Securities Analysts Journal®

December 2015. Vol. 53 No.12

CONTENTS

Feature Articles

This month's focus: **"Family Business"**

In response to the economic disruption after the Asian currency crisis in 1997, family businesses and corporate governance saw increasing attention from finance researchers. It is pointed out that external investors tend to be expropriated by the family, and that establishment of an effective investor protection system is needed as a countermeasure against the expropriation. However, there are many related issues, such as the counterexamples in China and measures against crony capitalism, etc. which warrant further study.

This study explores corporate financial performance (CFP), market liquidity, and corporate social performance (CSP) of family-run firms in Japan. If the shareholdings of the founding family are greater than 10% or the CEO is a member of the founding family, then we classify such firms as family firms. Based on this definition, we examined the cross relationship among family shareholdings, family CEOs, and firm characteristics. We found a general tendency for financial risk to diminish after business succession. Our results demonstrate the overall illiquidity and inferiority of family firms in terms of CSP.

However, we also found that the founder CEO enhances the CSP of the firm, though the succeeding CEO does not.

This paper summarizes family business characteristics in terms of accounting practices and accounting information from studying previous works on the subject. Then, using Japanese family business data, it investigates whether outside directors can reduce real earnings management in a family business. Results indicate that outside directors generally reduce real earnings management, but there is no difference in the effect between a family business and non-family business.

This paper examines the performance of Japanese firms that experienced out-of-court restructuring and the effect of management turnover in the 2000s. Some of the findings are as follows. First, out-of-court restructuring of troubled firms through M&A is generally more effective in improving profitability than either matching non-restructuring takeovers term and restructurings without using M&A (self-restructuring). Second, restructuring associated with new management is likely to lead to profitability improvement. Third, profitability improvement from restructuring is also associated with a rather tough pre-restructuring economic environment in Japan.