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Business Groups in Thailand: Before and after the East Asian Financial Crisis

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Abstract

This paper investigates how business groups in Thailand had evolved since the 1950s. We argue that political connections and foreign capital among other factors were contributable to the emerging of Thai business groups. The business groups that owned banks developed fast during the late 1980s and the early 1990s until the financial deregulation, and the establishment of the Stock Exchange of Thailand, and the Bangkok International Banking Facilities. After that the groups that do not own banks have expanded rapidly. We find that the ownership and board structure of the listed firms that belong to the top 30 business groups were not affected by the crisis. Compared to the pre-crisis period, the leverage ratio for the business groups firms has increased while the profitability has declined during the post crisis of 1997-1999. Restructuring appears to work well among group firms since it has helped improved industry-adjusted operating performance of the firms.

JEL classification: L22; G32; G34
Keywords: Business Group; Corporate Governance; Ownership Structure; Restructuring; East Asian Financial Crisis

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1. Introduction

Modern capitalization in Thailand began around the beginning of the 20th century. Those who played the major role were either immigrant Chinese or local-born Chinese. In this paper, we investigate how these families have developed to be diversified and later on became business groups. As argued by many scholars in the business group literature, market imperfections, political economy, and cultural heritage could be among the important factors that contributed to the group foundation in Thailand in the similar manner as business groups in many emerging economies (Granovetter (1994), Ghemawat and Khanna (1998), Khanna and Palepu (2000), and Khanna (2000)). Our analysis, however, is based on the political economy approach which emphasize on the close connections between businessmen and politicians as well as bureaucrats (Hamilton et al. (1990)).

We also investigate the characteristics of firms affiliated with the top 30 business groups regarding ownership and control structures as well as financial characteristics, based on our unique and comprehensive database. Our focus is non-financial firms listed in the Stock Exchange of Thailand during the period between 1995 and 2000. Our sample coverage cannot go beyond listed firms simply because data of non-listed firms and data for the earlier period are not available. This sample period enables us to examine how business groups have been affected by the 1997 East Asian financial crisis, and how they have responded to the crisis. We provide some background in restructuring initiatives by the government under the International Monetary Fund's program. Following the literature on corporate restructuring and financial distress, we then present operational and financial restructuring actions undertaken by business group firms.

The organization of this paper is as follows. Section 2 discusses the origin and evolution of business groups. Section 3 illustrates the impact of the East Asian financial crisis on business groups and presents governance and financial characteristics of listed firms that are affiliated with the top 30 business groups in the period before and after the crisis. Section 4 describes restructuring schemes introduced by the government and investigates restructuring activities undertaken by business group firms as well as the efficiency of such activities in response to the crisis. We also present a number of case studies of restructuring activities taken by some leading Thai business groups in this section. Finally, Section 5 provides a summary and conclusion.

2. The Emerging of Business Groups

Until 1932, Thailand was under the absolute monarchy when in all commercial transactions were in the hands of the king, royal family members, and nobles of high ranks who had absolute controlled over the country. Because of Chinese merchants' skills and experiences in trading, the Crowns promoted Chinese immigration. During 1820 – 1870, the Chinese were given a number of privileges, patronized with trading licenses, tax farms, and investment loans and provided political support (Phongpaichit and Baker (1995)). Under the patronage of the noblemen, these Chinese merchants became successful in doing their own businesses, in particular the rice trading which was the most important business accounting for about 70% of all exports in the 1910s (Piriyarangsan (1983) and Phongpaichit and Baker (1995)). In 1930s, the rice trade was dominated by the "Big Five" families, Bulakul, Bulasuk, Iamsuri, Lamsam, and Wang Lee who have been among the top business groups until the present.

After the 1932 Revolution when the absolute monarchy was overthrown, civil service officers and armed forces played important roles in shaping Thai economy. In this section, we describe how the new rulers exercised their power in terms of capitalization, and how Chinese entrepreneurs built up connections with them and established business networks.

2.1 The Political Background during 1932-1973

2.1.1 The People's Party Regime

During 1932 until 1947, the People's Party was the new ruler. Political and economic power was transferred from the king and noblemen to civil service and military officers. The development regime led was regarded as the nationalistic development approach under the slogan "Thailand is for the Thais. Under this regime, the government aimed to promote Thai nationals into business participation and decrease the role of Chinese migrants who dominated important industries. In fact, by this time the Big Five Chinese rice trading families had expanded their business networks to cover various businesses to assist their rice trading. These businesses included rice milling, warehouses, shipping, banking, insurance, and foreign exchange dealing (Phongpaichit and Baker (1995)).

The nationalistic policy was pursued via promulgating regulations restricting Chinese immigrants from doing business, and promoting investments by the Thais. Although the government implemented various schemes to help the Thais become entrepreneurs, it did not seem to work. At that time, it was not necessary for the Thais to become traders or business owners since they could easily live on the country's plentiful natural resources. On the other hand, it was prestigious and secured if the Thais served the government (Phipatseritham and Yoshihara (1983)). To encounter the Chinese dominance, the government was involved in doing business directly by setting up many state-owned enterprises and semi-governmental companies. These companies were mainly in trading (e.g., the Thai Rice, Ltd., Thai Produce Trading Co. Ltd., the Thai Fisheries, Co., Ltd., etc.) and financial industries (e.g., the Bank of Asia for Industry and Commerce, the Provincial Bank Ltd., and the Thai Sreshthakich Insurance Co. Ltd.). The semi-governmental companies were jointly owned by the government and the private sector. The private sector here usually comprised the members of the People's Party, the government officials, and the Chinese businessmen who had close relationship with the members of the People's Party such as the Bulakul family, the Lamsam family, and the Wang Lee family. The members of the People's Party and their close associates (including the Chinese traders) also utilized their power to set up private companies (Piriyarangsan (1983) and Phongpaichit and Baker (1995)). So, it turns out that even though the government's policy aimed to eradicate the economic power of the small and medium Chinese traders, they collaborated with the big Chinese merchants.

2.1.2 The Military Regime

In 1947, a group of armed forces led by Field Marshal Plaek Pibulsongkram, Lt. Gen. Pin Chunnahawan, Col. Pao Sriyanond, and Field Marshal Sarit Thanarajata, took over power from the People's Party. Until the 1973 Revolution, the military had been in charge of controlling and developing Thai economy. The military in power did not renounce the "state capitalism" policy established by the People's Party. In addition, they were more likely to establish their private companies and protecting their affiliated business, relative to members of the People's Party. There were two important groups in the coup due to the conflict of interests among them. The first group was the Soi Rajakru led by Pin Chunnahawan and Pao Sriyanond. The second group was the Sisao Deves led by Sarit Thanarajata. After Sarit Thanarajata seized power from Plaek Pibulsongkram in 1957, the Sisao Deves group solely controlled Thai economy and were able to exploit private benefits of control (Piriyarangsan (1983)).

Under the military regime, major profitable industries, namely sugar refining, tobacco, paper and plywood, and brewing were monopolized by the state. Consequently, about 56 state enterprises were set up during 1947-1956 in the key industries. In addition, the government formed a large number of joint venture companies with the business leading Sino-Thais. In the financial industry, the government had the ownership and directorship in all the 13 commercial banks (Suehiro (1989)).

It is thought, however, that the real objective behind the government's involvement in doing business was to generate the funding to finance both personal and political activities of the military figures who were in control (Piriyarangsan (1983), Riggs (1966), and Hewison (1985 and 2001)). This objective became clear after 1951 when the powerful military figures and bureaucrats in control no longer hid the interests. The military group leaders turned out to be extremely wealthy afterwards. These military leaders were namely Sarit Thanarajata (who led the autocratic government in 1958-1963), Thanom Kitikachorn (who led the autocratic government in 1963-1973), Prapas Charusathiarana, and Krit Sivara, from the Sisao Deves clique, and Phin Chunhawan, Pao Sriyanon, Praman Adireksan (son-in-law of Phin Chunhawan), and Siri Siriyothin, the Soi Rajakru clique. Their business was extended into various industries including banking, trading, mining, manufacturing, construction, and services (Meechai (1983), Suehiro (1989), and Sonsuphap (1996)).

In general, as the military government was strong and could intervene in any areas of life during the period 1947-1973, the business environment turned out to be uncertain (Hewison (1985 and 2001)). There was a fear that potential business might be taken over by the government or was abolished if it was against the interests of the important members of the military hierarchy (Hewison (1985) and Suehiro (1989)). For example, the big rice trading families, the Bulsuk, Lamsam, and Wanglee, were suppressed when Predi Pranomyong with whom they had close ties lost the control to the Soi Rajakhru group in 1947.

2.2 The Formation of Political Connections

In order to operate in the business environment described in Section 2.1, it is necessary to establish close ties with the rulers in particular the military leaders. Suehiro (1989) goes so far as to suggest that "no leading Chinese capitalist could survive or expand their business without alliances with the Thai ruling elites." For example, Chin Sophonpanich, the founder of the Bangkok Bank group, had a good connection with Pao Sriyanond, the leader of the Soi Rajakru group. The Lamsam family of the Thai Farmers Bank group had Chulin Lamsam being responsible for establishing relationships with Plaek Pibulsongkram and the Sisao Deves group. Also, Ratanarak family of the Bank of Ayudhya group was closely associated with Prapas Charusathiarana of the the Sisao Deves group (Phipatseritham and Yoshihara (1983), Suehiro (1989), and Bualek (2000)).

There were mutual interests between the Sino-Thai businessmen and the government. The Sino-Thai businessmen provided the government ruling class not only capital but also entrepreneurial and managerial expertise of which the government figures lacked. For example, a member of the Bulakul family, that was one of the biggest rice traders at that time, served as the managing director of a state-owned company, the Thai Rice Corporation which monopolized the rice export business (Suehiro (1989)). The Lamsam family had Chulin Lamsam serving as an executive director of a stated owned company, Thai Niyom Panich. The financial benefits were also given to the ruling class in the forms of a company's shares and directorship. For example, Lamsam family provided a directorship to Field Marshal Thanom Kittikachorn.

In return, the Sino-Thai businessmen obtained security that they were not intervened or politically harassed (Suehiro (1989) and Hewison (1989)). Additionally, they were granted monopolistic rights, quotas, licenses, lucrative contracts, capital, foreign loans using the government as a guarantor, and other privileges ahead of competitors who lacked of the connections (Hewison (1985, 1989, and 2001) and Suehiro (1989)). The relationship worked well as there were mutual interests.

However, the connections work both ways. When the connected politicians were no longer in control, their related parties got hurt. For example, when Plaek Phibunsongkram lost the control to Sarit Thanarajata in 1957, the Bangkok Bank group slowed down as it was not as well connected to the new political leaders as the Lamsam group was. Piriyarangsan (1983) points out that the Chinese merchants would be under the patronage of any political group that was in power.

2.3 Political Connections and the Emergence of Business Groups during the 1950s

By early the 1950s, at least about most of the business groups that exist at present had emerged. As noted earlier, the big three rice trading families, the Bulasuk, Lamsam, and Wanglee emerged in the 1930s. Chinese businessmen who started their business around the late 1940s to 1950s and later developed their business to become business groups were namely Chin Sophonpanich, Uthane Techaphaibun, Sukree Pothiratanagkun, Thiem Chokwatana, Kiarti

Srifuengfung, Wit Viriyaprapaikit, Tiang Chirathiwat, Suri Asadathorn and Kwang Soon Lee (see Phongpaichit and Baker (1995)). In the 1940s until the early 1950s, four banks were set up: the Bangkok Bank, the Metropolitan Bank, the Ayudhya Bank and the Union Bank. The founders of each bank were a group of Chinese from a single dialect group. Interesting, the founders of the former three banks were the Teochiu dialect Chinese.

We argue that besides being skillful, the Chinese businessmen that had strong relationships with the government body were able to expand their business. The Bangkok Bank group is probably one of the most notable cases, and hence can be used to support this argument. Chin Sophonpanich was very keen on establishing and employing political networks to expand his empire of the Bangkok Bank group that has become the largest business group in Thailand for the next three decades (see Hewison (1985 and 2001), Suehiro (1989), and Bualek (2000)). This is in addition to his excellent entrepreneur skills, however. During the beginning of the 1950s, using the connection with important state figures, Chin managed to not only rescue the financial distressed Bangkok Bank, but also develop the bank to be the largest bank in Thailand. To establish political connections, Chin appointed members of the Soi Rajkhru group who were powerful and were among the state influential officers during 1951-1957. They were namely Siri Siriyothin and Praman Adireksarn who served as the Chairman and Executive Directors of Bangkok Bank, respectively. Siri Siriyothin did a great favor to the bank by convincing the government to bail it out by injecting Baht 30 million to buy the bank’s shares. Note that the bank’s capital was only Baht 20 million. As a result, the bank became the largest bank in terms of capital in 1953. It was by far larger than the second largest bank at that time, Bank of Ayudhya, whose capital was Baht 30 million. More importantly, by being a state owned bank, the Bangkok Bank was able to obtain various transactions from state owned enterprises including deposit and loans. Since then the Bangkok Bank has been the cornerstone of the Sophonpanich group (Suehiro (1989), Hawison (1989), and Bualek (2000)).

When the Soi Rajkhru group lost the control to the Sisao Deves group in 1957, Chin had to leave Thailand, and apparently went to Hong Kong. However, soon after the situation got better, Chin re-established a similar pattern of political connections. Sarit, the leader of the Sisao Deves group was appointed as an advisor of the bank’s board of directors. Another powerful military officer, Prapas Charusathiarana was also nominated as the Chairman to replace Siri Siriyothin of the Soi Rajkhru group. Prapas held the position until he was thrown out in 1973.

2.4 The Development during 1960s until the mid of 1990s: The Role of Connections and Foreign Capital

Even after the implementation of the first National Economic Development Plan by Sarit Thanarajata in 1961, close connections with the government have continued to be essential in order to win the governmental contracts and financial support.[1] Industrial promotion policies were implemented, beginning with import substitution policies in 1961 and later being replaced by export promotion policies in 1972. The Board of Investment (BOI) was established to promote investment. It has provided various investment incentives and privileges as well as tax exemptions to eligible companies based on production capacity. Because of this requirement, only large companies could enjoy the privileges. Partly because the investment project evaluation process often had not been transparent, the privileges apparently went to many well connected families including the existing business groups.

Moreover, big business groups seemed to be able to obtain preferential funding from a state owned bank, the Industrial Finance Corporation of Thailand (IFCT). The IFCT was established in 1959 as a part of the industrial policies. The aim was originally to provide medium and long term credit to industrial companies. Apparently, family members from the big business groups that owned banks served as the directors of the IFCT. These families include Sophonpanich family (the Bangkok Bank Group), Lamsam family (the Thai Farmers Bank Group), Cholvijarn family (the Union Bank Group), and Boonsung family (the Laemthong Bank Group). Hewison (1985) thus concludes that it was likely that the IFCT had provided preferential loans to the owners of these business groups.

As a result of the industrial promotion policies, the business of many of the well connected families grew rapidly. These families expanded and emerged as new business groups. Some of the

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[1] The Plan was supervised by the National Economic Development Board, of which the Chairman was the Prime Minister. At that time, economic development was predominant and extensively accepted, as influenced by the country's major development economists. The Plan's single goal was to accelerate the economic growth. It was a top-down and centralized planning. The key strategies were increasing investments in basic infrastructure by public sector and promoting industrial investments by private sector. The Plan also focused on accumulation of physical capital assets. Until 1972, the national plan had also involved social development process. Since then, the plan was called the National Economic and Social Development Plan (Source: Office of the National Economic and Social Development Board).

groups that were founded earlier have transformed to become industrial groups. For example, those who focused on the agriculture industry and trading (wholesalers, importers and exporters) shifted their investment to the manufacturing industry (Suehiro (1989)). These families are, for example, the Phornprapha group and the CP group. The Phornprapha group which was a used cars and new trucks distributor and importer established car manufacturers. The CP group, founded by Chiarawanon family, which engaged in importing feed and fertilizer during the 1950s set up a feed miller, the Bangkok Feedmill Company, in 1968.

Since the 1960s, the emerging business groups have expanded their connections with state apparatus by recruiting former managers and retired high-ranking officers of state-owned companies (e.g., the Bank of Thailand). The benefits from such recruitment were thought of being used to establish connections with the senior bureaucrats at that time.

Until the first half of 1980s, the business was dominated by the big five financial business groups. They managed to grow probably because they owned banks and finance companies and hence were less financial constrained. Also, all the Chinese businessmen who founded the groups had close ties with the government. These groups are the Bangkok Bank group (Sophonpanich family), the Siam Commercial Bank group (the Crown Property Bureau), the Thai Farmers Bank group (Lamsam family), the Bangkok Metropolitan Bank group (Taechaphaibun family), and the Bank of Ayudya group (Ratanarak family). According to the survey by Suehiro (1989), these five groups had about 281 affiliated firms in the beginning of the 1980s.

Among the big five, the Bangkok Bank group was the biggest. By the beginning of the 1980s, it has been diversified beyond the financial industry to various industries including the textile, food and beverage, trading, shipping, paper, and real estate industries. The Bangkok Bank group owned 83 domestic affiliations and 38 affiliations oversea. Likewise, the Thai Farmers Bank group and the Bangkok Metropolitan Bank group had 72 and 77 affiliated companies, respectively (Suehiro (1989)).

Similar to many emerging economies, the expanding of Thai business empires is also contributable to foreign capital and technology (Suehiro (1989)). The huge inflow of foreign capital and technology since the 1960s with the peak in the 1980s did not only relax the constraints of smaller business groups that did not own financial institutions but also provided technology of which they lacked. For example, the CP group managed to establish its vertically integrated production system in the broiler chicken industry in 1970-71 by forming a joint venture with Arbor

Acres Corporation, one of the leading three companies in the breeding industry in the world at that time (Hewison (1989) and (Suehiro (1989)). The success of the Siam Motors group was another example. After forming joint ventures with the Japanese leading automobile companies namely Nissan Motor and Yamaha Motor, the Siam Motors group grew rapidly. There were 21 joint venture companies affiliated to this group in 1981 (Suehiro (1989)). The investment pattern changed in the 1980s when many joint ventures were formed between local firms and Japanese firms to assemble goods not to local markets but to export. The investment was concentrated in labor-intensive industries namely the textile, automobile, and electronic industries.

Financial deregulations and the development of the Stock Exchange of Thailand during the late 1980s, as well as the establishment of the Bangkok International Banking Facilities (BIBF) in the early 1990s, provided alternative sources of fund that reduced the reliance of domestic banks for lending. Accordingly, business groups that did not own banks have become less financial constrained and been able to expand rapidly since then. Until the financial crisis in 1997, while bank-dominated business groups have become less important, business groups in communications, media, electronics, manufacturing, and real estate have been growing (Hewison (2000)). Table 1 shows evidence supporting this argument. Panel A of this table presents the ranking of the top 30 business groups during the 1970s-90s[2]. Panel B focuses on the top 30 business groups in 1994. It presents the industries in which these groups have operated and the number of affiliated companies in the groups[3].

Panel A reveals that even though the big three bank-dominated groups, namely the Siam Cement (Siam Commercial Bank) group, the Bangkok Bank group, and the Thai Farmers Bank group, have remained in the top five business groups since 1980s, other bank-dominated groups have been declining. Panel B suggests a high degree of diversification of top business group in Thailand, which is measured by their business lines and the number of firms belonging to the groups. Similar to business groups in many emerging economies, the business structure of Thai business groups is extensively diversified (see Chang (2003)). For example, the largest group, the Siam Cement (Siam Commercial Bank) group, which belongs to the Crown Property Bureau, was

[2] As far as we know, there is no statistics of business groups in Thailand before 1979. Pipattseritham (1981) and Suehiro (1989) are the first studies.

[3] This ranking was based on sales and done by Suehiro (2000). Note that this ranking includes only firms that appeared among the top 1000 companies in 1994 published by Advance Research Group (1995). Therefore, it may not include all the groups' affiliated firms.

involved in a number of industries including manufacturing, banking, finance and insurance, hotels, real estate development and construction, and media/communication/advertising. The CP group, which was the third largest group and originally focused on the agro-industry, had diversified to other industries including chemicals, international trading; marketing and services, real estate and property development, petrochemicals and telecommunications/mass media. Besides operating in a number of industries, the top business groups had a number of affiliations. On average, the top five business groups owned 51.2 companies. The top 30 business groups owned 46.83 firms. Among them, the Sahapattanapibul group had the highest number of companies with 194 affiliated companies.

<Table 1 here>

3. The Business Groups in Thailand

First, we present the general picture to show the characteristics of firms affiliated to the top 30 business groups. We briefly discuss the causes of the 1997 East Asian financial crisis focusing on Thailand. We explore the effects of the crisis on the top 30 business groups with respect to ownership and control structures, as well as financial characteristics. Because of the data unavailability, our investigation cannot go beyond listed companies. Also, our focus here is only non financial firms.

3.1 The Characteristics of Business Groups

Panel A of Table 2 shows the number of (non financial) firms affiliating to the top 30 business groups that were listed in the Stock Exchange of Thailand during the period 1995-2000. A firm is classified as an affiliation of a business group if its largest shareholder is the group's founding family. Compared to the chaebols in Korea, it is less common for Thai business groups to have their affiliated firms listed in the Stock Exchange. On average the top five business groups had eight listed companies, while the top 30 business groups had 3.27 listed companies. Even the group that has a large number of companies, the Sahapattanapibul group, had only 10 listed companies during 1996-97. There are also groups that do not list their companies. Among the top 30 groups, five groups did not have a single listed company.

Panel B of Table 2 reports the percentage of the firms' market capitalization over the total market capitalization. Even with an exclusion of banks and financial affiliated companies, listed firms belonging to the top 30 business groups are relatively large. Before the 1997 crisis, the market capitalization of the business group firms accounts for 29.82% and 25.67% of the total market capitalization in 1995 and 1996, respectively. However, in 1997, the share of group firms in the stock exchange has fallen to 22.95% of the total market capitalization. In the later years, the market capitalization of the 30 business groups has increased to 26.71%, 31.05%, and 28.21% of total market capitalization in 1998, 1999, and 2000, respectively.

<Table 2 here>

3.1.1 The Ownership and Governance Structures

To investigate ownership and control structures, we construct a comprehensive ownership database of non-financial companies during 1995-2000. Our ownership database includes detail information on shareholders with shareholding at least 0.5% of a firm's shares[4]. The major source of ownership and board data is taken from the I-SIMS database produced by the Stock Exchange of Thailand. These ownership data as well as the board data are obtained mainly from the I-SIMS database produced by the Stock Exchange of Thailand.

Additional information on corporate ownership and board data, including a list of the firm's affiliated companies and shareholdings owned by these companies as well as relationships among major shareholders and board members, was manually collected from company files (FM 56-1) available at the library and the website of the Stock Exchange of Thailand. The financial data is also obtained from this source.

Here we treat all the members of a family as a single shareholder. We define the family relationship as those with the same surnames as well as those who are linked to the family by marriage. We traced the marriage relationship using various documents that provide a genealogical diagram of the top business group families. They are namely Pornkulwat (1996), Sappaiboon (2000a, 2000b, and 2001) and Johnstone et al. (2001). The related families via marriage are summarized in Table 3. This information indicates that the relationship via marriage might

4 Previous research (for example, Claessens et al. (2000), Lemmon and Lins (2003), Lins (2003), and Mitton (2002)) uses the ownership databases that include shareholders with at least 5% of shareholdings.

intensify their business relationship. In fact, this relationship appears to combine businesses of these connected families together (Pipattseritham, (1981), Suehiro (1989), and Sappaiboon (2000a, 2000b, and 2001))

In addition, we also used the BOL database provided by BusinessOnLine Ltd. to trace the ultimate owner of private companies that appear as corporate shareholders of the sample firms. The BOL has a license from the Ministry of Commerce of Thailand to reproduce company information from the Ministry's database. This database contains major information on all registered companies in Thailand that is reported annually to the Ministry. Accordingly, the ultimate owners of all privately owned companies that appear to be (domestic corporate) shareholders of listed firms in the sample are sought. Failure to search for the owners of these private companies would result in the underestimation of equity stake held by a firm's shareholders (see Khanthavit, Polsiri, Wiwattanakantang (2003)).

<Table 3 here>

Table 4 presents summary statistics of a number of ownership and other governance variables for group and non group firms. The ownership of both group and no group firms is very concentrated in the hands of the largest shareholder's family. In group firms, the average voting rights held by the largest shareholder are 42.90%, 44.1%, and 46.28% in 1995, 1996, and 1997, respectively. The average cash flow rights held by the largest shareholder are 35.34%, 37.44%, and 38.65% in 1995, 1996, and 1997, respectively. When compared with non group firms, while the voting rights held by group firms are higher, the cash flow rights held by group firms are lower. The differences in both the mean and median values are not always statistically significant, however.

We investigate the control structure that is used by the largest shareholder to control the firms. Following the literature, we consider three control mechanisms: pyramids, cross-shareholdings, and direct shareholdings. We define pyramid and cross- shareholdings in a similar manner as La Porta et al. (1999) and Claessens et al. (2001). Specifically, pyramidal and cross-shareholding structures require that at least one public company appears along the chain of control. In effect, it causes a disparity between cash-flow rights and voting rights.

The control structure of the business group firms is often via pyramids and cross-shareholdings, apart from direct shareholdings. Approximately 52%, 54%, and 56% of the business group firms use pyramidal shareholdings in 1995, 1996, and 1997, respectively. Cross-shareholdings are used much less often only in about 18%, 16%, and 17% in 1995, 1996, and 1997, respectively. When compared with non group firms, firms affiliated with the business groups appear to employ the complicated ownership structures of pyramid and cross-shareholdings more frequently. The differences are statistically significant at the 1% level for all years. Accordingly, the deviation of control from ownership, which is measured by the ratio of the cash flow rights to voting rights, is larger in group firms.

To illustrate how the control pattern is set up, we present the ownership structure of International Cosmetics in 1996. Figure 1 is taken from Wiwattanakantang (2000). The pattern of shareholding of International Cosmetics illustrates all the types of the controlling mechanisms defined in this study, namely direct holdings, and indirect holdings via pyramidal and cross-shareholdings. International Cosmetics belongs to the Sahapathanapibul group whose founder is Chokwattana family. Chokwattana family directly owns only 0.96% of International Cosmetics directly. However, Chokwattana family controls another 20.08% of the voting rights indirectly via the group's privately held holding companies. In addition, Chokwattana family also controls International Cosmetics by pyramidal shareholdings via another three listed companies Sahapathana Inter-Holdings, and Saha-Pathanapibul and Thai Wacoal (WACOAL) that are controlled by Chokwattana family. There is an incidence of cross-shareholdings as International Cosmetics also holds 5.03% of Sahapathana Inter-Holdings. In total, Chokwattana family holds 48.58% of the voting rights of International Cosmetics.

Table 4 also shows that it is not uncommon for the largest shareholder to be involved in the top management. Here, a top management is a person who holds one of the following positions: honorary chairman, chairman, executive chairman, vice chairman, president, vice president, chief executive officer, managing director, deputy managing director, and assistant managing director. Specifically, in about 37%, 33% and 35% of the business group firms, at least one person from the largest shareholder's family serves as top management in 1995, 1996, and 1997, respectively. Non group firms also appear to have a similar pattern.

In addition, we find that the largest shareholder also sits in the board of directors. For group firms, on average there are 3.25, 3.32, and 3.18 persons who are from the largest shareholder's family serving as the board members in 1995, 1996, and 1997, respectively. The median numbers of persons are 3 for all the years. Compared with non group firms, the board domination by the controlling family appears significantly more often than group firms.

Considering board size, business group firms appear to have significantly larger board than non group firms. Business group firms have, on average, 13.60, 13.76, and 13.58 members on the board in 1995, 1996, and 1997, respectively. The median values are 13 for all the years. The median numbers of board members among non group firms are 10 during the period 1995-1997.

Overall, the results suggest that the ownership of the business group firms is concentrated in the hands of the founding family. Similar to the chaebols, Thai business groups consist of legally independent companies that are affiliated to a common group name. These firms are centrally controlled through direct ownership, pyramidal shareholdings, and cross-shareholdings among member firms (see Pipattseritham (1984) and Suehiro (1989)). It is also common that the decision making and monitoring are made by family members of the group owners.

<Table 4 here>

<Figure 1 here>

3.1.2 Financial Characteristics

The severity of the impact of the 1997 East Asian crisis on the business groups is reflected in financial characteristics of the group firms. Our focus is in particular the capital structure since it is often argued in the literature that a high debt ratio caused Thai firms to be vulnerable to the crisis. Table 5 shows financial characteristics, financing structure, and performance of non-financial listed companies that are affiliated with the top 30 business group and those that are not.

Regarding firm size, business group firms are significantly larger than non group firms in terms of total assets in all periods. For example, in 1996 while the mean value of total assets of business group firms is Baht 16,121.83 million, the mean value of total assets of non business group firms is Baht 5,906.70 million, which is only about one-third of that of business group firms. In the pre-crisis period, the average ratio of total debt to total asset of the top 30 business group firms is 36% and 40% in 1995 and 1996, respectively. The average ratio of total debt to total capital is 39% and 50% in 1995 and 1996, respectively. However, there is no significant difference in financing structure between group and non group firms. The debt level of Thai group firms is much lower when compared with that of chaebols. As shown by Chang (2003), the average debt to equity ratio of the top 30 chaebols is 600%. It should be noted, however, that the debt ratio here is that of listed companies.

On the other hand, after the crisis hit followed by the depreciation of the Baht in July 1997, the debt ratio went up for both business group and non group firms. For business group firms, the average debt to asset ratio increases from 40% in 1996 to 54% by the end of 1997. The average ratio of total debt to total capital increases from 50% in 1996 to 66% in 1997.

Furthermore, the profits of business group firms have decreased significantly. The average ratio of EBIT to total assets declines from 11.65% in 1996 to 2.94% in 1997. After deducting for interest expenses, on average business group firms have been in red since the crisis. This situation has continued until 2000. Specifically, the mean ratio of EBIT to total assets has decreased from 8.05% in 1996 to -1.56% in 1997, -3.17% in 1998, -5.49% in 1999. The profit increases in 2000 to -2.1%, but still the business group firms, on average, have not been profitable by the end of the 1990s.

<Table 5 here>

4. The East Asian Financial Crisis and Thailand

To date, there are extensive studies addressing the causes of the 1997 East Asian financial crisis (e.g., International Monetary Fund, Krugman (1997), Corsetti, Pernti, and Roubini (1998), Radelet and Sachs (1998), Department of Foreign Affairs (2000), and Siamwalla (2001)). It is generally believed that hasty financial liberalization without establishing a comprehensive regulatory and supervisory framework, macroeconomic mismanagement by the government, large foreign short term debt, and inadequate corporate governance and prudential regulations in the private sector were factors underlying the problems of the Thai economy. Financial liberalization during the end of the 1980s until the beginning of the 1990s is often regarded as one of the major causes of the crisis. In particular, the BIBF that was set up in 1993 to serve as an intermediary between overseas lenders and local borrowers turned out to facilitate foreign dominated loans for both financial and non financial companies. Most of the loans were not hedged from the lenders' expectations of continued exchange rate stability.

The growing mismatch in the currency denomination of banks' assets and liabilities was thought as one of the major causes of the banking crisis in 1996 and 1997 (Kawai and Takayasu (2000) and Siamwalla (2001)). Specifically, banks used deposits and short term unhedged foreign currency loans to lend long term loans in domestic currency. In addition, Thai banks and finance companies had many poor quality loan portfolios due to risky lending which were based on collateral and connection (Krugman and Charumilind, Kali, and Wiwattanakantang (*forthcoming*)). The underlying problem that enabled these lending practices to occur was systematic failure of risk management systems and prudential controls. When exports, the real estate and stock markets fell in 1996, many financial institutions became insolvent with a huge amount of non performing loans. It was clear in 1996 that many finance companies and one bank, the Bangkok Bank of Commerce (BBC) were in financial trouble due to their exposure to real estate loans (Siamwalla (2001)). The failure of the Thai government in dealing with the problems in the financial sector precipitated the crisis in Thailand (Nukul (1998) and Flatters (1999)).

At the same time as the banking crisis, an increasingly severe attack against the baht happened (Siamwalla (2001)). In response, massive capital fights began in the late 1996 until July 2, 1997, when the country's foreign exchange reserves exhausted. In August 1997, the government signed the first Letter of Intent requesting for the IMF assistance.

The depreciation of baht and the increase in interest rates had immediate negative effects of the cash flow of non financial companies that had high short term unhedged foreign dominated loans but held long term baht dominated assets. All of these developments aggravated liquidity and solvency problems in the financial industry. As a consequence, about one third of financial institutions became insolvent.

4.2 Banking and Financial Sector Reforms

The IMF program included 2 major components: stabilize the macro economy and restore financial market stability (Flatters (1999), Department of Foreign Affairs (2000), and Kawai and Takayasu (2000)). It dealt with measures to improve economic governance and competitiveness of Thai industries, developing social safety nets, and reforming and rehabilitating the financial sector to avoid the system collapse (Flatters (1999). To increase confidence in the banking industry, the government provided a blanket guarantee for depositors. To restore the effectiveness of the financial industry and increase financial sector transparency and competition, the government strengthened prudential regulations, loan classification and capital adequacy. In 1997 and 1998, several emergency amendments to the Bank of Thailand, commercial banking and finance company laws were passed to enable the Bank of Thailand to intervene promptly with non viable financial institutions.

Financial sector reforms went with bank and finance company closures and nationalization. In addition, in order to assist financial sector recapitalization, the government also remodeled the financial sector environment by increasing the foreign ownership limit of banks and finance companies from 25% to 100% for the next ten years. The August 1998 package of Baht 300 million was introduced to expedite financial institution recapitalization. Under this scheme, financial institutions that meet specified prudential conditions received public fund injections. To assist finance companies to write off their bad loans, the government set up the Asset Management Corporation.

By the end of 2000, out of 91 finance companies as of 1996, 71 were closed down. As for banks, out of 14 domestic banks as of 1996, four were closed down, two were taken over by the government and four banks had majority foreign ownership (Aunichitworawong, Souma, and Wiwattanakantang (2003)). Most financial institutions that have survived were recapitalizing by obtaining direct equity investments from foreign partners and issuing shares and capital securities.

Table 6 presents the ownership structure of banks 1996 and 2000. Interestingly, before the crisis the largest shareholder of 12 out of 14 Thai commercial banks that operated was either a single family or a group of families (see also Aunichitworawong, Souma, and Wiwattanakantang (2003)). The largest shareholders of seven banks were the top 30 business group families. These banks are namely the Bangkok Bank, Siam Commercial Bank, Bank of Ayudhya, Thai Farmers Bank, First Bangkok City Bank, Bangkok Metropolitan Bank, and Siam City Bank. However, after the crisis four families lost the control over the banks. The First Bangkok City Bank, an affiliation of the Siriwattanapakdi family was among the four banks that were closed down in 1998. The Bangkok Metropolitan Bank (of the Techapaibul family) and the Siam City Bank (of the Srifuengfung family) were in financial distress and therefore were taken over by the state in 1998. The Lamsam family, the founder and the long time largest shareholder of the Thai Farmers Bank, could not maintain the position. The Development Bank of Singapore became the bank's largest shareholder in 2000.

In 2000, the three families that remain as the largest shareholder of Thai banks were the

Sophonpanich, the Crown Property Bureau, and the Rattanarak who own the Bangkok Bank, the Siam Commercial Bank, and the Bank of Ayudhya, respectively. To maintain the position as the largest shareholder, a massive funding was raised by selling shares to other investors (most of which were foreign) as well as selling the groups' non-core businesses. For example, the Rattanrak family sold about 25% of their shares in the Siam City Cement to Swiss investors (Kewison (2000)).

<Table 6 here>

4.3 Corporate Sector Reforms

To refurbish the corporate sector's balance sheets, the government's essential policy as commitments to the IMF was to facilitate corporate restructuring. The major reforms include amending of bankruptcy and foreclosure laws, establishing an effective bankruptcy enforcement framework, developing well structured out-of-court procedure for voluntary debt restructuring, streamlining institutional arrangement for corporate debt work outs, and establishing an effective legal scheme for asset recovery through court-based bankruptcy and court-controlled debt restructuring or reorganization (Department of Foreign Affairs (2000), Flatters (1999), and Tarde Kawai and Takayasu (2000)).

In addition, the Corporate Debt Restructuring Advisory Committee (CDRAC) was set up in June 1998 to oversee and facilitates voluntary debt restructuring negotiations under a market oriented framework. The members of the CDRAC include both creditor (and debtor associations. However, *de facto* the CDRAC's process covers only creditors who are financial institutions (Kawai and Takayasu (2000) and Dasri (2001)). CDRAC and the March 1999 bankruptcy law amendment accelerated corporate debt restructuring. About 400,000 classified loans, totaling Baht 2.6 trillion was restructured under the CDRAC process as of August 1999. Among them, 700 cases were large distressed loans that exceeded Baht 500 million. At the end of 2000, around a half of the cases that went through the CDRAC process, totaling Baht 1.1 trillion, completed (Bank of Thailand (2000)).

In general, corporate debt restructuring was quite effective. The survey of the World Bank coving about 400 non financial companies shows that corporate debt ratio declined from 3.2 in 1997 to 2.04 in the mid of 1999 (Department of Foreign Affairs (2000) and World Bank (2000)).

Corporate restructuring, however, has been financial rather than operational. Corporate restructuring has generally involved debt restructuring negotiations with creditors that lead to lower interest and principal payments or an increase in the maturity of the company's debt, exchanging equity securities for debt, and offering creditors the company's equity securities. Only in a small number of cases has operational restructuring been registered (United Nations Economic and Social Commission for Asia and the Pacific (2001)).

Besides, the reforms to promote corporate debt restructuring, the government implemented reforms to improve corporate governance focusing on strengthen the board of directors, strengthen the institutional framework for accounting and auditing practices, improving the quality and reliability on company information, and strengthen minority shareholder rights (Department of Foreign Affairs (2000)).

5. Business Groups after the Crisis: Extensive Restructurings

Increased debt and reduced profitability after the East Asian financial crisis and baht devaluation induced Thai firms to undertake extensive restructuring actions. In this section, we investigate restructuring activities undertaken by the top 30 business group firms. The data on restructuring actions are collected from the company daily news database at the website of the Stock Exchange of Thailand, company annual reports and financial statements.

5.1 Restructuring Activities of Business Groups

Following the literature (John et al. (1992), Ofek (1993), Kang and Shivdasani (1997), Lai and Sudarsanam (1997), Denis and Kruse (2000), Kang et al. (2001), and Baek et al. (2002)), we categorize restructuring actions into *operational actions* and *financial actions*. The *operational actions* include the following three actions. First, *asset downsizing* is when a firm undertook the following activities: asset sales (e.g., financial securities, land, properties, and stakes in other businesses or joint ventures), plant closing, reducing of production capacities, discontinuing or suspending production operation, shutting down a division, office, branch, or subsidiary. We do not include *employee layoffs* which are common restructuring because the data are not available. Second, *expansion* is when a firm undertook the following activities: engaging in joint venture or strategic alliance, fully or partially acquiring other businesses, diversifying into new lines of business, constructing new facilities, establishing a new division, office, branch, or subsidiary, expanding existing production facilities, and investing in existing subsidiaries. Third, *top management turnover* is when at least one of the top management was replaced. The top management positions include chairman of the board, president, vice president, chief executive officer, managing director, and deputy managing director.

The *financial actions* include the following three actions. First, *dividend cut* is when dividends were omitted or reduced after being paid in the previous period. Second, *debt restructuring* is when the following activities was undertaken: reducing required interest or principal payment on debt agreement, extending debt maturity, exchanging equity securities (common stocks or securities convertible to common stocks) for debt or giving creditors equity securities, and appointing a financial advisor to assist in debt restructuring process. Finally, *capital raising* is when the following debt and securities were issued: new loans, debentures, common stocks, and hybrid securities including preferred stocks, warrants, and convertible debentures.

Table 7 reports the frequency of restructuring actions undertaken by the top 30 group firms during 1996-2000. We also provide the information for non-group firms for a comparison. In general, group firms appear to be more active than non groups firms in pursuing restructuring in all years. However, the differences are statistically significant in the year of the crisis and one subsequent year, at the 5% level.

Considering firms affiliated to the top 30 business groups,

Restructurings were taken by Thai firms even before the crisis. In 1996, about 94.95% of group firms and 91.50% of non group firms adopted at least one of the restructurings. Among them, expansionary actions were the most often implemented restructuring actions occurring in about 83.84% and 78.95% of group firms and non group firms, respectively. Interestingly, at the onset of the crisis in 1997, we find that group firms undertook almost all types of restructurings significantly more often than non group firms. Dividend cuts appear to be the immediate responses as they were the most often implemented restructuring actions taken by all firms. About 67.68% and 57.98% of group firms and non group firms, respectively, cut dividend. Surprisingly, expansionary actions, but not asset downsizing, were the second most often undertaken actions by both group and non group firms. While expansionary actions occurred in about 55.56% and 45.14% of group firms and non group firms, respectively, downsizing actions were taken in only 17.17% and 20.62% of group firms and non group firms, respectively. The third most often undertaken actions by both group and non group firms were capital raising occurring in about

46.46% and 31.53% of group firms and non group firms, respectively.

During the period of 1998-2000, however, expansionary actions were the most often implemented actions by group firms following by capital raising and asset downsizing actions. Statistically, expansionary actions were adopted by 40.21%, 44.19%, and 40.74% of group firms in 1998, 1999, and 2000, respectively. About 46.46%, 29.9%, 43.02%, and 34.57% of the group firms raise capital in 1997, 1998, 1999, and 2000, respectively. Downsizing was taken in about in 24.74%, 25.58%, and 21.16% of the group firms in 1998, 1999, and 2000, respectively.

Among financial restructuring, capital raising appears to be used most often during the period of 1998-2000. Group firms appear to cut dividend less often in the years after the crisis. Only 10.31%, 9.3%, and 18.52% of the group firms adopt dividend cuts in 1998, 1999, and 2000, respectively. We also find that group firms slowly restructured their debt. While there was no single group firm restructured the debt in 1997, about 7.2%, 8.14%, and 14.81% of group firms restructured their debt in 1998, 1999, and 2000, respectively. In sum, group firms responded to the East Asian crisis by initially cutting dividends and then raising external capital and restructuring debt.

A substantial increase in the number of firms restructuring debt since 1997 might be attributable to the passage of the 1998 Amendment to Bankruptcy Act (No. 4) on March 4, 1998. The amendment contains the legal framework designed for a court-supervised debt restructuring or reorganization of a company that resembles the Chapter 11 provisions of the US. The new law allows a distressed company to recuperate its business, while it protects the interests of company's creditors (Pornavalai (1999) and Wong, Phunsunthron and Sucharikul (2000)).

It is worth noting that the incidence of top executive turnover is substantially higher after the crisis hit. Specifically, the turnover rate has risen from 2.02% in 1996 to 18.18% in 1997, and remained exceeding 12% for the whole sample period. This may imply that long term distress forces firms to remove their managers.

<Table 7 here>

To illustrate how top business groups implement restructuring schemes groups in response to the 1997 East Asian financial crisis, we summarize restructuring activities undertaken by some of the leading business as follow.

The Central Group (Chirathiwat Family)

The Central group is owned by an extensive Chirathiwat family with 160 family members. Like other groups, the group's leverage increased due to the baht devaluation. Its main business which is department store went into financial distressed. Unlike many other Thai companies, the Central group did not seek for foreign partners to help it restructure their companies. The group had closed over 120 money-losing subsidiaries and subcontracted out unspecialized operations such as securities and maintenance.

Since 1998, the Central group's profit has soared. It had paid off all foreign-currency debt of USD 80 million by 2002. The family has an aggressively plan to expand the group's local department stores to double by 2009. In addition, it has been buying assets from its previous business partners and competitors that are still in financially distress.

The Charoen Pokphand (CP) Group (Chiarawanon Family)

The group has been led by Dhanin Chiarawanon. The CP group had been extremely diversified with a huge investment in China. In 1997, it was the biggest foreign investor in China with nearly 130 joint ventures. The CP group had the policy to keep the ownership in the hands of the founding family, the group companies were dependent on loans from domestic and overseas. Among the companies in the group, the TelecomAsia, was severely affected by the crisis. TelecomAsia failed to pay debt obligation of USD 1.9 billion. Accordingly, the creditor banks suspended the whole group's line of credit. The TelecomeAsia had undertaken a number of restructure activities. It sold out the shares of its joint ventures and cutting various expenses. Most importantly, it restructured debt that was owed to 45 local and foreign creditors to. In 1999, some of the creditors agreed to forgive some of debt and extend the principal payment. In exchange, the TelecomAsia issued preferred shares to its largest secured creditor.

The CP group hired the McKinsey & Company to assist with the restructuring of the whole group. The major activity was the mergers of the three listed companies namely the CPNE, BAP, and BKP with the CPF (Charoen Pokphand Foods) to become the CPF in September 1998. The CPF is responsible for agribusiness and wholesaling and retailing lines. After the reorganization, the CPF has 30 affiliated companies whose shares are held by CPF of more than 50%. The affiliated companies also own another 15 companies.

In addition, the group sold out the money-losing businesses both in China and Thailand. In China, the group sold its entire stakes of the joint ventures namely the China-backed APT Satellite, the Shanghai brewery, and the Ek Chor Motorcycle. In Thailand, the group sold its shares in the Lotus convenience store chain and the KFC chain. Its cable television operation was merged with the Shinawatra group.

The Sahapattanapibul Group (Chokwattana Family)

Compared to other big business groups, the Sahapattanapibul group was affected relative less by the depreciation of the Baht as it had relatively less foreign-currency loans. However, the Chokwatana family, who is the founding and controlling family, has fortified their group by focusing on the core businesses which are consumer products and textile. Additionally, they replaced foreign hedge funds with long-term foreign investors.

The Shinawatra Group (Shinawatra Family)

The controlling shareholder and the founder of the Shinawatra group is Thaksin Shinawatra who is the current Prime Minister of Thailand. Among all largest Thai business groups, the Shinawatra group is thought to be affected least by the Baht devaluation in 1997 since about 70% of their foreign debt was hedged. It is widely thought that close connections with the Minister of Finance during the crisis period was contributable to this transaction, however.

Nevertheless, the devaluation of the baht has boosted the costs of imported mobile phone equipment and computer supplies, the core business of the group. Given the decline in demand due to the crisis and intense competition, the group called for restructuring plans. Like other groups, it focused on the core business which is telecommunication. These companies are the Advanced Info Services (AIS) and the Shinawatra Satellite. Operationally, the group laid off employees, slashed their holdings in loss-making cable television operator, and sold out international investments to foreign investors. Financially, it increased its paid-up capital and issued bonds and warrants to repay debt and reserve for working capital. Currently, the group tried to lower the debt to equity ratio from 2 to 1 to 1.5 to 1.

To obtain the management know-how and advanced technology in order to be competitive in the near future liberalization of the telecommunication industry, the group had a regional leading communication company, the Singapore Telecommunication, as its major shareholder of the AIS.

The Siam Cement/Siam Commercial Bank Group (the Crown Property Bureau)

The Siam Cement group has been among the Thailand's largest business groups and one of the South East Asia's leading business groups. Similar to other Thai business groups, before the crisis, they had tremendously diversified its business lines into other construction materials, petrochemicals, chemicals, steel, tires, power plants, paper, packaging, ceramics, machinery, automotive parts, and trading. The investment was financed by offshore loans that had about 5-6% lower than domestic loans. With the outstanding debt of USD 6.6 billion in 1997, mostly in foreign currency and unhedged, the Siam Cement group was one among the Asia's companies that were hit hardest by the regional economic crisis.

Like the CP group, the Siam Cement group hired the McKinsey & Company to assist with restructuring. The restructuring plans are as follow. First, the group focused its lines of business on the core businesses namely cement, petrochemicals, steel, ceramics, chemicals and pulp and paper. Other lines of business vehicles and parts, electronic products, and property development were to be sold out. After the crisis, the Siam Cement group had liquidated its shares in almost 60 affiliations (see also Suehiro 2002)).

Second, the group has altered their debt structure by replacing some short- to medium-term loans with long-term loans, and issuing local bonds to refinance overseas borrowings. By 2001, the Siam Cement group had decreased their foreign-currency loans from $4.5 billion to zero. It also planned to raise new equity to lower its high level of leverage. Third, the group tried to reduce the number of employees mainly in the construction material business by introducing a voluntary retirement program. So far, the number of staffs was reduced from 35,000 to 25,000.

The Thai Farmers Bank Group (Lamsam Family)

Massive restructuring was adopted in many major companies in the group, in particular the Thai Farmers Bank group. To assist the restructuring plan, the bank led by Banthoon Lamsam, hired foreign consulting firms whose three employees were appointed to the board. To restructure its capitals, the Lamsam family reduced the family's shareholdings from 17% to 6%. From 1998, the bank has raised more than Baht 1,000 billion from the capital market, and sold 49% of its assets to overseas investors. Consequently, the bank could write off non-performing loans one year earlier than the deadline set by the Bank of Thailand.

The bank has also adopted new technology such as electronic and internet banking and automatic bills payment. It also trained the employees to become service oriented. Those who were not able to keep up with new technology were encouraged to retire via an early-retirement campaign. The bank had spent around Baht 1.7 billion to reduce the number of employees by 20%. In addition, it also introduced the performance based evaluation system.

5.2 The effects of restructurings

In this section, we investigate the results of the restructuring actions implemented by business groups described in Section 5.1. We compare performance before and after the restructuring actions were taken. Performance is measured by the ratio of EBIT to total assets. To control for the industry effects, we also compute industry-adjusted changes in the operating performance from the year in which firms restructure to the two subsequent years. The industry-adjusted change in operating performance is calculated as a change in the ratio of EBIT to total assets for a sample firm minus a median change in the ratio of EBIT to total assets for its industry.

We calculate mean and median changes in the operating performance from Year 0 (in which a restructuring is undertaken) to two years following Year 0 (denoted by Year 1 and Year 2, respectively). The results shown in Table 8 indicates that restructurings appear to work well because operating performance improves after restructurings were implemented. When the performance measure is not controlled for the industry effects (unadjusted changes in operating performance), debt restructuring has the most pronounced favorable effect. Specifically, firms that restructure debt in Year 0 exhibit significantly positive mean and median changes in the ratio of EBIT to assets from Year 1 to Year 2 and from Year 0 to Year 2. When the industry effects are controlled, group firms have significantly positive changes in operating performance for the first and second year subsequent to restructuring undertakings. Overall, the mean (median) value of industry-adjusted changes in the ratio of EBIT to total assets from Year 0 to Year 1 is 2.51% (1.68%). This value is significant at the 1% level.

Consistent with the general results, except for dividend cuts and debt restructuring, group firms that have adopted other types of restructurings show a positive and significant adjusted performance change in one year following the restructuring. We also find that except asset downsizing and debt restructuring, industry adjusted performance of firms that adopted other types of restructurings significantly increase in two years following the restructurings.

<Table 8 here>

6. Summary and Conclusion

This paper investigates the top 30 business groups in Thailand in three following aspects: the formation of the groups, the characteristics before the financial crisis, and the effects of the crisis and their responses. Business groups in Thailand emerged around the end of 1940s until the 1950s concentrating on the Chinese immigrants who brought with them trading skills. We argue that political connections and foreign capital and technology are contributable to the emerging of business groups. While political connections provided influential families with a number of privileges in terms of investment opportunities and funding, an access to foreign capital brought them not only funding but also know-how of which they lacked. So, during the 1960s until the end of the 1980s, business groups that owned banks grew faster than other groups mainly because they controlled financial sources. However, owning financial institutions became less crucial for business success after the financial deregulation beginning around the end of the 1980s, and the development of the Stock Exchange of Thailand and the BIBF. Accordingly, business groups that do not own banks had the opportunities to grow rapidly.

We constructed a unique ownership and control database focusing on *non-financial* firms listed on the Stock Exchange of Thailand. We find that similar to business groups in many emerging economies, the ownership and control of Thai business groups are concentrated in the hands of the founding family. The mean value of voting rights held by the largest shareholder is 42.90%, 44.1%, and 46.28% in 1995, 1996, and 1997, respectively. Interestingly, the ownership and governance structure of the group firms (excluding banks or financial companies) did not change significantly after the crisis. In contrast, almost all business groups that used to own banks turned out to lose the control due to insolvency. Their banks and finance companies were eithier closed down or took over by the government and foreign financial institutions.

After the crisis, due to the depreciation of the Baht in July 1997, the debt ratio for business group firms has gone up from 40% in 1996 to 54% by the end of 1997. At the same time, their profits have decreased significantly. After taking account of interest expenses, on average business group firms have been in red after the crisis. Massive restructuring measures have been adopted. These restructurings include asset downsizing, some sort of expansion, turnover in top management, dividend cut, debt restructuring, and capital raising. Even though restructurings appear to work in that overall industry-adjusted performance has been improved, still the business group firms, on average, have not been profitable by the end of the 1990s. Specifically, the mean ratio of EBIT to total assets for the top 30 business groups are -1.56% in 1997, -3.17% in 1998, -5.49% in 1999. The profit has, on average, increased in 2000 to -2.1%, however.

The East Asian financial crisis has had significant adverse effects on Thailand. On a positive side, the government undertook various effective legal measures to remodel the country's institutional environment. These suggest that big business groups are entering the new era of business. Many of them have lost their financial bases, and hence would probably not be able to obtain funding easily as it used to be in the past when they owned banks and financial institutions. To be able to obtain external funding from capital markets, business groups need to improve their corporate governance and be more transparent.

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Table1: The Top 30 Business Groups in Thailand

Panel A presents the ranking of business groups. The raking in 1979 is taken from Suehiro (1989). The rankings in 1984. 1994, and 1997 are taken from Suehiro (2000). The 1979 and 1984 ranking are based on total sales of companies in the same group. The ranking of 1994 and 1997 are based on total sales of group affiliations that appear among the top 1,000 companies in Thailand that were ranked based on sales. Panel B presents the owner family names of each top 30 business group in 1994, and the business lines and the number of affiliated firms in the group which are taken from Johnstone et al. (2001).

Panel A: The rankings

	1979	1984	1994	1997
Ranking	Group name	Group name	Group name	Group name
1	Siam Cement (Siam Commercial Bank)	Bangkok Bank	Siam Cement (Siam Commercial Bank)	Siam Cement (Siam Commercial Bank)
2	Bangkok Bank	Siam Cement (Siam Commercial Bank)	Bangkok Bank	Bangkok Bank
3	Chawkwanyu	CP	CP	CP
4	Siam Motors	Metro	Thai Farmers Bank	TCC
5	CP	Thai Farmers Bank	Siam Motors	Thai Farmers Bank
6	Bangkok Metropolitan Bank	Bangkok Metropolitan Bank	Boon Rawd Brewery	Boon Rawd Brewery
7	Thai Farmers Bank	Siam Motors	TCC	Bank of Ayudhya
8	Metro	Soon Hua Seng	Sahapattanapibul	TPI
9	Boon Rawd Brewery	Sahapattanapibul	Thonburi Phanich	Siam Motors
10	Chaiyaporn Rice	Saha-Union	Sittipol	Central
11	Sahapattanapibul	Boon Rawd Brewery	Bank of Ayudhya	Sahapattanapibul
12	Sukree	Hong Yih Seng	Metro	Ital-Thai
13	Laemthong	Sukree	Osotsapa	Metro
14	TPI	Siew	Cathay	MMC Sithipol
15	Bank of Ayudhya	Cathay	Central	Srifuengfung
16	Kamol Sukosol	Central	TPI	Taechaphaibun
17	Thai Rung Ruang	Laemthong	Ital-Thai	Saha-Union
18	Sittipol	Thai Rung Ruang	Saha-Union	Osotsapa
19	U Chu Liang	Kwang Soon Lee	Bangkok Metropolitan Bank	Sahaviriya
20	Kwang Soon Lee	Osothsapha	Shinnawatra	Shinnawatra
21	Soon Hua Seng	Yip In Tsoi	Sahaviriya	Thonburi Phanich
22	Ital-Thai	Mitr-Pol	Siam Steel Pipe	Soon Hua Seng
23	Saha-Union	Nanaphan	SP International	UCOM
24	Central	Sentagro	Soon Hua Seng	TPC
25	Cathay	Unicord	Land and House	Thai Union
26	Siew	Mah Boonkrong	Yip In Tsoi	Land and House
27	PSA	Wangkanai	Thai Life Insurance	Siam Steel Pipe
28	Wang Lee	Kamol Kij	Thai Summit	Thai Summit
29	Bangkok Rice	teck Bee Han	Bangkok Land	Betagro
30	Osothsapha	Kamol Sukosol	Thai Union	Mitr Phol

Panel B: Business Lines

Ranking in 1994	Group name	Owner family name	Industries	No. of firms
1	Siam Cement/Siam Commercial Bank	Crown Property Bureau	Manufacturing; banking, finance and insurance; hotels, real estate development and construction; media/communication/advertising	29
2	Bangkok Bank	Sophonpanich	Finance and insurance; agri-industry and warehousing; health care services; real estate development; holding companies	46
3	CP	Chiarawanon	Agro-industry; aquaculture; chemicals; international trading; marketing and services; real estate and property development; industrial/commercial/petrochemicals; telecommunications/mass media	75
4	Thai Farmers Bank/Loxley	Lamsam	Banking, finance and insurance; trading; telecommunications/computers/media and advertising; manufacturing; hotels, real estate development and construction	43
5	Siam Motors	Pornprapha	Trading; recreation, transport and services; real estate development and construction; automotive industry/manufacturing; distribution; information technology/services	63
6	Boon Rawd	Piromphakdi	Liquor distilling and distribution; manufacturing; real estate and property development; holding companies	12
7	TCC/First Bangkok City Bank	Siriwattanapakdi	Liquor distilling and distribution; holding companies; banking, finance and insurance	60
8	Sahapattanapibul	Chokwattana	Consumer products; textile and garments; cosmetics and toiletries; footwear and rubber products; food processing and distribution; office equipment; machinery and electrical equipment; plastics products; advertising and design; property development; holding companies; finance	194
9	Thonburi Phanich	Wiriyaphan	Automotive; real estate development; tourism and transport; publishing	9
10	MMC Sittipol	Lee-issaranukun	Automotive; manufacturing	7
11	Bank of Ayudhya	Ratanarak	Banking, finance and insurance; manufacturing	25
12	Metro	Laohathai	Agro-chemicals; metals; agriculture and food industry; plastics; industrial chemicals; real estate development; warehousing	46
13	Osotsapa/Premier/GF Holdings	Osathanukhro	Manufacturing and distribution; real estate development and construction; trading; finance and insurance	97
14	Cathay/Thai-Asahi	Srifuengfung	Financial services; manufacturing; mining; marketing; shipping and transport; hotels, real estate development and construction	111
15	Central	Chirathiwat	Retailing; manufacturing; hotels, real estate development and construction; trading and distribution; finance and insurance	69

Panel B (continued)

Ranking	Group name	Owner family name	Industries	No. of firms
16	TPI/Hong Yiah Seng	Liaophairat	Petrochemical industry/oil retailing/energy; finance and insurance; agro-industry and agricultural trading; textile	22
17	Ital-Thai	Kannasut	Construction; trading; manufacturing; hotels, travel and real estate development; food and beverages; telecommunications	37
18	Saha-Union	Darakanon	Manufacturing; distribution; real estate development; power generation	78
19	Bangkok Metropolitan Bank	Taechaphaibun	Banking and finance; hotels, real estate development and construction; transport; liquor distilling and distribution; manufacturing; holding companies	81
20	Shinnawatra	Shinnawatra	Computer and telecommunication; broadcasting	26
21	Sahaviriya	Wiriyaphraphaikit	Agriculture; computer and telecommunications; finance; steel manufacturing	58
22	Siam Steel Pipe/Siam Syntech	Leesawattrakun	Steel trading and manufacturing; construction/building systems; real estate development	35
23	SP International	Phornprapha	Automotive, assembly and distribution	11
24	Soon Hua Seng/Kaset Rung Ruang	Damnoencharnwanit	Import and export of agricultural products; agricultural milling; paper and pulp; cold storage and warehousing	23
25	Land and House/Quality House	Assawaphokhin	Hotels, real estate development and construction	26
26	Yip In Tsoi/Finance One	Yip In Tsoi, Chutrakul	Trading; finance and insurance; real estate development; manufacturing	24
27	Thai Life Insurance	Chaiyawan	Finance and insurance; real estate development	23
28	Thai Summit	Jungrungruenkit	Automotive; hotels and real estate development; finance and securities	28
29	Tanayong	Kanchanapat	Real estate, hotels and property management; finance; retail outlets and restaurants; holding companies	34
30	Thai Union	Charnsiri	n/a	13

Table 2: The number of listed firms affiliated with the top 30 business groups and their market capitalization

Panel A presents the number of non-financial firms listed on the Stock Exchange of Thailand between 1995 and 2000 in which the largest shareholder is one of the families who own the top 30 business groups. Pane B presents the "share of group-firm market capitalization" which is calculated as the percentage of market capitalization by group firms to total market capitalization.

Panel A: Number of Non-Financial Listed Firms

		1995	1996	1997	1998	1999	2000
Ranking	Group name	No. of firms	No. of firms	No. of firms	No. of firms	No. of firms	No. of firms
1	Siam Cement/Siam Commercial Bank	5	6	7	7	6	6
2	Bangkok Bank	2	3	3	3	3	4
3	CP	6	6	6	7	4	4
4	Thai Farmers Bank/Loxley	4	3	4	4	4	3
5	Siam Motors	0	0	0	0	0	0
6	Boon Rawd	0	0	0	0	0	0
7	TCC/First bangkok City Bank	1	1	1	1	1	1
8	Sahapattanapibul	18	19	19	19	19	19
9	Thonburi Phanich	0	0	0	0	0	0
10	MMC Sittipol	2	2	1	1	1	1
11	Bank of Ayudhya	3	3	3	3	0	0
12	Metro	3	4	4	4	4	3
13	Osotsapa/Premier/GF Holdings	10	9	8	7	6	6
14	Cathay/Thai-Asahi	3	3	2	3	2	2
15	Central	4	6	6	6	6	5
16	TPI/Hong Yiah Seng	2	2	2	2	3	3
17	Ital-Thai	2	2	2	2	2	2
18	Saha-Union	5	5	5	5	5	5
19	Bangkok Metropolitan Bank	0	0	0	0	0	0
20	Shinnawatra	3	3	4	3	3	3
21	Sahaviriya	2	2	2	2	2	1
22	Siam Steel Pipe/Siam Syntech	2	2	1	1	1	1
23	SP International	0	1	1	1	1	1
24	Soon Hua Seng/Kaset Rung Ruang	1	1	1	1	1	1
25	Land and House/Quality House	3	4	4	4	4	4
26	Yip In Tsoi/Finance One	8	9	10	9	7	5
27	Thai Life Insurance	0	0	0	0	0	0
28	Thai Summit	0	0	0	0	0	0
29	Tanayong	2	2	2	2	1	1
30	Thai Union	1	2	2	1	1	1
Average number of firms per group		3.07	3.33	3.33	3.27	2.90	2.73

Panel B: Market Capitalization

	1995	1996	1997	1998	1999	2000
Market capitalization by group firms (billion baht)	1,062.97	657.10	260.14	338.75	680.96	360.88
Total market capitalization (billion baht)	3,564.57	2,559.58	1,133.34	1,268.20	2,193.07	1,279.22
Share of group-firm market capitalization (%)	29.82	25.67	22.95	26.71	31.05	28.21
Number of firms	92	100	100	98	87	82

Table 3: Family Relationship between Business Groups

This table presents the relationship that is tied via marriage between families who own the top 30 business groups. Note that we only trace the families who are shareholders of our sample firms, hence it may not include all the related families.

Ranking	Owner family name	Related families
1	Crown Property Bureau	-
2	Sophonpanich	Ramayarupa, Srifuengfung
3	Chiarawanon	-
4	Lamsam	Chatikavanij, Mokkawes, Chutrakul
5	Pornprapha	-
6	Piromphakdi	-
7	Siriwattanapakdi	-
8	Chokwattana	Dhanasarnsilp, Pavalolanvittaya, Kriangpratana, Srirojanant, Punsak-udomsin
9	Wiriyaphan	-
10	Lee-issaranukun	Phannachet, Pisitkasem
11	Ratanarak	-
12	Laohathai	-
13	Osathanukhro	Phongsathorn, Prajuabmoh, Piya-oui, Thienprasidda
14	Srifuengfung	Panijcheeva, Sophonpanich
15	Chirathiwat	Boonyarat, Mongkolkiti, Eurwattanasakul
16	Liaophairat	-
17	Kannasut	Charanachitta, Rengpittaya, Terdprawat
18	Darakanon	-
19	Taechaphaibun	-
20	Shinnawatra	Damapong
21	Wiriyaphraphaikit	Intanate
22	Leesawattrakun	Boonnamsap
23	Phornprapa	Narongdej
24	Damnoencharnwanit	-
25	Assawaphokhin	Harnpanich
26	Yip In Tsoi, Chutrakul	Chakkaphak, Chatikavanij, Srivikorn, Buranasiri, Sribunruang, Thavisin, Lamsam
27	Chaiyawan	-
28	Jungrungruengkit	-
29	Kanchanapat	-
30	Charnsiri	Chan, Tangchansiri

Table 4: Governance Characteristics

This table presents mean values of the governance variables of sample firms. The sample includes non-financial firms listed on the Stock Exchange of Thailand between 1995 and 2000. "Group firms" refer to firms in which the largest shareholder is one of families who own the top 30 business groups. "Non group firms" refer to firms in which the largest shareholder is not among families who own the top 30 business groups. ***, **, and * indicate that means are significantly different between group firms and non-group firms at the 1%, 5%, and 10% levels, respectively, using heteroskedastic t-tests.

	1995		1996		1997		1998		1999		2000	
Variables	Group firms	Non group firms	Group firms	Non group firms	Group firms	Non group firms	Group firms	Non group firms	Group firms	Non group firms	Group firms	Non group firms
Cash-flow rights owned by the largest shareholder (%)	35.34**	40.13	37.44	39.67	38.65	39.97	38.33	40.29	37.49	39.45	38.59	39.67
Voting rights owned by the largest shareholder (%)	42.90	41.05	44.41*	40.89	46.28**	41.33	45.58*	41.73	44.16	40.69	45.03**	40.87
Percentage of firms with direct shareholdings	94.51	97.61	94.95	96.76	93.94	96.11	94.85	97.15	96.51	97.93	97.53	98.74
Percentage of firms in pyramidal structures	51.65***	9.57	53.54***	13.36	55.56***	15.18	53.61***	16.26	52.33***	14.46	45.68***	12.61
Percentage of firms with cross-shareholdings	17.58***	1.91	16.16***	2.43	17.17***	2.33	16.49***	3.25	15.12***	3.31	13.58***	2.10
Percentage of firms in which the largest shareholder is a top manager	37.36	43.06	33.33	40.65	35.35	42.19	38.54	43.27	39.53	39.17	40.74	36.55
Number of board positions	13.60***	10.58	13.76***	10.72	13.58***	10.64	13.83***	10.62	13.60***	10.30	13.53***	10.39
Number of board positions held by members of the largest shareholder	3.25***	2.20	3.32***	2.21	3.18***	2.21	3.11***	2.21	3.14***	2.08	3.14***	1.96
Number of firms	92	208	100	246	100	256	98	247	87	241	82	237

Table 5: Financial Characteristics

This table presents mean values of the financial variables of sample firms. The sample includes non-financial firms listed on the Stock Exchange of Thailand between 1995 and 2000. All data are obtained from the I-SIMS database. Total capital is the sum of total debt and market value of equity. Tobin's Q is the ratio of the sum of total liabilities and market value of equity to book value of total assets. "Group firms" refer to firms in which the largest shareholder is one of families who own the top 30 business groups. "Non group firms" refer to firms in which the largest shareholder is not among families who own the top 30 business groups. ***, **, and * indicate that means are significantly different between group firms and non-group firms at the 1%, 5%, and 10% levels, respectively, using heteroskedastic t-tests.

	1995		1996		1997		1998		1999		2000	
Variables	Group firms	Non group firms	Group firms	Non group firms	Group firms	Non group firms	Group firms	Non group firms	Group firms	Non group firms	Group firms	Non group firms
Total assets (million baht)	10,392.5***	4,801.1	12,174.9***	5,351.3	16,121.8**	5,906.7	15,662.9**	5,752.5	14,784.1**	5,850.0	14,651.4**	5,730.4
Total debt/Total assets	0.37	0.39	0.40	0.42	0.54	0.52	0.50	0.51	0.46	0.57	0.50	0.62
Short-term debt/Total assets	0.20	0.23	0.21	0.24	0.26	0.28	0.25	0.29	0.21*	0.33	0.19	0.28
Long-term debt/Total assets	0.18	0.17	0.19	0.18	0.28	0.24	0.25	0.23	0.24	0.24	0.31	0.34
Total debt/Total capital	0.39	0.39	0.50	0.48	0.66	0.66	0.64	0.62	0.52	0.57	0.57	0.56
EBIT/Total assets (%)	8.79	8.72	11.65	7.51	2.94	1.87	3.43	5.23	0.05	-4.20	3.08	-3.77
EBT/Total assets (%)	5.92	5.64	8.05	3.85	-1.56	-3.27	-3.17	-3.10	-5.49	-11.36	-2.10	-9.51
Industry-adjusted EBIT/Total assets (%)	0.67	0.00	4.42	-0.11	-1.17	-3.31	-4.32	-1.76	-2.09	-6.56	-2.59	-8.89
Industry-adjusted EBT/Total assets (%)	0.57	-0.19	3.90	-0.52	-2.13	-4.92	-5.39	-4.17	-2.41*	-8.82	-4.57	-11.20
Tobin's Q	1.34	1.37	1.07	1.16	1.02	1.04	0.98	1.04	1.19	1.22	1.08	1.38
Number of firms	92	208	100	246	100	256	98	247	87	241	82	237

Table 6: Ownership of Commercial Banks in 1996 and 2000

This table presents the name of the founders and the largest shareholders of all Thai commercial banks in 1996 and 2000. The information on the largest shareholders is obtained from Anuchitworawong, Souma, and Wiwattanakantang (2003).

Commercial banks as of 1996	Founding Year	Founders	Largest shareholders 1996	Largest shareholders 2000	Commercial banks as of 2000
Bank of Ayudhya	1945	Panomyong and Luprasert	Ratanarak	Ratanarak	Bank of Ayudhya
Bangkok Bank	1944	Leelanuch and Sophonpanich	Sophonpanich	Sophonpanich	Bangkok Bank
Bangkok Bank of Commerce	1944	Pinitchonkadee and Intaratoot	Tantipipatpong	Closed down in 1998	Krungthai Bank
Bangkok Metropolitan Bank	1950	Euawattanasakul, Srifuengfung, Techapaibul, and Setthapakdee	Techapaibul, Siriwattanapakdee	State (intervened in 1998)	Bangkok Metropolitan Bank (HSBC)
Bank of Asia	1939	University of Moral Science and Politics	Phatraprasith	ABN Amro Holding	Bank of Asia
Bank Thai	1998	State	-	State	Bank Thai
First Bangkok City Bank	1955	Tan Keng Kun	Siriwattanapakdee	Closed down in 1998	Krungthai Bank
Krungthai Bank	1966	State	State	State	Krungthai Bank
Laem Thong Bank	1948	Nanthapiwat	Chansrichawala	Closed down in 1998	UOB Radanasin Bank
Nakornthon Bank	1933	Wang Lee	Wang Lee	Standard Chartered Bank	Standard Chartered Nakornthon Bank
Siam Commercial Bank	1906	Crown Property Bureau	Crown Property Bureau	Crown Property Bureau	Siam Commercial Bank
Siam City Bank	1941	Nirandorn	Srifuengfung and Mahadamrongkul	State (intervened in 1998)	Siam City Bank
UOB Ratanasin Bank	1998	State	-	United Overseas Bank	UOB Ratanasin Bank
Thai Dhanu Bank	1949	Thaveesin	Tuchinda and Rasanon	DBS Bank	DBS Thai Dhanu Bank
Thai Farmers Bank	1945	Lamsam	Lamsam	Government of Singapore International Corporation	Thai Farmers Bank
Thai Military Bank	1957	Army, Navy, Airforce	Army, Navy, Airforce	Army, Navy, Airforce	Thai Military Bank
Union Bank of Bangkok	1949	Mahakun and Visutthipol	Cholvijarn	Closed down in 1998	Bank Thai

Table 7: Restructuring Activities during 1996-2000

This table presents the frequency of restructuring activities taken by sample firms. The sample includes non-financial firms listed on the Stock Exchange of Thailand (SET) between 1997 and 2000. Figures in “Group firms” columns are the percentage of the number of firms undertaking a certain restructuring action to the number of total group firms. “Group firms” refer to firms in which the largest shareholder is one of families who own the top 30 business groups. “Non group firms” refer to firms in which the largest shareholder is not among families who own the top 30 business groups. Figures in “Non group firms” columns are the ratio of the number of firms undertaking a certain restructuring action to the number of total non group firms. The “p-value” columns report p-values of the test of difference in the proportion of firms undertaking restructuring actions between two group firms and non group firms.

	1996			1997			1998			1999			2000		
Restructuring actions	Group firms	Non group firms	p-value	Group firms	Non group firms	p-value	Group firms	Non group firms	p-value	Group firms	Non group firms	p-value	Group firms	Non group firms	p-value
Any restructuring actions	94.95	91.50	0.23	92.93	85.55	**0.03**	72.16	59.76	**0.03**	75.58	66.53	0.11	74.07	66.39	0.19
Any operational actions	84.85	82.59	0.60	65.66	54.30	**0.05**	52.58	42.28	**0.09**	58.14	43.39	**0.01**	58.02	48.32	0.13
Asset downsizing	18.18	23.89	0.23	17.17	20.62	0.45	24.74	18.29	0.20	25.58	21.90	0.50	27.16	21.85	0.35
Expansion	83.84	78.95	0.28	55.56	45.14	**0.08**	40.21	28.86	**0.05**	44.19	26.86	**0.01**	40.74	30.25	**0.10**
Management turnover	2.02	4.45	0.21	18.18	5.06	**0.00**	12.37	9.35	0.43	15.12	12.40	0.54	16.05	12.61	0.46
Any financial actions	72.73	56.68	**0.00**	80.81	70.82	**0.04**	42.27	36.99	0.37	51.16	43.39	0.22	46.91	43.70	0.62
Dividend cut	51.52	39.68	**0.05**	67.68	57.98	**0.09**	10.31	14.23	0.31	9.30	9.92	0.87	18.52	13.03	0.26
Debt restructuring	0.00	2.02	**0.03**	0.00	3.50	**0.00**	7.22	8.94	0.59	8.14	12.40	0.24	14.81	17.65	0.55
Capital raising	47.47	33.60	**0.02**	46.46	31.52	**0.01**	29.90	21.14	**0.10**	43.02	27.27	**0.01**	34.57	30.25	0.48

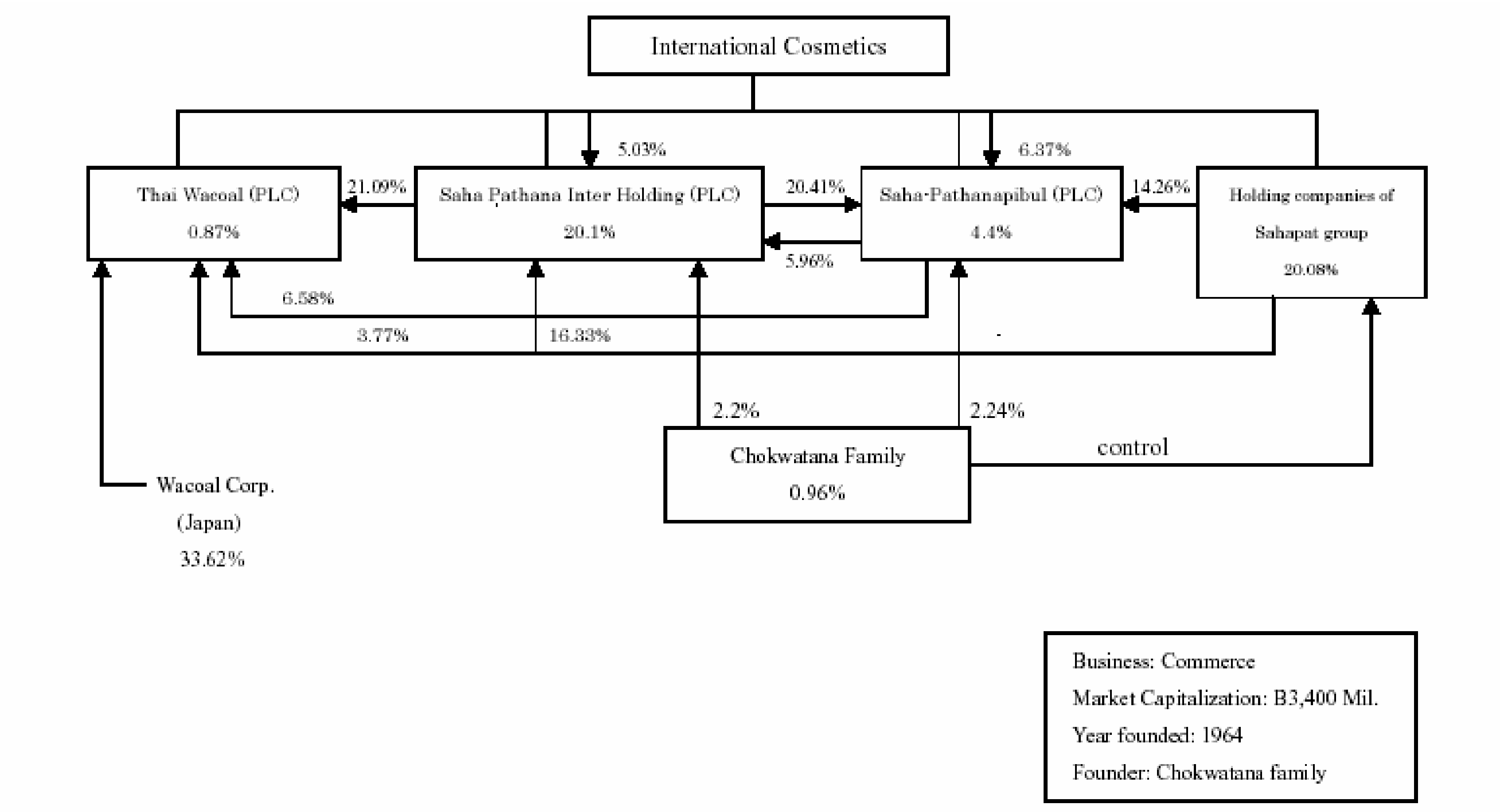
Table 8: Operating Performance following Restructuring Activities

The table presents changes in (industry-adjusted) operating performance following restructuring activities taken by business group firms. The sample consists of non-financial firms listed on the Stock Exchange of Thailand (SET) between 1996 and 2000 in which the largest shareholder is one of families who own the top 30 business groups. Change in EBIT/total assets is calculated as the ratio of EBIT to total assets for the current year minus the same ratio for the previous year. Industry-adjusted change in EBIT/total assets is calculated as change in EBIT/total assets is calculated as the ratio of EBIT to total assets for a sample firm minus median change in EBIT/total assets for its industry. Year 0 denotes the year in which restructuring actions are taken. Medians are reported in brackets below the means. ***, **, and * indicate that means (medians) are significantly different from zero at the 1%, 5%, and 10% levels, respectively, using t-tests (Wilcoxon signed-ranks tests).

	Change in EBIT/Total assets			Industry-adjusted change in EBIT/Total assets		
Type of actions	Year (0, 1)	Year (1, 2)	Year (0, 2)	Year (0, 1)	Year (1, 2)	Year (0, 2)
Any restructuring	0.14	0.65	0.80	2.51***	0.93	0.99
actions (n = 365)	[-0.33]	[0.82]	[0.96]	[1.68]***	[0.19]	[0.44]**
Any operational	0.24	0.57	0.81	2.66***	0.70	1.02
actions (n = 283)	[-0.47]	[0.93]	[0.76]	[1.50]***	[0.14]	[0.50]**
Asset downsizing	1.21	1.03	2.23	4.17**	0.85	2.12
(n = 96)	[-0.55]	[1.43]	[1.90]	[2.11]***	[0.22]	[0.55]
Expansion	-0.57	0.33	-0.24	1.85**	0.38	0.19
(n = 238)	[-0.87]	[0.98]	[0.54]	[1.13]***	[0.21]	[0.55]*
Management	2.13	0.39	2.52*	4.38***	1.67	2.74**
turnover (n = 54)	[1.38]	[-0.05]	[1.41]	[2.70]**	[0.02]	[0.45]
Any financial	0.46	0.79	1.24	2.48***	1.42	1.59
actions (n = 267)	[-0.23]	[0.77]	[1.41]**	[1.80]***	[0.25]*	[1.09]***
Dividend cut	0.75	-1.47	-0.72	1.06	0.57	0.61
(n = 145)	[-0.05]	[-0.79]	[0.56]	[0.00]	[0.14]	[1.15]**
Debt restructuring	0.38	10.73***	11.11*	3.49	8.57**	7.95
(n = 25)	[-3.94]	[5.72]***	[3.89]**	[-0.36]	[2.52]**	[2.11]
Capital raising	1.65	0.24	1.89	4.32***	0.71	2.12
(n = 180)	[0.21]	[1.04]	[2.09]**	[3.43]***	[0.43]	[1.40]***

Figure 1: The Ownership Structure of International Cosmetics

Source: Wiwattanakantang (2001)



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