

# Family Management, Family Blockholder, and Corporate Hedging Behavior: Evidence from Thailand

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## Theoretical Background

### Shareholder's Wealth Maximization

- A firm hedges for three reasons:
  - reducing expected taxes if the firm's tax schedule is convex (Smith and Stulz, 1985)
  - reducing the cost of financial distress (Smith and Stulz, 1985)
  - mitigating the *underinvestment* agency problem (Mayers and Smith, 1987)

### Managerial Risk Aversion

- Smith and Stulz (1985) and Tufano (1996)
- Managers' wealth are invested in the firm and is vulnerable to firm's cash flow fluctuations.
- Unaffiliated shareholders are more diversified than managers, i.e. they are not as affected to cash flow variability as managers.
- Managers, rather than the shareholders, drive the company's hedging decision.

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## Implication

### Shareholder's Wealth Maximization

- Firms with higher expected taxes, higher leverage, lower liquidity, and higher growth opportunities are more likely to be hedgers.

### Managerial Risk Aversion

- Managers might excessively implement income smoothing techniques such as diversification and hedging as a result of agency conflicts and differences in the managers' risk aversion (Denis *et al.*, 1997 and Aron, 1988)
- Firms with higher managerial ownership are more likely to be hedgers

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## Ownership & Management Control

- Family firms
- Pure blockholder (25% or higher equity ownership) with no board representation
- Villalonga & Amit (2006) and Andres (2008) study the relationship between family firms and performance
- Findings:
 

In the context of corporate governance, the effectiveness of family ownership depends on whether ownership is associated with management control.

In other words, family ownership is effective only if it is combined with family management.

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## Data

- Hedging information is hand collected from the financial footnotes of the 83 SET100 non-financial companies in 2006-2008.
  - A firm is considered a hedger if it uses one or more types of financial derivatives to hedge its exposure.
  - Dummy variable is used to represent hedging. That is, a firm is assigned the value “1” if it hedges by using derivative instruments and “0” otherwise.
- Company characteristics are obtained from the companies’ financial statements supplemented by information from SETSMART database and the Stock Exchange of Thailand website.
- The author chooses not to collect data from survey for there has been evidence that surveys normally lead to two biases:
  - non-response bias, and
  - reliability of information bias.

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## Variables

### Dependent Variable

- Hedging (all risks)
- Interest rate hedging
- FOREX hedging
- Commodity price hedging

### Independent Variable

- Managerial Control
- Ownership structure
- Growth
- Leverage
- Liquidity
- Alternatives to hedging

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## Independent Variables

- **Managerial Control**
  - Family management
- **Ownership structure**
  - Blockholder, Family blockholder, Institutional blockholder, ESOP warrants/share, Warrants/share
- **Growth**
  - Market-to-book, dividend payout
- **Leverage**
  - EBIT/Interest, Debt-to-equity, Debt-to-asset, Debt-to-firm-value
- **Liquidity**
  - CA/CL, Long-term-debt-to-debt-value
- **Alternatives to hedging**
  - Convertible debt/value, Preferred stock/value, Dividend yield

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## Methodology

### Univariate Analysis

- Companies are categorized into
  - overall hedgers and overall non-hedgers
  - interest rate hedgers and interest rate non-hedgers
  - foreign exchange hedgers and foreign exchange non-hedgers
  - commodity hedgers and commodity non-hedgers
- The mean value of each company characteristic is calculated and compared between hedgers and non-hedgers.
- The p-value from the t-test (to test equality of the means) is reported for significance of the difference between the means.

### Logistic Regression

- The logistic (LOGIT) regression analysis is carried out in which the dependent variable is the corporate hedging dummy variable and the independent variables are company characteristics affecting corporate hedging.
- Taking one variable from each company characteristics category, there will be 48 LOGIT equations for each type of hedger. That is 192 LOGIT equations in total.

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## Empirical Results

- Univariate Results
- Logistic Results

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## Conclusion 1

- 55 out of 83 (66.3%) companies are hedgers.
- Companies hedge FOREX exposure the most (63.9%). Interest rate and commodity price exposures are hedged significantly less (34.9% and 9.6%)
- Derivative instruments used are OTC contracts such as:
  - interest rate swaps, interest rate caps, and cross-currency interest rate swaps
  - currency forwards, currency swaps, and cross-currency interest rate swaps. Very few use currency options
  - commodity forwards and commodity swaps

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## Conclusion 2

### Shareholder's Wealth Maximization

- Univariate Analysis
  - Corresponding to the hypothesized relationship:
    - all (but a few) growth, leverage, liquidity, alternatives to hedging variables
  - Against the hypothesized relationship:
    - Interest coverage, liquidity ratio, preferred stock

### Managerial Risk Aversion

- Univariate Analysis
  - Corresponding to the hypothesized relationship
    - Family management, Blockholder, Warrants/share, ESOP warrants/share
  - Against the hypothesized relationship:
    - Family blockholder, Institutional blockholder

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## Conclusion 3

### Shareholder's Wealth Maximization

- LOGIT Analysis
  - Consistent sign
    - Market-to-book(+),
    - Dividend payout (-),
    - Ebit/Interest (+),
    - Debt-to-equity (+),
    - Debt-to-firm-value (+),
    - Long-term-debt-to-debt-value (+),
    - Convertible debt (-),
    - Preferred stock (+)

### Managerial Risk Aversion

- LOGIT Analysis
  - Consistent sign
    - Family management (+),
    - Family blockholder (-),
    - Institutional blockholder (+),
    - ESOP warrants/share (+)

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## Appendix

Company	Institutional blockholder	Hedger?
BCP	บริษัท สยามดีอาร์ จำกัด	Yes
EGCO, RATCH	การไฟฟ้าฝ่ายผลิตแห่งประเทศไทย	Yes
LANNA	ปูนซีเมนต์นครหลวง	Yes
SCC	สำนักงานทรัพย์สินส่วนพระมหากษัตริย์	Yes
ESSO	ExxonMobil International Holdings Inc.	No
AOT, THAI, PTT, MCOT	กระทรวงการคลัง	Yes, Yes, Yes, No
PTTAR, PTTEP, PTCH	PTT	Yes, Yes, Yes
DTAC	TELENOR ASIA PTE LTD	Yes
DELTA	CITIBANK NOMINEES SINGAPORE	Yes

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Company	Family blockholder	Family management	Hedger?
CPF	กลุ่มบริษัทในเครือเจริญโภคภัณฑ์	2	Yes
UVAN	VANICH family	2	Yes
SAT	KITAPHANICH family	4	Yes
LH	อนันต์ อัครโกสิน	1	No
BLAND	LH	4	No
AP	อนุพงษ์ อัครโกสิน	1	No
CK	กลุ่มตระกูลตวีวิศเวทย์	2	Yes
CPN	Chirathivat family	7	Yes
TIPL	LIEWPHAIRATANA family	6	Yes

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