Discussion of
"Who is the Boss? Family Control Without Ownership in Publicly-Traded Japanese Firms"

Rui Albuquerque

Boston College, ECGI, CEPR

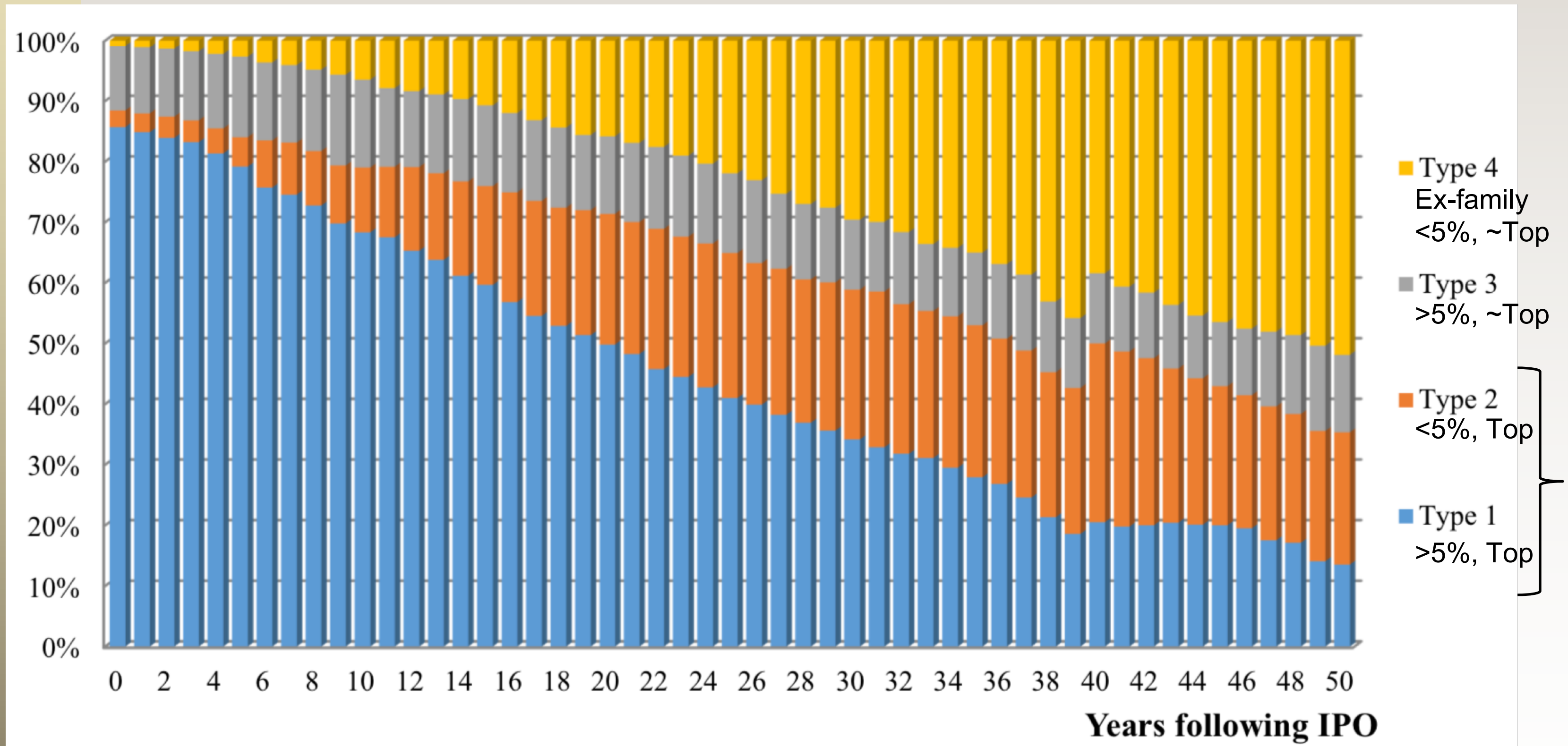
GCGC, House of Finance, Frankfurt 2019

Overview of the paper

- Paper addresses two separate and interrelated questions:
  1. Why is there share dilution after a firm's IPO?
     i. In the literature, the main reason is the need to issue equity to promote growth.
     ii. Paper finds a similar pattern in Japanese family-owned firms.
     iii. But *family assets* slow dilution down.
  2. How is control maintained despite dilution?
     i. In many countries, through dual class shares, pyramidal structures or cross-ownership, i.e., control is derived through indirect equity ownership.
     ii. Paper finds that *intangible family assets* can help maintain control when share ownership is diluted.
     iii. In fact, paper shows that the mode of family-controlled firm is quite prevalent in Japan, but it has been outside the radar because it occurs without significant share ownership.
     iv. Family control is much more long lasting than previously thought.

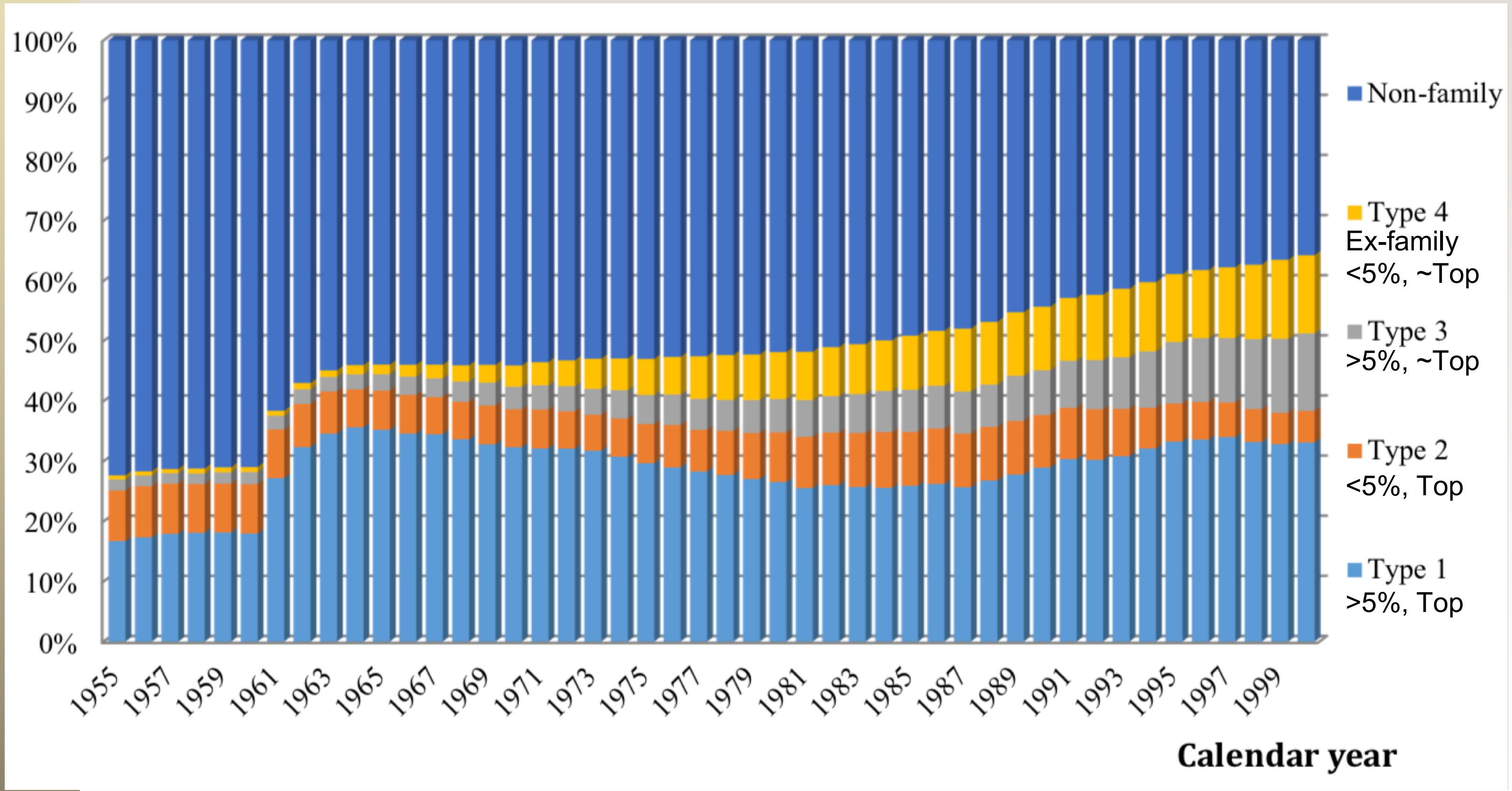
Ownership/Control following IPO

(the $1 million picture)



Ownership/Control over time

(another $1 million picture)



About 2/3 of firms transitioning out of type 1 go to type 3
About 1/3 of firms transitioning out of type 1 go to type 2
About 45% of firms transitioning out of type 3 go to type 1/others exit
Type 2 transition exclusively to type 4

Paper offer 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
- Firms move to professional management while maintaining high ownership if family member is on the board; not if family member is from elite school
- Not much explains why firms move to low ownership with control (type 2 firms)
- Firms with family assets are less likely to be sold
- Family assets matter for dynamics of control

Comment #1
What are intangible family assets?

- Proxies for intangible family assets:
  - Firm name is related to family name (1/3 of the sample)
  - Presence of family members on the board (28% of the sample)
  - Presence of family members with elite education on the board (24% of sample)
  - Stable ownership: % of top ten shareholders who have held the firm’s shares for at least five consecutive years.

Comment #1: What are intangible family assets, cont.

- How does one choose between share ownership vs. other family assets?
  - These are clearly not substitutes for while they both give control, they do not carry the same amount of idiosyncratic risk.
  - Q: So why doesn't everybody do it, i.e. adopt Type 2?
  - A: Share ownership guarantees control, whereas perhaps intangible family assets do not.
    - Table 3 indicates that the option of returning to top management in firms where family retains high ownership is often exercised (45% of Type 3 firms move back to Type 1)

Comment #1: What are intangible family assets, cont.

- Are intangible family assets a firm fixed effect?
  - That's certainly so for firms whose name is related to family name.
  - Should run a regression with firm fixed effects to see how much variation in ownership is explained by within firm variation in family assets.
  - Q: What gives rise to variation in intangible family assets?
  - A: Is top management causing board presence or board presence causing top management?
    - In fact top management can be thought as a family asset.
    - Look for a shock, say unexpected death of top manager or board member, to infer causality, since one could argue that having top job is a family asset as well.

Comment #2: What do intangible family assets do?

- Paper argues that family assets preserve family control.
- Then, firms that transition from type 1 (high ownership and top management) to type 2 (low ownership and top management) should make sure that they have family assets, otherwise they won't sustain control.
- Q: Why is there no significance for family assets in explaining these transitions?
- A: Could be lack of power (233 observations).
- A: Is it an indication that the proxies for family assets do not fully capture the ability to retain control?
- Are the firms that transition from Type 1 to Type 2 different from the firms that start off after their IPO as type 2 firms?

Comment #3: Other determinants of ownership

- Helwege, Pirinsky, and Stulz (2007)
  - Agency frictions become less important or managing agency problems is less costly
    - Hard assets (PPE/TA) to capture moral hazard
    - Turnover as proxy for liquidity to model takeover contests
    - But also, past and contemporaneous returns
  - Q: What are the elaborate “governance structures” that the paper talks about on page 5?
    - Not modelled in the regressions.
  - Q: Is there an explicit passivity of institutional shareholders to management/founding family?
  - Q: What is the role of staggered and stacked boards?

Comment #4: What's in a name?

- Some company names are assets in themselves:
  - McDonald's Corporation holds the name of the original founders, perhaps because Ray Kroc liked the name.
- But these names are not the family's asset:
  - No McDonald's shareholder would think of appointing a descendant of one of the McDonald's brothers as a CEO just because of the name.
- Q: Is the evidence in the paper a Japan-thing, perhaps due to a strong culture of harmony and strong intergenerational family ties?
- A: Look at eponyms in the US and see how much weight they carry in terms of control.

S&P 500 Firms Where Founder is also CEO

Company Symbol	Company Name	Founder/CEO Name	Founder Title is also CEO	Founder Age
AKAM	Akamai Technologies, Inc.	Frank Thomson Leighton, Ph	Chief Executive Officer & Director	57
AMZN	Amazon.com, Inc.	Jeffrey P. Bezos	Chairman, President & Chief Executive Officer	50
AIV	Apartment Investment and Management	Terry Considine	Chairman & Chief Executive Officer	66
BLK	BlackRock, Inc.	Larry Douglas Fink, MBA	Chairman & Chief Executive Officer	61
COF	Capital One Financial Corporation	Richard D. Fairbank, MBA	Chairman, President & Chief Executive Officer	63
CTSH	Cognizant Technology Solutions Corpor	Francisco D'Souza, MBA	Chief Executive Officer & Director	45
FB	Facebook, Inc. Class A	Mark Elliot Zuckerberg	Chairman & Chief Executive Officer	29
FDX	FedEx Corporation	Frederick Wallace Smith	Chairman, President & Chief Executive Officer	70
ICE	Intercontinental Exchange, Inc.	Jeffrey C. Sprecher, MBA	Chairman & Chief Executive Officer	59
KMI	Kinder Morgan, Inc. Class P	Richard D. Kinder	Chairman & Chief Executive Officer	69
LB	L Brands, Inc.	Leslie Herbert Wexner	Chairman & Chief Executive Officer	77
NFLX	Netflix, Inc.	Wilmot Reed Hastings, Jr.	Chairman, President & Chief Executive Officer	52
ORCL	Oracle Corporation	Lawrence J. Ellison	Chief Executive Officer & Director	70
RL	Ralph Lauren Corporation Class A	Ralph Lauren	Chairman & Chief Executive Officer	74
SNDK	SanDisk Corporation	Sanjay Mehrotra	President, Chief Executive Officer & Director	54
TRIP	TripAdvisor, Inc.	Stephen Kaufer	President, Chief Executive Officer & Director	51
UA	Under Armour, Inc. Class A	Kevin A. Plank, MBA	Chairman, President & Chief Executive Officer	42
VRSN	VeriSign, Inc.	D. James Bidzos	Executive Chairman, President & CEO	59
WYNN	Wynn Resorts, Limited	Stephen Alan Wynn	Chairman & Chief Executive Officer	72

Factset 2014

Comment #5: Some small comments

- *Stable Ownership* variable—an important proxy for intangible family assets—changes signs when explaining share ownership v. change in share ownership (or half life): Why? Is it important for the story being told?
- Produce a ratio of explained variances by finance v. family factors to determine relative important of each in explaining ownership.
- Ownership is a nonstationary variable linked to time since IPO: Is most of the variation being captured cross sectional variation? Should control for time since IPO.
- In explaining exit (transition to type 4) firm age has a negative coefficient. This is odd. Is there a non-linear effect with firm age?

Conclusion

- Overall interesting paper
- New observation: Family control without significant ownership is prevalent in Japan
- This new evidence gives rise to a series of interesting observations regarding the existence of intangible family assets
  - Proxies for intangible family assets/endogeneity issues
- Paper develops results on the role of the family assets, i.e., shares/intangible, in explaining ownership and control of Japanese family firms
  - Is the notion of family assets well defined in Japan and elsewhere?
- Looking forward to more research from the authors