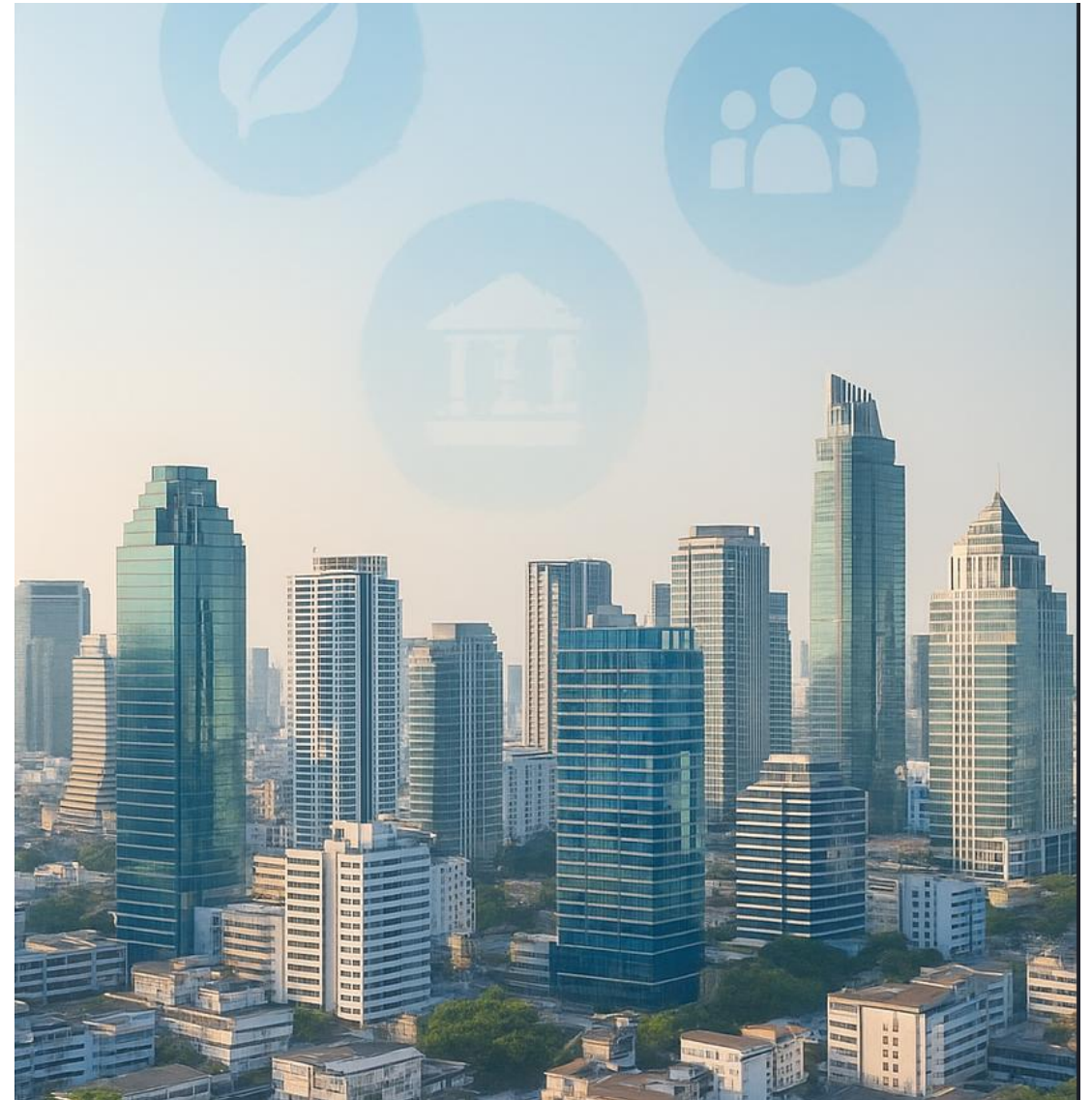

ESG AS STRATEGIC LEGITIMACY AND GOVERNANCE SUBSTITUTE: EVIDENCE FROM HIGH- WEDGE THAI FAMILY FIRMS

Dr.Norrasate Sritanee

Faculty of Business Administration

Rajamangala University of Technology Thanyaburi



MORE THAN 70% OF COMPANIES LISTED ON THE STOCK EXCHANGE OF THAILAND ARE FAMILY COMPANIES.

SET	Number of listed companies classified as family businesses	Total number of listed companies in each market/index	% of family businesses in each market/index
SET	473	629	75.20
SET50	26	50	52.00
SET51-100	40	50	80.00
sSET	83	118	70.34
Other SET companies	324	411	78.83
mai	172	220	78.18
Total	645	849	75.97

Source: SET Research, Stock Exchange of Thailand, 2025

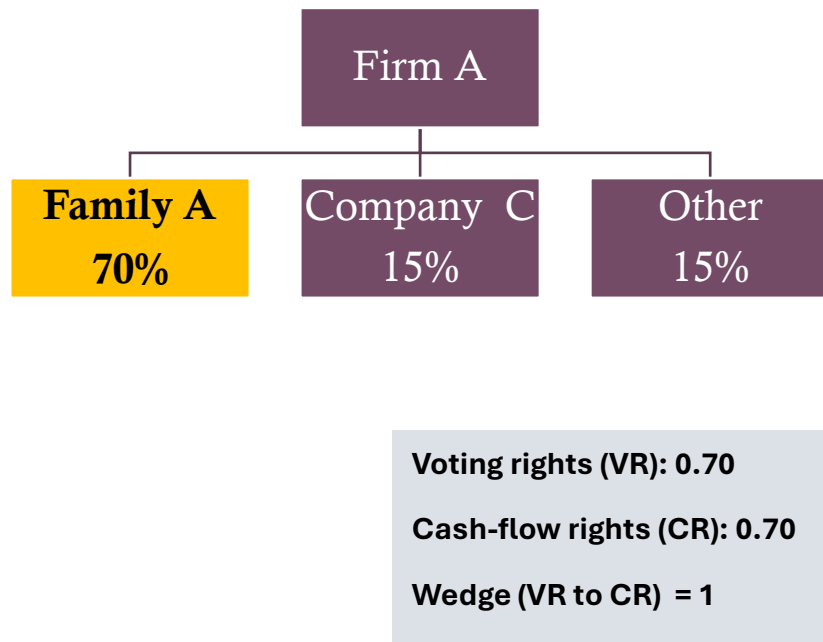
FAMILY-OWNED FIRMS PRIORITIZE LONG-TERM CONTINUITY, CAREFUL INVESTMENT, AND REPUTATION

- Families view their firms as an asset to pass to the next generation rather than wealth to consume during their lifetimes (Casson, 1999).
 - Because they plan for succession, family firms tend to invest more carefully than nonfamily firms (James, 1999).
 - Their long-term presence also makes founding families sensitive to reputation and outside perceptions (Anderson & Reeb, 2003).
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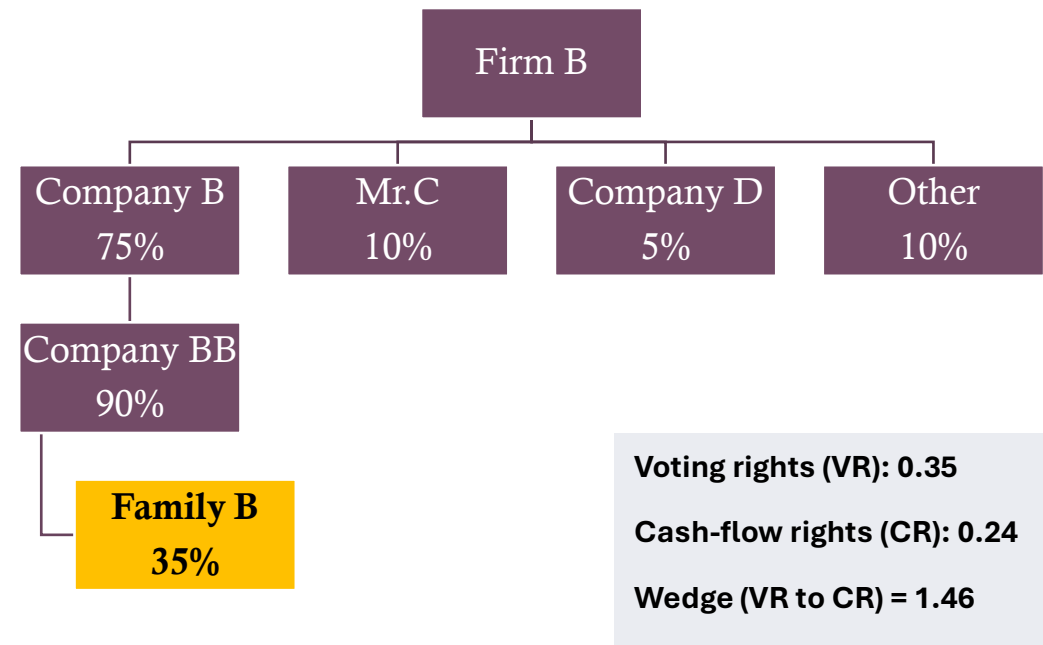
FAMILY CONTROL ENHANCES PERFORMANCE, BUT GOVERNANCE PLAYS ONLY A LIMITED ROLE

- The presence of controlling shareholders (family controlled) is associated with higher performance (Wiwattanakantang, 2001).
 - Family firms which CEO also holds the significant level of shares deliver the higher stock performance than the other firms (WONGAKARADETH & Maneenop, 2019).
 - Corporate Governance did not act as an explanatory link between family factors and firm performance.” (Ongkamongkol, Tapachai, Hensawang, & Laohavichien, 2022)
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NO CONTROL–OWNERSHIP WEDGE **VS** WITH CONTROL–OWNERSHIP WEDGE



No control–ownership wedge



With control–ownership wedge

THAILAND SHOWS THE LARGEST CHANGE IN SHAREHOLDING STRUCTURES AMONG NINE EAST ASIAN COUNTRIES AFTER THE 1997 ASIAN FINANCIAL CRISIS.

Before Asian Financial Crisis 1997 (1996)			After Asian Financial Crisis 1997 (2008)			
Country	No. of Firms	Wedge VR divided by CR	Country	No. of Firms	Wedge VR divided by CR	Wedge Change
Hong Kong	200	1.12	Hong Kong	148	1.12	0.00
Indonesia	177	1.32	Indonesia	127	1.18	-0.14
Japan	55	1.41	Japan	58	1.09	-0.32
Korea	154	1.14	Korea	113	1.27	0.13
Malasia	199	1.19	Malasia	150	1.23	0.04
Philippines	117	1.14	Philippines	110	1.20	0.07
Singapore	197	1.37	Singapore	120	1.22	-0.15
Taiwan	135	1.22	Taiwan	70	1.11	-0.11
Thailand	164	1.06	Thailand	103	1.22	0.16

Carney and Child (2013)

FAMILY SHAREHOLDERS USE WEDGES TO PRESERVE VOTING POWER THAT EXCEEDS THEIR CASH INVESTMENT, TO MAKE TAKEOVERS HARDER, SECURE PRIVATE BENEFITS.

- Families want to keep the firm inside the family even when ownership gets diluted over time. A wedge lets them invite new shareholders (to raise funds) but still keep the steering wheel (La Porta et al., 1999; Villalonga & Amit, 2006)
 - When the family holds more voting power than their ownership share, it becomes harder for outsiders to gather enough votes to remove them, so the wedge acts as a defense against losing control (Claessens et al., 2000; Faccio & Lang, 2002).
 - In weaker legal environments, wedges let families make decisions that benefit themselves, while they pay only part of the cost (Claessens et al., 2002; La Porta et al., 2000).
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WHEN CONTROL EXCEEDS OWNERSHIP, FIRM VALUE FALLS AND MINORITY SHAREHOLDERS FACE HIGHER EXPROPRIATION RISK

- A larger separation between control rights and cash-flow rights (a bigger wedge) is associated with lower firm value (Claessens et al., 2002).
 - During the 1997–98 Asian financial crisis, firms whose insiders had high control but low cash-flow rights performed worse because investors discounted the value of firms where controllers could extract private benefits (Lemmon & Lins, 2003).
 - In weak legal environments, having control without much cash at risk makes tunneling more likely, which is a negative effect of the wedge on minority shareholders (Johnson et al., 2000).
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GLOBAL INVESTORS AND REGULATORS ARE DRIVING ESG DISCLOSURE, AND EVIDENCE LINKS ESG TO BETTER FINANCIAL PERFORMANCE

- American institutional investors are part of the worldwide movement in adopting ESG principles.
 - The EU's Non-Financial Reporting Directive has just begun to require 6,000 companies to report ESG information annually.
 - A growing number of empirical studies have found a positive relationship between ESG factors and corporate financial performance (Carnini Pulino, Ciaburri, Magnanelli, & Nasta, 2022; Cornett, Erhemjamts, & Tehranian, 2016; Yoon, Lee, & Byun, 2018).
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SAMPLE AND DATA

- 77 Thai listed firms, 2019–2023, 385 firm-year observations
 - Family vs. non-family identified by $\geq 25\%$ voting rights of ultimate owner; ownership and cash-flow rights used to compute the wedge (voting rights to cash-flow rights)
 - ESG split into E, S, G;
 - Firm performance measured by next-year ROA
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THAI FAMILY FIRMS PERFORM WELL, AND ESG (ESPECIALLY E & S) CAN BE USED STRATEGICALLY TO BOLSTER MARKET CREDIBILITY

- On average, family firms show higher future ROA than non-family firms, suggesting that concentrated, long-term ownership still works well in Thai listed companies.
 - Family firms tend to have lower ESG scores, especially on the Environmental and Social pillars, compared with non-family firms. This indicates that ESG is not always a front-and-center priority for them.
 - Family firms may adopt ESG more seriously when they need to strengthen credibility, for example, when their voting control is higher than their actual ownership (a control–ownership wedge) and they want to reassure outside investors.
 - The results suggest that Thai family firms already perform well, and ESG, particularly E and S, can be used as a strategic add-on to make that performance more visible and more acceptable to the market.
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FIRMS BEGIN ESG FOR LEGITIMACY — AND GROW IT INTO REAL SUSTAINABILITY

- **Legitimacy-seeking is often the first step toward sustainability.**
 - Firms, especially those with high ownership–control wedges, initially adopt ESG practices to gain social and regulatory acceptance rather than purely out of long-term environmental or social goals.
 - **Symbolic actions can evolve into substantive sustainability.**
 - Once legitimacy is achieved, consistent ESG engagement can lead firms to internalize sustainability values, improving real performance and long-term resilience.
 - **In emerging markets, ESG acts as a bridge.**
 - In countries like Thailand, where investor protection and governance mechanisms are still developing, ESG practices serve both as a legitimacy tool and a pathway toward sustainable corporate behavior.
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ENHANCING ESG TRANSPARENCY AND OWNERSHIP CLARITY TO BUILD INVESTOR CONFIDENCE

- Encourage companies to present ESG information alongside ownership and control details so investors gain a fuller, more transparent view of the business.
 - Promote separate disclosure of E, S, and G to highlight the areas where Thai listed firms are creating real value and impact.
 - Invite family-controlled or higher-wedge firms to share more on related-party transactions and board independence, strengthening market confidence in their ESG reports.
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THANK YOU

Questions & Discussion

We welcome your thoughts and feedback.

Presented by:

Norrasate Sritanee

Rajamangala University of Technology Thanyaburi (RMUTT)

Topic:

ESG as Strategic Legitimacy and Governance Substitute: Evidence from High-Wedge Thai Family Firms

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