

HOLDING COMPANIES: A STRUCTURE FOR MANAGING DIVERSIFICATION

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The holding company as an organization structure for managing diversification and growth of business operations in the Philippines and in other countries is discussed in this paper. It includes a discussion of: 1) the evolution of holding companies in the United States, South Korea, China and in the Philippines; 2) some advantages of forming holding companies in the Philippines and in other countries; 3) some disadvantages of forming holding companies; and 4) control issues arising from holding company-subsidary relationships.

Keywords: Holding companies, diversification, M-form

I. INTRODUCTION

This paper is a study on the holding company as a form of business organization for managing diversification. Literature in financial economics suggests that the holding company structure is a less efficient form of business organization for managing firm diversification than the unitary or “M-form” of business organization. However, in the Philippines, as in many newly developing economies, the holding company structure appears to be the preferred and more widespread mode for organising the businesses of diversifying firms. For example, among the five largest listed companies in the Philippine Stock Exchange

(PSE), i.e., Ayala Corporation, SM Investment, PLDT, Ayala Land, Inc. and Bank of the Philippine Islands, two are holding companies while the other three have multiple subsidiaries.

This paper will look into the evolution of the holding company structure in a number of developed and developing countries including the Philippines and will describe the perceived advantages of the holding company structure for managing diversification. The paper will also look into some issues in management control in holding companies vis-a-vis their subsidiaries.

II. LITERATURE REVIEW

Bonbright and Means (1969) defines a holding company as “any company, incorporated or unincorporated, which is in a position to control, or materially to influence, the management of one or more other companies by virtue, in part at least, of its

ownership of securities in the other company or companies.” Ballantine (1946) refers to a parent or holding company as one which controls another as a subsidiary or affiliate by the power to elect its management. Affiliates are those concerns which are subject to

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common control and operated as part of a system. The BusinessDictionary.com (n.d.) refers to a holding company as “a type of business organization that allows a firm (called parent) and its directors to control or influence other firms (called subsidiaries). The legal definition of a holding company varies with the legal system. Some require holding of a majority (80 percent) or the entire (100 percent) voting shares of the subsidiary whereas other require as little as five percent.” In all these three definitions, the important role of a holding company that is emphasized is the “control” of other companies through ownership of stocks which gives it the “power” to elect management. Bonbright and Means (1969) defines “controlling interest” as having the power to determine the policies of a company through the ability to elect all or a majority of the board of directors – including those companies that exercise a material influence over other companies as the result of a significant minority holding. FASB Statement No. 94 (1987) defines “majority-owned” subsidiaries as an investor’s direct or indirect ownership of more than 50 percent of an investor’s outstanding common stock (Larsen, 2006).

Hanafizadeh and Moayer (2008) classifies holding companies into: 1) investment holding company, and 2) managerial holding company. The investment holding company derives its profits solely from the investments in the securities of its subsidiaries. The managerial holding company in addition to earning from subsidiary’s profits, also intervenes in the subsidiaries’ transactions. A third type of holding company is the operating holding company that is also in the business of selling some products or services to its own customers in addition to having investments in subsidiary firms.

The holding company emerged as a common form of business organization in the United States around 1900. Prior to 1888, US holding companies were founded by

special legislative acts given as charter privileges for railroad and communication firms. It was only in 1888 when the state of New Jersey added to its general corporation law provisions allowing a corporation to hold stocks in other corporations (Bonbright & Means, 1969, p. 57). In Pennsylvania, between 1868 and 1872, about forty corporations were established as pure holding companies by special acts of the Pennsylvania legislative (Bonbright & Means, 1969, p. 59). Some of these holding firms engaged in businesses that their subsidiaries were explicitly prohibited to undertake (Bonbright & Means, 1969, p. 62).

Bonbright and Means (1969) cites four uses of holding companies in the US, namely: 1) to centralize management or control of two or more independent companies, 2) to achieve unified financing for two or more companies, 3) to raise large capital for subsidiaries that have limited access to financing or are restricted to do so by regulatory agencies or for various other reasons and, 4) to maintain control with a minimum amount of capital investment or to use a holding company as a means of pyramiding¹ control.

The late 1960s witnessed the increase in the formation of insurance holding companies in the US – this period was referred to as the era of holding companies in the field of insurance. An example is the establishment of CNA Finance Corporation as a holding company during the same period. Reasons for the establishment of the CNA Financial Corporation are (Kedzie, 1969, p. 87): 1) to place major companies under a single set of shareholders (Continental Casualty Company and the Continental Assurance Company and their subsidiaries/affiliates); 2) to provide CNA clients with a full range of financial services; 3) to hasten its entry into related financial services through acquisitions; and 4) to enable it to invest surplus resources in investments yielding higher returns and to enable participation in types of investments

not available to insurance companies. The holding company, CNA Finance Corporation, would not be an 'operating holding company' in that no product or service could be purchased from it. It was limited to the following activities: 1) to plan for its own activities and to coordinate the planning activities of its subsidiaries; 2) to control, without managing, the activities of its subsidiaries; and 3) to acquire additional business firms according to plan.

The Bank Holding Company Act was enacted in 1956 (Obi & Emenogu, 2003, p. 9). In 1982, the Export Trading Company Act was passed which allowed US banks to create export trading companies that offer services such as export insurance coverage, transportation and warehousing of saleable products, trade financing and investment research. The Financial Services Modernization Act of 1999 allowed financial service providers to be organized as financial holding companies offering banking, insurance, securities and other financial services. By 1995, there were approximately 6,000 bank holding companies controlling about 7,500 commercial banks and held approximately 94 percent of the assets of all insured commercial banks in the U.S. (Obi & Emenogu, 2003, p. 12). According to Stiroh, by 1997, only 17 percent of all FDIC-insured assets were held by independent bank and thrift institutions (as cited in Yamori, Harimaya & Kondo, 2003, p. 360) while the rest were established as bank holding companies.

In Japan, major "zaibatsus" established holding companies and made their businesses independent joint-stock companies, whose stocks were owned by the holding companies. Zaibatsus existed as early as the 19th century. These were large family-controlled vertical monopolies consisting of a holding company on top with a wholly-owned banking subsidiary providing finance and several industrial subsidiaries dominating specific sectors of a market either solely or through a number of sub-subsidiary

companies ("Zaibatsu," n.d.). The big four zaibatsus were the Mitsubishi, Mitsui, Sumitomo and Yasuda groups. Mitsui and Sumitomo operated during the Edo period (1603 – 1868) while Mitsubishi and Yasuda trace their origins to the Meiji Restoration (after the Edo period). The role of the zaibatsus were: 1) to invest capital in affiliates; 2) to monitor performance/efficiency of affiliates; 3) to assign staff to be directors of affiliates; 4) to approve 'ex-ante' decisions of the board of affiliates (Mitsui and Mitsubishi); 5) to approve 'ex-ante' budgets of affiliates; and 6) to audit accounts and businesses of affiliates (Okazaki, 2004, p. 387).

The "zaibatsus" were dissolved in the late 1940s by General Douglas MacArthur. However, following this, "keiretsus" were established (1945). Keiretsu is a set of companies with interlocking business relationships and shareholdings ("Keiretsu", n.d.).

The Anti-monopoly Law was amended in 1997 and made effective in December 1997. The amendment allows the establishment of pure holding companies except when the holding companies would have excessive monopoly power. Before 1997, the Anti-monopoly Law only allowed industrial companies to have subsidiaries such as Toyota and Hitachi which were "industrial holding companies" (Yamori, et al., 2003, p. 362). Since the amendment of the Anti-monopoly Law, all the Japanese major banks established bank holding companies such as the following: 1) the Mitsubishi Tokyo Financial Group (MTFG) – April 2001; 2) UFJ Holdings – 2001; and 3) Mitsui-Sumitomo Financial Group – 2002. As of March 2003, UFJ Holdings had 115 consolidated subsidiaries (Yamori et al., 2003, p. 364).

The CSK Holding Corporation is another example (CSK Holdings Corporation annual report, 2005, pp. 10-11). In October 1968, Computer Service Corporation (CSC) was established in Osaka, Japan to offer systems

integration services and computer room administrative services. On October 2005, CSC adopted the holding company structure and changed its name to CSK Holdings Corporation. Reasons for the change in structure include: a) to increase management flexibility, and b) to accelerate entry into new business areas. The holding company had the following functions:² 1) to oversee and appraise business execution at CSC's operating companies; 2) to decide strategic scope of business – in which business areas to operate and how to pursue growth; define business scope of each group company; and, allocate operational responsibilities; 3) to optimize allocation of management resources; and 4) to enhance communication within the group.

In South Korea, during the regime of Park Chung Hee (1961 – 1979) large, highly-diversified, family-controlled conglomerates known as “chaebols” had strong ties with government agencies, (Watkins, n.d.). This state-corporate alliance was modeled by Park after the “zaibatsu system” in Japan. However, unlike the zaibatus, Park granted some government privileges to some favored “chaebols” allowing them to grow very large. Many “chaebols” borrowed large sums of money which led to their insolvency in the 1997 Asian crisis. Some chaebols were, in fact, seen as being responsible for the economic crisis at the time. Chaebols had closed family ownership structure and as such, the family solely made the decisions for the conglomerate. Chaebol heads or their family members had absolute power based on their vast stock ownership. Examples of chaebols in Korea are Samsung, LG, Hyundai and Daewoo. In 1998, President-

elect Kim Dae-jung together with five tycoons of Korean chaebols drastically reformed the business practices of the chaebols by adopting the following reforms: 1) to hold chaebol leaders more accountable for managerial performance; 2) to be more transparent; 3) to improve financial performance; 4) to focus on core businesses, and 5) to eliminate loan guarantees among affiliates. The following year, reforms added three more to the reform agenda: 1) prevent circular investment and unfair transactions among chaebols; 2) prevent improper gifts or bequests to chaebol heirs; and 3) prohibit the domination of finance by industrial capital. As regards the last, the Korean government sought to rely on foreign capital as an effective means of restructuring to reduce the absolute power of chaebol heads or their family members based on their vast stock ownership. The objective of the reforms is to build an Anglo-American governance system (Yanagimachi, 2004, p.5).

In China, the first Chinese holding company (CHC) regulation was promulgated in 1995. However, holding companies were subject to various restrictions and limitations particularly on providing financing to subsidiaries and doing business with subsidiaries. For example, it was only in 2003 that regulation allowed a CHC to provide leasing services to its subsidiaries. In 2004, regulation expanded the scope of activities of a CHC and permitted a CHC to serve as a Regional Headquarters Company (RHC). As an RHC, the CHC is allowed to conduct additional business activities permitted for a CHC, e.g., acting as subcontractor for Chinese and foreign companies.

III. SOME DISADVANTAGES OF HOLDING COMPANY FIRMS

Williamson (1975) compared the multi-divisional structure or the M-form with a holding company (HC) firm. The author

traced the origin of the M-form to DuPont Company and General Motors in the 1920s as these evolved from the unitary or U-form

structure when their operations became too complex for functional division officers to handle efficiently. The M-form designed the organizational structure mainly along product, brand or geographic lines. Williamson noted that the M-form is a better structure than the HC form for the following reasons: 1) cash flows in the M-form structure are not automatically returned to their sources but are allocated to high-yield users determined through internal competition. Investment proposals from various divisions are evaluated by general management; 2) salaries and bonuses of managers can be easily adjusted to reward their performance; and 3) internal auditing of division's performance can be efficiently implemented because division managers are subordinates of top management unlike the managers of holding companies who report to a different set of Board of Directors.

Heppelmann and Wrona (2009) wrote in their paper that the capital market values holding companies with a discount of 5 to 10 percent on average and even up to 20 percent for the following reasons: 1) holding company management are not actively involved in subsidiaries' operations. Target

setting and allocation of capital resources are both based on budgets or bottom-up plans and are frequently politically motivated making holding companies merely an additional consolidation level; and 2) holding companies' role are restricted only to the disposal of unprofitable business units. Stringham and Leauanae (2005) in their study also indicated four basic types of applicable discounts to holding companies: 1) liquidation discount; 2) discount for lack of control; 3) discount for lack of marketability; and 4) cotenancy discount (which is a discount for an undivided interest in real estate). A discount for lack of control refers to inadequate controlling interest that will allow a buyer to manage the assets or control investment decisions. A discount for lack of marketability refers to stocks that are not publicly-listed. Rommens, Deloof, and Jegers, (2003) in their study, likewise explained why holding companies trade at a discount, as follows: 1) holding company costs (e.g., taxes, operating costs) outweigh the benefits; 2) lack of liquidity of its investments; and 3) private benefits of control for the controlling stockholder at the expense of other stockholders.

IV. PHILIPPINE HOLDING COMPANIES

In the Philippines, Article 36 (11) of the Corporation Code or Batas Pambansa 68 (Corporation Code of the Philippines 1980) allows corporations "to exercise such powers as may be essential or necessary to carry out its purpose or purposes as stated in its articles of incorporation." Furthermore, the power of a corporation to invest in stocks of another company may be found in the company's articles of incorporation or as part of its implied powers by virtue of Section 36 (11) of the corporation code which allows Philippine corporations to form and invest in subsidiaries. Batas Pambansa 68 superseded Act 1459 of 1906, the first corporation law in the Philippines.

The Philippine Commission enacted Act 1459, a general law authorizing creation of corporations in the Philippines. This Act was a codification of American corporate law (Nolledo, 1980, p.169). Act 1459 replaced Sociedad Anonima (1888), the first legal corporate concept in the Philippines governed by the Code of Commerce of Spain (Nolledo, 1980, p.169). Under Sociedad Anonima, the liability of the members was limited to their capital investments and the managers were appointed by the members. Act 1459 (Section 6) allowed corporations to organize for any purpose or purposes and "to transact the business for which it was lawfully organized, and to exercise such

powers and to perform such acts as may be reasonably necessary to accomplish the purpose for which the corporation was formed” (Section 13 (3), Act 1459). Likewise, Section 13(5) allows corporations to purchase, dispose of, convey or otherwise deal with real and personal property (which includes shares of stocks) provided such transactions are permitted by the purpose of the corporation as indicated in its article of incorporation. However, those engaged in the business of transportation, (by land or by water) or maintaining a telephone or communication service were limited to said purposes only. Likewise, Act 1459 included special or separate provisions for the organization of the following: 1) railroad corporations, 2) savings and mortgage banks, 3) commercial banking corporation, 4) trust corporation, 5) insurance corporations, 6) colleges and institutions of learning, and 7) building and loan associations. No corporation was allowed to exercise mixed functions of these corporations covered by special provisions of Act 1459.

The special provisions of Act 1459 provided for the regulation of these corporations by specific government agencies such as the Central Monetary Authority. For example, because of the restrictions imposed by Act 1459, this might have led to the establishments of holding companies between 1906 and 1980 by corporations that diversified to other businesses. Ayala Corporation, founded in 1834 as Casa Roxas, was engaged in farming sugar, coffee, cotton and indigo, in manufacturing liquor, metal castings and gun powder, and in various trading and mining concessions. In 1851, it invested in a subsidiary corporation, Banco Español Filipino de Isabela Segunda (now Bank of the Philippine Islands). In 1910, Insular Life Assurance Company was established, the first Filipino life insurance firm. In recent years, other subsidiaries were established, e.g., Ayala Land Inc. (1960), Globe Mackay Cable and Radio Corporation

(1974) and Integrated Microelectronics Inc. (1988).

A survey of some advantages of and reasons for establishing HCs in the Philippines was conducted. Executives from nine Philippine holding companies (HCs) were interviewed and the results of the interviews are summarized as follows:

1. ***Leverage, ownership control, fund access.*** The holding company structure makes possible ownership control even with limited investment. For example, a holding company may acquire control of a large volume of assets of another company by acquiring majority control of that company.

Also, a holding company may successfully enter a new business and limit its risk exposure by entering into joint venture with another firm. Globe Telecoms, Ayala Corporation’s telecom subsidiary, is a joint venture with Singapore Telecoms. Another example is Maynilad Water Company which is jointly owned by Metro Pacific Investments and DM Consunji, Inc.

Philippine banks normally prefer to lend directly to a subsidiary corporation because the use of the loan is directly traceable to the firm’s projects or operations. Furthermore, the subsidiary corporation can provide collateral for the loan from its own assets. By borrowing directly from lending institutions, subsidiaries minimize risk exposure of parent company stockholders. Subsidiary loans need not be guaranteed by the parent company. Generally, the financial exposure of the holding company is limited to the equity of the holding company. It also limits any “political” intervention to the subsidiary, e.g., recent senate investigations of telecom firms.

2. ***Regulatory requirement.*** There are Philippine industries that are subject to

special laws which require that their operations and activities be regulated by government agencies. Corporations belonging to these industries must operate as separate corporations or subsidiary corporations of holding companies. For example, under Republic Act (RA) 9136, the Philippine Electric Power Industry sector is limited as to the scope of businesses that electric power firms may engage in. Section 26 of RA 9136 limits the scope of businesses of distribution utilities to any related business undertaking which maximizes the utilization of their assets. In 2003, RA 9209 granted Meralco a 25-year franchise to construct, operate and maintain an electric distribution system. The First Philippine Holdings Corporation, through First Philippine Utilities Corporation, has a 33.39 percent stake in Meralco. Likewise, the concession agreement signed by Manila Water Company Inc. (MWCI) with Metropolitan Waterworks and Sewerage System (MWSS) grants MWCI the sole right to undertake specific activities, i.e., to manage, operate, repair, decommission and refurbish all fixed and movable assets required to provide water and sewerage services in the East zone for a period of 25 years under RA no. 6234. Business licenses to perform certain businesses such as foreign exchange dealerships are also issued to specific corporations.

In recent decades, because of the major privatization programs of the government, many subsidiary corporations were created by Philippine holding companies to operate capital intensive enterprises in power generation and transmission, water utilities, highway construction and toll operations, and mass transportation and port operations, among others.

3. ***Compensation and personnel issues.*** Heads of subsidiaries carry the title "President". Filipino executives prefer this title and is considered by them as more prestigious than that of say, "Executive Vice President" for the manager of a business segment in a conglomerate (i.e., non-holding company) form of business organization. Executives of subsidiaries prefer that their compensation is tied to the subsidiary's performance which is directly under their control. (In a non-holding company conglomerate, there could be some common uncontrollable costs that are allocated to divisions.)

Different industry sectors may have different compensation systems. If subsidiaries are not established for different industry sectors, bargaining with labor unions and administering salaries could be difficult for a conglomerate that operates as one business organization. Furthermore, stock option plans as incentives to management might be more attractive at the subsidiary level. For example, MWCI, has an Executive Stock Option Plan wherein the shares of the firm can be distributed from time to time to deserving officers with the rank of Manager 2 and above at a specified strike price. Employees will appreciate better stock option plans as part of their compensation if the performance of the corporation is seen by them to be within their control.

4. ***Expansion in international markets.*** Subsidiaries are also formed when a conglomerate expands in international markets in partnership with other firms. Establishing subsidiaries with local firms from the host country is a method of mitigating some of the barriers associated with marketing products and services in a foreign country. Some entry barriers are: language, culture, laws and regulations,

resistance to foreigners and their products and services, and foreign exchange considerations (Echanis, 2008). For example, San Miguel Pure Foods Company Inc (SMPFC) is a 99.92 percent owned business of San Miguel Corporation. It was incorporated in 1956 to engage primarily in the business of manufacturing and marketing of processed meat products. SMPFC formed a subsidiary, PT San Miguel Pure Foods Indonesia (PTSMPTFI) which owns 75 percent with the remaining 25 percent, owned by La Salle Financial Inc. of Indonesia to manufacture and distribute processed meat in Indonesia (SMC SEC Form 17-A, p. 6). Likewise, a separate holding company may also be established for group of companies established in foreign countries such as the AG Holdings Limited of the Ayala group of companies. The latter is the holding company for the Ayala group's international property investments in Hong Kong, Indonesia, Singapore, Malaysia, Thailand and the US. Likewise, San Miguel Brewing International Ltd – a wholly-owned subsidiary of San Miguel Corporation Incorporated in the British Virgin Islands has the following subsidiaries: San Miguel Brewery Hong Kong Ltd., PT Delta Djakarta Tbk (PT-Delta), San Miguel Bada (Baoding) Utility Co. Ltd. (SMBB), San Miguel (Baoding) Brewery Co. Ltd., San Miguel Brewery Vietnam Ltd. (SMBV) and San Miguel Beer (Thailand) Ltd. (SMHT).

5. ***Expansion in local markets.***

Subsidiaries are formed when the scope of business has become too large or quite diversified to be efficiently and effectively managed by top management. For example, First Philippine Holdings Corporation formed subsidiaries for the power generation, power distribution, real estate development, construction and

manufacturing sectors. Subsidiaries are also formed to cater to different market segments. For example, Ayala Land Inc. (1990) formed wholly-owned subsidiaries Avida Land Corporation which sells affordable housing units for middle-income labor sector and Alveo Land Corporation (2002) to tap the upper middle-income labor sector. In 2009, it formed a new subsidiary targeting the low income sector. Housing units to be sold to the latter will be between P600,000 and P1.25 million.

6. ***Joint ventures for specialized-industry projects.***

There are investors who are interested in specific industries only. Thus, subsidiary corporations are formed for specific businesses in order to attract equity investments. For example, MWCI is a joint venture among Ayala Corporation, United Pacific Holdings (a subsidiary of United Utilities PLC) BV, Mitsubishi Corporation and BPI Capital. United Utilities is the UK's largest listed water company. As such, its interest is in water business and MWCI, a subsidiary corporation, facilitates the joint venture with Ayala Corporation and the other major stockholders. Under the concession agreement, limited utilities PLC (the International Water Operator) is a 'necessary' partner in the joint venture throughout the concession period. Subsidiaries are also formed to limit the risk exposure of investors in specific businesses. For example, real estate developers establish corporations for each condominium project. If the project does not sell well in the market, losses are contained in the subsidiary corporation only.

7. ***Tax benefits.*** Distribution of profits in the form of dividends by subsidiaries to holding company is not subject to income tax (National Internal Revenue Code, Section 27 (D) (4)). Holding

company officers/stakeholders can in turn enjoy more 'perks' or non-financial benefits (non-taxable) contributed by several subsidiaries to the holding company which may not be politically correct to enjoy at the subsidiary corporation.

8. *Establishment of service units for conglomerate.* Subsidiaries are also established to serve as service units to a group of companies that have a common need for the service. For example, HRMALL, Inc. is a wholly-owned subsidiary of Ayala Corporation which is a shared service center for HR across the Ayala group.

What are the Control Issues?

1. *Appointment of key officers.* One important control issue in holding companies is the appointment of key officers. As a general rule, presidents or CEOs are appointed by the HCs. Other HCs also appoint the controllers or CFOs. Unified control is also achieved through interlocking directorates. In most family-owned HCs, family members are in the board of all subsidiaries. In Japan, in many cases, holding companies assign staff members to affiliates as directors.
2. *Control mechanisms and decision-making.* Mitsui and Mitsubishi holding companies approved all decisions made in board meetings of affiliates "ex ante". Furthermore, Mitsubishi HC approved all budgets of affiliates. HCs like Mitsui and Mitsubishi had an internal organization that monitored affiliates. Mitsui had the Inspection section that audited reports of affiliates and Mitsubishi had a Monitoring section that audited the affiliates (Okazaki, 2004, p. 387). In the US, larger bank holding companies generally recognize the need

to establish some kind of control mechanism. Most holding companies move quickly to set up a budget evaluation program enabling them to review the plans, goals and performance of their subsidiaries. Decisions on financial and dividend policies are also centralized from the beginning. Centralized control is frequently imposed on newly-acquired firms while decentralized control or subsidiary autonomy tends to work well in management firms that have management skills not available at the holding companies or in any of the subsidiaries. (Longbrake, 1974, p. 17). Selected Philippine firms surveyed measure the performance of subsidiaries by comparing approved budgets or target net income with actual data. Performance of other subsidiaries of HCs is measured using return on equity ratio. Performance of subsidiaries is measured against ROIs and net income that HCs prescribe.

3. *Coordination meetings with subsidiary heads.* Control is also exercised by holding companies by regularly meeting with subsidiary heads. In Phinma, monthly Board of Directors' meeting of subsidiaries are attended by the Executives of Phinma, the holding company. In Ayala-owned subsidiaries, once a month, there is a group management meeting attended by heads of subsidiaries at the parent firm to discuss what's going on in their businesses and how the group can take advantage of opportunities enjoyed by some subsidiaries. Furthermore, heads of Ayala Corporation (AC) subsidiaries are merely seconded to the subsidiaries and are paid by AC.
4. *Monitoring inter-company transactions.* It is quite possible for the holding company and its affiliates to transact

with each other (e.g., transfer pricing or pricing of services). Regulatory agencies, e.g., Bangko Sentral ng Pilipinas or Securities and Exchange Commission, should monitor and audit these transactions such that transactions

between holding companies and subsidiaries are not made at the expense of minority stockholders or in the case of public utilities, at the expense of the public.

V. SUMMARY AND CONCLUSIONS

This paper discussed the evolution roles of holding companies in the Philippines, US and in some Asian countries. The primary responsibilities of holding companies in these countries include: 1) provision of funds (loan or equity) to subsidiaries; 2) monitoring of performance or efficiency of affiliates; and 3) involvement in the determination of the subsidiaries' scope of business.

Williamson's paper discussed some of the advantages of the M-form structure. However, in developing countries such as the Philippines, the holding company

structure is preferred for the following reasons: 1) leverage, ownership control, fund access; 2) regulatory requirements; 3) compensation and personnel issues; 4) expansion in international markets; 5) expansion in local markets; 6) joint ventures for specialized-industry projects; 7) tax benefits; and 8) establishment of service units for conglomerate.

The need for financial leverage and the requirements of the regulatory environment appear to be the most compelling reasons for the widespread use of the holding company structure in the Philippines.

NOTES

¹ Pyramiding means the use of a number of holding companies placed on top of each other.

² CSK Group includes the following corporations: 1) CSK Network Systems (1985); 2) JIEC Co. Ltd (1985) – a joint venture with IBM Japan, Ltd; 3) Quo card Co. Ltd (1987) – a prepaid card business; 4) CSK Finance Co. Ltd (1991); 5) CSK Call Center Okinawa Co. Ltd (1998); 6) Veriserve Corp (2001) – verification services; 7) CSK System Management Corp (2004); 8) CSK Business Service Corp (2004); 9) Cosmo Securities Co. Ltd (2004); 10) CSK Marketing Corp (2004); and 11) CSK Securities Service Co. Ltd (2005).

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