

Woidtke, T. (with Yin-Hua Yeh and Tsun-Siou Lee). (2001). Family Control and Corporate Governance: Evidence from Taiwan. *International Review of Finance*, 2 (1/2).

Abstract

A recent stream of literature shows that family control is central in most countries of the world, but little research exists regarding family control and corporate governance. This paper analyzes family control and corporate governance using a sample of Taiwanese firms. The results suggest that family control is even more prevalent than previously suggested and that a nonlinear relation exists between family control and relative firm performance. Family-controlled firms that have low levels of control have lower relative performance than both family-controlled firms with high levels of control and widely held firms. This is consistent with the conflict of interest between majority and minority shareholders being the greatest when the majority shareholder's level of control is high enough to influence a firm's decision-making process but ownership is low enough that the benefits of expropriation outweigh the costs. Furthermore, a positive valuation effect exists when controlling families hold less than 50% of a firm's board seats. Taken together, the results in this paper suggest that when family control is central, high levels of family ownership and low levels of family board representation are effective ways of mitigating the separation of cash flow rights and control and, thus, decreasing the conflict of interest between majority and minority shareholders.