Family Business in Thailand
Its Management, Governance, and Future Challenges

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This article examines family businesses in post-crisis Thailand. The analysis focuses on their corporate management and governance restructuring. The findings indicate that family business still strongly persists and can be categorized into four groups, namely, closed family businesses, specialized family businesses, authoritarian family conglomerates, and modern family conglomerates. Given the falling trade barriers and the increasing globalization, the local family firms will face a challenge in capital market and the pressure of ICT development.

I. Introduction

The financial and economic crisis in 1997 shook many of Thailand’s top business families, leading to an erosion of their business base and a corresponding loss of political influence. The crisis wiped out some of the most prominent family business groups, for example, the Bangkok Metropolitan Bank Group led by the Tejapaibul family, which is the most influential family among Chinese society in Thailand, and the Nakornthon Bank Group led by the Wanglee family that started a rice trade business in the 1870s. Others have prospered despite the crisis, such as the Ratanarak family that successfully completed its recapitalization of the Bank of Ayudhaya without losing control over the bank. Likewise, the Sophonpanich family and the Lamsam family still have a voice in the management of the Bangkok Bank and the Thai Farmers Bank (renamed Kasikornbank), respectively.

The crisis has generated a lot of interest. Many scholars have attempted to examine the causes as well as to search for ways to reform. One of the contributing factors is the poor corporate governance in the corporate sector, which is due to “ownership concentration”. For example, the informative profiles of Thai business groups compiled by the Brooker Group Plc pointed out that most companies in Thailand are controlled by 150 leading families (The Brooker Group 2001). These influential families had used extensive corporate pyramids to systematically exploit wealth from minority shareholders. Alba, Claessens, and Djankov (1998) suggest that the ownership concentration of large corporations has led to inefficient investment, with excessive
diversification and risk-taking. Likewise, a group of economists in the World Bank temporarily concluded in their paper that after the crisis "insider-control may also have contributed to the weak performance and risky investment of many Asian corporations prior to the crisis" (Claessens, Djankov, and Lang 1999, p. 25).

After the crisis, however, many institutional arrangements have been launched to reform Thailand's corporate sector and their governance (Suehiro 2001a). The Thai Government, with persuasion from the World Bank, actively introduced the so-called "Anglo-American" type corporate reforms regarded as good corporate governance to attract foreign investments and to speed up their recovery. This new concept of good corporate governance required local firms listed on the stock market to implement a set of reforms. We would, therefore, expect some degree of improvement on the corporate management and governance of Thai firms.

However, the empirical study on this issue in the post-crisis is not unanimous. Most scholars are inclined to attack the poor governance of Thai firms without careful examination of their ownership patterns and management structure. Or, they criticize the presence of the family business itself because its nature contains institutional vulnerability. This article, thus, attempts to fill this gap. Using data both from firms listed on the Stock Exchange of Thailand (SET) and from our own survey on 220 local business groups in 1997, the characteristics of family businesses in Thailand and the corporate governance structure in the post-crisis period are analysed.

In this article, family business is defined as a firm or a group which meets three major conditions: (1) owner family members control its ownership through various means; (2) they exert control over its top management; and (3) owner family members have succeeded, otherwise will intend to succeed, the business of their founder (the succession of the office). Usually, the majority of medium and small-sized firms consist of family businesses. However, this article focuses on large-sized firms, particularly listed companies because family-owned type business groups have constantly served as the core economic agent for industrial and financial development in Thailand, as well as the new government policies on corporate governance targeted strategically at large-sized Thai firms in the stock market.

The outline of the article is as follows. Section II describes the outstanding presence of family businesses. Section III investigates the presence of family firms among firms listed on the SET using data between 1996 and 2000 with reference to their ownership patterns and characteristics of board members. In Section IV, the article then classifies the category of Thai family business into the four major types and articulates the reasons why some types can survive and others are forced into bankruptcy after the crisis. Section V focuses on the new government policy concerning good corporate governance and clarifies the limitation of this policy with reference to the unique corporate structure accrued to family businesses. The article then proceeds to point out the future challenges facing Thai family businesses in Section VI.

II. Family Business in the Thai Economy

It is notable that a large number of listed companies in Europe and Asia excluding Japan are still family-owned firms, where owner family members have substantial control over both ownership and management (Rose 1995; Cassis 1997; Suehiro 2001b, p. 30). In Thailand, the industrialization process was driven by family businesses that had their beginnings in textiles, trading and commerce, and then diversified into other activities, while maintaining their original family controlled-and-managed characteristics (Phiphatseritham 1982, Suehiro 1993).

To grasp the important role the family business plays in the Thai economy, let us introduce our own original data on 220 business groups. The information and financial data were collected from around 1,800 companies in 1997 from various sources, and reorganized these firms into four major types according to the type of "ultimate owner" or the actual controlling shareholder: state or public enterprises, particular family-owned
firms, independent firms, and foreign-owned firms. We then excluded foreign-owned firms and computed aggregate scores (total sales, assets, and the market value of stock) for each group. Afterwards, we selected 220 business groups, broken down into 212 family-owned groups (mostly Chinese or Thai-Chinese), five public enterprise-owned groups, and three unknown groups (Table 1).

The total amount of sales from these 220 business groups amounted to 2,930 billion baht, equivalent to 62 per cent of nominal GDP in 1997. At the same time, 644 firms out of the 1,000 largest firms, including all the types in terms of ultimate owners in 1997, are identified as affiliated companies belonging to 212 family-owned groups and their combined sales accounted for 2,635 billion baht, or 58 per cent of grand total sales of the 1,000 largest firms (Suehiro 2003, p.109). These figures apparently evidence the prominent presence of family businesses in large-sized Thai firms just before the crisis.

Looking at the variety of core business bases of these 220 groups, we see 25 in commerce, 22 in finance/insurance, 1 in mining, 38 in agro-industry, 10 in electronics, 36 in heavy industry, 28 in light industry such as textiles, 24 in the property business, 29 in the service industry such as entertainment and 7 in telecommunications (ibid., p. 112). The wide range of core business base suggests that family businesses in Thailand have a stake in not only traditional types of businesses such as trading and light industry, but also in new types of business such as electronics and telecommunications. To illustrate the degree of diversification undertaken by these businesses,

TABLE 1
Distribution of 220 Business Groups by Ethnicity and Generation, 1997
(Unit: number of groups/families)

<table>
<thead>
<tr>
<th>Type of Ultimate Owner</th>
<th>Total</th>
<th>%</th>
<th>First Generation</th>
<th>Second Generation</th>
<th>Third Generation and Over</th>
<th>Unknown or Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chinese</td>
<td>170</td>
<td>77.3</td>
<td>80</td>
<td>81</td>
<td>6</td>
<td>3</td>
</tr>
<tr>
<td>Thai-Chinese</td>
<td>24</td>
<td>10.9</td>
<td>5</td>
<td>11</td>
<td>7</td>
<td>1</td>
</tr>
<tr>
<td>Sub-total Chinese</td>
<td>194</td>
<td>88.2</td>
<td>85</td>
<td>92</td>
<td>13</td>
<td>4</td>
</tr>
<tr>
<td>Thai</td>
<td>12</td>
<td>5.5</td>
<td>4</td>
<td>6</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Indian</td>
<td>3</td>
<td>1.4</td>
<td>0</td>
<td>2</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>European/American</td>
<td>3</td>
<td>1.4</td>
<td>0</td>
<td>2</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Sub-total family business</td>
<td>212</td>
<td>100</td>
<td>89</td>
<td>102</td>
<td>16</td>
<td>5</td>
</tr>
<tr>
<td>Public Enterprise</td>
<td>5</td>
<td>2.3</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>5</td>
</tr>
<tr>
<td>Unknown</td>
<td>3</td>
<td>1.4</td>
<td>3</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>220</td>
<td>100</td>
<td>92</td>
<td>102</td>
<td>16</td>
<td>10</td>
</tr>
</tbody>
</table>

Notes:

a The first generation is counted from the founder of the group concerned, not from the first family who migrated to Thailand or who founded the family. For instance, Thaksin Shinawatra belongs to the fourth generation of a Hakka Chinese family, but he is identified as the first generation because he firstly founded the SHIN Group.

b Thai-Chinese include the third generation and over of the Chinese families who migrated to Thailand, and the founder or his father was granted the "royal title" (bandasak, phrathinna-nam, sakdina) with Luang, Phra, and Phraya.

SOURCES: Authors' compilation using company databases and family tree charts of the leading 220 groups/families.
it is found that 87 were of the specific sector type, 106 of the semi-conglomerate type, and 24 of the fully-conglomerate type (ibid., p. 113) Another interesting finding on the 220 business groups pertains to the renewal of generation. According to Table 1, we see the relative maturity of Thailand’s family businesses: family business groups involved in the first generation (sometimes called “entrepreneurial business”) cover 89 groups (or 42 per cent), in the second generation 102 groups (or 48 per cent), in more than the third generation 16 groups (or 7 per cent), and unknown 5 groups (or 3 per cent). These figures tell us that more than half of existing groups have already experienced a renewal of generation, and have successfully achieved the succession of the office subsequent to the founder’s death or retirement.

Based on the experience of advanced countries, it is said that the fortunes and future of many family businesses have been won or lost with the “third generation” (Church 1993, pp. 24–25). The seeds of an empire are planted through sweat and tears in the first generation, built up and expanded by the second generation. But it is the third generation, which has no remembrance of the early struggles to build up a business that faces an important crossroads to either organize and transform the business for future prosperity, or watch over a steady decline into obscurity. In addition, globalization, social and political change, and the financial crisis have seen the influence of dozens of Thailand’s most powerful business families reduced to just a shadow of their former prominence. Given these arguments, we need to question whether the end is coming for the existing family businesses in contemporary Thailand.

III. Proportion of Family-Owned Firms

III.1 Listed Companies Breakdown by Ownership Pattern

In this section, we examine the presence of family-owned firms in Thailand comparing pre- and post-crisis by using data of listed companies. This is to reflect the new government policy of enhancing corporate governance aimed mainly at the improvement of local firms’ activities through the stock market (Claessens, Djankov, and Lang 1999; Suehiro 2001a).

Table 2 summarizes the ownership pattern (defined by the type of “ultimate owners”) of listed companies in Thailand in 1996 and 2000. The type of ownership pattern, in terms of 20 per cent shareholding cut-off method, is broken down into five groups. The first two groups are family-owned (F) and semi-family-owned (FW). While the family-owned group is a firm that one particular family owns over 20 per cent of the total shares; the semi-family-owned group is a firm that several

<table>
<thead>
<tr>
<th>Type of Shareholders</th>
<th>Total 1996</th>
<th>%</th>
<th>Total 2000</th>
<th>%</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Family-owned (F)</td>
<td>150</td>
<td>33.5</td>
<td>131</td>
<td>30.3</td>
<td>-19</td>
</tr>
<tr>
<td>2. Semi-family-owned (FW)</td>
<td>66</td>
<td>14.7</td>
<td>52</td>
<td>12.0</td>
<td>-14</td>
</tr>
<tr>
<td>3. Widely-held (W)</td>
<td>160</td>
<td>35.7</td>
<td>145</td>
<td>33.5</td>
<td>-15</td>
</tr>
<tr>
<td>4. Foreigners-owned (X)</td>
<td>59</td>
<td>13.2</td>
<td>90</td>
<td>20.8</td>
<td>31</td>
</tr>
<tr>
<td>5. State or state enterprise (S)</td>
<td>13</td>
<td>2.9</td>
<td>15</td>
<td>3.5</td>
<td>2</td>
</tr>
<tr>
<td>Total listed firms</td>
<td>448</td>
<td>100.0</td>
<td>433</td>
<td>100.0</td>
<td>-15</td>
</tr>
<tr>
<td>Family-owned firms (F)+(FW)</td>
<td>216</td>
<td>48.2</td>
<td>183</td>
<td>42.3</td>
<td>-33</td>
</tr>
</tbody>
</table>

Source: Authors’ compilation using the database of The Stock Exchange of Thailand.
members of either single family or multiple families combined owns over 20 per cent of the total shares. The others are widely-held group (W), owned by various groups that any single individual or institution does not hold over 20 per cent of the total shares, foreign-owned group (X) and state-owned group (S), including state enterprises.

This paper focuses on the 448 listed firms by obtaining data from the Stock Exchange of Thailand (SET), company annual reports, and company prospectus (Form 56-1) in 1996 and 2000. We found that, in 1996, the family-owned firm (F) accounts for 33.5 per cent (or 150 firms), and the ratio increases to 48.2 per cent (or 216 firms), if semi-family-owned firms (FW) are included. Then, it was noted that out of 448 firms in 1996, 15 firms disappeared in 2000, due to delisting or were under a rehabilitation programme. In addition, 33 family-owned firms changed their ownership structure into other types, such as, widely-held group and foreign-owned groups. On the other hand, 31 firms had to shift their ownership from non-foreign-owned to foreign-owned. This movement has been spurred by the pressure of corporate debt restructuring schemes executed during the crisis, when local controlling shareholders were compelled to allocate newly-issued equity shares to existing foreign partners, or inevitably invite new foreign investors.

However, it is evident that the ratio of family-owned firms, including family-owned group (F) and semi-family-owned group (FW), is still high at 42.3 per cent (or 183 firms) of the total 433 firms in 2000. It can be said that for all the talk of drastic attacks caused by the crisis, around 70 to 80 per cent of the same leading families and groups still survive magnificently in Thailand.

III.2 Pyramidal-holding and Cross-shareholding

This paper will now analyse how family firms, before the crisis, shuffled their organizational structures and obtained the resources necessary to finance their growth both through financial institutions and also via the capital market, while remaining ultimately owned and controlled by the family. It is essential to note that this does not mean the creation of “pure” public companies. The founders and their families are able to maintain a real control over day-to-day management of their firms, influence their policies and strategies, as well as obtain fresh financial resources by means of various instruments.

Among these had been the issuance of stocks with limited or no voting rights, and above all, the creation of “pyramidal holdings” or “cross-shareholding” structure. A pyramid structure consists of owner family members at its top level, and owner family members exerting their control over a number of affiliate companies through multilateral instruments, such as from family-owned investment firms through a non-listed core firm to a large number of non-listed companies; or it can also be from family-owned overall holding companies through core listed companies to a large number of non-listed affiliated firms (Suehiro 1993; Suehiro and Wailerdsak 2002, pp. 321-26).

By these means the main shareholders, usually also “inside” directors, have been able to control the corporation with a very small direct investment of capital and a much reduced risk of hostile takeover. In this framework, minority shareholders have very limited influence, and the families continue to maintain a strict control over the entire group by appointing presidents and top managers, thus defining the whole group’s strategies. This pyramidal-holding and cross-shareholding structure of listed companies in Thailand have been criticized by institutional financial institutions, such as the World Bank, foreign investors as well as scholars (Claessens, Djankov, and Lang 2000).

III.3 No Separation of Ownership and Control

Another finding is that the majority of Thai family business groups have substantially continued to maintain the traditional corporate structure in which they have control over both ownership and management. Unlike the American modern industrial corporations (Chandler 1977), there is no notable separation between ownership and management among business groups in Thailand.
Despite the fact that Thailand has rapidly enlarged its national economic size and upgraded its industrial structure, family-run business groups have constantly served as the most important agent for industrial development as we have already argued in Section II.

There are three major reasons to support such continuous dominance of family-run firms. First, owner families have no difficulties in recruiting able persons from among their own family members, since most of them are part of the extended family and are well educated abroad. They did not always need to depend on salaried managers from the outside, but could groom family members to serve as professionals through investments in education and on-the-job training at their firms.

Second, the government did not introduce any regulations on ownership of private firms after the Public Limited Company Act was revised in 1992. When the old Public Limited Company Act of 1978 was enacted, the government initially introduced a strict regulation on ownership structure in which at least 50 per cent of the total issued shares were to be distributed to a group of shareholders holding less than 0.6 per cent of the total. However, this Act produced a resistance from leading firms and then resulted in the underdevelopment of the local stock market. For this reason, since 1992, the government eventually switched its policy target from regulations on ownership to promotion of the stock market, which enabled owner family members to maintain their control on ownership.

Third, Thai family business groups could adjust their corporate activities to fit the new government policies for economic liberalization in both capital market and foreign direct investment since 1988. Owing to new economic circumstances in favour of local firms collaborating with multinational corporations to advance into growing markets, existing family business groups could enjoy rapid expansion and diversification of their businesses with no actual changes in ownership control. Concomitantly, in the process of economic booms, several groups successfully upgraded their organizational capabilities to manage diversified businesses by learning new production technologies and gaining new product knowledge from foreign partners and by introducing a multidivisional-based management structure instead of traditional management style. We can fairly say that these groups transformed into modern family businesses, being distinguished from the traditional ones (Suehiro 1997).

III.4 Characteristics of the Members of the Board of Directors

Another important aspect of family business is management control. Table 3 shows the distribution of Thai directors of listed companies by the type of their attribute. Thai directors may be categorized into three major groups. First is internally promoted directors consisting of those who entered as an employee immediately after graduation (G), and those who entered as mid-careerists (M). The second is insiders consisting of family shareholders including founders, or those having blood or kinship relations with the family shareholders (FMS), those who are representatives of major shareholders (MS), those dispatched from a related company either a parent company or a non-finance firm of the group (R). The third group is from other organizations and consists of those dispatched from partner commercial banks or finance companies (F), those who are or still are bureaucrats, civil servants, or officers of a state enterprise (S), those with experience at other companies and others (P), and finally those with no identification.

The result shows that the majority of the typical board of Thai firms comprises family members (FMS) (24.1 per cent) and major shareholders (MS) (19.2 per cent), together with professionals hired directly from other companies (P) (24.5 per cent), and government official including military and political figures (S) (15.1 per cent). If confined to samples of ‘family-owned companies’, we can see that the percentage of FMS increased to 33.8 per cent, while that of major shareholders (MS) dropped down to 11.3 per cent. On the other hand, it is very interesting to find that both mid-careerists (M) and
TABLE 3
Attribute of Directors on the Company Boards

<table>
<thead>
<tr>
<th>Attribute</th>
<th>All Types of Firms</th>
<th>Family-Owned Type Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of Directors</td>
<td>Percentage</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>2,468</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1,036</td>
</tr>
<tr>
<td>1. Internally promoted</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Entry after graduation (G)</td>
<td>32</td>
<td>1.3</td>
</tr>
<tr>
<td>Entry as mid-careerist (M)</td>
<td>112</td>
<td>4.5</td>
</tr>
<tr>
<td>2. Insiders</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Family major shareholders (FMS)</td>
<td>596</td>
<td>24.1</td>
</tr>
<tr>
<td>Major shareholders (MS)</td>
<td>475</td>
<td>19.2</td>
</tr>
<tr>
<td>Related firms (R)</td>
<td>135</td>
<td>5.5</td>
</tr>
<tr>
<td>3. From other organizations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial banks or finance companies (F)</td>
<td>92</td>
<td>3.7</td>
</tr>
<tr>
<td>State/government official (S)</td>
<td>373</td>
<td>15.1</td>
</tr>
<tr>
<td>Other private companies and others (P)</td>
<td>606</td>
<td>24.6</td>
</tr>
<tr>
<td>No identification</td>
<td>47</td>
<td>1.9</td>
</tr>
</tbody>
</table>

SOURCE: Authors’ compilation using personal profiles of directors from the Form 56-1 reports of available 323 listed companies submitted to the Stock Exchange of Thailand, 2000.

professionals hired directly from other companies (P), possibly “salaried professionals”, increased their percentages to 5.6 per cent and 29.5 per cent respectively in the total.

These figures suggest an important understanding on existing Thai family business groups. That is, although family owner members still occupied the board members with 34 per cent, or the insiders group occupied the board members with 50 per cent in family-owned listed companies, they already recruited 30 per cent of the board members from a group of “professionals” and 7 per cent from a group of “internally promoted persons”. In order to exactly understand the growth and the dynamism of family business groups in Thailand for the past two decades, we should not overlook this valuable fact, namely, their attempts to develop the management structure in response to rapid expansion and diversification of their businesses, although such development is relatively limited when compared with modern industrial corporations in industrialized countries (Wailerdsak 2002, Chapter 3).

IV. Category of Family Business after the Crisis

Family business groups in Thailand were very active in seeking the economies of both scale and scope during the period of economic boom from 1988 to 1995. Such leading groups as the Siam Cement Group, the Bangkok Bank Group, the Thai Farmers Bank Groups and the Charoen Pokphand (C.P.) Group had attempted to diversify their business bases into new fields of petrochemical, telecommunications, modern retail, and property business — thanks to expanding sources of investment funds due to economic liberalization and close collaboration with multinational corporations. This led to the creation of diversified industrial conglomerates in a real sense.
As these large conglomerates used debt financing to expand aggressively through mergers and acquisitions, direct investment, and project finance, after the financial meltdown in 1997, all of them have seriously suffered from foreign currency losses, heavy corporate debt from abroad, domestic economic recession, and tightened money markets. Faced with these difficulties, family business groups were inevitably forced to transform.

At present, we can classify the pre-crisis family business groups in Thailand by using a three-fold criteria, namely the degree of business diversification, the development of managerial hierarchies and the use of professional managers. Using these criteria, the paper categorizes pre-crisis family business groups into the following: (1) closed family business, (2) specialized family business in collaboration with professional managers, (3) authoritarian family conglomerate, and (4) modern family conglomerate (Figure 1).

IV.1 Closed Family Business

In a closed family business, the ownership and control are entwined by a group of family. Almost all the senior management positions in the company are filled by the founder(s) and core family members such as the founder's eldest son (Suehiro 2003, pp. 113-15). It rarely recruits externally for these positions. The significance of family ties is reinforced by the practice of inviting other families to share ownership when setting up new ventures. According to conventional argument, a closed family business is mostly found in the initial stages of development, and often faces limitations when expanding and diversifying its business. Nevertheless, we find around thirty groups in this category in Thailand who had been able to expand their business across the generations at least up to the period of economic boom.

In the wake of the crisis, however, many closed family businesses were forced into bankruptcy or closed down due to their failure to solve heavy corporate debt, for example, Charnsrichawla's Siam Vidhya Group in finance, Phothiratanangkun's TBI Group in textiles, Huntrakun's New Imperial Hotel Group, Charn Uswachoke's Alphatech Electronics Group, or applications were made to bankruptcy court to restructure their business such as the NTS Group by Horungruang family in steel, the SSP (Siam Steel Pipe) Group led by Leeswadtrakul family, and the Modernform Group led by Usanachitt family in furniture.

IV.2 Specialized Family Business

A specialized family business focuses its business on specific industries, for example, agri-business, manufacturing and trading of textiles, machinery, construction materials, chemicals and consumer goods, property business, entertainment, and health care. Rather than diversifying into other kinds of business, it is devoted to constantly modernize its management structure, that is, a centralized hierarchical organization in collaboration with utilizing professional managers including internally promoted persons, which leads to the improvement of its proficiency in the core competence areas. This category of family business and modern family conglomerates combined together to contribute to increase the percentage of professionals and internally
promoted persons into being board members as we see in Table 3.

Such a strategy seems to have helped many family firms stand firmly at the front line in their business. Most specialized family businesses with a well-organized management survived from the financial crisis. For example, Chokwatana family's Saha or SPI Group, the largest consumer goods manufacturing group, could develop their business even after the crisis by improving their delivery system, computerizing market information, and issuing new corporate bonds.

IV.3 Authoritarian Family Conglomerate

At an authoritarian family conglomerate, although its businesses are widely diversified and expanded as a conglomerate, top management positions are still reserved for founder(s), family members, and relatives. The management style is also authoritarian, in which the chairman or/and president are the ultimate persons who make all decisions and business strategies. Unlike specialized family businesses and modern corporate conglomerates, there is no development in management organization. One clear advantage of the authoritarian firm is the strong commitment and long-term training of family members, counterbalanced by the lesser motivation of middle management who are prevented from reaching the top positions. Consequently, even though authoritarian firms are innovative in several sectors, their corporate reform is always individual response rather than an organizational one, which becomes an institutional weakness in the era of the unexpected crisis.

An example of family business group in this category is the Thai Petrochemical Industry Plc (TPI). The first generation of this group started its business from rice milling, and the second one (Porn Leophairatana) expanded their business lines to gunny sack, textile, and insurance businesses. Drastic changes took place in the third generation, where all the sons were delegated to study modern accounting, economics, and petrochemicals in the United States. After returning to Thailand, these sons started new businesses in cement and petrochemicals, in line with the liberalization of industrial investment. Although they quickly increased the number of affiliated firms to forty-four firms between 1978 and 1996, almost all the firms were under the direct control of merely three sons, especially Prachai Leophairatana, Porn's eldest son (TPI Plc 1996; Suehiro 2001b, pp. 18–20, 56).

Most firms of this type could hardly survive due to heavy foreign loans and new government policy on corporate governance including a global standard accounting system. Furthermore, several influential groups during the 1970s and 1980s disappeared after the crisis as we see in Tejapaibul's Bangkok Metropolitan Group and Srifuengfung's Cathay Trust Group. Otherwise, it is notable that a few groups are now streamlining their diversified businesses and started concentrating their managerial resources into a core business, or transforming their activities into a specialized family business.

IV.4 Modern Family Conglomerate

Meanwhile, some family businesses have survived and proved to be resilient, able to cope with rapid shifts and changes in terms of economies of scale and scope. Since the economic boom period, modern family conglomerates have been able to diversify its business and establish a set of structural internal factors including corporate reforms, which have enhanced their competitiveness and ability to react to market challenges.

Although the ownership and control are still in the hands of the founder(s) and family, they are always keen to employ other professional managers in key management positions and on their boards, and base hiring and promotion on merit (Wailerdsak 2002). At the same time, despite the fact that family members represent a substantial ownership interest in the company and are present in its management and policy making, family relations, quite obviously, has not been the sole reason for promotion. Family members do not expect to be appointed to senior posts as a matter of course, but only after serious training, and after
they have proven themselves managerially competent.

An example of a family business group in this category is the Chearavanont family’s Charoen Pokphand (C.P.) Group. They have actively assigned the first generation of professionals, recruited during the 1950s and 1960s, into key positions such as finance and marketing in the agro industry, and also appointed the second generation of professionals, recruited since mid-1970s, to key positions in investment strategy and technological development in the telecommunications industry (Wichai 1993; Suehiro 2002, pp. 92-101; Suehiro and Wailerdsak 2002, pp. 355-61). Owing to such a combination of talented family members with employed professionals, they successfully promoted their innovation in management structure (Suehiro 2001a, p. 55).

Interestingly, the modern family conglomerate also started drastic reorganizing or downsizing of their businesses into two or three core businesses based on their competitive advantages. In 1999, after a joint study with an American consulting firm, C.P. Group decided to launch a comprehensive reorganization of their diversified businesses with eleven divisional departments (Suehiro 1997) into two core businesses of agro industry and telecommunications. According to this new strategy, they streamlined around thirty firms relating to agro industry into a single listed company, or Charoen Pokphand Food Plc, while they also put thirty-three firms related to telecommunications under the control of another listed company, TelecomAsia Plc (Suehiro 2002, pp. 92–96). Such reforms reflect C.P. Group’s own adjustment to new government policy on corporate governance.

V. Promotion of the Corporate Governance and Its Limitation

Good corporate governance is a fairly new issue in Thailand. It has been the major concern among stock regulators and listed companies since the onset of the financial crisis in 1997. Foreign investors blamed the lack of transparency and accountability for their subsequent departure from the Thai stock exchange. As a result, since 1998, the SET has launched several measures to improve the corporate governance of listed companies, including the requirement of setting up “audit committees” comprising at least three independent directors, the issuance of guidelines for good corporate governance and so forth. It is evident that these measures were introduced in conjunction with the “Anglo-American” concept of corporate governance (Suehiro 2001a). Besides, the Institute of Directors (IOD), partly supported by the World Bank and the SET, has continuously since 1998 trained company directors on their responsibilities and duties. In August 2000, the new Accounting Act came into effect. This law requires all companies to register the names of their accounting officers for accountability purposes (Wailerdsak 2002).

Figure 2 shows a typical structure of the top management of Thai firms. It is evident that nearly all listed companies in Thailand have established a “board of directors” and an “executive committee”. While some companies clearly divide these two boards on their organization chart, some combine them into only one board. But, one similar thing is that they often comprise the “executive directors”, who are both director and manager (a manager is called an “officer” in American firms). And these executive directors usually are founder and family members, particularly sitting in the position of chairman, president and vice-president.

FIGURE 2

Typical Structure of Top Management
It should be noted that corporate governance issues in Thailand pertaining to board compositions in many cases are different from more advanced Western jurisdictions. In an environment where families still control the majority of a listed company’s shares, it is expected that the controlling shareholders would not want boards composed of a majority of “independent” or “outside” directors.

Although a number of firms attempted to correspondingly increase the number of “independent” and “non-executive” directors, most of whom at least nominally are independent of the management, the president usually serves as chairman or director of the board, setting the agenda for meetings and presiding over the deliberations. There is also a finding that “interlocking directorate’s networks” within the family business groups are densely connected. On this account, new policies of enhancing the monitoring role of independent directors and protecting the right of minority or outside shareholders on the basis of the Anglo-American model have frequently been paralyzed under this unique corporate structure of family business.

In 2001, the Thaksin administration gave up its previous policies on the basis of the Anglo-American model and turned its eyes both to the promotion of “good” companies on the basis of “performance-based” evaluation and to the encouragement of them through monetary incentives. Indeed, the new government proclaimed 2002 as the “Year of Promoting Good Corporate Governance” with the establishment of the National Corporate Governance Committee. The committee allowed the Thai Rating and Information Services Co., Ltd. (TRIS) to be the sole corporate governance rating agency for listed companies on the basis of economic performance rather than corporate reform. As an incentive, the Securities and Exchange Commission (SEC) will give a 50 per cent discount on the annual fee and securities issuing fee for three years. Also, the SET will reduce by 50 per cent the annual membership fee for two consecutive years for those listed companies that score a minimum rating of 7. (Ratings have a highest score of 10 and lowest of 1. A score of 7 means “good to excellent”.)

VI. Future Challenges of Family Business

Various factual findings that the paper suggested in previous parts seem to indicate that the family business still strongly persists in Thailand. The persistence of all family firms should not be considered as the consequence of a supposed incapacity of Thai or other local entrepreneurs to understand and adopt the managerial models of the American modern industrial corporation. Instead, the enduring presence of this particular form of business organization, especially specialized family business and modern family conglomerates, can be seen as an alternative demonstration of its efficiency and rationality against a defined institutional framework, rather than as a failure.

However, given today’s climate of falling trade barriers and increasing globalization, local family firms face an onslaught of foreign competition. They will face tremendous pressures from a variety of sources. They must restructure themselves if they want to survive in a changing economic, financial, and technological landscape. Thai family firms will be continually challenged on how to efficiently raise funds from the capital market and commit to good governance; how to accumulate and develop their own technology under the pressure of information communications technology (ICT) development; along with how to foster their professional talents. Building a strong organization that benefits the family as a whole, and other stakeholders in the business is especially encouraged.
NOTES

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2. “Ultimate owner” here means the largest shareholder or the controlling shareholder after the work of identifying the actual owner of each shareholder, including corporation in the company concerned when the company is widely held.

3. C.P. Group, which seems to have ridden out the worst of the crisis and was caught with heavy U.S. dollar debt at devaluation, was able to trim its sales and divested heavily. Just as importantly, the core businesses still remain C.P.-owned and seem strong. The group will also retain TelecomAsia, where US$11 billion debt restructuring negotiations are ongoing.

4. Interlocking directorate occurs when one person affiliated with one organization sits on the board of directors of another organization.

5. See details at <www.cgthailand.org/SetCG/award/award_en.html>.

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