

# CORPORATE GOVERNANCE FOR ASIAN PUBLICLY LISTED FAMILY-CONTROLLED FIRMS

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# BACKGROUND



- Family capitalism
- Economic development
- Generational change
- Internationalization
- Minority oppression

# OBJECTIVES



Academics



Regulators



Investors

# TAKEAWAYS FOR ACADEMICS



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# RESEARCH QUESTION

- Primary research question of project: *Is there a case for the development of differentiating corporate governance policies, standards and recommendations governing Asian publicly-listed family-firms?*
- What we did:
  - Literature review of Asian *family-firm* research.
    - Evidence of current level of *family-firms* in Asian economies.
    - Types of *family-firms*.
      - Homogeneous vs Heterogeneous categorization.
    - Key corporate governance issues facing *family-firms*.
  - Case study analysis.
    - Focus on specific corporate governance issues.
    - Analysis spanning 14 Asian nations with 56 companies.
    - Seeking to include different types *family-firms*.

# CURRENT STATE ASIAN FAMILY-FIRMS

- *Family-firm* representation in Asia.
  - Credit-Suisse (2011) study but any large comparative analysis since?
  - Growth between 2001 to 2010 but stagnation 2011 – 2015?
- Size of Asian *family-firms*.
  - Comparison to European and North American counterparts.
- Life-cycle stage of Asian *family-firms*.
  - Facing first major period of generational succession.
- Succession versus professionalization.
  - Surveys suggest preference amongst Asian *family-firms* for succession but growing recognition of need for professionalization due to internationalization.
- Form of financing of growth.
  - Greater use equity financing relative other international regions.

# FAMILY-FIRM CG FRAMEWORK

- Definition of the *family-firm*
- Is a singular *family-firm* corporate governance framework possible?
  - ‘One-size-fits-all’ or differentiation?
- Defining the ‘*familiness*’ concept.
  - Iravaa and Moores (2010, p.1) - “idiosyncratic firm-level bundle of resources and capabilities a particular firm has because of systemic interaction between the family, its individual members and the business”
- Mapping the *family-firm* typology.
  - Bennedson et al., (2013).
  - Key dimensions: family involvement in ownership, management and governance.
- Conflicts encompassing *family-firms*.
  - *Distinction from other* concentrated-ownership forms.

# AGENCY PROBLEMS AND FAMILY-FIRMS

- Primary agency problem: Majority shareholder versus minority shareholder
  - Primary concern here is protection of minority shareholder interests.
- Balancing positive weights of *family* involvement against the negatives
  - e.g., Long-term horizon with focus on creating value versus inward isolation of ‘keeping it within the family’.
- Competitive advantages versus private benefits of control.
- Corporate governance to enhance value and protect minority shareholders.
  - Cost of capital reduction.
    - Reducing monitoring costs.
    - Information risk, transparency and quality of details.
  - Capital waste reduction.
    - Reducing and limiting the diversion free cash flows.



# CASE STUDY METHODOLOGY

- Creation of 14 sets of case studies. 4 companies in each case. Total 56 cases.
- Examination of a specific corporate governance issue relative to a single nation (hence, total 14 issues spanning 14 nations).
- Attempt to encompass in each nation a *family-firm* representing one of 4 categories (i.e., tightly held, delegated/closely held, diluted/management driven, and diluted/governance controlled).
- Selection of *family-firms* in each category in each nation based on recommendations of Taskforce members.
  - Where no applicable recommendation made, attempted selection via review of major *family-firms* in given nation.
- Assignment of specific to given nation and associated limitations.

## CASE STUDY FINDINGS – MAJOR ISSUES

- The case studies highlighted a number of positives but also a number of potential concerns:
  - Domination of the nomination committee.
  - Lack of transparency and quality of information.
  - Tunnelling possibilities.
  - Utilization of free cash flows.
  - Diversity amongst board members.
  - Executive compensation and remuneration committee.
  - Social activities of the firm versus the family.
- Variations in issues across different categories of *family-firms*.
  - Impact on 'one-size-fits-all'.

# RECOMMENDATIONS

- Comprehensive update of *family-firm* profile across Asia using consistent definition and mapping framework.
  - Clarification of definition of *family-firm* and factors for *family-firm* categorization framework.
- Mapping of key corporate governance features of Asian *family-firms* across different categorizations.
- Identification of weaknesses and conflicts in current legislation mapped to G20/OECD Principles relative to *family-firm* categories.
- Extension of case studies to further highlight positive and negative existing corporate governance practices across Asian *family-firms*.
- Empirical analysis using a comprehensive database to test if significant differences in firm performance associated with key corporate governance features/practices within and between different Asian *family-firm* categories.

# TAKEAWAYS FOR REGULATORS

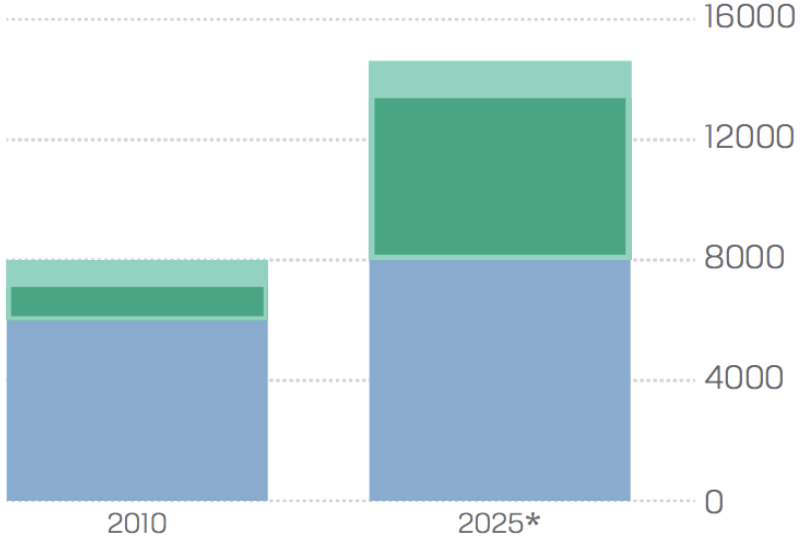


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# THE GOOD NEWS

**The future is rosy**  
Companies with over \$1bn revenue



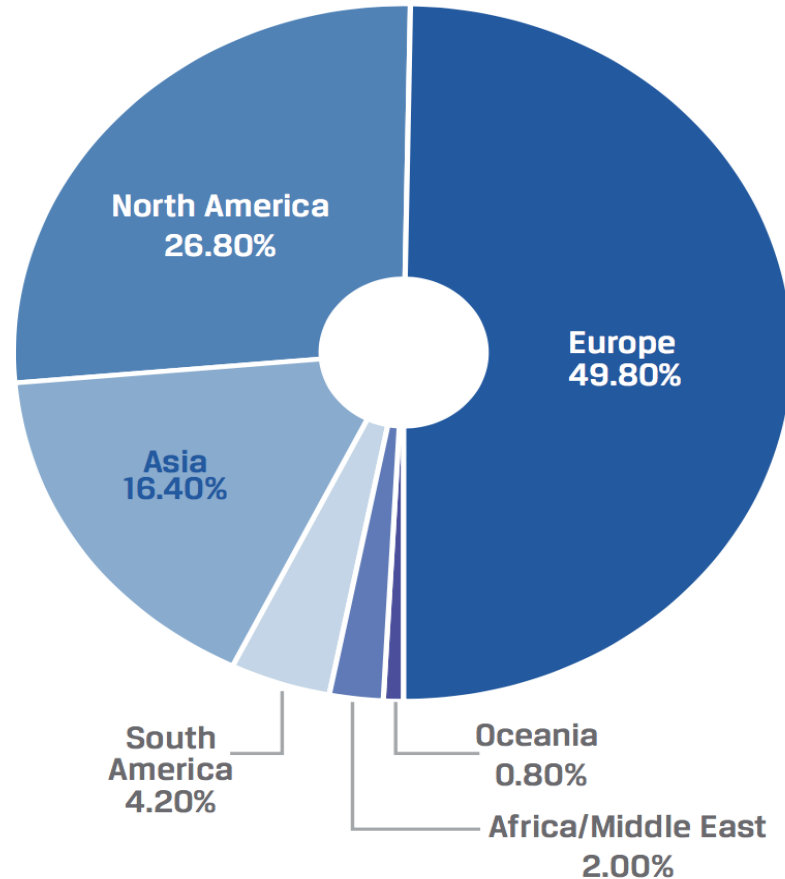
\*Forecast  
Developed  
Emerging market  
↳ of which: family-owned

By 2025, Asia & developed world family-firms with revenue exceeding USD1 billion is expected to be the same

Source: Wooldbridge (2015).

# DRIVER OF FUTURE GROWTH

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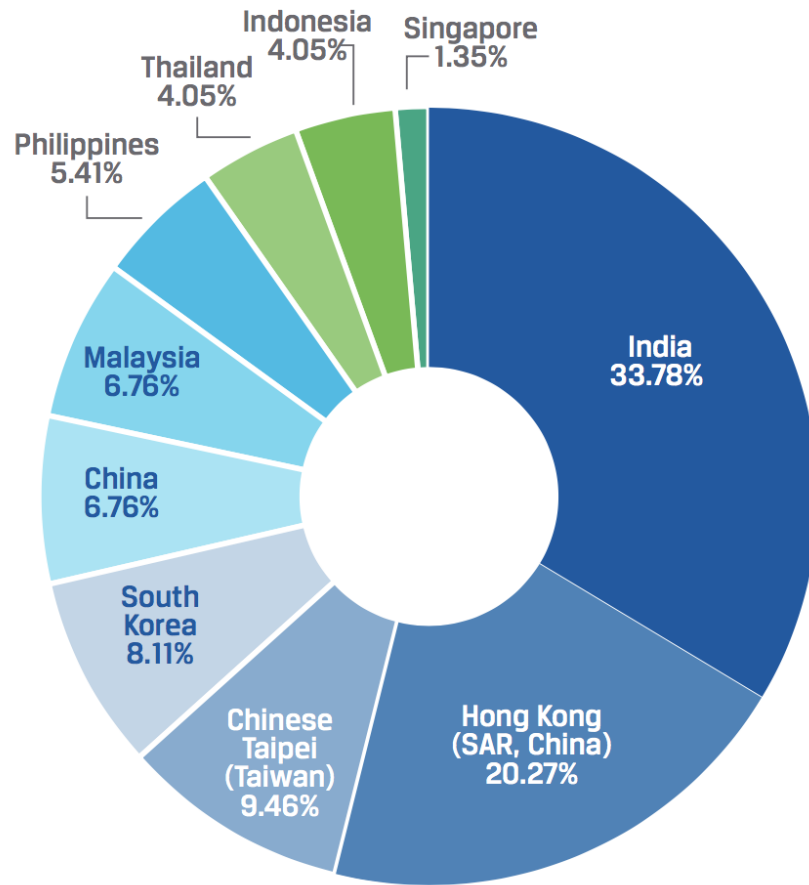
- 74 firms in Asia
- 176 more firms expected
- Growth of 2.3x

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*Source:* University of St. Gallen's Center of Family Business, "Global Family Business Index" (2015): <http://familybusinessindex.com>.

## ... BUT FROM WHICH COUNTRY?

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- India ranks first by number of firms
- China second (or first?)
- Thailand?

*Source:* Global Family Business Index (2015).

## POLICY ISSUES #1



Majority/minority shareholder conflicts



Addressing of minority shareholders needs



## POLICY ISSUES #2



Lack of transparency



Quality of disclosures

## POLICY ISSUES #3



Unfair related party transactions



Incorporate conflict of interest and RPT rules

# TAKEAWAYS FOR INVESTORS



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# WHAT IS THE AIM OF CORPORATE GOVERNANCE?



# WHAT IS A PUBLICLY LISTED FAMILY FIRM



Issues securities via an IPO with shares traded on at least one open stock exchange or OTC market.



Family exertion over the following via its governance involvement, management participation, or ownership voting rights (or a combination of all):



OPERATIONAL POLICIES



DAY-TO-DAY ACTIVITIES



FUTURE DIRECTION

# WHAT YOU NEED TO KNOW?

## WHY ARE FAMILY FIRMS IMPORTANT?

They have rising significance in local and global markets:

**55%** OF ALL ASIAN PUBLICLY LISTED ENTITIES ARE FAMILY FIRMS. <sup>1</sup>



**75-80%** OF ASIAN ENTITIES EXCEEDING US\$1 BILLION WILL BE FAMILY FIRMS BY 2025. <sup>2</sup>

## WHAT ARE SOME OF THE CHALLENGES FACED BY FAMILY FIRMS?

As Asian economies become more like their counterparts in developed markets, their future capacity for growth will not be sustainable if competing on cost alone. To stay competitive they must:

INNOVATE AND INTERNATIONALIZE 

PROFESSIONALIZE 

### FACT

**40%**



**3 YRS**

OF ASIAN FAMILY FIRMS SEE PROFESSIONALIZING AS A MAJOR CHALLENGE IN THE NEXT THREE YEARS.

# INVESTOR CONSIDERATION #1



Family influences



Quality of diversity

## INVESTOR CONSIDERATION #2



Misconduct of family members



Look out for news of misbehaviours



## INVESTOR CONSIDERATION #3



Retention of free cash flows



Return of capital

# SUMMARY



- Effectiveness of firms' CG system
- Protection of minority shareholders
- Reduction of the cost of capital
- Prevention of the waste of capital
- More @ [www.arx.cfa](http://www.arx.cfa)