CORPORATE GOVERNANCE IN FAMILY-OWNED BUSINESSES IN KOSOVO
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2015
This study is an analysis of the state of development of corporate governance in family-owned businesses in Kosovo. The analysis draws on primary and secondary data sources. Primary data include a survey, specifically commissioned for this project, of largest family-owned businesses in Kosovo. Secondary data include published reports by different academics and organizations as well as a review of the relevant legislation. This study is part of a more comprehensive project on family owned businesses that Riinvest is implementing with the support of the Center for International Private Enterprise (CIPE). Riinvest is committed to playing an active role in publicizing the importance of sound corporate governance as a major factor affecting the success of emerging market based economy in Kosovo. Riinvest wishes to thank CIPE and acknowledge its support for this project and the related activities. We would like also to thank the Kosovo Chamber of Commerce (KCC) as well as managers and/or owners of businesses for their cooperation with our research team. Riinvest wishes to thank all parties involved in the preparation of this study for their contribution while it assumes the sole responsibility for its findings and conclusions.

Riinvest, 2015
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## Abbreviations

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<th>Abbreviation</th>
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<tbody>
<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
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<td>CIPE</td>
<td>Center for International Private Enterprise</td>
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<td>EU</td>
<td>European Union</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>IFC</td>
<td>International Finance Corporation</td>
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<td>KCC</td>
<td>Kosovo Chamber of Commerce</td>
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<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
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<td>PICG</td>
<td>Pakistan Institute of Corporate Governance</td>
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<td>Riinvest</td>
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<td>SPSS</td>
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1. EXECUTIVE SUMMARY

This study is a comprehensive analysis of the development of corporate governance in family-owned businesses in Kosovo. The concept of corporate governance is subject to various definitions. This study sticks to the most commonly used definition — which describes corporate governance as an array of rules and regulations, as well as voluntary principles, governing the relationships and cooperation amongst different actors and enterprises, including shareholders, management, directors and other stakeholders (OECD, 2004). The study is based on a survey specifically commissioned for this project as well as on data collected from other secondary sources. It solicits the views of managers and/or owners of the largest family businesses in Kosovo. The results suggest that corporate governance is a relatively new subject in Kosovo, having come to public attention only in recent years. However, large family-owned businesses are increasingly becoming aware of its importance and are seeking guidance on adopting sound governance practices.

Family-owned businesses are the backbone of many economies around the world. They remain the predominant form of business worldwide. Similarly in Kosovo, family-owned businesses constitute around 85 percent of businesses though a majority of them are small or medium sized. Regardless of their size, family-owned businesses face particular set of challenges that are intrinsic to their organizational structure. These challenges impede them from attracting and retaining high quality human capital, obtaining lower cost debt and equity capital and ensuring long term sustainability. As family-owned businesses are passed to succeeding generations, the chances for their survival diminish significantly. A recent survey cited by PICG (2008), suggest that 85% of family-owned businesses completely wither away before the fourth generation. Corporate governance can act as an efficient tool in promoting the growth and sustainability of family-owned businesses. In the current context, corporate governance broadly refers to the mechanisms, processes and relations by which family-owned businesses are controlled and directed.

The focus of the current study is on the 50 largest family-owned businesses in Kosovo. While most of these businesses have experienced growth and diversification of their operations, have developed their brand name and established themselves as important players for further development of economic prospects in Kosovo, almost all of them still face serious challenges in their further development and suffer from growing pains. Improvements in corporate governance are considered amongst the key challenges faced by these businesses. Broadly speaking, the corporate governance framework is very poor observed, causing serious deficiencies in two key areas: the distinction between ownership and managerial functions and the unresolved issue of inheritance and succession. Injecting modern corporate governance principles in their structures and practices is of key importance for their expansion, creation of new employment opportunities and enhancement of their contribution to economic development of the society. A well governed large family owned business can affect all related economic units such as, among others, distributors, wholesalers and consumers that cooperate with them. Good governance practices of major businesses are expected to trickle down to their related partner businesses and effect them positively. The adoption of an effective corporate governance framework by family-owned businesses will contribute to their better performance, improve their transparency and accountability and will also have a positive impact on the operation of the economy as a whole.

Some of the key findings of this study are:

- The legal framework dealing with the corporate governance of private companies, which includes family-owned businesses, is rather weak and vague in Kosovo. The law on business organizations is the main law that seeks to promote and facilitate an efficient establishment, registration, operation, and closure of businesses in the country. This law, however, does not contain detail provisions on corporate governance that apply to all private businesses.
- In fact, there is no legal provision that compels private businesses, including family-owned businesses, to adhere to sound corporate governance practices. The lack of requirements for private businesses to comply with corporate governance principles is largely attributed to the absence of a stock market in Kosovo and specific...
regulations for private companies in Kosovo in regards to corporate governance. Riinvest does not advocate legal provisions that make such compliance mandatory as it might add to the burden of compliance that companies already face. Instead, Riinvest strives to promote and elaborate the business case for corporate governance which in turn will trigger voluntary compliance with corporate governance principles regardless of the legal framework in place.

Survey results reveal that more than two-thirds of the businesses that were subject of the analysis have some form of a board of directors and over two thirds of board meetings are held on monthly basis. The average number of board members is 3.5 which is much lower than the European Union (EU) average which stands at 7.4 members. The limited number of board members means a greater chance for the board to reach decisions without proper debate and serious analysis, and can be more easily dominated by the vested interests of certain members- those belonging to the founding family.

Survey results also show that the composition of the board of directors is dominated by family members. Only about one in ten businesses that have a board, also have external professional experts included in the board.

Furthermore, the survey reveals that the owner is often the CEO. Also, there is a great overlap between the role of the CEO and that of the chairman of the board of directors.

A majority of surveyed businesses have some type of internal documents that guide their overall functioning. This, rather satisfying, result should be interpreted with caution since it is a legal requirement to have a charter as a constitutional document which contains provisions governing the management and operations of businesses.

As per disclosure and transparency, around 80 percent of the surveyed businesses have websites where they present, when applicable, information such as: the profile of the enterprise, regulations, the list of the board members and their biographies, among others. It is of serious concern, however, that only about one in seven companies make their financial statements available to their staff. While the businesses submit their financial statements for tax purposes, still none of them make their financial statements available to public on their websites.

Around one third of the surveyed businesses have never heard of the OECD principles of corporate governance. Those that have heard, do not necessarily know the specifics of these principles nor do they necessarily implement them.
1. INTRODUCTION

Kosovo’s economy is dominated by family-owned businesses. They are the largest contributor to employment and output. In recent years, large family-owned businesses have significantly increased their financial capacity and economic capability, yet their governance and management structures have remained fairly basic, traditional and, more importantly, inadequate to handle their needs in a modern economy. The ownership and management functions are not separated and family members occupy various managerial positions without having acquired their position through merit. In most cases, the boards of these companies do not function effectively and their work is shrouded in secrecy through lack of accountability and transparency, aided by the particular ownership structure where majority of shares are owned by a family.

Almost all these companies face serious challenges in their further development and suffer from growing pains. Riinvest Institute throughout its regular annual surveys and other roundtable discussions with the business community, became aware that family-owned businesses are in great need of guidance and information on adopting good governance practices. Improvements in corporate governance are considered amongst the key challenges faced by these firms. Corporate governance, in the sense of OECD principles, is very poorly observed - if at all - causing serious deficiencies in two key areas: the distinction between ownership and managerial functions and the unresolved issue of inheritance and succession. Injecting modern corporate governance principles in their structures and practices is of key importance for their expansion, creation of new employment opportunities and enhancement of their contribution to economic development of the society.

Corporate governance practices lead to the democratization of the firms and promote the role of private sector in the democratic development of the society. Corporate governance promotes the system of merit in recruitment and promotion. It also enhances accountability, transparency and compliance while it diffuses the corporate power. It builds trust, confidence, fairness and accountability not just among shareholders but also among society-wide stakeholders.

Riinvest Institute, in cooperation with Center for International Private Enterprise (CIPE), has been involved in implementing significant projects related to corporate governance in Kosovo. The focus of these projects was primarily on Publicly Owned Enterprises (POEs) which are utility companies offering basic public services to the citizens of Kosovo, as well as on financial institutions (banks and insurance companies). Activities within these projects have created positive improvements in the field of corporate governance by enhancing public awareness of the subject and improving the legal framework, thus achieving encouraging changes in the implementation of corporate governance principles. Following the successful completion of the aforementioned projects, Riinvest has now embarked on promoting modern corporate governance principles in family-owned businesses in Kosovo. Given their relative importance for Kosovo’s economy, focusing on this important sector seems as a natural extension of the previous projects on corporate governance. Riinvest Institute considers that an assessment of the current state of corporate governance in family-owned businesses as well as the preparation of clear policy recommendations for improving the governance practices and helping these businesses in establishing such practices is very timely at this stage of development in Kosovo.

This study is organized as follows. The next section presents a business case for corporate governance. Section 2 provides a business case for corporate governance. Section 3 gives an overview on the role of corporate governance in family-owned businesses followed by a discussion on the legal framework regulating corporate governance in Kosovo provided in Section 4. Section 5 describes the methodology used in preparing this study. Section 6 presents the main findings of the survey of largest family-owned businesses in Kosovo. These findings attempt to give a glance on how family-owned businesses act with respect to corporate governance practices. Section 7 provides some concluding remarks and policy recommendations.
2. THE BUSINESS CASE FOR CORPORATE GOVERNANCE

The corporate governance framework is aimed at protecting the interests of the company as well as its shareholders (including minority shareholders), creditors and investors. If investors and creditors are assured that their investment in a company is safe, they will be more willing to invest in the company. The borrowing cost for the company will be lower and its access to external finance will improve. Foreign investors, too, will be more willing to invest in companies with better corporate governance. Good corporate governance will ensure that the company produces regular and accurate financial information that portray the company’s real financial position and provide timely information for creditors, investors and the market. A good corporate governance framework will clearly establish the role and responsibilities of the boards and directors, ensure that the company’s finances are in order and risks facing the company are properly assessed by professionals and excessive risk taking is avoided.

From the society’s point of view, a good corporate governance system is likely to reduce the level of corruption in a country and benefit the country as a whole. If good corporate governance provisions regarding the appointment of board members, including independent or non-executive members, boards’ duty of oversight, transparency, clarity of ownership structure, insider trading, and related party transactions are adhered to, there will be less room for nepotism, self-enrichment of boards and managers, and siphoning off of company profits for personal gains. It is sometimes argued that compliance with the requirements of good corporate governance is costly for companies and will be at the expense of their profits. It is essential to emphasize that although there is an initial cost in establishing the structures of good governance and complying with its provisions, the benefits mentioned above, will by far outweigh the initial costs and ensure that the improved profits and valuation of companies accrue to its owners.

Improved corporate governance will have a longer term effect on company performance through its improved decision making process, oversight and accountability. One of the most quoted and most influential academic studies in this area is Gompers, et al. (2003), based on the study of 1500 US companies, using 24 governance indicators developed by Institutional Investors Research Center. They find a positive relationship between the corporate governance ranking and company valuation and profits in the 1990-1999 period. The results were confirmed by another influential study of the same period by Bebchuk, et al. (2004) who used only six of the governance indicators used in the previous study and concluded that there was a positive and significant relation between the governance indicators and company value as well as shareholder return. Drobetz, et al. (2004), replicated Gompers, et al. (2003) for German companies and arrived at the same conclusions. But the most extensive study of the impact of good corporate governance has been conducted by Deutsche Bank (2003, 2004a, 2004b, 2005a, 2005b, 2006) covering companies in the United Kingdom, Europe, America and Asia. These studies have confirmed the positive relation between the quality of corporate governance and companies’ performance.
3. THE ROLE OF CORPORATE GOVERNANCE IN FAMILY-OWNED BUSINESSES

Family-owned businesses represent the backbone of the economic activity in many developed and developing countries. According to European Family Businesses (2012), in most countries around the world, an estimated 60–90 percent of non-governmental Gross Domestic Product (GDP) is created by family-owned businesses; they are responsible for 50–80 percent of all private sector jobs; they represent between 70–95 percent of all business entities; and around 85 percent of all business start-ups started with family money. The situation is quite similar in Kosovo where family-owned businesses constitute the major share of all business entities (estimated at 85 percent) and are the main contributors to the economic activity of the country. Given their relative weights in the economy, it is of central importance to facilitate the establishment of sound governance structures for these businesses that allow them to grow and prosper over the long run.

In their early stages, family-owned businesses reflect the strength of the founding family’s motivation and commitment, their resilience to adverse conditions and the flexibility required to deal with adversities. They can grow very rapidly because of the dedication and hard work of the founders and their ability to plough back much of their profit as they are not restricted by shareholders’ demand for dividend payment. The coordination function, at least in the early stages, is facilitated by the informal family arrangements, trust, family values and loyalty. But despite their rapid growth in the early phases, only a small proportion (5-15%) of them survive by the time the third or fourth generation of owners take over. The majority of family-owned businesses are found to either disintegrate or completely vanish by that time (Gulzar and Wang, 2010). A weak and ineffective corporate governance system is regarded as one of the main reasons for this low survival rate.

A sound corporate governance framework is expected to support growth and long-term sustainability of family-owned businesses for several reasons, including:

- **Facilitating succession planning for owners and managers.** As the founder of a business comes to retirement (or dies), property is transferred to heirs. Nothing impacts a family-owned business more than the departure of the founding owner manager and the transfer of power to his/her successors. The transfer could create a loss of vision and purpose as the heirs may have conflicting views on the way business should be run or how it should develop. The absence of a clear line of authority often leads to the decline of a business after the death or retirement of a successful entrepreneur.

- **Separation of ownership and management.** Good corporate governance requires a board of directors exercising oversight on managers. Owners (including the dominant family) will be represented on the board and monitor the managers and therefore retain their ultimate control over the company. However, the management of company assets is left to professional managers.

- **Reducing the impact of conflicts of interest amongst family members.** Conflicts often arise between family members that are involved in the business on issues related on how to manage the business. At other times, a different kind of conflict may arise when some family members work for the family business while others draw only dividends. This may lead to resentment amongst some members who feel those working in the business draw greater benefit than a fair wage.

- **Improving management processes.** As a family-owned business grows, the relationship between owners, managers and employees becomes far more complex. In that vein, good corporate governance sets clear policies and creates a solid organizational structure with clearly defined roles, reporting lines, and responsibilities. It also draws a clear line between ownership and management, with the management having duty of loyalty to all shareholders, and differentiating strategic policy making from day-to-day management. Also, a
sound corporate governance gives more preference to hiring professional managers rather than family members as a family-owned business grows.

• **Fostering cooperation between businesses organizations.** An effective governance framework ensures the employment of professional managers, enhances the improvement of the management and enables them to identify strategic partners in an industry or a project. Good governance allows the management of two or more family-owned businesses to recognize mutual benefit and increases chances for cooperation. This cooperation would foster a favorable environment to develop larger business organizations and increase their representation when advocating for issues of common concerns.

• **Enhancing the positive impact on the economy.** A well governed large family-owned business can affect all related businesses such as distributors, wholesalers, consumers, etc. that cooperate with it. Good governance practices of a major business often trickle down to its related partner businesses and affect them positively.

• **Introducing better recruitment and promotion policies in the firm.** A governance system that provides clear guidelines for employing family and non-family members and establishes an impartial performance-based promotion system helps the survival of a family-owned business, reducing the rapid turnover of the human capital which is costly for any business.

• **Promoting the role of private sector in the democratic development of the society.** The progress of civil society is closely linked to the way businesses have organized themselves; how they observe the principles of transparency and accountability; whether they have a sense of social responsibility and consider the interests of all stakeholders; and whether they are sufficiently committed to anticorruption policies and practices.
4. LEGAL ASPECTS OF CORPORATE GOVERNANCE IN KOSOVO

The concept of Corporate Governance is relatively new in Kosovo. Although corporate governance was mentioned in the discussions and debates surrounding the privatization policy in the immediate post-war period, it was not the central point of the debate as it was mainly used to highlight some of the consequences of alternative methods of privatization. The legal framework addressing the issue of corporate governance in the private sector companies is rather weak and vague – and, unlike many other countries, no code of corporate governance has been adopted in Kosovo. The following pieces of legislation regulate some aspects of corporate governance among Kosovo publicly- and privately-owned companies:

- Law on Publicly-Owned Enterprises[^3]
- Law on banks, microfinance institutions and non-bank financial institutions[^4]
- Law on accounting, financial reporting and audit[^5] and
- Law on business organizations[^6].

The law on publicly-owned enterprises has paid special attention to the issue of corporate governance in these companies by defining the meaning of ‘independence’ for members of boards of directors, specifying clearly the qualifications necessary for board members, and requiring the board members to undergo annual training in corporate governance. Also, this law contains provisions on: financial reporting, definition of shares and property, external auditing, enforcement of fiduciary duties, as well as few other corporate governance rated provisions.

The law on banks, microfinance institutions and non-bank financial institutions is not well developed in regards to corporate governance principles. For instance, the law compels limited liability companies to have a board of directors, but it does not address other corporate governance related issues, such as protection of minority shareholders’ rights in the business.

In general, there is no legal provision that compels private business, including family-owned business, to adhere to sound corporate governance practices. The lack of requirements for private businesses to comply with corporate governance principles is largely attributed to the absence of stock market and specific regulations for private companies in Kosovo. Riinvest does not seek to advocate legal provisions that make such a compliance mandatory as it might add to the burden of compliance that companies already face. Instead, Riinvest strives to promote and elaborate the business case for corporate governance which in turn will trigger voluntary compliance of businesses with corporate governance principles regardless of the legal framework in place.

[^4]: http://www.kuvendikosoves.org/common/docs/ligjet/Law%20on%20banks,mi-crofinance%20institutions%20and%20NFI.pdf [12 February 2015]
5. METHODOLOGY

The study is based on primary data collected through a survey specifically commissioned for this study as well as already published data, reported by national and international institutions. The survey aimed at soliciting the perceptions and assessments of business managers and/or owners about the current development of corporate governance in family-owned businesses in Kosovo. The data used for sampling purposes was provided by the Kosovo Chamber of Commerce (KCC), which included the list of over 200 largest family-owned businesses in Kosovo. From this list of companies, the largest 50 businesses were selected for interviewing process following stratification according to region. The number of companies selected in the sample from each of the five regions of Kosovo was proportional to the number of companies in the population. The sample size of 50 businesses in total was large enough to provide statistically meaningful results.

The data were gathered through face-to-face interviews with key people in firms – owners or managers – who were well-informed about the developments in the business and were authorized to provide the information. The survey was implemented using a comprehensive questionnaire (Appendix 1) with open ended questions and some parts which required ranking or multiple answers. The questionnaire was designed by Riinvest research team but it also benefited from the input from CIPE. The questionnaire consisted questions that solicited for general information about the business; information on the board of directors; the corporate governance framework and succession; and disclosure of financial statements and of other relevant information. The survey was implemented by enumerators who received survey-specific training. The data were back-checked by the survey manager who revisited 15 percent of surveyed companies, ostensibly to thank them for their cooperation. During these visits, selected questions that were considered most crucial to the research were re-asked for verification. Additionally, each questionnaire was verified by researchers to check if there were any contradictory responses. This helped detect and consequently avoid potential problems with analyzing the results.

Once collected, the data was encoded by experienced personnel using EXCEL spreadsheets prepared with the data fields and pop-up tables indicating relevant codes. The data were analyzed using Statistical Package for the Social Sciences (SPSS) to identify responses outside of expected ranges, including potential inconsistencies across variables and for cross-tabulations. Changes were made as appropriate. Additionally, periodic checks were made by the survey manager, primarily through comparing variable means and distributions across files, to ensure that the data had not been altered by mistake. The analyses in this report are predominantly based on descriptive statistics using cross tabulation techniques.
6. CORPORATE GOVERNANCE IN FAMILY-OWNED BUSINESSES IN KOSOVO: SURVEY FINDINGS

This section presents the findings of the survey of 50 largest family-owned businesses in Kosovo. Sub-section 6.1 provides a general description for the interviewed family-owned businesses; sub-section 6.2 focuses on the issue related to boards of directors and their composition; sub-section 6.3 provides some findings about how these businesses deal with the transfer of ownership and transfer of management; sub-section 6.4 shows the state of disclosure and transparency in the interviewed businesses; and sub-section 6.5 presents the level of awareness of corporate governance principles among the interviewed family-owned businesses.

6.1 Description of the Sample

The study focused on large family owned businesses, the large majority of which (85 percent) had an annual turnover of over €1 million. About 15 percent of interviewed businesses reported that their average annual turnover is less than €1 million. Around 44 declared that their average annual turnover is between €1 million and €5 million; 13% of the sample had an annual turnover of €5 to €10 million while over a quarter (approximately 28 percent) reported an annual turnover of above €10 million. Moreover, around 53 percent of the interviewed businesses have some exporting activities. Amongst the family-owned businesses engaged in foreign trade, exports constitute about 27 percent of their total sales.

The average number of employees is 198, with the largest and smallest having 2500 and 22 employees. If the largest company is taken out of the sample, the average drops to 123 employees. Around 82 percent of family-owned businesses are owned by domestic private owners, whereas 18 percent have a combination of both domestic and foreign private owners.

Approximately 34 percent of the sample are individual businesses, 14 percent partnerships, 44 percent corporations, and the rest comprise some other forms of organization (for instance joint ventures). The surveyed family-owned businesses are predominantly owned by men; in 98 percent of the cases the largest shareholder of the company is male. Most of the family-owned businesses selected for this study are located in Prishtina (32 percent), Ferizaj (18 percent), and Prizren (12 percent). The rest are scattered in other cities.

Just over half of the interviewed family-owned businesses were established before 1999, 41 percent between 2000 and 2007, and 8 percent after 2008. Most of them are in construction industry. Other sectors dominating the sample are dairy production and insurance services.

6.2 The board of directors

Establishing a board of directors is viewed as a centerpiece in corporate government framework. The board has a central role in governing companies on strategic issues and is very important for setting the ‘tone at the top’ and promoting corporate governance principles in every level of the company. Family businesses relying on management only quite often fail to perform well strategically. That is because management, by involving in day-to-day operational activities, loses sight of the big picture. Most importantly, given its supervisory role and responsibility over matters related to auditing standards, legal system and ethical policies, the board of directors contributes in lessening the possibility for corruption acts to occur within the company and/or between companies.

The results of the survey reveal that more than two-thirds (70 percent) of managers/owners of all interviewed family-owned businesses declared that they have a board of directors or some similar body (see Figure 1). The legislation in place, Law No. 02/L-123 on business organizations in particular, only requires limited liability companies to have a board of directors. In our sample, all surveyed corporations are registered as limited liability companies. Even though these companies are legally obliged to have a board of di-
rectors, the survey findings suggest that around 14 percent of them do not have a board of directors even though they are legally obliged to have a board of directors, the survey findings suggest that around 14 percent of them do not have a board of director (3 out of 22 corporations do not have a board).

Compared to family-owned businesses in affluent EU countries, the boards of interviewed family-owned businesses consist of smaller number of members. The greatest proportion, around 49 percent of the surveyed businesses have a board with 1-3 members, 40 percent with 4-5 members, and the rest (11 percent) with 6-7 members (Figure 2). On average, the board of directors of these businesses is made up of 3.5 members. Similar businesses in the EU countries such as, France, Germany, and Spain, on average, have larger boards – consisting of 8.8, 8.9, and 6.9 members, respectively (Russell Reynolds Associate, 2014). The overall EU average, which stands at 7.4 members, is higher by approximately 4 members. Note that the discrepancy between these EU countries and Kosovo could have been wider, if smaller family-owned businesses from Kosovo had been included in the sample. The findings suggest that family-owned businesses in Kosovo fall short in terms of the board size. The limited number of board members means that it is more likely for the board to reach decisions without debate and proper analysis, and that the boards can be more easily dominated by the vested interests of members of the founding family.

Looking only at family-owned businesses generating a turnover of more than €10 million per year, the average number of board members turns out to be slightly higher, at 3.8. This figure suggests that even the largest family owned businesses in Kosovo, as measured by their level of turnover, have significantly smaller boards compared to the EU average.

The legislation in place deals only loosely with this matter. Law No. 02/L-123 on business organizations deals with the number of board members by specifying that businesses with less than 10 shareholders should have one or more board members; businesses with 10 or more shareholders should have a board with at least three members; and finally businesses with 500 or more shareholders should have a board with at least seven members. These provisions seek to avoid extreme cases. Given that currently the number of shareholders of family-owned businesses is in general very small, it seems that this law does not play a significant role in properly regulating the board size of family-owned businesses in Kosovo. The same law, specifically its Article 175, loosely regulates the composition of the board of private businesses in Kosovo. The law specifies that in business entities with 100 or more shareholders, family members of employees shall not make a majority of the board of directors. In business entities with 250 or more shareholders, there must be at least two independent board members. Again, given that the actual family-owned businesses in Kosovo are commonly owned by smaller number shareholders, it could be stated that for the time being this part of the law is neither applicable nor effective in diversifying the board of directors.

With the lenient legal provisions, external independent experts appear not to be a very common practice among family-owned businesses that have a board of directors. Of those firms that have a board of directors, only 17 percent have a diversified board (i.e. include at least one independent professional member). In the EU, the average number of independent directors is about 27 percent of the total number of directors (Russell Reynolds Associates, 2014). Although the percentage in Kosovo appears to be lower, these two figures cannot be directly compared as our data do not depict the exact proportion of independent directors – that is because the question in our questionnaire was worded differently.

Despite the fact that nowadays there seem to be a broad consensus about the benefits of board diversity (to include independent professional members), the core part of the
FIG. 02 NUMBER OF BOARD MEMBERS IN FAMILY OWNED BUSINESSES (IN %)

- **11.4%**
  - 6 to 7 members
- **40.0%**
  - 4 to 6 members
- **48.6%**
  - 1 to 3 members

Source: Authors’ calculations based on the survey data
boards in family-owned businesses in Kosovo is made up of family owners and heirs. The idea of having professional experts dominate the board is linked with their expected independence in the decision-making process. In other words, it is essential for the firm to have independent external experts on their board, as they are more likely to prevent the conflict of interest that might develop between the board and the company (and its minority shareholders). In practical terms, professional board members challenge the family thinking and impose the necessary discipline on the board meetings. They also have the tendency to shift the discussion from family issues, which are very much present in family-controlled boards, to business and strategic issues (IFC, 2008). An analysis of more than 80 family-owned businesses in the US revealed that the existence of non-family controlled board was the most essential component in the survival and success of these firms (Ward, 1991).

The survey results also reveal that very often the owner and the CEO of the family-owned business is the same person. More precisely, in 44 percent of the interviewed businesses, the owner is the CEO (for more details, see Figure 3). Even in the second largest family-owned business (in the sample in terms of the number of employees, around 248) the owner is the CEO. Also, there seems to be an overlap of the position of the chairman and that of CEO. The negative impact of the so called CEO duality is evidenced in a number of studies (Jensen, 1993; Pi and Timme, 1993; and Goyal and Park,
One of the arguments being used to prove the inverse relationship between CEO duality and firm performance is linked with the difficulties faced by the board when it comes to the removal of the CEO when he/she underperforms. The absence of such threat might be a disincentive for CEO’s devotion. In principle, the role of the board, among others, is to come up with decisions with regards to the recruitment, compensation and potentially contract termination of the CEO. If the CEO chairs the board, then there might be a potential conflict of interest. Therefore, following the well-established practice in Anglo–Saxon countries, it is recommended that these two positions should be held by two different individuals.

With the growing competition and the rapid change of business environment, board meetings are recommended to be held on monthly basis. In this way, board members will be informed and able to provide timely guidance to the management. Meetings held less frequently widen the asymmetry of information between the board and management, thereby creating conditions for fraudulent behaviors to emerge. The results of the survey indicate that boards (in those FOBs that have one) perform well in this regard. 66 percent hold board meetings at least on monthly basis; about 26 percent every three months; about 3 percent twice a year; and the rest either once a year or even less frequent than that (see Figure 4).

Notwithstanding the result, based on further interviews conducted with the managers, it was realized that these meetings are informal day-to-day gatherings, rather than formal board meetings. They often take place because almost all board members have executive positions and meet on a regular basis. A more profound analysis supports this claim. In about 85 percent of the interviewed family-owned businesses where the CEO and the chairman of the board is the same person, board meetings are held at least once a month.

6.3 Corporate governance, planning and succession

Succession is a major issue for family-owned businesses. This phenomenon is in part attributable to the weak implementation of corporate governance principles. The largest family-owned businesses in Kosovo appear to be at a critical point. According to the survey, of the all family-owned businesses managed by family members, 65 percent have a first-generation management. Most of these businesses have been operational for 25 years and their respective management is now close to retirement age. That said, it is very likely that these businesses are about to enter a transitional phase. If these businesses strive to be sustainable without turbulences when passing the ownership or management to the next generations, they should start adopting sound corporate governance practices.

Many family-owned businesses worldwide manage to cope with threats of competition, shifts in technology, economic cycles and other destabilising factors, but they barely manage to confront the challenge of transferring the businesses to the next generation. To investigate this issue deeper, the respondents were asked about their plans for the transfer of ownership and management. The transfer of ownership and succession in management are put together since these two go hand-in-hand in most family-owned businesses (Kets de Vries, 1993; Morris et al., 1997). The results of the survey reveal that approximately 61 percent of the interviewed owners/managers wish to pass the business to close family members upon retirement; around 11 percent think that their business will be in the hands of other family members; and about 28 percent are still undecided. These results are very similar to those of a survey of 350 family-owned businesses in Slovenia in 2004 (Duh et al., 2009). According to this survey, close to 70 percent of respondents declared that their business will remain in the ownership and in the management of the family in the next generation. The important issue for the sustainability of the company is whether or not the succeeding family members are qualified to manage the company and whether they have been encouraged to undertake any preparation, training or education for their managerial position. Survey results reveal that only 14 percent of businesses provide some form of corporate governance related training to their staff.

It is worth noting, however, that the responses from our survey about the future do not derive from a written succession plan; they are merely owners’ wishes. One general interpretation as to why owners are very reluctant to prepare a succession plan is also associated with psychological and emotional problems (Duh et al., 2009). Establishing and building up a successful business is a long process which creates emotional attachment for the founder, hence his/her tendency to avoid the preparation of a transfer plan for the next generation. Another possible interpretation is that owners have limited knowledge of the complexity of the succession process (Morris et al., 1997; Dyck et al., 2002; Malinen, 2004). The survey results suggest that family-owned businesses seem to underestimate the difficulty of the transfer of ownership and management to the next generation (the average score for the question on their per-
**FIG. 05 LEVEL OF AWARENESS ABOUT OECD CORPORATE GOVERNANCE PRINCIPLES (IN %)**

64% **YES**

36% **NO**

Source: Authors’ calculations based on the survey data

**FIG. 05 GENERATION OF MANAGEMENT OF BUSINESSES THAT ARE MANAGED BY FAMILY MEMBERS (IN %)**

65% **First Generation**

35% **Second Generation**

Source: Authors’ calculations based on the survey data
ceived difficulties of ownership transfer was 3.8 (on a 1-10 scale with 10 indicating great difficulties). Furthermore, a more in-depth discussion through open-ended questions revealed that in fact owners of these businesses lack the necessary knowledge of succession planning.

An important pillar of corporate governance, inter alia, is the idea of having a written document that contains rules and regulations for the company, including a company statute. In this regard, 96 percent of the interviewed family-owned businesses do have some sort of a document – though not necessarily a statute—that includes rules guiding their overall functioning. It is worth pointing out here that the Law on No. 02/L-123 on business organizations explicitly specifies that to register and establish a limited liability company, a founder should submit a charter to the Registry. According to this law, a charter is defined as a constitutional document containing provisions governing the management and operation of the firm. This legal provision could explain why such a large proportion of companies have some formal documents.

Over 90 percent of the interviewed family-owned businesses reported that they have a code of conduct. This high percentage, however, should be interpreted with caution since in Kosovo’s culture a code of conduct is not always understood as a written document. It sometimes has the connotation of a few unwritten codes ingrained in the firm guiding the behavior of employees. It is a very common practice for firms that have a code of conduct, especially in the western countries, to hold some form of training for their employees in order to have them become more informed about the code. The survey results show that no more than 35 percent of the family-owned businesses surveyed cover the subject of code of conduct in their training packages. This gives ground for one to believe that only a few of the interviewed family-owned businesses have a written code of conduct. A more detailed discussion with selected businesses during the back-check of the survey also confirmed this.

### 6.4 Disclosure of Business Data

The recent global crisis has shown how lack of transparency, accountability and integrity in many companies allowed different forms of corruption to go unchecked and to flourish as a result. Lack of transparency in particular has been one of the most detrimental factors leading to the crisis. It damages company’s image as well as affects long-term prospects, while driving investors away. Therefore, demanding transparency, especially in financial matters, is of paramount importance for eradicating different forms of corruption. Transparency helps companies to secure investor confidence, improve access to capital markets, and enhance their overall performance—which has a trickle-down effect in the entire economy. ‘Disclosure and transparency’ is indeed one of the main pillars of OECD corporate governance framework.

The surveyed family-owned businesses appear to be quite open with respect to disclosing general information about their business. Around 80 percent of them have websites where they present, when available, documents such as: the profile of the enterprise, regulations, board members and their biographies and similar information.

None of their websites, however, contain any financial or auditing report. While businesses submit their financial statements for tax purposes, still none of them make their financial statements available to public on their websites. The disclosure of balance sheets is mandatory only for banks and financial institutions in Kosovo. Most of the companies surveyed are not even transparent towards their employees with regards to financial matters. Only about one in seven companies make their financial statements available to their staff.

### 6.5 Level of awareness about corporate governance principles

The most widely applied principles of corporate governance are the ones prepared by the Organization of Economic Cooperation and Development (OECD) in May 1999 (OECD, 2004) and revised in 2014. They form a very structured basis for corporate governance reforms not only in OECD countries, but also in other countries worldwide. The OECD framework and related guidelines are clustered around six main principles: (1) ensuring the basis for an effective corporate governance framework; (2) the rights of shareholders and key ownership functions; (3) the equitable treatment of shareholders; (4) the role of stakeholders in corporate governance; (5) disclosure and transparency; (6) the responsibilities of the board. Given the size family businesses and level of development, the last three principles are the most applicable ones.

Riinvest asked businesses if they have heard about these principles. A majority (64 percent) of managers/owners of all interviewed family-owned businesses declared that they have heard about the OECD Corporate Government Principles (see Figure 5). From informal discussions with businesses during interviews, it was understood that business
owners/managers do not possess any profound knowledge with regards to these principles.

The respondents who had heard of the OECD principles were then asked to rank their perceptions of the impact of corporate governance practices on the development of the private sector on a scale from 1 to 10 (with 10 having a very high impact and 1 no impact at all). The average response to this question was 6.85. This indicates that, regardless of whether firms adhere to sound corporate governance practices or not, they generally acknowledge the benefits deriving from these principles, although their knowledge on these principles is limited.

The general perception of Riinvest’s enumerators is that the interviews overall have limited information on the specifics of OECD practices – which may be one of the reasons why they failed to accommodate these practices in the organizational structures.
7. CONCLUSION AND POLICY RECOMMENDATIONS

Family-owned enterprises constitute a driving engine of growth in many economies around the world. Nonetheless, because of their specific nature, family-owned businesses face many challenges, especially over the long-run. As ownership passes from one family generation to the next, the chances of survival of family-owned businesses diminish significantly. Only a small fraction of family-owned businesses make it to the third generation. In this regards, corporate governance is a critical enabling factor for the development and long-run sustainability of family-owned businesses. Practicing good governance enables these businesses to establish robust business processes and prepare for future expansion. Good corporate governance lays the foundation for family firms to be more accountable and transparent in their operations, which leads to opportunities for raising finance, growth and improved performance.

Kosovo lacks the proper legal infrastructure that obliges private business, including family-owned business, to comply with sound corporate governance practices. The lack of requirements for private businesses to comply with corporate governance principles is largely attributable to the absence of stock market and specific regulations for private companies in Kosovo. Due to the costs involved in the short-run, Riinvest, however, does not advocate for hard laws that make such compliance obligatory. Instead, Riinvest seeks promote the benefits of corporate governance, which will generate voluntary compliance of businesses with corporate governance as a result.

The findings of the present study clearly indicate the inadequate level of adherence to sound corporate governance principles by family-owned businesses in Kosovo. The survey results reveal that only around two-thirds of the businesses in the sample have some form of a board of directors, and over two-thirds of board meetings are held on a monthly basis. The average number of board members is much lower than the EU average, and the composition of the board of directors is dominated by family members. Only about one in ten businesses that have a board also have external professional experts included in the board. Furthermore, the survey reveals that the owner is often the CEO. Also, there is a great overlap between the role of the CEO and that of the chairman of the board of directors. Establishing a functional board with a considerable number of independent professional should be a priority for family-owned businesses. Provided its supervisory role and responsibility over matters associated with auditing, legal system and ethical policies, a functional board has a central role in reducing the likelihood for corruption acts and abuses to take place in the company. Furthermore, having independent members in the board of directors is vital for the well-being company, as they are more inclined to place the interest of the company over the interest of powerful family members.

More than 90 percent of businesses surveyed have some form of internal documents that guide their overall functioning. Having a written code and a statute outlining the social norms and rules and responsibilities is very important for the well-being of the company. It is important for this code to be written as it leaves no room for ambiguities.

Disclosure and transparency is viewed as a very important principle in corporate governance framework. It helps the companies to ensure investor confidence, improve access to capital markets, and enhance their overall performance – which has a domino effect in the country’s economy. The results of the survey reveal that 80 percent of businesses have websites where they publish the profile of the enterprise, regulations, board members and their biographies, and similar information. However, none of these companies disclose their auditing reports or their financial statements in their websites. Moreover, only about one in seven companies make their financial statements available for their staff.

OECD Corporate Governance Principles constitute the most widely applied and well-grounded principles worldwide. A majority of businesses surveyed have heard about the OECD principles of corporate governance. Based on further informal discussions with businesses, it was realized that even those that have heard about these principles do not have any profound knowledge about the details of these principles. This finding suggests that there is an immediate need for awareness raising campaigns that will help family owned businesses to establish a sound corporate governance framework.
Overall, it is essential to strengthen the capacity of business associations and other like-minded institutions to promote good corporate governance and in cooperation with other professional organizations to champion the spread of good corporate governance practices. Because of the relative importance of family-owned businesses in Kosovo, improvements in their corporate governance systems should be a major focus of activity in order to help these companies to survive the succession problem.

Given the context, Riinvest proposes the following policy recommendations:

**Central institutions:**
- The government should propose soft law approaches that promote and incentivize voluntary compliance with corporate governance principles by businesses in general as a complement to current legal provisions. The UK Combined Code, which is based upon comply-or-explain principles, could be one of the options. The flexibility of firms to adhere to various corporate governance mechanisms under soft-law approaches will tailor corporate governance to different organizational environments.
- Parliamentary commissions should engage other stakeholders in parliamentary hearings in future legislative amendments regarding the laws that regulate business affairs.
- The government should accelerate its efforts in improving the overall business environment which would also encourage the development of corporate governance in family-owned businesses in Kosovo.

**Business associations:**
- Business associations should provide trainings on corporate governance for their members. This should include a comprehensive range of training courses for all stages of business development. Providing corporate governance trainings to family-owned businesses in Kosovo would incentivize the latter to pay their membership fee more regularly. Provided that a great number of family-owned businesses in Kosovo are members of business associations, this in turn would also improve the sustainability of business associations.
- Kosovo Chamber of Commerce and American Chamber of Commerce should organize at least one roundtable per year aiming to create a shared understanding of corporate governance principles among member companies and the broader public. The establishment of formal boards with a considerable number of independent professional members, the separation of responsibilities between owners and management, succession planning and the benefits of transparency shall be some of the topics that deserve priority in these awareness-raising efforts. Kosovo Chamber of Commerce and American Chamber of Commerce should also set-up a joint professional organization similar to Institute of Directors. The organization should be committed to the highest standards of corporate governance in line with global principles of modern corporate governance. Riinvest Institute is committed in supporting such an initiative.
- The largest business associations in the country should develop professional capacities that are able to perform assessment reports on corporate governance for interested family-owned businesses for a certain fee. Business associations should also be able to draw customized recommendations that would help companies to gradually adopt corporate governance practices. The guideline on corporate governance developed by Riinvest with the support of CIPE should be utilized for this purpose. Again, Riinvest Institute remains committed in supporting business associations by organizing training of trainers.
- Business associations together with media companies should produce advertisements, explaining in practice corporate government principles and broadcast them on national televisions. Social media could be used also to publish these ads. Other awareness-raising events should also be organized in cooperation with think-tank organizations and other civil society organizations.
Donor community
- Donor community should support further research in this field. Donor supported projects that work with family-owned businesses should mainstream the issue of corporate governance in their interventions. This would not only improve the internal governance of businesses but will also create better preconditions for improvements better cooperation among businesses. Businesses with sound corporate governance structures and practices are better at articulating their needs and coming together with other like-minded organizations to advocate for common concerns.
- Greater support should be provided to business associations for (i) designing custom-made trainings for family-owned businesses and (ii) supporting awareness raising events as described earlier.
- Provided that the adoption of corporate governance may involve a financial cost in the short-run, donor community should design schemes that provide financial assistance to family-owned businesses under certain criteria.

As part of the project, to which this study is an element of, a guidebook on corporate governance for family-owned businesses will be prepared. It will provide practical advice and information on modern corporate governance principles. However, given the findings of this study, the guidebook should place greater emphasis on the following points:
- Make a case for establishing clear internal policy on the disclosure of financial statements and other reports vital for attracting investors
- Provide guidelines for the preparation of a succession plan for family-owned businesses. In this way, businesses will ensure that leadership transition does not impede the development of the businesses.
- It should promote the inclusion of under-represented gender in the board of directors
- It should promote the idea of having a board of directors where independent external professionals comprise a majority. Thus, the selection of board members should be transparent and according to clear procedures set by the business entities.
- Provide guidelines for establishing clear division of roles and responsibilities between the board of directors and the executive management.
REFERENCES


This is a study of the needs and challenges faced by family-owned businesses. The project is supported by the Center for International Private Enterprise (CIPE) and is being implemented by Riinvest Institute. The main goal of the project is to enhance transparency and accountability of family-owned businesses through improved corporate governance. The interview is totally confidential, and your name will not be shared with anyone or used in any kind of report. In addition, we will make sure to remove any information that in combination might identify individuals or companies by municipality or by company. We will report out aggregate data from who participate in our study or use a quote attributed to a “type of company” and no responses will be identifiable. We are also happy to provide a summary of the findings if you are interested. Do you have any questions before we start? OK, thank you!
> FIRST, WE WOULD LIKE TO FIND OUT A LITTLE ABOUT YOUR ENTERPRISE

01 > What is the name of the enterprise?

02 > In which municipality is your enterprise located?

03 > Which is the main activity or line of work of the enterprise (please explain):

04 > What year were you established?

05 > What is the current legal status of the enterprise? Is it a proprietorship, a partnership, a corporation or some other entity?
   a. Proprietorship
   b. Partnership
   c. Corporate
   d. Other, specify

06 > How was your enterprise originally established? Was it through privatizing a publicly-owned enterprise or was it private from the beginning or was it something else?
   a. Through privatizing a publicly-owned enterprise
   b. Private since the beginning
   c. Other, specify

Is the ownership currently divided at all between domestic or foreign private ownership or government?
   d. Yes
   e. No  [IF NO SKIP TO #7]

IF YES: Can you tell me approximately how the percentage of ownership distributed in your enterprise?
   a. Domestic Private
   b. Foreign Private
   c. Government

IF NO, do you have any current or pending agreements to merge with a foreign enterprise?
   a. Yes, a current
   b. Yes, pending agreement or under discussion
   c. No, no agreement of any type
07 Could you please tell us your estimations on your total sales over the last three years? Is it less than 100,000 Euros, more than 10 million Euros, or something in-between?

a. Less than 100,000 Euros
b. 100,000 – 250,000 Euros
c. 250,000 – 500,000 Euros
d. 500,000 – 1 million Euros
e. 1 million – 5 million Euros
f. 5 million – 10 million Euros
g. More than 10 million Euros

08 Does your enterprise currently export its products/services?

a. Yes
b. No [IF NO SKIP TO 9]

IF YES, Approximately what is the average percentage of exports towards your overall sales over the last three years? ________________

09 We are also interested in the kinds of business strategies your enterprise might have undertaken recently in terms of production and activities. In the past two years, has your enterprise taken any of the below initiatives?

_____ a. Has successfully developed a new production/service line
_____ b. Has expanded the existing production/service line
_____ c. Has reached an agreement for a new product with license
_____ d. Has received a contract for big production and service activities
_____ d. Has cut off at least one production/service line

10 Enterprises like yours can approach goal-setting for its business in a variety of ways. How about your – what kind of performance objectives for the management does your enterprise employ? Is it the number of clients, or a percentage of market share or something else?

a. The number of clients
b. Percentage of market share
c. Other, specify ________________
We’re also interested in how companies like yours might work with a board of directors. First, does your enterprise have a board of directors?

a. Yes
b. No [IF NO OR NOT SURE SKIP TO #12]
c. Not Sure [IF NO OR NOT SURE SKIP TO #12]

IF YES, what is the number of board members?

a. 1 to 3 members
b. 4 to 5 members
c. 6 to 7 members
d. Other specify__________

The board of directors consists of [PLEASE CHECK ALL THAT APPLY]:

___a. The owners
___b. Managers or senior staff
___c. External independent experts
___d. Other, specify______________

How often do you hold board meetings? Is it every month, once a year or what?

a. Every month
b. Every three months
c. Twice yearly
d. Once a year
e. Other, specify______________

What are the major responsibilities of the board members? [PLEASE CHECK ALL THAT APPLY]:

___a. The board decides for investment projects in the enterprise
___b. The board drafts the statute
___c. The board drafts business plans and financial statements
___d. The board appoints the executive director
___e. The board appoints the manager of finance
___f. The board sets performance objectives for management
___g. Other (please specify)_________________________________________
12 Overall, would you say that the daily activities of your enterprise are primarily managed by the owner, a manager, the board (if any) or in some other way?
   a. The owner
   b. The manager or executive director appointed by the owner
   c. The board appointed by the owner
   d. The board elected by the board members
   e. Other, specify ________________

13 Looking at this another way, how would you describe the relationship between the executive director, if any, and the owner or other shareholders? Is the owner also the executive director, or is the executive director another family member or do you hire an independent professional manager or what?
   a. He/She is the owner himself/herself
   b. He/She is a family member as well as a manager
   c. He/She is a non-family member and professional manager selected by the owner or the board
   d. Other, specify ________________

14 What is the approximate number of current full-time (paid) employees in your enterprise? __________

15 Does your enterprise provide training for its employees or the staff members?
   a. Yes
   b. No [IF NOT SKIP TO #16]

   IF YES, if this training for [PLEASE CHECK ALL THAT APPLY]
   ____a. Financial management
   ____b. Human resource management
   ____c. Information technology or other tools and software
   ____d. Corporate governance and principles of ethical practice
   ____e. Legal compliance issues
   ____F. Employee code of conduct compliance
   ____f. Other, specify ________________
16. Does your enterprise have an employee code of conduct?
   a. Yes
   b. No
   c. Don’t know

17. Does your enterprise have a statute (rules of running the enterprise included in a specific document)?
   a. Yes
   b. No
   c. Don’t know

18. Does your enterprise have an official website?
   a. Yes
   b. No [IF NOT, SKIP TO #19]

   IF YES, based upon your knowledge, what kinds of things are available on the website?
   _____ a. The profile of the enterprise
   _____ b. Regulations
   _____ c. Employee Code of Conduct
   _____ d. Statute
   _____ e. Senior Management
   _____ f. All Staff members
   _____ g. Board members and their biography
   _____ h. Current Projects, Activities or Lines of Work
   _____ i. Daily news
   _____ j. Auditing reports
   _____ k. Other, specify____________________
NOW WE WOULD LIKE TO ASK A FEW QUESTIONS ABOUT CORPORATE GOVERNANCE

19 First, have you heard of the OECD principles on corporate governance?
   a. Yes
   b. No

20 According to your opinion, how would an effective Corporate Governance policy impact the economic development of the private sector? On a scale of 1 to 10, where 1 means no impact, 5 means moderate impact, and 10 means high impact, what level would you assign?

__________________________________________________________________________________________________

21 Which are the major impediments in your view towards complying effectively with Corporate Governance Principles as established in the international arena?
   a. Political influence of powerful interests
   b. Self-dealing and economic self-interest
   c. Entrenchment of existing companies or interests
   d. Lack of knowledge about corporate governance and its benefits
   e. Other (please specify): ________________________________

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7 Corporate governance principles cover five broad categories: (a) auditing; (b) board and management structure and process; (c) corporate responsibility and compliance in organization; (d) financial transparency and information disclosure; (e) financial transparency and information disclosure
> NOW WE WOULD LIKE TO KNOW A LITTLE ABOUT YOURSELF

22. Are you a member of the founding family?
   d. Yes
   e. No

If YES: To which generation of management do you belong?
   a. First generation
   b. Second generation
   c. Third generation
   d. Other, specify__________________

23. What is your current position (or positions) in the enterprise?
   _____a. Owner
   _____b. Owner and Manager
   _____c. Executive director
   _____b. Manager
   _____c. Chairman of the board
   _____d. Deputy chairman of the board
   _____e. Board Member
   _____g. Other, Specify__________________

24. Succession is a big issue in some family-owned firms, while it is not a big issue in others. To your knowledge, who is going to inherit the enterprise?
   a. The family
   b. The family and other investors
   c. The owner will likely sell it.
   d. Don’t Know
   e. Other, specify__________________
Which generation, as you see it, is currently providing most of the management of the firm?

a. First generation
b. Second generation
c. Third generation
d. Other, specify____________________

IF SECOND OR LATER GENERATION: Based on your experience, how difficult has it been to survive during the succession phase? Rate it from 1-10 (1-not difficult at all; 5 being a medium amount of difficulty; 10 – very difficult).

Please specify the number. _______________________

Overall, how would you rate your company’s efforts to ensure successful succession across generations? Rate it from 1-10 (1 – no effort at all; 5 being an average amount of effort; 10 – full or maximum effort).

Please specify the number. ______________________
What is the level of formal education of your owner (owners)?

**First Owner:**
- a. Primary
- b. Secondary
- c. Technical Education
- d. Higher education (e.g., college or an advanced degree)?
- e. Other, specify

**Second Owner (if applicable):**
- a. Primary
- b. Secondary
- c. Technical Education
- d. Higher education (e.g., college or an advanced degree)?
- e. Other, specify

**Third Owner (if applicable):**
- a. Primary
- b. Secondary
- c. Technical Education
- d. Higher education (e.g., college or an advanced degree)?
- e. Other, specify
What is the gender of the owner (or owners)?

First owner:
   a. Female
   b. Male

Second owner (if applicable):
   a. Female
   b. Male

Third owner (if applicable):
   a. Female
   b. Male

What is the approximate age of the owner (or owners)?

First owner:
   a. <30
   b. 30-45
   c. 45-60
   d. 60<

Second owner (if applicable):
   a. <30
   b. 30-45
   c. 45-60
   d. 60<

Third owner:
   a. <30
   b. 30-45
   c. 45-60
   d. 60<
NOW WE WOULD LIKE TO ASK A FEW QUESTIONS ABOUT HOW FINANCES ARE MANAGED HERE. WE REALIZE THAT SOME OF THESE QUESTIONS MIGHT BE SENSITIVE, AND WE APPRECIATE YOUR HONESTY. PLEASE REMEMBER THAT YOUR RESPONSES WILL BE KEPT CONFIDENTIAL. AND IF THERE IS A QUESTION YOU CANNOT ANSWER, WE CAN SKIP OVER THAT QUESTION.

30 Does your enterprise have a bank account? [IF NOT, SKIP TO #31]
   a. Yes
   b. No
   IF YES, approximately what percentage of your revenues go via your bank account (if you know)?

31 Who can have access to financial statements? [PLEASE CHECK ALL THAT APPLY]
   ____a. The owner(s)
   ____b. Manager(s)
   ____c. Only Senior Staff
   ____d. Only Accounting Staff
   ____e. All interested employees
   ____f. Public Officials
   ____e. Other, specify

THAT CONCLUDES OUR INTERVIEW AND I THANK YOU VERY MUCH FOR YOUR TIME. IF YOU HAVE ANYTHING YOU WOULD LIKE TO ADD – SOMETHING I DID NOT ASK THAT I SHOULD HAVE, PLEASE LET ME KNOW. OTHERWISE, WE DEEPLY APPRECIATE YOUR SHARING YOUR TIME AND EXPERTISE.