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Emerging Market Research Institute

Thought leadership from Credit Suisse Research and the world's foremost experts

Asian Family Businesses Report 2011

Introduction

Family businesses continue to be a crucial source of private wealth creation in Asia and remain key players in the strategic industries, financial markets and commercial activities in the region. Over the past decade, we have seen dramatic changes in the global business environment and financial markets. Despite the dominance of Asian family businesses in the local economies, the topic is relatively under-researched due to a lack of official data. The aim of the first Credit Suisse Asian Family Businesses Report is to generate systematic primary data to analyze the key development trends, economic contribution and performance of publicly listed family businesses in ten Asian countries.

Unlike other previous studies which mainly rely on surveys or case studies to draw conclusions, this report analyzes key development trends and the economic contribution of 3,568 publicly listed family businesses with over USD 50 million market capitalization, and evaluates the financial performance of 1,279 publicly listed family businesses with over USD 500 million market capitalization across ten Asian markets. This initiative is reflective of Credit Suisse's strong commitment to, and expertise in, translating families' needs and concerns into financial objectives.

A key finding of our analysis is that Asian family businesses are mainly at an early stage of their life cycle, as 38% of the family businesses reviewed were only listed after 2000. Most Asian family businesses are first-generation firms, in contrast with many family businesses in Europe and the USA, which are already in their fourth or even fifth generation. Our research finds that Asian family businesses remain the backbone of the Asian economy, contributing to about half of the total number of listed companies, 32% of total market capitalization, and 57% and 32% of all hirings by listed companies in South Asia and North Asia, respectively.

Our analysis provides new empirical evidence to show that Asian family businesses have conformed to the global trend that firms with significant family influence have, on average, outperformed local equity market benchmarks. Family businesses in our study delivered outperformance on a total return basis against their local benchmarks in seven out of ten Asian markets during 2000–10. This underscores the traditional strengths of family businesses due to long-term commitment and more consistent investment decisions by their business owners compared with stock-market driven enterprises. Asian family businesses not only benefit from the long-term and more stable investment strategy of their business owners, their performance is further underpinned by Asian family values to view family businesses as an inheritance, which provide an important source of continuity in the transfer of business and wealth between generations.

This inaugural Credit Suisse Asian Family Businesses Report lays the foundation for what we aim to establish as a recurring thematic research initiative of the Credit Suisse Emerging Market Research Institute. As Asia has begun to feature prominently on the global economic stage, and as many Asian family businesses are starting to go through a period of generational transition, this systematic quantitative research into the publicly listed family businesses in ten Asian markets is particularly timely and relevant. In addition, this report continues the thought leadership and proprietary research undertaken by Credit Suisse over the past three years.

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Executive Summary

Highlights of key findings

Key trends of Asian family businesses

- A total of 38%, or 1,371 companies of the 3,568 family businesses in our study universe were only listed after 2000, reflective of the early stage of their life cycle.
- Total market capitalization of Asian family businesses has increased roughly six-fold at a compound annual growth rate (CAGR) of 21.3% between 2000 and 2010, indicating the entrepreneurial drive of early-stage family businesses to seek growth opportunities through fund-raising in the capital markets after the Asian financial crisis.
- Asian family businesses are concentrated in the traditional sectors, especially financials (bank and real estate), industrials, consumer discretionary and consumer staple sectors.
- Only South Korea, Taiwan and India witnessed a higher concentration of technology-related family businesses due to the technology-driven industrial structure in these countries.
- Family businesses have very limited exposure to the capital intensive energy, telecom services and utilities sectors in Asia due to their lack of access to gain control over the highly regulated and state-monopolized industries.

Economic importance of Asian family businesses

- Family businesses are the backbone of the Asian economies, accounting for half of the listed companies and 32% of total market capitalization of our study universe, and their total market capitalization is equal to 34% of total nominal Asian GDP.
- There is a higher concentration of family businesses in South Asia, which make up 65% of the total number of listed companies, compared with 37% in North Asia.
- Family businesses in South Asia account for 49% of total market capitalization of our study universe, versus 25% in North Asia.
- Market capitalization of family businesses is equal to 50% and 27% of nominal GDP in South Asia and North Asia, respectively.
- Family businesses account for 57% and 32% of all employees of listed companies in South Asia and North Asia, respectively.
- In South Asia, the share of family businesses' bond issuance has risen significantly from 20% of total corporate issuance in 2006 to 41% in 2011, while family businesses in North Asia have stagnated at a share of 20% during the same period due to the abundant liquidity at family businesses' disposal in North Asia.

Performance of Asian family businesses

- Asian family businesses delivered a cumulative total return of 261% between 2000 and 2010 at a CAGR of 13.7%.
- Family businesses outperformed their local benchmarks in seven out of the ten Asian markets, with the exception of only India, Indonesia and the Philippines during the study period.
- Family firms in China, Malaysia, Singapore and South Korea achieved the strongest relative outperformance against their local benchmarks in terms of CAGR in total return between 2000 and 2010.
- Sector positioning has played a role in driving outperformance of Asian family businesses along with other contributors of performance such as long-term investment horizons and more prudent investment strategy which are supportive for their positive and stable earnings performance.
- Asian family businesses delivered a higher average dividend yield spread of 22 basis points over the market average over the past decade.
- Asian family businesses share key fundamental strengths of family-influenced firms in general, including their long-term commitment to the businesses, consistency in decision making and better alignment of owner and management interests.

Key trends of Asian family businesses

Family businesses have been the key engine driving the remarkable development of the Asian economies since the Second World War, and a crucial source of private wealth creation in the region over the past few decades.

Asian family businesses not only remain key players in the strategic industries, financial markets and commercial activities in the region, but many Asian family businesses are becoming increasingly active and prominent players in the global markets. Notable examples include Samsung Electronics, Hon Hai, Hutchison Whampoa, just to name a few (Table 1). Since the acquisition of European steelmaker Arcelor by India's Mittal Steel in early 2006, the takeover has been heralded as a landmark case of Asian family capitalism taking on Europe's state-owned conglomerates (Financial Times, 3 July 2006, "Europe rediscovers family capitalism tradition").

Table 1

Top 20 companies in Credit Suisse Asian Family Business Basket by weighting as at end-2010

Source: Bloomberg, Credit Suisse

Rank	Company name	Weight	Country	% of local market cap
1	Samsung Electronics	4.2%	South Korea	10.3%
2	Reliance Industries	3.2%	India	4.4%
3	Hon Hai Precision Industry	1.7%	Taiwan	3.4%
4	Sun Hung Kai Properties	1.6%	Hong Kong	1.5%
5	Tata Consultancy Services	1.3%	India	3.2%
6	Cheung Kong	1.2%	Hong Kong	1.3%
7	Hutchison Whampoa	1.2%	Hong Kong	1.7%
8	Wilmar International	1.2%	Singapore	5.0%
9	Bharti Airtel	1.1%	India	2.5%
10	Formosa Petrochemical	1.0%	Taiwan	3.5%
11	Hyundai Motor	1.0%	South Korea	3.9%
12	Wipro	0.9%	India	1.4%
13	UOB	0.9%	Singapore	4.3%
14	OCBC	0.9%	Singapore	4.4%
15	Jardine Strategic	0.8%	Singapore	6.2%
16	Jardine Matheson	0.8%	Singapore	6.4%
17	MediaTek	0.8%	Taiwan	1.4%
18	Cathay Financial	0.8%	Taiwan	1.7%
19	Swire Pacific	0.7%	Hong Kong	0.9%
20	Hong Kong & China Gas	0.7%	Hong Kong	0.8%
Total		26.0%		

What is a family business?

Due to a lack of official data covering family ownership, most of the previous studies of Asian family businesses have relied on surveys or case studies to draw conclusions. The aim of our inaugural Credit Suisse Asian Family Businesses Report is to provide the first systematic and quantitative research to generate primary data of publicly listed family businesses in ten Asian countries for analysis of their key development trends, economic contribution and capital market performance.

In our study, a family business is defined as a family-controlled company if a family (or an individual of the family) holds at least 20% of the cash flow rights in the firm, either directly or indirectly, through holdings in private or public entities. Studies suggest that control of family businesses can be achieved with significantly less than an absolute majority stake. According to these studies, 20% of the voting shares is sufficient to ensure conclusive influence over the family business (Claessens, 1999; Faccio & Lang, 2002).

In this report, we analyze development trends and the economic contribution of 3,568 publicly listed family businesses with a market capitalization of over USD 50 million in their respective countries,

PHOTO: KEYSTONE/AP PHOTO/WONG MAYE-E

Table 2

Significant increase in publicly listed Asian family businesses after 2000

Note: Market capitalization as of 31/12/2010. Source: Bloomberg, Credit Suisse

Market	Number of all listed family businesses in study universe			Number of family businesses in study universe with market cap > USD 50 m		
	As at end-2010	As at end-2000	% listed after 2000	As at end-2000	% of end-2000 universe	% of end-2010 universe
China	275	107	61%	106	99%	39%
Singapore	267	135	49%	71	53%	27%
Hong Kong	692	354	49%	167	47%	24%
Indonesia	150	92	39%	36	39%	24%
Taiwan	405	256	37%	126	49%	31%
South Korea	585	367	37%	95	26%	16%
Thailand	183	118	36%	29	25%	16%
Malaysia	262	187	29%	86	46%	33%
India	663	507	24%	91	18%	14%
Philippines	86	74	14%	33	45%	38%
TOTAL	3,568	2,197	38%	840	38%	24%

and evaluate the financial performance of 1,279 publicly listed family businesses with a market capitalization of over USD 500 million across ten Asian markets. Due to data quality issues observed in companies with a market capitalization of below USD 500 million, we have adopted a higher market capitalization threshold of USD 500 million for the universe of stocks for the equity analysis, as compared with the universe for the macroeconomic analysis. The threshold of USD 500 million market capitalization captures 90% of the total market capitalization of the universe of stocks used in the macroeconomic analysis of this report.

Asian family businesses at early stage of the life cycle

A notable finding of our study is the relatively short equity market history of Asian family businesses compared with their peers in Europe and the USA. This is largely attributable to the much earlier stage of their life cycle than their Western counterparts, while the less-developed capital markets in the Asian region also account for the short equity market history of Asian family businesses. It is striking to find that a total of 38% or 1,371 companies of the 3,568 family businesses reviewed in our study were only listed after 2000. In Asia, many family businesses are first-generation firms, which trace their entrepreneurial origins to the period after the Second World War; in contrast with many family businesses in Europe and the USA, which are already in their fourth or even fifth generation. The early life cycle of Asian family businesses underpins a growth bias in our Asian family business universe compared to Europe or the USA.

Our study also finds that the total market capitalization of Asian family businesses with over USD 50 million market capitalization expanded at a compound annual growth rate of 21.3% between 2000 and 2010, mainly driven by a significant increase in publicly listed family businesses over the past decade and their decent share price performance. Notably, the total number of family businesses with over USD 50 million market capitalization increased sharply from 840 as at end-2000 to 3,568 companies as at end-2010 for the full study universe. This partly reflects the entrepreneurial drive of early-stage family businesses to seek growth opportunities through fundraising in the capital markets, and it also partly reflects the rapid development of the Asian capital market since the Asian financial crisis in 1997–98.

Studies have found that Western family businesses have entered a much more mature stage of their life cycle with well-recognized brands (such as Roche, Anheuser-Busch, BMW or LVMH), better governance mechanisms with greater involvement of external professional managers, more thorough management know-how in internationalization, longer experience of being listed and interaction with outside stakeholders.[1]

[1] Credit Suisse White Paper 01 – Family Businesses in Europe: Growth Trends and Challenges, published in February 2007, research conducted by INSEAD for Credit Suisse; Credit Suisse White Paper 02 – Family Business: Control, Governance and Performance, published in January 2008, research conducted by Corporate Governance at London School of Economics for Credit Suisse

[2] Credit Suisse White Paper 02 – Family Business: Control, Governance and Performance, published in January 2008, research conducted by Corporate Governance at London School of Economics for Credit Suisse (see page 7)

In contrast, Asian family businesses have a shorter history of public listing and interaction with minority shareholders, as 38% of the reviewed family businesses in our universe were listed over the past decade.

Sector concentration of family businesses

Confirming the findings of previous research, our analysis finds that Asian family businesses tend to be more prevalent in the traditional sectors, especially in the financials (banks and real estate), industrials, consumer discretionary and consumer staple sectors (Figure 1). Studies have also found that family control, as an organizational form, is best suited to more traditional industrial sectors with high fixed costs and operations which require a long-term investment horizon, and are less likely to be found in highly innovative and technology-intensive industries, as family-controlled management proves historically to be conservative in innovation and investment in high-risk new businesses.[2] Only South Korea, Taiwan and India witnessed a higher concentration of technology-related family businesses due to the technology-driven industrial structure of these economies.

Another notable feature of the sector positioning of Asian family businesses is their very limited exposure to the capital intensive energy, telecom services and utilities sectors. This is mainly due to the lack of access for Asian family businesses to these highly regulated and state monopolized industries. The more risk-averse investment strategy of family firms also accounts for their prudent attitude in considering investment opportunities in these capital intensive industries.

Figure 1

Sector weighting of Credit Suisse Asian Family Business Basket

Source: Bloomberg, Credit Suisse

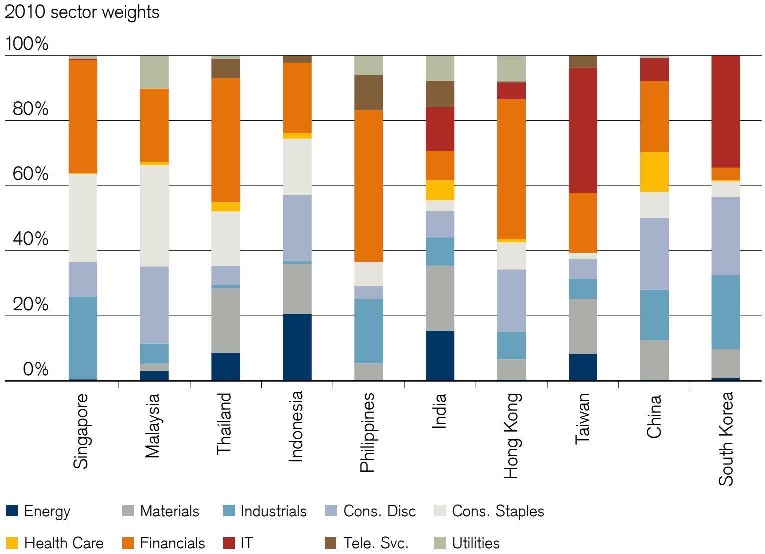


PHOTO: ISTOCKPHOTO.COM/DANGDUMRONG

Economic importance of Asian family businesses

The pattern of economic development differs substantially between individual countries in the Asian region and this is, not surprisingly, also reflected in the Asian business landscape and, specifically, in the role played by family businesses.

In countries like China, where there has been a high degree of government involvement in the mobilization of savings and industrial development, the role of family businesses is much less prominent than in countries like Indonesia and the Philippines, where it was the sheer grit and ingenuity of entrepreneurs which pooled family savings to build, first, simple businesses and ultimately prominent conglomerate "empires."

Such differentiation is not unique to Asia, of course, it has also occurred in Europe where state involvement in post Second World War industrial development differed very substantially between, say, France with its "national champions" and Germany with its strong family-driven "Mittelstand" (small and medium-sized enterprises). Differences in the rate of development of banking and then financial markets and their ability to intermediate savings may also have played a part. While family savings often suffice to launch businesses, further growth tends to require, first, bank finance. In following stages, access to well-developed capital markets is a great plus. Where banking and capital markets are less developed, or where government intervention in, and guidance of, credit is more pronounced, family businesses tend to play a less prominent role.

The goal of this chapter is to provide a broad overview of the macroeconomic contributions made by publicly listed family businesses, including their importance for key metrics, such as fixed asset investment, employment, tax revenue as well as funding and debt market development. The individual country pages provide more detail. It should be pointed out that, just as elsewhere, non-listed family businesses are likely to play a key role in all Asian economies, but disaggregated "bottom-up" data is not always available.

PHOTO: ISTOCKPHOTO.COM/NIKADA

Table 1

Family businesses as % of total listed companies with market capitalization above USD 50 m

Source: Bloomberg, Credit Suisse

SOUTH ASIA	
India	67%
Philippines	66%
Thailand	66%
Singapore	63%
Malaysia	62%
Indonesia	61%
NORTH ASIA	
Hong Kong	62%
South Korea	58%
Taiwan	35%
China	13%

Table 2

Asian family business market capitalization as % of total market capitalization

Source: Bloomberg, Credit Suisse

	FB market cap (USD m)	% of total market cap
Philippines	131,609	83.2%
Singapore	311,564	54.0%
South Korea	555,318	51.5%
Taiwan	453,552	49.3%
Indonesia	175,155	49.1%
Thailand	133,128	48.4%
India	762,279	46.8%
Malaysia	158,428	39.0%
Hong Kong	652,178	26.2%
China	416,524	11.1%
TOTAL	3,749,733	32.2%

Regional concentration

Our study finds that family businesses are the backbone of the Asian economies, as they represent about half of all listed companies in our Asian family business universe of 3,568 companies with over USD 50 million market capitalization (Table 1). The first notable fact is that the concentration of family businesses is higher in South Asia than in North Asia in terms of total number of companies. Family businesses represent 65% of listed companies in the South Asia region, compared to 37% in the North Asia region. This differentiation is strongly influenced by the relative importance of family businesses in the two “giants” China and India. Of all listed companies above USD 50 million in China, family businesses only occupy a 13% share, while in India the figure is 67%. This difference is also reflected in their relative economic importance both at the regional and country level.

For the whole of Asia, despite being greater in absolute numbers than non-family businesses (NFB), family businesses only represent 32.2% of total market capitalization of companies in our universe (Table 2). As a percentage of total nominal Asian GDP, this is 34.1%. Family businesses account for 49.2% of total market capitalization of our study universe for South Asia. This market capitalization represents 49.6% of nominal South Asian GDP (Figure 1). In North Asia, the figures are 25.2% and 27.3%, respectively. At the country level, family businesses represent 83% of total market capitalization in the Philippines, the highest in Asia, while the corresponding ratio is the lowest for China at 11%. The low figures for China are not at all surprising because China is still in the process of moving from a centrally planned economy to a market-oriented economy. Conversely, for India and the Philippines, a different attitude to state intervention and the weak fiscal position of the government mean that family businesses play a greater role in the economy.

While the concentration of family businesses is higher in South Asia than in North Asia in terms of number of companies, our analysis finds that family businesses in North Asia contribute to a larger weighting than their counterparts in South Asia in our Credit Suisse Asian Family Business Basket, which cover 1,279 listed family businesses with a market capitalization of over USD 500 million. Family businesses in Hong Kong (25%), South Korea (13%), Taiwan (12%) and China (9%) account for 59% of the weighting in our Asian Family Business Basket (Figure 2), mainly due to the concentration of large-cap family businesses in the North Asian markets, including technology giants in Korea (Samsung Electronics) and Taiwan (Hon Hai) and blue chip property developers and conglomerate giants in Hong Kong (Sun Hung Kai Properties, Cheung Kong, Hutchison Whampoa). Within South Asia, family businesses in India command the largest weighting at 22% in our Credit Suisse Asian Family Business Basket. Singapore follows India as the second strongest base for family business development, as family firms in the country account for 9% of our Asian Family Business Basket weighting, well above the 2–3% contributed by their counterparts in the other four Southeast Asian markets.

Role in the generation of employment and fixed investment

As an employer, family businesses account for 57% of all hirings by listed companies in South Asia. In North Asia, the equivalent ratio is 32% (Figure 3). However, as a percentage of the total labor force in Asia, both North and South Asian family businesses contribute only 1.0% and 0.7% respectively. These low ratios are a reflection of the fact that the bulk of employment in Asia is accounted for by the public sector, unlisted firms and self-employment. At the country level, family businesses once again dominate the total corporate hirings by Filipino listed companies at 88%, while the lowest in Asia is China at only 10%. Interestingly for the Philippines, even at 88%, the absolute numbers are small at only 316,000; as a percentage of total corporate hirings by listed entities in Asia this is a small 0.9%. As an aside, these figures also shed some light on why the Philippine economy is so highly dependent on the income repatriated by overseas foreign workers – while the Philippines is the world's twelfth most populous country at over 92 million, approximately 11 million Filipinos work and live overseas.

Across the whole of Asia and at a sectoral level, hirings by family businesses are heavily concentrated in the Consumer Discretionary sector. Asian family businesses account for 64.6% of hirings by listed companies in that sector. This high concentration suggests that the barriers to entry in terms of required capital investment are fairly low in the Consumer Discretionary sector, making it more easily accessible to family businesses. This is followed by the Financial sector where the percentage of total hirings by listed family business entities accounted for 32%. At third place is the Industrial sector at 30.7%. Conversely, for the whole of Asia, hirings by Asian listed non-family businesses are concentrated in the Financial and Industrial sectors, which are also the dominant sectors within the overall markets.

In terms of fixed asset investment, family businesses accounted for 59.6% of the 2009 total spending by listed companies in South Asia. For North Asia, non-family businesses dominate investments with family businesses accounting for only 18.4%. In South Asia, family businesses' share of investments was the highest in the Philippines, followed by Singapore and India at 81%, 75% and 60% respectively. In the case of Singapore, this high share was largely due to the construction of two integrated resorts, which was spearheaded by two family businesses, Genting from Malaysia and Las Vegas Sands from the USA. Interestingly, these two companies do not have their primary listing in Singapore but nevertheless impacted the local economy significantly – the reverse can happen as well.

It should be noted that the contribution of listed family businesses to the economy is more difficult to determine in the case of financial centers like Hong Kong and Singapore. Many family businesses are listed in these two markets but do not make a direct contribution to those particular economies because they are domiciled elsewhere. Furthermore, as company reports do not provide granular data on economic activity by country, it was impossible to do an attribution analysis. Hong Kong is interesting in that while family businesses represent only 26% of total market capitalization, the combined market value of these family businesses is 291% the size of the Hong Kong economy.

Figure 1

Family business market capitalization as % of market total and nominal GDP

Source: Bloomberg, Credit Suisse

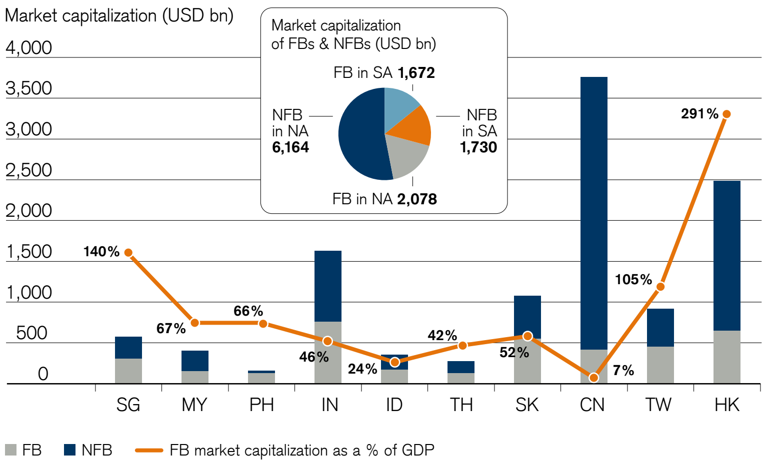


Figure 2

Country weighting of Credit Suisse Asian Family Business Basket

Source: Bloomberg, Credit Suisse

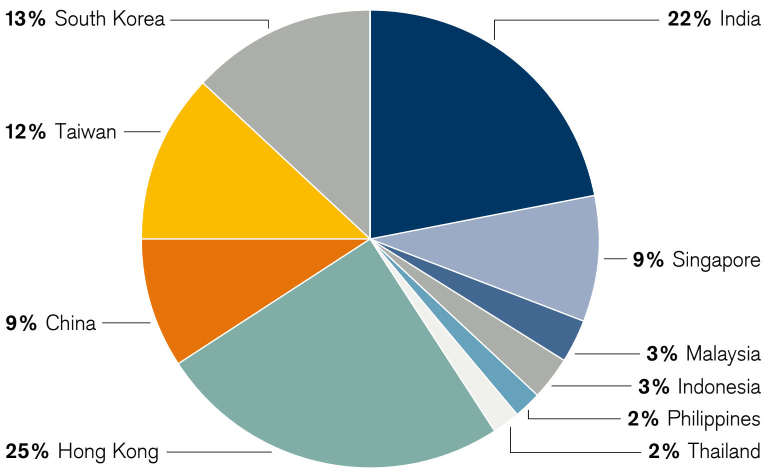


Figure 3

Corporate hirings by family businesses and non-family businesses (thousands)

Source: Bloomberg, Credit Suisse

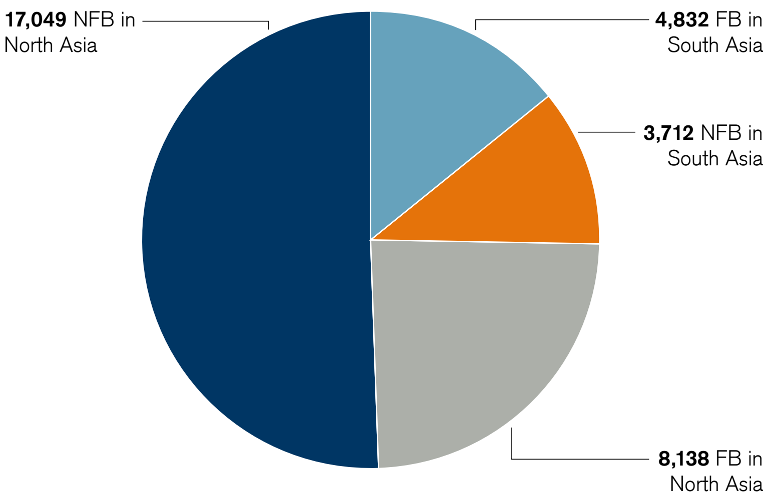


Figure 4

Family businesses account for a quarter of all corporate bond issuances in Asia

Source: Bloomberg, Credit Suisse

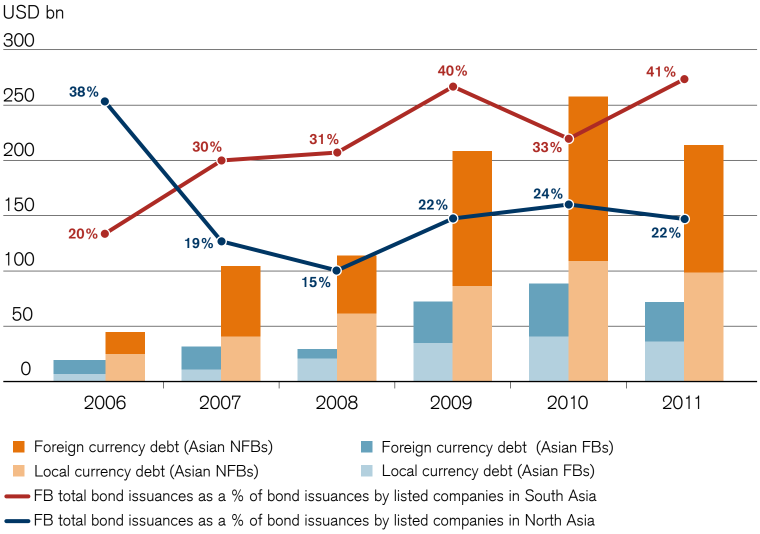
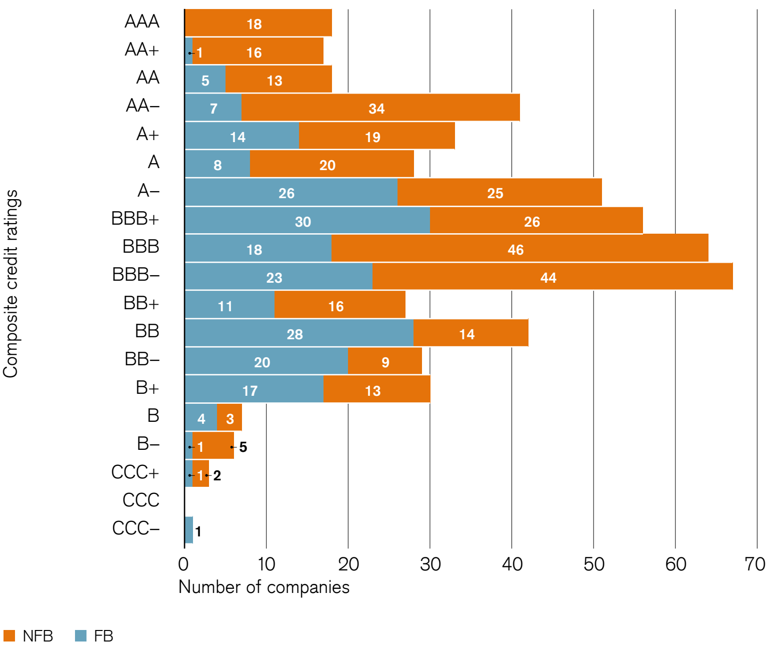


Figure 5

Credit ratings of Asian family businesses and non-family businesses with bond issuances

Source: Various rating agencies, Reuters, Credit Suisse



Note: Credit ratings are provided by international and local rating agencies.

Similar to Hong Kong but much smaller in scale is Singapore where the combined market value of family businesses is 140% of nominal GDP. These high figures come about because it is highly attractive for family businesses to list in the large and liquid Hong Kong and Singapore financial centers. However, aside from Hong Kong and Singapore, most of the Asian family businesses are listed in their home markets and the link between their business activities and the economy is much stronger and more direct.

Role in public finance

Not surprisingly, the weight of family businesses in economic activity is also reflected in their contributions to public finances. Thus, tax contributions by family businesses differ significantly between North and South Asia. Taxes paid by family businesses represent 43.9% of corporate tax revenues contributed by companies in South Asia. In North Asia the equivalent figure is 14.6%. As a percentage of total government tax revenues, South Asian family businesses contribute 14.7%, while North Asian family businesses contribute only 3%. As a percentage of GDP, this is even smaller at 1.5% and 0.5% for South Asian and North Asian family businesses respectively.

For the whole of Asia, family businesses contribute 23.8% of total taxes paid by companies in our universe and 5.5% of total tax revenues of Asian governments. As a share of nominal Asian GDP this is 0.8%, quite similar to the share of employment discussed above. Filipino family businesses are the best taxpayers, contributing 83% of corporate taxes and 23.4% of total government tax revenue. As a share of the Philippine economy, this is 2.8%. Conversely, Chinese family businesses are the most insignificant taxpayers, contributing only 7.7% of total corporate taxes and 1.5% of total government tax revenue; as a percentage of China's USD 6 trillion economy, this is a tiny 0.3%.

Funding behavior and role in debt market development

Finally, we analyze the way in which family businesses fund themselves. As noted above, the rate of development of the financial system is likely to have a significant impact on the ability of family businesses to grow, and thus their role in the economy. Conversely, family businesses may also contribute to financial development by offering opportunities to intermediaries and final investors.

A first fact to note is that family and non-family businesses differ quite significantly as regards their funding behavior. Across the whole of Asia, family businesses seem to be generally less able, or willing, to issue bonds than their non-family counterparts; the former rely more on bank lending to finance their business activities (Figure 4). The only exceptions to this rule are Hong Kong, the

PHOTO: KEYSTONE/AP PHOTO/LEE JIN-MAN

Philippines, Singapore and Taiwan. In Hong Kong, while many family businesses are significant bond issuers, their relative share in the debt market is smaller due to a greater number of non-family businesses listed there, especially the Chinese state-owned enterprises. In the Philippines, family businesses issue more bonds than non-family entities. In Singapore and Taiwan, the rate of bond issuance by family and non-family businesses is broadly similar.

In Hong Kong, many of the household-name families have issued local currency and foreign currency bonds. However, lately we have seen some top-tier property developers controlled by certain family businesses issue USD-denominated bonds. In China, family businesses issue almost no bonds at all and again this is unsurprising given their small share among listed Chinese companies. While non-family businesses are more active than family businesses in bond issuances for the whole of Asia at the present moment, for South Asia specifically, the share of family business bond issuances has been rising significantly, from 20% of total corporate issuances in 2006 to 41% in 2011. South Asian family businesses are catching up with non-family ones when it comes to bond issuances, while family businesses in North Asia have stagnated at a share of 20% of total corporate issuances over the last five years due to abundant liquidity at North Asian family businesses' disposal.

Irrespective of family or non-family business, most bond issuances in Asia are in local currency, except for Hong Kong, Singapore and South Korea where there is a higher share of bond issuance in foreign currency. This can be explained by relatively more developed debt capital markets in these economies and because Hong Kong and Singapore are financial centers and hence, listed companies have better access to foreign currency funding.

In terms of credit ratings, family and non-family businesses have the same median corporate rating of BBB in South Asia (Figure 5). However, in North Asia, the disparity between the credit ratings of family and non-family businesses is much greater. Some family businesses in North Asia have received high single A ratings and the median corporate rating of family businesses in North Asia is BBB– while non-family businesses enjoy a median corporate rating of A–. Overall for the whole of Asia, the disparity is much narrower with the median corporate rating for family businesses at BBB while non-family businesses have a median corporate rating of BBB+.

In the country pages later in this report, the economic contributions of family and non-family businesses are illustrated in greater detail.

Performance of Asian family businesses

Studies in the USA and Europe have provided evidence indicating that firms with significant family influence have on average outperformed firms with alternative ownership structures in public markets.

PHOTO: ISTOCKPHOTO.COM/TOMML

The findings of previous empirical studies[1] in the developed markets suggest the traditional strengths of family businesses, i.e. the long-term commitment and more consistent investment decisions of their business owners compared with stock-market driven enterprises, are supportive factors of their capital market performance. Our analysis of 1,279 publicly listed family businesses with a market capitalization of over USD 500 million in ten Asian markets shows that family businesses in seven out of the ten Asian markets outperformed their local benchmarks during 2000–10, in line with the global trend of family firms outperforming the broader markets.

Outperformance in seven Asian markets

Despite two severe bear markets amid the internet bubble crisis in 2002–03 and the global financial crisis in 2008–09, Asian family businesses delivered a cumulative total return of 261% during 2000–10, marginally outperforming the 236% figure for the MSCI Asia ex-Japan Index in the same period by 7.4%. This translates into a 13.7% compound annual growth rate (CAGR) for the Asian family businesses, versus the 12.9% CAGR

[1] Credit Suisse White Paper 02 – Family Business: Control, Governance and Performance, published in January 2008, research conducted by Corporate Governance at London School of Economics for Credit Suisse

Figure 1

CS Asian Family Business Basket versus MSCI Asia ex-Japan total return

Source: Bloomberg, Credit Suisse

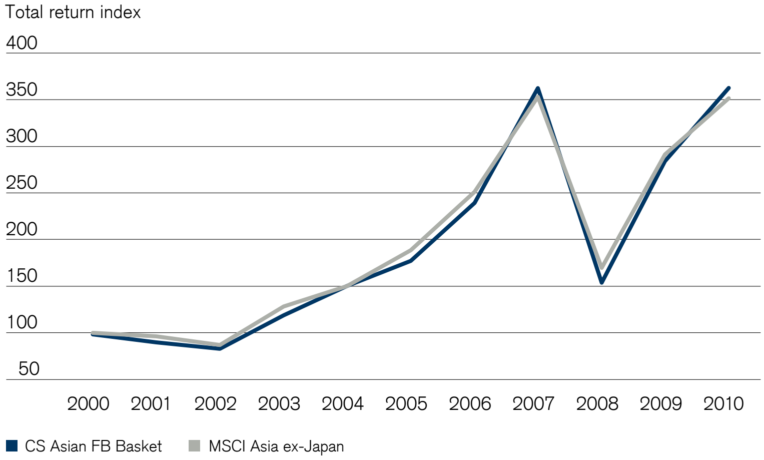


Figure 2

Sector weighting adjusted total return of CS Asian Family Business Basket versus MSCI Asia ex-Japan

Source: Bloomberg, Credit Suisse

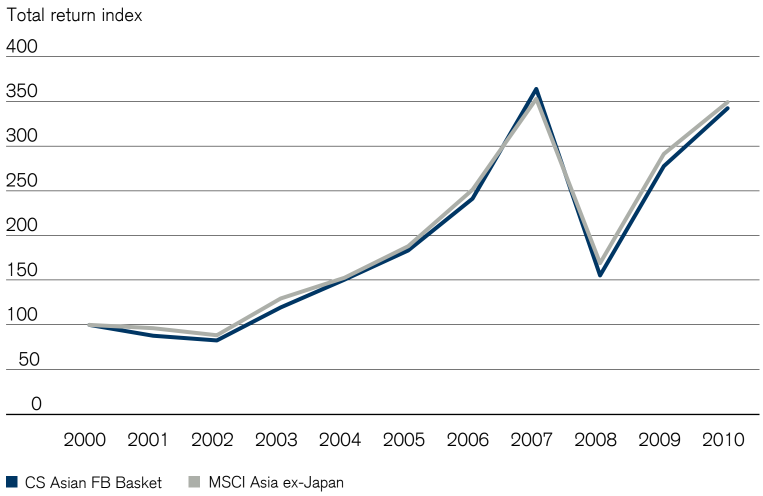
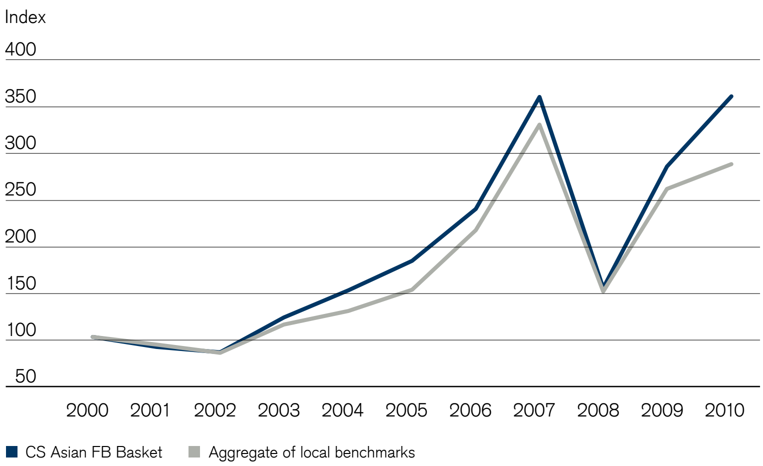


Figure 3

CS Asian Family Business Basket versus aggregate of local benchmarks

Source: Bloomberg, Credit Suisse



for the MSCI Asia ex-Japan (Figure 1). Taking into account the sector concentration of Asian family businesses in the traditional sectors of financials, industrials, consumer discretionary and consumer staples, and their limited exposure to the capital intensive energy, telecom services and utilities sectors, we have adjusted the sector exposure of our sample companies back to the sector exposure of the MSCI Asia ex-Japan and find that the sector-neutral total return of our Asian Family Business Basket is almost identical to that of the MSCI Asia ex-Japan Index (Figure 2).

The aggregate regional data however mask considerable variation in family business performance across the ten Asian markets and the MSCI Asia ex-Japan Index is not totally comparable to our Asian Family Business Basket. This is due to the fact that the MSCI Asia ex-Japan Index is free-floated market capitalization weighted and thus is heavily skewed towards the Hong Kong, South Korea and Taiwan markets, which account for 71.5% of its index weighting. The index also excludes the China A share market, which has witnessed a rapid development of Chinese family businesses over the past decade.

To address the limitations of the MSCI Asia ex-Japan Index as a comparable benchmark for our Asian Family Business Basket, we have compared the total return of Asian family businesses against the aggregate market-cap-weighted average total return of the local benchmarks of the ten Asian markets (Figure 3). The total return of Asian family businesses substantially outperformed the aggregate total return of the respective ten local benchmarks by 25% during 2000–10. The 13.7% CAGR in family business total return outperformed the 11.2% CAGR in the market-cap-weighted average total return of the ten Asian markets.

We further analyzed Asian family businesses' relative performance contribution by sectors in all the ten markets and find that sector positioning has played a role in driving performance along with other contributors of family business outperformance, such as their long-term investment horizon, strong management commitment and more prudent investment strategy. It is also interesting to note that while Asian family businesses have limited exposure to the highly volatile energy sector, they also have very limited exposure to the low-beta telecom services and utilities sectors. As a result, the impact of sector concentration of Asian family businesses in the traditional sectors has been neutralized, as reflected by the 7.0% volatility of our Asian Family Business Basket and its Sharpe ratio of 0.46 during 2000–10, as compared with the 6.9% volatility and 0.45 Sharpe ratio of the MSCI Asia ex-Japan.

Winners and losers

At the country level, our study finds that Asian family businesses generated a higher total return CAGR than their local benchmarks over the past decade, only with the exception of India, Indonesia and the Philippines (Figure 4). Family firms in China, Malaysia, Singapore and South Korea achieved the strongest relative outperformance in terms of total return and total return CAGR against the local benchmarks, mainly driven by their above-market-average earnings growth and profitability with their sector positioning also playing a part in driving performance. There is a high correlation between market performance of family businesses and their growth in earnings per share and return on equity (ROE) – which are prime indicators of family businesses' ability to create shareholder value and the main valuation drivers. Figure 5 shows that Asian family firms delivered superior ROE versus the regional average throughout 2001–10, except during the global financial crisis in 2008. Above-benchmark profitability offers a strong fundamental driver to support the capital market performance of Asian family businesses.

Among the ten markets researched in our study, Chinese family firms show the most significant outperformance in terms of aggregate total return, having outperformed the Shanghai Composite Index by 92% in 2000–10, translating into an 11.5% total return CAGR versus the 4.5% CAGR of the local benchmark. Family businesses in Malaysia are ranked second in the region after China, outperforming the Kuala Lumpur Composite Index by 75% in 2000–10, representing an 18.6% total return CAGR versus the 12.2% CAGR of the local market.

Further strong performers in the region are Singapore and South Korea, where family businesses outperformed their local benchmarks in aggregate total return terms by 68% in 2000–10. Family businesses in Singapore achieved a 14.7% total return CAGR, outperforming the 8.9% CAGR of the Strait Times Index. South Korean family businesses generated a 24.8% total return CAGR during the period, which was well above the 18.5% CAGR of the KOSPI.

We highlight that family firms in these four top-performing markets recorded earnings growth that was well above the market average (Figure 6). ROE for these firms was also above the benchmark levels during the observed period. Family businesses in Malaysia, Singapore and South Korea experienced less earnings volatility than the broader markets during the observed period, indicating the relative resilience of family business performance during periods of market turbulence.

In contrast, family businesses in India, Indonesia and the Philippines underperformed their local benchmarks mainly due to their below-market-average earnings performance. Earnings growth of family firms in Indonesia and the Philippines lagged the broader markets significantly, while family businesses in India underperformed the local benchmark in terms of both earnings CAGR and ROE.

Figure 4

Family businesses deliver higher total return CAGR vs local benchmarks

Source: Bloomberg, Credit Suisse

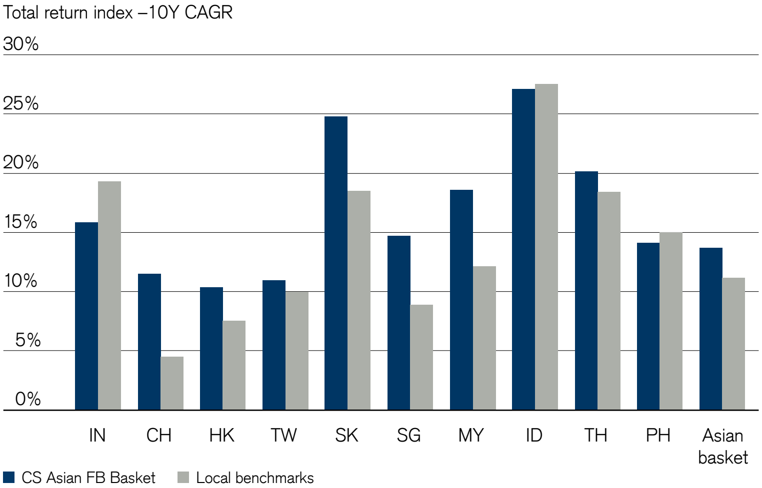


Figure 5

Asian family businesses deliver above market average ROE

Source: Bloomberg, Credit Suisse

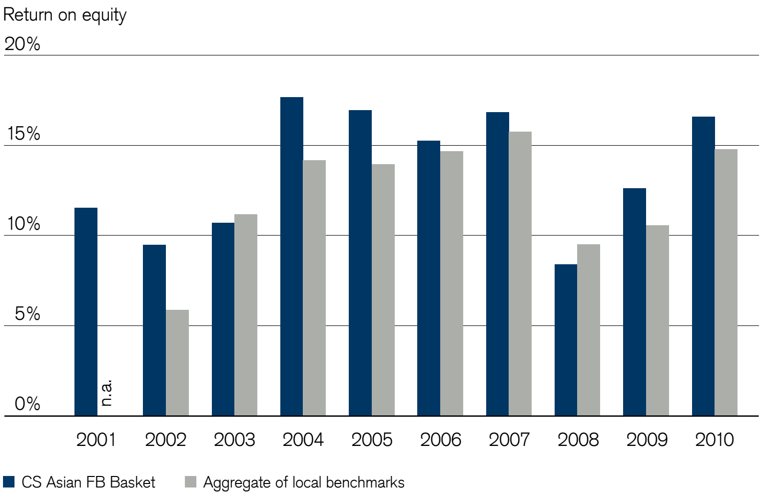
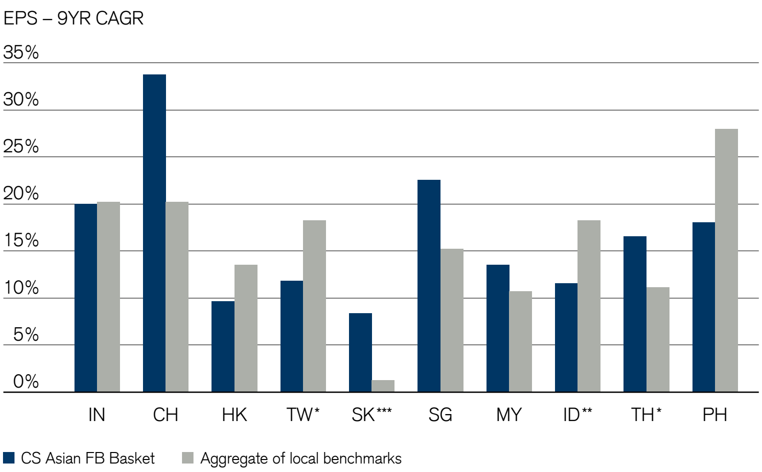


Figure 6

EPS growth of Asian family businesses by markets

Source: Bloomberg, Credit Suisse



*Indexed to 2002 **Indexed to 2003 ***Indexed to 2005

PHOTO: ISTOCKPHOTO.COM/SAMXMEG

Strengths of Asian family businesses

Sharing the common characteristics of their western peers, owners of Asian family businesses typically act as committed stakeholders with long-term investment horizons, rather than a short-term focus on boosting current earnings. This long-term perspective means that Asian family business owners do not head for the exit during times of market turbulence. Their long-term commitment is exemplified by their frequent share buyback activities during market downturns.

In our Credit Suisse White Paper 01, "Family Businesses in Europe: Growth Trends and Challenges", published in February 2007, we highlighted the following strengths of family businesses in general and we believe Asian family businesses share many of these traditional strengths:

- Long-term commitment of owners.
- Superior labor relations compared to more stock-market-driven enterprises.
- Visible and identifiable ownership, in contrast to ownership by numerous institutional investors.
- A track record of standing by their companies during hard times.
- Trademark names that continue to open doors in the business community.
- Consistency in decision-making and business practice, thereby lowering the business risks for external providers of capital.
- Better alignment of owner and management interests.
- Promotion of innovation and entrepreneurship in a politically unstable setting.

In our view, family ownership provides firms with the crucial stability and continuity in business ownership and management structure to implement long-term investment strategies that maximize long-term firm value, placing far less emphasis on short-term results. Focusing too much on the short term can discourage strategic investment in research and development, as well as brand building, human capital development and other vital intangible investments.

Asian family values of inheritance and business strategy

Asian family businesses not only benefit from the long-term commitment and stable investment strategy of their business owners, their performance is further underpinned by Asian family values, whereby family businesses are passed on to heirs. Traditional Asian values are manifest in family bonding, continuity and succession of family businesses, together with an emphasis on social responsibility and diligence, reflecting traditional values of humanism and altruism.

Motivated by the traditional Asian values to preserve the inheritance of the firms from one generation to the next, Asian families have a strong incen-

tive to avoid high-risk and value-destructive diversifying acquisitions and support more generous dividend payout policies. Throughout the last decade, Asian family businesses delivered a higher average dividend yield than the broader market, except in 2002 during the internet bubble crisis. Asian family firms offered an average dividend yield spread of 22 basis points over the market average during the past decade (Figure 7).

Outperformance of the Credit Suisse Family Index since 2007

Our findings that Asian family businesses have outperformed local benchmarks in seven out of ten Asian markets are in line with our previous research on family businesses in Europe and the USA (Credit Suisse White Paper 01, 2007; Credit Suisse White Paper 02, 2008) and empirical evidence in the markets. The Credit Suisse Family Index, which tracks 40 stocks with at least a 10% family stake and market capitalization above USD 1 billion in the USA and Europe, has consistently outperformed the MSCI World Index since the index was launched on 29 January 2007 (Figure 8). As of 23 September 2011, the Credit Suisse Family Index has outperformed the MSCI World Index by 12.6% since its launch in 2007.

In the following country pages, the financial performance of family businesses in the ten Asian markets is evaluated in greater detail.

Figure 7

Dividend yields of Asian family businesses exceed regional average

Source: Bloomberg, Credit Suisse

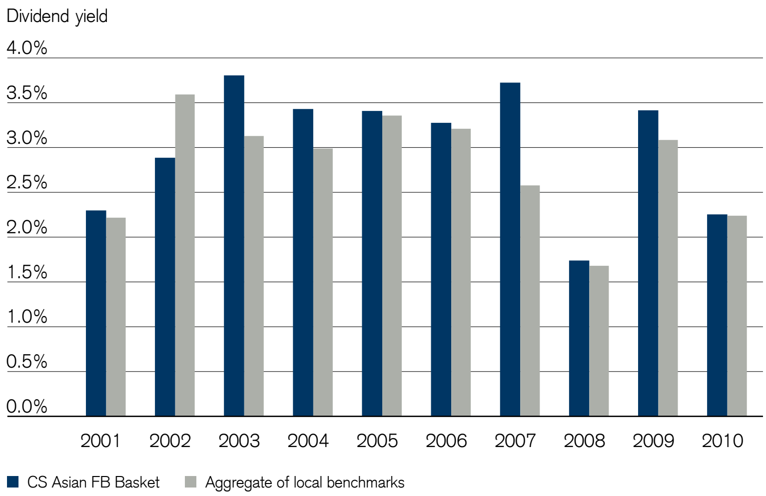
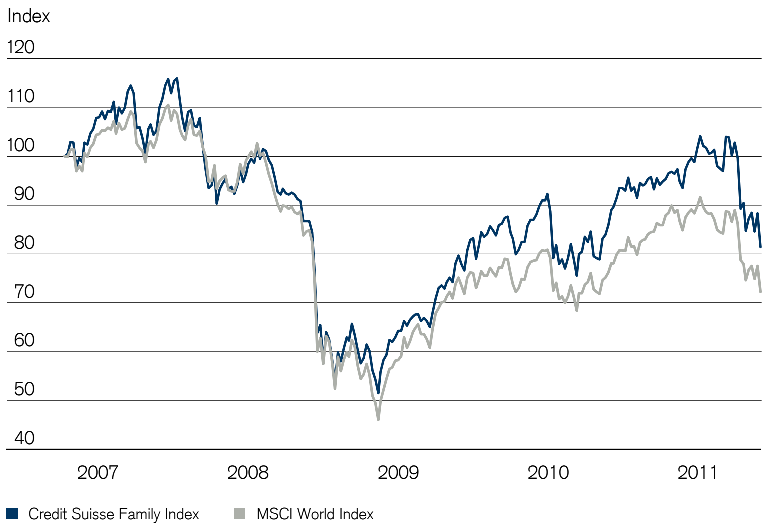


Figure 8

CS Family Index has outperformed MSCI World since 2007

Source: Bloomberg, Credit Suisse



Asia at a glance

Together, Asia has close to half the World's population. With a combined GDP of USD 11 trillion and growing at more than 7% each year, Asia is the most economically vibrant region in the World. Family businesses are at the heart of Asia, representing half of all listed companies with a market capitalization equal to a third of Asian GDP.

CHINA 1

Population (m)	1,340
GDP (USD bn)	5,978
GDP/capita (USD)	4,462
GDP growth 2011–2015	8.0%
Index	Shanghai Composite
Market cap (USD bn)	2,454
CAGR 2000–2010	3.1%
P/E trailing 2010	16.0
FB as a % of total earnings	5.7%
FB market cap CAGR 2000–2010	23.3%
FB market cap (USD bn)	260
FB P/E trailing 2010	31.8

INDIA 2

Population (m)	1,170
GDP (USD bn)	1,650
GDP/capita (USD)	1,410
GDP growth 2011–2015	7.5%
Index	Sensex
Market cap (USD bn)	537
CAGR 2000–2010	17.8%
P/E trailing 2010	18.7
FB as a % of total earnings	41.1%
FB market cap CAGR 2000–2010	30.3%
FB market cap (USD bn)	511
FB P/E trailing 2010	17.2

SOUTH KOREA 3

Population (m)	49
GDP (USD bn)	1,015
GDP/capita (USD)	20,775
GDP growth 2011–2015	4.2%
Index	KOSPI
Market cap (USD bn)	828
CAGR 2000–2010	14.9%
P/E trailing 2010	16.3
FB as a % of total earnings	54.8%
FB market cap CAGR 2000–2010	29.4%
FB market cap (USD bn)	457
FB P/E trailing 2010	10.6

HONG KONG 4

Population (m)	7
GDP (USD bn)	224
GDP/capita (USD)	31,607
GDP growth 2011–2015	4.5%
Index	Hang Seng
Market cap (USD bn)	1,253
CAGR 2000–2010	4.3%
P/E trailing 2010	12.4
FB as a % of total earnings	27.2%
FB market cap CAGR 2000–2010	14.2%
FB market cap (USD bn)	669
FB P/E trailing 2010	11.1

TAIWAN 5

Population (m)	23
GDP (USD bn)	432
GDP/capita (USD)	18,659
GDP growth 2011–2015	5.1%
Index	TAIEX
Market cap (USD bn)	621
CAGR 2000–2010	6.6%
P/E trailing 2010	16.0
FB as a % of total earnings	40.5%
FB market cap CAGR 2000–2010	20.0%
FB market cap (USD bn)	338
FB P/E trailing 2010	17.3

THAILAND 6

Population (m)	64
GDP (USD bn)	319
GDP/capita (USD)	5,000
GDP growth 2011–2015	4.6%
Index	SET
Market cap (USD bn)	237
CAGR 2000–2010	14.4%
P/E trailing 2010	15.2
FB as a % of total earnings	36.5%
FB market cap CAGR 2000–2010	31.4%
FB market cap (USD bn)	114
FB P/E trailing 2010	14.1

PHILIPPINES 7

Population (m)	94
GDP (USD bn)	200
GDP/capita (USD)	2,127
GDP growth 2011–2015	5.0%
Index	PCOMP
Market cap (USD bn)	94
CAGR 2000–2010	10.9%
P/E trailing 2010	13.7
FB as a % of total earnings	65.9%
FB market cap CAGR 2000–2010	23.0%
FB market cap (USD bn)	103
FB P/E trailing 2010	15.2

MALAYSIA 8

Population (m)	28
GDP (USD bn)	238
GDP/capita (USD)	8,416
GDP growth 2011–2015	5.2%
Index	KLCI
Market cap (USD bn)	236
CAGR 2000–2010	8.4%
P/E trailing 2010	17.4
FB as a % of total earnings	31.6%
FB market cap CAGR 2000–2010	20.5%
FB market cap (USD bn)	115
FB P/E trailing 2010	15.3

SINGAPORE 9

Population (m)	5
GDP (USD bn)	223
GDP/capita (USD)	43,968
GDP growth 2011–2015	4.4%
Index	FSSTI
Market cap (USD bn)	333
CAGR 2000–2010	4.9%
P/E trailing 2010	10.9
FB as a % of total earnings	43.2%
FB market cap CAGR 2000–2010	20.9%
FB market cap (USD bn)	240
FB P/E trailing 2010	9.6

INDONESIA 10

Population (m)	238
GDP (USD bn)	707
GDP/capita (USD)	2,977
GDP growth 2011–2015	6.7%
Index	JCI
Market cap (USD bn)	329
CAGR 2000–2010	24.4%
P/E trailing 2010	21.0
FB as a % of total earnings	36.0%
FB market cap CAGR 2000–2010	34.3%
FB market cap (USD bn)	193
FB P/E trailing 2010	22.0

Source: Bloomberg, Credit Suisse; Source for GDP growth estimates: IMF, Credit Suisse

China

NORTH ASIA

- Family business stocks have grown twofold, sharply outperforming the benchmark.
- China has the least number of family businesses with an insignificant economic contribution compared to the rest of Asia.

Chinese family businesses have significantly outperformed the local benchmark over the last decade, mainly driven by earnings growth that was well above the market average and valuation compression of state-owned enterprises due to the increased supply of newly tradable state-owned shares after 2007. They have delivered a superior 11.5% total return CAGR since 2000, outperforming the 4.5% generated by the Shanghai Composite Index (SHCOMP, Figure 1). Chinese family businesses have reversed their underperformance against the benchmark since the China A share markets peaked in 2007 and started the protracted correction driven by the disposal of state-owned shares in the secondary market.

Outperformance of Chinese family businesses should be attributable to their stronger 33.8% earnings CAGR during 2001–10, versus the SHCOMP's 20.1%. The ROE of family businesses improved substantially to 16.3% in 2010 from 3.4% in 2000, up a stellar 3.8 times, while market ROE doubled in the same period (Figure 2). Another important driver is the valuation compression of state-owned enterprises, especially financial stocks, as a result of the significant increase in supply of newly tradable state-owned shares in the secondary market since 2007. Since the last bull market peak in 2007, the benchmark P/E multiple contracted sharply by 62.4% to 16.0x in 2010 compared to only 38.3% for family businesses.

The strong earnings growth was driven by a falling payout ratio, which was cut by 80% in the last decade for family business investors. The payout ratio for the SHCOMP has remained largely stable. Supported by strong earnings growth and robust operating cash flow generation, the net debt to equity ratio of family businesses declined substantially to 16.5% in 2010 from 49.0% in 2001 (Figure 3).

Figure 1 · **Significant outperformance of Chinese family businesses versus the market**

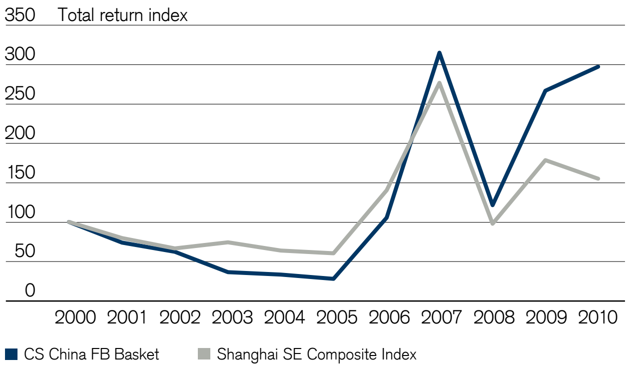


Figure 2 · **Profitability increased almost fourfold in the last decade**

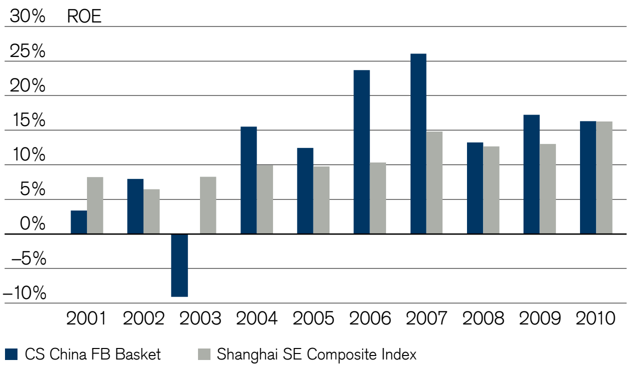
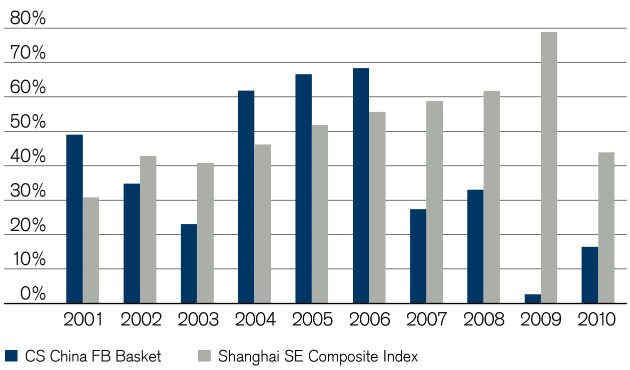


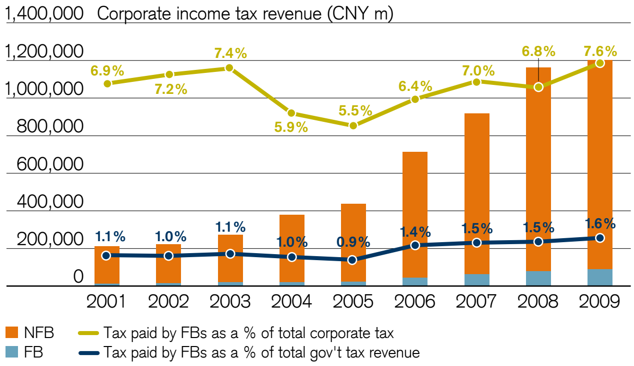
Figure 3 · **Net debt to equity: Leverage decreased substantially**



All sources: Bloomberg, Credit Suisse

PHOTO: ISTOCKPHOTO.COM/NIKADA

Figure 4 · Meager corporate tax contributions by family businesses



In China, the State dominates larger industries while the private sector plays a role in small and medium size enterprises. Hence, it is not surprising that family businesses have the least economic impact in Asia, representing only 13% of listed companies in China. Total capitalization of family businesses is just 11% of the market and 7% of nominal GDP.

While corporate income tax revenues have risen rapidly in the past decade, only a meager 5%–8% is attributable to family businesses. Their share of total tax revenues has also hovered around 1%–2%, the lowest proportion in Asia (Figure 4). On employment, family businesses' share of corporate hirings is the lowest in Asia at 9.6%, with most jobs created in the consumer discretionary sector (Figure 5). Total fixed asset investments have soared since 2001, mirroring China's rapid development (Figure 6) but family businesses' contributions are negligible.

The government and state-owned banks issue most of the bonds in the domestic bond market. Corporate issuances have been growing but remain small as firms rely mostly on bank financing. Family businesses account for a paltry 1%–3% of corporate issuances. Bonds are issued mainly in Chinese yuan, Japanese yen and US dollars (Figure 7). In 2011, China's sovereign debt rating is AA–. Median credit ratings of family businesses at AA and non-family businesses at AA– (Figure 8). In contrast to China's sovereign debt rating, corporate ratings are almost entirely provided by local rating agencies.

Figure 5 · Almost all corporate hirings are by non-family businesses

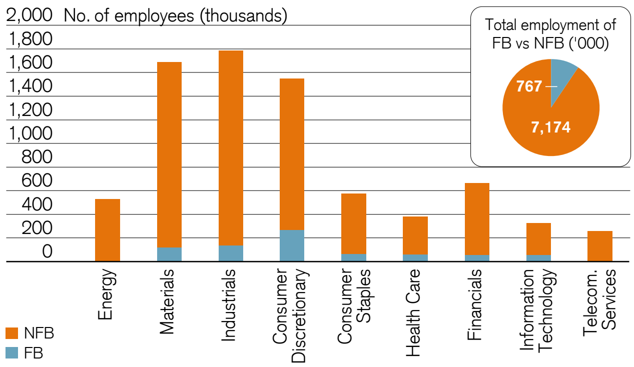


Figure 6 · Fixed asset investments: Family business contribution negligible

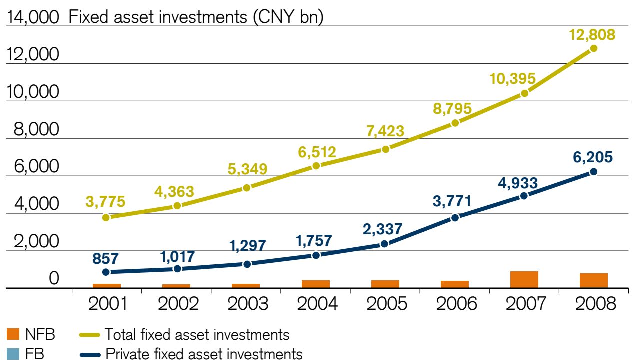


Figure 8 · Few family businesses are rated. Almost all ratings are provided by local agencies

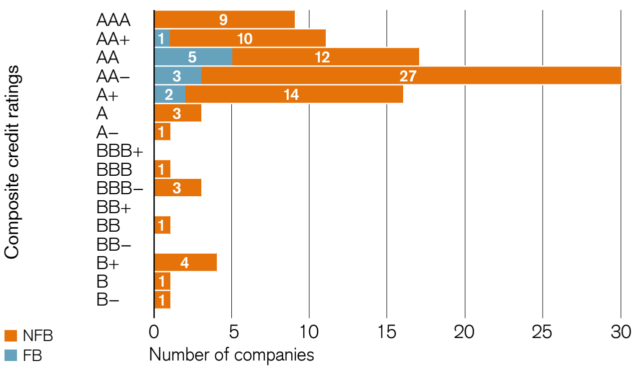
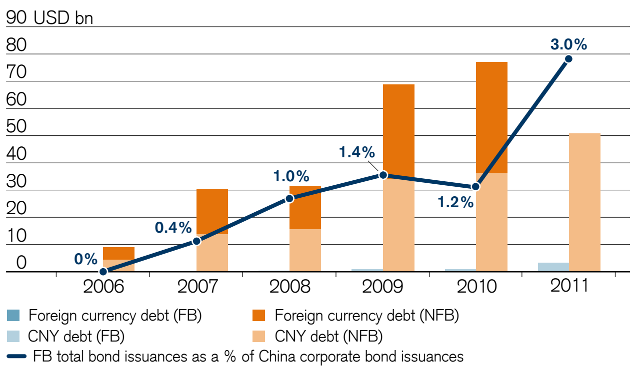


Figure 7 · Almost all corporate bond issuance is driven by non-family businesses



All sources: International and local rating agencies, Reuters, Credit Suisse

Hong Kong

NORTH ASIA

- Family business stocks have almost tripled in value, outperforming the HSI.
- Their market capitalization is 291% of GDP as many non-Hong Kong domiciled firms are listed there.

The Hong Kong Family Business Basket has delivered a solid 10.4% total return CAGR since 2000, outperforming the 7.5% CAGR for the benchmark (Figure 1). Family businesses in Hong Kong have consistently outperformed the broader market on a total return basis during the past decade mainly due to higher dividend payments and less significant multiple contraction than the Hang Seng Index (HSI). They have delivered higher dividend yields than the broader market in the last decade (except in 2008 due to the global financial crisis), offering a dividend yield spread over the HSI ranging from 93 basis points in 2001 to 360 basis points in 2009.

The outperformance of family businesses in Hong Kong has been further supported by their less volatile valuation multiple. Since 2001, their P/E multiple has contracted by 17.2% to 11.1x in 2010, compared with 35.3% for the HSI to 12.4x in 2010. The more significant multiple contraction of the broader market was due to the increased index weighting of the more volatile Chinese stocks listed in the Hong Kong market, especially the Chinese banking, energy and commodity stocks.

The less volatile valuation multiple has compensated for weaker growth and profitability. Hong Kong family businesses posted an EPS CAGR of 9.6% in 2001–10, compared to 13.5% for the HSI due to the contribution of higher-growth Chinese state-owned enterprises listed in Hong Kong. Their profitability was generally below the market average in the last decade (Figure 2). There were sizeable swings in financial leverage over the observation period. Family businesses in Hong Kong steadily increased their net debt to equity ratio to well above market levels during the last decade (Figure 3).

Figure 1 · **Hong Kong family businesses outperformed the Hang Seng Index**

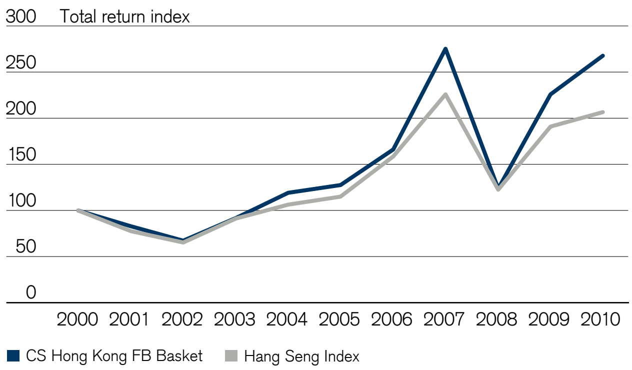


Figure 2 · **Below-market profitability during most of the last 10 years**

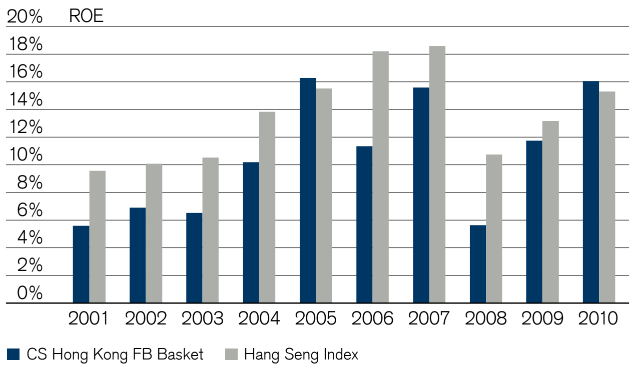
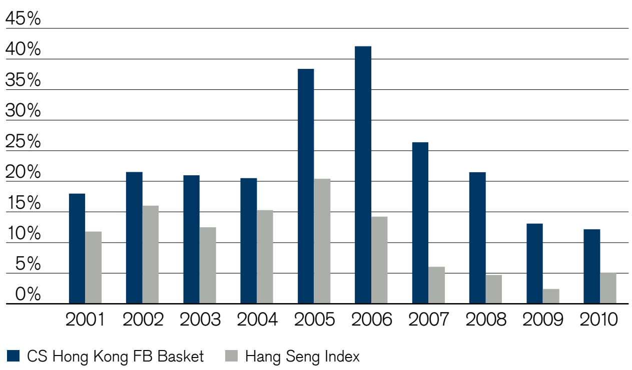


Figure 3 · **Net debt to equity: Leverage above market average**



All sources: Bloomberg, Credit Suisse

PHOTO: ISTOCKPHOTO.COM/HIPPOSTUDIO

Hong Kong contrasts with other countries in that while 62% of listed companies are family businesses, the economic impact of non-family businesses is much greater. Family businesses' share of total market capitalization is only 26%, the second lowest after China but as a percentage of nominal GDP, this is a whopping 291%. Hong Kong is a key financial center and many companies, though not domiciled in Hong Kong, are listed there.

The relatively higher share of corporate taxes paid by non-family businesses, has kept the portion paid by family businesses low at between 14% to 24% (Figure 4). Non-family businesses account for 60% of total corporate hirings (Figure 5). While corporate fixed asset investments grew significantly over the period (Figure 6), it is difficult to ascertain the contribution of Hong Kong listed family businesses to the economy as they have substantial overseas investments. For example, more than 80% of Hong Kong manufacturers have established production facilities in mainland China.

The Hong Kong corporate bond market is the deepest in Asia, underpinned by the bond issuances of both groups. However, non-family business issuances have been far greater, thus decreasing the share of family business issuances. A larger amount of debt is issued in US dollars and Chinese yuan rather than in Hong Kong dollars (Figure 7). Hong Kong has sovereign ratings of Aa1/AAA. Non-family businesses with bond issuances have a median credit rating of BBB+ and family businesses have a median rating of BB (Figure 8).

Figure 4 · **Relatively higher share of corporate tax paid by non-family businesses**

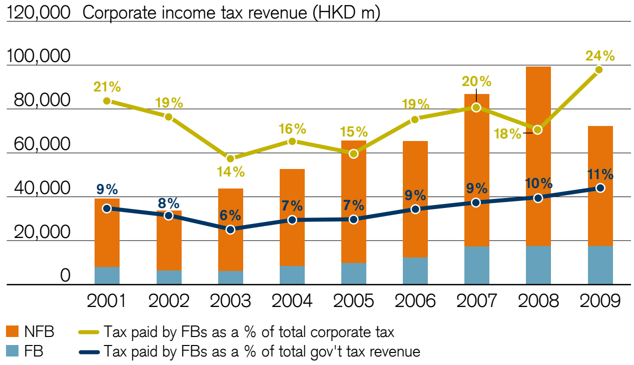


Figure 5 · **Higher corporate hirings by non-family businesses**

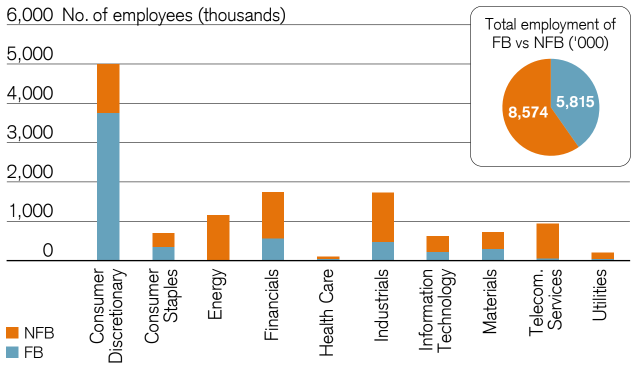


Figure 6 · **Fixed asset investments: Family businesses have substantial overseas investments**

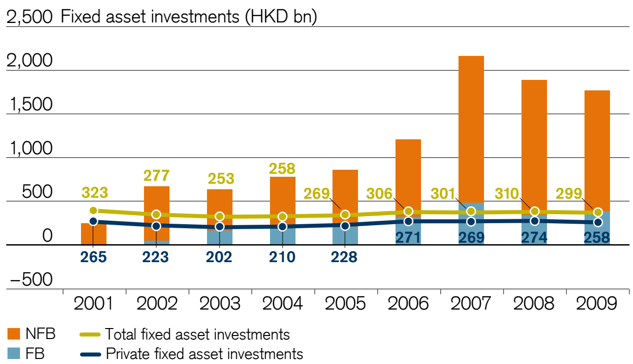


Figure 8 · **Credit ratings of non-family businesses are skewed towards investment grade**

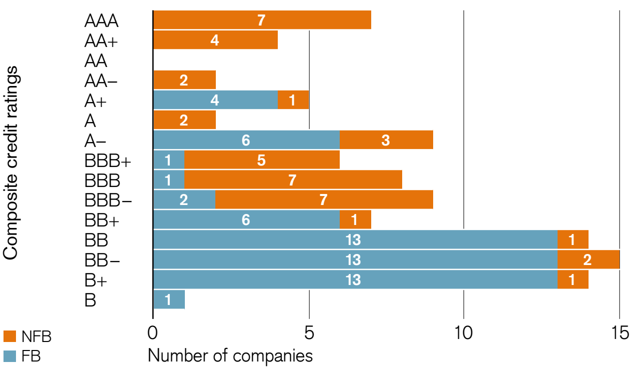
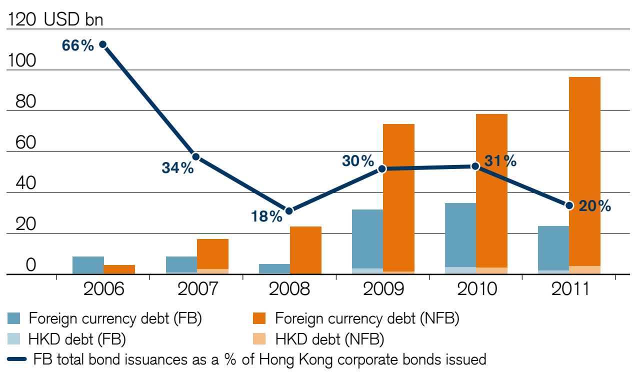
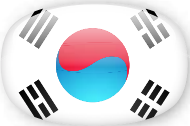


Figure 7 · **Steeper rise in non-family business corporate bond issuance**



All sources: International and local rating agencies, Reuters, Credit Suisse



South Korea

NORTH ASIA

- Family business stocks have grown eightfold, outperforming the market significantly.
- Both family businesses and non-family businesses are equally important in their contributions to the economy.

Family businesses in South Korea have outperformed significantly against the Korea Composite Stock Price Index (KOSPI), with an accumulative total return of 816% during 2000–10, translating into a 24.8% CAGR versus 18.5% for the benchmark (Figure 1). They have consistently outperformed the broader market throughout our observation period, mainly driven by earnings growth well above the market average and profitability. An important driver of strong outperformance of family businesses in South Korea is technology giant Samsung Electronics, which accounts for 10.3% of local market capitalization.

Over the past decade, family businesses in South Korea witnessed notable earnings volatility due to the country's significant exposure to the highly cyclical technology sector. Korean family businesses delivered consistently superior ROE versus the market average over the past decade only with exception in 2005. Even after the internet bubble burst which resulted in an earnings recession of the KOSPI in 2003, family businesses attained ROE of 15.1% in 2003 and 23.7% in 2004 (see Figure 2). An above-market-average earnings CAGR of 8.4% in 2005–10, versus 1.3% CAGR for the broader market, compensated for a smaller P/E multiple expansion of family businesses than that of the local benchmark. The strong earnings growth was driven by consistently below market average payout ratio of the family businesses to preserve cash to drive expansion and growth.

Financial leverage of Korean family businesses has stayed at low levels with net debt to equity ratio standing at below 20% throughout the past decade and falling to 4.1% in 2010 from 16.7% in 2000 (see Figure 3).

Figure 1 · **Significant outperformance of Korean family businesses versus the KOSPI**

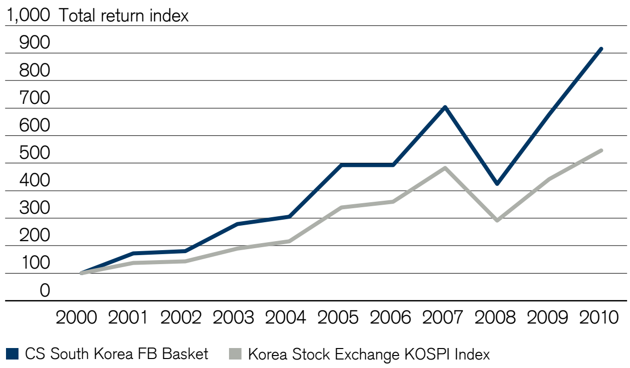


Figure 2 · **Profitability above market average**

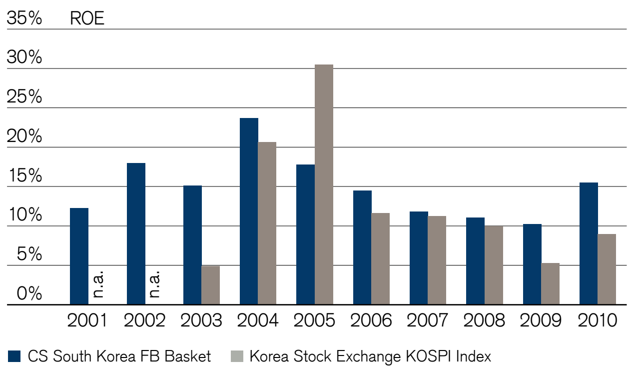
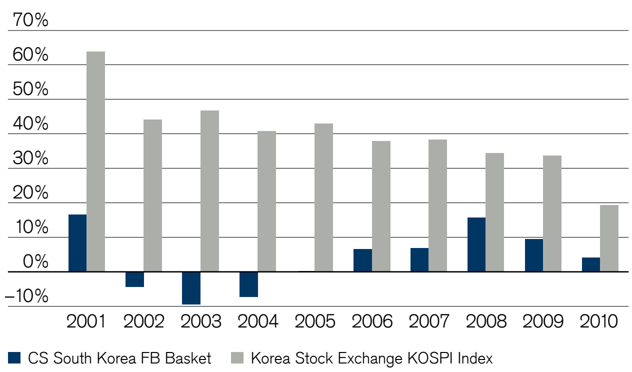


Figure 3 · **Net debt to equity: Very low financial leverage**



All sources: Bloomberg, Credit Suisse

PHOTO: ISTOCKPHOTO.COM/NEOMISTYLE

58% of all listed companies in South Korea are family businesses. Their capitalization amounted to 52% of the South Korean market as well as nominal GDP in 2010.

Tax contributions by family businesses as a percentage of total corporate tax revenues remained stable at 51% from 2001 to 2007 (Figure 4). In 2008, their contribution declined, but rebounded quickly in 2009. Despite the drop, taxes paid by family businesses as a percentage of total tax revenues stayed close to 10%. Listed family businesses are responsible for 53% of total corporate hirings, mainly in the consumer discretionary and industrial sectors (Figure 5). Similarly, non-family business corporate hirings are mainly in these two sectors. There has been a sustained growth in fixed asset investments by both groups from 2001 to 2009 (Figure 6). Non-family businesses consistently contributed a higher share of fixed asset investments each year.

There is a larger proportion of foreign-currency-denominated bonds issued by both groups (Figure 7). In 2008–11, there has been a steep increase in family business bond issuance as a percentage of total corporate bond issuances from 17% to 37%. Non-family business bond issuances have also risen but to a lesser extent. These increases can partly be explained by US dollar weakness and relatively lower US dollar interest rates. South Korea's sovereign debt ratings are A1/A and the median ratings of both family businesses and non-family businesses with bond issuance are BBB (Figure 8).

Figure 4 · **Relatively constant tax contribution from family businesses**

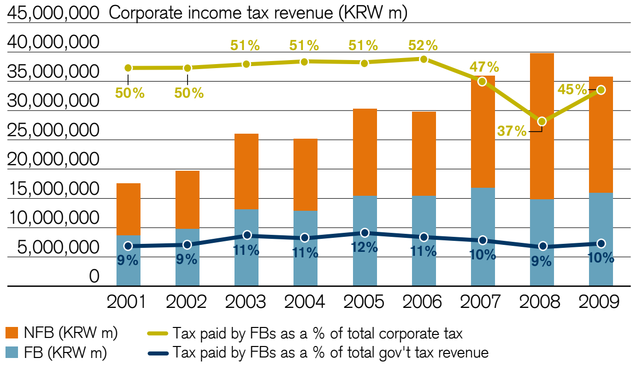


Figure 5 · **Family businesses account for 53% of corporate hirings**

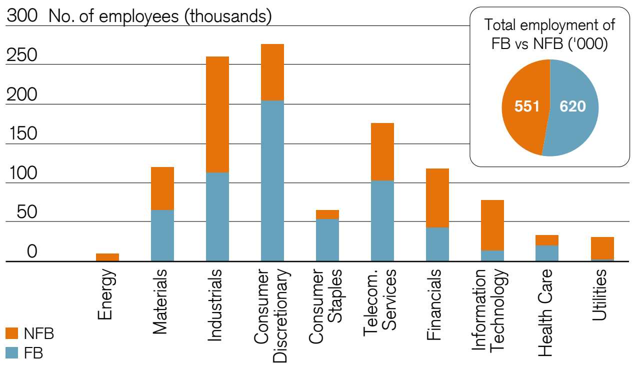


Figure 6 · **Fixed asset investments: Sustained growth by family and non-family businesses**

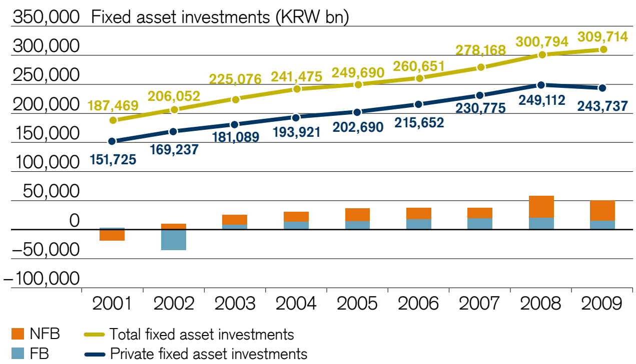


Figure 8 · **Ratings of family businesses cluster around investment grade**

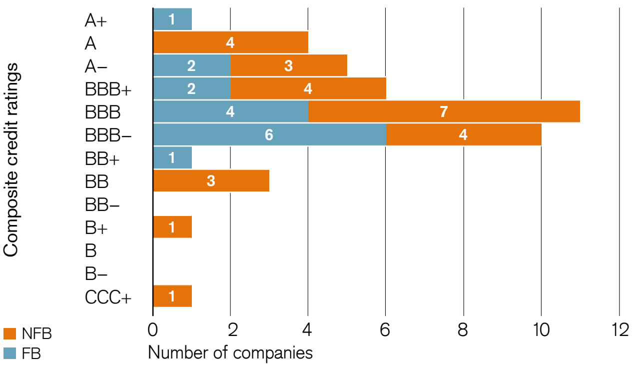
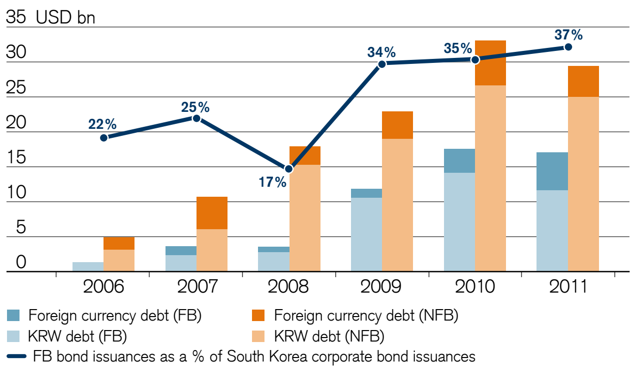
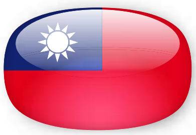


Figure 7 · **Steep increase in family business corporate bond issuance**





Taiwan

NORTH ASIA

- Family business stocks have risen 1.8 times, outperforming the market.
- They dominate employment but non-family businesses dominate investments.

Taiwanese equities have enjoyed a strong performance in the last decade, with the Taiwan Stock Exchange Index (TAIEX) generating a total return CAGR of 10.0% versus 10.9% for family business stocks (Figure 1). The latter have consistently outperformed the broader market since 2004, mainly driven by well-above-market-average profitability, less significant multiple contraction and higher dividend payments.

Over the past decade, earnings swings of family businesses have been sizeable, in line with the broader market due to Taiwan's significant exposure to the highly cyclical technology-related sectors. Many prominent family businesses in Taiwan are engaged in the technology sector, such as Hon Hai and MediaTek. Taiwanese family businesses have delivered consistently above-market-average ROE over the past decade, with profitability improving 91% since 2002, offering a key fundamental support for their outperformance against the benchmark (Figure 2). Since 2002, P/E multiples of family businesses have traded in a narrower band than the TAIEX, which saw a sharp P/E multiple contraction by 47% to 16.0x in 2010, much more significant than the 4.9% P/E multiple contraction of family businesses to 17.3x in 2010.

Taiwanese companies have reduced their financial leverage over the last decade, with the family business net debt to equity ratio still above the market average (Figure 3). While the net financial gearing of family businesses remained above the broader market, the net debt to equity ratio fell to 10.6% in 2010 from 32.9% in 2001. Family businesses also paid higher dividend yields than the broader market throughout the last decade (except in 2008 due to the global financial crisis).

Figure 1 · **Taiwanese family businesses slightly outperform the TAIEX**

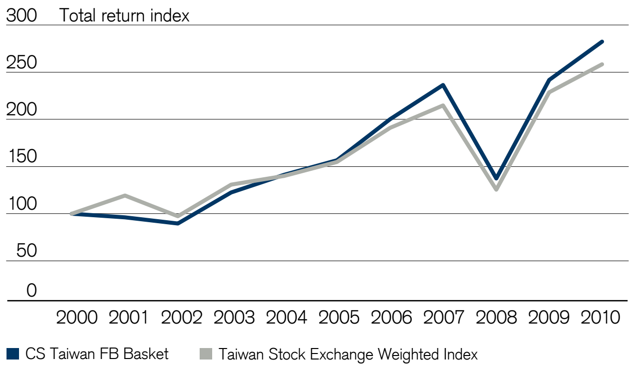


Figure 2 · **Profitability well above the market average**

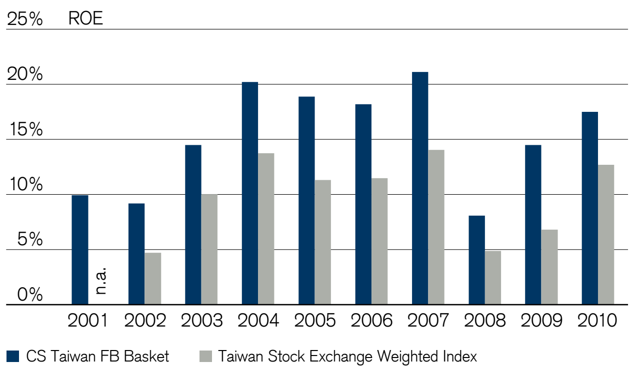
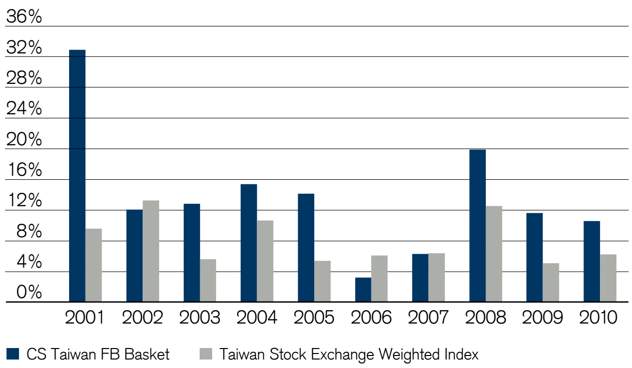


Figure 3 · **Net debt to equity: Reduced leverage over the past decade**



All sources: Bloomberg, Credit Suisse

PHOTO: ISTOCKPHOTO.COM/FOTOTRAV

Family businesses in Taiwan account for 49% of the total market capitalization, representing 105% of nominal GDP.

While family businesses contributed a steady flow of corporate tax revenue rising from 27% in 2002 to 48% in 2005 and holding steady at that level until 2009, non-family businesses still contributed the larger share (Figure 4). Taiwan is one of the world's largest suppliers of information technology (IT) products and listed family businesses account for two thirds of corporate hirings in the IT sector (Figure 5). Following the SARS crisis in 2003 and underpinned by the cyclical rebound in the global technology sector, both family businesses and non-family businesses boosted fixed asset investment in 2004 (Figure 6). Thereafter, family businesses' fixed asset investments stayed relatively constant until 2008, while the non-family businesses' share moderated.

The family businesses' share of all corporate bond issuances increased from 29% in 2007 to 57% in 2009 and these are mostly denominated in Taiwan dollars (TWD). Similarly, bond issuances for non-family businesses are largely denominated in TWD. In 2010 and 2011, both groups showed a sudden surge in foreign-currency-denominated bond issuances, which can be explained by US dollar weakness and lower borrowing costs in US dollars (Figure 7). The long-term foreign currency debt ratings for Taiwan are Aa3/AA–.The median rating for family businesses with bond issuance is BBB+ and BBB for non-family businesses (Figure 8).

Figure 4 · **Family businesses' steady contribution to total corporate tax**

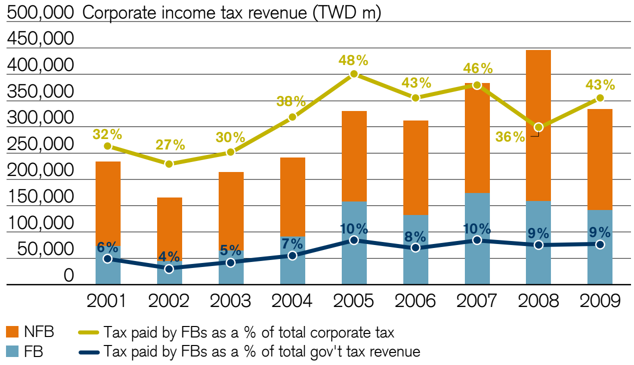


Figure 5 · **Family businesses' dominance in information technology**

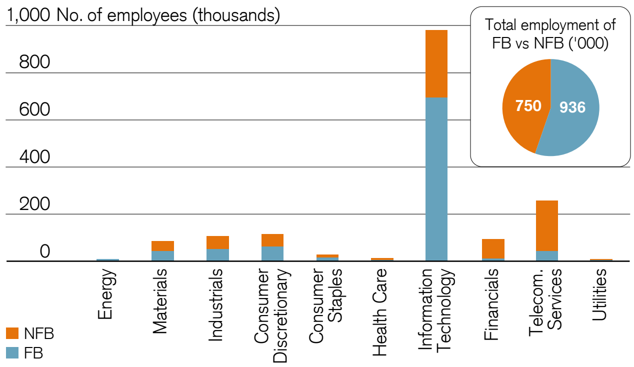


Figure 6 · **Fixed asset investments: Non-family businesses dominate investment**

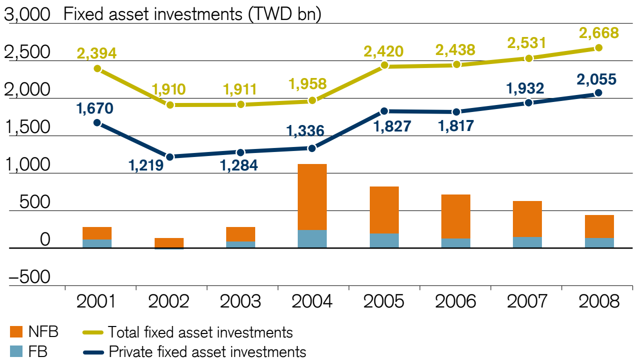


Figure 7 · **Family businesses' rising presence in corporate bond market**

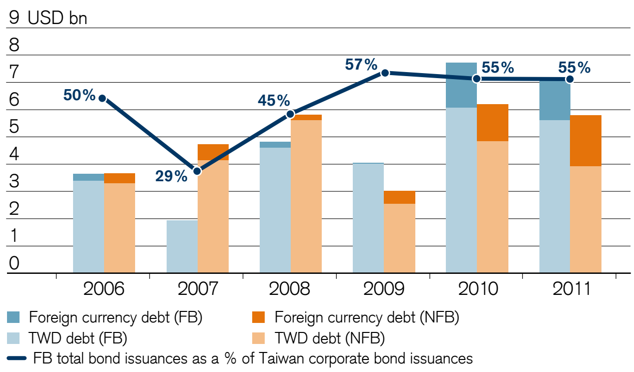
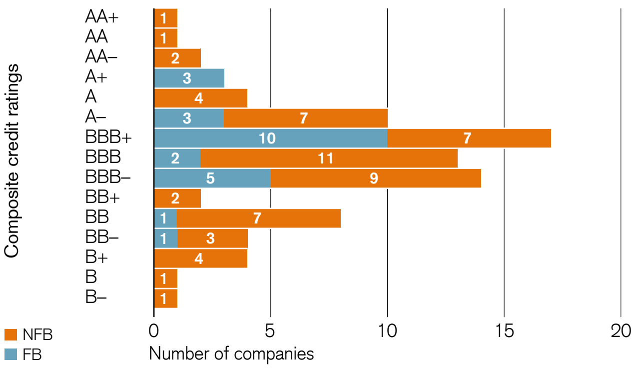


Figure 8 · **Median credit rating of family businesses is a notch higher than of non-family businesses**



All sources: International and local rating agencies, Reuters, Credit Suisse

India

SOUTH ASIA

- Family business stocks have underperformed the Sensex significantly.
- India has the highest percentage of family businesses, which contribute significantly to investments and employment.

Indian family businesses underperformed the broader market, which returned an impressive 19.3% CAGR over the last decade (Figure 1). Nevertheless, the 15.8% total return CAGR of family businesses is still equivalent to four times an initial investment in 2000.

The underperformance has been more pronounced since the 2008 global financial crisis. Family businesses had strongly increased their debt leverage (Figure 3), which hit earnings performance and profitability versus the broader market. Over the full decade, earnings generation was in line with the Bombay Stock Exchange Sensex. Therefore, the underperformance was attributable to a valuation multiple reversal from a premium to a discount.

Profitability of family businesses has fallen since 2007 due to their significant investments in fixed asset investments (Figure 2). There is no clear trend in relative performance, but family businesses' profitability peaked ahead of the market and suffered more during the credit crisis. Since then it has recovered at a slower pace. This trend was again driven by the differences in financial leverage.

Net financial leverage increased dramatically from the early part of the decade into the boom phase driven by a sixfold growth in gross debt leverage. Both net and gross debt ratios remain significantly above that of regional peers. At the same time, the capital return to shareholders is minimal, with a dividend yield below 1% and a payout ratio of around 1/8, clearly below levels observed for the Sensex and regional peers.

Figure 1 · **Indian family businesses underperformed the broader market**

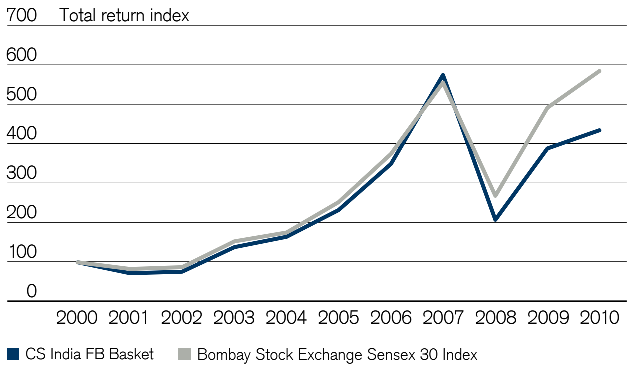


Figure 2 · **Profitability declined and is now below the broader market**

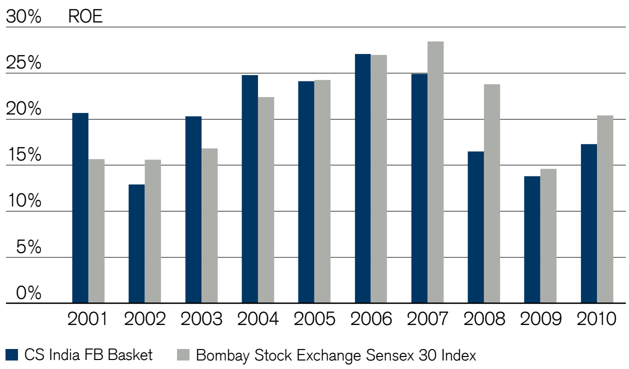
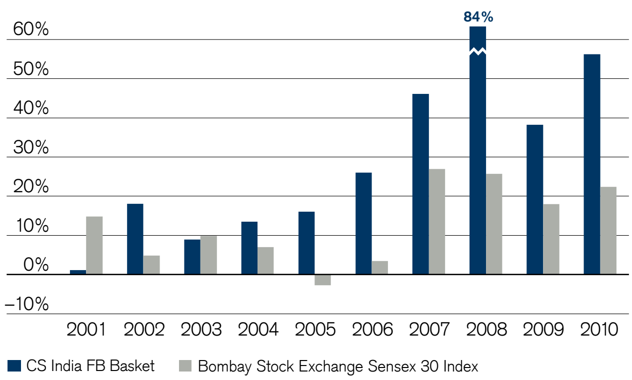


Figure 3 · **Net debt to equity: Leverage has increased strongly**



All sources: Bloomberg, Credit Suisse

PHOTO: ISTOCKPHOTO.COM/HOLGS

Market capitalization of Indian family businesses as a share of nominal GDP rose from 9% in 2001 to 46% in 2010. In terms of absolute numbers, there are 663 out of 983 listed Indian companies that are family businesses.

In 2007, tax contributions of family businesses peaked at 41% of total corporate tax revenues (Figure 4). Fixed asset investments by family businesses in the same year were five times more than non-family businesses (Figure 6). This could be due to the government's active push to raise private sector investments in public projects after having under-invested in infrastructure previously. After 2007, tax contributions and investments by family businesses moderated. Nevertheless from 2006 until now, family businesses have had stronger growth in fixed asset investments over non-family businesses. On employment, listed family businesses account for half of the corporate hirings in India and this is concentrated in the consumer discretionary, consumer staples and healthcare sectors (Figure 5).

Bond issuances by family businesses decreased from 26% of total corporate bond issuances in 2007 to 19% in 2008 due to the onset of the global financial crisis. Subsequently, family business bond issuances recovered to an average share of 28%. Bond issuances by non-family businesses are significantly higher than family businesses (Figure 7). The sovereign debt ratings for India are Baa3/BBB– and the median ratings for both family and non-family businesses are at BBB– (Figure 8).

Figure 4 · **Rise in family businesses' corporate tax contribution**

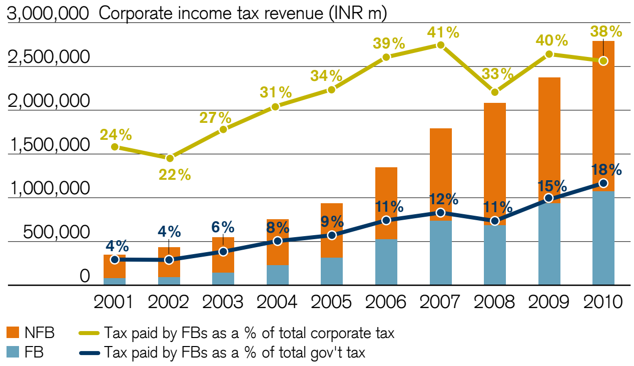


Figure 5 · **Family businesses account for half of corporate hirings**

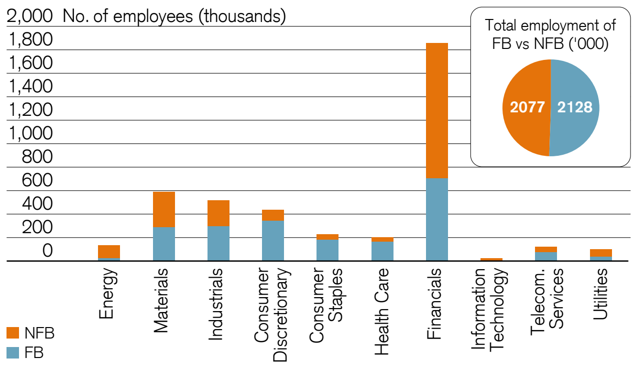


Figure 6 · **Fixed asset investments: Stronger growth of family businesses**

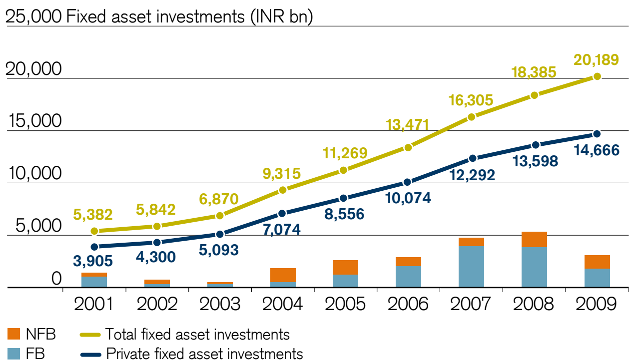


Figure 7 · **Non-family businesses' dominance in corporate bond market**

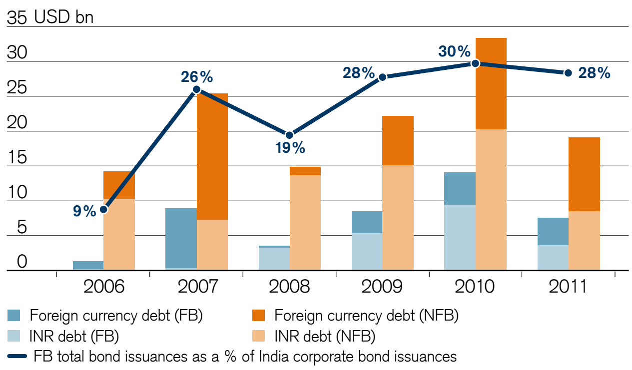
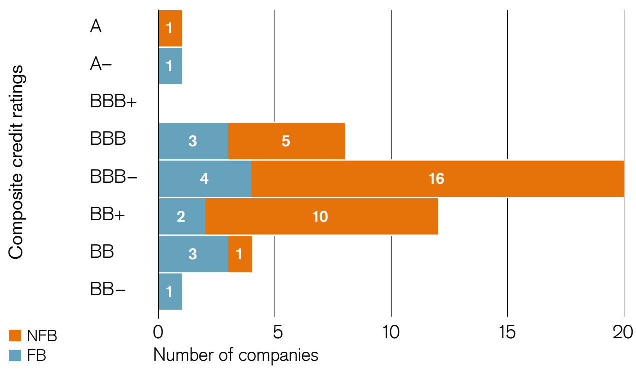
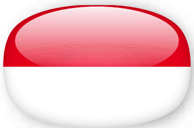


Figure 8 · **Family and non-family businesses are rated equally**



All sources: International and local rating agencies, Reuters, Credit Suisse



Indonesia

SOUTH ASIA

- Family business stocks performed best among the 10 countries in the study, but still underperformed the JCI.
- They are a major employer in Indonesia, mainly in consumption-related sectors.

The Indonesian Family Business Basket increased tenfold or by a 27.1% CAGR (Figure 1). Despite this impressive total return, family businesses underperformed the Jakarta Stock Exchange Composite Index slightly (CAGR of 27.6%). While the Family Business Basket underperformed until 2006, it has outperformed the broader market since the credit crisis. This performance was particularly driven by the staggering performance of Astra International and Bank Central Asia.

The record performance of the Indonesian Family Business Basket was especially attributable to an increase in the P/E multiple from 5.3x to 22.0x. The earnings multiple expansion of the JCI index was less impressive, family businesses saw the valuation discount reversed to a premium. The better multiple expansion compensated for relatively weak earnings and below-market-average earnings growth. However, earnings growth was less volatile for family businesses.

Profitability hovered around 20% overall, with family businesses generally outperforming the broader market apart from the overheating/contraction phase from 2006 to 2008 (Figure 2). Further, Indonesian family businesses have achieved above-average profitability since the credit crisis.

Financial leverage saw sizeable swings over the observation period. Family businesses reduced the net debt ratio to below market levels. At the same time, the dividend payout ratio increased over the decade from roughly 20% to around one third of earnings, reaching peak levels of above 60% from 2003 to 2006, consistently outpacing the broader market by a healthy margin.

Figure 1 · **Excellent absolute performance of Indonesian equities**

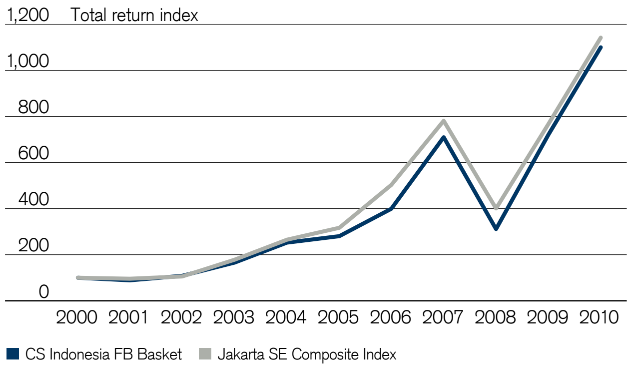


Figure 2 · **Profitability above broader market**

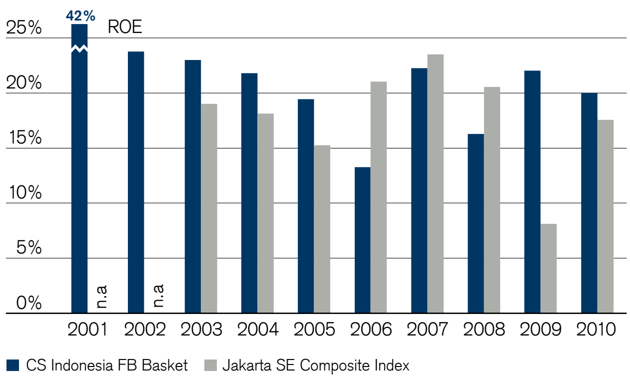
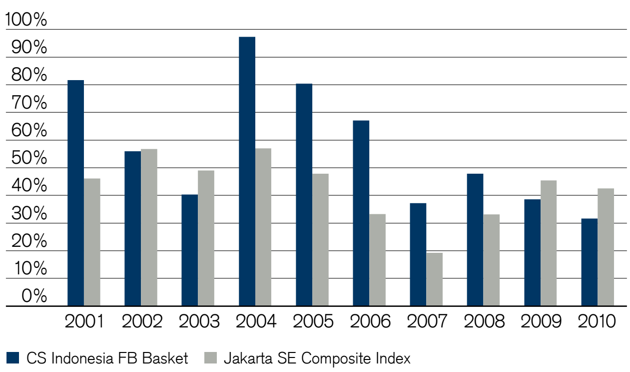


Figure 3 · **Net debt to equity: leverage at elevated levels**



All sources: Bloomberg, Credit Suisse

PHOTO: ISTOCKPHOTO.COM/WARRENGOLDSWAIN

In 2010, the market capitalization of listed Indonesian family businesses as a percentage of nominal GDP was a mere 24%, despite them representing 61% of all listed companies.

Non-family businesses were larger contributors to total corporate tax from 2001 to 2009 (Figure 4). Despite a decrease in the headline corporate tax rate in 2009, the share of total tax contributions borne by family businesses rose from 7% in 2008 to 10% in 2009. On employment, listed family businesses account for 60% of total corporate hirings (Figure 5) and these are mainly in the consumer discretionary and staples sectors, while non-family businesses dominate the financials sector. Total fixed asset investments by family businesses and non-family businesses rose between 2003 and 2008 (Figure 6). However, a large gap exists between public sector investments and private sector investments due in part to the economic reforms made by President Yudhoyono since 2004.

Non-family businesses with bond issuances have a larger share in the Indonesian bond market, with family businesses only closer behind in 2009–11. Bond issuances by both family and non-family businesses are predominantly in foreign currency (Figure 7). Improving growth and fiscal prospects of Indonesia saw an upgrade of long-term foreign currency credit ratings to one notch below investment grade at BB+. The median credit ratings of family businesses and non-family businesses are B+ and BBB, respectively (Figure 8).

Figure 4 · **Non-family businesses contribute more corporate taxes**

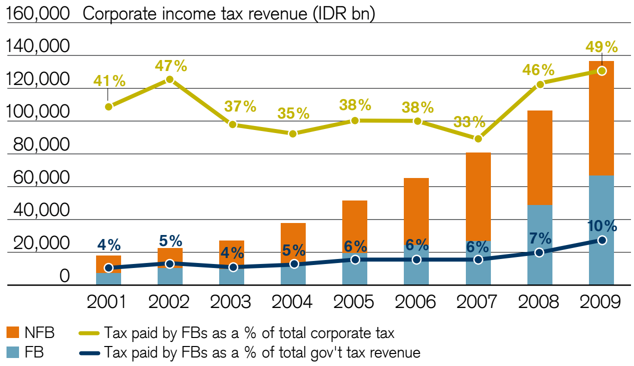


Figure 5 · **Family businesses contribute 60% of total corporate hirings**

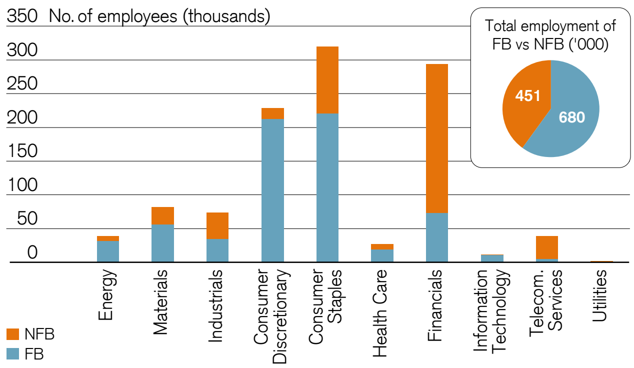


Figure 6 · **Fixed asset investments: The State dominates investments**

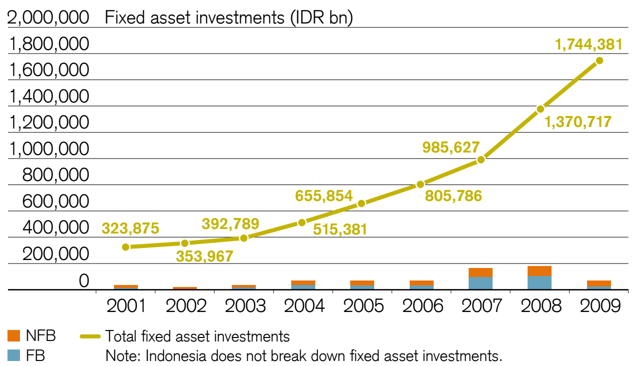


Figure 8 · **Family businesses have a much lower median rating than non-family businesses**

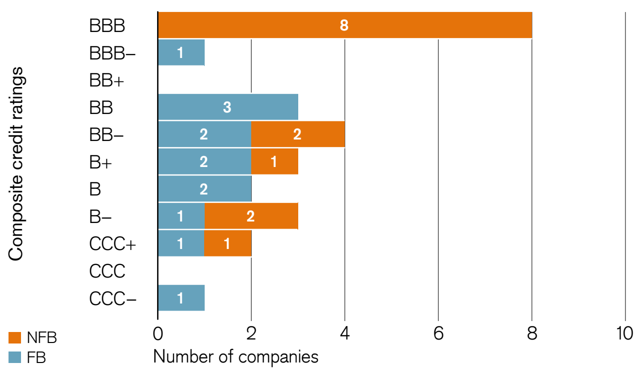
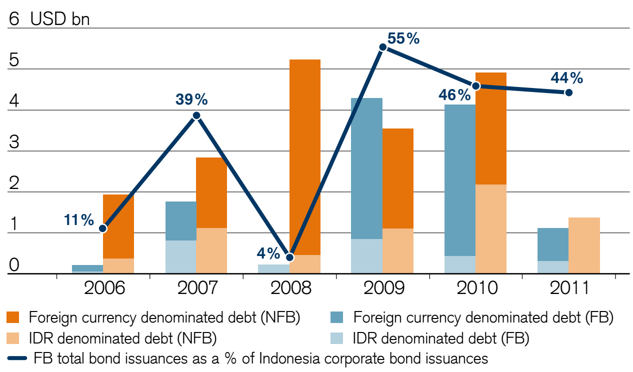
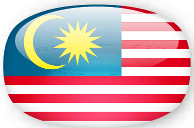


Figure 7 · **Non-family businesses hold a larger share of the corporate bond market**



All sources: International and local rating agencies, Reuters, Credit Suisse



Malaysia

SOUTH ASIA

- Family business stocks have grown nearly fivefold, outperforming the KLCI.
- They outnumber non-family businesses, but contribute less economically.

Malaysian equities enjoyed a strong performance in the last decade, with the Kuala Lumpur Composite Index (KLCI) generating a total return CAGR of 12.2% (Figure 1). Family business stocks were able to outperform and returned a CAGR of 18.6%. Family business stocks consistently outperformed the broader market over the observed period, with the exception of only a minor underperformance during the financial crisis.

Better earnings growth drove the outperformance, particularly over the last few years. Over the observed period, earnings swings were sizeable, albeit less extreme than for the broader markets. P/E multiples of family businesses traded in a narrow band during the last decade and remained overall flat. Apart from the market overheating phase in 2006–07, family businesses traded at a valuation discount to the broader market, although the discount halved over the decade.

Profitability increased 30% over the decade (Figure 2). As the broad market saw profitability nearly double over the observed period, the ROE premium of family businesses disappeared. However, family businesses saw less volatile ROE development and enjoyed more resilient profitability during the credit crisis. The payout ratio reversed from a premium to a discount. Accordingly, the dividend yield premium nearly disappeared, but the yield remains attractive at above 3%.

Malaysian corporates reduced their financial leverage during the last decade (Figure 3). While the net financial gearings of family businesses remained below the broader market, gross debt ratios have constantly surpassed those of the KLCI since 2004.

Figure 1 · **Strong outperformance of Malaysian family businesses**

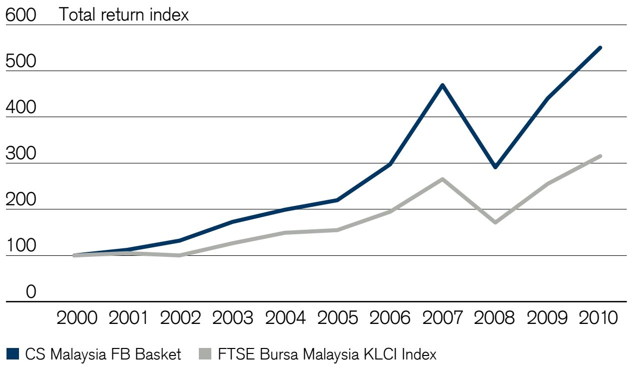


Figure 2 · **Profitability increased over the period**

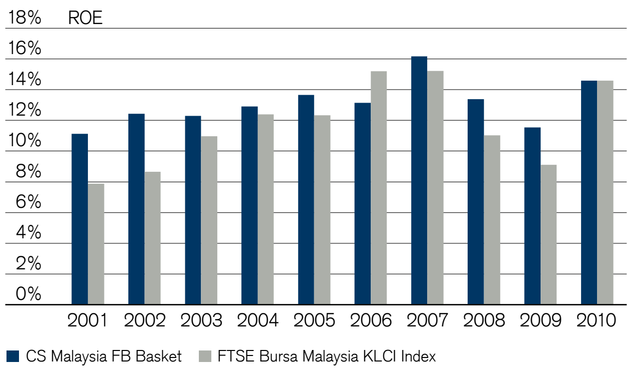
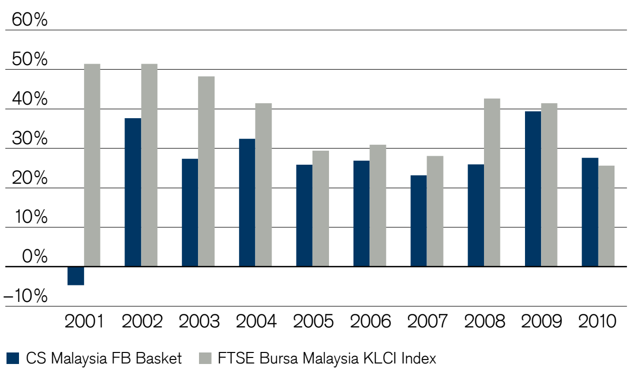


Figure 3 · **Net debt to equity: Gearing at low levels**



All sources: Bloomberg, Credit Suisse

PHOTO: ISTOCKPHOTO.COM/SZEFEI

In 2010, total market capitalization of family businesses in Malaysia accounted for 67% of nominal GDP. They also account for 62% of listed entities. During the onset of the global financial crisis, non-family businesses, which are more focused in natural resources, fared better. Hence, the share of total corporate tax contributions by family businesses fell from 45% in 2008 to 36% in 2010 while the non-family business share rose (Figure 4). Similarly, the share of total taxes paid by family businesses as a percentage of total tax revenue fell from 15% in 2008 to 9% in 2010.

On employment, listed family businesses account for 53% of total corporate hirings (Figure 5), mainly in the sectors of consumer staples, consumer discretionary and industrials, while non-family businesses dominate hirings in the financial sector. From 2001 to 2009 non-family businesses have been larger contributors to total fixed asset investments (Figure 6).

The liberalization of the Malaysian ringgit (MYR) in July 2005 led to an increase in corporate debt issuances overall. However, family businesses continue to issue mainly in MYR, while non-family businesses took advantage of the liberalization and issued more foreign-currency-denominated bonds from 2008 onwards (Figure 7). Malaysia's sovereign debt ratings are A3/A–. The median ratings of family businesses and non-family businesses are distributed similarly, with median ratings of BBB+ and BBB, respectively (Figure 8).

Figure 4 · **Drop in family businesses' corporate tax contribution**

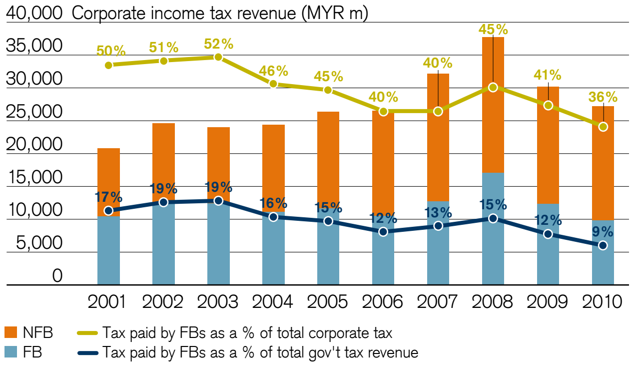


Figure 5 · **Family businesses dominate corporate hirings in consumer staples and discretionary**

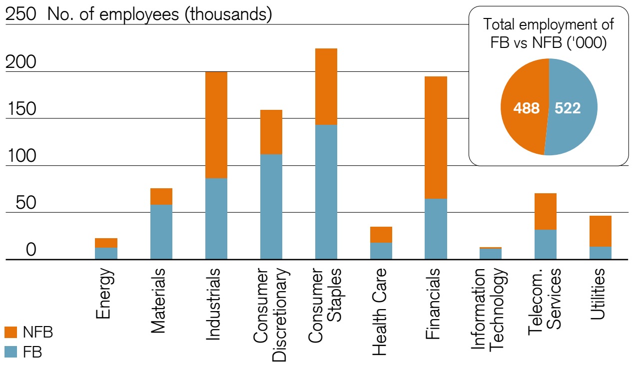


Figure 6 · **Fixed asset investments: Non-family businesses are the larger contributor**

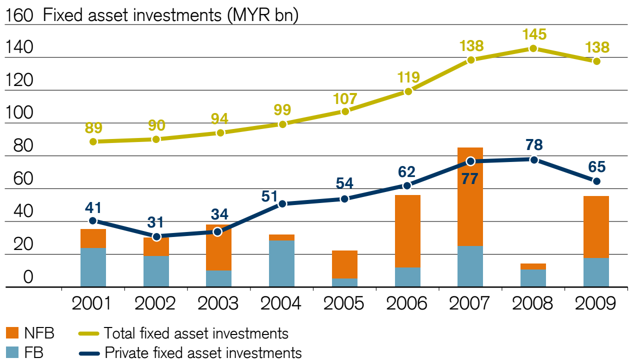


Figure 8 · **Family businesses have a higher median credit rating than non-family businesses**

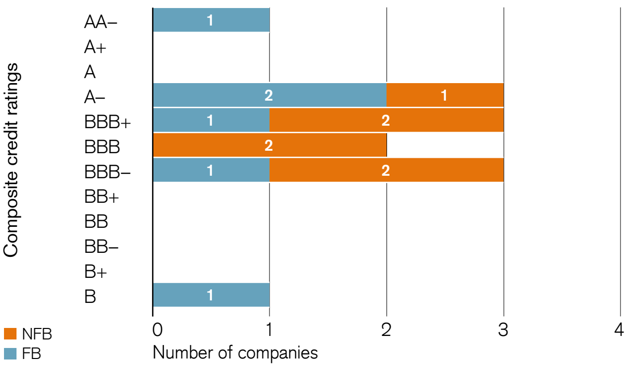
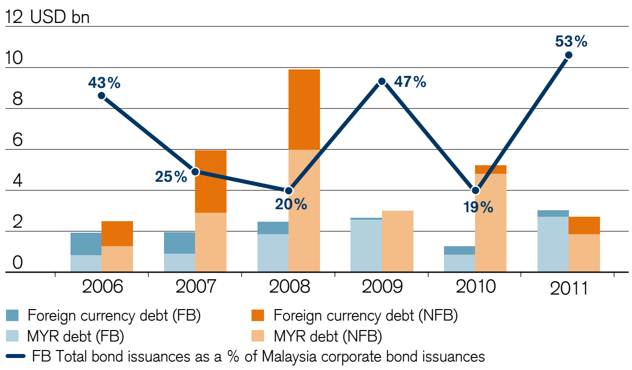


Figure 7 · **Higher non-family business corporate bond issuance**



Philippines

SOUTH ASIA

- Family business stocks underperformed the broader market.
- Philippine family businesses have the highest economic impact in their country compared to the rest of Asia.

Over the last decade, Philippine family businesses have posted a strong performance, with a solid total return CAGR of 14.1% (Figure 1). However, this represents an underperformance relative to the broader market, which grew more than 300% over the period, representing a CAGR of 15.0%. After a year of outperformance in 2001, family businesses underperformed continuously, and were only able to recoup some of the underperformance in 2010.

The underperformance was driven by significantly weaker earnings growth: earnings increased twice as fast for the broader equity market. Earnings growth of family businesses was also more volatile. Both our Family Business Basket and the Philippines Stock Exchange PSEi (PCOMP) saw a valuation contraction. While the P/E multiple of the family business basket declined by 30%, the broader market saw multiples contract by 60%, offsetting some of the superior earnings growth and preventing an even stronger outperformance. As a result, the valuation multiple of the broader market reversed from a discount to a premium over the last decade.

The profitability of Philippine family businesses increased strongly (Figure 2) to reach an attractive level of 18.5%. However, the broader market enjoyed an even more impressive ROE improvement, as well as a more stable ROE development in the second part of the observation period.

Family businesses adopted a much more conservative stance towards financial gearing than the broader market, keeping net and gross debt at healthy levels, although net debt to equity increased slightly above the PCOMP index in 2010. The capital return was mostly in line with the broader market.

Figure 1 · **Philippine family businesses underperformed**

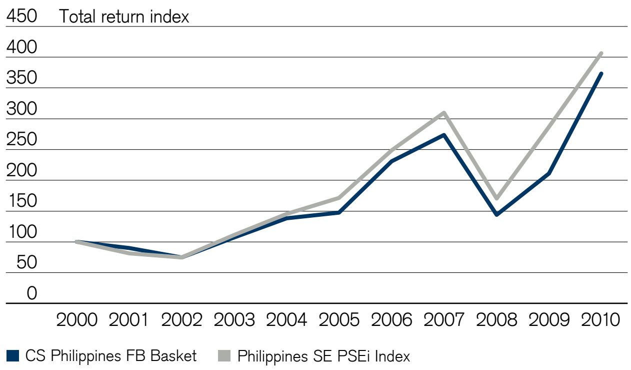


Figure 2 · **Profitability increased strongly**

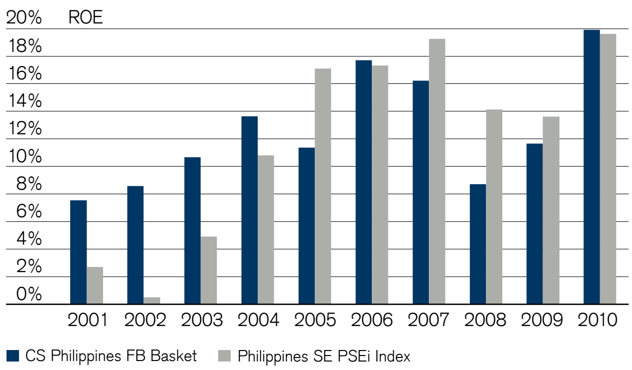
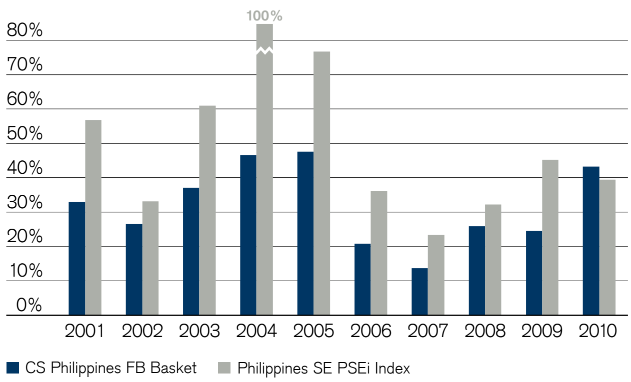


Figure 3 · **Net debt to equity: Leverage increased slightly**



All sources: Bloomberg, Credit Suisse

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The Philippines is unusual as 83% of total market capitalization is derived by family businesses, the highest ratio of all the ten Asian economies. However, as a percentage of nominal GDP, this ratio is lower at 66%.

Corporate income tax contributions have grown strongly, with family businesses responsible for an 80%–90% share (Figure 4). Since the outset, the contribution of family businesses to total government tax revenues is consistently the highest in Asia. The proportion of jobs created by listed family businesses is high at 88% of total employment and is concentrated in the industrial and financial sectors (Figure 5). Fixed asset investments have increased steadily since 2001 in tandem with the country's economic development (Figure 6). Growth rates of construction activity remained impressive during the 2008 crisis and rose further in 2009, driven by low interest rates and subsequently the economic recovery. While both family and non-family businesses contributed positively, family businesses were the key driver.

The bond market in the Philippines is dominated by government issuances. The corporate bond market is still nascent, but is expanding quickly, driven by family business issuances. Corporate bonds are so far issued both in local currency and US dollars (Figure 7). The Philippines have sovereign debt ratings of Ba3/BB. Median credit ratings of family businesses and non-family businesses with bond issuance are BB and BB/BB–, respectively (Figure 8).

Figure 4 · **High corporate tax contributions from family businesses**

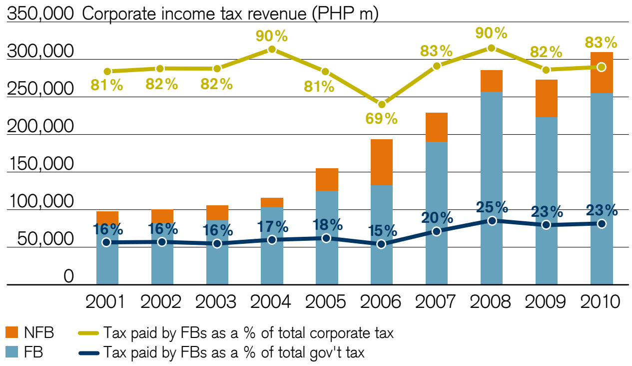


Figure 5 · **Family businesses generate nearly all corporate hirings**

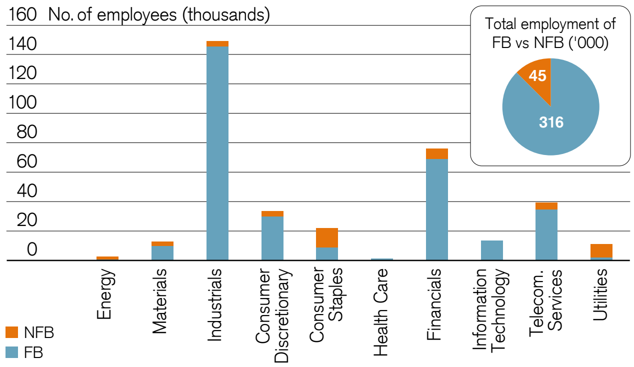


Figure 6 · **Fixed asset investments: Growth due to family businesses**

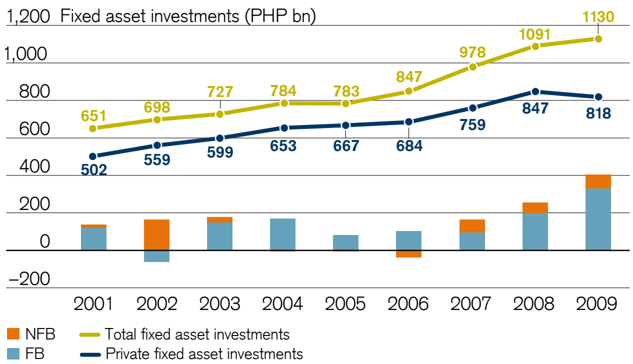


Figure 8 · **Family businesses and non-family businesses are close in median ratings**

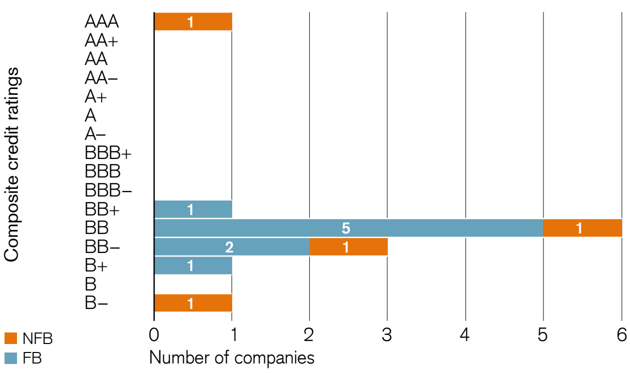
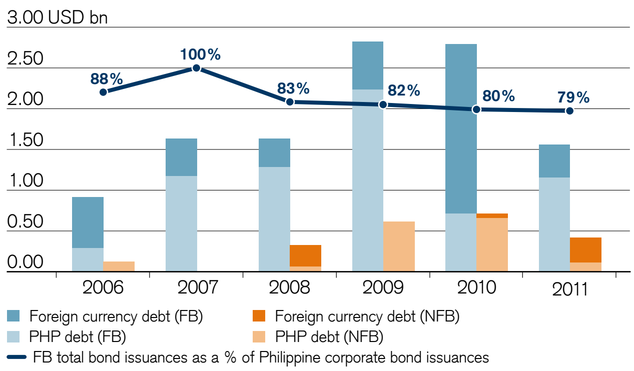


Figure 7 · **Expansion of corporate bond market driven by family businesses**



All sources: International and local rating agencies, Reuters, Credit Suisse

Singapore

SOUTH ASIA

- Family business stocks have nearly quadrupled, driven by earnings growth.
- Their market capitalization as a percentage of GDP is the highest in South Asia at 140%.

Family businesses in Singapore outperformed the local index over the last decade. While investors in the Straits Times Index (STI) enjoyed a pleasing total return compound annual growth rate (CAGR) of 8.9%, investing in a family business basket returned 14.7%, equivalent to four times the initial investment in 2000 (see Figure 1). The outperformance was constant and steady over time.

Singaporean equities faced a strong earnings multiple contraction over the last decade. In fact, the P/E multiple halved for family businesses, which was a slightly stronger contraction than in the broader market. As a result, the outperformance of family businesses was driven by significantly better earnings growth. In addition, earnings growth was more stable than for the broader equity market.

The strong earnings growth was driven by a falling payout ratio and strong improving profitability. In fact, the payout ratio was cut by two thirds in the last decade for family business investors, while the payout ratio for the STI only halved. As a consequence, the average dividend yield of family businesses moved from a premium to below market average. At the same time, profitability has nearly tripled, with family businesses managing to improve return on equity (ROE) from below par to an above-average level (Figure 2). The profitability proved to be more volatile than for the broader market due to the sector mix.

After debt reduction at the beginning of the last decade, financial gearing has steadily increased to a premium net debt ratio (Figure 3).

Figure 1 · **Strong outperformance of Singaporean family businesses**

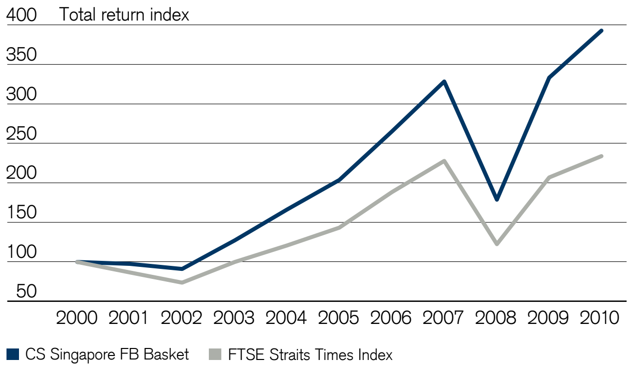


Figure 2 · **Profitability nearly tripled in the last decade**

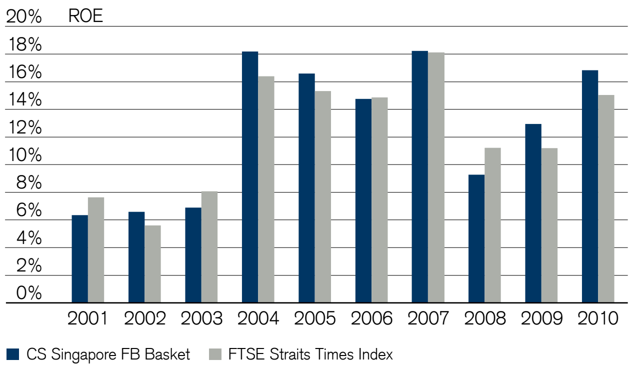
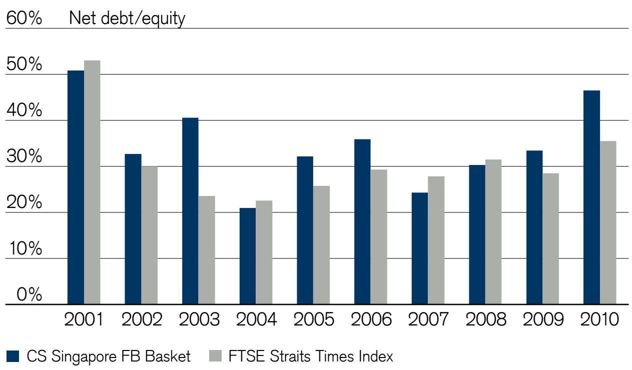


Figure 3 · **Net debt to equity: Leverage has increased in last few years**



All sources: Bloomberg, Credit Suisse

Family businesses account for 63% of listed companies in Singapore. As of 2010, their total market capitalization is 54% of the market total and 140% of nominal GDP, the second highest in Asia after Hong Kong.

The corporate income tax contribution of family businesses rose from 46% in 2004 to 62% in 2010, while corporate tax rates in Singapore decreased from 22% to 17% during this period (Figure 4). Similar to Hong Kong, we stress that it is difficult to perform an attribution analysis as a number of these listed family businesses are not domiciled in Singapore. Listed family businesses account for 61% of total corporate hirings and these are most prevalent in the industrial sector (Figure 5). Historically, non-family businesses have been a larger contributor of total fixed asset investments in Singapore. However in 2009, investments by family businesses surged to 74% of the total mainly due to the two integrated resorts (Figure 6).

Family businesses recorded a sustained increase in total debt issued from 2006 to 2011. The drop in the relative share of total debt issued by family businesses from 66% in 2008 to 35% in 2010 is largely explained by the jump in debt issued by non-family businesses. For both sectors, debt is denominated mainly in Singapore and US dollars (Figure 7). Singapore has foreign currency debt ratings of Aaa/AAA. Many borrowers, i.e. government-related entities (non-family businesses) and family businesses are high-grade borrowers (Figure 8).

Figure 4 · **Rise in family businesses' tax contribution**

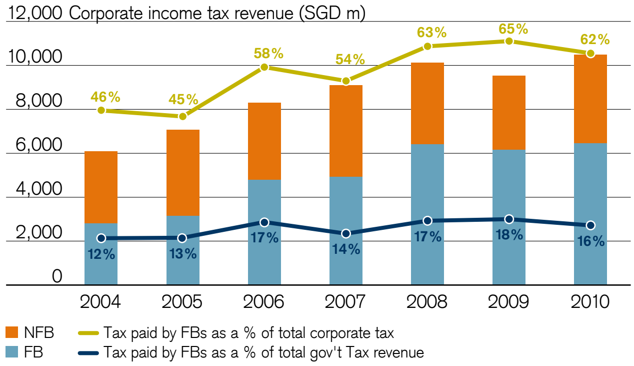


Figure 5 · **Greater proportion of corporate hirings by family businesses**

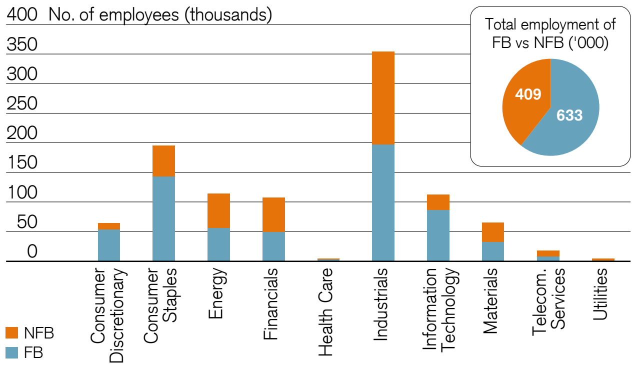
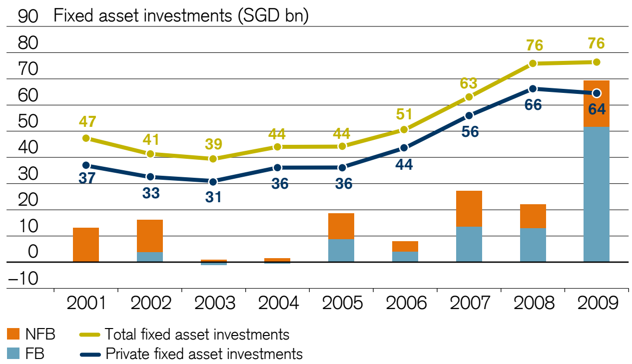


Figure 6 · **Fixed asset investments: Surge in family business outlays**



All sources: International and local rating agencies, Reuters, Credit Suisse

Figure 8 · **Credit ratings of family and non-family businesses are skewed towards investment grade**

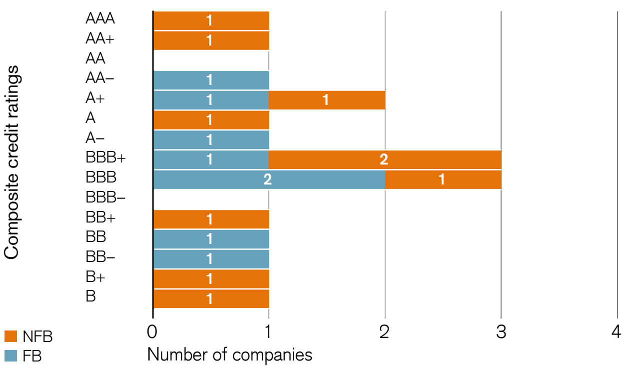
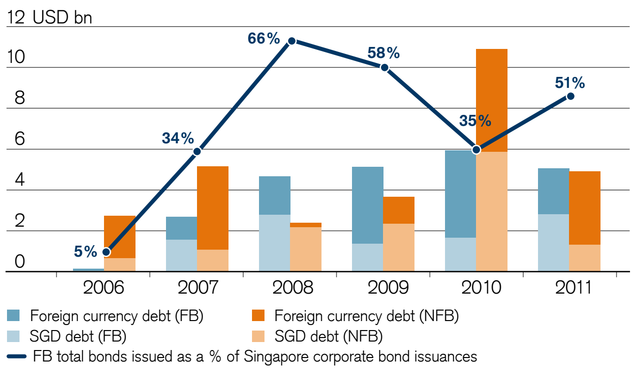


Figure 7 · **Growth in family business contribution to corporate bond issuance**



Thailand

SOUTH ASIA

- Family business stocks have outperformed the broader market.
- They outnumber non-family businesses, but their economic contributions are the same except for employment.

Thai equities have increased more than fourfold over the last decade. Family businesses have enjoyed an even better return, growing more than five times at a CAGR of 20.2% (Figure 1). Relative performance was volatile, with a sizeable outperformance at the beginning of the last decade followed by an immediate reversal and an in-line development thereafter. From 2008 onward, they have again outperformed the broader market.

The relative performance was driven by better earnings, which were nevertheless volatile and erratic. Growth was particularly weak from 2004 to 2006, but outperformance resumed from 2007 on. The strong earnings growth was offset by a P/E contraction, which reversed the premium valuation of family businesses to a discount relative to the broader market.

As shown in Figure 2, profitability doubled. Family businesses were able to generally outpace the profitability of the broader market (Figure 2). Relative to regional peers, their profitability is also above average. Equity capital increased sixfold, despite high payout ratios. Family businesses increased payout ratios significantly from the beginning of the observation period, paying out nearly two thirds of earnings at the peak in 2006. The capital return has stabilized above 40% in recent years, keeping the dividend yield above 4%.

Thai corporates reduced their financial gearing in the last decade (Figure 3). Net debt gearing for both the broader market and family businesses was reduced to healthy levels. While family businesses have a lower net/debt ratio, gross debt is slightly above the Stock Exchange of Thailand (SET) index and above regional levels.

Figure 1 · **Family businesses have generated high total returns and outperformed**

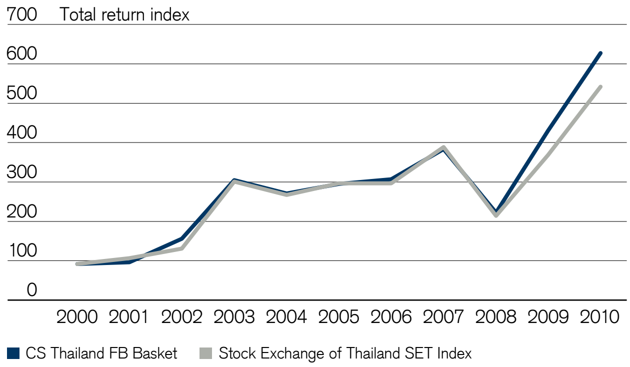


Figure 2 · **Profitability especially high**

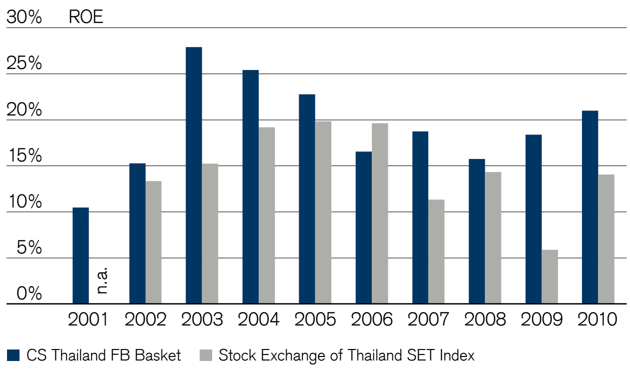
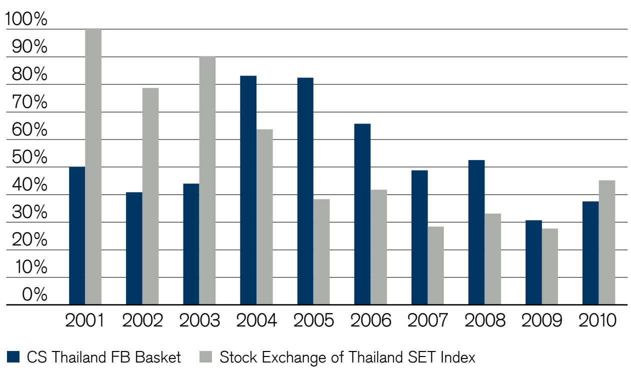


Figure 3 · **Net debt to equity: Leverage reduced**



All sources: Bloomberg, Credit Suisse

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Figure 4 · **Two thirds of corporate taxes from non-family businesses**

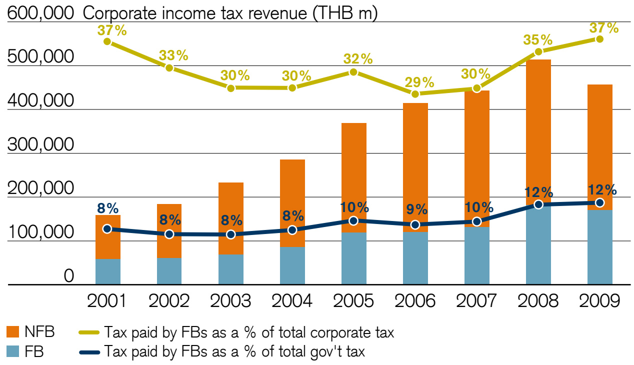


Figure 5 · **Family businesses account for 68% of total corporate hirings**

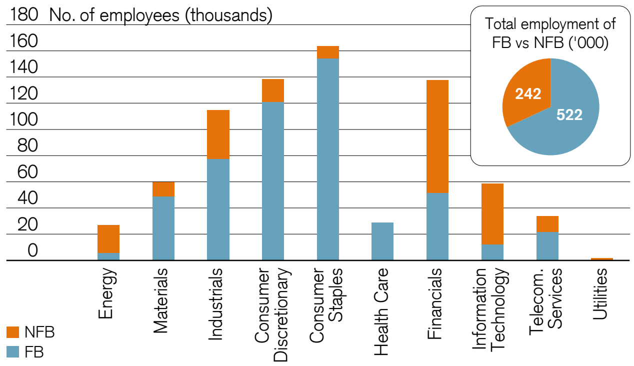
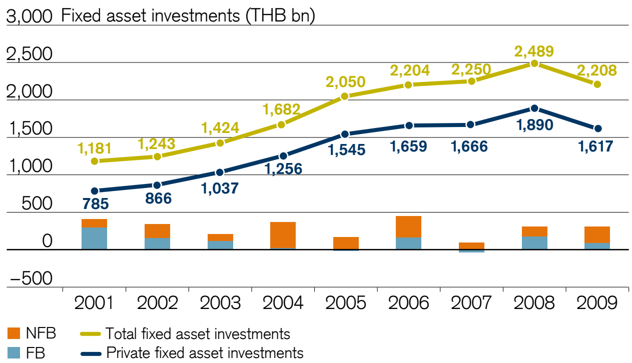


Figure 6 · **Fixed asset investments: No clear trend in importance of family businesses**



66% of Thai listed companies are family businesses. Yet, family businesses and non-family businesses vary in relative economic importance. The capitalization of family businesses as a share of the market is 48%, a level about midway among the ten Asian countries. Meanwhile, family business market capitalization as a share of nominal GDP is 42%.

Non-family businesses account for two thirds of corporate taxes (Figure 4). In 2009, listed family businesses only contributed 12% of total tax revenues, an average figure compared to the rest of Asia. Family businesses are responsible for 68% of total corporate hirings (Figure 5) and these are highest in the consumer staples sector. Fixed asset investments recovered slowly after the Asian financial crisis, mostly for replacement purposes rather than new investments. There is no obvious trend in the relative importance of both groups with a good proportion of investment outlays by family businesses in some years and non-family businesses in other years (Figure 6).

The Thai bond market has grown rapidly since the Asian crisis with bonds issued by both groups rising. However, non-family businesses are more active and issuances are denominated in Thai baht, US dollar and the Japanese yen. Debt is denominated only in Thai baht and US dollar for family businesses (Figure 7). Thailand long-term foreign currency ratings are Baa1/BBB+. Median credit ratings of companies with bond issuance are BBB+ for family businesses and A– for non-family businesses (Figure 8). Corporate ratings are almost entirely provided by local rating agencies; a few issuers carry international agency ratings above the sovereign rating.

Figure 8 · **Median ratings for family businesses are slightly below non-family businesses**

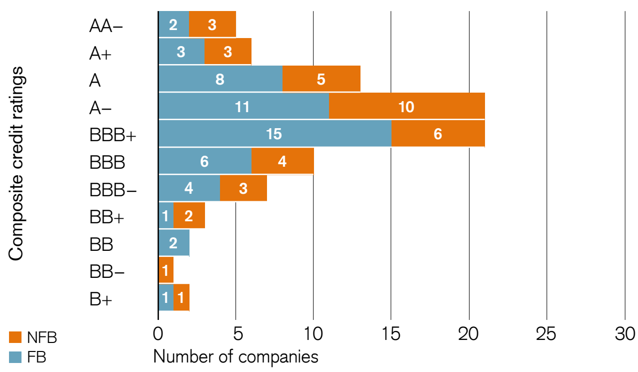
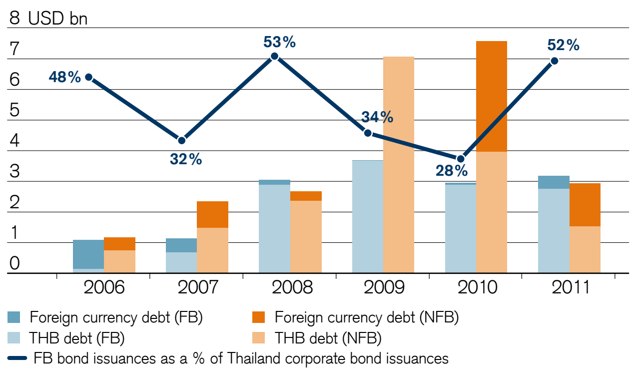


Figure 7 · **Much of corporate bond market growth attributed to non-family businesses**



All sources: International and local rating agencies, Reuters, Credit Suisse

Methodology

In this study, a family business is defined as a family-controlled company where a family or an individual holds at least 20% of the cash flow rights in the firm's shares. Studies suggest that control of family businesses can be achieved with significantly less than an absolute majority stake. According to these studies, 20% of the voting shares is sufficient to ensure conclusive influence over the family business (Claessens, 1999; Faccio & Lang, 2002).

The analysis of the key development trends and economic contribution of Asian family businesses is based on the study of 3,568 publicly listed family businesses with a market capitalization of over USD 50 million as of the end of 2010. This sample universe of Asian family businesses was short-listed from the broader universe of 7,733 listed companies with a market capitalization of over USD 50 million across ten Asian markets in China, Hong Kong, India, Indonesia, Malaysia, Singapore, South Korea, Taiwan, Thailand and the Philippines. For the identification of the ultimate owners of companies, direct ownership and indirect ownership via private and public entities, as well as cross-holdings were considered. Primary data sources used to determine shareholdings and family relations included individual company reports, company websites and databases including Factset, Bloomberg and Thomson Reuters.

The Credit Suisse Asian Family Business Basket and the respective local family business baskets of the ten Asian markets are market-capitalization weighted. The Asian family business baskets are rebalanced on 31 December each year during 2000–10, and comprise a total number of 1,279 listed family businesses that have a market capitalization of at least USD 500 million as at the rebalancing date. Performance of our Asian Family Business Basket is calculated in local currency terms for individual markets and in USD on the aggregated basis for the regional comparison. Indices are indexed to a value of 100 as at 31 December 2000. Widely-accepted local and regional benchmark indices are used as the benchmarks for comparison of the performance of the respective family business baskets.

Due to data quality issues observed in companies with a market capitalization of below USD 500 million, we have adopted a higher market capitalization threshold of USD 500 million for the universe of stocks for the equity analysis in this report, compared with the USD 50 million market capitalization threshold for the universe of the macroeconomic analysis. The threshold of USD 500 million market capitalization captures 90% of the total market capitalization of the universe of stocks used in the macroeconomic analysis of this report. In this report, all 2011 data are as at end of August 2011.

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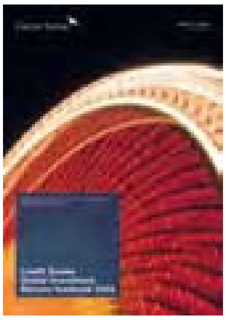

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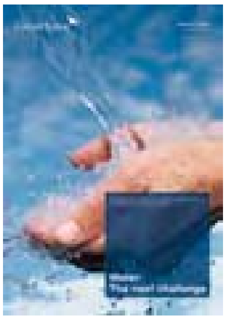

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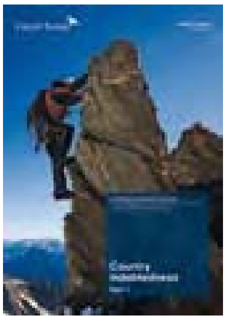

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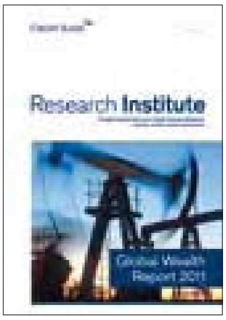

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