

FIN4112L

Corporate Governance & Financial Policy

Semester 1/2015, Thursday at 11:00 – 14:00

Venue: BIZ 1 # 02-01

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Course Description

Family firms form backbone of Asia and world economies. Family businesses are commonly thought to be small, unprofessional; and in most cases seldom survive three generations. There are, however, a number of success stories, for example, Hermes, Toyota, Merck, and Ford Motors. These firms are large, publicly traded, and controlled by the founding family for several generations. How do these families manage to grow their business internationally and perpetual their wealth for multiple generations? Why do most family firms not survive?

We analyze the family business model that highlights the role of the founding family in the firm. Many family members own ownership stakes and hold top positions at the firm. The family, therefore, has immense influence on corporate financial decisions. This can be harmful to the firm's value if the family chose corporate policies to please the family. We discuss how the family can put constraints on the firms on top of various roadblocks faced by the firm.

Learning Outcomes

This course analyzes the problems unique to family firms and discusses the solutions such as setting up good governance within the family and the firm to minimize such agency problems; structuring the ownership so as not to lose control while benefiting from external finance such as M&A, IPO, private equity funds; and succession planning.

The knowledge from this course is particularly useful to students who plan to join their family business. This course also guides students who plan to work in family office and private banking providing practical advice to high net worth families on wealth management, business, and succession planning. Managing the business is essential as most family business owners have their wealth invested in their business.

For students who plan to pursue their career in banks, private equity funds, M&A, and pension funds, this course provides knowledge to deal with family businesses, who are likely to be your clients or strategic partners. You might also work in a family firm and having the founding family as your boss. A good understanding of how family businesses operate is essential for doing business.

Course Modules

This is a case-based course. This course has the four main modules discussing the role of the family in the business. We use cases on family firms from various countries in Asia, Europe, and America to analyze the below issues.

1. **The family business model.** We analyze the strengths of family firms and key challenges that constrain growth. We discuss the family business model and analyze the mechanisms via which the founding family can affect the firm value.
2. **Financing growth & keeping family control.** We analyze challenges when the family decides to have access to external finance such as strategic partners, private equity, and public investors via IPO. One of the key issues is how to organize ownership and control structures to allow the family to maintain control while benefiting from external financing and the expertise of outside investors.
3. **The family & succession.** Planning for the transfer of ownership and management is one of the key issues for perpetuating the family's business and wealth. Succession in family business is complicated because family values and relationships play a major role. Further family businesses often fail as a result of family feuds. Good governance structures at the firm and family level can minimize the negative effects of family control on the business.
4. **Professionalizing family business.** Another key challenge is how to incentivize subsequent generations and keep the entrepreneurial spirit alive. Successful transition requires a well-crafted ownership, management, and governance structure.

The course plan also includes guest visits from family businesses.

Class Materials

The main materials are cases.

Prerequisite

The cases and class discussion are largely non-technical. However, students must have a good understanding of basic statistics and the basic concept of corporate finance. NUS students must have already passed FIN3101 Corporate Finance.

Assessments

Component	Weight
Class Participation and Discussion	30%
Test	40%
Group-based Projects	30%
Total	100%

Class Participation and Discussion (30%)

The learning method of this class is based on *discussion of cases*. Class attendance and participation are essential and contribute to 30% of your grade.

All class members are expected to come to all classes, well prepared by reading the materials, and contribute to the class by actively participating in the discussion. Examples of issues to be discussed will be listed in the course outline.

Positive contributions include responding to questions, even if not providing the “right” answers, as well as advancing the discussion by providing new ideas or insights, building on others’ arguments, or presenting a counterargument to others’ comments in a respectful manner.

Not reading the cases prior to class/no participation in class will be given the lowest score.

An excused absence is granted only if it is due to illness and must be documented and notifies me in advance.

Other class rules:

- Neither laptop nor mobile phone is allowed in this class.
- Students must be seated at the same seat from Class 2nd.
- Please use your nameplate in every class.

Projects (30%)

The projects are to be done in a group.

TEST (40%)

There will be a test at the end of the semester. Students will be asked to analyze cases using the knowledge discussed in class.

NOTE: The information in this syllabus is not final and may change.