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FAMILY BUSINESS REASSESSED: CORPORATE STRUCTURE AND LATE-STARTING INDUSTRIALIZATION IN THAILAND

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I. THE FAMILY BUSINESS, ZAIBATSU, AND THE BUSINESS GROUP

A. *What Is a Family Business?*

In the present paper the term "family business" will be defined as a form of enterprise in which both ownership and management are controlled by a family kinship group, either nuclear or extended, and the fruits of which remain inside that group, being distributed in some way among its members.[1] However, businesses formed through affiliation like a family and their friends or persons sharing the same place of origin may be defined as family businesses in the broadest sense of the term.

In the case of a family business that has expanded and diversified the scale, scope, and composition of its business activities, we will refer to it as a zaibatsu. That is to say, a zaibatsu is formed when (1) a specific family exercises exclusive control over its ownership and management, (2) its business endeavors extend across a number of industries and/or economic sectors, and (3) the group thus formed shares oligopolistic market control over at least one of those industries or sectors.[2] Therefore, despite the Japanese origin of the word, as long as a business satisfies the above three conditions, it may be defined as a zaibatsu, no matter in what region of the world it may be located.

On the other hand, economic associations that satisfy conditions (2) and (3), but are not limited in terms of their ownership and managerial control to a specific

1 Chandler defines the family business as follows.

> In some firms the entrepreneur and his close associates (and their families) who built the enterprise continued to hold the majority of stock. They maintained a close personal relationship with their managers, and they retained a major say in top management decisions, particularly those concerning financial policies, allocation of resources, and the selection of senior managers. Such a modern business enterprise may be termed an entrepreneurial or family one, and an economy or sectors of an economy dominated by such firms may be considered a system of entrepreneurial or family capitalism. [5, p. 9]

2 Morikawa [18] defines zaibatsu as "a widely diversified business enterprises under the ownership and managerial control of wealthy family group, either nuclear or extended." See also [19].

kinship group, are, generally speaking, "business groups." Such groups may be formed via personal relationships, such as friendship, academic affiliation, similar place of origin, etc., through legal incorporation without exclusive family control, or under the direction of an overriding financial institution. What has become known as *kigyō shūdan* in postwar Japan no doubt comes under this more universal category of "business group."[3] Therefore, the term business group as defined in this paper takes on a broader meaning than such concepts as the family-controlled zaibatsu group, the partnership-type business group, or the commercial-bank-centered business group.

B. *Management Control and the Affiliation Network*

The body of research to date confronting directly the phenomenon referred to as the "family business" is surprisingly small in quantity and rather shallow in its theoretical consideration of the subject matter. Of the few publications that include the term in their titles, there is the collection of papers edited by Okochi and Yasuoka [26]; but even there we find a mere introduction of family business and zaibatsu groups in various countries around the world with no real attempt to analyze them theoretically.

Two approaches dominate the research literature. The first is a business science (including business history) approach developed within American scholars, which discusses the issue from the standpoint of "corporate control." The second is a sociological approach, which attempts to understand business management from the aspects of social relationships and family structure indigenous to each region where the family business is found.

The former "corporate control" approach was conceptualized by A. A. Berle, Jr. and G. C. Means [3] under the notion of "a separation of ownership from management control in the modern corporation." This approach then evolved around a discussion of the question, "who controls the business?" and concluded with a scheme describing the modern corporation as the result of a transition process from "ownership control" to "management control."

The work of E. S. Herman [11] is probably the most representative of what this type of approach has contributed to our knowledge of the family business. Utilizing a methodology similar to Berle and Means, Herman surveyed in great detail 200 nonfinancial American corporations during the mid-1970s and found a deconcentration of family ownership and domination of management control in comparison with the situation in the 1930s. That is to say, Herman concludes that "the decline of family control appears to be an unassailable historical fact" [11, p. 79], given (1) the diffusion of corporate stock ownership as the business expands, (2) capital concentration through mergers and acquisitions, and (3) a deconcentration of holdings through diffusion of the founding family members themselves.

It should be pointed out that the "corporate control" approach has come under attack from the Marxian viewpoint of financial capital domination since the

[3] In fact, *kigyō shūdan* is usually translated into English as "business group." For a discussion of interrelations between prewar *zaibatsu* and postwar *kigyō shūdan,* see [8].

publication of Baran and Sweezy's *Monopoly Capital* [2] in 1966. In addition, the fundamental ownership to management control transition scheme has been called into question by Burch [4], who found to the contrary a continuation of family control from a study of American big business through an unique investigation of corporate data.

However, what should be emphasized here is not whether or not one should support the idea of a transition to "management control," but rather the fact that the whole discussion about family business has put stress on stockholding patterns. Under this type of preconception it is almost impossible to come up with more sophisticated theory about how family businesses continue to expand intact generation after generation.

Along this vein we find the research carried out by T. Hattori [9], which empirically takes up the zaibatsu in the Republic of Korea (called there *chaebol*) and shows paradoxically that as the economic scale of these groups increased, the ownership control exercised by their core families tended to be further solidified. Furthermore, the research conducted by this author on financial conglomerates in Thailand [33, pp. 251–65] describes how financial and insurance groups formed by coalitions of a number of families and their friends actually moved in a direction towards exclusive control by one particular family within the process of enterprise expansion.

In explaining why family control has continued to dominate the business communities of the developing nations, scholars have conventionally turned to the underdevelopment of capital markets as the major reason. However, looking at the unique development of zaibatsu in the developing nations, underdevelopment of a system supporting joint-stock companies in itself is insufficient to explain fully what actually is happening there.

In this respect there is one more viewpoint that has appeared in an attempt to explain the growth and strength of zaibatsu and business groups in the developing nations, especially of Asia by focusing on family structure and affiliation networks in Japan, Korea, and China (including locally born citizens of Chinese descent in other countries). Representative of this approach is the research done by such scholars as Yu Chunghsun [41], who attempts to understand Chinese outside of China as "a networking economic nation," a group led by G. Hamilton, who looked at East Asian enterprise groups from the aspect of social organization [6], and T. Hattori in a study of management development in Korea [10].

What this latter approach attempts to accomplish is to oppose the joint-stock company control concept (which presumes a linear-type growth and expansion of enterprise organization) by attempting to explain through relationships to family structure the management organizations of large businesses which dominate the economies in the developing nations. At least in the case of the family business, this approach insists that it is not an early capitalist management form that will necessarily wither away in the midst of the advance of a modern joint-stock company system. Rather, this approach insists, the family business has a rationality all its own.

C. *Objectives of the Study*

In Thailand, the majority of large businesses are controlled either by foreign capital (especially multinational enterprises) or family-run business groups (i.e, zaibatsu groups) [35]. The aim of this paper is to investigate the characteristic features of this latter form of enterprise management.

In Thailand the business group is usually called the *klum* (group), but it has also been referred to as *thurakun-yai* (big family) and *thurakit khrop-khrua* (family-run business) [15] [16]. In other words, the business group is generally equated with a family business that has expanded to a scale of huge proportions.[4]

First, let us reexamine why within Thai big business the family business form of management has continued intact and developed in many cases into a conglomerate-type group of companies. The objective here is to investigate the rationality of family business growth by considering (1) the various economic conditions of Thailand as a late-starting industrializer or late comer, and (2) the social background of the Chinese business community in Thailand.

II. THE RESEARCH TO DATE

A. *Family Capitalism*

A major proponent of the idea of a transition from family capitalism to managerial capitalism is Alfred Chandler, Jr., who argued that together with expanded enterprise scale due to mass production, mass marketing, and mass transportation, the family business gives way to the modern business enterprise run by managerial experts. This transition marks what Chandler terms the "managerial revolution" [5, p. 10].

In asking the question, "who rules American society?," M. Useem, a supporter of Chandler's theory, boldly focused on the developmental stages of capitalism via the concept of "the inner circle" [38]. Useem divides the history of capitalism to date into three distinct stages: family capitalism, managerial capitalism, and institutional capitalism. Each of these stages is characterized by a certain principle of social organization: family capitalism is based on "upper class" principles; managerial capitalism on "corporate" principles; and institutional capitalism on "classwide" principles [38, pp. 13–18].

According to Useem, family capitalism equates kinship relations with the control and ownership of a business enterprise and is a system consisting of business mergers via descent and marriage. The overriding organizational principle of this system is upper-class coalition, which often results in the creation of a landed aristocracy as seen in the United Kingdom, which, according to Useem, assumes the character of an "anti-industrial culture" [38, p. 184].

[4] The monthly business magazine, *Phu chatkan* (The manager), featured special reports in its August and September 1988 issues on a total of twelve Thai business groups, including the Boon Rawd Brewery group, the agribusiness group Charoen Pokphand (CP), and the textile manufacturing Saha-Union and Sukree groups. The term *thurakit khrop-khrua* was used in the title of these reports. See [36].

However, with the expansion of enterprise scale, the advent of specialized business managers and the formation of complex occupational stratification, control over both day-to-day, as well as final, decision making is transferred from the founding families to professional managers, a state of affairs which marks the stage of managerial capitalism. At the corporate level this stage is one in which

> the guiding concern is no longer preservation of the fortunes of the upper class families who once built and controlled the firms, but preservation of the profits of the enterprises that now control the families' economic destinies. Rather than the firm serving as an instrument for the accumulation of family wealth, the manager has come to be the instrument for the accumulation of company wealth. [38, p. 177]

Furthermore, as capitalism becomes more "institutionalized," it enters upon a new stage in its development based on an organizational principle which abandons reliance on individual managers to control the business in favor of management via intra-corporate networks (interlocking directorates, etc.). The groups that are supported and selected by these networks constitute what Useem terms the "inner circle" that rules contemporary American society.

What is interesting about Useem's theory is that he understands the characteristic feature or motivation of family capitalism as the preservation of the "fortunes" of the family. It is this point that seems to be a common feature of family businesses in the developing nations, as well. On the other hand, Useem's understanding of family capitalism as "culturally anti-industrial" is not indicative of the social role or position of family businesses in the developing nations today. That is to say, the existing research on developing economies strongly indicates that family businesses and zaibatsu in these countries are the most active economic actors promoting industrialization.

In any case, we should not forget that Useem's thinking clearly falls within the context of "who controls the modern corporation," which regards family business as the precursor or initial stage to the "managerial revolution." Therefore, Useem's concept is extremely economically deterministic in the conceptualization of organizational principles of various stages of capitalism determining the forms which the general social structure takes. This is in clear opposition to the sociological approach, which attempts to understand the problem in terms of social relations influencing and promoting the expansion of family management.

B. *The Sociological Approach*

Within the research based on the sociological approach, we find in general two viewpoints concerning the family business. One is called the "affiliation network model," the other looks at family business expansion as determined by indigenous kinship relations.

The "affiliation network model," which is often utilized when discussing Chinese-run business groups in Taiwan or the countries of Southeast Asia, attempts in concrete terms to discover the origins of business group formation not only in kinship and marriage, but also through a wide range of interpersonal relationships based on similar ancestry, similar place of birth, similar academic background, as well as friendship. The proponents of this model point to a much looser business coalition, different from the prewar Japanese "zaibatsu." This form of business organization has been described by Hamilton et al. as "*guanxi* capitalism" [7] and by Numazaki as *guanxiqiye* (related enterprises) or the "banana-bunch-shaped partnership" [25, Chap. 5].[5]

Here is what Numazaki has to say about this kind of business group organization.

> If we shift our focus from a single firm to a larger network of firms, we gain a different picture of Chinese business organization. Instead of "centralized" narrowly confined family firms, we find out a loosely connected set of firms, all of which are partnerships. [25, p. 360]

Therefore, according to this view, the dominant form of business group in Taiwan should be defined as a loosely connected set of partnerships.

One more approach considers the business group in Asia as an extended form of family management originally determined by the principle of kinship, as in China and Korea. Unlike the affiliation network model, this approach puts more emphasis on the vertical=centripetal aspects than the horizontal=diffused aspects of business groups.

Take, for example, the empirical work of Tong Chee Kiong on business groups in Singapore. Chinese family firms are an important ingredient within Singapore's large business groups, like the Hong Leon group, meaning exclusionary family control over stock ownership and a concentration of authority over decision making in the personage of one certain individual, the owner-family patriarch [37].

The Hong Leon group was founded in 1941 as a machinery shop, and over the past half century has expanded from this base into a classic case of the conglomerate-type business group with interests in the finance, construction, manufacturing, and real estate sectors. As of the mid-1980s Hong Leon has amassed ninety-one subsidiaries in Singapore and another seventy-three in Malaysia. Tong has documented in detail the design by which the founder, Kwek Hong Png, and his family members exclusively control the group's enormous enterprises by means of family-owned stockholding companies and interlocking directorates [37, pp. 23–26]. While at first glance the corporate organization of this group seems quite Western in appearance, with respect to the aspects of control over ownership and management, Hong Leon is, according to Tong, concentrated within a small circle of Kwek family members.

The above two sociological approaches to business group organization may seem to be proceeding in opposite directions at first glance, but kinship and affiliation may just be two sides of the same coin. Even Tong's work on the Hong Leon group, which puts a lot of emphasis on the patriarchal and centripetal aspects of ownership and management, also indicates an interpersonal network within the group that has been built on a foundation of trust (*xiyong*). On the other hand, in the research done by Hattori, which stresses a "network of human relationships" among the business elite of Korea, we observe Korean zaibatsu groups that are operated through a concentrated, top-down decision-making process

[5] See also the article by Numazaki in this special issue.

within core families [10, p. 128]. The difference between these two approaches therefore arises only when the discussion turns to the aspect of corporate expansion.

C. *Traditional Enterprise Structure in China: Hegu and Hehuo*

One issue that cannot be overlooked when studying family businesses, especially those of overseas and local-born Chinese residing in the countries of Southeast Asia, involves the Chinese traditional enterprise management forms of *hegu* and *hehuo*.

The character *gu* (literally the thigh portion of the leg) in the compound *hegu* indicates the portion of a divided family inheritance that a particular heir receives. The term *hegu* at the same time indicates a Chinese form of partnership in which the participants pool (*he*) their resources (*gu*) to start a joint-management enterprise.

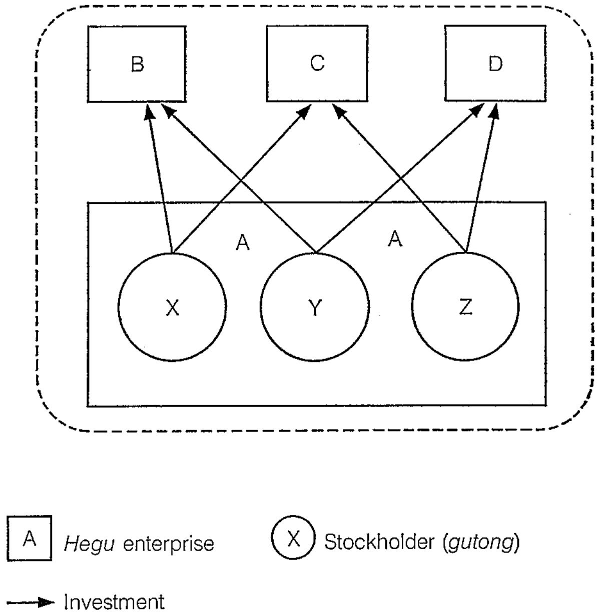
Generally speaking, the Chinese family is based on a system of communal fortune, with the head of the family, the patriarch, holding managerial control over it. When the patriarch dies, the family fortune is transferred to the group of heirs, but in practice comes under the managerial control of the new patriarch, the eldest male heir, or in his absence, the eldest member of the collateral family. However, situations do arise in which the heirs choose to divide the family fortune between them and go their separate ways. In this case, the division is made in principle with equal portions going to each male member of the same generation. We see here that under the traditional Chinese family system, the two contrasting aspects of managerial (vertical) control by the patriarch over the family fortune and equal (horizontal) division of the inheritance coexist side by side [24, Chap. 13].

Negishi argues that the original meaning of *hegu,* therefore, is a re-pooling of the divided inheritance, in order to maintain and/or expand the family fortune; but this meaning, or at least the principle involved, was adopted by not only families, but also groups of friends or "hometowners" in forming *hegu* business enterprises. Legally or institutionally speaking, Negishi puts these business organizations in the corporate category of "ordinary partnership," and also distinguishes them from the joint-stock company forms that have emerged in Europe. He claims that the joint-stock company could never have developed in any sense in premodern China [23, pp. 553–55].[6]

In studies of the subject published in postwar Japan, we find a lot of the research equating the institution of *hegu* with feudalistic commercial organizations and practices. One aspect that has received much discussion is the question of why *hegu* did not develop into modern corporations. For example, M. Yamana argues that whenever capital mobilization is made into the nucleus of *hegu,* capital accumulates there under the presumption of some confederacy or partnership based on shared kinship ties, geographical origin, or occupation. However, if the investors form the nucleus of *hegu,* each individual or family becomes a party

[6] Negishi [23] is very helpful in studying the origins, organizational aspects and accounting practices of these traditional Chinese enterprises. The reader will also find a comparison with corporate development in Europe.

Fig. 1. Model of *Hegu* Enterprises



to financing a number of *hegu*. Figure 1 illustrates this arrangement, which promises to diffuse investment risk, utilize investment funds to their fullest extent, and insure safety in capital increases through personal bonding. For this reason, *hegu* functioned only as a temporary organization for making profits and did not develop into a rational, permanent form of capitalistic enterprise management [40, p. 258]. It was Yamana's ideas that precluded and stimulated the formation of the partnership models, which have been employed in the study of business groups in contemporary East Asia.

One more viewpoint is represented by the research of S. Imabori into the historical development of *hehuo* (an organization similar to *hegu*) from the Ming period up to the end of the Qing period. Imabori noticed a change in *hehuo* as the institution entered the Qing period. What happened was that investors *cum* managers characteristic of the original form of *hehuo* became divided into two major groups of mere investors (*pudung*), on the one hand, and investors who took on managerial duties (*puhuo*). This amounted to a separation of ownership (*gu*) from management (*zhang*). Therefore, if a situation had developed in which *puhuo* assumed unlimited responsibility for the enterprise, while *pudung* were relegated only limited liability, Imabori argued that the joint-stock company would be been born in China.

What came about in reality was a clear differentiation between the character of the investment shares of the *pudung* investors and the investment shares of the *puhuo* investor-managers. For example, in the case of a 70-30 capitalization ratio between the two groups, the profit sharing ratio would be set at 50-50, resulting in far higher evaluation of the capital contributed made by the *puhuo* investor-managers. This evaluation method was not intended to compensate *puhuo* with a salary for managerial services rendered, but was rather an attempt to put a higher value on their share of the profits. As a result, Imabori argued, shares of stock could not be divided evenly over the whole *hehuo* enterprise, thus preventing the transformation of capital into a joint-stock form.

As to the reason why joint-stock companies did not develop in China, Imabori concluded that being determined by human relationships, *puhuo* was supported by a communal, confederate structure which rested on the foundations of family organization inherent to Asia [12, p. 45].

The research on *hegu* and *hehuo* has continued to point to the strong influence exercised by these institutions even today on the organizational patterns of Chinese-run business enterprises in Southeast Asia. That is to say, such characteristic features of the family business as the importance of interpersonal networks in their founding, diversification motivated by family fortune expansion and risk diffusion, as well as joint appointments to directorships and corporate executive positions can all be traced back to the customs and practices characterizing *hegu* and *hehuo*.

On the other hand, the notion that these indigenous enterprise forms by their very nature-lacked continuity or permanency certainly does not jibe with the well-documented continuation of the family business in the developing nations. In order to explain why family businesses have not only survived, but also expanded, we will have to approach the subject matter from a different viewpoint.

D. *The Family Business and Late-Starting Industrialization*

In answer to the query, why does the family business remain so deeply rooted in the developing nations, the work of K. Nakagawa on economic development and family enterprise management offers some very suggestive arguments [20] [21] [22]. As far as this author is aware, Nakagawa's work is the pioneering effort in directly examining the relationship between the family business and developing (or "late-starting") economies.

To begin with, Nakagawa describes modern capitalism as characterized generally by a clear separation of the corporation of a production unit from the household as a consumption unit. Moreover, he understands economic activity involving both production and consumption as the family enterprise (*kagyō*), and distinguishes it from the modern business enterprise. He then compares the role that this family enterprise played in economic development in such early starters as the United Kingdom with those of the late starters (latecomers) such as the United States and Japan. Through this comparison, he finds two points on which family enterprises displayed superiority in late-starting industrial countries.

The first point may be summarized in the statement; when compared to joint-stock companies, family enterprises excel in maintaining mobility in the managerial decision-making process. For this reason, in times of both accelerated economic growth and extraordinary economic change (that the United States and Japan both experienced), the family enterprise form has in many cases been very effectively utilized [22, p. 249].

Together with the managerial decision-making process, the family enterprise in late-starting countries, Nakagawa insists, worked more effectively in the capital-procurement process as well. Namely, capital markets could not keep up with accelerated growth experienced in these countries, resulting in a shortage of investment funds for joint-stock companies. However, the family enterprise could expand its business by utilizing its personal networks to procure the necessary capital funds [22, p. 259].

To the contrary, Nakagawa observes, family enterprises in the early starters such as the United Kingdom had relatively stagnated vis-à-vis industrialization. They acted in extremely cautious, conservative patterns, thus having a restrictive effect on economic development. Family enterprises in these countries tended to fall to a level of activity that either emphasized real estate property as the most important form of family fortune, or became concerned with enterprises that would build a material base for upholding the family's honor and social standing [22, p. 261]. This point is on the same track as Useem's argument (discussed earlier) that British family enterprises in historical perspective have been anti-industrial in their attitudes.

Nakagawa's problematic deserves recognition on the point that the family enterprise needs to be reevaluated in a positive manner as one form of capital accumulation in late-starting industrial nations. The discussion that will follow in this paper with respect to Thailand proceeds from this very proposition. To wit, what will be presented in the following pages not only is a discussion of how family control over ownership of large corporations has managed to continue, but also is an attempt to clarify both the development patterns of the Thai family business and its mode of capital accumulation within the strictures imposes by late-starting industrialization.

III. THE FAMILY BUSINESS IN THAILAND

A. *The Ownership Structure of Large Thai Corporations*

Tables I and II on the top stockholders of large corporations in Thailand have been compiled by selecting firms whose annual sales (or revenue in the case of financial institutions) exceeded 0.3 billion baht (U.S.$15 million) in 1979 and 1 billion baht (U.S.$40 million) in 1988. The firms satisfying these requirements numbered 218 in 1979 and 249 in 1988 and give us a very good cross-section of the leading businesses, including foreign enterprises, in Thailand.

It should also be noted that only about 20 per cent of the firms so selected are companies listed on the Securities Exchange of Thailand (SET) and thus public limited companies. The remainder are private limited companies.[7]

[7] As of 1988, there were a total of 141 companies listed on the Securities Exchange of Thailand. Of this total, 44 companies surpassed 1 billion baht in sales, thus qualifying them under our definition of "large corporation." These listed companies come to only 18 per cent of 249 firms in our sample. Calculated from [29].

TABLE I

CHARACTERISTICS OF TOP STOCKHOLDERS IN LARGE THAI CORPORATIONS, 1979 AND 1988

(Persons, firms)

Top Stockholders/Equity Percentage	1979	%	1988	%
(1) Individual:	72	(33.0)	74	(29.7)
1–9%	3		4	
10–29%	35		43	
30–50%	29		23	
51–100%	1		4	
Foreigner	4		0	
(2) Family investment company:	26	(11.9)	16	(6.4)
1–9%	3		5	
10–50%	17		9	
51–100%	6		2	
(3) Thai corporation:	37	(17.0)	67	(26.9)
1–9%	3		5	
10–29%	15		24	
30–50%	10		19	
51–100%	9		19	
(4) Foreign corporation:	78	(35.8)	81	(32.5)
10–48%	32		26	
49–50%	10		11	
51–98%	10		13	
99–100%	26		31	
(5) Government bureau	3	(1.4)	8	(3.2)
(6) Crown Property Bureau	2	(0.9)	3	(1.2)
Total	218	(100.0)	249	(100.0)

Sources: Calculated from the following firm directories: for 1979, Pan Siam Communication Co., *Million Baht Business Information Thailand, 1980–81* (Bangkok, 1981); for 1988, International Business Research Thailand Co., *Million Baht Business Information Thailand, 1989* (Bangkok, 1989).

Notes: 1. Large corporations indicate firms with 0.3 billion baht (1979) and 1 billion baht (1988) in terms of total annual sales.

2. Public corporations have been excluded.

Looking at the distribution of top stockholders in Table I, we can discern the following characteristics.

First, the proportion of foreign firms (mostly subsidiaries of multinational corporations) is very high (36 per cent in 1979 and 33 per cent in 1988), and entirely controlled subsidiaries total twenty-six in 1979 and thirty-one in 1988 respectively.

Secondly, of the Thai companies in the sample, a large amount (about 30 per cent) are not corporate-ownership-type firms (juristic persons holding), but individual-ownership-type firms (natural persons holding). No drastic change can be seen in this tendency over the ten years between 1979 and 1988.

TABLE II

TOP THREE STOCKHOLDERS IN THAI LARGE CORPORATIONS, 1979 AND 1988

	Top Three Stockholders	1979	%	1988	%
(1)	Individuals (Thai):	60	(27.5)	61	(24.5)
	Belonging to the same family	21		33	
	Belonging to the multiple families	39		28	
(2)	Individuals plus corporations:	38	(17.4)	32	(12.9)
	With group companies[a]	14		13	
	With non-group companies	24		19	
(3)	Thai corporations:	22	(10.1)	48	(19.3)
	Belonging to the same group	4		17	
	Among different groups	15		19	
	Holding-company type[b]	3		12	
(4)	Foreign corporations:	90	(41.3)	97	(39.0)
	Exclusively foreigners[c]	33		38	
	With Thai corporations	43		51	
	With Thai individuals	14		8	
(5)	Government bureaus	8	(3.7)	11	(4.4)
	Total	218	(100.0)	249	(100.0)

Source: Same as Table I.
[a] Group companies are members of the group of companies that the stockholders in question own and operate.
[b] Siam Cement Co., Ltd. and Suramahakhun Co., Ltd.
[c] Includes a single firm with 100 per cent stockholdings.

Thirdly, among individual-ownership-type firms, over half of the top stockholders control by themselves a very high percentage of a firm's stock (30 per cent and over), indicating that no diffusion of stockholding has accompanied the creation of these large corporations.

Fourthly, the percentage of corporate-ownership-type firms has constantly increased among large Thai corporations over the ten-year period in question.

Now, adding the number of companies with individuals as their top stockholders to the number of family-owned investment companies (A)[8] and then adjusting the total sample by subtracting the number of foreign affiliates and companies financed

[8] A "family-owned investment company" is defined here as an enterprise financed totally by the members of a particular family with the aim of investing in both its group enterprises and outside corporations. This aim is different from the "holding company," which aims to systematically keep control over ownership and management within the group. Rather, the aim in the former is to reduce the individual income-tax burden on family members. These investment companies first appeared in Chinese business groups which controlled commercial banks, and then spread to the manufacturing sector groups during the latter half of the 1960s. Groups containing such companies include Bangkok Bank group (Chatri Sophon Co., Ltd.; established 1966), BMB group (Tejapaibul Co., Ltd.; established 1967), Sukree group (Thai Wuthipat Co., Ltd.; established 1969), and Saha group (Chokwatana Co., Ltd.; established 1972).

either by public entities or the Crown Property Bureau (B),[9] we find that A amounts to 72 per cent of B in 1979 and 57 per cent of B in 1988. These figures show the dominance of individually- or family-owned enterprises in Thai big business.

Looking at the composition of the top three stockholders for each company in the sample (Table II), we find again a very high percentage (about 40 per cent) of foreign corporations participating either on their own or in the form of joint ventures. The next largest group (25 to 28 per cent) is occupied by individual-ownership-type firms in Thai-owned businesses. To the contrary, in the case of corporate-ownership-type Thai firms, joint investment among multiple Thai corporations owned by different families is observed for only fifteen companies (7 per cent of the sample) in 1979 and nineteen companies (8 per cent) in 1988.

The number of companies in which all the top stockholders were either (1) members of the same family, (2) individuals or group corporations affiliated with the same family, or (3) a corporation directly owned by the same family totaled thirty-nine in 1979 (18 per cent of the total sample; 33 per cent of B) and sixty-three in 1988 (25 per cent; 45 per cent of B). The reason for the rise in this number is a growing trend towards investment practices utilizing affiliated corporations of each business group (pattern 3).

Due to limited source materials, it is only possible to identify "same family" when checking members of direct descent with the same family name. Therefore, stockholders who may be "same family" by virtue of collateral lines of descent or affinal ties have not been included in the above calculations. If we survey this sample by expanding the definition of "family" to include affinal ties, we will find not few firms in the sample that should be reclassified as "family businesses" in terms of their ownership.

Using Tables I and II, it is also possible to point out the following characteristics of large corporate ownership patterns in Thailand. Namely, the proportion of corporate-ownership-type companies in big business is on the rise, due mostly to the increasing presence of foreign enterprises.[10] On the other hand, large Thai-owned corporations still rely more heavily on individual ownership than corporate and show no notable tendency towards diffused stock ownership.

B. *The Management Structure of Large Thai Corporations*

Next, let us examine the characteristic features of top management levels in large-scale Thai-owned corporations using our enterprise data for 1988.

[9] The Crown Property Bureau is an office set up in 1936 to control and manage the holdings accumulated by the Thai royal family over many generations. The bureau invests in many business enterprises, including Siam Cement, and in the real estate business. There is a different office, the Royal Household Bureau, that manages the financial affairs of the present king, Rama IX.

[10] Pichet and Yasuda [28, pp. 235–37] have utilized corporate data for 1982 to analyze the top stockholders of the 200 largest (annual sales) companies and 62 listed companies. However, they divide these enterprises into only two categories, individual ownership (natural persons holding) and corporate ownership (juristic persons holding), resulting in far too much emphasis on the existence of corporate ownership.

TABLE III

FAMILY STOCKHOLDERS AND MANAGEMENT CONTROL IN THAI LARGE CORPORATIONS, 1988

Top Management	Equity Percentage of Largest Stockholder			Total	%
	1-9%	10-49%	50-100%		
Presidents / general managers:					
(1) Same family with the largest stockholder	3	33	55	91	59.5
(2) Same families with 2nd or 3rd stockholders	2	8	1	11	7.2
(3) Different families[a]	4	22	11	37	24.2
(4) Foreigners	2	11	1	14	9.2
Sub-total	11	74	68	153	100.0
(5) No data available	—	3	2	5	
Chairmen of board:					
(1) Same family with the largest stockholder	1	21	34	56	62.9
(2) Same families with 2nd or 3rd stockholders	1	4	—	5	5.6
(3) Different families[a]	7	13	5	25	28.1
(4) Foreigners	1	2	—	3	3.4
Sub-total	10	55	39	89	100.0
(5) No data available	1	39	31	71	
Presidents (P) / chairmen (C):					
(1) Both of P/C belonging to the same family with top three stockholders	2	14	29	45	50.0
(2) Either of P/C belonging to the same family with top three stockholders	2	19	8	29	32.2
(3) Others	6	8	2	16	17.8
Sub-total	10	57	39	90	100.0
(4) No data available	1	38	31	70	

Sources: Survey by the author; same as Table I.

Notes: 1. Figures cover large corporations with annual sales of 1 billion baht in 1988.

2. Foreigner 100 per cent controlled and government partially owned companies have been excluded.

3. Subsidiaries of Siam Cement group and Suramahakhun group have been excluded.

[a] Figures include non-identified presidents or chairmen.

First, we must exclude wholly-controlled-type foreign enterprises from the 249 companies with annual sales figures over 1 billion baht in our sample. Now looking at the enterprises for which we know who their company presidents (and/or board chairpersons: CEOs) are, we will set up four categories to describe them: (1) a member of the top stockholding family, (2) a member of the second or third largest stockholding family, (3) a Thai national other than categories (1) and (2), or (4) a foreign citizen. The purpose of this grouping is to get a general idea of to what extent ownership and management are tied together in Thai-owned businesses.

Table III summarizes the results. We were able to identify the top management of 174 companies in the sample. From this total we further subtract all the enterprises that are 100 per cent owned by a holding company like the subsidiaries of Siam Cement Co., Ltd. In this case, there is no relevance to family-ties between the top stockholders (holding companies) and the appointed CEOs. In sum, we get a 160-company sample to work with.

Taking this total as our denominator, we find that 60 per cent of the company presidents and 63 per cent of the board chairpersons are members of the top stockholding families. Particularly in cases where the top stockholding family controls over 50 per cent of the stock, it is almost assured that a family member will be appointed to at least one CEO position. If we add to this number CEOs from second and third largest stockholding families, the number of companies in which the company president is a member of a large stockholding family accounts for two-thirds of the sample.

One more point to be noticed is the "different families" category in Table III, in the sense that these CEOs are not necessarily all professional or salaried managerial executives. In other words, since the only criterion we have for establishing kinship connections between CEOs and stockholders is the same family name, our results probably understate the frequency of such connections, due to the likelihood of CEOs being connected to shareholders through marriage. Moreover, among CEOs recruited from a "different family," there are also friends and business partners of stockholding family members.

These facts can only lead us to believe that there are very few CEOs in large Thai-owned corporations who have been appointed only on the basis of their specialized managerial skills.[11] Overall, what we must conclude from Table III is that the majority of large Thai-owned corporations are of the ownership-control type rather than the management-control type, and that they are, moreover, "family"-ownership-control-type businesses.

C. *Ownership and Management Control of Thai Zaibatsu*

From the above analysis, we have seen how within the Thai-controlled big business sector of Thailand there remains a broad area of individual and family ownership, where stockholding concentrates within particular families, who at the

[11] One large business group which has clearly appointed managerial experts to the posts of CEO in its member enterprises is the Siam Cement group. For an analysis of the managerial structure of this group, see [31, p. 19, Table 8].

same time exercise control over managerial affairs. In addition to this characteristic, it is also necessary to point out one more important fact; namely, that many large Thai corporations are not independent entities, but rather belong to business groups in the form of zaibatsu (as defined above) [31, pp. 6–8]. To clarify this fact, let us look at the case of the Charoen Pokphand group (known as CP group).

The CP group is an agribusiness conglomerate consisting of close to 280 member firms as of 1991. CP group's consolidated annual sales ranks second among all the business groups in Thailand. Table IV has been constructed summarizing data compiled by the Ministry of Commerce related to CP group's member firms and their ownership structure in the mid-1980s.[12]

Despite a wide-ranging expansion of its business enterprises, CP group's stockholding composition has remained quite simple. That is to say, the investors in the group's member firms may be divided into three groups, a main group and two complementary groups. The main group consists of members of the Chiarawanon family headed by the Chia brothers, Chia Ek Cheow and Chia Shiau Hui, while the two complementary groups include (1) investment companies held exclusively by the Chiarawanon family and (2) the group's major member firms. Moreover, with the exception of a joint-venture enterprise [Arbor Acres (Thailand) Co., Ltd.] financed partly by capital from the United States, about 80 per cent of the stock of just about every group member firms is held by the Chiarawanon family or its investment companies.

It is this kind of "three-group investment composition" ("four group" in the case of joint ventures with foreign capital) that forms the most fundamental pattern in the ownership structure of Thai zaibatsu. Historically speaking, the general pattern begins with initial individual investment by the founding family (together with its affines and friends); then, as enterprise expansion proceeds, such capital fund sources as family investment companies and member firms are employed.[13]

We can also observe a pattern somewhat different from the above case in the form of the founding family retaining exclusive, individual control over group ownership through its hold on the group's parent or main company. This is pattern followed by the maker of Singha beer, the Boon Rawd Brewery group, and the Central Department group.[14]

Another practice in the effort by founding families to solidify their control over their zaibatsu is to reorganize the parent or main company of the group into an

[12] It should be mentioned, however, that CP group embarked on a restructuring of its ownership composition beginning in 1987 with the listing of a portion of its member firms on the Thai stock market [35, pp. 98–99]. Table IV therefore indicates the situation before restructuring.

[13] A description of changes that have occurred in the Sukree group ownership pattern may be found in [31, p. 19, Table 8].

[14] On the Boon Rawd Brewery group, see "Prachuap Phiromphakdi: naenon, khon run-mai yomdi kwa khon run-kon" [Prachuap Phiromphakdi: it is natural that a successor gains more than an ancestor], *Phu-nam thurakit,* October 1987. The ownership structure of the Central Department group is outlined in [39, p. 53].

TABLE IV

OWNERSHIP STRUCTURE OF CP GROUP AROUND 1983

Company Name	Year of Establishment	Type of Business	Stockholding (%)		
			Family Members[a]	Investment Companies[b]	Group Companies[c]
1. Chia Tai Seeds & Agricultural	1951	Fertilizer importing	100.0		
2. Charoen Pokphand Feedmill	1967	Feed milling	60.5	27.1	
3. Charoen Pokphand Produce	1967	Broiler raising	81.9	11.7	
4. Bangkok Feedmill	1968	Feed milling	63.8	11.3	
5. Kasetphan Industry	1970	Chicken farming	35.7	12.3	7.1
6. Arbor Acres (Thailand)[d]	1971	Parent stocks			50.0
7. Advance Pharma	1971	Vaccine importing	70.0	10.0	
8. CP Textile	1973	Textiles	16.9	49.6	
9. Bangkok Farm	1973	Chicken breeding	55.8	22.5	
10. Bangkok Livestock Processing	1973	Broiler processing	57.6	22.5	
11. Bangkok Fisheries	1974	Fish-ball processing	50.0		49.7
12. J.P. & Sons	1975	Investments	75.0		
13. Montri & Sons	1975	Investments	100.0		
14. Bangkok Im-Ex	1976	Agri. exporting		16.0	56.0

TABLE IV (Continued)

Company Name	Year of Establishment	Type of Business	Stockholding (%)		
			Family Members[a]	Investment Companies[b]	Group Companies[c]
15. Charoen Pokphand Investment	1976	Investments	10.4		54.2
16. Bangkok Food Product	1977	Food processing	67.5	67.5	22.5
17. CP Feedmill	1977	Food milling	68.2	68.2	22.7
18. Sumeth Investment	1978	Investments		100.0	
19. CP Intertrade	1979	General trading		28.0	35.5
20. Bangkok Produce Merchandising	1979	Agri. exporting	56.8	22.7	11.4

Source: "Kan toepto khong CP: borisat kham-chat rairaek khong Thai" [The growth of CP: the first multinational enterprise in Thailand], *Young Executive,* Vol. 2, No. 12 (September 1987), pp. 76–77.

[a] Combined percentage of Chiarawanon family members.

[b] Family-owned investment companies (companies Nos. 12, 13, 15, and 18).

[c] Companies of Nos. 2, 4, and 10.

[d] Joint venture with American company.

enterprise management stockholding company. Siam Motors Co., Ltd. performs this type of role for the automobile manufacturing group of the same name [33, pp. 305–7]. We also see in the case of the Saha and Saha-Union groups, their stockholding companies (Saha Pathana Inter-Holding Co., Ltd. and Saha-Union Corp., Ltd. respectively) being listed on the Thai stock market, thus putting them on the road to evolving into modernized organizations. Both of these holding companies control managerial decision making over not only investment planning, but also their respective groups' personnel, marketing strategy, and research and development affairs.[15]

However, in these latter cases, as well, the basis of group ownership structure as a whole is still the family business, and they therefore represent no diversion from the way in which expansion and group formation have resulted in the present-day Thai zaibatsu. Therefore, what is happening in Thai zaibatsu today cannot be explained by the conventional theory of the joint-stock company, which states that as the scale of each group company grows and the sphere of enterprise expands, an evolution from family control to managerial control is bound to occur.

IV. DIVERSIFICATION AND INTEGRATION OF THE FAMILY BUSINESS

A. *The Political Economic Aspects*

Why is it that the family business not only attempts to increase the scale of its business, but also creates enterprise groups by increasing the number of firms under its control? The answer to this question suggested by the business environment in the developing nations is that group formation is advantageous with respect to taxation. In other words, by forming new companies (including dummy corporations) it is possible to retain a portion of group profits that would otherwise flow out in the form of individual income tax, etc.

We can also observe in Thailand new group firms being founded not only to take advantage of tax loopholes, but also to use tax incentives set up by the government to promote industry. Since the end of the 1950s the Thai government, as one part of its industrial promotion policy, granted to private enterprises tax incentives (e.g., exemptions from machinery and raw material import duties and corporate income tax) for periods ranging from three to six years in duration. However, these privileges could be granted to each company only once during their existence. Therefore, when expanding into any particular enterprise sector business groups prefer to establish new companies instead of expanding existing plant and equipment. The Sukree group, also known as the "King of Textiles" in Thailand, has done this very thing in establishing many new spinning and weaving companies with facilities adjacent to one another [31, pp. 15–21].

However, probably the most important reason why family businesses in general tend to form enterprise groups is because they want to diversify their business lines

[15] Securities Exchange of Thailand provides information on both Saha Pathana Inter-Holding Co., Ltd. [29, Vol. 1, pp. 781–89] and Saha-Union Corp., Ltd. [29, Vol. 1, pp. 790–801].

and products. Let us first examine the theoretical aspects of diversification from the viewpoint of the theory of the firm.

In their research on the product strategy of the modern firm, Aoki and Itami [1] theoretically examine the motivation, rationale, scope, and economic effect of diversification by any one firm. According to this discussion there are three types of motive for diversification: (1) the need to respond to changing in market conditions or technological innovation; (2) the desire to take advantage of yet-unutilized resources that have accumulated within the firm; and (3) subjective resposes on the part of management to possible future changes (i.e., entrepreneurial motivation).

There are two rationales behind diversification: (1) entrepreneurial, which stems from the entrepreneurship of the firm's managers and (2) economic, which attempts to link existing business activities with new areas of endeavor for economic gain. Aoki and Itami point to what they term "economies of scope" as the most important factor in the rationale for diversification. That is to say, the appearance of yet-unutilized resources that could be employed in a number of areas encourage firms to proceed in the direction of diversification [1, pp. 66–68]. "Yet-unutilized resources" include not only idle plant and equipment, but also intangible assets such as a marketing and sales network or trademark, as well as information resources which can be employed many times over.

Meanwhile Y. Kobayashi's study of diversification by business groups emphasizes what he calls "the principle of growth opportunity maximization," in which expansion of the group as a whole is hoped to be realized through advancing into fast-growing industries or product lines. Kobayashi argues that attempts to diffuse risk or employ internally accumulated resources more efficiently are only secondary motivational factors in any business group's decision to diversify [14, pp. 77–78].

Considering these theoretical discussions, let us examine from what standpoint to view diversification within family business groups active in the developing countries. In the following sections three points will be discussed. They may be summarized as follows.

First, does the rationale behind diversification already exist within the group? This rationale may be found in "economies of scope" for the purpose of either (1) diversifying into related production or enterprise activities (i.e., vertical integration of production processes) or (2) diversifying into related product lines or markets (i.e., horizontal integration of product mixes).

Secondly, does the rationale behind diversification stem from late-starting industrial conditions within the economy? Here fast growth business chances are offered by the narrowness of domestic markets and the compressed or telescoping nature of industrialization. At the same time, factors to be considered here are government industrial promotion policies and easy access to foreign capital and technical know-how.

Thirdly, does the rationale behind diversification stem from the nature of the family business itself or the business practices of Chinese-run enterprise groups? Here, a hypothesis concerning the maintenance and expansion of the family fortune will be discussed.

B. *Diversification Related to Economies of Scope*

There are many cases of group formation in Thailand that have been the result of advancing into production processes and markets that are directly related to the company's initial area of business. There are basically two ways to diversify here: (1) moves to vertically integrate through advancing into upstream areas like raw materials or downstream areas like product assembly and (2) moves to horizontally integrate through manufacturing new products under the same brand name or through previously established marketing networks. In practice, however, many groups have chosen to vertically and horizontally integrate at the same time.

The typical case of economies-of-scope-motivated diversification in Thailand is the Boon Rawd Brewery group, which dates back to 1933 with the establishment of Boon Rawd Brewery Co., Ltd. Since that time moves to vertically integrate its main business of brewing beer can be observed in the establishment in 1968 of the crown cap maker, Crown Seal Co., Ltd., in a joint venture with Toyo Seikan Kaisha, Ltd. of Japan, the acquisition of a glass bottle company in 1982, the founding (year unknown) of a company to manufacture plastic cases for shipping bottled products, and the construction of both a barley plantation and a malt factory in 1985.

Horizontally integrated diversification has been carried out by within the Boon Rawd Brewery Co., Ltd. itself in response to the appearance of a domestic competitor and moves by the government to raise taxes on beer. Boon Rawd has begun brewing a "light," low-calorie beer and has advanced into the soda water and soft drink industry. With the exception of its real estate interests, all the companies under the Boon Rawd Brewery group are related in one way or other to the manufacture and marketing of the group's initial product, beer [35, Chap. 8].

Similar cases include the chicken broiler and shrimp breeder CP group, the Sukree textile group, the automaker Siam Motors, and the construction materials maker Siam Cement. The Siam Cement group should be noted for reorganizing its machinery repair division, which it set up in 1942, into an independent iron and steel maker (Siam Iron & Steel Co., Ltd.) in 1966 [30, p. 155] and using the technical know-how accumulated in this sector to advance into the automobile industry [34]. Here we see an example of how a business group was able to employ yet-unutilized resources accumulating internally to raise its production activities to a higher level.

The Saha group is a unique example of how diversification into various product markets gave birth to a huge manufacturing zaibatsu in the field of consumer goods. The group's founder, Thiam Chokewattana (Lee Heng Thiam), first started out as an importer of sundries (shirts, etc.) from China. Then in 1962 he formed a detergent manufacturing and sales company in a joint venture with Lion Corporation of Japan. From that time on the Saha group expanded by leaps and bounds through a nationwide network of traveling salespeople marketing Japanese goods such as Pias brand cosmetics. The group then utilized this same network to market the Wacoal women's undergarments it began to manufacture in 1970 [35, Chap. 4].

Today, the Saha group is organized into an integrated production-marketing conglomerate of about forty manufacturing companies organized according to different fields of production technology. For example, Saha Pathanapibul Co., Ltd. handles such mass consumption items as detergent and instant noodles, while International Cosmetic Co., Ltd. deals in well-known brand products such as Wacoal undergarments and child's ware. Here we find an excellent example of a zaibatsu that has effectively utilized to the maximum intangible assets accumulating within the group enterprises.

C. *Diversification and Late-Starting Industrialization*

The business environment that has contributed much to making possible the diversification carried by all Thai zaibatsu is Thailand's late-starting industrialization economy. That is to say, because of the limited scale and size of domestic markets, it is impossible to take full advantage of scale merits in any industry, be it cement or automobile and home appliance assembly. It is this situation that encouraged (or forced) business groups to diversify in Thailand. Moreover, diversification was further stimulated in the cases of such industries as automobiles and home appliances where a large number of assemblers were involved in severe competition.

On the other hand, late-starting industrialization actually helped business groups to diversify successfully in a number of ways. First, there is the governmental response to the situation in granting privileges to foreign firms and making it possible for domestic companies to employ capital funds, production technology and managerial know-how via joint venture agreements. Such groups as Siam Cement, Sukree, Siam Motors, and Saha, as well as the Saha-Union textile and garment accessory group, the Metro chemical fertilizer group, and Srifuengfung plate glass and chemical group, all furthered their diversification into zaibatsu by means of joint ventures with companies in Japan and the rest of the world [33, pp. 229–32].

The second way in which late-starting industrialization has helped diversification along is the government's attempt to address the situation directly through its industrialization promotion policy, which involved granting privileges to earmarked industrial sectors. The government has positively assisted import substitution industries, especially for consumer goods, since the 1960s, and from the mid-1980s has been promoting export-oriented and heavy industries. Most noteworthy is the government's efforts to provide new business opportunities for Thai entrepreneurs through policies linked to becoming a NIEs-type of country and taking full advantage of the foreign investment rush caused by the appreciation of the yen.

The appearance of new business opportunities and the expansion of the economy as a whole is clearly enabling Thai zaibatsu to continue their diversification ways. We have already mentioned Siam Cement's automobile venture, and the CP group's advance from agribusiness into petrochemicals and telephone lines, and the Saha and Saha-Union groups' new found interests in petrochemicals and export-oriented electronics are also good examples of recent diversification trends. In sum, what has happened since the 1980s is a conglomerate type of diversification by Thai zaibatsu into new growth industries unrelated to their main lines of business.

D. *Diversification and the Family Business*

However, "economies of scope" and late-starting industrialization are not sufficient to explain fully the reason behind the widespread existence and enterprise growth of Thai zaibatsu. That is to say, many zaibatsu in Thailand have been formed into groups by advancing (from very early on, by the way) into industries completely unrelated to their initial business ventures.

For example, the Kamol Sukosol group, initially an importer of products manufactured by the Westinghouse Corporation of the United States, formed a joint-venture company with Toyo Kogyo Co., Ltd. (Mazda) in 1974 to begin assembling automobiles, and since then has invested in such unrelated industries as hotel management, ethyl alcohol production, stainless steel refrigerator manufacturing, recording, finance, and real estate [13]. Such a pattern of zaibatsu development cannot be thoroughly explained by the previous discussion. Figure 2 represents a classic case of the formation of such a conglomerate type of zaibatsu in the Osothsapha (or Premier) group.

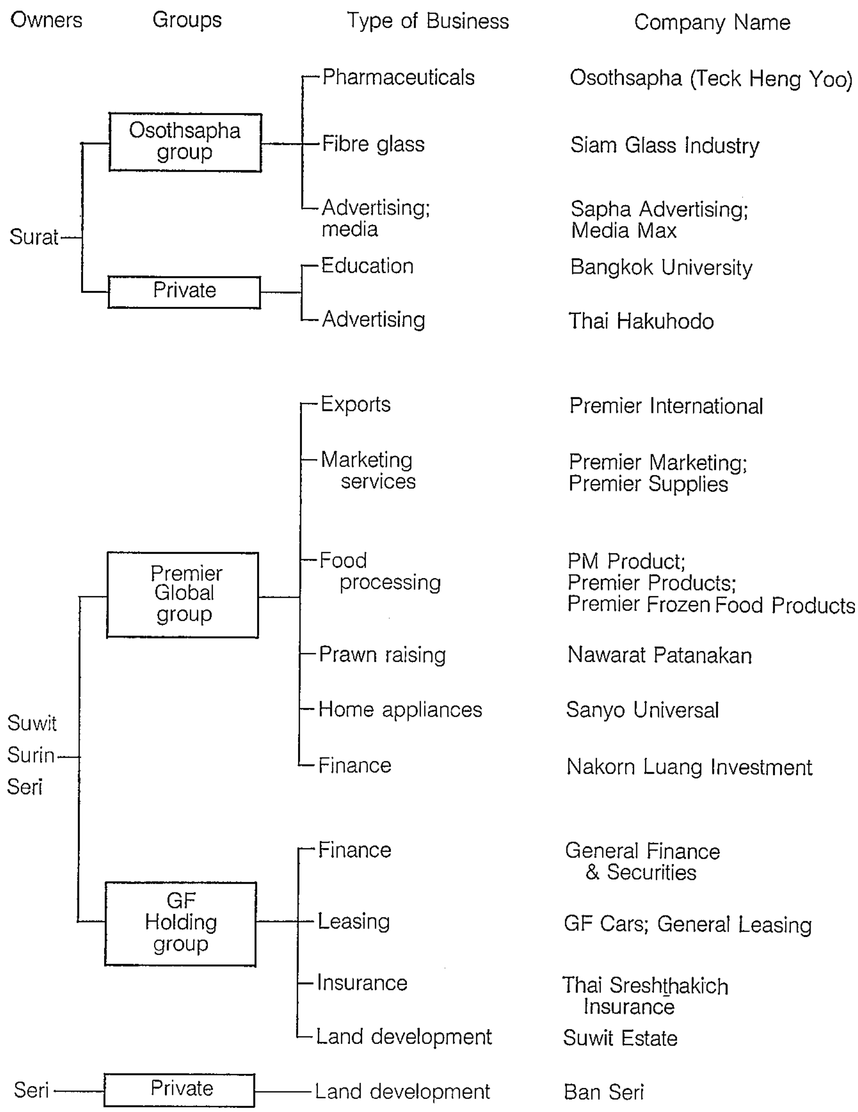
This type of conglomerate formation has two aspects. First, generational transition within these zaibatsu tends to promote business diversification. Here we see many cases of sons (or sons-in-law) of zaibatsu owners or founders advancing into industries completely different from the initial family business enterprise. The Premier group outlined in Figure 2 is an excellent example of this type of enterprise diversification.

As shown by the family genealogy constructed in Figure 3, the Premier group finds its roots in Pe Osathanukhro, who in 1930 founded Osothsapha (Teck Heng Yoo) Co., Ltd., an importer and purveyor of medicinal Chinese herbs. Following World War II, the company advanced into the manufacture and sale of Western pharmaceuticals on the strength of a technological tie-up with Taisho Pharmaceutical Co., Ltd. of Japan in producing a vitamin elixir. The Osothsapha group was built upon this company, and then it was turned over to the founder's son, Sawat.

It was during the third generation of Sawat's sons and daughter that the group began to diversify into such unrelated industries as leasing, finance, real estate, and export-oriented manufacturing (processed food, sport shoes, luggage, and shrimp). While maintaining the pharmaceutical business as their main line, this new generation of owner/managers turned their investment activities mostly towards new, growth industries that were popping up in Thailand at the time [27]. They also separated new businesses of the Premier group and the GF Holding group from their parents' business. This move was an attempt to respond to the quickly expanding and structurally changing Thai economy by a new generation of zaibatsu owner/managers resulting in the formation of a conglomerate.

A similar pattern can be observed in the diversification of the Shinawatra group, a northern Thailand zaibatsu initially involved in the production and export of silk and traditional cotton clothing. This group first made advances

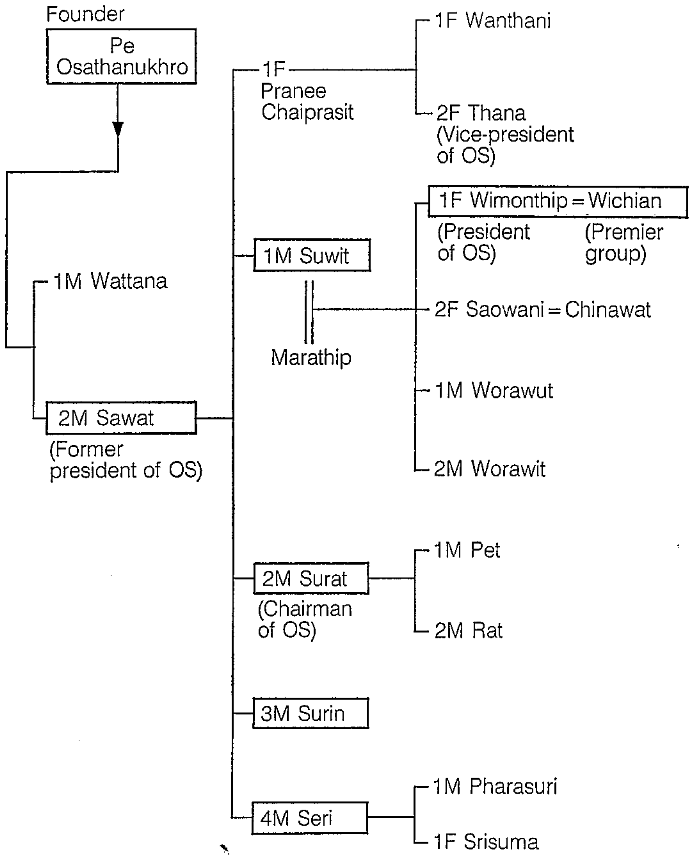
Fig. 2. Business Diversification of Osothsapha (Premier) Group



Source: *Phu chatkan*, Vol. 7, No. 78 (March 1990), pp. 115–29.

into various non-industrial sectors around Chiang Mai, like hotel management and real estate, then during the third-generation regime of Thaksin Chinawat, the group entered the computer and telecommunications industries with an agreement in 1982 to supply the National Railway of Thailand with IBM-brand computers. Since around 1983, when Thaksin established Shinawatra Computer Co., Ltd.,

Fig. 3. Family Genealogy of Osathanukhro (Osothsapha Group)



Sources: *Phu chatkan,* Vol. 5, No. 56 (May 1988), pp. 82–83; ibid, Vol. 7, No. 78 (March 1990), p. 120.
Notes: 1. 1M=eldest son; 2M=second son; 1F=eldest daughter.
2. OS=Osothsapha (Teck Heng Yoo) Co., Ltd.

the Shinawatra group has added fourteen subsidiaries to its computer and telecommunications sectors, including capturing exclusive rights in 1991 to satellite broadcasting, followed by plans to advance into the telephone line and private TV broadcasting industries [17].

On the other hand, in the case of traditional Chinese family-run businesses, where the family fortune is divided equally among the heirs, generational transition brings with it a danger of enterprise diffusion and a decline of the zaibatsu's main line of business. In fact, in prewar times one can cite quite a few cases (like Kim Seng Lee and Nai Lert), in which zaibatsu with substantial business interests were led down the road to ruin by such generational transitions.

In contrast, however, there are business groups that have managed to keep the family intact through such transitions, resulting in expansion and reorganization of their enterprise bases. A classic case is the Wanglee family, which grew over five generations (over 100 years) into the largest rice miller and exporter in prewar Thailand [33, pp. 110–14]. Today this same family maintains an important place in the Thai economy as a zaibatsu active in the fields of banking and real estate.

It is not unusual to find in the Thai business community zaibatsu that have stayed intact now for three generations since their founding. We should also notice here that all of these groups have maintained their integration through family business management practices. For example, the Lamsam family–run Thai Farmers Bank group and the Taechaphaibun family–run BMB group have been centrally controlled by one dominant family figure, but at the same time other family members have been put in charge of various important group enterprises. The previously mentioned Central Department and Saha groups have been run under a similar family business system.

In sum, we can observe here a clear intent on the part of the family business to maintain intact and even expand the family's enterprises and assets over a number of generations. In the opinion of this author, such an intent represents a definite tendency towards conservation and expansion of the family fortune inherent in the business management characteristic of the family in general and the traditional Chinese-run enterprise in particular.[16] In such cases, the purpose of business endeavors is not to maximize profits and market shares of their enterprises, but rather to expand the total fortune of the family, resulting in advances into areas, such as finance and real estate, unrelated to existing enterprises. This is the second factor encouraging the formation of conglomerates by Thai zaibatsu.

Even though the above aspects can explain both the rationale and motivation for conglomerate formation, they do not necessarily explain why it is possible for zaibatsu to maintain family business organization and practices, while at the same time diversifying their enterprises. In this regard, it is necessary to add three additional points.

First, up to even the present day economically powerful Chinese businessmen in Thailand have tended to be polygamous in their relationships with women, resulting in the creation of very large families. For example, the founder of the Central Department group boasts a total of fourteen sons and twelve daughters, who in turn have produced over forty grandchildren. Moreover, there being no primogeniture rules among contemporary Chinese families, the most able member of any generation (be he or she the third eldest son, daughter, or a son-in-law)

[16] One can anticipate two possible ways of criticizing such a position. First, there is the view that the concept of "family fortune" that existed in prewar Japanese zaibatsu does not exist in the case of Chinese-run zaibatsu, which is based on equally divided inheritance. Secondly, there is the view that Chinese family fortune should be divided into fortune held by the group and fortune held by its individuals, and it is the latter that tends to be emphasized in expansion plans.

will be placed in the group's leadership role. For these reasons, even in the case of business expansion, the family is in a position to take advantage of a rich pool of human managerial resources made available by kinship and affinal ties characteristic to Thai Chinese.

Secondly, from quite early on in their histories, Thai zaibatsu have expanded their enterprises through not only kinship and regional ties, but also via a network of foreign Chinese residing throughout Asia. One case in point is the Sophonpanit family, which controls the Bangkok Bank group, advancing into the manufacturing sector in joint ventures with Chinese entrepreneurs in Hong Kong, Taiwan, and Singapore [32].

The third and final point concerns the generational transition that has continued in zaibatsu families since the 1970s. We have seen the rise of a new generation of skilled managers with high levels of education, experience abroad, and close relationships with overseas corporations.

Up to the beginning of the 1950s the Chinese business community in Thailand continued to send their young sons and daughters abroad to such places as the Chinese mainland, Hong Kong, Swatow, and Singapore, where they could learn Mandarin and English, while becoming accustomed to traditional Chinese commercial practices. While residing in these overseas localities, those generations were also able to strengthen the regional network of personal relationships first built by their fathers.

However, with the establishment of the People's Republic of China in 1949, there occurred a shift in points of destination for overseas study to such faraway places as the United States, Japan, and Australia. Instead of traditional Chinese commercial practices, this new generation was and is being exposed to modern concepts of business administration and accounting systems, new production technologies and marketing skills, as well as the inner workings of the Japanese general trading company. For this reason, the management style characterizing the first and second generations of zaibatsu managers is not being reproduced in the third and fourth generations, as a new type of Chinese businessman has appeared in Thailand emphasizing improvements in the quality of entrepreneurship and enterprises management. This shift in business practices has made possible advances into new fields of endeavor never before imagined by zaibatsu families.

V. CONCLUSION

First, it should be emphasized that despite separate treatment given to the aspects of economies of scope, late-starting industrialization, and the characteristic features of Chinese family business management in this paper, all of these factors are interrelated in encouraging the formation of Thai zaibatsu groups and forming their diversification policies. In Conclusion, let us again ask the question why the family business still remains a dominate form of business group management in Thailand.

One reason is the underdevelopment of both domestic capital markets and the joint-stock company form of business organization. As of 1988, only 20 per cent of the top 250 corporations in Thailand had put their stock up for public sale. In addition, despite the establishment of a stock exchange system as early as 1975, increased stock activity resulting in the possibility of widespread equity finance transactions has only occurred since 1987.

In spite of these developments, it is still impossible to state that the managerial control hypothesis concerning the inevitable decline of the family business in the wake of capital market development and enterprise scale expansion will come true. This is because the case of Thai zaibatsu indicates a deep-rootedness and enterprise expansion capability far stronger than any family business institutions that may have existed in the industrialized countries of the world.

Therefore, it becomes necessary to search anew with a more positive attitude for the reasons why the family-business-type zaibatsu continues to exist. In this author's opinion the reasons may be found in the ability of zaibatsu to carry on internal reform, or adapt to changing business environments. In concrete terms, this means improvements in management practices, willingness to employ personnel from outside the controlling family, and forward-looking, innovational enterprise operations.[17]

The main point that should be made here is that zaibatsu which have grown and expanded in Thailand are not of the type described by such researchers as Useem; that is, they are by no means "anti-industrial" business groups concerned only with preserving their family honor and social position. To the contrary, Thai zaibatsu are interested in expanding their enterprises by means of quick responsiveness to changing economic environments both at home and abroad and with an eye to reaping profits offered by late-starting industrialization. Therefore, even though these zaibatsu are indeed family businesses just like the British groups studied by Useem, their management style is very different in their promotion of "innovation" on all the fronts of organization, production, and distribution.

This is the reason why we see contemporary Thai zaibatsu being led by owners filled with entrepreneurship and founded on very systematically organized family businesses. If these characteristics are not positively viewed and evaluated, we will never really understand what has been the keys to their growth and prosperity.

[17] Concrete examples of a variety of reforms actually carried out by zaibatsu groups in Thailand may be found in [35].

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