Mitigating Agency Problems in Family Business:

A Case Study of Thai Union Frozen Products

Pavida Pananond
Faculty of Commerce and Accountancy
Thammasat University
THAILAND

Abstract:
This paper puts forward two main arguments. First, it posits that large family business groups are likely to stay as a dominant form of firms in Thailand because the business group structure responds effectively to the institutional context of developing economies such as Thailand. Second, the paper suggests that family ownership and control in large business groups is not necessarily unsustainable if potential conflicts of interest between the controlling families and other stakeholders can be mitigated through an outcome-based strategic planning process. The checks-and-balance system that can be used to monitor behaviour of family board members and management executives is a necessary step towards sustainable family business management in the modern era.

Ⅰ. Introduction

Despite the general view advanced by Chandler that family firms are only appropriate for a specific stage of industrial development, the continued existence of family firms in advanced as well as developing economies appears indisputable. In fact, studies have shown that family-owned firms account for 64.6% of listed companies in Germany, 64.8% in France (Faccio and Lang 1999), and 61.6% in Thailand1 (Claessens et al. 1999). A series of papers by Akira Suehiro (1993, 1997, 2001) confirm that family ownership among large business groups has been and continues to be a major characteristic of the Thai business sector before and after the 1997 economic crisis. Accordingly, it is instructive to pose the question of why and how these family businesses continue to thrive.

Although the definition of 'family business' does not imply size,[2] the literature on family business in Thailand seems to be divided into two groups. While the first group focuses on small- and medium-sized (SME) family firms, the second one is concerned primarily with large and diversified family business groups. It is important to note that the former line of studies appears to be less positive on the future prospects of family firms in Thailand. Studies on SME family businesses tend to highlight issues that pose problems to their long-term survival. For example, Pipop (2001)[3] finds that owners of Thai family businesses are most concerned about equity dilution, wealth preservation and succession issues. Wilaiwan *et al.* (2003) argue that conflicts in family businesses obstruct their

1 Using his own database, Suehiro (2001) finds that the share of family businesses among listed firms in Thailand is significantly lower (48.2%) than the percentage found in Claessens' survey. Suehiro attributes this discrepancy to the different methods in identifying a firm's ultimate owners.

2 Colli (2003) suggests three key elements that make up a 'family firm': kin (as defined accordingly within a cultural framework); property (the ownership of a significant fraction of the enterprise's capital); and control (authority over the strategic management of the company). Suehiro (2003), on the other hand, proposes that the definition of 'family business' entails ownership structure, management control, and succession of office.

3 This study is based on the standard questionnaire used by Grant Thornton International, a consulting company focused specifically on accounting, tax and business advisory of mid-sized companies. This worldwide study investigates the concerns of family business on People and Relationship Issues in Management, hence the name PRIMA research. In 2001, Grant Thornton (Thailand) sponsored the PRIMA survey on Thai family businesses. A mailing list of 1400 firms was generated from various sources of business directory. Of the 1400 bilingual standardised PRIMA questionnaires mailed, 207 were returned. Although the study does not specify size of family businesses, 85% of the respondents employ less than 500 full-time employees (Pipop 2001).

development and highlight rivalries among family members, ambiguity of roles between family members, and organisational responsibility to be among the most important sources of conflicts in Thai family businesses. In sum, this stream of research implies that SME family firms have to overcome a host of challenges, particularly family business management issues, in order to survive in the long run.

Studies on large family firms in Thailand, on the other hand, tend to present a more positive view. Pioneered by Akira Suehiro in his various writings (1993, 1997, 2001), this line of research argues that family businesses (groups) have a rationality of their own, and that this organisational form is likely to subsist despite the economic crisis recently experienced in Thailand. This stream of research is dominantly based on studies of *large family business groups*, highlighting the important role this type of organisation has played in Thailand's industrialisation process. The inference made in this line of studies often leads to the understanding that 'family business' in Thailand means '*large family business group*'. While that assumption is partially accurate, it inevitably results in the question 'why *family business* survives?' being often interpreted as 'why *large family business groups* survive?'.

While large family business groups indeed continue to be one of the most dominant organisational forms in Thailand, and their continued subsistence deserves to be further explored academically, it should still be pointed out that the question *'why large family business groups survive?'* comprises two rather different but related sub-questions: why business groups exist and thrive; and why and how business groups continue to be under family ownership and control. These two sub-questions need to be addressed separately in order to acquire a better understanding on the prevalence of large family business groups in Thailand.

This paper therefore attends to the above questions by drawing from theoretical insights of two separate streams of literature. To answer why business groups continue to be a major organisational form in many countries, the established line of studies on business groups in emerging markets is referred to. The paper then turns to a different theoretical explanation—the agency theory—to explain how outcome-based goals can help curb agency problems within family businesses. This, in turn, increases the managerial efficiency of family firms and hence enabling them to subsist in the long run. The strategic planning process of Thai Union Frozen Products Public Company Limited (TUF) is presented to illustrate this point.

The paper comprises five parts. Following this introduction, the second section reviews how the literature on business groups can shed light on the continued dominance of family business groups in Thailand. Prior to presenting the case study, the paper discusses how the agency theory can be integrated into the studies of family business in the third part. Then, the TUF case study is presented to highlight how conflicts of interests among stakeholders in this family-controlled firm can be mitigated through the adoption of clear strategic guidelines. These outcome-based strategies help curb self-interest problems that may occur between the controlling families and minority stakeholders. Conclusions are presented in the fifth section.

II. How Business Groups Literature Explains the Subsistence of Family Businesses

Although diversified business groups that operate in a collection of unrelated activities are commonly associated with the emerging economies of Asia and Latin America, their existence is not a new phenomenon. Jones (2000: 158-94) showed that they were a prominent form of British FDI in the late nineteenth century lasting until the post Second World War period, notably but not only in Asia. Economists, business historians, and sociologists alike have provided a variety of explanations on the existence of business groups. The notion of business group requires clarification, however. For organisation sociologists, the question of diversification is not a significant aspect of business groups. Granovetter (1995: 95) defines a 'business group' as a 'collection of firms bound together in some formal and/or informal ways' (Granovetter 1995: 95). Although a conglomerate firm, in which a single corporation has diversified into many industries, is part of the business group under this definition, Granovetter considers conglomerate to be a marginal case.

On the contrary, the economic view of a business group draws attention to its degree of diversification. According to Leff (1978: 663), a group is a 'multi-company firm which transacts in different markets but which does so under common entrepreneurial and financial control'. Ghemawat and Khanna (1998: 35) further specify a business group as 'an organisational form characterised by diversification across a wide range of businesses, partial financial interlocks among them, and, in many cases, familial control'. Given the diversified nature of business groups in Thailand, the latter definition appears much more appropriate in the Thai context.

The existence of diversified business groups has been explained by three main lines of argument: economic, sociological, and resource-based. Led mainly by economists, the first group tends to view business groups as an organisational response to market failures. Leff (1978) argues that business groups act as an intra-firm mechanism that deals with deficiencies in the markets for primary factors, risk and intermediate products. In other words, business groups can be best understood as an institutional innovation for internalising the returns that accrue from operations in the imperfect market conditions of less developed countries. Khanna and Palepu (1997) delved further on market institutions in emerging economies, arguing that failures in capital market, labour market and product market often characterise these economies. The authors maintain that the diversified business group structure presents a host of advantages in the institutional context where market failures still abound, like that of most developing economies.

The second stream of literature, emerging from sociology, emphasises how other institutional variables, such as social, political and cultural forces, influence the structure of organisations in each society. The argument revolves around the concept of authority pattern within each society. Proponents of this view seek to identify how vertical, horizontal, and reciprocal network relationship patterns affect organisational structure at the firm and inter-firm levels. Empirical studies have predominantly focused on various business systems in Asia. While the vertical and strongly centralised authority pattern in South Korea leads to the development of diversified and vertically integrated form of organisation, commonly known as *chaebol*, the horizontal form of authority that characterised Taiwan is more accommodating to business groups consisting of associated firms under common and shared ownership (Whitley 1999, Orrù *et al.* 1997). Under this view, business group is an organisational form that has been shaped by the sociological patterns of relationships in that specific society.

The third line of work on business groups focuses more on the managerial aspect of business groups and adopts the resource-based view that a firm comprises a bundle of different resources (Penrose 1959). This school of thought also follows in the footsteps of the late industrialisation perspective, maintaining that domestic firms from late industrialising countries need to develop a set of 'generic' skills that are not specific to any particular industry or activity. These skills and can therefore be transferred across industries to compensate for their lack of proprietary technological skills. Compared to technological leaders from advanced countries, these generic skills are important competitive advantages

of firms from late industrialising countries (see Amsden 1989, 1995, Amsden and Hikino 1993, 1994, Hikino and Amsden 1994, van Hoesel 1997). Arguing that firms and entrepreneurs create diversified business groups when they can accumulate an inimitable capability to combine domestic and foreign resources to enter industries quickly and cost-effectively, this resource-based view of business group stresses how the information asymmetry between local and foreign firm benefits diversified business groups at the expense of foreign multinationals and domestic non-diversified firms (see Guillèn 1997, 2000).

Despite their different theoretical grounding, these three views share an important similarity that the institutional context of the firm leads to the development and continuation of business groups. According to the economic and sociological views, institutional variables, such as imperfections in capital, labour and product markets as well as social and cultural influences, are the main explanatory factors of the emergence and subsistence of business groups in developing economies. The resource-based view of business groups also considers the institutional context of late industrialising countries—the information asymmetry between local and foreign firms—to be the main reason behind the development of generic organisational skills unique to diversified business groups. The common implication of these views is that the business group structure is an appropriate organisational response to the environment in which it develops.

Adopting these theoretical views leads us to conclude that the large and diversified business group does have a rationale for its development and continued existence, especially in Asia and Latin America where the institutional context is often characterised by market imperfections and tight familial ties. Because these institutional factors take time to develop and become established, it can be expected that the business group form of organisational structure is likely to stay as long as the institutional environment of developing countries continue to be characterised by the factors discussed above.

Reviewing the business group literature also brings to light how some explanations of 'why family businesses exist and survive?' are, in fact, borrowed from theoretical justifications for the business group structure. This point was brought to attention earlier when it was noted that the tendency to use the term *'family businesses'* interchangeably with *'large family business groups'* can cloud over the explanations why *'family businesses'* emerge and thrive with those of *'business groups'*. For example, Nakagawa's

suggestion[4] that family businesses work more effectively than other business structures in the capital procurement process because of unsophisticated capital markets of late industrialising economies is not inconsistent with the market failure rationale of business groups. The capital market imperfections can lead to internalisation of the capital market either through cross-shareholding, cross-guarantees of debt payment, or utilisation of own financial institutions (Nam 2001). Family mechanism plays an important role in generating internal capital market only in the first case, that of family cross-shareholding. Put another way, family wealth may be an answer to capital and financial market failures, but it is not the only alternative. Business groups that are not bound together by familial ties, the Japanese *keiretsu* for instance, can equally respond to the underdevelopment of the capital market by relying on other means of internal financial mechanism (see Whitley 1999). Care should be taken, therefore, not to blur explanations for *'large family business groups'* with those of *'family businesses'*.

In sum, the above discussion examines various rationales that explain the development and the subsistence of 'business groups'. It also presents the argument that explanations of 'why family businesses survive' are often mixed up with those that explain 'why business groups thrive'. This statement is consistent with Almeida and Wolfenzon (2003), who clearly contend that the questions of why business group arise and their optimal ownership structure are two different questions. Now that we accept that business groups arise and are likely to stay in the institutional context characterised by market failures in intermediate and final products and by information asymmetry, attention should be placed more on the question 'why and how business groups continued to be under family ownership and control'.

Several attempts have been made to shed light on the issue. Suehiro (1993) gives two key reasons why family business lends itself to the adoption of unrelated diversification, hence the business group structure. First, the generational transition within family businesses tends to promote diversification, as later generations advance into industries completely different from the initial family business areas. Second, the purpose of family business entrepreneurs to expand and preserve the family fortune often prompts them to enter fast-growing areas that are unrelated to existing business, notably finance and real estate.

4 Kei-ichiro Nakagawa's paper was originally written in Japanese (Nakagawa 1981), but his view was adopted in Suehiro's works on family businesses in Thailand (Suehiro 1993, 1997).

Considering the question why business groups are often controlled through family pyramidal ownership from the corporate finance perspective, Almeida and Wolfezon (2003) contend that families choose pyramidal ownership structures, instead of horizontal structure, when the benefit of using retained earnings that belong to existing firms in the group is large. This statement is based on the assumption that pyramids are created as families use retained earnings from existing firms to invest in new ones.

The more common answer to why family control still subsists in large corporations, and the one adopted in this paper, is that family ownership and control is not such a bad thing. Contrary to the Chandlerian view that family capitalism is only appropriate in the initial stage of economic and entrepreneurial development, proponents of this view believe that family control can thrive in modern industrial enterprises if they are adaptive and their interests are consistent with non-family stakeholders. Suehiro (1993, 1997, 2001) has long argued that the survival of family businesses in modern environment depends on the ability to adapt and respond to changes in environment through improvement in management practices, willingness to employ personnel from outside the controlling family, and being innovative. Anderson and Reeb (2003) contend that continued founding-family ownership in and of itself is not necessarily a less effective organisational structure. Instead, they suggest that the ability of outsiders to monitor family activity is an important attribute in minimising family manipulations. This leads us to search for mechanisms that can help monitor self-serving behaviour of family members in large business groups. The next session argues that, through the outcome-based strategic planning process, family interests can co-exist with interests of other stakeholders, thus contributing to the subsistence of family businesses in the long run.

Ⅲ. Why and How Family Businesses Can Be Monitored: Dealing with Agency Problems

Why should family businesses be monitored? Answers to this question go back to the agency view that suggests that family ownership and control in public firms is perceived to be a less efficient ownership structure. Agency problems occur when cooperating parties have different goals and division of labour (Jensen and Meckling 1976). One direction of the agency research focuses on identifying situations in which the principal and agent are likely to have conflicting goals and then describing the governance mechanisms that limit the agent's self-serving behaviour (Eisenhardt 1988).

Agency conflicts may arise from transactions between any two groups of stakeholders, but researchers applying agency theory to management aspects of family firms have predominantly concentrated on owner-manager relationship (Christman *et al.* 2003). On the contrary, the economic and finance literatures on agency problems within family firms tend to focus on conflicts of interest between controlling families and minority investors, resulting in a rich line of work that emphasises corporate governance issues among large public family firms (see, among others, Andrade *et al.* 2001, Randoy *et al.* 2003, Anderson and Reeb 2003).

The most common agency problem adopted in this line of research is that the controlling families are likely to be biased in favouring family interests over those of non-family stakeholders, due to loyalty toward the family. This dilemma is even more pronounced in large and family-controlled public firms, in which minority stakeholders may not be treated properly by controlling families. The potential for this conflict of interest leads to the suggestion that the ownership and control be clearly separated in modern enterprises in order to allow a system of checks and balance (Berle and Means 1932). The failure to do so may allow concentrated shareholders to exchange profits for private rents, hence depriving minority shareholders of their due benefits (Fama and Jensen 1983). Similarly, a group of World Bank economists who conducted an intensive study of ownership patterns and corporate governance in listed companies in nine Asian countries concluded that the dominance of family-owned firms produced obstacles to sound corporate governance because: (a) ownership concentration may impede the development of professional managers; (b) family ownership may have led to increased risk taking behaviour by firms; and (c) family-owned businesses are likely to withhold information from minority shareholders in order to maintain the family's control (Alba *et al.* 1998).

To curb these conflicts of interest, corporate governance measures need to be enforced. The corporate-governance model usually prescribed is the one that prevails in the United States and the United Kingdom. With an emphasis on shareholder value, this Anglo-American model often calls for the independence of board members from management personnel, minority shareholders' role in the board, and a high level of financial and business disclosure (see, Suehiro 2001, Andrade *et al.* 2001). The adoption of US-style 'good corporate governance' has been increasingly emphasised following the 1997 economic crisis, in which weak corporate governance in Asia has been blamed as the main culprit (see, for example, Yeung 2000, Suehiro 2001, Nam 2001, Kim 1999, 2003).

The notion that the concentrated pattern of ownership in family firms inherently leads to agency costs is not a universal view, however. Demsetz and Lehn (1985) note that combining ownership and control can be advantageous as large shareholders can act to mitigate managerial expropriation. James (1999) contends that owner managers can be more efficient, thanks to their longer investment horizons. Randoy *et al* (2003) show that family involvement through board chairmanship can lead to better performance because descendant Chair can be critical in maintaining and articulating continuity in entrepreneurial vision and mission, and reducing the finite time horizon problem of non-descendant Chairs.

Empirical evidence from Asia also supports the view that family ownership and management do not always lead to poor results. In his analysis of ownership patterns, corporate structure and economic performances of listed companies in Thailand, Suehiro (2001) finds that family businesses in themselves were not a major cause of the financial crisis and have not hindered the country's economic recovery. Suehiro also argues that it would be more rational to introduce ways of revitalising family businesses to support sustainable growth rather than to directly adapt the Anglo-American corporate governance model to local firms.[5] Instead, Suehiro urges that Thai family businesses undertake fundamental corporate reforms to respond to pressures of economic liberalisation and industrial upgrading in the country.

The call for organisational and managerial adjustments of Asian family firms in the age of globalisation has been increasingly made. Carney and Gedajlovic (2002) suggest that changes in family firms' behaviour are equally important to the adoption of governance rules and regulations in shaping the more modern institutional environment for family firms. Similarly, Kim (2003) argues that the post-crisis blame on large family business groups in Asia fails to distinguish between the institutionally rooted problems and the managerially oriented ones. While the correction or adaptation of institutional factors needs to be handled at the national level, more emphasis should be placed on how managerial aspects of family firms can be improved to enable their continued existence.

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5 An argument against the unconditional adoption of the American model of corporate governance has been made earlier in Jones and Rose (1993). They assert that the development of American style governance structure does not always lead to better performance among British firms, and that the governance structure in each society needs to respond to various factors specific to that particular society.

This paper suggests that one way to curb agency problems between owner-managers and minority stakeholders is through the adoption of outcome-based strategies. Following the notion that outcome-based contracts are effective in curbing agent opportunism (Eisenhardt 1988), It is suggested that corporate strategies that emphasise outcomes can restrain agency problems between controlling families and other stakeholders. Clear outcome-based strategies can co-align the interests of family members with those of other stakeholders because the rewards for both depend on the same actions, and therefore reducing conflicts of self-interests between family- and non-family stakeholders. This proposition calls for more studies on strategies and strategic management issues in the literature of family business, an area that has surprisingly been understudied in the literature of family businesses (Christman *et al* 2003).

The next part elaborates on the above proposition through the use of a case study—Thai Union Frozen Products PCL (TUF). Yin (1994) suggests that there are three rationales that support the use of a single case study: (1) the case represents a critical case that can test a well-formulated theory; (2) the case is unique; and (3) the case is revelatory. TUF meets all these attributes. First, TUF fits all the requirements of family business groups that are prone to encounter agency problems. Despite its public status, TUF is still largely influenced by the company's founding families in both its management team and board of directors. The founder now presides over the board, while his son sits as the group's CEO. Of the 15-member board of directors, six are from the controlling families. The same six board members also hold active management positions in the group.[6] Despite the extensive family influence, TUF has been highly praised as one of the companies that adhere strongly to good corporate governance. The many awards that the group has won are ones that exemplify the group's corporate governance practice, for instance, Disclosure Award and Best Treatment of Minority Shareholders Award. TUF's attempts and achievements in creating corporate governance and transparency despite it's family ownership and control make it an appropriate case study to test the theoretical proposition on agency problems and monitoring mechanism discussed earlier.

Second, TUF is indeed a unique case for research in both agency theory and family businesses. The group's ability in curbing family self-interests, and, at the same time,

6 The information on family ties among board members is collected from TUF's annual reports, the 56-1 form (additional report required by the Stock Exchange of Thailand), and the author's interviews.

managing to achieve tremendous growth in both the domestic and international markets, is an accomplishment that is not easy to replicate. The third rationale supporting the use of a single case study is the revelatory power of the case. The dearth of academic research on corporate Thailand has been one of the main reasons for the limited understanding of organisational behaviour in Thailand. The TUF case study can therefore contribute to the studies of Thai businesses by adding to the limited stock of empirical examples.

These three rationales serve as the major reasons for selecting TUF as a case study to elaborate on agency problems and monitoring mechanism in Thai family firms. The TUF case study comprises two parts: company profile and strategic planning process.

IV. Thai Union Frozen Products Public Company Limited

1. Company Profile

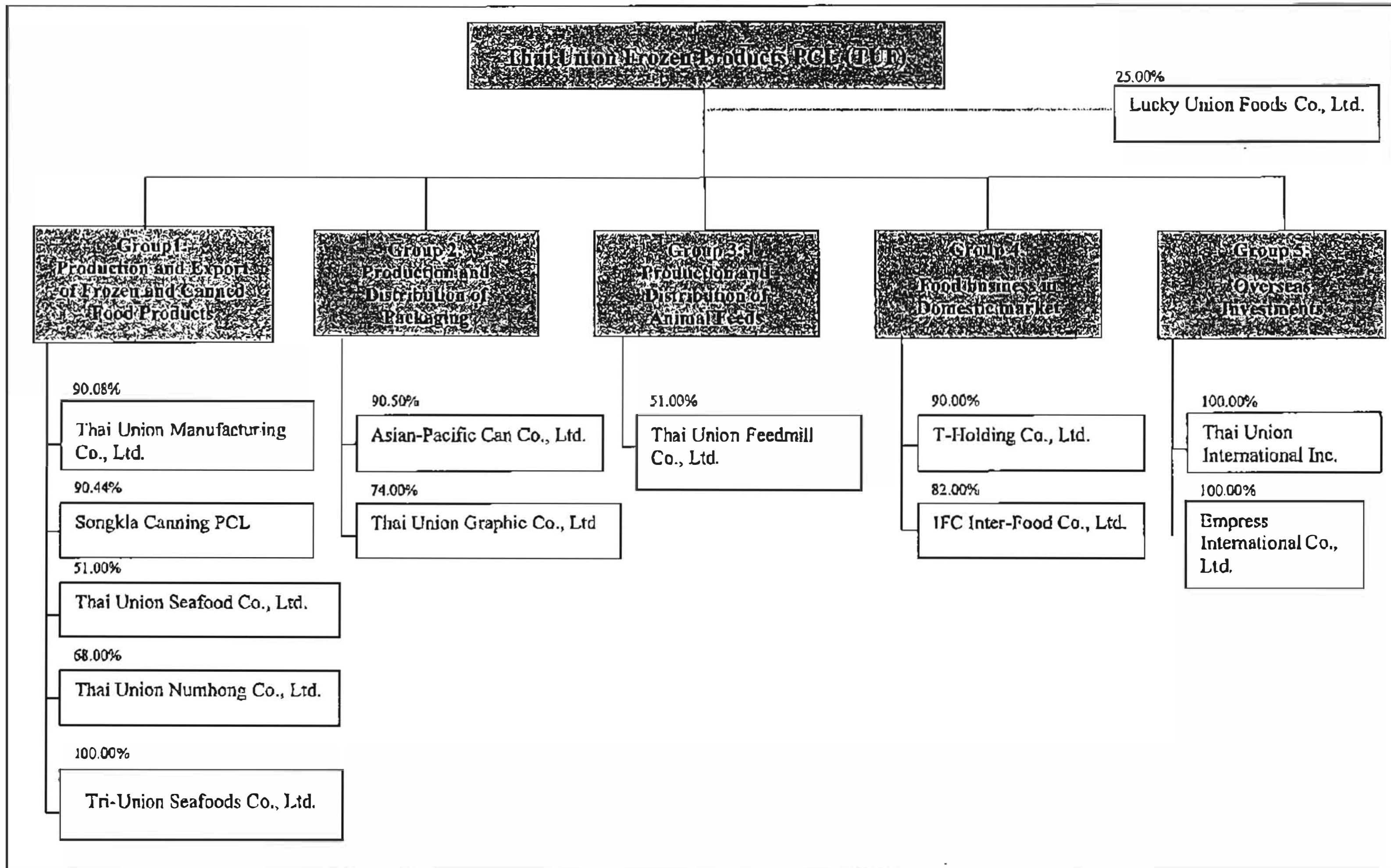
Thai Union Frozen Products PCL (TUF) is currently Thailand's and Asia's largest canned tuna exporter, accounting for 40 per cent of the total canned tuna exports and 70 per cent of frozen tuna loins exports from Thailand (Annual Report 2002). Worldwide, TUF is the second largest exporter, following Starkist, a division of US food giant H.J. Heinz (Lau and Gearing 1999). TUF's international position had been significantly strengthened by the group's 2001 acquisition of Tri-Union Seafoods, the owner of 'Chicken of the Sea' seafood products and its 2003 acquisition of Empress International, a leading importer and distributor of frozen and fresh seafood products.

Table 1: Financial Highlights, 2000-2002

Unit: Million Bt	2002	2001	2000
Total Sales	34,243	35,324	19,120
Total Revenues	34,538	35,874	19,796
Gross Profit	6,223	5,810	3,042
Total Assets	17,988	18,097	10,915
Total Liabilities	7,689	9,451	3,240
Shareholders' Equity	10,299	8,646	7,676
Per Share Data (Bt)			
Earning**	1.80	2.01	2.04*
Dividend	1.27	1.23	1.02*
Book Value	12.62	10.46	9.34*

* Par value adjusted to Bt1 for comparison purpose
** Paid-up common shares were 749 million in 2000 and 2001, and 859 million in 2003.
Note: In 2003, dividend was paid twice: 0.47 Bt per share for the first six month, and 0.80 Bt per share for the second half.
Source: 56-1 Form, 2003.

Figure 1: Group Structure *(Source: 56-1 Form, 2003)*



TUF has been listed in the Stock Exchange of Thailand (SET) since 1994. In 2003, the group's operations can be divided into five business groups: (1) the production and export of frozen and canned ready-to-eat food products; (2) the production and distribution of packaging products; (3) the production and distribution of animal feeds; (4) food business in domestic market; and (5) overseas investments (see Group Structure in Figure 1). The group has investment in twelve subsidiaries, ten in Thailand and two in the United States. The total number of employees worldwide is 19,000. In 2002, TUF's sales revenue was Bt 34.2 billion (US$ 878m). Table 1 presents TUF's comparative financial highlights from 2000 to 2002.

Despite its public status, TUF is considered a family-owned company based on Suehiro's 20% cutoff level (Suehiro 2001). The owner's family controls 27.15%, as of 10 September 2003 (see list of top ten shareholders in Table 2). The family influence is represented in both the board of directors and the management team. Of the 15-member board of directors, six are from the controlling families, while three are independent members. Nine members of the boards hold active management positions in various TUF subsidiaries (see Table 3 for board member details). Chairman of the board and the group's CEO are from the same controlling family. In fact, they are father and son. Four other board members are also related to the largest controlling family.

Table 2: TUF's Major Shareholders

Number	Major Shareholders, as of 10 September 2003	% of Shares
1	Chansiri Family	27.15
2	Thai NVDR Company Ltd.	9.84
3	Niruttinanon Family	8.30
4	Nortrust Nominees Ltd.	4.30
5	HSBC International Trust (Singapore) Ltd.	3.35
6	Mitsubishi Corporation	3.14
7	Albouys Nominees Ltd.	3.05
8	Hagoromo Foods Corporation	2.10
9	Mr. Chan Tin Shu	1.99
10	Merrill Lynch international Group Ltd.	1.87

Source: 56-1 Form, 2003

Despite the extensive family influence in both the board and the management team, TUF has often been publicly praised for its corporate governance. The group has won a variety of awards that testify to its adherence to quality standard and governance issues. For

example, TUF has won the Disclosure Award from the Stock Exchange Commission (SEC) consecutively in 2002 and 2003. The Disclosure Award is given to companies that comply with the SEC's rules and regulations on good corporate governance practices suchas lear and beneficial information system, and transparent management practices and financial disclosure. In 2003, of the 123 applicants, TUF was one of the 60 listed companies selected by the SEC. Another prestigious award TUF won in 2003 was the

Table 3: TUF's Board of Directors

Name	Position	Group Responsibility
1. Mr. Kraisorn Chansiri	Chairman	Group Finance
2. Mr. Thiraphong Chansiri	President	Marketing for domestic and international markets, New investment projects
3. Mr. Chan Hon Kit	Managing Director	Fish Product Lines
4. Mr. Rittirong Boonmechot	Managing Direct r	Shrimp Product Lines
5. Mr. Cheng Niruttinanon	Executive Director	Marketing, Tuna Purchasing,
6. Mr. Chaun Tangchansiri	Executive Director	Group Finance
7. Mr. Yasuo Goto	Director Representative of Hagoromo Foods	Customer and supplier relationships
8. Mr. Takeshi Inoue	Director Representative of Mitsubishi Corporation	Customer and supplier relationships
9. Mr. William F. Kerins	Director	
10. Mr. Chan Shue Wing	Director	Finance, Assistant to the Chairman and the President
11. Mr. Chan Shue Chung	Executive Director	
12. Mr. Chan Tin King	Director	
13. Mr. Sakdi Kiewkarnkha	Independent Director	
14. Pol. Maj. Gen. Pracha Anucrodilok	Independent Director	
15. Mr. Kiti Pilunthanadiloke	Independent Director	Laws and regulations

Source: Annual Reports, interviews and 56-1 Form, 2003

Popular Award, which was voted by financial and stock analysts, as well as fund managers and others who use the information. The Popular Award is given to listed companies that are voted by financial analysts and fund managers as having the best information system.

Table 4: Examples of TUF's achievements, 2000 – 2003

Year	Awards / Achievements	Agents
2003	Popular Award 2003 (as having clear information disclosure in the view of investors)	Securities and Exchange Commission (SEC)
2003	The Disclosure Award 2003	Securities and Exchange Commission (SEC)
2002	The Disclosure Award 2002 (as having clear information disclosure in annual registration statement and financial statement that complies with SEC requirement)	Securities and Exchange Commission (SEC)
2002	ISO 14001 (Environmental Management System) OHSAS 18001 (Occupational Health and Safety Assessment Series)	TUV Germany
2002	Best Treatment of Minority Shareholders Award	Asiamoney Magazine
2001	Best Small Company Award The Overall Best Managed Company Award The Overall Best Investor Relations Award One of the most favoured companies for Access to Senior Management	Asiamoney Magazine
2001	Winner of Vendor's Award Winner of Gold Quality Award	GMRI Inc. (a world-class player in restaurant business)
2001	Prime Minister's Export Award for Outstanding Performance as the Best Exporter	Department of Export Promotion, Ministry of Commerce
2000	ISO 9002 Certificate	Bureau Veritas Quality International (BVQI) of England
2000	Quality Certificate	US Food and Drug Administration (FDA)
2000	Quality Certificate	Canadian Food Inspection Agency (CFIA)
2000	Hazard Analysis Critical Control Point (HACCP) Certificate	Dept of fishery, Ministry of Agriculture and Cooperatives & Office of Food and Drug Administration, Ministry of Public Health
2000	Good Manufacturing Practices (GMP) Certificate	Dept of Medical Science, Ministry of Public health
2000	Halal Certificate	Sheikhul Islam Office
2000	ISO/IEC 17025	Thai Industrial Standards Institute

Source: Annual Reports and www.thaiuniongroup.com

Only four companies receive the award in 2003: TUF, Kasikorn Bank, PTT, and Advanced Information Service (AIS).[7] Other achievements that testify to TUF's corporate governance were, among others, Asiamoney Magazine's Best Treatment of Minority Shareholders Award 2002, Best Small Company Award 2001, The Overall Best Managed Company Award 2001, and One of The Most Favoured Companies for Access to Senior Management Award 2001 (see Table 4 for a list of recent awards and achievements).

The strong family influence in TUF contrasts sharply with the group's public recognition of its corporate governance, making TUF an appropriate case to explore how agency problems between owners – managers, and controlling families – minority investors are controlled. As suggested earlier, the TUF case illustrates how clear outcome-based strategies help co-align the interests of family members with those of other stakeholders because the rewards for both depend on the same action. Agency problems arising from conflicts of interests can therefore be mitigated. The next part elaborates how performance outcomes play a significant role in TUF's strategic planning process.

2. TUF's Strategic Planning Process: Outcome-driven Objectives

Despite having been in the business for a little over two decades, TUF has come a long way from being a small family-owned canned tuna manufacturer to Asia's largest tuna producer and exporter. As discussed in the previous section, family firms are often perceived to have more loyalty toward the controlling family rather than other stakeholders, resulting in reckless diversifications into fast-growth areas like finance and real estate.

On the contrary, TUF's experience has proven otherwise. All through the company's expansion, TUF has kept its conservative business style and maintained its prudence in investment projects. While many Thai companies were lured by growth potential to diversify into sectors not related to their core business, TUF remained firmly strict to its philosophy of expansion in only food-related industries. Moreover, the group maintained a prudent debt-to-equity ratio of around 60 per cent, when many other Thai companies went to 200 per cent or more.[8]

TUF's President often emphasised that, despite his family's ownership, the top concern for TUF management was to increase the company's value for its investors, not just to expand his family wealth. In his own analogy, *"when the cake gets larger, each*

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7 See the group's press release on these awards at www.thaiuniongroup.com.
8 Asiaweek, 24 December 1999.

one's slice is also enlarged".[9] The combined nature of family business and professional management resulted in a unique process of strategic planning that focuses on a clear list of objectives and outcomes. These outcome-based strategies serve as a mechanism to monitor behaviour of board members and management executives.

Indeed, the most evident attribute that characterises TUF's strategy development process is the clarity of its overall corporate growth strategy and other function-related strategies. For its corporate growth strategy, he group's president explains that any expansion of the group's activities has to meet the two most important criteria set by the group's board of directors. First, TUF limits its activities to food-related industries only. Second, the size of the potential project shall not be a financial burden to the group. In other words, the group will have to be able to finance the project under consideration without any risk to the group's overall financial standing.

The group's president explains that having these two clear criteria as the corporate strategic scope serves as the company's system of checks and balances on all strategies that the company may be considering. An example was when TUF was considering whether to buy into Tri-Union Seafoods, the owner of Chicken of the Sea brand. According to TUF's president, this investment project passed both criteria, as it was a food-related expansion and the size of the investment was approximately equal to a year's total dividends. In his words, the US investment *'would not bankrupt the company because if it fails, it would cost us about the same as a year's dividend payment'.*[10]

In addition to those overall strategies, TUF also sets clear guidelines and objectives for other areas and functions. Take growth, for example. The company aims to achieve between 15-20% growth rate per year in 2004-2005. On top of the overall growth rate, TUF also expects to maintain a 20% Return on Equity (ROE), and a 10% Return on Assets (ROA) for targets for its operations. The group also maintains a detailed list of policy guidelines for the company's various functions, such as investment, finance, dividend payment, marketing, operation, and technology. For example, it is stated clearly in the company's annual reports that TUF will pay dividend of no less than 50% of net profit annually and that the dividend will be paid twice a year. Although some of these policies cannot be measured quantitatively, they still provide clear directions that relevant

9 Author's interviews, 25 January 2003.
10 Author's Interview, 10 April 2002.

stakeholders can use as behavioural monitoring mechanism. Table 5 provides details of major strategies and policies of the company.

Table 5: TUF's Strategies and Policies

Strategy	Details
Growth Strategy	- Organic growth of 15-20% in 2004-2005 - M&A Policy: ■ Food & food-related industries ■ Established brand names ■ Distribution networks ■ Leverage global procurement, or production and marketing resources
Corporate Policy	- Business policy: ■ Core business: food and food-related business ■ ROE at least 20% ■ ROA at least 10% - Operation policy: no speculation on operational activities - Dividend policy: 50 - 70% of net profit
Business Expansion Strategy	- Vertical Integration - Expansion of capacity and variety - Introduction of new products - Market expansion for worldwide coverage - Further development in ready-to-eat seafood products under the group's brands
Investment Policy	- Business with potential synergies effects - Business related to current activities and expertise - High-potential business partners - Appropriate investment size
Finance Policy	- No speculation in financial management - Appropriate debt to equity structure - Debt/Equity Ratio less than 1:1 - Make proper use of fund
Operation Policy	- Quality - Recovery (yield) - Efficiency
Marketing Policy	- Expand market / product coverage - Value added / premium quality - Provide valued service: information, timely delivery, etc. - Maintain strong customer relationships
Technology Policy	- Objectives: to improve efficiency and to lower operation cost - Areas of interests for technological improvements: ■ Procurement / purchasing, e-sourcing ■ Manufacturing process ■ Quality control ■ Product /packaging development ■ Trading process

Source: Annual Reports, 56-1 Form, Interviews

On top of clear guidelines and objectives, TUF also attempts to ensure good corporate governance through other channels. For example, board members or management executives who may personally be benefited from some decisions due to their family ties are not allowed to vote on the issue. This notion is transparently reported in the 56-1 form, the report that listed companies are required to submit to the SET annually, under the 'Conflicts of Interest' section (56-1 Form, 2003).

TUF also takes information disclosure to investors rather seriously. The group's CEO believes that transparent information disclosure is an important part through which non-family stakeholders can monitor the board and the management team.[11] Opportunities for agency problems between family- and non-family stakeholders can then be lessened. TUF clearly specifies how it wishes to communicate to outside investors. For example, the group allows approximately 70 company visits with investors and analysts, two analyst meetings and two to three international investor conferences each year. TUF prepares quarterly Investor Note and newsletter, TUF News, to communicate with investors in addition to its annual reports and 56-1 form. The group's website is also frequently updated with news and activities of the group.

The TUF case study shows that agency problems that may arise in family-controlled business groups due to conflicts of interests between the controlling families and minority stakeholders can be mitigated through the adoption of outcome-based strategic planning process. With its ultimate goal in delivering growth, TUF has interpreted its overall corporate strategies into specific guidelines and directions for key functions of the group. This list of outcomes that the group aspires to achieve not only co-aligns the interests of various parties, it also serves as the main mechanism that non-family stakeholders can monitor the behaviour of the controlling families. Knowing the direction that the board of directors and the management team are leading the group, minority shareholders can make sure that the interests of the group also serve their interest. Having this type of check-and-balance mechanism within large family-controlled firms could be another alternative to modernise family businesses, and thus allowing them to continue their existence in a more sustainable manner.

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11 Author's Interview, 25 January 2003.

V. Conclusion

This paper puts forward two main arguments. First, it posits that large family business groups are likely to stay as a dominant form of firms in Thailand because the business group structure responds effectively to the institutional context of developing economies, such as Thailand. Second, the paper suggests that family ownership and control in large business groups is not necessarily unsustainable if potential conflicts of interest between the controlling families and other stakeholders can be mitigated through an outcome-based strategic planning process. The checks-and-balance system that can be used to monitor behaviour of family board members and management executives is a necessary step towards sustainable family business management in the modern era.

The first proposition draws largely from the literature on business group. Here it is argued that the tendency among scholars studying family businesses in Asia to equate 'family businesses' with 'large family business groups' often fails to differentiate between the questions of organisational form (i.e. why business groups exist and thrive) and ownership structure (i.e. why business groups continue to be under family ownership and control). Although admitting that the most dominant type of family businesses in Thailand is large, family-controlled business group, it is suggested, however, that these two questions should be addressed separately to gain a deeper understanding of family business in developing countries.

By resorting to the literature on business groups, this paper explains that this organisational structure has been an effective response to the institutional environment of developing countries. From the economic viewpoint, imperfections in capital, factor, intermediate and product markets give way to the internalisation of these markets through the business group structure. Economic sociologists, on the other hand, point out how this organisational form answers to the pattern of authority and relationships embedded in each particular society. Management scholars taking a resource-based perspective believe that the generic organisational skills in combining domestic and foreign resources to enter different industries quickly and cost-effectively is the capabilities business groups in late industrialising economies have mastered as their competitive capabilities. What we can gain from these insights is that family businesses, often in the form of large business groups, continue to be an integral part of developing economies because such organisational structure answers well to the institutional environment of those economies. Yet, it is still not

clear why the majority of these business groups remain under family ownership and management.

The paper then points out that family control need not be detrimental and subjects to extinction in the way prescribed by Chandler, if it can be managed effectively. The argument in this part is based on the agency framework, which presumes that family businesses are prone to generate conflicts of interest between the controlling families and minority shareholders. Taking the perspective that economic actors are mainly driven by their self-interests, one group of the agency theorists tends to perceive that family businesses give rise to conflicts of interests between various pairs of stakeholders, making family ownership hard to sustain in the long run. Empirical studies of family businesses in Asia tend to follow this line of argument, with some even naming them as the culprits of the 1997 economic crisis. A rich body of work has therefore been conducted on drawbacks of family businesses, and how corporate governance measures can be instilled to prevent family firms from further misconducts. While much focus has been placed on rules and regulations, few studies consider how managerial practices can also be used to curb agency conflicts.

For that reason, the TUF case study highlights how this family-controlled business group alleviates agency problems between the controlling families and minority stakeholders through the adoption of outcome-based strategic planning. Although the finding from one case study cannot be generalised to the entire population of family business groups in Thailand, this case presents a notable example of how managerial responses among family firms are also key to their subsistence in the age of globalisation. In other words, the TUF case presents one solution of how this family firm enhances its managerial efficiency under the new rules of competition through employing outcome-based strategic management. This is not to say that family firms can now sit back and relax after having drawn up a list of goals and objectives. On the contrary, having specific goals and guidelines is only just the beginning. To benefit from these outcome-based strategies, the goals and guidelines need to be realistic, yet flexible enough to reflect changes in the environment.

This paper attempts to make two main contributions to the study of family businesses in developing countries. First, it emphasises that the questions of 'why business groups survive?' and 'why family businesses subsist?' are two distinct questions. Although some explanations may be common, capital market deficiency for instance, researchers

should treat these questions separately and instead look for answers why the two phenomena often coincide. Second, this paper places the studies of Thai family businesses in a broader theoretical context. By drawing from the literature on business group and strategic management, this paper illustrates the need of area-based research to be grounded in a wider theoretical landscape. Studies of specific countries or areas are among the rare fields where economists could interact with sociologist, business historians, management or organisational science colleagues. The importance of culture, history, economics, politics, and other social issues at large, calls for co-operation and interdisciplinary studies. Despite the context specificity, topics in area studies should not be too far removed from established theories in each field. Indeed, placing the research question against the overall theoretical scheme can help prevent area specialists from being unable to see the forest for the trees.

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