

Comparative Corporate Governance from the Perspective of Japanese Family Firms

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Two Outlier Characteristics of Japanese Listed Family Firms

- Family managers without substantial family ownership
 - Outlier among listed family firms in the world
- Substantial manager ownership
 - Outlier among listed firms in Japan

Heir managing firms perform better than non-family firms

- ROA is about 0.2% higher; ROE is about 0.9% higher
- Even though top managers are picked from small family pools

Firm performance and family firms: OLS regressions

Dependent	ROA	ROE
	(1)	(2)
Founder firm	0.012*** [0.002]	0.015*** [0.004]
Heir managing firm	0.002* [0.001]	0.009*** [0.003]
Non-heir managing firm	0.002 [0.002]	-0.002 [0.006]
Log of assets	0.004*** [0.000]	0.012*** [0.001]
Leverage	-0.062*** [0.003]	-0.220*** [0.010]
Log of firm age	-0.018*** [0.002]	-0.017*** [0.004]
Intercept	0.072*** [0.011]	-0.001 [0.036]
Industry dummy	Yes	Yes
Year dummy	Yes	Yes
R ²	0.209	0.084
Sample Size	41,769	41,769

Management Incentive May Make a Difference

- Management ownership of heir managing firms are about 50 times higher than that of non-family firms on median.
- Even management ownership of heir managing firms with less than 5% family ownership is more than 20 times higher than that of non-family firms on median.

Distribution of management ownership

	All firm	Founder firm	Heir managing firm	Non-heir managing firm	Non-family firm
Firm-year observations=	41,769	8,615	9,578	2,671	20,905
Mean	3.152%	9.622%	4.416%	0.660%	0.226%
Min	0%	0%	0%	0%	0%
10%ile	0.011%	0.069%	0.250%	0.010%	0.007%
25%ile	0.035%	0.916%	0.782%	0.040%	0.018%
Median	0.178%	5.784%	2.354%	0.131%	0.045%
75%ile	2.781%	14.914%	5.531%	0.451%	0.117%
90%ile	10.528%	27.004%	11.220%	1.655%	0.342%
Max	36.226%	36.226%	36.226%	19.258%	36.226%

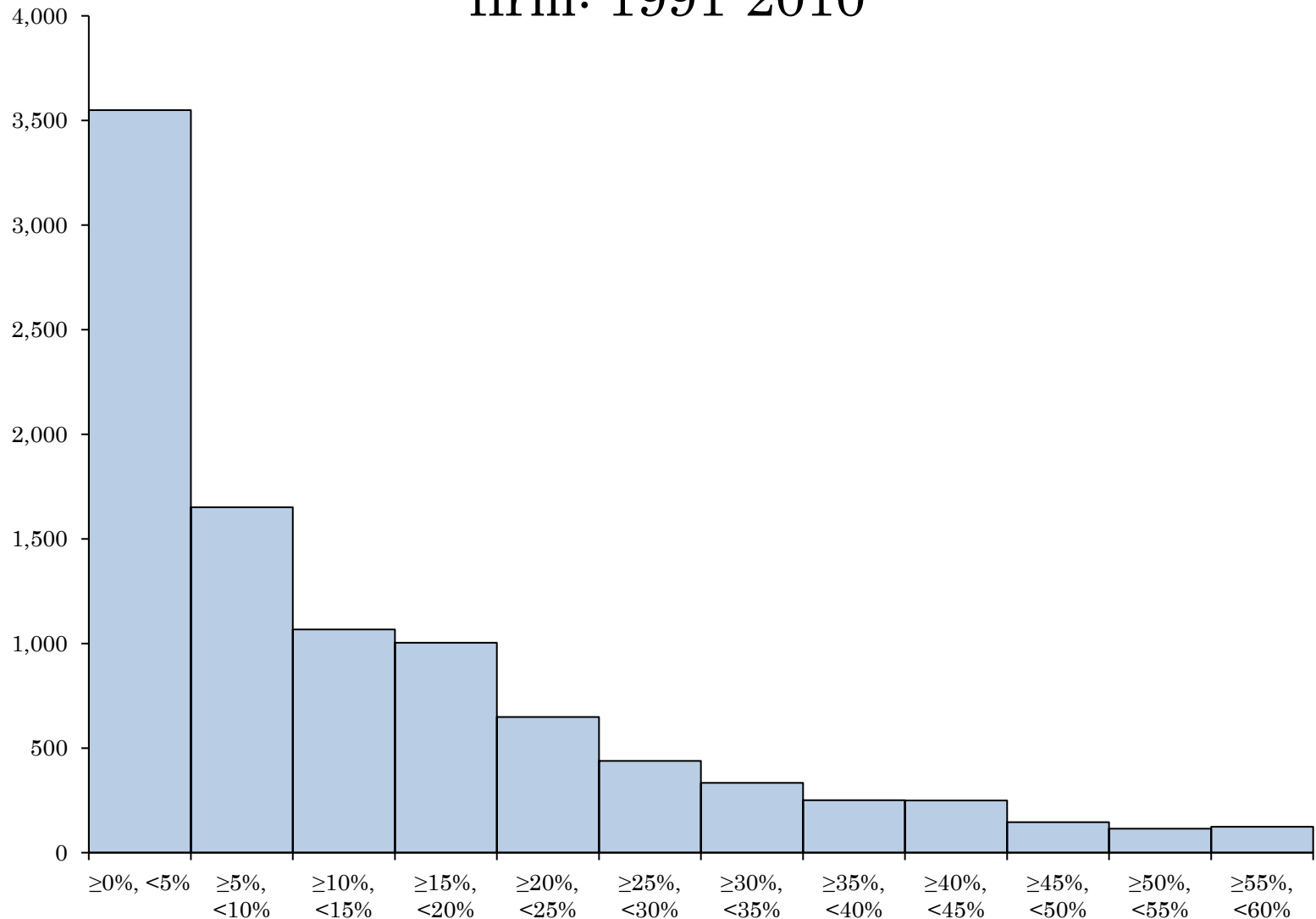
Very Few Studies on the Effect of Management Ownership in Family Firms

- There are many empirical studies on the effect of family ownership on family firm performance.
- There are substantial numbers of empirical studies on the effect of management ownership on firm performance in general.
- Why?
 - Because it is hard to distinguish the effect of family ownership and that of manager ownership in high family ownership firms.

A Unique Sample of Japanese Heir Managing Firms

- Both low family ownership firms and high family ownership firms are included.
 - 82.7% is less than 20% ownership; 37.0% is less than 5% ownership
 - Very few heir managing firms with low family ownership outside of Japan
- It is possible to measure the effect of management ownership almost independently in low family ownership firms.

Distribution of family ownership of heir-managing family firm: 1991-2010



Positive Effect of Management Ownership on Accounting Performance

- Even in low family ownership firms

Effect of management ownership and family ownership on low family ownership firms' performance: OLS regressions.

Subsample=	Family ownership < 20%		Family ownership < 10%		Family ownership < 5%	
	ROA	ROE	ROA	ROE	ROA	ROE
Dependent	(1)	(2)	(3)	(4)	(5)	(6)
Management	0.102*** [0.024]	0.195*** [0.068]	0.118*** [0.042]	0.243* [0.136]	0.167*** [0.061]	0.176 [0.207]
Family ownership (less family-manager)	0.005 [0.015]	-0.003 [0.045]	-0.014 [0.035]	0.037 [0.092]	0.017 [0.077]	0.109 [0.267]
Founder firm	0.004** [0.002]	-0.004 [0.006]	0.004* [0.002]	-0.006 [0.007]	0.004 [0.003]	-0.009 [0.009]
Heir managing firm	-0.003* [0.001]	0.002 [0.004]	-0.003* [0.002]	0.001 [0.005]	-0.004** [0.002]	-0.001 [0.005]
Non-heir managing	0.001 [0.002]	-0.002 [0.007]	0.002 [0.003]	0.001 [0.007]	0.001 [0.003]	-0.001 [0.010]
Intercept	0.033*** [0.011]	-0.091** [0.042]	0.037*** [0.012]	-0.084 [0.052]	0.038*** [0.012]	-0.087 [0.054]
Control variables	Yes	Yes	Yes	Yes	Yes	Yes
Industry dummy	Yes	Yes	Yes	Yes	Yes	Yes
Year dummy	Yes	Yes	Yes	Yes	Yes	Yes
R ²	0.196	0.089	0.189	0.090	0.193	0.091
Sample Size	34,657	34,657	30,715	30,715	27,457	27,457
Wald-test of equality of two coefficients						
Null hypothesis: Management ownership = Family ownership (less family-						
	12.00***	6.42**	6.71***	1.99	2.65	0.05

The Co-Existence of Two Different Corporate Governance Styles: 1991-2010

- Shareholder monitoring of Japanese non-family listed firms had been strengthened.
 - Decreasing cross-shareholdings
 - Increase of foreign shareholder ownership
- Family firms had kept substantive cross-shareholdings without foreign shareholders, and without controlling shareholders.
- Management ownership of Japanese non-family listed firms had been extremely low because of the company community norm.

Only Heir Managing Firms Can Have Anglo-American Style Management

- Particularly, their substantive equity incentive
- In addition, there are several foreign characteristics in comparison with salaryman managers
 - Working experience in other companies
 - Fast promotion
 - Director at 35 (early 50s); President at late 40s (60)
 - Long tenure
 - 15.1 years on average (5.7 years)

An Implication to Corporate Governance in General

- Management incentive may make difference in firm performance even without strong shareholder monitoring.