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Protocol – Session 3
Who is the Boss?
Family Control without Ownership in Publicly-traded Japanese Firms

Speaker:	Yupana Wiwattanakantang
Discussant:	Rui Albuquerque

Dr. Yupana Wiwattanakantang is Associate Professor at NUS Business School, National University of Singapore. Her research is in the area of entrepreneurial finance and corporate governance focusing on family firms. She has published her research in the Journal of Financial Economics, Review of Financial Studies, and Journal of Financial and Quantitative Analysis. Her research has also been featured in media such as the Financial Times, Wall Street Journal, Economist, Bloomberg, Independent (UK), Nikkei (Japan) and Business Times (Singapore) and Strait Times (Singapore).

Rui Albuquerque is Associate Professor of Finance at Boston College, Carroll School of Management. He received the 2008 Smith Breeden Distinguished Paper Prize by the Journal of Finance, the 2008 and 2013 Finance Prize by the ECGI and several other awards. He was distinguished in 2003 by the European Central Bank with the Lamfalussy Fellowship. He is currently an associate editor to the Journal of Corporate Finance, the Journal of Banking and Finance and the Portuguese Economic Journal. He has worked at Boston University, the University of Rochester, and the Portuguese Catholic University, and consulted for the World Bank and the Bank of Portugal.

Protocol of Session 3, Friday 7 June (15.30 p.m. – 16.30 p.m.)

In the second part of this session, a joint paper on “Who is the boss? Family control without ownership in public traded Japanese corporations.” is presented by Yupana Wiwattanakantang. The underlying research questions are what the evolution in ownership and control in Japanese firms are. It is widely thought that family control loosens as firms grow larger over time. The presenter discusses literature on the evolution of the ownership in the context of IPOs and family exits in the US and Europe. Afterwards, the presenter gives an overview on some of the Japanese “family firms”, e.g., Toyota. The Toyoda family owns only 0.1% of the shares of Toyota, yet they stand behind the Toyota empire. (How) Can they have a strong impact on the firms? A historical review on the history of Toyota and the Toyoda-family is provided. In these cases, ownership is very high, but the families never left the company. Based on this history of public traded firms in Japan, the paper challenges the conventional view that family control loosens as firms grow larger over time. Further descriptive evidence on other Japanese firms is provided (Suzuki and Casio). All those descriptions indicate that these families barely have ownership but remain in leadership positions in the companies. Therefore, the presenter argued that it is valid to broaden the definition of family firms: Family Succession Types 1-Type 4 (based on ownership and Management distinction). Based on this classification, the presenter elaborates on the hypotheses of the paper. According to one hypothesis, the family is less likely to exit the firm if it comprises some sort of assets. The paper shows different evolvements of family ownership and top management in the different family succession types. Interestingly, the results differ w.r.t. different family ownership cut-offs. Furthermore, if non-family firms are included, it is interesting to see that 50 years after the IPO, the founding family retains either managerial or ownership control in 50 % of the firms in our sample. Furthermore, the presenter discusses the different ownership evolvements from the perspective of different succession types. Overall, the paper documents that families, in general, keep control over board and management even when their ownership stake is largely diluted. A large number of Japanese families control their firms with little or no ownership.

In the second part, the discussant Rui Albuquerque starts with giving an overview of the paper: 1. Why is there share dilution after a firm’s IPO? → In the literature, the main reason is the need to issue equity to promote growth & financial matters. What is new in the paper is that paper finds similar pattern in Japanese family-owned firms, but family assets slow dilution down. 2. How to maintain control despite dilution: In many countries, pyramidal structures or cross-ownership is derived through indirect equity ownership. The paper finds that family's intangible assets can help maintain control when share ownership is diluted. In fact, paper shows that the mode of family-controlled firms is quite prevalent in Japan. According to the discussant, the paper offers a treasure chest of findings: Family ownership is high if the firm is profitable and if it did not raise public equity too often. Family ownership is also high if family assets are high.

The comments of the discussant relate to the question what intangible family assets are. Proxies for intangible family assets are e.g. the firm name that is related to the family name, the presence of family members. Based on this, how does a one choose between share ownership vs. other family assets? There are clearly no substitutes for while they both give control, they do not carry the same amount of idiosyncratic risk. The arising question is why does not everyone do it, i.e. adopt type 2? Another point of the discussant relates to the question whether intangible family assets are a firm fixed effect? One should run a regression with firm fixed effects to see how much variation on ownership is explained by within firm variation in family assets. The discussant states that paper argues that firm assets preserve family control. According to the discussant, firms that transition from type 1 to type 2 should make sure that they have family assets, otherwise they won't sustain control. Why is there no significance for family assets in explaining these transitions? Could there be a lack of power (233 obs)? In a next step, the discussant talks about other determinants of ownership. The paper (p. 5) talks about governance structures. These are not modelled in the regressions. Is there an explicit passivity of institutional shareholders to management/ founding family? What is the role of staggered and stacked boards? The final comment relates to the name of the firms, therefore: What's in the name? Some company names are assets in themselves (e.g. McDonalds). But these names are not the family's assets. Is the evidence in the paper a Japan-thing? During the last 5 minutes, an open discussion with all participants of the paper takes place. The topics discussed include: i) is there human family capital with network which underlines the Japanese findings? Could this be tested? E.g. industries in which networks are important; ii) Are those firms indeed run differently compared to non-family firms? iii) Voting patterns of family members iv) relationships of firm families to banks; v) relationship of families towards other families.