The due diligence that investors in family businesses must not skip
By By Yuanto Kusnadi and Kenneth Goh

The Business Times, Page 15, Section: OPINION
Monday 20 July 2026
882 words, 1054cm² in size
42,600 circulation

A company can be operationally sound and still treat its outside shareholders as an afterthought.
PHOTO: BT FILE

The due diligence that investors in family businesses must not skip

Minority shareholders need to understand specific risks to watch for in filings

By Yuanto Kusnadi and Kenneth Goh

IF YOU invest in a family-controlled company, you are buying into a structure in which the people in charge belong to a family you cannot outvote and may never meet.

Across much of Asia and on Singapore's own exchange, families still control a large share of listed entities.

For a minority shareholder of such companies, the true risk is not just business performance. It is how that family chooses to exercise its control.

A familiar family name usually reassures.

Decades of steady dividends and institutional presence easily stand in for the rigorous diligence an outside shareholder fails to do. However, a company can be operationally sound and still treat its outside shareholders as an afterthought.

Look past the name

This risk rarely manifests in a single dramatic event. Instead, it leaves a paper trail of incremental decisions in the regulatory filings that move value away from public shareholders.

These risks typically cluster around a few common corporate events.

The most frequent is a listed company purchasing property from a private vehicle owned by the chairman.

An independent valuer signs off on the price as fair, and the valuation report answers the question it was asked. It does not ask why the listed company needed to buy the property in the first place.

The same logic runs through recurring annual arrangements. Management fees, licensing charges and supply or service contracts with the family's private companies move a steady stream of money out of the listed entity.

Any single transaction appears minor. Taken together over several years, they amount to a meaningful transfer of value.

Even a large cash balance, usually read as a sign of strength, can mask governance risk. Cash is the asset most easily kept beyond the reach of minority shareholders.

In a 2011 study of Singapore and Malaysian companies, the first author found that companies with weaker governance held more cash, and that the market valued them lower, because investors price in the chance that the cash works for the controlling family rather than the minority shareholders.

Then, there are the placements that hand the family more shares cheaply while thinning everyone else's stake, and the privatisation offers pitched low when the family decides it wants the company back.

Each has its own commercial explanation. The pattern across several years of disclosures tells you whether the decisions have favoured all shareholders, or mainly the controlling one.

Behind much of this is the gap between control and ownership.

Seminal research by economists Stijn Claessens, Simeon Djankov and Larry Lang documented that families across East Asia routinely hold control through pyramids and cross-holdings, so that their voting power runs well ahead of the capital they have at risk.

A family can hold half the votes, despite owning a fifth of the economics. It decides how the cash and assets are used, while carrying only part of the cost when these resources are used badly.

Minority shareholders cannot undo those decisions, which is why the independence of the board matters more than the size of the balance sheet to an outside shareholder.

The earlier study on Singapore and Malaysia companies found that the cash problem was significant when the board was weakest in companies with larger boards, one person as both chairman and chief executive, and when the control was held through a pyramid.

Shareholder safeguards in Singapore

Singapore gives minority shareholders one real safeguard here.

When a related-party transaction exceeds 3 per cent of net tangible assets, it must be announced. At above 5 per cent, it needs a shareholder vote.

The listing rules require the controlling family to stand aside. That abstention is the clause with teeth.

The family cannot vote, and the decision passes to the independent shareholders. This makes a difference at a moment where interests are most likely to diverge between independent shareholders and the family.

Such safeguards are not watertight, but they force the larger deals into the open and give minority shareholders a voice, provided they read the circulars and vote.

A generation of Asian founders is now handing over, passing companies to heirs who may stand further from outside shareholders than the founder ever did.

While founders often have a personal reputation tied to the business, successors inherit control without necessarily sharing the same attachment.

As the family circle widens, the pressure to treat the listed company as a private source of funds grows.

A family name is an anchor of stability, but it is not a substitute for scrutiny. How a controlling family behaved when its interests diverged from the public is already embedded in the public record.

Investors who look past the name and into the filings will see exactly which families have rewarded their outside shareholders, and which have left them behind.

Dr Yuanto Kusnadi is an associate professor (education) at the Singapore Management University's School of Accountancy. Kenneth Goh is director of private wealth management at UOB Kay Hian. The views expressed in this article are personal and do not constitute investment advice.