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Family Ownership Levels Influencing the Profitability of Family Companies Listed on the Stock Exchange of Thailand

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Abstract

The objective of this study was to investigate the levels of family ownership that influence the profitability of family companies listed on the Stock Exchange of Thailand. The family companies in this study were classified based on the levels of their family ownership into four groups: 1) less than 25% family ownership; 2) 25–50% family ownership; 3) 50–75% family ownership; and 4) above 75% family ownership in order to compare their profitability in terms of gross profit margin, net profit margin, return on asset, and return on equity according to financial data during 2018–2022. The results showed that the net profit margins of the four groups differed with a statistical significance level of .05. The net profit margin of the first group, which had less than 25% family ownership, was significantly different from that of the other groups. The gross profit margins, returns on asset, and returns on equity of the four groups differed without statistical significance.

Keywords: profitability, gross profit margin, net profit margin, return on asset, return on equity

Introduction

Family business is one of the oldest forms of commercial organization. In today's business world, it is considered the primary engine driving the economy toward prosperity. Whether a company is large, medium, or small, it all started with a family business model and grew from there. Previous research has indicated that the success of a family business is significantly related to the abilities of family members and how they manage their non-family employees. Family business leaders typically have the power to make quick and flexible decisions in order to address the challenges that family businesses face on a daily basis. Family pride, unity, and solidarity are beneficial for the company's growth and profitability (KPMG, 2017). Family businesses must recognize how to achieve sustainable success, grow positively, and withstand economic crises by leveraging their own advantages, such as long-term visions, flexibility, strong family values, and a culture of trust. Regarding the situation of family businesses on the Stock Exchange of Thailand (SET), Kasikorn Securities' Investment Banking Department revealed that an increasing number of family businesses from provincial areas are entering the SET. Most of these businesses are run by new-generation owners who inherited a business from their parents. In contrast to their parents, who focus on running a business on their own, new-generation business owners want to hire professionals to run their business and raise funds in the stock market because they view it as an opportunity to grow the business at a low financial cost. Some of them do not want to manage the business, so they want to enter the capital market to establish a management structure and hire a capable management team. This can be viewed as another useful strategy for managing family assets, family shareholdings, and family profits from business growth. According to Amnouy Jiramahapoka, Executive Vice President and Head of Issuer Marketing Group 1 at the SET, the recent listing of family companies on the SET is aimed at enhancing the company's professionalism and management quality. More family companies have joined the SET because second- or third-generation business owners believe that being listed on the SET will help their companies survive in the long run. Moreover, being listed on the SET will solve the problem for the parents of those who do not want to inherit the family business, as they can hire management professionals to work for them. Although raising funds in the capital market has many advantages, such as gaining cheap capital, obtaining an effective organizational structure for long-term growth, and creating potential for future advancement, being listed on the SET is not an easy task and requires a high level of responsibility, especially for individual investors who hold shares in the company and expect business growth. Upon joining the SET, companies need to establish a robust working system and continuously adjust for growth (Voice TV, 2561). In addition, the SET has placed importance on good corporate governance, as it can help companies formulate effective financial performance policies and determine an appropriate shareholder structure and shareholding ratios, influencing their reliability in presenting accounting information to investors (Chaiwat Wibulsawat, 2017).

However, in 1997, the economic crisis occurred in Asia due to a lack of transparency in the preparation process of financial statements and creative accounting, causing the financial statements to not reflect the true financial position and performance of the businesses (Board of Governors of the Stock Exchange of Thailand, 2016). As a result, many countries began to recognize the importance of and pay more attention to the company's profitability as shown in the financial statements. Thus, the researcher is interested in studying the levels of family ownership that influence the profitability of family businesses listed on the SET by examining the association between family ownership and profitability in order to generate knowledge that can be used by family businesses to generate long-term growth, maintain business competitiveness, and achieve sustainable success in the future.

Objective

To investigate the levels of family ownership that influence the profitability of family businesses listed on the Stock Exchange of Thailand.

Hypothesis

The levels of family ownership have an influence on the profitability of family businesses listed on the Stock Exchange of Thailand.

Scope of the research

The present study focused on studying the family ownership levels and profitability (gross profit margin, net profit margin, return on asset, and return on equity) of family companies listed on the SET for more than 5 years using operating performance and financial statement data from 2018 to 2022.

Literature review

The following review of the literature presents the concepts, theories, and research related to the family ownership and profitability to family companies listed on the SET.

Financial statement analysis and profitability

Financial statement analysis

Financial statement analysis generally has the following goals (MFC, n.d.):

1. To examine the company's profitability and future trends
2. To assess the company's level of risk affecting corporate profit or loss. The three basic categories of corporate risk are listed below.

1) Business risk can be reflected in the volatility of sales and costs, influencing the company's profitability.
2) Financial risk deals with the company's ability to repay its debt.
3) Liquidity risk is associated with the company's ability to raise money from outside sources. A company with a low ability to raise external funding tends to face high liquidity risk.

Profitability ratio analysis

The SET has determined that listed companies must disclose information about their financial ratios according to the categories of accounting forms, which can be viewed through the SETSMART database. The four parameters used for profitability ratio analysis are defined by the SET (2013) as follows:

1) Gross profit margin is the ratio of gross profit to net sales that is used to assess the company's ability to manage inventory costs and incorporate additional costs into the price of goods sold.
2) Net profit margin is used to assess the company's profitability after taking into account all kinds of income and expenses (including interest expenses, special transactions apart from normal operations, and income tax).

3) Return on asset is a ratio that shows the company's ability to generate returns from the use of company assets in business operations.
4) Return on equity is a ratio of net profits to shareholders' equity that reflects the ability of management to generate returns for shareholders.

Ownership structure

Ownership structure can be classified into two types: dispersed ownership structure and concentrated ownership structure (Karuntarat Boonyawat, 2011).

1. Dispersed ownership structure
A company with a dispersed ownership structure has many shareholders, and each of them holds a small percentage of shares in order to minimize the risk of investment. There is also the separation between ownership and control. In this type of company, the board of directors will appoint professional executives to manage the company. The advantage of a dispersed ownership structure is that executives have management flexibility, whereas its disadvantage is that shareholders have small cash flow rights in the company, so they tend to ignore the provision of effective and adequate corporate governance, which may cause expenses that are higher than the benefits that they expect to receive. Moreover, each shareholder has few voting rights, making it difficult and expensive to gather voting rights. As a result, shareholders are unable to gather together to inspect the operations of executives. Companies with a dispersed ownership structure are commonly found in developed countries such as the United States and England.

2. Concentrated ownership structure
An important characteristic of a company with a concentrated ownership structure is that it has major shareholders who possess a large number of shares and voting rights, called controlling shareholders. They may also play an important role in the company's management and the determination of important policies. A concentrated ownership structure is better than a dispersed ownership structure in that it supports the monitoring of executives' operations, which helps reduce conflicts of interest among executives and shareholders. Companies with a concentrated ownership structure are mostly found in Asian countries, such as Japan and Thailand (cited in Karuntarat Boonyawat and Sakda Manavapat, 2011).

3. Ownership structure in Thailand
As mentioned above, companies in Thailand, like many other Asian countries, have a concentrated ownership structure. Many researchers have conducted studies on the ownership structure of Thai companies. According to La Porta et al. (1998) (cited in Kiatniyom Kuntisook, 2008), the shares of Thailand's ten largest listed companies are concentrated in the hands of their top three major shareholders, accounting for about 47%. Most of the major shareholders of Thai companies with a concentrated ownership structure are the family members of the company owners, indicating that most businesses in Thailand are family-run.

Natenapha Wailerdsak (2006; cited in Thunnaree Puvasiriapinun, 2011) also stated that the ownership structure of Thai companies remains highly concentrated even after the economic crisis. The top ten major shareholders of more than 75% of Thailand's listed companies hold more than 60% of the company's total shares. In addition, most companies still have a small number of shareholders, indicating that they are family-run businesses. Some holding companies were set up to hold company shares, allowing the owner's family to retain ownership and management rights.

Related theories and research

Many previous studies have paid attention to the connections between family ownership structure and organizational performance. The effects of family ownership structure on organizational performance are classified into two types: alignment effect and entrenchment effect.

A group of studies that employ the alignment effect theory suggest that the benefits of major and minority shareholders align in the same direction because major shareholders are the family members who take into account the company's long-term existence. The wealth of family shareholders is also correlated with the value of the company. As a result, major family shareholders are less likely to take advantage of minority shareholders. In addition, most family companies place importance on business reputation and sustainability, so they rarely conduct earnings management. This is because, although earnings management may lead to short-term gains, it can damage the reputation and stability of the company in the long run. Moreover, family shareholders are more motivated to monitor the performance of management (Anderson and Reeb, 2003), reduce agency problems, and maximize corporate values (Demsetz and Lehn, 1985). This group views that a company with high family ownership will have good corporate performance.

On the other hand, another group of studies states that family ownership structure allows controlling family shareholders to take advantage of non-controlling shareholders in various ways. Barclay and Holderness (1989) specified that the role of family shareholders in management selection makes it difficult for other minority shareholders to control or monitor management performance. Chandler (1990) found that family members were appointed as management staff regardless of expertise or work experience. DeAngelo and DeAngelo (2000), who investigated the dividend payment of a company in the United States, revealed that the management team reduced the dividend payment to minority shareholders while maintaining the level of dividend payment to the controlling shareholders, who are the owner's family members. The findings of this group of studies differ from those of the first group. This group believes that family ownership structure is influenced by the entrenchment effect theory in that controlling family shareholders in a company with high family ownership will take advantage of non-controlling shareholders, resulting in poor corporate performance.

Research framework

The following conceptual framework was developed according to the literature review.

Family Ownership Levels
- Less than 25%
- Between 25% and 50%
- Between 50% and 75%
- More than 75%

Profitability Ratios
- Gross Profit Margin
- Net Profit Margin
- Return on Asset: ROA
- Return on Equity: ROE

Methodology

The samples consisted of 405 family companies listed on the Stock Exchange of Thailand from 2018–2022 using five-year financial data for data analysis. As the family ownership levels of each family company change over time, the scope of data used was set at five years to avoid data changes and ensure data accuracy. The data used in this study were secondary data obtained from the SETSMART database, an investment tool by the SET that analyzes multi-asset class data with fundamental factors for professional analysts. The required data for this study were gross profit margin, net profit margin, return on asset, and return on equity. The 405 family companies were divided into eight business groups: service (95 companies), real estate and construction (83 companies), industrial products (63 companies), agriculture and food industry (46 companies), finance (35 companies), consumer products (31 companies), resources (29 companies), and technology (23 companies). The companies subject to trading suspensions were not included in the calculation. The selection criteria were determined according to the University of the Thai Chamber of Commerce's definition of "family business," as specified below.

1) A family business is founded by one family.
2) At least one member of the family holds one of the five highest positions on the board of directors.
3) The members of the family (as a whole) are the company's strategic shareholders.

Note: according to the Securities and Exchange Commission (SEC), "strategic holder" is a person who: 1) has votes exceeding 50% of the total company votes; 2) has control over the majority of votes at the shareholders meeting either directly or indirectly; and 3) has the power to appoint or remove at least half of the directors either directly or indirectly.

In terms of data analysis, all related parameters, including group factors and financial statement factors, were analyzed using mean and analysis of variance (ANOVA) statistics in order to examine and compare the influences of family ownership levels on the profitability of family companies listed on the SET from 2018 to 2022.

Results

The analysis results concerning the levels of family ownership that influence the profitability of family businesses listed on the SET can be described below.

1. The levels of family ownership

Table 1 shows that the family companies in this study mostly had 50–70% family ownership (44.20%), followed by 25–50% family ownership (41.00%), higher than 75% family ownership (8.90%), and less than 25% family ownership (5.90%).

Table 1 The family ownership of the listed family companies during 2018-2022

Family Ownership Levels	n	Percent
Less than 25%	24	5.90
25-50%	166	41.00
50-75%	179	44.20
More than 75%	36	8.90
Total	**405**	**100.00**

2. The levels of family ownership influencing the profitability of the family companies listed on the SET during 2018–2022

The research results are as follows.

The returns on equity (ROE) of the four groups of family companies were different without statistical significance.

The returns on asset (ROA) of the four groups of family companies were different without statistical significance.

The gross profit margins of the four groups of family companies were different without statistical significance.

The net profit margin of one group was different from that of the other groups with a statistical significance level of .05. The pairwise comparison analysis was conducted using post-hoc tests. Table 3 shows that the net profit margin of the family companies, which had less than 25% family ownership, was lower than that of the other groups with a statistical significance level of .05. It was also found that the family companies with 50–75% family ownership had the highest net profit margin (5.64%), followed by the group with more than 75% family ownership (.77%), the group with 25–50% family ownership (-3.33%), and the group with less than 25% family ownership (-1332.77%).

Table 2 The levels of family ownership influencing the profitability of the listed family companies during 2018–2022

Profitability Ratios	Group	N	Mean	Std. Deviation	F	Sig.
Return on Equity	Less than 25%	24	6.16	14.130	1.543	.203
	25-50%	166	0.39	53.302		
	50-75%	178	8.45	13.143		
	More than 75%	36	1.42	18.723		
	Total	**404**	**4.38**	**35.997**		
Return on Asset	Less than 25%	24	6.19	8.855	.295	.829
	25-50%	166	5.86	7.450		
	50-75%	179	6.10	9.052		
	More than 75%	36	4.72	6.923		
	Total	**405**	**5.88**	**8.218**		
Gross Profit Margin	Less than 25%	20	23.84	16.854	.011	.999
	25-50%	153	24.54	17.214		
	50-75%	165	24.38	17.246		
	More than 75%	34	24.32	18.986		
	Total	**372**	**24.41**	**17.306**		
Net Profit Margin	Less than 25%	24	-	6549.491	5.442	.001*
	25-50%	166	1332.	51.688		
	50-75%	179	77	18.610		
	More than 75%	36	-3.33	25.757		
			5.64			
			0.77			
	Total	**405**	**-77.78**	**1594.637**		

**Statistically significant at .05*

Table 3 The results of the pairwise comparison analysis (Net Profit Margin)

Dependent Variable	(I) Group	(J) Group	Mean Difference (I-J)	Sig.
Net Profit Margin	Less than 25%	25-50%	-1329.44*	.000
		50-75%	-1338.42*	.000
		More than 75%	-1333.54*	.001
	25-50%	Less than 25%	1329.44*	.000
		50-75%	-8.97	.958
		More than 75%	-4.10	.989
	50-75%	Less than 25%	1338.42*	.000
		25-50%	8.97	.958
		More than 75%	4.87	.986
	More than 75%	Less than 25%	1333.54*	.001
		25-50%	4.10	.989
		50-75%	-4.87	.986

** Statistically significant at .05*

Conclusion and discussion

The present research focused on studying the levels of family ownership and profitability ratios of family businesses listed on the SET from 2018 to 2022. The percentage of family ownership to total issued shares indicates the level of family ownership in each company. According to alignment effect theory and entrenchment effect theory, family ownership can affect profitability in two ways. Therefore, the researcher hypothesized that the levels of family ownership influence the profitability of the listed family companies on the SET as a result of alignment and entrenchment effects in each period of time. The research results revealed that the association between the levels of family ownership and profitability of the family companies is consistent with the research hypothesis. It was found that the four groups of family businesses with different levels of family ownership had different levels of net profit margin with a statistical significance level of .05. The net profit margin of the first group of family companies with less than 25% family ownership was lower than that of the other groups with a statistical significance level of .05. The family companies with 50–75% family ownership had the highest net profit margin, followed by the group with more than 75% family ownership, the group with 25–50% family ownership, and the group with less than 25% family ownership.

The association between family ownership and profitability within the high and low levels of family ownership can probably be explained by the entrenchment effect theory. According to the entrenchment effect theory, family shareholders in a company with low family ownership have a lower sense of ownership and less motivation to act for the benefit of the company, making them likely to have low profitability. As for family shareholders in a company with high family ownership, they focus on their own interests more than the profits of other shareholders or may even take advantage of minority shareholders, such as by reducing the dividend payment to minority shareholders while maintaining the dividend payment to major shareholders, who are their family members. Minority shareholders with small shares find it difficult to inspect the work of major family shareholders. As a result, major family shareholders have a tendency to have low profitability. The findings of this study can also be explained by the alignment effect theory, which states that major family shareholders in a company with a moderate level of family ownership have an adequate sense of ownership, making their interests align with the company's interests. Major family shareholders in this type of company focus on the company's long-term interests rather than their own short-term interests, which ultimately influence the company's profitability. According to the analysis of the family ownership levels and profitability of the listed family companies, it was found that the profitability of the companies with high and low family ownership is likely to decrease in proportion to the increase in family ownership. Moreover, the profitability of companies with a moderate level of family ownership tends to increase in direct proportion to the level of family ownership (Kiatniyom

Kuntisook, 2008). This is in line with a previous study on family ownership and earnings quality in the dimension of accounting conservatism, which found that the correlation between family ownership and earnings quality is non-linear. Within the high and low levels of family ownership, there is a significant negative correlation between family ownership and earnings quality, which is consistent with the entrenchment effect theory. Moreover, within the moderate level of family ownership, family ownership and earnings quality were found to be positively correlated according to the alignment effect theory. Financial statement users can use the research results to analyze the earnings quality of companies listed on the SET in the dimension of accounting conservatism (Phannapha Mahakit, 2014).

In addition, the gross profit margins, returns on asset, and returns on equity of the four groups of family companies were found to be different without statistical significance. It was also found that the family companies with 50–75% family ownership were most likely to have high profitability, whereas the family companies with more than 75% family ownership were most likely to have low profitability. This could be due to factors other than the board of directors and management team, such as current economic and industrial conditions. However, there is a study explaining that family ownership structure has no effect on the company's return on equity or earnings per share. Family businesses may face risks, failures, and management issues, as well as a lack of ownership management, dispute resolution mechanisms, and a clear system for distinguishing between the assets, liabilities, and benefits of the company and the family (Urapepattapong, 2015). Modern family businesses may hire management professionals to manage the company. The more the ownership is allocated to family members, the lower the corporate performance (Chivasuthipong, 2010; refer to La Porta et al., 1999).

Previous research has also shown that family ownership structure enables controlling family shareholders to take advantage of non-controlling shareholders in a variety of ways, such as the role of family shareholders in management selection that influences minority shareholders' monitoring of management performance (Barclay and Holderness, 1989), the appointment of family members as management without taking into account their expertise and work experience (Chandler, 1990), and the reduction of dividend payment to minority shareholders while maintaining the level of dividend payment to controlling family shareholders (DeAngelo and DeAngelo, 2000). This group of researchers believes that family ownership structure is affected by the entrenchment effect theory in that controlling family shareholders in a company with high family ownership are likely to take advantage of non-controlling shareholders, leading to low corporate performance. Therefore, in order to obtain more accurate information, it is necessary to investigate other factors influencing profitability.

The findings of this study will help financial statement users, such as shareholders, investors, executives, and family business owners, understand the appropriate level of family ownership required to generate profitability for family companies listed on the SET, and can be used as a guideline for controlling and overseeing organizational management in a sustainable manner.

Recommendations

The following recommendations were made according to the research results.

1. The use of family ownership levels and profitability in this study is one way to measure family business performance. In order to obtain a more comprehensive picture, other variables associated with family businesses, such as the term of office of the CEO and decision-makers, should be investigated alongside business growth rates and corporate performance in various aspects. Qualitative research should also be executed concurrently to ensure accurate and precise results.

2. Future research should be conducted to gain clearer insights into other important variables of business performance, such as corporate growth rates, business expansion, business acquisitions and mergers, and business life cycles.

3. This study only focused on the companies listed on the SET from 2018 to 2022. Future research should be carried out with other population groups, such as companies listed on the Market for Alternative Investment (MAI).

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