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FACTORS AFFECTING PROFITABILITY OF FAMILY BUSINESS LISTED IN THE STOCK EXCHANGE OF THAILAND

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Abstract

The objectives of this research are to examine the factors affecting the profitability of family businesses listed in the Stock Exchange of Thailand. The study compares the effects of CEO factors and Board-of-Director factors on the profitability of the companies measured by Gross Profit Margin, Net Profit Margin, Return on Asset, and Return on Equity, employing financial data during 2007-2017. The results show that companies with women CEOs exhibit Gross Profit Margin different than those with men CEOs at statistically significant level of .05, while the differences with respect to profitability indicators of Net Profit Margin, Return on Asset and Return on Equity are not statistically significant at level of .05. Regarding the Board of Director factors, the companies with women family-member directorship exhibit Return of Asset and Return on Equity different than those with no women family-member directorship at statistically significant level of .05, while the differences with respect to Gross Profit Margin and Net Profit Margin are not statistically significant at level of .05.

Introduction

Family business is one of the oldest form of commercial organization and remains a prominent one today driving the global economy substantially. Two thirds of the current business firms worldwide are in the form of family businesses accounting for more than 70 percent of world annual GDP (European Family Business (EFB) and KPMG, 2015). According to a respected research, the success of family business is closely related to the capability of family members and the management of non-family members. The ability to be oneself enabling flexibility and immediate decision-making to handle the ongoing challenges facing the family firms, together with the pride and unity of the family would positively improve the growth and profitability of the business (KPMG, 2017). The family firms would appreciatively know how to run the business successful in the long-run with positive growth and capable of enduring economic recession. The advantages of being a family firm are long-term vision, agility, flexibility, strong family values and culture of trust. However, these attributes alone cannot guarantee success, several others factors are required such as the presence of a strong and dedicated leader (KPMG and EFB, 2016), either man or woman, being a family member or not. Some family firms are aware of the proven capability of non-family members in effecting successful change in the business and some study shows that women have been promoted highly with the confidence in their leadership ability (Hall, 2018).

During the expansion of family firms, professional management is more essential than during the early phase. This involves the adoption of strict application of procedures for decision making and operation and could be implemented in several ways including the appointment of independent director(s) to the board and the formalization of operating practices in written form as well as the recruitment of non-family members for executive positions, thus adding an independent view. The independent director would be the main trust of good corporate governance and professional business management. However, most family firms still appoint family members to the board of directors. Only a few firms include non-family members in their board of directors. The directors of family firms are often diverse and less influential than firms in general while the firms have to compete to attract and keep these experience professional (White, 2017). While the advantages and disadvantages of bringing non-family members in to run the family firms are still debatable widely, the role of women in executive positions in such firms is being examined as another factor affecting success. It would thus be interesting to look at the financial performance in the form of profitability of family firms listed in the SET, comparing the effect of CEO factors and Directorship factors on the profitability indicators. The study could point to factors affecting the performance of family firms listed in the SET valuable to the long-run growth and the maintenance of competitiveness and operational efficiency for sustainable business goals.

Objectives

The objective of this study is to examine the factors affecting the Profitability of family firms listed in the SET and to contribute to the knowledge in the promotion and capability development of family businesses in Thailand.

Research hypotheses

1. CEO Factors (being Gender, Generation, Education Level, and Age of CEO) affect the Profitability of family firms listed in SET.

2. Directorship Factors (being Number of Directors, Family Member Director, Women Family Member in the Board, and Women Director) affect the Profitability of family firms listed in the SET.

Scope of research

The Profitability in this study includes four indicators of Gross Profit Margin, Net Profit Margin, Return on Asset, and Return on Equity. The data used are from financial reports during 2007-2017 of firms listed in the SET for 10 or more years meeting the criteria of family business.

Literature review

Family firms succeed and fail similar to any other firm. The difference is in their leadership structure. A strong leadership is the necessary foundation for firms to ensure success, thus the search for qualified leaders is always a challenging task (Taylor, 2012 cited in Rajesh, 2012). It is not surprising for family firms to appoint non-family members as CEOs. This is in line with the survey by PwC (2015) of family business in the U.S. showing that one out of four of the respondents would hand over only the ownership of the business to the next generation not the executive power. The appointment of executives from within the company is a valuable approach because the founder/CEO and the board of directors are aware of the strength, weakness and success of these executives who have a good understanding of the company, its culture, the industry, the customers and personnel. Most significantly is the fostered relationship and trust of the family. However, in the case with no capable executive or family member ready to assume the position of CEO, the next alternative is the recruitment from outside. With the high level of competition in the marketplace at present, professional management must be mastered successfully by the family firms. The hiring of executive from outside is an approach to achieve this by improving operational practices through the clear division between operation and supervision roles and responsibilities enabling the executive to focus more on new initiatives and strategic planning (Norton, 2017).

Carrie Hall (2018), an expert on family business, examines the role of women in family business relying on the study of EY and Kennesaw State University (2016) pointing out that the oldest and largest family firms are those promoting women and non-family members to higher positions faster than firms in general. The survey of the largest family businesses in the world in 2015 found that 22 percent to them have women in high executive positions and 16 percent in the board of directors. Women were also found in C-Suite positions (CEO, CFO, COO, etc.) and the number increased by 20 percent compared to the previous year. While sexual equality is still a little understood area at all level of business management, family business is an attractive choice for women seeking leader positions. In addition, family business is an example of business seeking success and advancement of women.

It is also an important task for the family members to understand the good practices for the appointment of the board of directors. Family firms often elect them from family members, friends of major shareholders or acquaintances. On the other hand, experts would point out that highly experienced outsiders could better improve the working of the board of directors; these include executives or former executives from related industries (either upstream or downstream), persons with added skills such as merger and acquisition, and other specialists. These skills could add new perspectives unrecognized by the current management team. The goal is to add and expand the vision of the board and to recognize its importance of being more than a rubber stamp or being the duplication of the executive committee at present (Peake, 2018). The study of these factors' influence on the profitability of the business is of great interest.

Research method

The sample group for this study is family firms listed in the SET for 10 or more years, amounting to 164 companies, excluding mutual funds/firms with SP status. The firm being controlled by a family is considered a family firm employing the criteria of the Family Business Center, the University of the Thai Chamber of Commerce for the definition of "Family Business" as follows:

1) Being the founding family,

2) At least one of the top five director being a family member, and

3) Family members (all members) as a group are major shareholders (Strategic Shareholders)

Note: According to the Securities and Exchange Commission (SEC) Strategic Shareholder mean: (1) Holding of more than 50 percent of voting shares of the juristic person, (2) Having control of the majority votes at the general meeting of the juristic person either directly or indirectly or for whatever reason, (3) Having the authority to appoint or remove half or more of the directors either directly or indirectly.

The data used in this study are the financial indicators measuring profitability of family firms listed in the SET during ten-year period of 2007-2017. The effects of CEO Factors and Directorship Factors on the Profitability indicators are compared with respect to the means and tested statistically by Independent Sample t-test. Pearson's product moment coefficient of correlation and Spearman's Correlation are used for the test of relationship between the variables.

Research results

Profitability ratios for 2007-2017

With respect to the Profitability ratios of family firms listed in the SET (see Table 1), the Gross Profit Margin shows an increasing trend with a drop in 2009 and 2016, while the Net Profit Margin, Return on Asset, and Return on Equity show similar trends fluctuating with the economic situation with a noticeable drop in 2009, 2012 and 2017.

Table 1 Profitability ratios of family firms listed in the SET during 2007-2017

Year	Gross Profit Margin (%)	Net Profit Margin (%)	Return on Asset (%)	Return on Equity (%)
2007	21.92	6.08	7.34	7.30
2008	22.36	6.06	7.17	6.62
2009	21.94	2.40	6.71	6.58
2010	23.21	6.34	7.60	9.17
2011	23.18	6.39	8.15	9.32
2012	23.31	5.64	6.36	-1.83
2013	23.38	6.59	7.52	4.85
2014	23.32	7.37	7.63	10.05
2015	23.59	7.09	7.09	9.89
2016	21.92	6.82	7.35	9.12
2017	22.61	5.18	6.12	6.62
Mean	**22.79**	**6.00**	**7.16**	**7.06**

CEO factors

Type of CEO

The CEOs of the majority of the family firms (116 firms) are family members, accounting for 70.70 percent while the remaining (48 firms) are non-family members, accounting for 29.30 percent (see Figure 1). The comparison of Gross Profit Margin, Net Profit Margin, Return on Asset, and Return on Equity between the two groups is found to have no statistically significance at the level of .05.

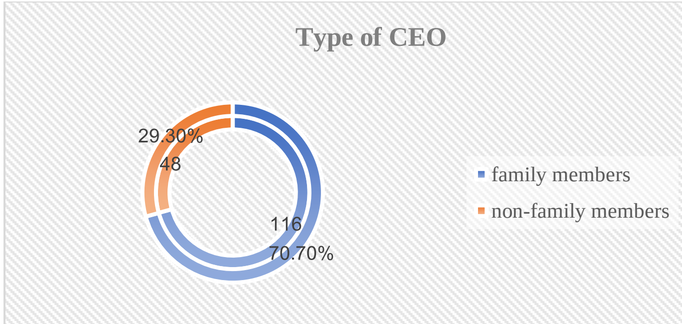

Figure 1 Type of CEO

Gender of CEO

The majority of the CEOs (138 firms) are men, accounting for 84.10 percent, the remaining (26 firms) are women, accounting for 15.90 percent (see Figure 2). The Gross Profit Margin of the women group (average of 27.34 percent) is found to be different than that of the men group (average of 21.78 percent) at statistically significant level of .05. With respect to the other three indicators of Net Profit Margin, Return on Asset, and Return on Equity, the women group is found to have no statistically difference that of the men group at significant level of .05.

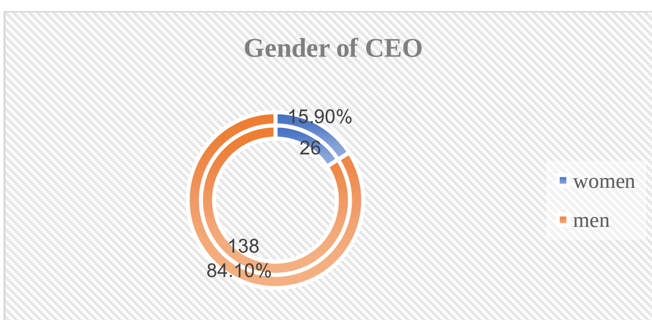

Figure 2 Gender of CEO

Generation of CEO

The largest group for this variable is the second generation (79 firms) accounting for 48.20 percent, followed by the first generation (78 firms) accounting for 47.60 percent, the third generation (5 firms) accounting for 3.00 percent and the fourth generation (2 firms) accounting for 1.20 percent (see Figure 3). Generation of CEO is found to have negative relationship with Gross Profit

Margin at no statistically significant level of .05, while it has positive relationship with Net Profit Margin, Return on Asset, and Return on Equity at no statistically significant level of .05.

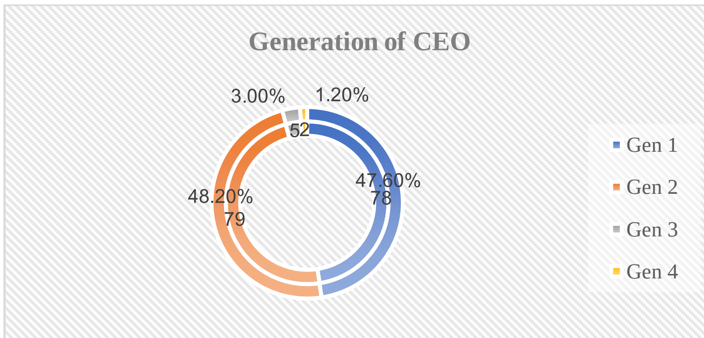

Figure 3 Generation of CEO

Education level of CEO

The largest group for this variable is Master Degree (92 firms) at 56.80 percent classified into being from foreign institutions (53 firms) of 32.70 percent and domestic institution (39 firms) of 24.10 percent, followed by Bachelor Degree (57 firms) at 35.20 percent classified into from foreign institutions (26 firms) of 16.00 percent and domestic ones (31 firms) of 19.10 percent (see Figure 4). Education Level of CEO is found to have negative relationship with Gross Profit Margin at no statistically significant level of .05, while it has positive relationship with Net Profit Margin, Return on Asset, and Return on Equity at no statistically significant level of .05.

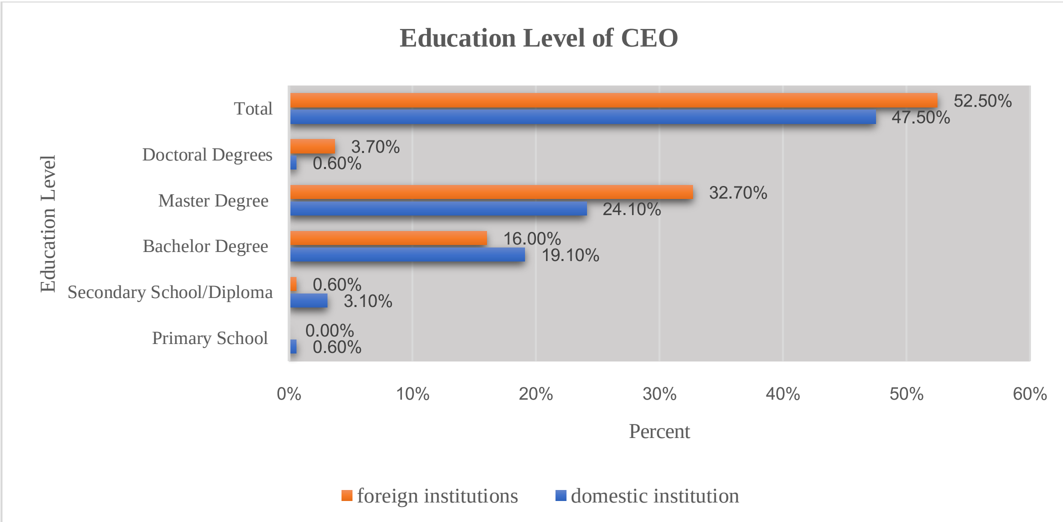

Figure 4 Education level of CEO

Age of CEO

The average age of the CEOs is 59.44 years with the oldest at 93 years and youngest at 32 years (see Table 2). Testing the relationship between Age and Profitability Ratios, Age of CEO is found to have positive relationship with Gross Profit Margin, Net Profit Margin, and Return on Asset at no statistically significant level of .05, while it has negative relationship with Return on Equity at no statistically significant level of .05.

Table 2 Age of CEO

Variable	**n**	**Min (Years)**	**Max (Years)**	**Mean (Years)**	**SD**
Age of CEO	164	32	93	59.44	11.352

Directorship factors

Number of directors

The average number of directors is 10.34 persons with the highest being 21 and the lowest being 5 (see Table 3). Testing the relationship between Number of Directors and Profitability Ratios, the Number of Directors is found to have negative relationship with Gross Profit Margin and Net Profit Margin at no statistically significant level of .05, while it has positive relationship with Return on Asset and Return on Equity at no statistically significant level of .05.

Table 3 Composition of the board of directors

Variable	n	Min (Persons)	Max (Persons)	Mean (Persons)	SD
number of director	164	5	21	10.34	2.629
family member in the board	164	1 (6.67)	10 (66.67)	3.07 (29.99)	1.696 (14.115)
women family member in the board	164	0 (0.00)	4 (100.00)	0.74 (22.01)	0.904 (26.437)
women director	164	0 (0.00)	7 (75.00)	2.16 (21.32)	1.698 (16.564)

Note: ( ) = %

Family member in the board

The average number of family members in the board of directors is 3.07 persons with the highest of 10 and the lowest of 1 person. The average percentage of family member in the board of directors is 29.99 with the highest of 66.67 and the lowest of 6.67 (see Table 3). Testing the relationship between Family Member in the Board and Profitability Ratios, this variable is found to have negative relationship with Gross Profit Margin at no statistically significant level of .05, while it has positive relationship with Net Profit Margin, Return on Asset, and Return on Equity at no statistically significant level of .05.

Women family member in the board

The average number of Women Family Member in the Board is 0.74 person with the highest of 4 and the lowest of 0. The average percentage of women compared to the total Family Members in the Board is 22.01 with the highest of 100 and the lowest of zero. There are 81 firms with Women Family Member in the Board accounting for 49.40 percent and 83 without, accounting for 50.60 percent (see Figure 5).

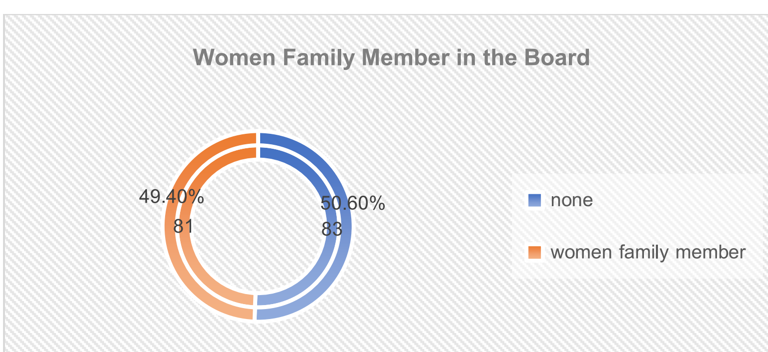

Figure 5 Women family member in the board

Testing the relationship between Number of Women Family Member in the Board and Profitability Ratios, this variable is found to have positive relationship with Gross Profit Margin and Net Profit Margin at no statistically significant level of .05, while it has positive relationship with Return on Asset, and Return on Equity at statistically significant level of .05. Upon testing the differences of Profitability Ratios between the group with Women Family-Member Directors and the Non-Women Family-Member Directors, there is no statistically difference with respect to Gross Profit Margin and Net Profit Margin at significant level of .05, but having statistically difference with respect to Return on Asset and Return on Equity at significant level of .05. The average Return on Asset for the former group (at 8.63 percent) is higher than the latter (at 5.74 percent); and the Return on Equity for the former (at 9.86 percent) is higher than the latter (at 4.22 percent).

Women directors

The average number of women in the Board is 2.66 persons with the highest of 7 and the lowest of zero. The average proportion of women in the Board is 21.32 percent with the highest of 75 and the lowest of 0 (see Table 3). Upon classification of firms, there are 139 firms (84.80 percent) with Women Director(s) and 25 firms (15.20 percent) without (see Figure 6). Testing the difference between the two groups shows no statistically difference at significant levels of .05 with respect to Gross Profit Margin, Net Profit Margin, Return on Asset, and Return of Equity.

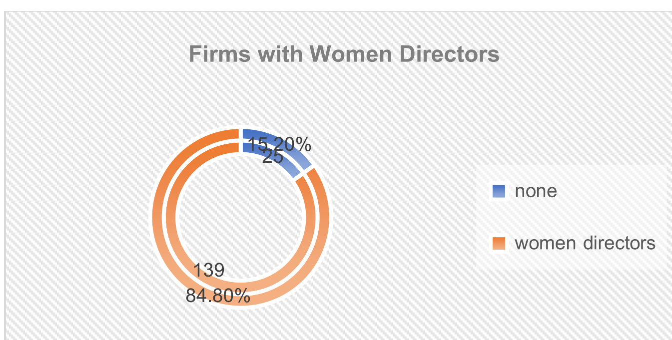

Figure 6 Women directors

The first hypothesis postulating that CEO Factors are related to the Profitability of family firms is supported with respect to the result showing relationship between Gender and Gross Profit Margin. The second hypothesis on the possible influence of Directorship Factors is supported by the finding of positive relationship between the Number of Women Family Member in the Board and the Return on Asset, and the Return on Equity.

Conclusion and discussion

CEO factors

The CEO Factors of Type of CEO, Generation of CEO, Education Level of CEO and Age were found to have no significant relationship with Profitability Ratios of family firms in the SET, but with respect to the Gender variable, the group with Women CEOs exhibits higher average Gross Profit Margin than that with Men CEOs (27.34 percent compared to 21.78 percent). The differences between the two groups for Net Profit Margin, Return on Asset, and Return on Equity were not significant statistically, this may be the result of the women proportion (15.90 percent) being substantially less than that of men (84.10 percent). This is supported by the finding of EY and Kennesaw State University (2014) that companies with women leadership and role in strategic formulation would improve their economic performance. Women also have increasing interest in working for the family businesses as leaders and in other areas on the recognition of sexual equality. They also tend to foster the sense of ownership, trust and family tie. The added solidarity often leads to better business performance. According to the study of PwC (2016a), family firms possess the environmental factors facilitating the promotion of capable women with ambition to high career advancement even though in some culture or local setting the confidence of the family is placed on the success of men. Currently, the gap between men and women in business is still a major issue in terms of remuneration, participation or even directorship.

According to the study of EY and Kennesaw State University (2016), the largest family firms in the world believe in the value of women leadership not confiding to just those of family members, they also provide environments conducive for the development of women. The family firms seem to possess the appropriate environments for women to achieve greater success in business compared to non-family firms (Van, 2018). The contributing factors are the balance between the interest of family and the requirement of business focusing on solidarity, participation and commitment to the happiness and wealth of the family and the business. In the short-run the human factors are considered, not just profit. Within such an environment women are easily promoted (EY and Kennesaw State University, 2016). This is consistent with the study of Shaffer (2016) finding that women (including non-relatives) working in family firms in ASEAN are found in executive positions in greater incidents than firms in general. Several other studies also suggest that firms with women in high executive positions exhibit higher profit than those without. Because daughters are able to communicate with their parents better, the succession process is much smoother. Women today tend to gain higher level of education than men and thus more competitive.

Directorship factors

The Directorship Factors of Number of Directors, Family Member in the Board, and Women Directors are found to have no influence on Profitability of family firms, while the Women Family Member in the Board is associated with Profitability indicators of Return on Asset and Return on Equity. The group with Women Family-Member in the Board exhibits higher Return on Asset and Return on Equity compared to the group with no Women Family-Member. More specifically, while Number of Women in the Board does not affect the Profitability of family firms statistically, the group of firms with Women Directors exhibits greater average Gross Profit Margin, Return on Asset, and Return on Equity, while the group without Women Directors exhibits greater average Net Profit Margin. Consistently, on the variable of Women Family-Member in the Board, the group of firms with this attribute can on average attain higher Return on Asset (8.63 percent versus 5.74 percent) and higher Return on Equity (9.86 percent versus 4.22 percent) compared to the group without. An explanation could be the fact that women would demonstrate their transformational leadership upon assuming executive roles enhancing the morale and motivation of their superiors and followers. The consequences are observed by the loyalty of employees, open communication along organization levels and efficient operation as a result of employee-based problem solving. This role is key to the sustenance of essential characteristics for success of family business (Brown, 2018).

According to the study of PwC (2016b), the women heirs do not think that gender is an obstacle to running of family firms compared to other firms and the family firms do recognize the value of appointing women in important positions in the business. These heirs are ambitious and highly capable. They are prepared to work hard to prove that they are qualified for directorship of the family firms. This is consistent with the finding of EY and Kennesaw State University (2014) that firms with women directors perform better with respect to Return on Equity, Net Income Growth, and Price-to-Book Value. In addition, these firms tend to focus more on governance, and risk reduction which would enhance the ability to achieve better financial returns. Firms with the largest number of women executives tend to perform better on the Return on Equity and other financial indicators (EY and Kennesaw State University, 2014). Therefore, it would be of great interest to investigate whether family firms will accept this notion. However, it would certainly depend on the contexts of social and cultural factors as well as the locally held beliefs.

Recommendations

The use of Profitability Ratios is only one approach of measuring the performance of family firms. To gain a more comprehensive view, additional variables should be included such as the term of service of CEO, and other nonfinancial performance indicators. Qualitative research could be undertaken in conjunction in order to gain more accurate and valid results. For the Stock Exchange of Thailand, in addition to the SET index, an index for family firms should be formulated. The Loyola University Chicago Family Stock Index (LuCFFSI) (McConaughy et al., 1996) is an example which could reflex the performance of this group more accurately than the stocks selected to represent the entire market. The new index could be the Performance Benchmark for the evaluation of performance of individual firms or industrial sectors.

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