

Roles of Family Trust in Thai Family Businesses

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Abstract

The objective of this research is to study the importance of the family trust as the mechanism system that the shareholders of the family business use to maintain the proportion of management power of their businesses. The research is a qualitative research using in-depth interviews to collect data from owners, executives or authorized persons from the family firms which are listed on the Stock Exchange of Thailand and employs content analysis to analyze the data.

The findings revealed that many large family firms listed on the Stock Exchange of Thailand have set up asset trustees as family funds in various forms as a mechanism for overseeing the family assets and controlling the shareholding structure of family members. The aim of setting up the trust is to maintain the power of business management. The findings also revealed that the family firms set up the trusts to ensure the risk of any members selling or transferring shares to other people who are not members of the family. The findings added that the important role of the trusts was that most families participated in this research have empowered the trustees of the family trusts as one of the main mechanisms in order to transfer the family business to the next generation of business heirs. The findings, finally, revealed that most family firms participating in this research plan to have the trust to act as asset custodian for basic living standard of the family members in the future.

Keywords: Assets custodian, family trust, Thai family business.

Introduction

It is widely accepted nowadays that family businesses play crucial roles in the economic development of almost every country in the world, in which Thailand is no exception. Family business is a business organization that brings together many strengths including relatives' relationship and ownership of the business. Joh (2003) reported that big businesses in Korea had the proportion of shareholders who are families average of 45.19 percent similar to Yupana Wiwattanakantang (2001) who found that 67.78 percent of the companies being studied in Thailand were controlled by various families which, on average, held the share in their firms average 43.31 percent reflecting the ownership rights, source of core policies, and even passing business ownerships. However, in the modern business world, family businesses should be cautious about various risks from internal (ineligible persons, conflict between subfamilies,

transferring shares to outsiders), and external threats (taxes, government regulation, and economic factors). Therefore, business management power is often transferred in the form of shares to the family trust or the foundation instead of one member in the family. From then, will put the name of the spouse or children intended to be the beneficiary of the asset stack by appointing an experienced and reliable committee to manage the asset division. The concept of establishing a family fund, aside from the fact that businesses are required to comply with national laws, especially tax-related matters, and conditions for transferring business shares to outsiders.

Shanker and Astrachan (1996) explains that family businesses are based on three levels that are important to the roles of family businesses. This is because this type of business has a family as a strategy central leader or controller of business operations or having other family members participated in business management. It means the family' members who carry the founder's business culture and concepts take control in most administrative posts of the company.

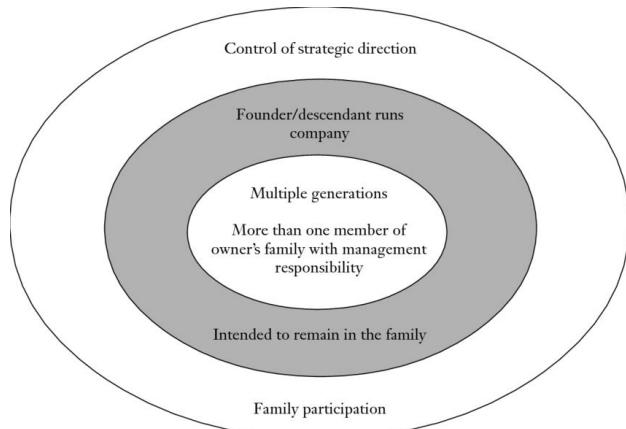


Figure 1: Bull's Eye model

Source: Shanker & Astrachan (1996)

Lank, Owen, Martinge, and Riedel (1994) found that family business is a unit in a business society that has an extremely important role in a country's economy and is the foundation of large businesses worldwide. Of those large businesses, 75 to 90 percent are family businesses. Even though family businesses are the foundation of large-scale corporations, but the business may not have long lives. Poutziouris (2000) found that only 30 percent of family firms can transfer businesses from founders to the second generation and approximately 30 percent from the second generation to the third generation. Many factors affect the sustainability of the family firms from both internal including age gap, conflicts between family members, ownership, decision-making, power in business, leadership, and management structure. The challenges also come from the changes in external factors such as political, economic, technology, and social that all have either positive or negative impacts on the family businesses' performance. To guaranty the risk to happen and effect on their next generations,

most family business leaders appoint the third party to help manage their wealth under the trust deed; the deed scopes the rights and duties among the parties of a trust.

Statement of Problem

The study of family trust is important for Thai family business sustainability since it is concern about business ownership and leadership, business strategic management, which will result in the control and practice of the businesses leading to the competitive advantage of the family businesses. Family businesses are struggling to pass on the company to family members who can demonstrate aptitude, enthusiasm, and merit, according to research by Smith & Williamson, which found only 13 percent of such businesses make it to the third generation. (Ampon, 2008). Many authors consider that there are many other factors such as customer relations, internationalization, unity, professionalism, good governance that have influences on the sustainability of the family business in the long run. This research, therefore, uses the factors mentioned above as variables in this study. The researcher saw the necessity of studying factors affecting the success of maintaining a business and finding a pattern for keeping the family business to be sustainable because the family business is major sources of labor employment and gross domestic products in Thailand. The roles of family trust not only for tax purposes and takeovers but also for the family matters such as business succession and the protection divorces. The results of this study can be used to benefit those involved with family businesses. Throughout the government and other private agencies, this study examines the role of the family that founded the business that the structure of ownership and various positions affect the supervision company decision and how the business performance in various fields.

Research question

What are the major roles of family trust as a mechanism of asset custodian and how the Thai family businesses think about the trust?

Research objectives

To study the mechanism for custody of property owners of Thai family firms and to study the role of the trust as the property custodians that are involved in the Thai family business.

Literature review

Family business in Thailand is a major contributor to the country's economy accounts for more than 80 percent of GDP and up to more than 30 percent of the listed companies on the Stock Exchange of Thailand (SET) are family businesses. Boonlert Kamolchanokkul and Niphan Srisukhumboworncha (2019). presents that in Thailand, the family business is considered

the foundation of small and medium-sized businesses (SMEs) that have a family member who is the founder of the business. After years, the SMEs have been developed into a large business until many companies were listed on the Stock Exchange of Thailand or even abroad. Terdpaopong and Farooque (2019) presents that Thailand's family business is worth about 30 trillion baht currently.

Sieh and Haydon (2019) however, had a different view about the family trust roles, the authors gave an example of Fan & Leung (2018) that when there is harmony among the family members, it is hardly an exit from the family ownership structure because the family stakes are locked up in the trust. Fan & Leung (2018) illustrated that when family conflict potential increases, firms that adopt a family trust tend to have higher dividend payouts and lower performance. Ward (2005) presents that family business system consisting of at least two systems, family systems, and business systems which perform Interview billion. Lahore between business and family Stauffer Ford and colleagues (the Stafford, Duncan, the Danes, & to Winter, 1999) discusses the enduring family businesses that are integrated, the family and society, which is a concept of sustainability that will see the cost of the family. Family business Family costs refer to company shares and resources consisting of human resources, money, social costs. Interpersonal relations and operational procedures related to resource management The movement in one system will be able to understand other systems because it can be seen from the management of shares of companies that have led to the short-term and long-term sustainability of the company and show the success.

Baron and Lachenauer (2016) found 5 types of ownership in the family business including the owner operating, a partnership, the distribution of ownership, the Bird's Nest, and the public type. The traditional model is to control the ownership by one person or a couple. This model may be successful in many generations such as the caterpillar company. The second type is a partnership model for business leaders (most are the brothers in the second generation) this type will succeed only for two generations that can own and receive financial benefits from the business by joining forces to help each other work and share benefits equally. The third is the distributed model, this model is to distribute ownership to all members without needing to work in an organization that has weaknesses in terms of differences in ideas in later generations and may affect the output of business operations. In addition, it is a nested model which is a descendant of various families agreed to jointly own the property or is a small family under a large family which operates the main business which, when profitable, will distribute benefits to various families and sub-families will use those funds to invest or set up further expansion businesses. The final form is the public model, in which some of the shares are traded in general. Or by the company operating as a public company, even if it is owned by a family with very little owner involvement Most of them will only serve to select directors on the board of directors.

Lambrecht (2005) presents that the sustainability of the family business based on management's entrepreneurial 4 elements compost of the process of succession, the successor who represent shareholders, the effects of culture, which are values and beliefs that affect family members in running a business, and the last element is the man of the family in society (Family the elites In rent to-Seeking Societies) network building and trust are fundamental to the business. Bose (2002) presents that internal factors affecting the sustainability of a family business composes of relationships with customers, internationalization, unity, professionalism, and good governance. Piper (2007) mentioned another important factor is the unity of the family and the unification of the family. Is a necessary factor for the success of the family business. Hall and Nordqvist (2008) attaches importance to professionalism in the family business that there must be a clear standard of work in accordance with the positions and duties required. Responsibility, while Neubauer and Lank (1998) says family businesses to succeed, survive, and sustainability require good governance, while Gaspar, Massa, and Matos (2005) addresses sustainability. The family business that depends on five areas: 1.) Family 2) the ownership rights (ownership) or the healing power management families 3) good governance and business management principles. Good Governance 4). Corporate Governance and Business Portfolio Is to have a clear organizational structure and 5). Having a strong board of directors

Ministry of Economy and Business (2007) mentions the family business in public, according to a Danish family influence in the family business significantly through the official administration in which the author can be divided into. 5 levels: 1). the family shareholders of the Company not less than 50 percent. 2), the family holds 50 percent in the venture and a member of the family is the chief. Executive Officer. 3) family members as Chief Executive Officer or CEO and family members of at least one person on the board 4) family members, at least two people as the Chief Executive Officer and / or the Board of Directors 5) family members own shares with most family members and at least one person as the chief executive officer or a member of. The Executive Committee in Thailand. In general, the family business is a business that can exist in many forms, from businesses run by one person. Limited partnership, limited company, public company, or company registered in the stock exchange In such businesses, owners or family members total ownership or majority ownership (Holds more than 50 % of the shares) has control over the management of the company both directly and indirectly The said company may be a company listed on the Stock Exchange or not listed.

Methods

This research is qualitative research, in-depth interviews, key informants are executives or delegates from owners from family-run companies that are listed on the Stock Exchange of Thailand. Thailand of 15 people by selected purposively (purposive sampling) questionnaire is divided into two at part 1 of the personal interview of Gore. By gender, age, education level

Year of starting to enter business relationship with the company Starting a business Part 2 is a question about the organizational structure. Participation in administration Factors or components of success in maintaining a sustainable family business. Including determining ways to bring the family business to the family the design of the questionnaire to be able to answer directly to the research question and research objectives are an important factor in maintaining the shareholder proportion. Family Statute Family Council Mandate of Family Property Managers Authority to oversee business operations process for transferring power. The researchers have tested the accuracy of the content (content validity) and reliability questions prior to storage. This research uses content analysis to analyze the data collected from important data providers.

Research results and discussion

The results showed that those interviewees (key informants), most experienced in current positions for over 10 years, family members combination hold shares more than 20 percent in the family business. There were in the 3rd generation, no official family council (family committee) but planned to establish one in the near future. However, the research found that most family businesses participating in this research have family rules to govern family members. Most of the key informants' businesses had been established more than 50 years and each one employs more than 1000 employees.

The result of this research also shows that the family is important to be the institution of the business due to the ownership status which has the power to issue the policy in the meeting of the board of directors who set the visions. Throughout the major policy issuance in management and determine methods of doing business, the board of directors, therefore, is the foundation of the values and organizational culture. The family is a central institution to carry on the organization culture from family leaders, which has an influence on beliefs, values, and organizational culture in order to pass on to the next generation of executives. Most of the key informants agreed that, despite being a family-run business, mainly operated by family members, the planning and implementation of the management system must be performed professionally. With the belief that strategic planning for professional business operations is one of the important variables that make a family business successful. In this regard, the executives of the family business also need to develop their knowledge and capabilities. Setting up a standardized operating system, vision, strategic planning, organization, and marketing plan. Selection of professional personnel to attend the event. To create growth and sustainability for the business The result of the research also shows that the families that participate in this research have a succession process for family business in the same way as Being a role model in the workplace And encouraging family members to learn about working conditions from childhood in order to absorb and learn about working methods and organizational culture.

As for the issue of ownership rights and distribution of shareholding in the family business, in this research, it can be concluded that due to the key components in running a family business is preserving the right to be the owner so the family still has the right to exercise the power to issue policies, decisions, and general administration of the business. The establishment of the trustee fund is important in this role. The family authority empowers the custodian of property as an important mechanism for transferring ownership rights. That the law must be done through buying or selling existing shares of members in each family in the family (Because many businesses are the third generation), in most cases it is stipulated that in order to sell shares, the proportion of family members who are able to sell shares is necessary to sell to other family members first. It is a family property; which family members should have the right to first maintain ownership of the business in order to protect their power. The management of the Best Before offering to outsiders.

As the success of the family business requires cooperation and assistance from other members of the family, planning, and planning, management in the business is an important factor that makes the business successful and sustainable. But found that it is not necessary for executives in important positions to be members of the family only maybe outsiders that family members accept for their abilities In various meetings The company provides an opportunity for members of the family to attend meetings and opportunities for various members. Have an opportunity to provide opinions on policymaking the said members will attend the meeting as shareholders. Or only matters that the members are involved in the participation of family members in the meeting will have an impact on the shareholder structure which is directly related to the ownership rights throughout other matters. That affects the stability of the business.

In the area of family organization management, the result of this research shows that ownership can supervise the business operations according to the vision of the owner group, which is the majority shareholder of the business. The results of this research are in line with Parapornporn Bunmek and Chanchai Banchapattanasakda (2017) who found that being one of the family affects the opinions in strategic planning and management to the same direction and is an important basis for supporting family business operations successfully by making the company's shares reliable and in need of investors. For the internal management of the family business, which is a business institution the result of the research shows that most family businesses insist that there are hiring professionals to help manage almost every level. There are no restrictions, even important positions. In which those professional managers are assigned to oversee business operations And professional managers themselves will be evaluated based on their performance and capability And all the family businesses that are involved in this research have to apply management principles according to company policy as for financial management, the results show that the first generation of family businesses Most of them have a policy not to use financial services from financial institutions because they do not want to be

in debt and have a higher risk than using their family's money to circulate in the business. However, due to the intensifying business competition situation both from within and from abroad. Throughout the company, there is a need to expand the business exponentially, making the current generation of family businesses such popular to find funds to expand the business from many sources such as Using financial services from various financial institutions but must be approved by the family council (Family Committee) first.

Discussion

The results of this research show that family businesses in Thailand still maintain a variety of assets that have not been managed to be of international standards. But one thing that can be found in this research shows that many family businesses in the country are listed on the stock exchange, and large business has been operating for at least two generations, a formal assets trustee has been established. By being appointed as a family committee to have representatives from each family that are relatives to participate in determining rules for the holding of shares, maintaining the proportion of shares in the business, and managing the proportion structure of shareholders who are the family members, the committee will make the restrictions on transferring ownership rights (sale/transfer of shares) to outsiders who are not family members by blood. The results of the research revealed to establish a fund, there will concern a lot of laws and restrictions which stated how family members hold ownership rights with clear voting rights, stock transfers, and how to distribute the benefits. Which requires family members to sell or transfer shares to other family members and must obtain approval from the fund committee before offering to third parties It is considered as a mechanism to help reduce conflicts among family members. In addition, the establishment of a family fund can also help prevent problems from getting into or marrying out of family members, even if the issue will cause the number of ownership rights to increase from marriage and having children throughout the more complexity in structure.

The findings from this present study also confirm that although some Thai family businesses that participated in this research not yet established formal family trusts, but their current leaders recognized the importance of establishing such formal family trusts soon. The leaders are confident that the family trust will help to keep the business structure in form of active organizations which allowed the business to expand while the families are able to control the voting power in important agendas related to the business policy. The trust is also a guarantee for the next generation members that the business' structures will remain unchanged from the expansion of their businesses. The family business' leaders also want to ensure that the next generations will have the right to reach the family's wealth for their livings such as education, start-up business, and healthcare. The results from this research can be a proof that the shareholding structure of family members is the core of the family business organization

that has been created and will not be changed by its member. It is a good safeguard tool for the members of the next generations.

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