

Family Control and the Implied Cost of Equity: Evidence before and After the Asian Financial Crisis

Abstract

We use the high-profile East Asian financial crisis of 1997-1998 to examine the link between family control and agency costs as evident in the firms' cost of equity financing—our proxy for the extent and significance of agency problems. Before the crisis, we find that family control is unrelated to the firms' equity financing costs. However, following the crisis, we find strong evidence that family control is related to a higher cost of equity, suggesting that investors became more alert to the extraction of private benefits and expropriation by controlling families. The weak investor protection prevalent in these countries did not help to mitigate these effects.

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