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Published in:
Asia-Pacific Journal of Financial Studies

DOI:
10.1111/ajfs.12363

Publication date:
2022

Document version
Publisher's PDF, also known as Version of record

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Citation for published version (APA):
A Survey of Asian Family Business Research*

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Received 10 January 2022; Accepted 18 January 2022

Abstract

We survey the literature on family firms with a focus on Asian countries. We begin with identifying three key motivational drivers of international research on family business—their dominance, relative performance, and extent of family embeddedness in the business. Second, we provide a brief survey of family firms in eight Asian economies with a focus on the history and current challenges faced by family firms in each country. Third, we document the variety of family firm definitions used in the literature and the resulting difficulty in drawing inferences due to a lack of definitional consistency. Fourth, we discuss the strategic advantages family assets such as legacy and networks bring to family firms in the Asian context. Fifth, we identify some unique challenges family firms face in their countries, and provide examples of how ownership and succession structures mitigate these challenges. We close this survey by suggesting some open research questions relevant for Asian family firms.

Keywords family firms; Asia

JEL Classification: G32, L26

*This survey is prepared for the Asian Journal of Financial Studies and based on Morten Bennedsen’s keynote talk at the 16th Conference on Asia-Pacific Financial Markets, December 3, 2021. We thank JiYoung Kim, Aremis Chung, Maithili Dipak Modi, Jihye Jang, Ziyou Zhang and Mengqi Li for excellent research assistance. We also thank our co-authors for use of published articles and working papers. We are grateful for financial funding from the Danish National Research Foundation (Niels Bohr Professorship) and the Danish Finance Institute.

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1. Introduction

Family business research is a relatively young research field. In the post-war era, corporate research was largely focused on US firms with dispersed ownership, inspired by the classic book by Berle and Means (1932) that identified the typical US corporation as one having diffused ownership with control vested in a non-owner class of management. Fama and Jensen (1983) describe how the emergent governance features mitigate the agency problems inherent in the separation of ownership and control intrinsic to the Berle and Means firm. Family control is conspicuously missing in this literature; when mentioned, family involvement in business is viewed as a temporary stage in the evolution of the firm towards ownership dispersion and professionalization of management. Notably, Chandler (1977) advocates for the emergence of a professional cadre of management as appointed agents who manage the corporations on behalf of passive shareholder-owners. Capital providers specialize in bearing risk while those with management skills specialize in running the firms on behalf of the passive owners. Family firms in this view were seen initially as anachronistic and relegated to business history case studies (see e.g. Erickson, 1959; Kindleberger, 1964).

The non-case based research on family firms begins with the seminal work by Donnelley (1964) who analyzes the strengths and weaknesses of the family business model. Donnelley identifies several potential strengths of family firms that include imbuing the enterprise with a purpose, setting conservative compensation and payout policies, exploiting the reputation, legacy, and network of the family, retaining employee loyalty, and mitigating agency problems between owners and managers. Potential weaknesses include conflicts of interests among controlling and minority shareholders, poor profit discipline, and nepotism. Donnelley proposes governance mechanisms relevant for family firms including checks on favoritism, barriers to family employment, executive evaluation, and incentivizing family members. Even though almost 60 years have passed since Donnelley’s paper was first published, his analysis remains as relevant today as ever,1 and our focus on strategic family assets and governance challenges in Section 4 and Section 5 owes significantly to the Donnelley paper.

Family firm research in finance gained prominence with the pioneering work of Lopez de Silanes et al. (1998) who were the first to systematically document that a large share of the largest public traded firms in many countries around the world is represented by families as controlling owners. Another important study that gave

1Also relevant is Donnelley’s powerful opening paragraph: “Is family management contrary to the fundamental American creed advocating free competition, equality of opportunity, and the best man for the job? Is the value of tradition of family management largely illusory—a product of self-interested rationalization by the families involved? Does family influence contradict all precepts of professional management? Do the complexities and demands of today’s business environment make it foolish to attempt to perpetuate family influence in any firms?” (Donnelley, 1964). It is also worth noticing that Donnelley’s emphasis on family firms having a purpose is a very topical research issue today (Mayer, 2021).
rise to a slew of papers is the seminal work by Anderson and Reeb (2003a, 2003b) who document that 33 and 46% of the S&P500 and S&P1500 companies are represented by family firms.

The dominance of family firms across the world is now well established: Among the largest publicly traded companies, family firms account for 44% of large firms in Western Europe (Faccio and Lang, 2002), over two-thirds of firms in East Asia (Claessens et al. 2000), and are dominant in most countries around the world, with their dominance being stronger in countries with relatively weaker capital markets and institutions (Franks et al., 2012). Family firms’ dominance is especially punctuated in a broad range of capital light industries such as retail, transportation, and publishing (Villalonga and Amit, 2006a, 2006b). We provide a brief tour of the presence of family firms in eight large Asian countries in the following section. The upshot of this literature is that family firms, including owner-managed businesses, represent a significant fraction of the modern corporation and justifiably deserve a dedicated research area.

The second contribution of the Anderson and Reeb (2003a, 2003b) paper is an analysis of the relative performance and value of family firms. They split the top 500 firms in the US into family and non-family firms, using a dichotomy based on the ownership stake of the founding family or heir, and document that the value of family firms (measured as Tobin’s Q) is higher than non-family firms. The superior value of large US family firms relative to non-family firms is confirmed in Anderson and Reeb (2003a, 2003b, 2004), McConaughy et al. (1998) and Villalonga and Amit (2006b). However, Villalonga and Amit (2006a) show that the superior performance is lower when families employ control enhancing mechanisms such as pyramidal ownership structures or dual class shares. Miller et al. (2007) re-examine the evidence and trace the superiority of family firms to founder-run firms. When founder-run firms are excluded, the performance edge of family firms disappears. In many cases it is not clear if founder-run firms such as Microsoft (under Bill Gates) or Google (under Larry Page) can be regarded as bona fide family firms, especially knowing that neither firm had successor CEOs who were related to the founders. The Miller et al. (2007) study highlights the bias resulting from using broad definitions of family firms. Studies from Europe and Asia have not confirmed the superior performance of family firms. In particular Claessens et al. (2002), Cronqvist and Nilsson (2003) and Maury (2006) find that family firms have inferior performance relative to non-family firms. The inferior performance seems to be correlated with lower productivity (Barth et al., 2005), maximization of broader family interests (Bertrand and Schoar, 2006), less hard-working CEOs (Bandiera et al., 2018) and management entrenchment (Allen and Panian, 1982; Gomez-Mejia et al., 2001).

Measuring the relative performance outcomes and more generally the differences in corporate policies and performance has been the second driver of family business research. The mixed evidence on the relative performance of family firms relative to non-family firms underscores the importance of how family control is defined. In
Section 3 we briefly describe the broad range of definitions used in the literature on family firms and discuss the difficulty it poses in drawing performance inferences regarding family control and management.

The third driver of family business research is the exploration of how changes in the family system spill over into the business system. Bennedsen et al. (2022a) identify this as the family business embeddedness process. Nature and society bring exogenous variation to the composition of the family system. For example, as time goes by, the size of the founding family increases through birth of new family members or splits into branches following divorces and remarriages. Changes can also arise from religious norms about family values and gender roles, or it can arise from introducing specific laws, such as the one-child policy in China that reduced the number of direct heirs to a family business group. The impact on the family system is then further embedded into the business system through shaping governance and ownership. For instance, a family with many children may choose to have a more diversified business group to exploit the capacity of additional family members. Or a mainland Chinese business group may be more hierarchical than a similar Hong Kong based business group due to the smaller number of blood heirs as a consequence of the one child policy. Such time induced changes in the family sphere spill over to the structure and governance of the family business, and through this influence short- and long-term business policies and business outcomes. The embeddedness process, therefore, provides rich research opportunities that are unique to the family business organization.

One simple illustration of how the embeddedness dimension enriches our understanding of the family business institution is provided in Bennedsen et al. (2007). They start with the observation that the gender of the first-born child in a family is the result of a lottery conducted by nature. The outcome of this lottery affects the actual choice of succession models in a family business decades after the birth of the child. Specifically, Bennedsen et al. (2007) show how nature—through the choice of the gender of the first-born child—embeds the family system that, 20 years later, induces changes in the business system through the choice of the succession model that in turn has an important impact on business performance.

Studies of the embeddedness process in an Asian context have increased significantly over time, even though many do not clearly identify the embeddedness in the empirical strategy. For example, Bertrand et al. (2008) document how competition among sons in Thai business groups compels the founders to choose a more diversified business structure and its influences on firm performance. Mehrotra,

2In the entrepreneurship literature, Aldrich and Cliff (2003) developed the family embeddedness concept. Inspired by social embeddedness by Granovetter (1985), the family embeddedness perspective highlighted the critical effect family has on business upstart. They argue that every entrepreneur comes from a family, which is the basic social institution, and family members hence provide significant human and capital resource in business opportunity recognition and new venture creation.
Morck, Shim and Wiwattanakantang (2013, MMSY henceforth) document how gender composition in Japanese family firms impacts the use of particular governance mechanisms such as adoption of future CEOs and its influence on business performance. Fan et al. (2021) document how the origin of birthplace shapes owner-managers’ values and the businesses they run.

The rest of this survey is organized as follows: We provide a brief summary of the status of family firms and the related research on selected Asian countries in Section 2. In Section 3 we discuss the rich variety of definitions of family firms used in the literature and how this has shaped empirical research. Family firms have special relationship-specific family assets that can nurture and successfully build business strategies. We identify key family assets in Section 4. Family firms also have governance challenges that are unique to their organizational form—we discuss examples of such roadblocks in Section 5. In Section 6, we summarize our survey and discuss future research.

2. Family Firms in Asia

Family firms are the most typical organizational form in the Asian business landscape and in most countries (excluding China) they are often the oldest as well. They represent more than 80% of all (private and public) corporations across a vast swath of industries and a third of the value of listed firms in Asian economies (EY, 2017). The following short overview of the history, challenges and academic research on family firms in eight Asian countries underscores their importance in Asia and highlights some of the challenges they face. The countries are listed alphabetically based on their Anglicized country names.

2.1. China

2.1.1. History and importance.
The history of family firms in China is short but important, given the size of the Chinese economy. Private ownership of firms has only been permitted since the 1978 economic reforms in China; hence, most family firms are still in their first or second generation (Li et al., 2015). Despite their short history, the significance of family firms is growing in China. Today more than a third of listed companies, and around 90% of private firms, classify as family firms in China. Whereas large state-owned corporations traditionally have been the focus of academic research in the past, today it is the millions of private family-controlled companies that contribute to the bulk of employment and GDP growth of the Chinese economy. Family firms in China are on a high growth trajectory, with some surveys showing that they have been growing faster than their counterparts in the rest of Asia, and have stronger expectations about future growth (PwC, 2021).

2.1.2. Challenges.
Succession poses a multi-dimensional challenge for many Chinese family firms today. First, since most firms in China are relatively young compared to their...
counterparts in other economies, there is little succession experience in transferring business control across generations. Most family firms are facing their first transition from founder control to heir or other types of control. Second, the one child policy (introduced in 1974 before private firms were allowed) has resulted in a dearth of blood heirs for Chinese business families relative to those in the rest of Asia (Flannery, 2015). Third, there is a lack of interest from the next generation to take over their family firms—being business owners in remote provinces in China is not as attractive as living a jet-set life in coastal metropolises working in the financial industry (Rovnick, 2017). Fourth, as in other Asian countries, there is a culture gap across generations. Most entrepreneurs do not have significant formal education; they often grew up poor with traditional Chinese values focused on hard work and respect for the elderly. As a rule, they do not speak English or other foreign languages. And yet, through hard work and dedication, they have changed the lives of their families. The next generation have been brought up in a very different environment. They are well-off from the start, have attended the best national and international schools, often spend extended time overseas and have a very international lifestyle. The culture gap between these generations makes it difficult to communicate and work together and can trigger serious and irreconcilable family conflicts.

2.1.3. Academic research.

There is today a large and well-developed literature on Chinese family firms. We briefly mention a few studies here and return to others in the thematic sections below. Research on Chinese family businesses shed light on their culture, governance, succession, and performance. Overall, Cai et al. (2012) find that founder-run businesses create more value, in line with the broader global evidence. In particular, they find that family CEOs out-perform non-family ones in terms of both valuation (Tobin’s Q) and profitability (ROA). The performance edge of family involvement is also confirmed in Wei et al. (2011). They show that Chinese family firms have a lower cash dividend payout ratio and propensity to pay dividends compared to non-family firms.

Fan et al. (2021) find that founders’ regional origin within mainland China significantly affects the degree of family involvement in the enterprise. Founders from regions with stronger collectivist cultures engage more family members as managers, retain more firm ownership within the family, and share the controlling ownership with more family members. Chen et al. (2021) examine the nexus between Confucianism, the choice of the leadership successor, and firm performance in family firms in China. They show that firm founders who are deeply influenced by Confucianism have a higher likelihood of choosing a family member or a guanxi

3Guanxi refers to a system of social networks that binds and facilitates business dealings in China. At its core, it is based on the Confucian belief of trust and reciprocity in human dealings. Thus, a guanxi connection is not necessarily a close family member but can be a trusted remote family member or a trusted non-family person.
connected non-family member as their successor. Moreover, family/guanxi-connected successors have a positive effect on firm performance compared with their counterparts outside of the family/guanxi circle. Access to the founder’s specialized assets via pre-succession internal managerial experience underlies their superior performance.

In terms of succession, Shen and Su (2017) found that founders’ religiosity strengthens the family’s management succession intention, but not its ownership succession intention. Eastern religious beliefs, especially Buddhism, strengthen the religiosity-succession relation in Chinese family firms. Cao et al. (2015) showed that having only one heir decreases the probability of intra-family management succession by over 3%, reduces the probability of adult heirs working in family businesses by 14%, and decreases the founder’s expectations of having young heirs for succession.

2.2. Hong Kong

2.2.1. History and importance.

Family firms are the biggest contribution to wealth creation in the Hong Kong economy (Huang and Yeung, 2018). Historically, a few prominent business families became very influential during the British colonial rule. Thus, wealth and business are indeed concentrated in Hong Kong today—the 15 wealthiest families in Hong Kong control assets worth 84% of Hong Kong’s GDP (Ho and Chalam, 2017). Most families have experience with succession and many of them have large families from which to select capable successors. Hong Kong inherited the vestigial institutions from the colonization era and maintains an Anglo-American legal and financial system (Farrar, 2002). On the other hand, Guanxi business network relationship and Confucian values are still prevalent (Huang and Yeung, 2018).

2.2.2. Challenges.

Compared to mainland China, family firm challenges in Hong Kong are very different. Family firms have a long history, and many are multigenerational. Furthermore, business families in Hong Kong are often large with many branches and offsprings. Still the succession challenge is significant in many Hong Kong business families. There are many prominent cases of family fights with adverse consequences for related businesses. An illustrative example comes from the Kwok family, the second richest family in Hong Kong. Three brothers (Walther, Raymond and Thomas) inherited the Sun Hung Kai Properties in 1990. Afterwards the kidnapping and ransoming of the eldest brother Walter led to a very public fight among the brothers. The fight ended with Walter being ousted from the family business, the other two brothers charged with corruption, and a business that suffered at every twist and turn in the family fight. The case illustrates that succession challenges are common in Hong Kong and relate to diverging interests in large business families.

A second challenge is the political institutional instability in Hong Kong and its long-term integration into the Chinese economic and political framework. Hong Kong inherited the English common law system and an Anglo-American financial system (Farrar, 2002). However, with Chinese norms in social and cultural aspects,
the founder’s willingness to relinquish control is weak (Finnigan, 2015). It is not uncommon to see Hong Kong business owners manage their businesses well into their 80s and 90s. The famous media tycoon Ron Shaw was 103 years old before he transferred management control to his 79-year-old wife (Bennedsen and Fan, 2014). A difficult challenge for the younger generation is maneuvering the social and political changes happening in Hong Kong, and to understand the implications for their engagement in the family businesses (Ho and Chalam, 2017).

2.2.3. Academic research.

Lee and Barnes (2017) show that founder-controlled family firms are superior performers but that heir-controlled firms do not outperform non-family firms. Bennedsen et al. (2015a, 2015b) document a large accumulated value loss experienced by publicly listed Hong Kong family firms around the transition to non-family control over a 10-year period. Au et al. (2013) explore trans-generational entrepreneurship in Automatic Manufacturing Ltd. (AML) to see how family firms strike a balance between building good operating and governance structures while fostering an entrepreneurial spirit across generations.

The pros and cons of succession vehicles is also discussed in the literature. Fan and Leung (2020) examined the ownership structure in Hong Kong controlling families, focusing on the use of trust, a common succession vehicle in common law. Although the use of a trust structure does help lock the ownership within the family, it also induces intra-family conflicts which are difficult to solve, and insulates family decisions from market discipline.

2.3. India

2.3.1. History and importance.

In India, the role of family firms is significant in nation building, wealth creation, employment generation and contribution to the exchequer. Family firms comprise 85% of all Indian firms and account for around 70% of the GDP. Despite the huge diversity in terms of size and industry and the existence of numerous outperforming start-ups, India is still characteristically known for its massive and structurally important family business houses. Some of these companies have, over the years, grown into world-class conglomerates and have operations across several industries. These include the Raheja Group, the Aditya Birla Group, the Reliance Industries Group, and the Tata Group to name a few, affecting not only the economy but also the social and political landscape of the country.

2.3.2. Challenges.

Endless family conflicts cast a shadow around successions in Indian family firms. The quarrel between the two Ambani brothers, heirs to the Reliance Industries Limited (RIL) group, has simmered for over a decade since the founder, Mr. Dhirubhai Ambani, died in 2002. The sibling dispute resulted in the splitting of the Reliance group in 2005. The fierce rivalry has turned the two brothers into business competitors, where each uses its political and social connections to weaken the power of the other. Another famous succession case involves the appointment in 2012 of
Cyrus Mistry as successor to Ratan Tata, the legendary family and business leader of the Tata group. Within four years Mistry was ousted, Ratan Tata returned, and the case ended up in courts. These cases have raised the awareness of succession challenges and pitfalls in other family firms in India.

2.3.3. Academic literature.

There are a number of well-published papers focusing on the role of business group in India. Khanna and Palepu (2007) study the relative benefits of belonging to business groups in India. They analyze the performance of affiliates of diversified Indian business groups relative to unaffiliated firms and document that accounting, and stock market measures of firm performance initially decline with group diversification and subsequently increase after group diversification exceeds a certain level.

Gopalan et al. (2007) investigate the functioning of internal capital markets in Indian Business Groups. They find that intragroup loans are an important means of transferring cash across group firms and are typically used to support financially weaker firms within the group. Their evidence indicates that an important reason for providing support to weaker firms is to avoid default by a group firm and consequent negative spillovers to the rest of the group. Owners of business groups are often accused of expropriating minority shareholders by tunneling resources from firms where they have low cash flow rights to firms where they have high cash flow rights. Bertrand et al. (2002) construct a method to measure tunneling in business groups, and find evidence of a significant amount of tunneling, much of it occurring via non-operating components of profit. Naaraayanan and Wolfenzon (2020) document the negative spillover effect of conglomerate firms on capital investments by stand-alone firms in India. They compare the investment of stand-alone firms across India after a shock to the local investment opportunities generated by a large-scale highway development project. Their findings are consistent with conglomerate firms crowding out financing for stand-alone firms in the wake of highway development shocks.

Ashwin et al. (2015) examine family control and innovation and find that R&D investments are higher in firms with family ownership and control relative to firms with family ownership but non-family (professional) CEOs. They view their findings inconsistent with the agency view of the firm, and consistent with the stewardship theory. On the other hand, Singla et al. (2014) examine spillover effects of family conglomerates and find that family ownership and management worsens the relation between internationalization and governance relative to family-owned firms that are professionally managed.

The attention to succession challenges remains popular in academic investigations. Bhattacharyya (2007) lists major challenges faced by Indian family firms including non-participative family members, family emotions, family orientation overriding business orientation, difficulty in defining authority levels of young family members, fair-to-all approach, inability to retain non-family professionals and lack of succession planning. Pawar (2009) highlights the strong relation between family conflicts and business failure as a major issue among Indian family firms. The low survival rate (13%) of third-generation family firms, and an even lower
rate of survival in the fourth generation, underscores the challenges facing intra-family successions in India.

2.4. Indonesia

2.4.1. History and importance.
Family firms compose around 96% of the 165,000 firms in Indonesia (Kumar and Prameswari, 2018), covering a wide range of important industries including property (91% market share), agriculture (74%), energy (65%), and consumer goods (45%) (Global Business Guide Indonesia, 2016). Surprisingly, this young economy is markedly more prepared than their ASEAN counterparts, with 78% of family firms having a succession plan in place. This compares to Singapore at 58%, the Philippines at 60%, Malaysia at 66%, and Thailand at 74% (Labuan IBFC, 2014). Also, the turnover and recruitment costs in family firms are lower because trust and loyalty are fostered by the working environment (Juanda and Jalaluddin, 2018).

2.4.2. Challenges.
However, the survival rate of family firms in Indonesia is at risk despite the comprehensive awareness of succession. A few notable successful examples include Bakrie & Brothers, Bank CIMB Niaga, and Bimantara Group that have prospered for several decades. Historically, the long period under dictatorship has had a lasting impact on family businesses in Indonesia. Maneuvering from the pre-Suharto period, through the Suharto period to the post-Suharto period has been challenging for many family businesses and may explain the low survival rate of Indonesian family firms.

2.4.3. Academic literature.
Political and military connections have both historically and more recently been crucial for the prospering of family firms in Indonesia. Fisman (2001) investigates the valuation of rents for 25 of the largest family business groups in Indonesia. By studying the stock price reaction to health news for the dictator Suharto, he was able to show differentiated effect on firms that were close to the Suharto family (e.g. the Bimantara Group) versus firms that were close to families that were in opposition to Suharto (e.g. the Bakrie group). Thus, for a very large part of the Indonesian economy, political connections apparently matter significantly for the well-being of Indonesian firms.

Juanda and Jalaluddin (2018) investigate the influence of family ownership on the financial performance of firms listed on the Indonesian Stock Exchange from 2008 to 2012. They do not find a significant difference in the performance of family versus non-family ownership. Bambang and Hermawan (2013) find that family ownership has a negative contribution to firm market valuation and financial performance, raising concerns about profit manipulation and weak governance law in Indonesia which has led to the expropriation of wealth by the majority and family-related shareholders (Bambang and Hermawan, 2013).

Kumar and Prameswari (2018) use a qualitative method to study four Indonesian families and analyze the determinants of successful family business successions.
Darmawan (2019) investigates the differences between the first, second, and third generations in managing family firms as reflected by their financial structure and performance, and finds significant variation in terms of short-term debt, long-term debt, retained earnings, and performance.

2.5. Japan

2.5.1. History and importance.

Family firms have existed in Japan for more than a millennium, with the 10 oldest surviving family firms in the world being Japanese (Goto, 2014, 2021). In the first decade following the Meiji restoration, large industry was in the hands of the government, and by 1880 with government finances getting tighter, most of these state-owned enterprises were sold off in a privatization effort (see Flath, 2005). The emerging business groups were called Zaibatsu (similar in many ways to modern Korean Chaebols) and raised money by selling equity in new firms that were controlled as subsidiaries via a holding company structure. Examples include the so-called Big Four Zaibatsu, namely Mitsui, Mitsubishi, Sumitomo, and Yasuda, among other smaller groups such as Nakajima, Nissan, and Nomura.

The Zaibatsu structure dominated the industry of modern Japan right up to the beginning of the Second World War (see Miyajima, 1994), when they lost some of their prominence and control due to wartime government measures dictating production and financing (Noguchi, 1998). At their peak, families and insiders held slightly more than 25% of the shares in their firms at the beginning of the 20th century up until 1937 (see Franks et al., 2014). Starting in 1937, insider ownership began a steep decline, with the gains accruing to corporations and banks.

2.5.2. Challenges.

Under the US occupation of Japan (1945–1952), the Zaibatsu were formally disbanded by abolishing the holding company structure and forcing the apex families to sell their shares, and for a while, the Japanese corporate ownership structure resembled the dispersed ownership of the United States (see Morck and Nakamura, 2007). This change was not without costs or collateral damage—Yafeh (1995) has shown that the greater the share of the Zaibatsu that were expropriated and resold by the US-led effort, the worse was the subsequent performance of the affected firms. After the departure of the US command, the Ministry of Finance in Japan in the late 1950s encouraged the nascent Japanese firms to own shares in each other—the cross-shareholding system that emerged from this directive came to be known as the Keiretsu system, the remnants of which are still in existence today (see Yamada, 2004).

2.5.3. Academic literature.

Post-war Japanese family firms attracted comprehensive attention in academic research. MMSY (2013) document the prevalence of family firms in post-war Japan. They study the universe of listed firms in Japan that went public between 1949 and 1962 and track them from 1962 through 2000. They find that family firms represented slightly more than 40% of all listed firms in 1962, declining to 30% of listed
firms by 2000. Claessens et al. (2000) use a strict ownership threshold to define family control in Japan and find that at a 10% cutoff, 13% of listed firms in Japan are family controlled as of 1996. The disparity in MMSW and Claessens et al. comes from differences in the definition of family firms used in the two studies, a topic we return to in Section 3 of this paper.

MMSY (2013) document a uniquely Japanese practice of adult adoptions to overcome the challenges facing succession. The crux of this evidence is that the institution of adult adoptions has worked well in Japan, allowing family firms unprecedented longevity and a performance edge over professional managers and even blood-heirs.

Bennedsen et al. (2021b) document a significant degree of dynastic control among Japanese family firms where the ownership by the founding family is minuscule, and yet many families continue to exercise management control over the firms founded by their forefathers. Such dynastic control without ownership or control enhancing mechanisms is frequent in Japan and examples are also found in Taiwan.

2.6. Singapore

2.6.1. History and importance.

As an important financial center in Southeast Asia, Singapore has been frequently compared to Hong Kong. As of 2017, 74.3% of population in Singapore were ethnically Chinese. The Confucian values are largely prevalent in Singapore society. According to the founding leader of Singapore, Lee Kuan Yew, Singapore depends on the influence of the family to keep society orderly. This focus on traditional family values is also seen in the commercial sector. Family firms play a key role in Singapore’s economy, making up the majority (52%) of companies listed on the Singapore Exchange and representing 33.1% of total market capitalization. Family firms especially dominate particular industries such as Construction (81.3%), Hotels and Restaurants (72.2%) and Property (70.7%) (Dieleman et al., 2013). Family firms in Singapore also outperform non-family firms with an average of 5% returns on assets, compared to 3% for non-family firms.

2.6.2. Challenges.

Leadership transitions in family firms are more infrequent compared to non-family businesses. From 2010 to 2011, turnover for chairmen is 3% for family firms and 7.7% for non-family firms (Dieleman et al., 2013). Family-owned businesses founded in 1950s–70s Singapore are now facing a second- or third-generation transition, underscoring the importance of transitions for business survival in Singapore (Hong and Yong, 2017). Based on findings from a PWC survey, only 26% of family firms in Singapore have documented a succession plan. There is also an increasing trend in appointing outsiders as top leaders in family firm boards. A very frequent transition is the entry of a professional CEO in the family firm who replaces a family member. Some of these cases include a placeholder CEO taking the reins temporarily before a qualified family member is ready to take over.
2.6.3. Academic literature.

Family firms have generally smaller board sizes and fewer non-executive directors. This type of governance structure keeps the power centralized within the firm and encourages an efficient decision-making process. At the same time, family members play an independent role in boards, contributing to the long-term sustainability of family firms amidst the rising importance of good corporate governance (Huang and Yeung, 2018). Based on a year-long study by KPMG Singapore and CPA Australia, other unique advantages of family businesses over non-family businesses in Singapore include a value-driven organizational structure (stronger sense of belonging), a significant home-ground advantage (with a better understanding of Singapore and neighboring countries), and a long-term orientation on business development (Hong and Yong, 2017).

Another concern for family businesses in Singapore lies in their transparency. Many family businesses have lower scores on the Governance and Transparency Index (Huang and Yeung, 2018). This lack of transparency often hurts the credibility of family businesses in society and creates a risk of potential mismanagement. Tong and Wilkinson (2007) use case studies of successful Chinese family firms in Singapore to demonstrate how business leaders can incorporate, defy, or recombine elements from the socio-cultural environment in ways that enable continuity and growth.

2.7. South Korea

2.7.1. History and importance.

In the South Korean economy, large family-run business groups called Chaebols have been the decisive engine for the economic growth. Since the mid-1960s, Chaebols have developed strong political ties and were crucial in the transformation of South Korea from an agricultural to a modern industrial economy. Depending on the definition, there are approximately 25 Chaebols in South Korea today that account for 84.3% of the GDP but only 10% of jobs. The largest of these are global names such as Samsung, Hyundai, LG, and the SK Group. Because of the dominance of Chaebols in the South Korean economy, there are relatively fewer large private family firms; instead, small and medium-sized family firms account for the vast majority of jobs.

2.7.2. Challenges.

Despite their outsized contribution to the economy, the role of Chaebols and their business families remains controversial in South Korea, with several cases of Chaebol family leaders convicted of tax evasion and bribery. From a social perspective, the families have been very well connected with the government, and serious cases of rule bending have come to light. For instance, both the second- and third-generation leaders of Samsung’s Lee family were convicted of tax fraud and corruption. The challenge from having a small set of elite families dominate the economy is enhanced through the strong marriage and business networks that have developed among the Chaebol families and beyond.
Another looming challenge is that of family transition, both in the large Chaebols and in the numerous mid-size and smaller family firms. With an inheritance tax reaching 50% of the transferred wealth, it is complicated to plan a family succession without making the firm absorb the liability. Recently Samsung’s Lee family has paid more than US$10 billion in inheritance tax, which is considered the largest ever inheritance tax in Korea or elsewhere. Related to this is the role of family member firms and the need to professionalize Korean mid-sized family businesses (Bennedsen and Henry, 2022b).

2.7.3. Academic literature.

There is an extensive and well-developed literature on the structure and function of South Korean Chaebols. In an early contribution, Campbell and Keys (2002) find that the affiliates in five Chaebols exhibit significantly lower performance and significantly higher sales growth relative to similar independent firms. Top executive turnover is unrelated to performance, and they suggest that the lack of properly functioning internal corporate governance may have increased the severity of the financial crisis around the year 1997. Contrary to this evidence, in an interesting paper in this journal, Kim (2012) studies the long-term value implication of group membership in the Chaebol business groups. He finds that the long-term performance of the Chaebol affiliated firms is superior to a control group of non-related similar firms.

Almeida et al. (2011) study the structure and evolution of the Chaebols, documenting both vertical (pyramids or chains of related companies) and horizontal (direct ownership from the Apex firm) growth patterns of the Chaebols.

Research has also examined if the Chaebol structure adds value broadly to its member firms or more narrowly for the controlling owners through tunneling (Baek et al., 2006; Bae et al., 2008). Joh (2003) examines whether a firm’s ownership structure affects its performance, and finds that controlling shareholders, especially at large Chaebols and publicly traded firms, exploit the internal capital market for private gains at the expense of minority shareholders. In Bae et al. (2008) it is shown how the stock price reaction to earning announcement for member firms tend to spill over to other firms within the Chaebol. Almeida et al. (2015) studies the reorganization of Chaebols after the Asian financial crisis, and document instances of cash transfer from low growth to high growth member firms.

Complex political connections and financial relations also feature in the mainstream literature. Choe et al. (2005) investigate South Korean data of domestic and foreign investors and show that foreign money managers pay more than domestic money managers when they buy and receive less when they sell in medium and large trades.

A small but fascinating literature uses the extensive marriage network across the Chaebols’ families and reaching into other parts of the Korean society to study the impact of family ties on business outcomes. Han et al. (2017) empirically examine if gender and family roles in marriage ties in Korea affect business decisions of the Chaebols in terms of entries to or exits from common markets. The findings
showed that the Chaebol owned by the husband’s family is much more likely to enter and exit common markets, as compared to the Chaebol owned by the wife’s family.

2.8. Taiwan
2.8.1. History and importance.
Family firms represent 65% of the total number of Taiwanese firms and 55% of total market value in the Taiwanese economy (TWIOD, 2018; PwC, 2020). Compared to other Asia economies such as Japan, Korea, and Hong Kong, the history of Taiwanese family firms is relatively young. In 2019, about 56% of family firms were founder-led, 35% were led by the second generation, and only 9% were passed on to the third generation (PwC, 2019). Large Taiwanese family firms are often organized in big business groups and many have expanded rapidly both in China and elsewhere.

2.8.2. Challenges.
The urgency of succession is the single biggest challenge for the Taiwanese family business groups. This includes raising the awareness of having a succession plan, designing a well-organized governance structure, and reducing the conflicts among family members. Professional service firms play an important role in this process (Lu et al., 2020).

There have been a number of public succession conflicts. The charismatic founder of the Taiwanese conglomerate Formosa Plastic Group, Yung-Ching Wang, died intestate in 2008. He had 4 wives and 12 children, and his brother and co-founder Yung-Tsang Wang had additionally 3 wives and 9 children. The absence of a formal will has resulted in numerous court cases and a very public media row. Winston Wong, Y-C Wang’s eldest son, has pressed charges in courts of law both in Taiwan and in the United States against both the company and many of his half-siblings and cousins (Bennedsen et al., 2021a).

Another famous succession case has been the long-running dispute between father and son over control of the TECO group, a leading electronics manufacturer in Taiwan. As the son-in-law of one of the five founders, the father has led the TECO Group for over 30 years, despite owning only a negligible stake in the firm. His son has worked for over 20 years for the TECO Group and using both public courts and public media he is now trying to wrest control from his father (Bennedsen et al., 2022b).

2.8.3. Academic literature.
Many researchers examine the operational efficiency and strategic decisions made by Taiwanese family firms. For instance, the relative performance of family versus non-family firms has been investigated in a number of papers (e.g. Shyu, 2011; Chu, 2011; Lee, 2019). Governance structures (e.g. Su and Lee, 2013) and the outcome of corporate governance have also been examined in the literature (Chi et al., 2015; Lin et al., 2016). Other areas include a discussion of the agency problem in both firm (Tsai et al., 2006) and business group context (e.g. Lu
et al., 2019); and the family’s influence on strategic decisions including internationalization (Deng et al., 2009; Chen, 2011) and research and development policies (Min, 2021; Lin and Wang, 2021).

There is also a nascent literature on the need for succession planning. Lu et al. (2021) investigate the role of outside committees for succession planning in small and medium-sized family firms. Based on a chamber of 58 successors (candidates) from a wide swath of industry, their findings show that successors’ consultation with a cadre occupying the highest centrality node in the chamber delivers a significant positive contribution to the management knowledge and family communications skills of the successor, while consultation with the referrer (gatekeeper in a network) is associated with a negative effect on family communication.

3. Defining Family Firms

The seminal paper by Donnelley (1964) outlines the weaknesses and strengths of family firms and discusses key governance initiatives based on a study of 15 large family firms in the United States. Donnelley defines a family firm as: “A company is considered a family firm when it is closely identified with at least two generations of a family and when this link has a mutual influence on company policy and on the interests and objectives of the family.” It is worth noting that Donnelly employs both the presence of a generational aspect and the interaction between the business and the family sphere as part of the definition of family firms. Despite the clarity in Donnelley, the literature has not evolved to a consensus on the definition of family firms. One reason for the lack of consensus is that there are many elements involved in defining a family business. We highlight five such elements below.

1. **Ownership (O):** What is the founding family’s ownership in the firm? Ownership is typically defined as fraction of shares or cash flow rights. This can vary significantly across types of family firms (e.g. public listed or private) and countries (US families have in general lower ownership stakes than European families, who in turn and they have lower ownership stakes than Asian families).

2. **Control (V):** How much control does a family possess? Control is typically defined as both direct and indirect voting rights based on control enhancing mechanisms such as dual class shares or pyramidal ownership structures.

3. **Management (M):** Is the CEO/President or Chair of the board a family member?

4. **Engagement (B):** What is the representation of the family among the firm’s workforce, management or board of directors?

5. **Succession (S):** Has there been a family succession in the firm or is it the manifest intention of the incumbent family leader to make a family succession?

Bennedsen et al. (2022c) survey 113 family firm papers containing 135 definitions of what constitutes a family firm. A clear majority (53.3%) of definitions are based on Ownership (O) as the sole criterion. Another 37% of the definitions use
Ownership and/or Management (M) and/or Engagement (B) as the defining feature of family firms. That leaves less than 10% of definitions that rely on Management and/or Engagement without Ownership as the basis for qualifying as a family firm. Bennedsen et al. (2021b) document the prevalence of dynastic succession in the absence of ownership among a significant fraction of Japanese family firms in the post-war era.

The Table 1 below displays the frequency of various permutations of Ownership, Management and Board representation that are used in the 113 firms surveyed by Bennedsen et al. (2022c).

Table 1 Summary of Definitions in a Survey of Family Firms in Bennedsen, Lu and Mehrotra (2022)

<table>
<thead>
<tr>
<th>O</th>
<th>M</th>
<th>O+ M</th>
<th>O/M</th>
<th>O+ B</th>
<th>O/B</th>
<th>M+ B</th>
<th>M/B</th>
<th>O+ (M/B)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>O</td>
<td>72</td>
<td>10</td>
<td>17</td>
<td>4</td>
<td>8</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Pct</td>
<td>53.3%</td>
<td>7.4%</td>
<td>12.6%</td>
<td>3.0%</td>
<td>7.4%</td>
<td>2.2%</td>
<td>1.5%</td>
<td>0.7%</td>
<td>3.7%</td>
</tr>
</tbody>
</table>

The lowest threshold ownership used in these studies is 5%, while the most common ownership threshold is 25%, used by a quarter of the studies in the survey. In general, minimum ownership thresholds are higher for studies of private firms (often 50%) than for studies of public firms. Furthermore, studies focusing on public firms in the US seem to have lower threshold values than studies focusing on public firms in Europe or Asia. The heterogeneity in ownership thresholds employed means that a firm where the founding family owns 15% of equity can be classified as a family firm in some studies, but as a non-family firm in others.

The lack of consensus in defining family firms is problematic. Definitions matter in generating even the most basic insight about family firms. For example, Anderson and Reeb (2003a, 2003b) find superior performance for family firms relative to non-family firms. However, subsequent papers contest this basic result: Villalonga and Amit (2006a, 2006b) and Miller et al. (2007) show that the superior performance of family firms is driven by the presence of founder-controlled firms. Heir-controlled family firms’ performance is significantly lower, in particular when the CEO is a family member (Bennedsen et al., 2007). Thus, to make consistent...
Statements about corporate policy and outcomes in family firms, it is important to introduce a consistent set of rules in conferring family firm status.

4. Family Assets: The Strategic Advantages of the Family Business Form

As highlighted by Donnelley (1964), the close link between the founding families and the businesses they control bestows unique strategic advantages while simultaneously creating certain governance challenges. In this section we highlight examples of the strategic advantages and discuss the attendant governance challenges in the following section. Donnelley (1964) identifies the strength of a family firm as stemming from its ability to have a clear purpose, being financially prudent, exploiting its legacy and network, and retaining employee loyalty. Only recently have Donnelley’s observations given rise to empirical research studies.

We begin with the definition of Family Assets as developed in Bennedsen and Fan (2014). Family assets are unique relationship-specific contributions that families deliver to their firms both in tangible and intangible forms. Thus, family assets are relationship-specific assets (Williamson, 1979) in the context of family firms. In the Williamson framework, the value of family assets is lower without the involvement of family members and their descendants. In line with Donnelley, we classify family assets into three groups: Legacy, Networks and Values.

4.1. Legacy

The founding family’s name is its most visible contribution to the firm. Having the family’s name in the top management cadre is valuable for at least four reasons: First, it makes the firm and the products interwoven in the legacy of the family and the firm. Meeting Mr. Zengaro Hoshi, generation no. 46 in the world’s oldest hotel, the Hoshi ryokan, definitely adds a very special experience to a hot spring trip to Japan (Bennedsen and Henry, 2022a). Second, a name can signal the superior product quality as exemplified by Hermès, the famous French luxury company (Bennedsen et al., 2014). Third, the name can be the assurance to investors that the firm will stand by its products, for instance during a product-related crisis. Toyota appointed Akio Toyoda as the first family CEO in 2009 during the biggest recall scandal in the company history. (Bennedsen et al., 2016). Finally, the family name can be the flag that ties a large, diversified company together. The Indian conglomerate Tata and the Hong Kong based trading house Jardine Matheson are prime examples of large conglomerates that use the family names (Keswick in the case of Jardine Matheson) and the legacy attached to the names as a flag for all affiliates.

The empirical literature on the value of legacy and family names in business is still in a very early stage. Belenzon et al. (2017) study the frequency and performance of eponymous firms (firms named after their founders) in a sample of 1.8 million private and public European firms, and find that approximately one in five firms in their sample are eponymous firms. They also find that eponymous firms outperform...
non-eponymous firms, lending credence to the notion that the name and legacy of family firms augment the reputational benefits associated with operating the firm.

Eponymous firms have also been shown to have superior accounting quality. Minichilli et al. (2022) document in a sample of 2,271 large Italian private firms that eponymy is positively associated with accrual-based financial reporting quality measures. Consistent with the reputation concern rationale, they find that positive association between eponymy and financial reporting quality is stronger for eponymous firms that have rarer names or receive more press coverage. Furthermore, the positive correlation is similar whether the top executives/board members belong to the founding family’s first or later generations. Thus, the study documents that the name and legacy of family firms disciplines accounting policy in private firms.

4.2. Networks
Most business families both in Asia and in the rest of the world have developed powerful networks over time that continue to add significant value to their firms. How do they do this? First, families have strong networks with other business families in the same region, country or even across the world that go back far in time and may last for generations to come. Second, family business leaders who develop strong political networks gain privileged access to government officials that make it easier for their firms to prosper in their own country and across the world. Family-run businesses can also benefit when their leaders become politicians, as witnessed by Muhammad Suharto, who was the president of Indonesia from 1968 to 1998, and by Thaksin Shinawatra, who was the prime minister of Thailand from 2001 to 2006—both presided over large family corporations. Third, business families can benefit from networks based on their social, religious, and ethnic backgrounds. Historically, the movements of people fleeing from war, famine, and religious persecution have left indelible traces on their host countries. Examples include the many Chinese ethnic minorities that sought a better life outside China, giving rise to the growth of Chinese business networks in Southeast Asia. Powerful Chinese business families have extended their networks throughout Indonesia, Singapore, Malaysia, Thailand, and as far as Australia and New Zealand. Similarly, Jewish, Irish, and Italian immigrants have escaped persecution and poverty to create successful business networks in North America. Finally, business families create powerful networks via marriage and kinships. In South Korea, for example, the king of marriage networking has been undoubtedly Koo In-hwoi, the founder of the LG Group who sired six sons and two daughters, all of whom married into other business and political families.

The empirical literature on the frequency and value of corporate political connection is extensive. The major cross-country analysis of political connection among large public traded firms is represented by Faccio (2006). She defines a firm as connected when a politician or a person closely related to a politician owns at least 10% of voting shares, or when they are a top officer of the firm (CEO, president, vice-president, chair or secretary). The study focused on national politics and the
largest firms in each country and found that 2.68% of all listed corporations representing 7.72% of the world’s stock market capitalization are politically connected. Faccio does not distinguish between family and non-family firms but in Asia the vast majority of these connected firms are family firms. The study likely underestimates political connections among family firms since it includes neither private firms nor political connections on regional or local levels.

There is a large and growing Asian-based research focusing on identifying the corporate benefits of political connections. One of the first articles is the seminal paper by Fisman (2001) estimating the value of political connections for Indonesian family firms during the Suharto reign. To identify a causal effect of political connection, he studied stock price reaction to release of information about the health of the Indonesian President Suharto. It was well established that listed family firms in Indonesia varied in their political connections to the president. The Bimantara Group and related firms were directly controlled by the family, whereas the business group around the Bakrie family were more in opposition (and would gain influence and political connections in the post-Suharto era). Banks such as the microfinance institution Niaga were considered neutral. Fisman investigates the stock market reaction of 79 connected firms to adverse rumors on the health of President Suharto. Results show that the stock price of connected firms reacted negatively to adverse health news, the impact being on average −0.6%. Tellingly, Fisman finds that tighter connections were associated with more negative stock price reactions. This study is influential because it provided causal evidence on the dollar value of political connections.

Chinese-focused research examines several elements related to the cost and benefit of political connections. Li et al. (2007) study the role of affiliation with the ruling Communist Party in the operation of private enterprises in China. Using a nationwide survey of private firms, they find that Party membership of private entrepreneurs has a positive effect on their firm’s performance after controlling for human capital and other relevant variables. Furthermore, Party membership helps private entrepreneurs to obtain loans from banks or other state institutions. Khwaja and Mian (2005) find similar results for Pakistan: connected firms borrow 45% more and have a 50% higher default rate on these loans relative to non-politically connected firms. Furthermore, they show that the increase in lending is mostly driven by government banks, while private banks tend not to provide political favors.

Connections can interfere in the governance of firms not only by influencing capital structure decisions but also by directly affecting the governance of firms. Almost 27% of the CEOs in a sample of 790 newly partially privatized firms in China are former or current government bureaucrats (Fan et al., 2007). Firms with politically connected CEOs underperform those without politically connected CEOs by almost 18%, based on three-year post-IPO stock returns and have poorer three-year post-IPO earnings growth, sales growth, and change in returns on sales. They also document that firms led by politically connected CEOs are more likely to appoint other bureaucrats to the board of directors rather than directors with
relevant professional backgrounds. As a result, connected CEOs are associated with boards with on average lower business experience, older members, fewer women and with the presence of other connected board members.

Political connections also appear to influence succession patterns in Chinese family firms. Xu et al. (2015) investigate the impact of second-generation involvement on firm performance. The findings suggest that founders’ political connections are a critical factor in the decision of second-generation involvement, with politically connected founders more likely to appoint a second generation as a family firm chairperson, CEO, or director. These results are consistent with the transfer cost hypothesis of Bennedsen et al. (2015a, 2015b) wherein family-specific assets (such as political connectedness) are costly to transfer to outsiders.

The value of networks and connections extend beyond political capital. Using evidence from Thailand, Bunkanwanicha et al. (2008) focus on the market value of newly created connections through marriages. In particular, this paper is based on the idea that marriages can be used to create new ties and alliances between business and political families. Their sample consists of 200 marriages in Thailand for the period 1991–2000 and classified as love-marriages (41 cases), when the offspring is married to a person outside politics or business, and network marriages (159 cases), when the marriage is connected to networks. Among network marriages the authors distinguish two types: (1) marriages that connect a business family with a family in politics (66 cases); (2) marriages between two business families (93 cases). A probit analysis shows that a network marriage is more likely for family firms that are in the construction industry, rely on state concessions, are more diversified and have higher leverage. Using three- and five-day event windows around the publication date of weddings, the authors estimate a significant and positive reaction to both types of network marriages. In particular, considering a five-day event window, the cumulative average return (CAR) is 1.31% for business marriages and 1.88% for political marriages. Overall, their analysis shows that investors consider network marriages as valuable enhancing events for the firms involved. Several arguments are provided to support the validity of weddings as value accretive events. First, wedding dates are chosen by the family astrologer or a monk, mitigating the potential endogeneity of the chosen marriage dates and firm events. Second, Bunkanwanicha et al. (2008) argue that engagements and weddings typically take place on the same day, mitigating the bias arising from anticipation of the event.

4.3 Value-Based Leadership

Business families often have strong values inculcated in family members from an early age. These values permeate into the family and business ethos and can be so deeply rooted in the personal psyche of the family that they persist across generations. Values can be derived from deep religious beliefs or cultural norms. Value-based leadership brings unique competitive advantages for the business and a flag that families, employees, and other stakeholders identify with. Bennedsen and Chevrot (2022) show that leaders with strong values that penetrate the firm they
operate are able to generate more surplus than leaders without strong values. In addition, they show that leadership in family firms are more value based than leadership in a non-family firm.

More than 350 years ago, the Quakers were imprisoned or even hanged for expressing their beliefs in England, Wales, and the United States. From 1662 to 1689, when they were legally persecuted in England and Wales, Quaker families started organizing “friends” meetings in private houses around the country that kept alive their religious beliefs and boosted their entrepreneurial engagement. In the 18th century, Quaker families started to establish banks and financial institutions, including Barclays, Lloyds, and Friends Provident. In addition, they ventured into manufacturing businesses, including shoe retailer C. & J. Clark and the big three British confectionery makers Cadbury, Rowntree, and Fry. As philanthropists, many Quakers threw their weight behind the abolition of slavery, prison reform, and social justice in the 19th century (Bennedsen and Cadbury, 2013). Quakerism shares certain tenets in common with Confucianism; at the core of both are humanistic beliefs. Indeed, many Asian family companies, such as the South Korean porcelain company Hankook, are guided by Confucian values.

Chen et al. (2021) study the nexus between Confucianism, the choice of the leadership successor, and firm performance in family firms in China. Their study provides evidence that firm founders who are deeply influenced by Confucianism have a higher likelihood of choosing a family member or a guanxi-connected non-family member as the successor. Moreover, family/guanxi-connected successors have a positive effect on firm performance compared with their counterparts outside of the family/guanxi circle. One underlying reason is that, affected by Confucianism, only the family/guanxi-connected successors can acquire the founder’s specialized assets via pre-succession internal managerial experience, which, in turn, enables them to earn quasi-rents on this asset and outperform other successors.

Fan et al. (2021) use a sample of 1,103 Chinese private-sector firms that went public during 2004–2016 to study the role of collectivist values among founders. They find that founders from regions with stronger collectivist cultures engage more family members as managers, retain more firm ownership within the family, and share the controlling ownership with more family members. These findings are robust to a battery of diagnostic tests to account for alternative institutional factors that may induce the relations. The results are consistent with the hypothesis that because the collectivist culture reduces information asymmetry, shirking problems, and associated monitoring costs among family members, more family ownership and management is expected in firms when entrepreneurs are from collectivist regions. The overall evidence supports the theory of the firm pioneered by Harold Demsetz and his co-authors.

Drawing from a corporate governance perspective in finance and socio-emotional wealth approach in management, Shen and Su (2017) analyse the relationship between religion and family business succession intention. Using nationwide family firm survey data, they find that family firm founders’ religiosity
influences their succession intentions and plans. Family firm founders’ religiosity and family firm’s socioemotional wealth interactively strengthen management succession intention, but not ownership succession intention. In particular, Eastern religious beliefs, especially Buddhism, strengthen the religiosity-succession relation in Chinese family firms.

Religious beliefs also appear to affect the founder’s willingness to take risk. In a sample of 4,159 Chinese family firms, Jiang et al. (2015) find that firms founded by religious entrepreneurs have lower leverage and invest less in fixed and intangible assets compared to firms founded by non-religious entrepreneurs. Contrary to the Shen and Su (2017) paper, these findings primarily hold for entrepreneurs who adhere to Western religions but not to Eastern religions.

5. Governance Challenges of Asian Family Firms

All entrepreneurs face business challenges; however, family firms often confront a unique set of roadblocks that, if left unattended, can devastate both their businesses and their families. Donnelley (1964) identifies conflicts of interests, poor payout discipline and nepotism as example of challenges and suggest mitigating them through active governance including checks on favoritism, barriers to family employment, executive evaluation and incentivizing family members. We follow Donnelley by identifying two classes of roadblocks and emphasizing the importance of carefully designing ownership, succession and other governance mechanisms in the family firm.

Key challenges to family firms in Asia often relate to a lack of long-term planning. Unfortunately, many Asian family business leaders ignore long-term planning at the risk of destroying families and businesses. One extreme case is the Thammawattana family, owners of Ying Chareon, the largest fresh food market in Bangkok, Thailand. In 1955, Suwapee Thammawattana opened a simple food stand and over time built it into an empire employing most of her nine children. In 1966, the father of eight of her children and his mistress were shot dead at the market collecting rent from shops. In the years that followed, a series of homicides struck down four of her nine children and several others. An attempt on Suwapee’s own life left her paralyzed from the waist down and confined her to a wheelchair for the rest of her life. None of the homicides have been solved. However, an investigation into the 1999 killing of her eldest son, a well-known politician in Thailand, lasted for more than a decade and involved three different autopsies before one of the brothers was finally able to clear his name in 2010. Currently, business is back to “normal” at the Ying Chareon market, which is still owned and managed by the remaining family members (see also Bennedsen et al., 2016).

We first discuss how Asian business families cope with family roadblocks, that is, challenges relating to the structure, dynamics, organization, and psychology of families. These can be hidden and unexposed or very visible, for instance exposed through fight between siblings or cousins. We will focus on how Asian family firms
have organized their ownership structure and the succession models to cope with these issues.

We noted in the introduction that family firms are the dominant organizational form in most Asian countries both for large publicly traded firms and for small and medium sized privately held firms. When business grows and the need for external capital rises, keeping family control raises multiple challenges. Claessens et al. (2000) show that a common mechanism to keep control over large firms (and large families) is the use of control-enhancing ownership structures, that is ownership structures where control rights are more concentrated than cashflow rights. Asian examples of such control-enhancing mechanisms include chains of corporate control in pyramidal structures, cross-ownership with business groups and/or family trusts and foundational ownership. They are all based on the premise that control can be retained in the hands of one or very few business owners whereas dividends and nominal shares can be distributed to a larger group of shareholders both within and outside the family.

One important model of keeping family control of large Asian business group is the Chaebols of South Korea. Almeida et al. (2011) study the evolution of the large dominating business groups in Korea using detailed ownership data. The authors show that there is an advanced group structure that allows the Chaebols to grow both vertically and horizontally, while keeping the family in clear control. Chaebols grow vertically through acquiring or spin-off more and more affiliated companies, so the structure ends up in chains of corporate controls, that is, pyramids. The controlling family uses well-established group firms (“central firms”) to acquire firms with low pledgeable income and high acquisition premiums. Chaebols also grow horizontally (through direct ownership) when the family acquires firms with high pledgeable income and low acquisition premiums. Hence, the authors document a selection effect where firms are selected into different positions in the Chaebol.

As discussed in Section 3, the literature on Korean Chaebols is well developed. An important research question is if the Chaebol business group is prone to tunneling of funds from outside investors to the interest of the controlling family. Baek et al. (2006) examine whether equity-linked private securities offerings are used as a mechanism for tunneling among firms that belong to a Korean Chaebol. They find that Chaebol issuers involved in intragroup deals set the offering prices to benefit their controlling shareholders. In particular, they show that Chaebol issuers (member acquirers) realize an 8.8% (5.8%) higher (lower) announcement return than do other types of issuers (acquirers) if they sell private securities at a premium to other member firms. These results are interpreted as evidence supporting the tunneling hypothesis. On the other hand, Almeida et al. (2011) do not find evidence of tunneling when they study price discounts within business groups organized as horizontal versus pyramidal structures.

Another common Asian model of preserving control in the face of business growth is via dynastic control. In Japan and Taiwan, it is often the case that the founding families of large business groups over time reduce their ownership stake
as a natural result of accepting external equity capital. Bennedsen et al. (2021a, 2021b) raise the important question if business dynasties continue to exercise control over firms they have founded even when their ownership stakes become insignificant. They define dynastic-controlled firms as those where a member of the founding family serves as the CEO, while the family owns less than 5% of equity, and provide the first systematic evidence on their prevalence, persistence, and performance, based on the universe of publicly listed firms in post-war Japan.

The Japanese governance system is ideal for studying dynastic control because control enhancing mechanisms such as dual class shares or pyramidal ownership structures are not present there. Thus, voting control and ownership go hand in hand in Japan, and a loss in ownership is strictly correlated with a loss in voting control. Bennedsen et al. (2021a, 2021b) show that the prevalence of dynastic-controlled firms is non-trivial—they represent 7.4% of all listed firms, and 16.3% of all firms incorporated as family firms, on Japanese stock exchanges between 1955 and 2000. In IPO time, such firms represent 10.1% of all firms incorporated as family firms that survive 10 years after their IPO, and 20.7% of those that survive 20 years after their IPO.

Dynastic-controlled firms are different from both traditional family firms, where the founding family retains significant ownership (>5%) and the CEO’s position, and from ex-family firms where the founding family’s ownership is less than 5% and it has relinquished the CEO position permanently. Dynastic-controlled firms have superior accounting performance relative to ex-family firms but underperform traditional family firms. They also document that family firms evolve into dynastic controlled firms through the need for growth inducing external finance and that dynastic family firms become non-family firms when the founding family lose their strategic family assets such as the legacy, education, and talent.

It is fascinating that dynastic controlled firms use different governance mechanisms to secure the control of the founding family even when ownership is reduced to a minimum. This is illustrated through three well-known examples: First, Casio was founded in 1946 by a father and his four sons. To finance expansion, Casio went public in 1970 in Tokyo, in 1973 in Amsterdam and in 1979 in Frankfurt and this resulted in diluting the family shareholding to the extent that the family today is not among the 10 largest owners. Despite this, the Kashio family has always been running Casio. Casio’s first CEO was the founding father, and was succeeded by his son, Tadao, who had a reputation as a financial wizard and served as CEO for 28 years. Tadao retired at the age of 71 in 1988 and remained as Casio’s adviser until his death in 1993. The second brother, Toshio (born in 1925), was the inventor of many of Casio’s hit products and served as Board Chairman from 1988 until 2011. The third brother, Kazuo (born in 1929) led Casio as its third CEO from 1988 and held the dual positions of CEO and Board Chairman in 2011. Casio’s current CEO is Kazuhiro Kashio, the son of Kazuo Kashio, and represents the third generation of the founding family.

A second example is Suzuki, where the family has never been listed among the top 10 shareholders since the firm went public in 1949. For more than 70 years the
Suzuki family ownership has always been less than 1%. Suzuki’s largest shareholders have been banks and insurance companies that have held their shares for several decades. The Suzuki family mostly had daughters who were not selected to run the company. Instead, the family engaged in arranged marriages of their daughters to talented CEO candidates and then adopted these males into the family (MMSW, 2013). Osamu Suzuki entered the Suzuki family through an arranged marriage to the eldest daughter of Suzuki’s second CEO, Shunzo Suzuki. Osamu adopted the Suzuki surname, began working at Suzuki in 1958 and rose quickly through the ranks to senior management positions. Osamu’s two predecessor CEOs, Shunzo and Jitsuiro, were also the founder’s adopted sons-in-law who took on the Suzuki name after arranged marriages. Now, Toshihiro Suzuki, the son of Osamu Suzuki, is the current CEO of Suzuki and has been the CEO since 2016.

The third example of dynastic succession in Bennedsen et al. (2021a, 2021b) is Toyota Motor, the world’s largest automobile manufacturer. The Toyota Motor case illustrates how complex ownership and management structures over a group of firms can empower the family, even when direct family ownership stakes are insignificant. Toyota Motor is part of the Toyota Group comprising a network of companies connected to each other via cross-shareholdings and shared top executives from the extended Toyoda clan. Over the last 50 years, the largest shareholders in Toyota Motor have been banks, financial investors, and a handful of group firms such as Toyota Industries Corporation and Denso Corporation. The Toyoda family’s direct ownership stake in Toyota Motor has been insignificant throughout our sample period. However, since World War II, the family has periodically been in charge of the firm through having a family member serve as president or on the board. In June 2009, the 49-year-old Akio was named as Toyota Motor’s 11th CEO. His appointment came on the heels of the company’s largest recall scandal, its worst crisis in decades. The company needed the Toyoda family name to affirm that it would restore the values, quality, and reputation upon which the business was founded. Toyota’s share price went from JPY620 on 20 Jan 2009 to JPY2390 in mid-January 2022, a nearly fourfold increase over the 13 years that he has held the top job (Bennedsen et al., 2015a, 2015b).

Casio, Suzuki, and Toyota Motor reflect three different ways in which founding families have retained management control when rapid growth diluted their ownership to insignificant levels. The Kashio family has kept control through a line of very talented family managers. The Suzuki family has broadened its talent pool for succession through the use of arranged marriages and adult adoptions for three successive generations. The Toyoda family has retained control via board presence supported by cross-shareholdings within the Toyota group of firms and the use of career professional CEOs during periods where family heirs were not ready to take the helm.

As the founder ages, the family increases and the firm prosper, succession planning becomes imperative. Surveys across Asia and the rest of the world have documented that succession planning is the single largest problem that owner-managers
face. Most owner-managers focus on day-to-day management and postpone the emotionally complexed problems of transition planning. The absence of succession planning has been documented in many surveys. For example, PwC documented that in Taiwan only 5% of family business groups have a succession plan in place. It is not surprising that Taiwan and other Asian countries have many colorful and very public cases of failed succession planning:

In Taiwan several of the largest family business groups have been involved in very public succession fights. In the country sections above, we already mention the public fight after Yung-Chung Wang, the founder of Formosa Plastic Group, died intestate. Another public succession fight has been among the four sons (from two marriages) of the late founder of the Evergreen conglomerate. A handwritten testament of the founder declared that all of his assets, plus the position of chairman, were bequeathed to his only son from his second wife. The will overlooked the majority shareholdings of his three sons from the first deceased wife, who reacted by ousting the chosen son from all management and board positions in the business group. The case highlights the limitation of founders to rule from the grave (Bennedsen et al., 2022b).

In India, the Tata Group has transitioned from a family-run to a professionally run business, but Tata Trust still holds 66% of Tata Sons, the apex holding company of the Tata group. In 2012, 44-year-old Cyrus Mistry was made the chairman of Tata Sons. Mistry is the scion of the SP Group, which has more than 18% stake in Tata Sons and is its single biggest shareholder, and was then seen as a convenient choice. He maintained a low profile, never making a media appearance. But behind the scenes, he was wielding a cold scalpel to trim debt and under-performing ventures. Within four years, in 2016, Mistry was shown the door. The board controlled by his predecessor Ratan Tata had lost confidence in Mistry. The case traveled all through the Indian court system and the final decision ruled in favor of Tata Sons.

In Hong Kong, a very public succession fight took place in one of Asia’s most famous restaurant empires (Bennedsen et al., 2015a). The Yung Kee restaurant is world famous for its signature charcoal-roasted goose (Yu and Kwan, 2013). Opened in 1942, Yung Kee was founded by Kam Kwan-Ki. He single-handedly turned it into a food empire before he passed away at the age of 96 in 2004. He left the business to his two oldest sons, Kinsen and Ronald, both of whom had different roles in the business at the time of his death. Soon after, a dispute broke out over the empire between the founder’s wife and Kinsen on one side, and the founder’s daughter and Ronald on the other side. The case went all the way up to Hong Kong’s highest court during which process the oldest son, Kinsen, passed away.

Succession is the biggest family business challenge in most Asian countries and too many family firms suffer economically when management is transferred within the family. The empirical research on the economic consequences of transferring management control inside a family began with Pérez-González’s (2006) study of 335 management handovers in publicly traded firms in the United States. He showed that family succession had a significantly negative effect on operational
performance and that the cost of family succession was particularly high for successors that lack elite education. Bennedsen et al. (2007) extended the study of family succession to private companies outside the United States and showed the econometric challenge arising from the choice of successor is not random. They instrumented the choice of succession model (i.e. successor being a family member or a professional outsider) exploiting exogenous variation through the gender of the first-born child of the departing family CEO.

In the Asian context, Bennedsen et al. (2015b) study the economic consequences of management transition in large public traded family firms in Taiwan, Hong Kong, and Singapore. They define succession as an entrepreneur stepping down from the top executive position and being replaced by a family member or an unrelated professional. The initial sample consists of all of the publicly traded firms in three Chinese economies: Hong Kong, Singapore, and Taiwan. These economies all share a prevalence of firms controlled by Chinese families. They exclude firms that are controlled by non-Chinese families or governments and firms in financial distress. The screening criteria result in a sample of 217 succession cases, of which 62 are from Hong Kong, 47 from Singapore, and 108 from Taiwan incurred between 1987 and 2005. The authors study the economic consequences of transition in a nine-year period around the actual transition. The average CAR in pre-succession years is $-56\%$ when compounded over the five years before the succession year, and $-16\%$ when compounded over the three years (36 months) after the succession year. Hong Kong firms experienced the most severe value decline of the three countries, whereas Singapore experienced the least decline.

The research on the economic consequences of family succession has focused almost entirely on the transition from a family leader (often founder) to either a family heir or a non-family outside CEO. However, often outsiders are replaced by family members. Bennedsen et al. (2019) documents that among Japanese family firms, when a non-family CEO is replaced, there is a 45% chance that it will be with a family member. Amore et al. (2021) showed that when a non-family CEO departs from a public traded Italian family firm, there is a 38% chance that the family returns to the top management position. Estimating a difference-in-differences model Amore et al. (2021) show that the return of the family manager is correlated positively with firm performance. To facilitate a causal interpretation, they confirm the absence of diverging performance trends before succession and instrument the transition decision with the gender of the first-born child. They find that incoming family managers appear to affect firm policy through reducing labor costs and spurring labor productivity. This is consistent with competent family managers creating value via leadership and an ability to exploit intangible family assets.

We mentioned above that some Japanese firms use advanced governance mechanisms to mitigate the cost of family succession. This has been explored in MMSY (2013). They documented that inherited family firms are common in post-war Japan, but they have significant challenges around succession. Many Japanese
companies have used arranged marriages and adult adoption as a way of increasing the managerial capacity. The authors show that adopted heirs “cause” elevated performance. They contest that heir-run firms do well because non-consanguineous heirs displace the least talented blood heirs, the non-consanguineous heir “job” motivates professional managers, and the threat of displacement encourages blood heirs’ effort and human capital accumulation.

We will end this section by discussing the importance of institutional roadblocks. Institutional roadblocks relate to government laws, regulative initiatives or even culture. In countries where inheritance tax is significant, some families may be challenged during a generational transition. Inheritance tax varies across Asian countries, from a low of 0% in Hong Kong and Singapore to an astonishing 50% in Korea. For example, the death of Samsung Group Chairman Lee Kun-hee in 2020 has generated an estimated inheritance tax of US$10.3 billion that the third-generation Lee family are generating funds to pay.

There is little research on the consequences of such high inheritance taxes. However, there is some evidence from Greece that inheritance taxes can reduce within family transitions (Tsoutsoura, 2015). In a similar spirit Ellul et al. (2010) studied the role of bequest laws across countries and how they impact the transition of family firms. In some countries entrepreneurs are legally bound to bequeath a minimal stake to non-controlling heirs. The size of this stake can reduce investment in family firms, by reducing the future income they can pledge to external financiers. Using a purpose-built indicator of the permissiveness of inheritance law and data for 10,004 firms from 38 countries in 1990–2006, Ellul et al. (2010) find that stricter inheritance law is associated with lower investment in family firms but does not affect investment in non-family firms.

A very different institutional roadblock is the former one-child policy in China. Many Chinese business founders who are nearing retirement are facing a lack of heirs in situations where their only child is not interested in the business or is not capable of running it. Due to the one-child policy, family firms are increasingly facing human capital constraints for within-family succession. Cao et al. (2015) document that having only one heir decreases the probability of continuing family management by over 3%, reduces the probability of adult children working in family firms by 14%, and significantly decreases founders’ expectations of having young heirs for succession. Having fewer children negatively affects founder’s expectation to go public and reduces the family firm’s reinvestment rate and R&D. Overall, the evidence suggests that the human capital constraints due to the one-child policy impose significant negative impacts on within-family succession.

6. Conclusion

In this survey, we describe the status, history, and challenges facing family firms in eight of the largest Asian economies. We find that family firms prosper in each of the countries we survey, and indeed play a dominant role in their economies—the
professionalization of control predicted by Chandler (1977) is notably absent in these countries. The lone exception to this norm is Japan where family firms represent less than a majority of listed firms—even there, family control is significant and often co-exists without material ownership by the founding family.

We find unique challenges facing the growth and longevity of family firms in each country, and in many instances, suitable adaptations to these challenges ranging from political alliances to dynastic succession practices. We discuss particular strengths associated with family control that account for its resilience in Asia, and indeed globally. Specifically, we note the role played by non-transferrable family assets—such as legacy and networks—that explain the longevity, success, and resilience of family governance.

We make special note of the wide variety of ways in which family firms are defined in the literature, and how such a heterogeneity in definitions has resulted in inconsistent inferences regarding outcome variables such as performance. In a separate paper, we provide an extensive survey of more than 100 papers spanning 135 definitions of family firms, and describe the main dimensions such as ownership, management control, engagement via boards, and succession norms that are employed in these definitions.

We end by posing some unanswered questions in the literature such as what factors, both common and unique, make family firms resilient and long-lived in each of the eight countries we have surveyed. The average lifespan of an NYSE firm is 6.5 years (Arikawa and Mehrotra, 2021). And yet some of the oldest surviving firms in the world are family firms, with lifespans measured in centuries. What family-specific assets imbue them with such resilience and longevity?

We would like to conclude by noting that family business is a young and thriving research area. The early research focused on comparing family and non-family firms across a number of metrics, including performance, growth, governance structures, and capital investments, among many others. As we have documented in this survey, many of these comparisons depend crucially on how family firms are defined. We hope future research focuses more on how family firms adjust to the unique Asian challenges. With respect to governance, we observe that more and more families either choose to or are forced to rely less on family members in day-to-day management. We believe that a better understanding of the process of professionalization and the role of non-family members in the governance of the Asian family is a fruitful research area.

Another fascinating research question is the ability of Asian family firms to contribute to the challenges of climate change and sustainability. That many family firms are value driven, loyal to the local environment and have inter-generational long-term horizons should make them more able to develop new business models that internalize these new challenges. On the other hand, a lack of checks and balances and a narrower focus on the family may lead family leaders to under-invest in climate mitigation if the costs are borne by kin, and the benefits are social. We would like to believe the former is more likely but trust empirical research to provide the answer.
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