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Management of Thai Firms in the New Millennium for Sustainability การบริหารบริษัทไทยในยุคต่อไปให้มีความยั่งยืน

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The University of The Thai Chamber of Commerce has the great honor of awarding an Honorary Doctorate in Liberal Arts (Management) to Dr. Ajva Taulananda for his professional leadership with a broad vision of corporate management. He demonstrates his capacity to lead many top organizations capable of sustained high performances. His significant contributions to future management will be of great value to both managers and change practitioners. This article is a response to the receipt of his honorary doctorate from UTCC on Friday, November 16, 2007.

Introduction

Management of Thai firms in this new millennium has to take a sustainable direction. Sustainability has become an important goal of conducting business in addition to those traditional goals of profits and returns to shareholders. The continuity of a firm has long been implicitly taken for granted when a business enterprise is defined as a “going concern.” However, the concepts of “sustainable growth” and “sustainable development” have recently been raised with the realization that many of our businesses and economic activities are unsustainable in the long-run. Substantial efforts in economic development at a macro level and in firm management at a micro level during the past decade have increasingly targeted sustainability by focusing on environmental conservation and protection.

According to Western business management principles, the goal of business was assumed to be “profit” as stipulated by Adam Smith. More recently, business firms have become more sophisticated and have developed into large corporations, including publicly listed companies in major stock markets around the world. These corporations have to be accountable to both major as well as minor share holders, and even to the general public as another stakeholder. Several of them are multinationals making

investments in many countries, so they have to take into account the interests of the host countries in their operations. They can have a very powerful impact on the local economy, either positively or negatively, due to their size and global network, to the point that they could evade the control or supervision by the host government. The Lockheed bribery scandal is a good example.

Similar to the West, Eastern business firms started with small family businesses concentrating on making money with no reference to a social responsibility. Then the Western idea of corporate governance arrived, demanding firms be transparent and accountable to a society in general. It seemed that Thailand also imported these concepts of accountability and social responsibility. However, deep down Thai companies have been engaging in activities promoting social causes based on our long-held beliefs in making merits and being ethical, perhaps for even longer than Western firms. Wealthy Thai people make contributions to public education and many socially-beneficial activities from their heart and moral conscience, reflecting their concerns for social responsibility. Many examples of such social contributors can be seen among Thai companies, such as Siam Cement Group, Saha Patanapibul Co. Ltd. and Charoen Pokphand Group. In addition,

they have implemented projects to help develop our rural communities. These actions were referred to as “making merit to help poor or less-fortunate people,” while today they are within the area of corporate social responsibility (CSR). Corporate governance is a buzz word, the concept of which has become critical with the 1997 economic crisis forcing companies to take into account the long-term impact of their business operations, more than simply short-term goals with immediate profit in mind. The crisis forced many firms out of businesses, both large and small alike. One reason for their failure was the lack of a viable long-term sustainable strategy.

This paper proposes to incorporate His Majesty King Bhumipol’s philosophy of Sufficiency Economy into a new model for

doing business as a logical approach to a sustainable and successful business endeavor. The concept of Sufficiency Economy was initially formulated for rural development, mainly in the agricultural sector; but it has gained currency and recognized as a valuable model applicable to individuals, groups, business firms, to countries and even international communities.

A Model for Sustainable Business

This model applies the principles of Sufficiency Economy to the contemporary business management principles as widely taught and practiced by Western companies as well as many Thai companies. It can be summarized in a chart as shown in Figure 1 below.



Source: Chart developed by Dr. Ajva Taulananda, 2007

Figure 1 Business Management Model for Sustainability

The model is explained by using layers of circles, starting with the inner-most circle representing profit as the immediate goal of business, and surrounded with intermediate to longer and wider ranges of goals and stakeholders respectively, up to the outer-most and longest goal of sustainable business management.

Profit is critical for the immediate survival of a business; once a firm can operate profitably, it needs to focus on operational efficiency and performance. The Balanced Scorecard model helps businesses assess their performance in four areas, i.e. finance, employees, customers and process, to ensure their long-term survival. This is the second inner circle. It is now understood that any firms that neglect their employees would have a hard time surviving. Customers who are not satisfied with the product could bring down a company because they would purchase a better product from competitors. The third area to keep a close watch on, according to the Balanced-Scorecard approach, is the internal operational and management process. The process has to be efficient to keep costs down. The last area to monitor, finance, is what all companies continually keep an eye on, since it includes the bottom line of profits. However, now a company must assess several vital indicators

of its financial management to get a clear picture of the business' health.

The next circle expands the scope of enterprise management to longer-term goals with the concept of "Corporate Governance (CG)," particularly among publicly listed companies, with the emphasis on "fairness" to both major and minor shareholders. The companies must have in place management policies and rules that ensure transparency and accountability to guard against unscrupulous dealings by top management.

With the world getting smaller due to the process of globalization, more and more people are becoming aware that the operation of any productive firms, either large or small, will have a wide and significant impact on their environment, suppliers, competitors and society in general. Any major negative externalities would generate unfavorable reactions from these external players, resulting in a serious detriment to the company's survival. The fourth layer of the circle points to the need for a company to assume the role of supporting social and philanthropic causes of various communities and government organizations. Such efforts undertaken by business firms are widely known as "Corporate Social Responsibility (CSR). These four circles mainly represent Western management principles.

Knowledge and Morality

The concepts presented so far in the model have now been widely accepted as part of the globalization process, spreading from their Western origin. However, even with written regulations and supervision by various authorities, dodgy practices still occur, bringing down businesses as evident in the case of Enron Corporation, a big U.S. energy company listed in the New York Stock Exchange. The cause of such a problem is inherent in the lack of ethics and morality, as well as insufficient knowledge and awareness among the top executives of the failed companies. This writer is convinced that good business management requires the awareness to make conscientious decisions based on logical reasons which fulfil the criteria of moderation and self-immunity while relying on the two underlying conditions of knowledge and morality. These are the principles of Sufficiency Economy, as shown in the outermost circle, to complete the sustainable business management model. For a business to be sustainable, it must follow the framework as described in the model, ultimately basing all its actions on the two critical requirements of knowledge and morality. When a company discharges waste/toxic water into the environment, it cannot claim that it is not aware of the harmful

effects of its action. Morality on the other hand would ensure that what a business does will be fair and not adversely affect the environment or society in general, in contrast to the immediate gain of profit.

Views on Management of Thai Businesses

Applying the sustainable business management model to Thai firms would certainly bring about a more balanced approach to conducting business. The philosophy of Sufficiency Economy would provide the vital framework for efficient and effective operations in line with the globalization of Western business management concepts. We could expect social harmony and security in addition to sustainability of Thai business enterprises.

The following are suggestions on what Thai companies could do to achieve sustainability:

1. In terms of a strategic approach, Thai companies should implement a strategy that is logical, while concentrating on its core competencies. Moderation should also be the key guideline, especially in considering competitive actions. Taking advantage of others by excessively grabbing high short-term profit could be a weak point and detrimental to long-term survival.

2. Technology is a part of the underlying

condition of knowledge. It must be applied prudently by Thai companies to enhance competitiveness. Again, a reasonable strategy should be followed. Imitation of other successful companies would not be sustainable.

3. Innovation is another part of knowledge. It is essential for a business to move ahead. According to Michael E. Porter, the competitiveness of a firm can be measured by its productivity. Increasing productivity could be achieved up to a point, then innovation is required to enhance productivity and bring it to a new level. Thai companies must invest in innovative endeavors to raise productivity and bring about new/enhanced capacities, some of which might represent a “breakthrough” and create a new frontier of the business model.

4. Energy is another crucial issue. For the past few decades, energy costs have accounted for 10 percent of industrial operations because it is abundant and relatively inexpensive. The price of crude oil has risen to nearly US\$100 per barrel during the past year, raising the cost of energy to 30-40 percent of the total cost of production. Some industries such as cement production need a very high energy input thus increasing the cost of its output. Other examples are transport and fishery industries. Companies need to find ways to save on energy costs

such as wind and solar energy. For example, the Charoen Pokphand Group has implemented an energy saving program for the last four years to achieve a 20 percent reduction in energy costs. It saved 800 million Baht in the first year and an average of 700-800 million Baht each succeeding year since. This is the result of a serious policy commitment and active campaigning throughout the company. A successful initiative by CP in its food industry is to utilize pig manure to produce biogas as an alternative fuel for power generation, thus saving energy costs by 40 percent. Another is the re-processing of used vegetable oil into biodiesel.

5. Networking and Cluster-forming of enterprises are important mechanisms for Thai businesses, especially SMEs, to survive. Group forming has been done strategically at the country level such as the World Trade Organization (WTO) and at many less comprehensive levels in the form of Free Trade Areas to foster mutual benefits for the members. Thailand has engaged in Free Trade Area negotiations and entered into agreements with several nations, namely Japan, Australia and India to increase competitiveness for some Thai companies. Other groupings are also helpful; these are ASEAN (Association of Southeast Asian Nations), GMS (Greater Mekong Sub-region), ACMECS (Ayeyawady -

Chao Phraya - Mekong Economic Cooperation Strategy) at the regional level, and APEC (Asia-Pacific Economic Cooperation) at a wider level. These groupings could have both positive and negative impacts on individual companies in Thailand. The larger companies are better equipped to handle the potential adverse impacts as well as enjoying any favorable benefits. The small companies need to form clusters to allow specialization in employing marketing tools and technology. One example is the ceramic cluster of enterprises in Lampang province which developed kiln design and firing technology. Another is the orchid cluster of orchid growers from Ratchaburi and Nakhon Pathom provinces to handle marketing and production development. It is regrettable that the Thai government does not provide serious assistance for cluster development. Forming of a cluster requires a central management body to organize and oversee members' common interests. Operating in isolation, members compete vigorously and do not trust one another. A good efficient cluster could help small enterprises. Some clusters could be formed by a larger company such as in the automobile industry.

6. Corporate social responsibility (CSR) is becoming more and more a vital part of business management, to the extent that companies have to allocate resources for it,

beginning with companies which have the potential to adversely affect the environment. Examples of Thai companies implementing CSR activities include PTT Public Co. (PTT), Electric Generating Public Co. (EGCO), Banpu Public Co. (BANPU), and Siam Cement Group (SCG).

Conclusion and Recommendations

Thailand is an open economy with the export sector accounting for 60 percent of its GDP. It is thus closely linked to the world economy and subject to the globalization process. It is a member of the World Trade Organization and is a party to a few successfully concluded Free Trade Agreements. Whether they like it or not, Thai business people must learn to negotiate to guard their interests in this globalization current. Those who are at disadvantage are the small original equipment manufacturers (OEM) with little power and no ownership of technology and brands. Thai companies have to fight, improve, and innovate, conducting business with knowledge and morality. At present, only a few Thai companies have taken up the concept of Sufficiency Economy although the philosophy/concept has been widely recognized even internationally. Fortunately, the previous government of H.E. Gen. Surayuth Chulanont had proclaimed Sufficiency Economy as an

important policy directive. The philosophy is thus widely disseminated.

It is hoped that this model of sustainable business management, integrating the concept of Sufficiency Economy, would not be just a personal conviction, but be systematically developed and embraced as a central part of the organization culture by a wide-range of Thai companies. If this happens, it would not only provide sustainability to Thai businesses but would be admired and ultimately emulated worldwide.

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