A COMPARISON OF FAMILY ANDS NON-FAMILY BUSINESS GROETH IN THE STOCK EXCHANGE OF THAILAND

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Abstract

The objective of this study is to compare the performance of family businesses companies against those of non-family businesses listed in the Stock Exchange of Thailand. Family business is defined as meeting the criteria of 1) under the control of the founding family, 2) at least one of the top 5 directors being member(s) of the family, and 3) member(s) of the family (all together) holding significant proportion of the shares to become strategic shareholder. Market capitalization measured by the compound annual growth rate (CAGR) is used as the indicator of business performance for comparison between the Family Business group and the Non-Family Business group. Based on the data for 2009-2014, the CAGR of the Family Business group is found to be higher than that of Non-Family Business group and that of the entire market. The t-test statistics indicates that the higher growth rate is statistically significant at level of 0.05.

Keywords: Family Business, Market Capitalization, CAGR

1. Introduction

Family business is found to have significant impact in both developed and developing countries to the extent that between 70-90% of Gross Domestic Product (GDP) is contributed by family businesses. For North America the proportion of GDP from family businesses is between 80-90% and that for the U.S. is 64% while responsible for 62% of its employment (Gaille, 2014). The buoyancy of family businesses is the key driver of an economy. The market value of family business firms in Thailand is estimated at 28 trillion Baht compared to the total market value of all business firms at 39 trillion Baht accounting for 70% of the economy. Considering only those businesses listed in the Stock Exchange of Thailand (SET), the number of businesses recognized as family businesses or controlled by member of the founding family accounts for up to 50.4% (Srihong, 2013).

There are several factors contributing to the competitive advantage of family businesses compared to those of non-family businesses. For example, the speedy and unified decision making process provides greater resilience in business operations compared to structured decision-making system of other companies. The entrepreneurship of the family member owning the business is the source of creativity and bravery in venturing into uncharted grounds (Srihong, 2013). Nevertheless, several challenges remain for the family business founders and their successors to uncover and learn to tread over smoothly. These posing competitive pressures include the volatility of the world economy, trade liberalization under the formation of the AEC, expansion of urbanization with consequent changes in consumer behavior. The family businesses must be prepared and develop its resources to keep the business operation going.

Some companies choose to utilize the SET to ensure the continuity of their businesses notwithstanding the readiness of the heirs to take over or not. While some other companies take advantage of the capital market to expand their operations. Certain entrepreneurs are pleased not having to put up their own personal guarantee to secure bank loan because banks are more willing to provide credit lines to companies listed in the stock exchange (Chanchainarong, n.d.)

The succession decision reflects the views of the business owners who best know their own business goals. In addition to business goals, the owners need to take into account the goals of the family members. Several family businesses undertake to be listed in the stock exchange mainly to prevent the potential conflict between members of succeeding generations of heirs. The advantage of being publicly listed company is the access to capital funding for business expansion, lowering the cost of capital and the burden of debt. Loans can be secured without personal guarantee and the company would gain trustworthiness in the views of lenders, trading partners, customers, employees and the society in general. The company could attract capable and good quality people to work for, including the heirs of the founder (Chainarong, 2014).

There are two main advantages of being listed in the stock exchange. They are the provision of business opportunity and the long-run sustainability of the business. The company could grow from being a family business into one being managed by professional turning its operations to meet international standards. It would attain a highly competitive position which is the goal of every entrepreneur. Being a listed company in the SET allows the company to gain access to long-term financial resources, increasing the flexibility of financial management from the availability of several sources of capital. It also improves company image and trustworthiness. These contribute to the opportunity for business to grow securely.

The number of family businesses in Thailand account for 70 percent of the total number of businesses (Bureau of Industrial Development, Department of Industrial Promotion, 2001; The Stock of Exchange of Thailand, 2007). Based on the criteria of family business set out by Family Business Center, University of the Thai Chamber of Commerce (UTCC), family businesses account for 46.91 percent of the listed companies in SET with market capitalization of 5,315,551.89 million Baht in 2014 (SET, 2014). It would, therefore, be interesting to study the business performance of such companies. There are several indicators for measuring business operations, such as business growth, profitability, profits, returns on investment, stock price, etc. (INSEAD, 2002). Market value of the stock or market capitalization (Market Cap in short) is used in this study to reflect the business performance. The data between 2007-2014 were gathered to analyze the operation efficiency of family businesses listed in SET.

2. Measurement of Business Performance

2.1 Selection of sample and data

Of the total of 518 listed companies, 243 companies can be classified as Family Businesses, 200 companies as Non-Family Businesses, and 75 others being mutual funds/SP which would not be included in the analysis.

The criteria used for classifying a company as a Family Business according to the Family Business Center, UTCC are:

1. The family having control of the company is the founding family,
2. At least one in the first 5 directors is a member of the family, and
3. Members of the family holding shares (all combined) are major shareholders called Strategic Shareholders.

Note: Strategic shareholder: According to the Securities and Exchange Commission (SEC), "controlling power" means (1) the holding of shares with voting rights of greater than 50 percent of total voting shares of the juristic person (2) having control of majority votes at the shareholder meeting of the juristic person either directly or indirectly or by any other reason (3) having power to appoint or remove half or more of the directors either directly or indirectly.

The data for the analysis are from SETSMART database, calculating for the Market Capitalization value between 2007-2014 (as at 8 December 2014) which is the product of the closing price of the listed security multiplied by the number of shares. Currently, the reported market capitalization is given for common stocks, preferred stocks, corporate bond, and warrants based of the formula (SET, 2009):

[Closing price of security * Number of shares listed with the Exchange]
** excluding Foreign security because of the value being the same as common stock

2.2 Criteria for measuring business performance

The assessment of business performance of Family Business is measured from the Compound Annual Growth Rate (CAGR) of the Market Cap by the formula:

$$\text{CAGR} = \left[\frac{\text{Ending Value}}{\text{Begining Value}}\right]^{(1/No.\ of\ Years)} - 1$$

Beginning Value refers to the value at the beginning of the starting year of period of calculation, and Ending Value refers to the value in the last year of the period. No. of Years refers to the number of years used in the calculation.

CAGR could measure the rate of returns on investment for the given period. The CAGR is also the "smoothing out" of the returns rate because it would measure the growth of capital investment at average annual fixed rate for the selected period of 2009-2014, with 2007 as base year.

The comparison of difference in the compound annual growth rate (CAGR) is statistically tested by independent sample t-test.

3. Results of Data Analysis

The study made an analysis of the market capitalization of 243 companies in the Family Business group (FB) compared to 200 companies in the Non-Family Business group.

** excluding 75 other securities being SP/mutual fund.

3.1 Annual Market Capitalization of securities in SET between 2007-2017

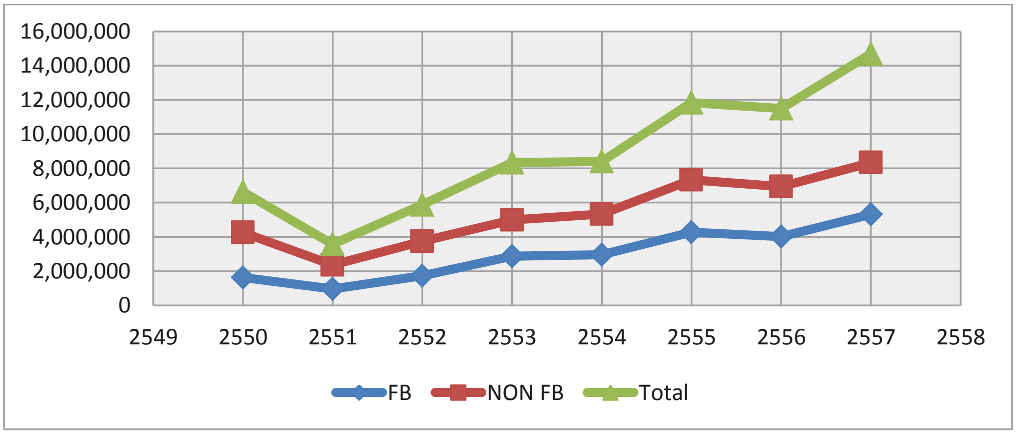
From the data on market capitalization (given in Table 1 and Figure 1), the total market capitalization of the Family Business (FB) group is less than that of the Non-Family Business (Non-FB) group. Both groups show an increasing trend in line with that of the entire market.

Table 1 Annual Market Capitalization (million Baht) of listed securities in the SET between 2007-2014.

Group/Year	Annual Market Capitalization (million Baht)							
	2007	2008	2009	2010	2011	2012	2013	2014
FB	1,630,089.91	963,623.68	1,736,371.56	2,874,028.86	2,960,003.17	4,272,186.07	4,020,714.60	5,315,551.89
NON FB	4,265,574.14	2,357,648.55	3,750,425.18	4,993,006.04	5,329,166.94	7,331,160.23	6,941,107.41	8,330,494.22
Total	6,636,068.73	3,568,223.48	5,873,100.93	8,334,684.11	8,407,696.09	11,831,448.07	11,496,765.17	14,678,357.88

*Note: FB = Family Business Group, NON FB = Non-Family Business Group, Total = Market Capitalization of entire market

Figure 1 Annual Market Capitalization Trend (million Baht) of listed securities in the SET between 2007-2014



3.2 Compound Annual Growth Rate (CAGR) for 2009-2014

Comparison of the compound annual growth rate (CAGR) taking 2007 as the base year (see Table 2 and Figure 2) shows the growth rate of the FB group to be higher than that of the Non-FB group, as well as that of the entire market.

Table 2 Compound Annual Growth Rate (CAGR) with year 2007 as base year.

Group/Year	Compound Annual Growth Rate (percent) (CAGR)					
	2009	2010	2011	2012	2013	2014
FB	3.21	20.81	16.08	21.25	16.24	18.4
NON FB	-6.23	5.39	5.72	11.44	8.45	10.03
Total	-5.92	7.89	6.09	12.26	9.59	12.01

*Note: FB = Family Business Group, NON FB = Non-Family Business Group, Total = Market Capitalization of entire market

3.3 Comparison of CAGR with 2007 as base year.

Comparison of the compound annual growth rate (CAGR) of the two groups between 2009-2014 with 2007 as base year using t-test (Table 3), the FB group is found to have CAGR higher than the Non-FB group at statistically significant level of .05.

Table 3 Comparison of Compound Annual Growth Rate (percent) between FB group and Non-FB group.

Groups compared	$\bar{X}$	SD	t	sig
Family Business group (FB) -	16.00	6.633	2.806	0.010
Non-Family Business group (NON FB)	7.88	2.498		

4. Conclusion and Discussion

From the comparison of market capitalization of the groups of companies listed in the Stock Exchange of Thailand (SET) for years 2007-2014, even though the value for the Family Business (FB) group is less than that of the Non-Family Business group (Non-FB), but both groups show increasing trends over the years in line with that of the entire market. The computed Compound Annual Growth Rate (CAGR) of the market capitalization for 2009-2014 of the FB group show higher rates than those of Non-FB group, and that of the entire market. This higher growth rate is found to be statistically significant at the level of .05 for several reasons.

Family businesses possess certain comparative advantages in achieving long-term success. The key factors contributing to business performance of Family Business better than that of other business include leadership developed from within the family, quick decision-making, employee loyalty, and investment for business expansion of the family owning the business (Heck R.K.Z. et al., 2005). The ownership and control is a special characteristic of family business. This ownership aspect has often brought about success to the business which greatly improves its profitability, due to the fact that the members of the family would focus on the successful achievement of the founder in both personal life and the business whose personal value system and ethics were passed on to the succeeding generation(s) (Stafford, Ducan, Dane, and Winter, 1989). This is consistent with the study of Seidman College of Business (2014) indicating that the heir's decision to take over the business is self-made as part of shared family value and desire to succeed as a family. This is the most important reason for entering the family business. Such unity and desire to accomplish the goals of the family business of family members with their sense of ownership is a key factor contributing to competitive advantage and success of family business (Jaffe, 2003). Decision making in family business is relatively quicker. Business operations are performed under cordial relations between family members conducive for cooperative participation of all members and upholding of contractual promises. This is a competitive advantage that most firms do not have or have less of (Arnoff and Ward, 1995). The finding is consistent with the study of Nawawongsatien (2010) pointing out that competitive advantages of family businesses include business operation under smooth relations among family members, full commitment of all family members to the business, and fulfilling of stated promises.

In addition, Lee (2006) also found that family businesses are very likely to grow rapidly and more profitable than businesses in general. The performance of family business would be better if members of the family are given roles in the management. The higher growth rate would stabilize and fixed at approximately the same rate as most businesses. Lee (2004) also found that family businesses owned and run by the family tend to be more efficient and effective with higher rate of returns on investment compared to businesses in general. This is consistent with the study of Martikainen et al. (2007) on groups of companies listed in S&P 500. Block et al. (2004) also found that business performance would be positively influenced by the management ownership of the founding family especially in the case where the majority shareholders are family members who would have advantages in access to information, high remunerations for executive control positions and lower costs of supervision. The study of Ernst and Young (2010) and the ESCP European Business School found family businesses to be stronger than most businesses with respect to the growth of added value, rate of turnover, cash flow, and job creation. It pointed out that family businesses possess special characteristics in the areas of long-term focus, flexibility, management of good competent employees, and close relations with customers. The three most prominent factors responsible for success of family businesses under the management of successive generation of heirs with clear and focused strategy are long-term management perspective, establishing brand and customer loyalty, and alignment of owner and management interests (Credit Suisse, 2012).

The finding of this study is supported by several other researches pointing out that the better performance of large publicly-listed family businesses or ordinary-sized ones compared to non-family businesses in the United States (Anderson and Reeb, 2003; Villalonga and Amit, 2006). In Germany, the family index climbed 206 percent, while the non-family stocks increased just 47 percent. In France, the family index surged 203 percent, while it counterpart rose only 76 percent. Family businesses also outperformed their counterparts in Switzerland, Spain, Britain and Italy (Leach, 1991). While the supporting evidences from Europe and Asia are fewer (Claessens et al., 2002; Cronqvist and Nilsson, 2005; Maury, 2006). Several studies on business performance of large family business found the positive relationship between operational performance and family ownership management or the better performance being associated with having family member managers (Andres, 2008; Barontini and Caprio, 2006; Hamadi, 2010; Kowalewski et al. 2009; Lee, 2006; Maritikainen et al., 2007; Maury, 2006; Minichilli et al., 2010; Sraer and Thesmar, 2007). Some found positive relationship between performance and family ownership (Block et al., 2004; Ehrhardt et al., 2006; Lee, 2006; Lee, 2004; Martikainen et al., 200y; Martinez et al., 20070. The return on assets of family businesses is 6.5% better than non-family businesses (Gaille, 2014). Chief Executive Officer (CEO) being owner family members of firms achieving higher rate of return on assets could be the consequence of their greater willingness to invest in the future of the firms, while CEOs being non-family members would be more successful with respect to debt/total asset ratio because they would be more cautious in assuming debt (Ôzer, 2012). This is consistent with Machek's et al., (2013) finding that the rate of return on assets (ROA) and the rate of return on equity (ROE) of family businesses would be greater than those of non-family businesses, while the latter are more efficient with respect to rate of return on sales (ROS) and labor productivity. Allouche et al. (2008) found family businesses to perform better than other businesses in the areas of profitability and financial structure, and that the level of family control would greatly influence business performance at least with respect to profitability. The is supported by Ehrhardt et al. (2006) finding that operating performance of family businesses is better than that of non-family businesses, even though the transfer of operation control to succeeding heirs would have negative impact on operational performance in the short-run. The better performance affirms the appropriateness of the long-run strategic decision of the family. Although firms with founding family ownership and family member managers (CEO) would clearly perform better than other firms with respect to profitability, firms with founding family ownership and CEOs being family members or non-members combined would be able to achieve higher market capitalization (Anderson and Reeb, 2003) because both types of CEOs different advantages and disadvantages.

5. Recommendations

The performance of family businesses listed in the Stock Exchange of Thailand could be measured by several indicators. Measuring by the Market Capitalization value is a preliminary step. There are other important factors affecting the performance of business. To be more reliable, the measured data should extend over a long period of years. For listed companies, one of the indicators that should be considered is the SET index. Some studies have developed specific index to measure the performance of family businesses in the stock exchange. One example is the Loyola University of Chicago Family Firm Stock Index (LUCFFSI) which could more reliably and validly measure the performance of listed family firms than the total market index which is calculated based on only a selected list of representative stocks. This index could be used as performance benchmark to assess performance of a firm or an industry.

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