

# Cost of Debt and Corporate Opacity: The Case of Greek Family-Controlled Firms

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## ABSTRACT

This paper expands upon the study of Bethani et al. regarding the association between firms' cost of debt and their ownership structure. It investigated whether corporate information opacity is associated with the level of cost of debt for family-owned firms. The authors examined a sample of companies listed to the Athens Stock Market at the period of 2017-2019. In line with the findings of Bethani et al. for the period 2009-2016, they found no significant association between corporate opacity and family ownership. The cost of debt of the sample firms is negatively associated with their liquidity. In addition, they found that sample firms with certain stock price behavior and trading volume tend to finance their activities through the stock market rather than using bank loans.

## KEYWORDS

Cost of Debt, Greek Listed Firms, Opacity, Ownership Structure

## 1. INTRODUCTION

Several studies have investigated the impact of family ownership on firms cost of debt (e.g., Anderson, Mansi, & Reeb, 2003; Boubakri & Ghouma, 2010; Ellul, Guntay, & Lel, 2007; Lin, Ma, Malatesta, & Xuan, 2011; Ma et al. 2015). Previous studies have provided mixed evidence regarding the impact that family ownership has upon firms' cost of debt financing (Jensen & Meckling, 1976; Johnson et al., 2000; Anderson et al., 2003; Ellul et al., 2007; Djankov et al., 2008; Fahlenbrach, 2009; Achleitner, Gunther, Kaserer, and Siciliano, 2014). Bethani et al. (2019) examined the association between cost of debt-capital and family ownership for a sample of companies listed to the Athens Stock Market at the period of 2009-2016. Bethani et al. (2019) focused on corporate information opacity, a factor that is supposed to influence the extent of agency conflicts between firms' managers, equity holders and creditors (Bushman, Piotroski, & Smith, 2004; Bushman & Smith, 2001; Jensen & Meckling, 1976; Smith & Warner, 1979). Bethani et al. (2019) found that that family ownership has no impact upon Greek firms' cost of debt financing.

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The present study expands upon Bethani et al. (2019) by investigating the impact of family ownership on Greek firms cost of debt for a sample of 94 firms listed in the Athens Stock Exchange (ASE hereinafter) for the period 2017-2019. Similarly, to Bethani et al. (2019) the present study finds that corporate opacity and family ownership are not associated with the cost of debt for the sample firms. Our results provide strong evidence that firms with certain stock price behavior and trading volume aim to finance their activities through the stock market than using bank financing. In addition, we found that the cost of debt of the sample firms is negatively associated with their operational cash flows and liquidity for the low opacity firms.

This study contributes to the existing literature examining the association between ownership structure and firm's cost of capital in general, with special reference to family ownership. This study has been conducted within the Greek business environment which has certain structural characteristics. In Greece, similar to other European countries (e.g. France, Italy) many listed firms are characterized by a high degree of ownership concentration (Nobes and Parker, 2000). Furthermore, a considerable proportion of listed firms can be categorized as family controlled (Ballas and Tzovas, 2010). Debt financing constitute a major source of financing for most Greek firms (Bellas and Tzovas, 2008). The central role of the bank loans in the business financing is a distinctive attribute not only of the Greek business environment, but other European countries as well (e.g. France, Germany). Recent evidence indicates that despite the introduction of International Financial Reporting Standards (IFRS hereinafter) Greek firms continue to adopt earnings management practices (Kapoutsou et al., 2015; Papadaki and Tzovas, 2017). Generally, Greece is considered as low investor and creditor protection country (Tsalavoutas et al., 2012). Thus, the findings of this study can be of some interest for academic researchers investigating similar issues in countries which possess structural characteristics analogous with those prevailing in Greece.

The remainder of this paper is organized as follows. Section 2 discusses the hypotheses regarding the association family ownership, corporate opacity and cost of debt. Section 3 describes our sample and methodology. Section 4 reports the empirical results of univariate and multivariate analyses, as well as the results of robustness analysis. Finally, Section 5 presents our conclusions.

## **2. HYPOTHESIS DEVELOPMENT**

It has been argued that family ownership can have a negative impact upon firm's cost of debt. Controlling families have an interest in the long-term survival of their firms. Consequently, family-controlled firms are more likely to adopt a long-term and low risk approach (Anderson et al., 2003; Fahlenbrach, 2009; Achleitner et al., 2014; Ma et al. 2015). On the other hand, it has been argued that due to the dominant position that a controlling family holds in a firm, it is possible to take advantage of its position at the expense of the interests of other shareholders and creditors (Jensen & Meckling, 1976; Johnson et al., 2000; Ellul et al. 2007; Djakov et al. 2008). Within this context family ownership is positively associated with cost of debt (Ma et al. 2015).

Several factors can affect the association between family ownership and cost of debt. Investor protection can influence the cost of debt of a family firm. In low investor protection countries family firms may face high debt costs, while in countries with high investor protection family firms may benefit from lower cost of debt (Ellul et al. 2007). As mentioned above Greece is thought to be a low investor protection country.

Earnings transparency is considered as a factor that reduces firm's cost of capital, especially the cost of equity (Barth et al, 2013). This does not necessarily apply in the case of debt capital (Bodie et al, 2017). Flores et al. (2020) found that while an increase in earnings transparency reduces the cost of equity capital, in the case of cost of debt capital, the impact of earnings transparency is less pronounced.

Corporate information opacity is supposed to be related with family ownership. The provision of accounting information can decrease the agency costs that arise between managers, creditors,

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