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Building family businesses in Thailand

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State policies, an access to political rent, plus investing in relationships and innovation are some of the ways family businesses thrive in Thailand

While investors can study the profile of listed companies and others who regularly report their business activities to make sound decisions, family-run businesses in Thailand are traditionally quiet about their management and links in the business and political worlds.

Regardless of the changes in the economic and political environment, family businesses tend to stay together, remain stable and thrive profitably. The founders of family-run companies, who are usually motivated by ideas and inventions they are passionate about, would fund their businesses with personal savings and that of family members.

“In general, the literature on family businesses states that in times of instability and uncertainty, they are safe bets because they have internal capital markets where they borrow money from family members or they transfer money from within their companies as new opportunities emerge. One family member may also leverage on these opportunities as the company increases in value,” says **Dr Joel Moore**, lecturer, School of Arts and Social Sciences, Monash University.

“In times of instability and uncertainty, family businesses do what other companies do, which is to make the best products they can with the least cost.”

When family businesses grow, help is obtained by roping in family members to manage day-to-day operations, management, sales and expansion. More funds and privileges may be obtained from political rents and policies such as tax incentives, government funding for initiatives, as well as protection from competition.

“If the state is offering policies that target particular companies, it will generally provide political grants as the businesses have access to politicians. Because this is family with an alternative institutional structure of loyalty, it is easier to keep things secret,” says Dr Moore.

“If a business owner looks to develop a relationship with a bureaucrat or government official in an economy where this is critical to success and expansion, the company may be adverse to professionalize its operations and obtain external finance due to the need to keep these relationships quiet and secret.”

Family businesses may also thrive by forging close links to Thai politicians through marriage or having family members in influential government positions.

“Business owners may place their family members in key positions, especially if they come from powerful families. They may get into political office or have appointments in the bureaucracy and solidify links to government officials through marriage.

“A daughter of a business owner may for example marry a general or a son to the daughter of a powerful politician. This will ensure continued access to political rents through these informal bonds of loyalty. However, it would be good to have diversified business operations due to an uncertain future. The business owner can also take advantage of a new area if he/she has access to a particular politician in that sector.”

Building relationships, investing in people

With a long-term mind-set and time at hand, Dr Moore says business owners often plan for the continuity and growth of the company by building relationships with vendors, clients and the authorities, grooming the next generation of leaders for succession and creating viable business platforms.

“Family firms are good examples of informal channels where personal relationships are developed with the founder or the chief executive officer (CEO) as the business owner. You can be sure that the reputation of the individual is very much concerned about the long term,” says Dr Moore.

“Family businesses can remain profitable due to lower transaction costs and a greater capacity of innovation where there are limited political rents or the ‘goodies’ distributed by the state to specific companies. Such economic governance institutions can facilitate in-depth coordination.

“This argument comes from a variety of capitalism literature that contrasts with Western European countries where there is no strong coordination. Companies and their competitors work together to jointly research, train workers, create systems. In the US and UK, to a greater degree, there are transactions at an arm’s length, strong competition and less coordination with workers, competitors, suppliers and customers,” he says.

“A widely held firm under the Anglo American business model may bring in external finance but its CEO who is here for today, tomorrow or next week will not have a long-term plan for the company. Family business owners will however be thinking about their children and building the business for their inheritors.

“On the contrary, a widely held firm will typically have a diffused set of shareholders and with concerns about the management taking profits for themselves and it may take the company in the direction that will benefit the CEO in the short term, rather than contributing to growth and profitability in the long term for shareholders.”

With a longer time horizon and the desire to leave a legacy to the next generation, Thai family business owners will also invest in building relationship- or closed-specific assets with their customers, suppliers and workers, says Dr Moore.

“These relationships go beyond an arm’s length transactions and survive the ups and downs of markets. This lowers transaction costs such as finding customers and suppliers, training workers and developing industry-specific skills. Family business owners are able to coordinate with competitors and prevent poaching due to their investment in training their workers.”

Depending on the political, economic and institutional environments, these ways of working may be necessary for family businesses to remain viable, profitable and a contributing factor to a nation's economy.

“In terms of research, family businesses will always be important. There will be an increasing appreciation of their contributions and potential for more to societies. From the studies on political economy, business and corporate governance, there is a greater appreciation of how family businesses can contribute to the economy, which scholars can explore more on,” Dr Moore concludes.