling to the code in force to the date of this research, the *CMVM Corporate Governance Code (2010)*, the main topics covered by the recommendations are:

- **the General Meetings** - mentioning aspects such as the disclosure of the remuneration of the president of the General Meeting Board, the participation in the meetings, and the exercise of voting rights;
- **the Board of Directors and the Supervisory Board** - establishing advices regarding the board's structure, duties, eligibility, remuneration, and mainly it's mentioned the concept of the independent director (for independency, one should refer to Article 414.º, n.º 5, of "*Código das Sociedades Comerciais*" - Appendix 3);
- **the Information and Auditing** - pointing out the general disclosure duties, and the external auditor duties;
- **the Conflict of Interests** - citing the deals that are carried out by the qualifying shareholders of the company.

Based on the same presupposition of flexibility and adaptability of the Corporate Governance Code, in January of 2013 was published, in Portugal, a new Corporate Governance Code, but now under the responsibility of the Portuguese Institute of Corporate Governance. Keeping the concept of "*comply or explain*", with the aim of being more flexible than the previous ones, this code is intended to be a code of best practices, not only to listed companies, but to all commercial companies, based on civil law. The new code is to be applied since the 1st January of 2014, but despite being the most updated code in Portugal, this research will focus on the previous codes, since up to the date of the research the last code in force was the 2010 Corporate Governance Code (and

respectively the CMVM Regulation No 1/2010). For the summary of Portuguese Corporate Governance Codes turn to Appendix 5.

2.5 Corporate Governance and Performance

After Berle & Means (1932) economists have questioned what are the costs of spread share-capital, and consequently the impact of its ownership structure on capital. Later Jensen & Meckling (1976) based their theory of separation of ownership and control on the assumption of the dispersion of capital through multiple shareholders. They defined agency costs as the sum of monitoring expenditures by the principal, bonding expenditures by the agent and the residual loss. After all obligations, the profit is the residual claims on the assets and cash flows of the firm, that act as a compensation for shareholders risk bearing functions. Since the agency theory, researchers have studied the impact on firm performance of different corporate governance measures, mainly topics on boards' composition, or the capital structure.

Following Jensen & Meckling (1976) assumption of the dispersion of capital through multiple shareholders, Demsetz & Lehn (1985), Agrawal & Knoeber (1996) and Guedri & Hollandts (2008) found negative effects of ownership concentration on performance measures (as measures of performance Stock Market Return, Return on Equity, Tobin's Q or Return on Invested Capital). Contradictory, Guedri & Hollandts (2008) found a positive relation of ownership concentration with market to book ratio.

Proceeding, several choices are made for corporate governance structures, in order to assure that shareholders interests are being followed by managerial decision-making, which could impact firm performance.

For instance Fama & Jensen (1983) stated that a higher board independence (or percentage of board outsiders) is expected to represent a better active monitoring of the board insiders decisions. Starting with Baysinger & Butler (1985) regarding independent directors, they found that firms with a higher percentage of independent directors presented a higher performance. Later Hermanlin & Weisbach (1991) concluded that no relationship exists between board composition and performance (using Tobin's Q as the performance measure). Such a conclusion was corroborated by Hermalin & Weisbach (2001), who denote that several empirical studies on the past years on board composition also didn't verify any relation to corporate performance. Then Yermack (1996) and Agrawal & Knoeber (1996), observed a negative relation between the increase of the percentage of outside directors and firm performance (also measured by Tobin's Q). Bhagat & Black (1998) and Bhagat & Bolton (2008) found a negative relationship between board independence and operating performance. Finally Bhagat & Bolton (2009), found opposite evidences concerning the period prior to 2002 and after 2002 (considering 2002 the year of implementing SOX Act). They document that before 2002 there is a negative relationship between board independence and operating performance, and after 2002 there is a positive relationship between independence and operating performance.

Also a relevant topic approached by several studies is the separation or duality of CEO and chairman roles. Donaldson & Davis (1991) concluded for higher shareholder returns (in terms of ROE) in the presence of CEO Duality. Yermack (1996) showed that firms are more valuable (in terms of Tobin's Q), when the CEO and board Chairman positions are separated. Davis et al. (1997) stated that the steward relationship will tend to diminish the monitoring and bonding costs, as well as to improve the long-term performance of the firm. Bhagat & Bolton (2008, 2009) identified a negative relation of CEO-Duality with operating performance, but they didn't establish any relation regarding stock market based measures.

Other important point of discussion is the board ownership, Morck, Shleifer, & Vishny (1988), concluded that Tobin's Q rises when the board ownership rises up to 5%, then it falls when the board ownership keeps rising up to 25%, and finally it increases but with a slower rhythm if board ownership rises beyond 25%. Later Agrawal & Knoeber (1996) and Yermack (1996) found a positive related performance of the firms, in terms of Tobin's Q, in regard to increasing on inside ownership. Also Bhagat & Bolton (2008, 2009) found a positive relation between Director Ownership and operating performance (as measured by ROA).

"Financial performance measures indicate whether the company's strategy, implementation, and execution are contributing to bottom-line improvement (...) Survival was measured by cash flow, success by quarterly sales growth and operating income by division, and prosperity by increased market share by segment and return on equity."

In Kaplan & Norton (1992), p. 8

The above mentioned authors used a diverse variety of performance measures, and for this research we considered three types of them, the financial performance, the operational performance and the market based performance. As Baysinger & Butler (1985) denoted the most commonly used measure of performance as ROE (Return on Equity), according to Morck et al. (1988), Hermanlin & Weisbach (1991), Yermack (1996), and Agrawal & Knoeber (1996) the most consensual market based performance measure is Tobin's Q and finally following Bhagat & Bolton (2008) they report as operating performance measure ROA (Return on Assets).

3. Research Methodology and Sample Description

3.1 Research Hypothesis

The aim of this thesis is to understand the effect of the corporate governance determinant variables on the companies' performance. Proceeding, based on the main corporate governance studies analyzed, concerning the chosen determinant variables (Appendix 6), the hypotheses to test are going to be described.

Referring to the Portuguese law, according to article 278^o of *Código das Sociedades Comerciais* (2011), as previously explained in chapter 2.4, three different corporate governance models are provided by law. Following the taxonomy given by Weimer & Pape (1999), in this dissertation they were denominated as the Latin model, the Anglo-Saxon model and the Germanic model. Although there is not a compulsory governance model, in 2012, the last analyzed year, the sample accounted for 28 companies (74% of the sample) structured as the Latin model, 9 following the Anglo-Saxon model and only 1 representing the Germanic model (Table III). Giving the high observation of the Latin model, and considering small observation of the Germanic model in the sample, the first hypothesis to test is:

Hypothesis 1: *Performance (considering ROE, ROA and Tobin's Q measures) is positively related to firms who present the Latin Model, rather than the Anglo-Saxon Model.*

As explained in chapter 2.5 of this dissertation, several authors addressed on the topic of board independence. Although Bhagat & Black (1998) and Bhagat & Bolton (2008) found a negative relationship between board independence and performance. Later Bhagat & Bolton (2009), found opposite evidences concerning the period prior to 2002 and after 2002 (considering 2002 the year of implementing SOX Act). They document that before 2002 there is a negative relationship between board independence and performance and

after 2002 there is a positive relationship between independence and performance. Since this research is based on the period of 2005-2012, after the implementation of SOX, following a more current approach, the second hypothesis to test is:

Hypothesis 2.A: *Financial Performance (measured by ROE) and operating performance (measured by ROA) is positively related to Board Independence.*

Further following Yermack (1996) and Agrawal & Knoeber (1996), observation of a negative relation between the increase of the percentage of outside directors and firm performance (also measured by Tobin's Q), an alternative hypothesis to test is:

Hypothesis 2.B: *Market based performance (measured by Tobin's Q) negatively relates to Board Independence.*

As previously explained in point 2.5 of this thesis, several studies have examined the separation or duality of CEO and chairman roles. In conformity with Yermack (1996) that showed that firms are more valuable (in terms of Tobin's Q), when the CEO and board Chairman positions are separated. And, additionally considering Bhagat & Bolton (2008, 2009) identification of a negative relation of CEO-Duality with operating performance, the third hypothesis to test is:

Hypothesis 3: *Operational and market based performance (measured by ROA and Tobin's Q, respectively) has a negative impact in the presence of CEO/Chairman Duality.*

Regarding the type of controlling shareholder, both studies by La Porta, Silanes, & Shleifer (1999) and Faccio & Lang (2002) analyzed the distribution of ownership for each type of influent shareholder, and concluded that except in economies with very good shareholder protection, relatively few of the firms are widely held, mainly in Europe, despite UK and Ireland where the widely held corporations have an important impact, the majority of

European corporations is either controlled by families or by the State. Statistically, this is also verified in Portugal, where for example considering the analyzed sample in 2012, 25 companies are controlled by families, this amount represents approximately 66% of the sample (Table IV). Given the high observation of family controlled companies, the fourth hypothesis to test is:

Hypothesis 4: *Performance (considering ROE, ROA and Tobin's Q measures) has a positive impact when the company is Family controlled.*

In the debate of board ownership, following Morck, Shleifer, & Vishny (1988), Agrawal & Knoeber (1996) and Yermack (1996) that found a positive relation to the performance of the firms, in terms of Tobin's Q, in regard to increasing on inside ownership, as mentioned on chapter 2.5. The fifth hypothesis to test is:

Hypothesis 5.A: *Market Based Performance (measured by Tobins' Q) is positively related to Director Ownership.*

Also following Bhagat & Boltogn (2008, 2009) that found a positive relation between Director Ownership and performance, an alternative hypothesis is:

Hypothesis 5.B: *Financial performance (measured by ROE) and operational performance (measured by ROA) is positively related to Director Ownership.*

In terms of the dispersion of capital through multiple shareholders, according to Demsetz & Lehn (1985), Agrawal & Knoeber (1996) and Guedri & Hollandts (2008) who found negative effects of ownership concentration on performance measures (as measures of performance Stock Market Return, Return on Equity, Tobin's Q or Return on Invested Capital), the sixth hypothesis is:

Hypothesis 6: *Financial and market based performance (measured by ROE and Tobin's Q, respectively) have negative effects when Shareholder concentration increases.*

Table I summarizes the expected effects, under the hypothesis considered for this research.

Table I - Summary Research Hypothesis

Hypothesis	Performance Measures / Corporate Governance Determinants	Financial Performance (ROE)	Operational Performance (ROA)	Market Based Performance (Tobins'Q)
1	Latin Model	+	+	+
2.A / 2.B	Board Independence	+	+	-
3	CEO/Chairman Duality	N/A	-	-
4	Family Controlled Company	+	+	+
5.A / 5.B	Director Ownership	+	+	+
6	Shareholder Concentration	-	N/A	-

Subtitle

- + - Performance measure presents a positive relation to Corporate Governance Determinant
- - Performance measure presents a negative relation to Corporate Governance Determinant
- N/A - Not Applicable

3.2 Research Methodology and the Statistical Model

The statistical model analyzed throughout this research is based on the corporate governance theories previously analysed. As presented on appendix 1, regarding to each theory, were identified some main points or possible determinant variables to consider in the research. Within the possible variables listed on appendix 1, the variables that were not possible to gather information for my sample choice were disregarded, as the ones that weren't applied in Portuguese companies, or the ones that weren't significant for the Portuguese sample. Finally, the main corporate governance variables that could apply to the Portuguese sample were gathered on appendix 6 through a meta-analysis method, in order to define the hypothesis to test. This meta-analysis method is focused on combining results from different studies in order to identify patterns, or points of disagreement

among authors. Therefore, the corporate governance variables that are going to be discussed further are the Latin Model, the Board Independence, the CEO/Chairman Dual Role, the Family Controlled Company, the Director Ownership and finally the Shareholder Concentration. Also three control variables, as the Economic Period, the Sales, and the Book Debt to Equity, were considered to control for other effects on the corporate environment. Through this analysis, three different performance variables were chosen, the ROE, the ROA and Tobin's Q, as the ones that were widely used by the corporate governance researchers on their studies. For the summary of included variables refer to appendix 7.

After defining the variables composing the regression, the big concern was regarding the common statistical problems. Regarding multicollinearity, the statistical phenomenon in which two or more explanatory variables are highly correlated, in order to prevent it, some variables that measured similar factors were previously dropped. Since this research is based on microeconomic data, another one of the common problems is the existence of endogeneity. Endogeneity occurs when the independent variable is correlated with the error term in a regression model, and it may arise from measurement errors, autoregression with autocorrelated errors, simultaneity or omitted variables. Some advantages of a panel data analysis pointed out by Hsiao (2007) are controlling the impact of omitted variables and the ability to make different transformations to induce different and deductible changes in the estimators. Therefore panel data was the preferred method to compute the database, plus in order to control for some possible endogeneity, according to Wooldridge (2003), an Hausman Test was applied, where the null hypothesis is that the preferred model is random effects versus the alternative model, the fixed effects. Through this test, in appendix 8, we do not reject H_0 , and although we can assume that the Fixed Effect is not correlated with any of the regressors, given that we are considering microeconomic data, the use of Fixed Effects is going to be preferred in order

to allow for possible correlation between the Fixed Effects and the regressor. According to Torres-Reyna in addition a Breusch-Pagan Lagrange Multiplier test was used in order to decide between a Random Effects estimator or a simple OLS (Appendix 8). In conclusion, the null hypothesis that there is not a significant difference across units was rejected, therefore the random effect is more appropriate than a simple OLS regression. Accounting for other possible common statistical error heteroskedasticity, when in a sequence of Y_t given X_t , the conditional variance of Y_t given X_t , changes with t , according to Wooldridge (2003), a White Test was executed, and all equations rejected the null hypothesis of homoskedasticity, therefore accounted for the presence of heteroskedasticity (Appendix 8). Finally considering the Autocorrelation problem, when there is correlation between values of the process at different times, as defined by Wooldridge (2010), an Wooldridge Test was performed, and also rejected the null hypothesis of no first order autocorrelation, indicating the presence of autocorrelation (Appendix 8). In the end, based on Torres-Reyna, not forgetting the use of the Random Effects estimator, also to correct for heteroskedasticity and autocorrelation, the cluster effect was applied in STATA to perform the regressions:

ROE =

$$\beta_0 + \beta_1 \text{Latin Model} + \beta_2 \text{BoardIndependence} + \beta_3 \text{CEOChairmanDualRole} + \\ \beta_4 \text{Family Controlled Company} + \beta_5 \text{DirectorsOwnership} + \beta_6 \text{ShareholderConcentration} + \\ \beta_7 \text{EconomicPeriod} + \beta_8 \text{Sales} + \beta_9 \text{BookDE}$$

(1)

ROA =

$$\beta_0 + \beta_1 \text{Latin Model} + \beta_2 \text{BoardIndependence} + \beta_3 \text{CEOChairmanDualRole} + \\ \beta_4 \text{Family Controlled Company} + \beta_5 \text{DirectorsOwnership} + \beta_6 \text{ShareholderConcentration} + \\ \beta_7 \text{EconomicPeriod} + \beta_8 \text{Sales} + \beta_9 \text{BookDE}$$

(2)

TobinsQ =

$$\beta_0 + \beta_1 \text{Latin Model} + \beta_2 \text{BoardIndependence} + \beta_3 \text{CEOChairmanDualRole} + \\ \beta_4 \text{Family Controlled Company} + \beta_5 \text{DirectorsOwnership} + \beta_6 \text{ShareholderConcentration} + \\ \beta_7 \text{EconomicPeriod} + \beta_8 \text{Sales} + \beta_9 \text{BookDE}$$

(3).

3.3 Model Variables Description

In order to measure performance, three different levels of performance were considered: the financial performance, the operational performance and the market based performance. **Return on Equity (ROE)**, as stated by Damodaran (2007) is focused on just the equity component of the investment, relating the earnings left over for equity investors after the debt costs have been factored into the equity invested in the asset. It is calculated based on net income of the current year, considered to be generated by the equity invested at the beginning of the period. **Return on Assets (ROA)**, following Barber & Lyon (1997), Core, Guay, & Rusticus (2006) and Bhagat & Bolton (2008, 2009), was calculated as operating income after depreciation divided by year-end total assets, where operating income is defined as sales less cost of goods sold, and selling, general, and administrative expenses. **Tobin's Q**, the variable derived from q, that is the variable introduced by Tobin & Brainard (1968), as the ratio between the market value and replacement value of the same physical asset. As a proxy to q, Tobins' Q was measured at the beginning of the fiscal year, according to Kaplan & Zingales (1997), Gompers, Ishii, & Metrick (2003) and Bhagat & Bolton (2008, 2009) by the market value of assets divided by the book value of assets, where the market value of assets equals the book value of assets plus the market value of common equity less the sum of the book value of common equity and balance sheet deferred taxes.

To explain corporate governance, seven determinant variables were chosen, and described as following. **Latin Model** is the variable based on the Article 278.^o, of *Código das Sociedades Comerciais* (2011), presented on appendix 2 and 4, and following the taxonomy given by Weimer & Pape (1999). It is defined as a dummy variable that assumes 1 in the presence of Latin Model, and 0 in the presence of Anglo-saxon Model. **Board Independence**, as defined by Bhagat & Bolton (2009), p.12 " is measured as the percentage of directors who are unaffiliated with the sample firm. This includes directors who are neither employees of the firm nor affiliated with the firm." Regarding the Portuguese law, it refers to Article 414.^o, n.^o 5, of *Código das Sociedades Comerciais* (2011), in appendix 3. **CEO/Chairman Dual Role**, as defined by Bhagat & Bolton (2008, 2009), p.12, as a dummy variable, means "taking the value of 1 if the CEO of the sample firm is also the board chair, and 0 otherwise". In the case of the **Family Controlled Company**, as stated by Faccio & Lang (2002), contrary to ownership that is measured by cash-flow rights, control is measured by the voting rights held by the largest shareholder. According to La Porta et al. (1999), to describe control of companies, we should look for shareholders who control over 10 percent of the votes. Consistent with both studies this categorical variable will assume value of 1 if the company the company is controlled by a family, and 0 otherwise. **Director Ownership**, following Bhagat & Bolton (2009), p.12, is calculated as "the dollar value of common stock owned by the median director." **Shareholder Concentration**, consistent with Guedri & Hollandts (2008), p.9 , refers to "the total percentage of stock held by shareholders that owned at least 5 per cent of a firm's stock".

Also, in order to control for other firm specific effects, three control variables were added. As the **Economic Period**, controlling for the possible effects of the financial crisis dated to 2008, it assumes value 1 if after 2008, and 0 otherwise. The **Sales**, to control for firm size effects, calculated as the net sales. Finally the **Book Debt to Equity** ratio, introduced to

control for leverage structure, relative to the proportion of shareholders' equity and debt used to finance a company's assets.

3.4 Sample Description

This empirical research has its focus on Portugal, and for this purpose, 38 companies listed on PSI Geral were observed. PSI Geral is composed by all shares listed on Euronext Lisbon, and the Index structure represents the general trends of underlying market, this representing the Portuguese Stock Exchange Market (*Rules for the PSI Geral Index*). The Portuguese benchmark index is PSI 20, which lies on the PSI Geral Index, and reflects the price evolution of the 20 largest companies listed on the Portuguese Stock Exchange (*Rules for the PSI 20 Index*). Only listed companies were considered for the empirical research, in order to ensure the availability of necessary data and respective accuracy. For statistical significance purposes the broadest Index was considered, so the 54 listings that compose the PSI Geral Index (at December 31st, 2012) were revised. From the 54 listings, for the companies with both common and preferred stock, preferred stock listings were disregarded in order to ensure the comparability between all the companies in analysis. So, starting with 51 different companies, football clubs were excluded, since, as Gómez, Martí, & Opazo (2008), p.3, put it: "football clubs can be considered as sport-providing entities, either at a recreational or professional level". In the past years, the increasing professionalization and commercialization of football clubs, players, brands and images lead to the growing view of a football clubs as a commercial companies, pressured to become joint stock sport companies (SAD - *Sociedade Anónima Desportiva*). These companies are listed on the Euronext stock exchange, but are very unique companies, according to Gómez, Martí, & Opazo (2008), they present a very high leverage ratio, give emphasis to short-term performance, their financial performance is dependent on the sports results and have very peculiar structures, where the communication area of the

company is the predominant one. Concluding, since these companies have such special characteristics, I excluded them from the analysis in order not to affect the comparability of the sample. A second exclusion, the financial companies, as stated by Rajan & Zingales (1995), p.1424 financial companies' leverage "is strongly influenced by explicit (or implicit) investor insurance schemes", plus their debt-like liabilities are not strictly comparable to the debt issued by nonfinancial firms. Also, Fama & French (2002), p.8 argued that, "Excluding financials and utilities may also go a long way toward alleviating any omitted variable problems." Transposing from the listings to the reference companies, only the consolidating companies were considered, according to Niskanen et al. (1998), p.32 that refer, "Consolidated earnings are informative because they reflect the economic performance of the entire economic entity where investors hold their equity claims" (Appendix 9). In the end, 38 companies listed on PSI Geral between 2005 and 2012 (Appendix 10) were considered on an unbalanced panel data. The data was gathered mainly from analysing consolidating companies' annual reports, but other databases were considered, namely Reuters, CMVM reports and Euronext reports. As previously mentioned, all observations on the panel data refer to the period between 2005 and 2012. As denoted by Wooldridge (2003), for some applications, especially for small data sets, the OLS estimates are influenced by one or several observations, called outliers that are important to identify and reestimate regressions after outliers excluded. This way, after computing the minimum and maximum analysis to identify possible outliers, for the dependent variables, ROE, ROA and Tobin's Q, possible outliers were observed and excluded based on the interval of Median \pm (2,5* Interquartile Range).

4. Research Results and Findings

The main topic of this research are the empirical results, and consequently its main findings. Accounting for the descriptive statistics, representing the sample characteristics, please take in consideration the summary statistics presented on table II.

Table II - Summary Statistics

Summary Statistics					
Variable	Obs	Mean	Std. Dev.	Min	Max
ROE	256	0,0964	0,1307	-0,2453	0,4510
ROA	274	0,0471	0,0340	-0,0595	0,1455
TobinsQ	277	1,1044	0,2723	0,4440	1,9876
BoardIndependence	293	0,2157	0,1996	0,0000	0,7143
DirectorsOwnership	293	3.242.758	9.972.764	0,0000	123.000.000
ShareholderConcentration	293	0,6763	0,1776	0,0569	0,9974
BookDE	293	3,2472	14,7261	-134,4953	122,7966
NetSales	293	1.660.000.000	3.230.000.000	1.562.515	18.500.000.000

In sum, the 293 observations of corporate governance variables refer to the number of periods, usually 8, except in the companies which weren't listed since 2005, times the 38 companies under analysis. Regarding Performance variables, ROE varied between -0,25 and 0,45, with a mean value of 0,10, as of ROA, varied between -0,6 and 0,15, and in average 0,05, finally Tobin's Q with a mean value of 1,10, varied within 0,44 and 1,99 parameters. Board Independence approaches in average the CMVM recommendation of the 25% representation, with a mean of 22%. Director Ownership is quite variable among the analyzed companies, getting a minimum value of 0 € and a maximum value of 123.000.000 €, has in average 3.242.758 €. For this sample, shareholder concentration is relatively high in average, with a mean of 68%.

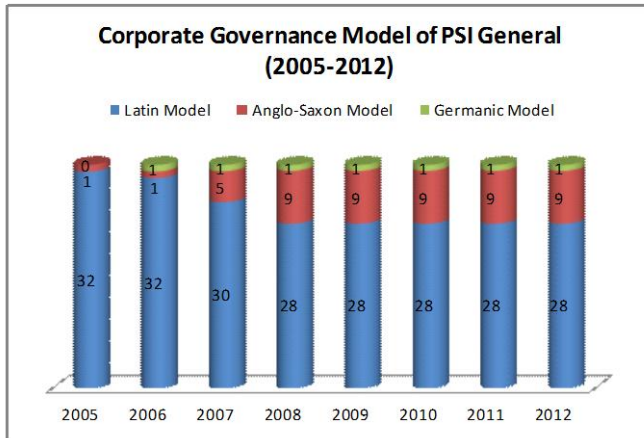
Table III - Corporate Governance Model of PSI General (2005-2012)

Corporate Governance Model of PSI General (2005-2012)							
Year	Latin Model		Anglo-Saxon Model		Germanic Model		Total
2005	32	97%	1	3%	0	0	33
2006	32	94%	1	3%	1	3%	34
2007	30	83%	5	14%	1	3%	36
2008	28	74%	9	24%	1	3%	38
2009	28	74%	9	24%	1	3%	38
2010	28	74%	9	24%	1	3%	38
2011	28	74%	9	24%	1	3%	38
2012	28	74%	9	24%	1	3%	38
Total	234	80%	52	18%	7	2%	293

When analyzing the type of Corporate Governance Model applied by Portuguese' Listed

Companies we can observe that only one company (EDP - according to appendix 10) applies the Germanic Model. Regarding the Anglo-Saxon Model it has been increasing its observation in Portugal, since in 2005 only 1 company applied it and in 2012, already 9

Graphic I - Corporate Governance Model of PSI General (2005-2012)



companies of PSI Geral choose it. So we can conclude that the Latin Model, the historical model in Portugal, has been losing observations to the Anglo-Saxon Model, which is in line with the conclusion of Weimer & Pape (1999) of convergence of the corporate

governance systems towards the Anglo-Saxon Model. Consider Table III and Graphic I.

Table IV - Type of Controlling Shareholder of PSI General (2005-2012)

Type of Controlling Shareholder of PSI General (2005-2012)											
Year	Widely Controlled		Family		State		Non-Financial Institution		Financial Institution		Total
2005	4	12%	20	61%	1	3%	6	18%	2	6%	33
2006	5	15%	20	59%	1	3%	6	18%	2	6%	34
2007	6	17%	21	58%	2	6%	6	17%	1	3%	36
2008	8	21%	21	55%	2	5%	7	18%	0	0%	38
2009	5	13%	23	61%	2	5%	8	21%	0	0%	38
2010	5	13%	24	63%	2	5%	7	18%	0	0%	38
2011	4	11%	24	63%	2	5%	8	21%	0	0%	38
2012	2	5%	25	66%	2	5%	9	24%	0	0%	38
Total	39	13%	178	61%	14	5%	57	19%	5	2%	293

Regarding the type of controlling shareholder we corroborate La Porta et al. (1999) conclusion that in Europe, despite UK and Ireland where the widely held corporations have an important impact, the majority of European corporations is either controlled by families or by the State. Thought the results we verify that between 20 companies in 2005 and 25 companies in 2012, the Family Controlled companies represent the majority of the listed companies in Portugal (rounding 60%), and even gain more impact in the last years. Additionally the non-financial institution controlled companies slightly increased its observations from representing 18% of the population to 24% (from 6 companies in 2005

to 9 companies in 2012). On the other side the widely controlled companies and the financial institution controlled companies lost their impact on Portuguese listed companies between 2005 and 2012, from 4 to 2, and from 2 to 0, respectively. Regarding the State controlled companies, don't present significant observations varying since 2005 to 2012 between 1 and 2 companies. Refer to Table IV and Graphic II.

Graphic II - Type of Controlling Shareholder of PSI General (2005-2012)

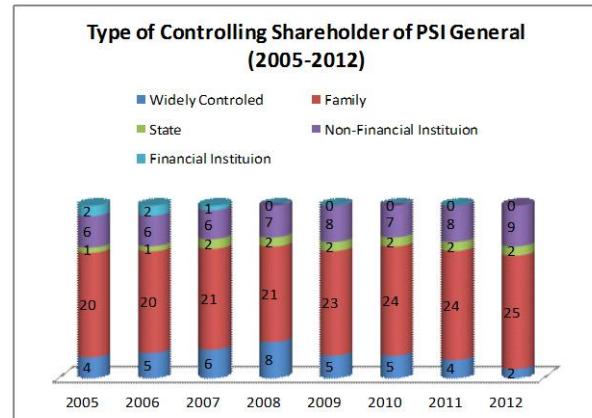


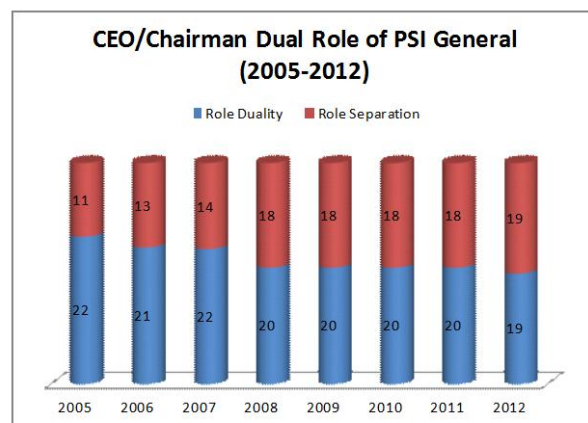
Table V - CEO/Chairman Dual Role of PSI General (2005-2012)

CEO/Chairman Dual Role of PSI General (2005-2012)					
Year	Role Duality		Role Separation		Total
2005	22	67%	11	33%	33
2006	21	62%	13	38%	34
2007	22	61%	14	39%	36
2008	20	53%	18	47%	38
2009	20	53%	18	47%	38
2010	20	53%	18	47%	38
2011	20	53%	18	47%	38
2012	19	50%	19	50%	38
Total	164	56%	129	44%	293

Concerning the CEO/Chairman duality or separation of roles, in Portuguese Listed Companies we verify that the role separation has been increasing its share, from representing 33% in 2005 (11 companies) to 50% in 2012 (19 companies).

On the other hand Role Duality has been decreasing its importance in the last years (67% to 50%). See Table V and Graphic III.

Graphic III - CEO/Chairman Dual Role of PSI General (2005-2012)



The results of the econometric models tested with Fixed Effects estimator with Clustered data are summarized in three

different tables for each dependent variable. Table VI, VII and VIII report the results for the relationship between return on equity (ROE, Model 1), operating performance (ROA, Model 2), Tobin's Q (Model 3) and the governance measures respectively. For each

dependent variable it was also estimated the model with the Ordinary Least Squares (OLS) and Fixed Effects, presented in the same tables as of the Clustered models.

Table VI - Model 1 outcomes

ROE	OLS			Fixed Effects			Fixed Effects with Clustering "Unit"		
	Coef.	Std. Err.	P> t	Coef.	Std. Err.	P> t	Coef.	Std. Err.	P> t
Latin Model	-0,0081	0,0249	0,7440	0,0037	0,0355	0,9160	0,0037	0,0444	0,9330
BoardIndependence	0,0066	0,0449	0,8830	0,1108	0,0638	0,0840 *	0,1108	0,0656	0,1000 *
CEOChairmanDualRole	-0,0033	0,0182	0,8570	-0,0051	0,0335	0,8800	-0,0051	0,0435	0,9080
FamilyControlledCompany	0,0244	0,0195	0,2110	0,0137	0,0418	0,7440	0,0137	0,0909	0,8810
DirectorsOwnership	0,0000	0,0000	0,0010 *	0,0000	0,0000	0,0000 ***	0,0010	0,0000	0,0000 ***
ShareholderConcentration	-0,1020	0,0493	0,0400 **	0,0138	0,0850	0,8710	0,0138	0,0872	0,8750
EconomicPeriod	-0,0467	0,0163	0,0050 ***	-0,0468	0,0143	0,0010 ***	-0,0468	0,0175	0,0110 ***
BookDE	-0,0019	0,0011	0,1010 *	-0,0030	0,0015	0,0450 **	-0,0030	0,0016	0,0780
NetSales	0,0000	0,0000	0,0010 *	0,0000	0,0000	0,9310	0,0000	0,0000	0,9290
_cons	0,1615	0,0446	0,0000 *	0,0718	0,0753	0,3420	0,0718	0,0814	0,3840
R-squared	0,1664			0,0672			0,0672		
Prob > F	0,0000			0,0000			0,0000		

***, **, *, are significant at levels 1%, 5% and 10%, respectively.

Regarding Model 1 we found that the board independence variable was significant with a confidence level of 90% ($\beta=0,1108$; p-value < 0,1). This means that when we have an increase of 1% in Board Independence, ROE will increase 11%. This result agrees to hypothesis 2.A, associating higher levels of board independence with performance, which goes in line with Bhagat & Bolton (2009), supporting the international guidelines of OECD. In this model the most consistent variable is the Directors' Ownership which is significant at a 99% confidence level ($\beta=0,0010$; p-value < 0,01). Although the coefficient value is close to zero (conclusions are not consistent) it is positive which supports hypothesis 5.B, meaning that when Directors own company's shares it helps performance and it can be an incentive to directors to achieve better result. The remaining corporate governance variables don't present significant p-values, as a result, it is not consistent to conclude for hypothesis 1, 3, 4 or 6. Despite that, some results should be considered, for Latin Model and Family Controlled Companies variables the coefficient is positive, corroborating the hypotheses that this two variables have positive effects on ROE.

Table VII - Model 2 outcomes

ROA	OLS			Fixed Effects			Fixed Effects with Clustering "Unit"		
	Coef.	Std. Err.	P> t	Coef.	Std. Err.	P> t	Coef.	Std. Err.	P> t
Latin Model	-0,0125	0,0065	0,0570 *	0,0065	0,0079	0,4120	0,0065	0,0131	0,6240
BoardIndependence	-0,0014	0,0118	0,9030	0,0189	0,0140	0,1780	0,0189	0,0143	0,1950
CEOChairmanDualRole	-0,0039	0,0048	0,4130	0,0014	0,0074	0,8520	0,0014	0,0077	0,8590
FamilyControlledCompany	0,0055	0,0050	0,2640	0,0029	0,0085	0,7370	0,0029	0,0118	0,8110
DirectorsOwnership	0,0000	0,0000	0,6130	0,0000	0,0000	0,0690 *	0,0010	0,0000	0,0000 ***
ShareholderConcentration	-0,0248	0,0129	0,0560 *	0,0253	0,0197	0,1990	0,0253	0,0271	0,3570
EconomicPeriod	-0,0078	0,0043	0,0730 *	-0,0070	0,0033	0,0330 **	-0,0070	0,0042	0,1010 *
BookDE	0,0000	0,0001	0,8800	0,0000	0,0001	0,6930	0,0000	0,0001	0,7090
NetSales	0,0000	0,0000	0,1840	0,0000	0,0000	0,2050	0,0000	0,0000	0,1800
_cons	0,0761	0,0117	0,0000 ***	0,0160	0,0169	0,3460	0,0160	0,0263	0,5470
R-squared	0,0669			0,0029			0,0029		
Prob > chi2	0,0363			0,1054			0,0000		

***, **, * , are significant at levels 1%, 5% and 10%, respectively.

On model 2 the only significant variable is the Directors' Ownership at a 99% confidence level ($\beta=0,0010$; $p\text{-value} < 0,01$). Although the coefficient value is close to zero (conclusions are not consistent) it is positive which supports hypothesis 5.B, similar to the conclusions taken to the previous analyzed model. The remaining corporate governance variables don't present significant p-values, so again it is not consistent to conclude for hypothesis 1, 2.A, 3, 4 or 6. Although, once again, the results of the Latin Model and the Family Controlled Companies variables can be considered presenting a positive coefficient, also corroborating the hypotheses that this two variables have positive effects on ROA.

Table VIII - Model 3 outcomes

TobinsQ	OLS			Fixed Effects			Fixed Effects with Clustering "Unit"		
	Coef.	Std. Err.	P> t	Coef.	Std. Err.	P> t	Coef.	Std. Err.	P> t
Latin Model	-0,0450	0,0521	0,3890	-0,0623	0,0670	0,3540	-0,0623	0,0878	0,4830
BoardIndependence	0,1060	0,0890	0,2350	-0,0393	0,1002	0,6950	-0,0393	0,1438	0,7860
CEOChairmanDualRole	0,0261	0,0367	0,4770	0,1228	0,0587	0,0380 **	0,1228	0,0462	0,0120 **
FamilyControlledCompany	-0,0360	0,0375	0,3380	0,0019	0,0635	0,9770	0,0019	0,0614	0,9760
DirectorsOwnership	0,0000	0,0000	0,0290 **	0,0000	0,0000	0,0000 ***	0,0010	0,0000	0,0000 ***
ShareholderConcentration	-0,1524	0,1020	0,1360	-0,0242	0,1734	0,8890	-0,0242	0,1538	0,8760
EconomicPeriod	-0,1129	0,0325	0,0010 ***	-0,1094	0,0248	0,0000 ***	-0,1094	0,0321	0,0020 ***
BookDE	-0,0009	0,0010	0,3840	0,0000	0,0008	1,0000	0,0000	0,0005	1,0000
NetSales	0,0000	0,0000	0,0000 ***	0,0000	0,0000	0,5020	0,0000	0,0000	0,7910
_cons	1,2490	0,0931	0,0000 ***	1,1204	0,1514	0,0000 ***	1,1204	0,1423	0,0000 ***
R-squared	0,1643			0,0606			0,0606		
Prob > chi2	0,0000			0,0000			0,0000		

***, **, * , are significant at levels 1%, 5% and 10%, respectively.

Finally, considering Model 3 (Tobin's Q as the dependent variable) we found once again the same result as for the previous two models regarding the directors ownership variable. It is significant at 99% confidence level and the coefficient is positive but close to zero and as in the other models the hypothesis 5.A is accepted. On the other hand unlike models 1 and 2 CEO/Chairman Dual Role variable is significant at 95% confidence level, and presents a positive coefficient ($\beta=0,1228$; $p\text{-value} < 0,05$). This means we found that

when CEO and chairman are the same person it brings benefits to the company's performance, supporting the stewardship theory and contradicting the view of the agency theory that defends the separation of CEO and chairman roles. The results presented mean that when we are in the presence of role duality Tobin's Q increases 0,12, contradicting hypothesis 3. The remaining corporate governance variables don't present significant p-values, as a result, it is not consistent to conclude for hypothesis 1, 2, 4 or 6. Not disregarding this fact, but considering for some results as the Family Controlled Companies that again presents a positive coefficient is positive, corroborating the hypotheses that it has a positive effect on Tobins'Q. However considering the Latin model, opposing to the hypothesis that it presents a positive effect on performance, when concluding for Tobin's Q we observe a negative coefficient.

5. Conclusions

The aim of this thesis was to give an updated overview of the theories of Corporate Governance, in an era of global financial scandals around the world, in which Corporate Governance has quickly been developing, through the implementation of national and international governance codes. As Clarke put it:

“The environmental context in which business must operate in future suggest the following imperatives which all corporations will face, and all corporate governance systems will need to resolve: maintaining a license to operate via transparency and accountability; generating more value with minimum impact; preserving the natural resource base; doing business in a networked, intelligent, multi-stakeholder world.”

In Clarke (2004), p.35

Through the understanding of Corporate Governance concepts and theories, and based on empirical research, the main conclusions and contributions of this research are summarized as following. We start with the observation of Board Independence that in average approaches the CMVM recommendation of the 25% representation, with a mean

of 22%. With regards to the population under analysis, when we have an increase of 1% in Board Independence, ROE will increase 11%, associating higher levels of board independence with performance. This result follows Bhagat & Bolton (2009) conclusion, and supports the international guidelines of OECD as well as the CMVM recommendation of the 25% representation. Considering for CEO and chairman role separation or duality, although we verified that the role separation has been increasing its share, our results show that, when CEO and Chairman are the same person it brings benefits to company's performance. This contradicts Yermack (1996) and Bhagat & Bolton (2008, 2009) conclusions, supporting the stewardship theory and opposing to the view of the agency theory.

Additionally through the observation of the type of corporate governance model, we can concluded that the Latin Model, the historical model in Portugal, has been losing observations to the Anglo-Saxon Model, which is in line with the conclusion of Weimer & Pape (1999) of convergence of the corporate governance systems towards the Anglo-Saxon Model. Regarding the type of controlling shareholder this research corroborates La Porta et al. (1999) conclusion that in Europe, despite UK and Ireland where the widely held corporations have an important impact, the majority of European corporations is controlled by families, since the Family Controlled companies represent the 60% of the listed companies in Portugal.

The interpretation of these results should not disregard the limitations of this research. First, as previously mentioned, there are a great variety of Corporate Governance theories, so a limitation of this research will lie on the difficulty of reaching a general theory of Corporate Governance. This is a very complex subject, since companies match both economic and social perspectives. Plus, due to the diversity of cultural backgrounds around the world, each nation has its own economic, political and legal frameworks, which also lead to the creation of diversified Corporate Governance systems, that are each time more widespread and converging between countries. Second, another limitation of the research was that for the empirical research emphasis was given solely to publicly listed companies, in the representation of the Portuguese companies. This emphasis to

publicly listed companies is due to the availability of necessary data, which is only required with a high compliance level to publicly listed companies. But of course one limitation of the empirical research is that the non-listed companies will be disregarded, that on the other hand, certainly present very distinct characteristics from the listed companies. Hence, for future research I propose to extend the analysis, consistent with corporate governance theories, to other relevant points of discussion, or other determinant variables, as for instance the ones pointed in appendix 1, but disregarded for this research. Another suggestion is that future researchers should, in order to broaden up the sample, include small and medium size companies, since this type of companies present very distinctive structures and characteristics, which should be interesting to analyze.

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Appendices

Appendix 1 - Corporate Governance Main Theories

MAIN THEORY	Authors and Articles	Summary of the theory	Possible determinant variables identified
Economic Foundations	Smith, A. (1776). An Inquiry into the Nature and Causes of the Wealth of Nations.	Recognition of the need of multiple shareholders in the firm, and recognition of the "corporate governance" problem (the conflict between shareholders and managers).	Explanatory Variable: Shareholder Concentration.
Agency Theory	<p>Berle, A. & Means, G.C. (1932). The modern corporation and private property.</p> <p>Berle, A. (1965). The impact of the corporation on classical economic theory.</p> <p>Jensen, M.C. & Meckling, W.H. (1976). Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure.</p> <p>Fama, E.F. (1980). Agency Problems and the Theory of the Firm.</p> <p>Fama, E.F. & Jensen, M.C. (1983). Separation of Ownership and Control Separation of Ownership and Control.</p> <p>Jensen, M.C. (1984). Takeovers: Folklore and science.</p> <p>Eisenhardt, K. (1989). Agency theory: An assessment and review. Academy of management review.</p> <p>Learmount, S. (2002). Theorizing Corporate Governance: New Organizational Alternatives.</p> <p>Daily, C., Dalton, D. & Cannella, A. (2003). Corporate governance: Decades of dialogue and data.</p>	<p>Debate on the separation of ownership and control, that lead to the new definition of the firm as a nexus of contracts among individual factors of production. Identification of the residual claims as the profit, after all obligations paid, left to the shareholders. Definition of the agency relationship and the respective agency costs.</p> <p>Identification of internal and external mechanisms for corporate control of the agency costs.</p>	<p>Explanatory Variables: Shareholder Concentration; Director Ownership; Pursuit of Shareholder Value (Earnings per Share, Dividends per Share, Payout Ratio or Dividend Growth); Board of Directors (Board Size or Non-Executive Directors); Special Committees (Audit Committee, Remuneration Committee or Nomination Committee); Board Remuneration (Board Fixed Remuneration, Board Variable Remuneration, Pension Schemes Executives, Executive Stock Compensation); Market for Corporate Control (Governance Index).</p> <p>Control Variables: Firm Size; Capital Structure or Debt to Equity Ratio.</p>

MAIN THEORY	Authors and Articles	Summary of the theory	Possible determinant variables identified
Stewardship Theory	Donaldson, L. & Davis, J. (1991). Stewardship theory or agency theory: CEO governance and shareholder returns. Davis, J., Schoorman, F. & Donaldson, L. (1997). Toward a stewardship theory of management.	Contestment of the assumption of a self-interested manager, by the assumption of a steward manager, that react to intrinsic rewards instead of the self-interested utility maximizer.	Explanatory Variables: CEO/Chairman Dual Role; Intrinsic Rewards.
Managerial Hegemony	Mace, M. L. (1971). Directors: Myth and reality.	Identification of the inefficacy of Board of Directors, before the day-to-day knowledge and control of the organization of the Executive Directors.	Explanatory Variable: Board of Directors (Board Size or Non-Executive Directors).
Stakeholder Theory	Freeman, R., & Reed, D. (1983). Stockholders and stakeholders: A new perspective in corporate governance. Blair, M.M. (1996). Ownership and Control: Rethinking Corporate Ownership for the Governance Century. Clarke, T. (1998). The stakeholder corporation: A business philosophy for the information age.	States that if the aim of the corporation is to maximize the total wealth created by the company, the managers should be concern with all the stakeholders and not only the shareholders.	Explanatory Variables: Pursuit of Shareholder Value (Earnings per Share, Dividends per Share, Payout Ratio or Dividend Growth); Stakeholder Representatives in the Board of Directors (for example Employee Representation).
External Pressures	Lawrence, P. & Lorsch, J. (1967). Differentiation and integration in complex organizations. Pfeffer, J. (1972). Size and composition of corporate boards of directors: The organization and its environment. Hillman, A., Cannella, A.A. & Paetzold, R.L. (2000). The resource dependence role of corporate directors: Strategic adaptation of board composition in response to environmental change.	This theory assigns an important task to the board of directors, that it is saw as a link that connects the company to the external forces.	Explanatory Variables: Board of Directors (Board Size or Non-Executive Directors); Stakeholder Representatives in the Board of Directors (for example Employee Representation).
Critique of Shareholder Value	Lazonick, W. & Sullivan, M.O. (2000). Maximising Shareholder Value : A New Ideology for Corporate Governance.	Critique of the purpose of shareholder value, introduced by the agency theory. There is proposed that instead of pursuing the shareholder values, the boards of directors should pursue an "enlightened shareholder value", by equilibrating the interests of shareholders with the interests of other stakeholders.	Explanatory Variables: Pursuit of Shareholder Value (Earnings per Share, Dividends per Share, Payout Ratio or Dividend Growth).

Appendix 2 - Article 278.º of Commercial Company Act

Article 278
Structure of Management and Supervision

1 – The management and supervisory body of the company may be structured according to one of three modes:

a) Board of directors and supervisory board; b) Board of directors, to include an audit committee and a statutory auditor; c) Executive board of directors, general and supervisory board and statutory auditor.

2 – Wherever provision is made by law, instead of the board of directors or executive board of directors, there may be just one manager and instead of a supervisory board there may be a sole inspector.

3 – In companies which are structured according to the mode provided for in item a) of paragraph 1, the existence of a statutory auditor who is not a member of the supervisory board is mandatory in cases where such a provision is set forth by law.

4 – In companies which are structured according to the mode provided for in item c) of paragraph 1, the existence on the general and supervisory board of a committee for financial matters is mandatory in cases where such a provision is set forth by law.

5 – Companies with a single manager cannot adopt the mode provided for in item b) of paragraph 1.

6 – The articles of association may be amended at any time to adopt another structure which is permitted under the previous paragraphs.

Source: *Código das Sociedades Comerciais*. (2011).

This translation of *Código das Sociedades Comerciais*, was published by CMVM under the title "Commercial Company Act" and with the cover note "This does not dispense with the need to consult the original Portuguese version published in the Official Gazette."

Appendix 3 - Article 414.º, n.º 5, of Commercial Company Act

Article 414
Qualitative Composition

5 – Persons who are not associated with a group of specific interests in the company nor in any circumstance which is likely to affect their impartiality when analysing or making decisions, particularly by virtue of:

a) Their being the holder or acting on behalf of the holder of qualifying holdings equal to or greater than 2% of the share capital of the company;

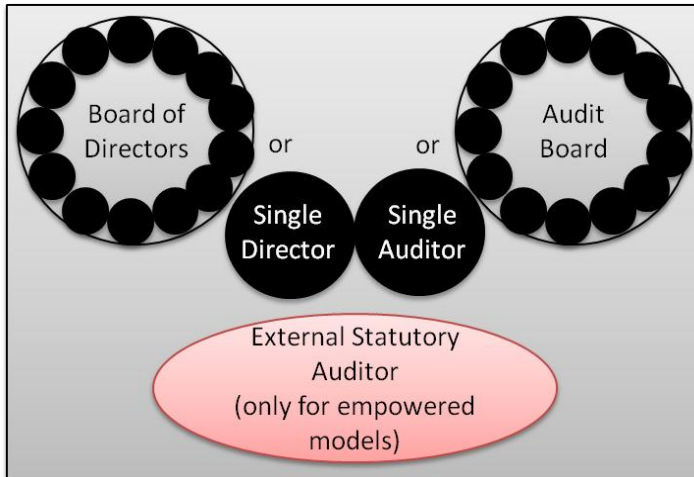
b) Their having been re-elected for more than two terms of office, on a continuous or interrupted basis;

Source: *Código das Sociedades Comerciais*. (2011).

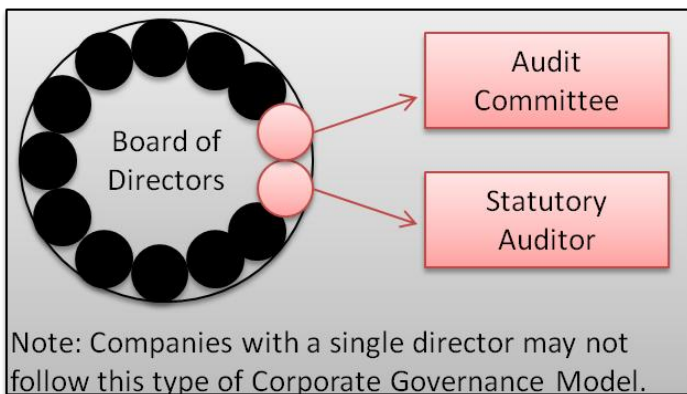
This translation of *Código das Sociedades Comerciais*, was published by CMVM under the title "Commercial Company Act" and with the cover note "This does not dispense with the need to consult the original Portuguese version published in the Official Gazette."

Appendix 4 - Corporate Governance Models in Portugal according to Article 278.º of Commercial Company Act

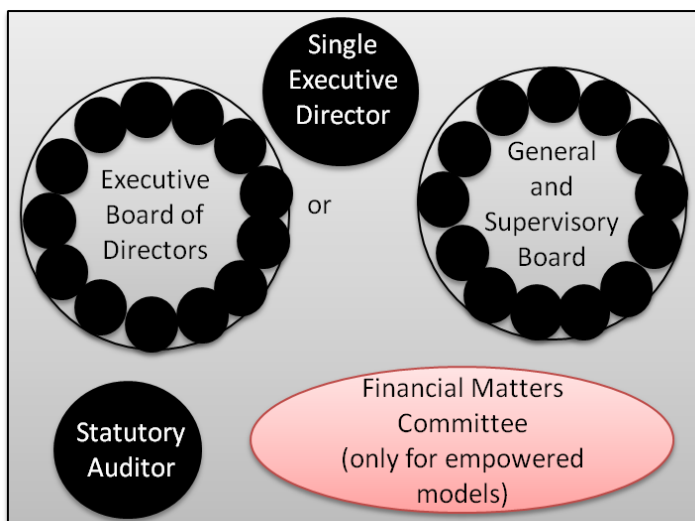
- Latin Model (Ordinary System)



- Anglo-Saxon Model (One-Tier System)



- Germanic Model (Two-Tier System)



Appendix 5 - Corporate Governance Legal Framework in Portugal

Year	Origin	Document	Recommendations Added
1986		Código das Sociedades Comerciais	* In Portugal the first legislation concerning corporate governance matters, even if not called by the name "Corporate Governance", appear in 1986 with the introduction of "Código das Sociedades Comerciais", that contained the basic rules on corporate management and control for all types of corporations.
1999	CMVM	Recommendations on Corporate Governance of Listed Companies	* Follow the OECD Principles of Corporate Governance, without imposing strict and uniform models. It mentioned topics such as disclosure of information, exercise of voting rights, shareholder representation, institutional investors, corporate rules and structure and functions of administration boards.
2001	CMVM	Recommendations on Corporate Governance of Listed Companies /CMVM Regulation No 7/2001	* Recommendations on the form of duties regarding information disclosure on Corporate Governance practices. * Philosophy of comply or explain.
2003	CMVM	Recommendations on Corporate Governance of Listed Companies /CMVM Regulation No 11/2003	* Clarification of the concept of independent director.
2005	CMVM	Recommendations on Corporate Governance of Listed Companies /CMVM Regulation No 10/2005	* Internal supervisory mechanisms. * Clarification of directors remuneration policies.
2006	IPCG	White Book on Corporate Governance	* Code of best practices. * Summary of legal framework of corporate governance in Portugal, by identifying the different legal sources that originated the Portuguese codes.
2007	CMVM	Corporate Governance Code / CMVM Regulation No 1/2007	*43 recommendation grouped into 3 parts: General Meeting of Shareholders, Board of Directors and Supervisory Board, Information and Auditing. *Duties of transparency and information disclosure concerning directors.
2010	CMVM	Corporate Governance Code / CMVM Regulation No 1/2010	*54 recommendation grouped into 3 parts: General Meeting of Shareholders, Board of Directors and Supervisory Board, Information and Auditing. * Information disclosure on directors remuneration. * Independence of the External Statutory Auditor.
2013	IPCG	Corporate Governance Code / CMVM Regulation No 1/2010	*First Corporate Governance Code, published under the responsibility of IPCG. *A code of best practices to commercial companies based on civil law. * Application since the 1st January of 2014.

Appendix 6 - Studies sustaining the research hypothesis

Corporate Governance Variables	Authors	Performance Variables	Control Variables	Statistical Models	Sample	Country(ies)	Period	Main Results	Results Signal
Type of Corporate Governance Model	Weimer & Pape (1999)	Descriptive analyses to develop a taxonomy of systems of corporate governance, by comparing the four different systems upon eight characteristics: the prevailing concept of the firm, the board system, the salient stakeholders able to exert influence on managerial decision-making, the importance of stock markets in the national economy, the presence or absence of an external market for corporate control, the ownership structure, the extent to which executive compensation is dependent on corporate performance, and the time horizon of economic relationships.				Anglo-Saxon countries (USA, UK, Canada, and Australia); Germanic countries (Germany, Netherlands, Switzerland, Sweden, Austria, Denmark, Norway, and Finland); Latin countries (France, Italy, Spain, and Belgium); and Japan.	Before 1999	Systems are divided into market-oriented systems (Anglo-Saxon countries) and network-oriented systems (Germanic, Latin countries and Japan). In conclusion, the trend verified is that changes to both systems have been observed so in the long-term both systems seem to be converging.	N/A
	Maassen (1999)	Descriptive analyses of one-tier boards and two-tier boards characteristics.				US; UK; and Netherlands.	Before 1999	In conclusion, there is the identification of the trend to the convergence of both types of corporate boards.	N/A
Board Independence	Jensen & Meckling (1976)	Development of the new concept of the firm and consequently the agency relationship theory.				n.d.	n.d.	This study stated that a higher board independence (or percentage of board outsiders) is expected to represent a better active monitoring of the board insiders decisions.	N/A
	Baysinger and Butler (1985)	Relative financial performance (RFP) - firm's return on equity divided by the average return on equity.	Size (Relative Asset Size)	OLS	266 firms	US	1970 - 1980	In terms of performance effects for RFP, firms with higher percentage of independent directors presented higher performance.	+
	Hermalin and Weisbach (1991)	Tobin's Q	R&D Expenses; Advertising Expenses; and Size (log of the replacement value of the firm's assets).	OLS	142 firms	US	1971; 1974; 1977; 1980; and 1983.	Concluded for no relation between board composition and firms performance.	No relation
	Agrawal and Knoeber (1996)	Tobin's Q	RDA (Firm R&D); ADVA (Firm Advertising); LASSET (Log Firm Size); and FIN (Financial Firm).	Cross-sectional OLS; and 2SLS.	500 firms	US	1987	Concluded for the negative impact of the increase of outsiders on the board (OBOARD), on the performance of the firms, as Tobin's Q.	-
	Yermack (1996)	Tobin's Q	Capital Expenditures over Sales; Firm Size (Total Capital, Total Assets, and Net Sales); Non-CEO Chairman; and CEO Founder.	OLS; and Fixed Effects.	500 firms	US	1984-1991	It is observed a negative relation of the increase in the percentage of outside directors with the performance measure Tobin's Q.	-
	Bhagat & Black (1998)	Tobin's Q; ROA; Return on Sales to Assets; Operating Margin; Sales per Employee; and Market Adjusted Returns.	Log(Sales); and Industry.	OLS	934 firms	US	1991	Found negative correlation between board independence and long-term firm performance.	-
	Hermalin and Weisbach (2001)	Descriptive analysis of board of directors composition, main functions and their influence on corporate performance.				n.d.	n.d.	Denote that several empirical studies on board composition didn't found any relation to corporate performance, but seem to find relation to the quality of the board's decisions.	No relation
	Bhagat & Bolton (2008, 2009)	ROA; Stock Return; and Tobin's q. All of them with variants of past years performance and industry adjustments.	CEO Ownership; Leverage (Debt to Equity Ratio); Firm Size (log of total assets); R&D Advertising Expenses; Board Size; Risk (standard deviation of monthly stock returns).	OLS; 2SLS; and 3SLS.	1500 firms	US	1990 - 2004; and 1990 - 2007.	Observation of contradictory relationships according to the shift between years, prior to 2002 and after 2002, as 2002 representing the year of the introduction of SOX. Regarding operating performance (as measured by ROA) and board independence, prior to 2002, they found a negative relationship, and after 2002, they observed a positive relationship.	- / +

Corporate Governance Variables	Authors	Performance Variables	Control Variables	Statistical Models	Sample	Country(ies)	Period	Main Results	Results Signal
CEO/Chairman Dual Role	Donaldson & Davis (1989, 1991)	ROE; and Gain in Shareholder Wealth.	n.d.	OLS	337 firms	US	1985 - 1987	Higher shareholder returns (in terms of ROE) with CEO Duality.	+
	Yermack (1996)	Tobin's Q	Capital Expenditures over Sales; Firm Size (Total Capital, Total Assets, and Net Sales); Non-CEO Chairman; and CEO Founder.	OLS; and Fixed Effects.	500 firms	US	1984-1991	Observed that firms are more valuable when the CEO and Chairman positions are separated.	-
	Davis, Schoorman, & Donaldson (1997)	Descriptive analysis of a steward manager characteristics, that since he can be trusted, the corporation would benefit if he has conceded an extended authority.				cf	n.d.	The steward relationship will tend to diminished the monitoring and bonding costs, as well as to improve the long-term performance of the firm.	N/A
	Bhagat & Bolton (2008, 2009)	ROA; Stock Return; and Tobin's q. All of them with variants of past years performance and industry adjustments.	CEO Ownership; Leverage (Debt to Equity Ratio); Firm Size (log of total assets); R&D Advertising Expenses; Board Size; Risk (standard deviation of monthly stock returns).	OLS; 2SLS; and 3SLS.	1500 firms	US	1990 - 2004; and 1990 - 2007.	Identified negative relation of CEO-Duality with operating performance. Regarding the stock market based measures of performance, they didn't found any consistent significant relation.	-
Type of Controlling Shareholder	La Porta, Silanes & Shleifer (1999)	n.d.	n.d.	Descriptive Statistics	27 countries	27 countries	1995	They found that except in economies with very good shareholder protection, relatively few of the firms are widely held, rather, most of the firms are typically controlled by families or the State. The controlling shareholders typically have power over firms significantly in excess of their cash flow rights.	N/A
	Faccio e Lang (2001)	n.d.	n.d.	Descriptive Statistics	5,547 firms	13 European countries	1996 - 1999	Concluded that in the U.K. and Ireland more firms are typically widely held, but in the rest of continental Europe the most firms are family controlled.	N/A
Director Ownership	Morck, Shleifer & Vishny (1988)	Tobin's Q	R&D per dollar of assets; Advertising Expenses per dollar of assets; Long-term debt per dollar of assets; Replacement Cost (dollar value of assets); and Industry.	OLS	500 firms	US	1980	Concluded that Tobin's Q rises when the board ownership rises up to 5%, then it falls when the board ownership keeps rising up to 25%, and finally it increases but with a slower rhythm if board ownership rises beyond 25%.	+
	Agrawal and Knoeber (1996)	Tobin's Q	RDA (Firm R&D); ADVA (Firm Advertising); LASSET (Log Firm Size); and FIN (Financial Firm).	Cross-sectional OLS; and 2SLS.	500 firms	US	1987	Concluded that the increase of inside ownership (POD) was positively related with the performance of the firms, measured by Tobin's Q.	+
	Yermack (1996)	Tobin's Q	Capital Expenditures over Sales; Firm Size (Total Capital, Total Assets, and Net Sales); Non-CEO Chairman; and CEO Founder.	OLS; and Fixed Effects.	500 firms	US	1984-1991	Found a positive relationship between "Officer and director ownership (%)" and the performance, measured by Tobin's Q.	+
	Bhagat & Bolton (2008, 2009)	ROA; Stock Return; and Tobin's q. All of them with variants of past years performance and industry adjustments.	CEO Ownership; Leverage (Debt to Equity Ratio); Firm Size (log of total assets); R&D Advertising Expenses; Board Size; Risk (standard deviation of monthly stock returns).	OLS; 2SLS; and 3SLS.	1500 firms	US	1990 - 2004; and 1990 - 2007.	Found a positive relation between Director Ownership and operating performance. Regarding the stock market based measures of performance, they didn't found any consistent significant relation.	+

Corporate Governance Variables	Authors	Performance Variables	Control Variables	Statistical Models	Sample	Country(ies)	Period	Main Results	Results Signal
Shareholder Concentration	Jensen & Meckling (1976)	Development of the new concept of the firm and consequently the agency relationship theory.				n.d.	n.d.	They based their theory of separation of ownership and control on the assumption of the dispersion of capital through multiple	N/A
	Demsetz & Lehn (1985)	Percentages of shares controlled by top shareholders	Utility Firm; Financial Firm; Media Firm; Equity; Stock Market Return; Return on Equity; Capital Expenditures; Advertising Expenditures; R&D Expenditures; and Total Assets.	OLS	511 firms	US	1976-1980	It is observed that ownership concentration is negatively related to measures of profit instability.	-
	Agrawal and Knoeber (1996)	Tobin's Q	RDA (Firm R&D); ADVA (Firm Advertising); LASSET (Log Firm Size); and FIN (Financial Firm).	Cross-sectional OLS; and 2SLS.	500 firms	US	1987	An active market for corporate control is associated with block holders (shareholders with holdings higher than 5% percent), and the study concluded for the negative impact of corporate control on firms performance.	-
	Guedri & Hollandts (2008)	Return on Invested Capital; and Market to Book Ratio.	Firm Size; Ownership Concentration; Present Government Shareholding; Past Government Ownership; Family Control; Board of Directors' Structure; and Industry.	Random Effects	230 firms	France	2000 - 2006	Regarding ownership of shareholders with more than 5%, they found a negative relation with the Return on Invested Capital, but a positive relation with Market to Book ratio.	- / +

Appendix 7 - Model variables definitions

Performance Variables	Definition	Formula
ROE (Return on Equity)	As a financial performance measure, as stated by Damodaran (2007) it is focused just on the equity component of the investment, relating the earnings left over for equity investors after the debt costs have been factored in to the equity invested in the asset.	$\text{Return on Equity (ROE)} = \frac{\text{Net Income}_t}{\text{Book Value of Equity}_{t-1}}$
ROA (Return on Assets)	As an operational performance measure, following Barber & Lyon (1997), Core, Guay & Rusticus (2006) and Bhagat & Bolton (2008, 2009), it was calculated as operating income after depreciation divided by year-end total assets.	$\text{Return on Assets (ROA)} = \frac{\text{Operating Income after Depreciation}}{\text{Year End Total Assets}}, \text{ where:}$ $\text{Operating Income before Depreciation}$ $= \text{Sales} - \text{Cost of Goods Sold}$ $- \text{Selling, General and Administrative Expenses}$
Tobins' Q	As a market based performance measure, derived from q, the variable introduced by Tobin & Brainard (1968), as the ratio between the market value and replacement value of the same physical asset, as a proxy to q, Tobins' Q was measured according to Kaplan & Zingales (1997), Gompers, Ishii, & Metrick (2003) and Bhagat & Bolton (2008, 2009).	$\text{Tobin's Q} = \frac{\text{Market value of assets}}{\text{Book value of assets}} = \frac{\text{BVA} + \text{MVCE} - \text{BVCE} - \text{DF}}{\text{BVA}}, \text{ where:}$ <i>BVA</i> – Book Value of Assets; <i>MVCE</i> – Market Value of Common Equity; <i>BVCE</i> – Book Value of Common Equity; <i>DF</i> – Deferred Taxes.
Corporate Governance Variables	Definition	Formula
Latin Model	Based on the Article 278.º, of Código das Sociedades Comerciais (2011), and following the taxonomy given by Weimer & Pape (1999), this dummy variable assumes 1 if the company follows the Latin model, and 0 if the company is structured as the Anglo-Saxon model.	$\text{Latin Model} \begin{cases} 1, \text{ if the company follows the Latin Model} \\ 0, \text{ if the company follows the Anglo - Saxon Model} \end{cases}$
Board Independence	Defined by Bhagat & Bolton (2009) refers to "the percentage of directors who are unaffiliated with the sample firm. This includes directors who are neither employees of the firm nor affiliated with the firm." Regarding the Portuguese law refer to Article 414.º, n.º 5, of Código das Sociedades Comerciais (2011).	$\text{Board Independence} = \frac{\text{Number of independent board members}}{\text{Total number of board members}}$
CEO/Chairman Dual Role	Defined by Bhagat & Bolton (2008, 2009) as a dummy variable "taking the value of 1 if the CEO of the sample firm is also the board chair, and 0 otherwise".	$\text{CEO - Chairman Dual Role} \begin{cases} 1, \text{ if CEO chairs the board of directors;} \\ 0, \text{ Otherwise.} \end{cases}$
Family Controlled Company	Stated by Faccio & Lang (2002), opposite to ownership that is measured by cash-flow rights, control is measured by the voting rights held by the largest shareholder. According to La Porta et al. (1999), to describe control of companies, we should look for shareholders who control over 10 percent of the votes. Consistent with both studies this dummy variable will assume value of 1 if controlled by a family, or 0 otherwise.	$\text{Family Controlled Company} \begin{cases} 1, \text{ if the company is controlled by a family} \\ 0, \text{ otherwise} \end{cases}$
Director Ownership	Following Bhagat & Bolton (2009), it represents "the dollar value of common stock owned by the median director."	$\text{Director Ownership} = \frac{\text{Value of common stock owned by directors}}{\text{Total number of board members}}$
Shareholder Concentration	Consistent with Guedri & Hollandts (2008), refers to "the total percentage of stock held by shareholders that owned at least 5 per cent of a firm's stock".	$\text{Shareholder Concentration} = \frac{\text{Value of common stock owned by shareholders owning at least 5\%}}{\text{Market Capitalization}}$
Control Variables	Definition	Definition
Economic Period	Control for the possible effects of the financial crisis dated to 2008, it assumes value 1 if after 2008, and 0 otherwise.	$\text{Economic Period} \begin{cases} 1, \text{ if after 2008;} \\ 0, \text{ Otherwise.} \end{cases}$
Sales	Control for firm size effects, in terms of year end net sales.	$\text{Net Sales} = \text{Sales} - (\text{returns} + \text{allowances for damaged or missing goods} + \text{discounts allowed})$
Book Debt to Equity Ratio (Leverage)	Control for leverage structure, relative to the proportion of shareholders' equity and debt used to finance a company's assets.	$\text{Book DE} = \frac{\text{Debt book value}}{\text{Equity book value}}$

Appendix 8 - Statistical Tests

Independent Variables		Latin Model, BoardIndependence, CEOChairmanDualRole, FamilyControlledCompany, ShareholderConcentration, EconomicPeriod, BookDE, NetSales						
Dependent Variable		ROE		ROA		TobinsQ		Conclusions
Test	Null Hypothesis	Dist.	Prob	Dist.	Prob	Dist.	Prob	
Test for choosing endogeneity estimator: Hausman Test.	Ho: difference in coefficients not systematic.	chi2(7) = 5,79	Prob>chi2(7) = 0,5649	chi2(7) = 9,27	Prob>chi2(7) = 0,2339	chi2(7) = 4,8	Prob>chi2(7) = 0,6842	Once Prob>chi2 > 0.05, we do not reject H0, and although we can assume that the Fixed Effect is not correlated with any of the regressors, given that we are considering microeconomic data, the use of Fixed Effects is going to be preferred in order to allow for possible correlation between the Fixed Effects and the regressor.
Test for choosing between Random Effects Model and OLS Model: Breusch-Pagan and Lagrange Multiplier Test.	H0: Var(u) = 0; where u=coefficient term of the independent variables.	chibar2(01) =63,13	Prob > chibar2 =0	chibar2(01) =159,44	Prob > chibar2 =0	chibar2(01) =198,07	Prob > chibar2 =0	Since Prob>chibar2: < 0.05, we reject H0, so we reject the hypothesis of using a simple OLS Model.
Test for the existence of heteroskedasticity: White Test.	Ho: homoskedasticity Ha: unrestricted heteroskedasticity.	chi2(50) =72,34	Prob > chi2 =0,021	chi2(50) =72,34	Prob > chi2 =0,021	chi2(50) =68,62	Prob > chi2 =0,0413	Since Prob>chi2: < 0.05, we reject H0, so we reject the presence of homoskedasticity.
Test for the existence of autocorrelation: Wooldridge Test.	H0: no first-order autocorrelation.	F(1, 34) = 16,232	Prob > F = 0,0003	F(1, 35) = 6.239	Prob > F = 0,0174	F(1, 36) = 40,923	Prob > F =0,0000	Since Prob>F: < 0.05, we reject H0, so we do not reject the existence of autocorrelation.

Appendix 9 - Companies excluded from the analysis

COMPANY LISTING NAME	REASON FOR EXCLUDING	CONSOLIDATING COMPANY
1 ALTRI SGPS		ALTRI, SGPS, SA
2 B.COM.PORTUGUES	FINANCIAL COMPANY	
3 B.ESPIRITO SANTO	FINANCIAL COMPANY	
4 BANCO BPI	FINANCIAL COMPANY	
5 BANCO POP.ESPANOL	FINANCIAL COMPANY	
6 BANCO SANTANDER	FINANCIAL COMPANY	
7 BANIF SA	FINANCIAL COMPANY	
8 BENFICA	SPORT CLUB PUBLICLY LISTED COMPANY	
9 BRISA		BRISA,SA
10 CIMPOR,SGPS		CIMPOR, SGPS, SA
11 COFINA,SGPS		COFINA, SGPS, SA
12 COMPTA		COMPTA - EQUIPAMENTOS E SERVIÇOS DE INFORMÁTICA, SA
13 CORTICEIRA AMORIM		CORTICEIRA AMORIM, SGPS, SA
14 E.SANTO FIN.NOM	FINANCIAL COMPANY	
15 E.SANTO FINANCIAL	FINANCIAL COMPANY / PREFERRED SHARES	
16 EDP		EDP – ENERGIAS DE PORTUGAL, SA
17 EDP RENOVAVEIS		EDP RENOVAVEIS, SA
18 ESTORIL SOL N		ESTORIL SOL, SGPS, SA
19 ESTORIL SOL P	PREFERRED SHARES	
20 F.RAMA		F. RAMADA INVESTIMENTOS, SGPS, SA
21 FUT.CLUBE PORTO	SPORT CLUB PUBLICLY LISTED COMPANY	
22 GALP ENERGIA-NOM		GALP ENERGIA, SGPS, SA
23 GLINTT		PARAREDE - TECNOLOGIAS DE INFORMAÇÃO, SA / GLINT - GLOBAL INTELLIGENT TECHNOLOGIES, SA
24 IBERSOL,SGPS		IBERSOL, SGPS, SA
25 IMOB.C GRAO PARA		IMOBILIÁRIA CONSTRUTORA GRÃO PARÁ, SA
26 IMPRESA,SGPS		IMPRESA, SGPS, SA
27 INAPA-INV.P.GESTAO		INAPA – INVESTIMENTOS, PARTICIPAÇÕES E GESTÃO, SA
28 INAPA-PREF S/ VOTO	PREFERRED SHARES	
29 J.MARTINS,SGPS		JERÓNIMO MARTINS, SGPS, SA
30 LISGRAFICA		LISGRÁFICA – IMPRESSÃO E ARTES GRÁFICAS, SA
31 MARTIFER		MARTIFER, SGPS, SA
32 MEDIA CAPITAL		GRUPO MEDIA CAPITAL, SGPS, SA
33 MOTA ENGIL		MOTA ENGIL, SGPS, SA
34 NOVABASE,SGPS		NOVABASE, SGPS, SA
35 OREY ANTUNES ESC.		SOCIEDADE COMERCIAL OREY ANTUNES, SA
36 P.TELECOM		PORTUGAL TELECOM, SGPS, SA
37 PORTUCEL		PORTUCEL, SA
38 REDITUS,SGPS		REDITUS, SGPS, SA
39 REN		REN - REDE ELÉCTRICA, SA
40 S.COSTA		GRUPO SOARES DA COSTA, SGPS, SA
41 S.COSTA-PREF	PREFERRED SHARES	
42 SAG GEST		SAG GEST - SOLUÇÕES AUTOMÓVEIS GLOBAIS, SGPS, SA
43 SEMAPA		SEMAPA - SOCIEDADE DE INVESTIMENTO E GESTÃO, SGPS, SA
44 SONAE		SONAE, SGPS, SA
45 SONAE CAPITAL	FINANCIAL COMPANY	
46 SONAE IND.SGPS		SONAE INDÚSTRIA, SGPS, SA
47 SONAECOM,SGPS		SONAECOM,SGPS, SA
48 SPORTING	SPORT CLUB PUBLICLY LISTED COMPANY	
49 SUMOL+COMPAL		SUMOL+COMPAL, SA
50 TEIXEIRA DUARTE		TEIXEIRA DUARTE, SA
51 TOYOTA CAETANO		TOYOTA CAETANO PORTUGAL, SA
52 VAA VISTA ALEGRE		VAA-VISTA ALEGRE ATLANTIS, SGPS, SA
53 VAA-V.ALEGRE-FUSAO	SHARES FROM THE IMPUGNMENT PROCESS REGARDING THE OPERATIONS OF SLIPT AND MERGER	
54 ZON MULTIMEDIA		ZON MULTIMÉDIA - SERVIÇOS DE TELECOMUNICAÇÕES E MULTIMÉDIA, SGPS, SA

Appendix 10 - Corporate Governance Model adopted by PSI Geral Companies

PSI GERAL COMPANIES BETWEEN 2005 AND 2012		LAST CORPORATE GOVERNANCE MODEL ADOPTED
1	ALTRI, SGPS, SA	Latin Model
2	BRISA, SA	Latin Model
3	CIMPOR, SGPS, SA	Latin Model
4	COFINA, SGPS, SA	Latin Model
5	COMPTA - EQUIPAMENTOS E SERVIÇOS DE INFORMÁTICA, SA	Latin Model
6	CORTICEIRA AMORIM, SGPS, SA	Latin Model
7	EDP – ENERGIAS DE PORTUGAL, SA	Germanic Model
8	EDP RENOVAVEIS, SA	Anglo-Saxon Model
9	ESTORIL SOL, SGPS, SA	Latin Model
10	F. RAMADA INVESTIMENTOS, SGPS, SA	Latin Model
11	GALP ENERGIA, SGPS, SA	Latin Model
12	PARAREDE - TECNOLOGIAS DE INFORMAÇÃO, SA / GLINT - GLOBAL INTELLIGENT TECHNOLOGIES, SA	Latin Model
13	IBERSOL, SGPS, SA	Latin Model
14	IMOBILIÁRIA CONSTRUTORA GRÃO PARÁ, SA	Latin Model
15	IMPRESA, SGPS, SA	Anglo-Saxon Model
16	INAPA – INVESTIMENTOS, PARTICIPAÇÕES E GESTÃO, SA	Anglo-Saxon Model
17	JERÓNIMO MARTINS, SGPS, SA	Anglo-Saxon Model
18	LISGRÁFICA – IMPRESSÃO E ARTES GRÁFICAS, SA	Latin Model
19	MARTIFER, SGPS, SA	Latin Model
20	GRUPO MEDIA CAPITAL, SGPS, SA	Anglo-Saxon Model
21	MOTA ENGIL, SGPS, SA	Latin Model
22	NOVABASE, SGPS, SA	Anglo-Saxon Model
23	SOCIEDADE COMERCIAL OREY ANTUNES, SA	Latin Model
24	PORTUGAL TELECOM, SGPS, SA	Anglo-Saxon Model
25	PORTUCEL, SA	Latin Model
26	REDITUS, SGPS, SA	Latin Model
27	REN - REDE ELÉCTRICA, SA	Anglo-Saxon Model
28	GRUPO SOARES DA COSTA, SGPS, SA	Latin Model
29	SAG GEST - SOLUÇÕES AUTOMÓVEIS GLOBAIS, SGPS, SA	Latin Model
30	SEMAPA - SOCIEDADE DE INVESTIMENTO E GESTÃO, SGPS, SA	Latin Model
31	SONAE, SGPS, SA	Latin Model
32	SONAE INDÚSTRIA, SGPS, SA	Latin Model
33	SONAECOM, SGPS, SA	Latin Model
34	SUMOL+COMPAL, SA	Latin Model
35	TEIXEIRA DUARTE, SA	Latin Model
36	TOYOTA CAETANO PORTUGAL, SA	Latin Model
37	VAA-VISTA ALEGRE ATLANTIS, SGPS, SA	Latin Model
38	ZON MULTIMÉDIA - SERVIÇOS DE TELECOMUNICAÇÕES E MULTIMÉDIA, SGPS, SA	Anglo-Saxon Model