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A Contingency Theory of Diversification:

The Case of Diversification into the Thai Telecommunications Industry

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Submitted for the Degree of Ph.D.
in Strategy and International Business
of the City University

City University Business School

September 2002

TABLE OF CONTENTS

	Page
Table of Contents	2
List of Figures and Tables	4
Acknowledgements	5
Declaration	6
Abstract	7
Abbreviations	8
1 Introduction	9
1.1 The Phenomenon of Diversification	
1.2 Research Questions and Objectives	
1.3 The Conceptual Framework	
1.4 Research Design	
1.5 Research Findings	
1.6 Research Contributions	
2 Review of Literature	14
2.1 Overview of Diversification Research	
2.2 Definition of Diversification	
2.3 Reasons for Diversification	
2.4 Classification of Diversification	
2.5 Justification of Diversification: Transaction Cost Theory	
2.6 Determination of Diversification Direction	
2.7 Diversification Strategy and Performance	
2.8 Inter-firm Collaboration	
3 Conceptual Framework	36
3.1 Introduction	
3.2 Research Questions and Objectives	
3.3 The Conceptual Framework	
3.3.1 Rationale and Scope of Diversification	
3.3.2 Direction of Diversification	
4 Research Design	48
4.1 Research Model	
4.1.1 Introduction	
4.1.2 Hypothesis I	
4.1.3 Hypothesis II	
4.1.4 Hypothesis III	
4.2 Research Methodology	
4.2.1 Introduction	
4.2.2 Qualitative Case Study Research	
4.2.3 Quantitative Data	
4.2.4 Units of Analysis	
4.2.5 Sources of Data	
4.2.6 Methods of Data Collection	
4.2.7 Development of Questions	
4.2.8 Pilot Study	
4.2.9 The Fieldwork Procedures	
4.2.10 Data Analysis	
4.2.11 Case Study Writing Procedures	
4.2.12 Theory Development	
4.2.13 Summary of Research Methodology	

5	Analysis of Empirical Evidence	68
5.1	Introduction	
5.2	Patterns of Diversification – Hypothesis I	
5.2.1	Business Groups	
5.2.2	Thailand’s 20 Largest Business Groups	
5.2.3	Pattern of Diversification	
5.2.4	Comparison with the Advanced Economies	
5.2.5	Comparison with the Other Emerging Economies	
5.2.6	Summary	
5.3	The Thai Telecommunications Industry	
5.3.1	Industry Development and Structure	
5.3.2	Participation by the Private Sector	
5.4	Case Studies - Hypothesis II and III	
5.4.1	The Charoen Phokphand Group	
5.4.2	The Shinawatra Group	
5.4.3	The Samart Group	
5.5	Results of the Hypotheses	
5.5.1	Hypothesis I	
5.5.2	Hypothesis II	
5.5.3	Hypothesis III	
6	Conclusion and Discussion	141
6.1	Conclusion	
6.2	Research Contributions	
6.3	Discussion	
6.3.1	Relatedness	
6.3.2	Generalisability of Findings	
6.3.3	Suggestions for Future Research	
7	Appendices	146
	Appendix I: List of Interviewees	
	Appendix II: Introductory Letter	
	Appendix III: Interview Questions	
	Appendix IV: 150 Thai Business Groups	
	Appendix V: The Charoen Phokphand Group’s Businesses	
8	References and Bibliography	176

LISTS OF FIGURES AND TABLES

	Page
Table 2.1: Recent studies of the emerging-market countries	32
Table 3.1: Resource implications on diversification	38
Figure 3.2: Conceptual framework: Direction of diversification	39
Figure 5.1.1: Empirical evidence	69
Table 5.2.1: The selected Thailand’s largest 20 business groups	73
Table 5.2.2: The Chokwatana Family’s businesses	74
Figure 5.2.3: Distribution of related ratio	76
Figure 5.2.4: Patterns of diversification in Thailand	78
Table 5.2.5: Studies on patterns of diversification in the advanced economies	82
Figure 5.2.6: Unrelated business – adjusted measure	83
Figure 5.2.7: Related and unrelated business – adjusted measure	84
Figure 5.3.1: Responsibilities of Thai telecommunications state enterprises	87
Table 5.3.2: Diversification entries into the Thai telecommunications industry	88
Figure 5.4.1.1: Milestones of diversification: The Charoen Phokphand Group	91
Table 5.4.1.2: CP’s inter-firm collaboration	104
Figure 5.4.2.1: Milestone of diversification: The Shinawatra Group	106
Table 5.4.2.2: Shinawatra’s inter-firm collaboration	118
Figure 5.4.3.1: Milestones of diversification: The Samart Group	120
Table 5.4.3.2: Samart’s inter-firm collaboration	131
Table 5.5.3.1: Industry targets of diversification by large business groups	140
Table 6.2.1: Generalisability of findings	144

ACKNOWLEDGEMENTS

I wish to sincerely thank my supervisor Professor Robert M Grant for his supervision, advice, and encouragement. I am indebted to Professor Grant for making the completion of my PhD thesis possible.

I also wish to thank Professor Chong J Choi for his supervision during the initial period of my research. My thanks also go to Professor Charles Baden-Fuller and Professor Erik Larsen for their kind support.

I am very grateful for the assistance of the Brooker Group in Thailand. I deeply appreciate the help from the staff at City University Business School and City University School Library.

Lastly, I am indebted to my family, friends and colleagues for their continued support and encouragement.

DECLARATION

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Arreeya Chanurai

ABSTRACT

During the past two decades, the trend towards diversification by large corporations in the advanced industrialised nations has been a transition from diversification to specialisation. However, there is little evidence of these same trends being duplicated in the emerging-market countries. Are large business enterprises in the emerging market countries slow in responding to the new strategic logic or is there some justification for such discrepancy?

The study provides the rationale to support a contingency theory of diversification. Diversification strategy is an outcome of not only a firm's resource base and the characteristics of industries, but also depends upon the level of development and transactional efficiency of resource markets within the country and the role of inter-firm collaboration.

The study follows a resource-based approach to corporate strategy. The study is based on a qualitative case study approach. The empirical analysis is based on two levels. First, I examined the overall diversification strategies of the 20 largest Thai business groups. Second, I conducted detailed case studies of the diversification decisions of three Thai business groups focusing specifically upon diversification into the telecommunications sector. The case studies are constructed around three companies that diversified into the telecommunications industry in Thailand during the same period. Data from another 13 diversifying companies and five public organisations also provide additional sources of empirical evidence.

The empirical evidence shows that diversification into a business which may not be operationally related to the core business – a concept which has lost favour in many of the Anglo-Saxon countries – makes strategic sense in the business environment of the emerging market countries. Essentially, the 'general' theory of diversification holds true in many cases. The key is a) to recognise the different characteristics of markets for resources and the strategic resources in different parts of the world, and b) to understand that strategic resources do not depend on just availability of resources in the market and internal resources within the firm, but also the role of inter-firm collaboration. Differences in business environment raises the question of whether a single diversification strategy is universally applicable.

ABBREVIATIONS

TOT:	The Telephone Organisation of Thailand
CAT:	The Communications Authority of Thailand
PTD:	The Post and Telegraph Department
MCOT:	The Mass Communications Authority of Thailand
MOCT:	The Ministry of Transport and Communications
BTO:	Build-transfer-operate
NESDB:	National Economic and Social Development Board
CP:	The Charoen Phokphand Group
Shin:	The Shinawatra Group
Samart:	The Samart Group
SIC:	Standard industrial classification
ITU:	International Telecommunications Union

1 Introduction

1.1 The Phenomenon of Diversification

During the past two decades, the trend towards diversification by large corporations in the advanced industrialised nations went into reverse. Many North American and Western European companies have divested diversified activities, refocused on core businesses, and in some instances, broken up entirely. This transition from diversification to specialisation has been encouraged by academic research that has pointed to advantages of related over unrelated diversification, the adverse consequences of high level of diversification, and the benefits of focusing business activities around core competencies. However, once we look beyond the advanced industrialised countries, there is little evidence of these same trends being duplicated. Indeed, the evidence from a number of emerging market countries is that, not only have a small number of large, highly diversified companies continued to dominate their domestic economies, but in many instances, they have increased both their size and diversity in recent years. These divergent trends raise the question of whether these business enterprises in the emerging market countries are slow in responding to the new strategic logic that has swept the western world, or if there is some justification for the discrepancy in terms of strategic analyses.

1.2 Research Questions and Objectives

The main objective of the study is to provide rationale to support a contingency theory of diversification. In doing so, the study can help answer the question of why we observe different corporate strategy patterns across countries at different stages of economic development. In other words, why a business focus strategy is more applicable to companies operating in the advanced economies, and why diversification can create value in the emerging market countries. An important implication of this approach is that different diversification strategies are likely to be successful in different business environments.

1.3 The Conceptual Framework

Contrary to the diversification literature up to 1980s that generally support the superiority of one type of diversification to another, the study raises the question of whether there is one type of diversification which is universally applicable. My conceptual framework provides an explanatory framework to address two components of diversification; first, the rationale and scope of diversification, and second, the direction of diversification. I adopt a resource-based approach to corporate strategy and seek to answer the following questions:

(a) Are the resources that play a fundamental strategic role in determining the rationale and scope of diversification different between the advanced countries and emerging market countries?

The study argues that some resources with a low level of industry specificity (that I shall refer to, for simplicity's sake, as "industry non-specific resources") are not strategic resources¹ in advanced market

¹ "Strategic" resources are those that can generate rents to the firm through conferring competitive advantage. If strategic resources have economies of scope then they provide a basis for diversification. It is the industry specificity of strategic resources which determine the scope of diversification.

countries because they can be transferred across efficient markets. As a result, they may not provide a secure basis for competitive advantage. The key drivers of competitive advantage tend to be the more industry-specific resources, resulting in a pattern of diversification which appears to be closely related (in terms of technological and market linkages).

However, the industry non-specific resources may be strategic in the emerging market countries where markets for resources are not fully developed, i.e. subject to high transaction costs. This is because a) business enterprises in the emerging-market countries tend to possess country-based resources (primarily, industry non-specific), rather than product-based resources, and b) although the industry-specific resources are typically not readily transferable across markets, they can be accessed through strategic alliances and joint ventures. By contrast, the technologies and specialised skills that are the key drivers of diversification in the advanced economies tend to be less important in the emerging countries.

(b) What determines the direction of diversification in the emerging market countries?

The strategic role played by industry non-specific resources in emerging market countries means that firms in these countries have a wide range of industries where they can deploy these resources. Moreover, the industry-specific resources that these firms require in order to enter individual industries can typically be acquired through inter-firm collaboration. Hence would these two reasons result in industry attractiveness being main determinant of the diversification direction.

1.4 Research Design

Essentially, the research is designed to address the above research questions. In answering these questions, I apply a resource-based, contingency theory of diversification to the diversification patterns found in the emerging market countries, illustrated by the case of Thailand.

The empirical analysis was conducted at two stages - Stage 1: the overall diversification strategies of the 20 largest Thai business groups; and Stage 2: detailed case studies of the diversification decisions of three Thai business groups focusing specifically upon diversification into the telecommunications sector.

The study adopts a qualitative case study approach, providing an opportunity for some exploratory insight into the research subject and investigating the phenomenon by analytically generalising the theories, rather than statistically generalising them. Three case study companies are used as detailed case studies. They are the Charoen Phokphand Group, the Shinawatra Group and the Samart Group. These companies are chosen as they are traditionally perceived as exhibiting a varying degree of relatedness in their diversification into the telecommunications industry. A choice of one industry provides a rigorous comparison in the decision making process of diversification.

Other primary and secondary sources of information, such as other diversifying companies, public organisations, and industry analysts and observers have also been taken into account. By using multiple sources of empirical evidence, the study achieves some of the main principles of data collection, namely construct validity and

reliability (Yin, 1994). One of the concerns regarding the data collection of the case study method lies with the difficulty in collecting the less routine data which is relevant to the theoretical framework (Yin, 1994). The study combines semi-structured interviews with self-administered closed questionnaires to allow for unexpected information, while at the same time, ensuring reliability and validity. The response rate from relevant executives was very high. The researcher interviewed altogether 45 senior executives, covering 13 private companies diversifying into the telecommunications industry and five public sector organisations. Out of these, 15 senior executives are those who were closely involved in the diversification described in the three case study companies. The detailed interview data from these executives responsible for the diversification decisions forms the strength of this study.

When analysing the empirical data, data are placed in different categories to compare and contrast items of evidence that are assigned in the same category according to its importance, themes, companies, to name but a few. This study adopts a mix of cross-case and variable-oriented strategy. Thus our analysis searches for the common themes, as well as distinctiveness that may emerge. This strategy is supported by Eisenhardt (1989) who suggests that by first becoming familiarised with each case, the unique patterns of each case can emerge, thus providing some crucial piece of information for the cross case generalisation.

1.5 Research Findings

One of the key features of my research is its emphasis upon identifying the factors which drive diversification decisions. These insights, which could not be found in any secondary research, were obtained from top management executives, all of whom played a strong role during the diversification process. As we shall see in the following chapters, the empirical findings provided support to the propositions developed in the conceptual framework.

First, a majority of large Thai business groups have diversified into a number of less closely related businesses, in terms of technology, process and operation. 58% of the sample of 19 large business groups were classified as “Unrelated Business”.

Second, industry non-specific resources, such as financial capital, reputation, political connections, and management capabilities, played a determining role in diversification found in Thailand. As Dr. Veerawat Kanchanadul, chief financial officer of CP, remarked:

“CP’s most valuable resources are the management and their capabilities to select and adopt foreign know-how while producing better results at a lower cost...many of CP’s diversification was implemented through strategic partnership arrangements where CP provided the financing, the market knowledge, necessary connections, to name but a few, while the foreign partners provided technology and expertise”.

Third, industry attractiveness assumed a more important role, compared to strategic resources and inter-firm collaboration when determining diversification direction. As Sirichai Rasameechan, chief executive officer of Samart, commented:

“External factors, leading to industry attractiveness were very important because of their uncontrollable nature whereas resources and capabilities were controllable as many of them may be acquired”.

Our findings support the proposed conceptual framework, therefore providing evidence to support a “contingency theory of diversification”. In other words, no one type of diversification is universally applicable. Differences in national economic systems may result in different strategic resources. These lead to differences in diversification patterns in different countries.

Nevertheless, the study does not imply that all diversification is justified. The task for managers is to correctly identify and utilise strategic resources in the industry where these resources provide valuable competitive advantage. In other words, the returns must be higher than the costs of utilising these strategic resources. Even within the same business environment, diversification strategy cannot be assumed as static. The potential to create value by exploiting opportunities to deploy resources in another industry tends to be specific in time. Does a resource, such as political connections, become more important at a specific stage in an industry’s development?. Thus diversification depends upon the ability to foresee changes in the business environment and strategic resources, and accordingly, implement the appropriate strategy at the right time.

1.6 Research Contributions

In analysing the rationale, scope and direction of diversification by companies in an emerging market country, this study develops and extends a contingency theory of diversification where diversification strategy is an outcome not only of a firm’s resource base and the characteristics of industries, but also depends upon the level of development and transactional efficiency of resource markets within the country. In showing that the diversification strategies observed in South-East Asia (and elsewhere in the developing world) are not anomalies but are consistent with established theories of the determinants of diversification, this study provides a modest contribution to constructing a “general” theory of diversification.

The managerial implications of this research are also important. First, because characteristics of firms and markets vary, should corporate strategy be generalised using logic derived from studies of firms operating in one particular environment?. Second, the study emphasises the importance of the industry specificity of resources in determining the scope of a firm’s diversification. Third, the study explains the differences in the role of companies in different countries. This enhances our understanding of an increasingly global business environment. Fourth, the study draws out the importance of the less frequently mentioned factor, such as inter-firm collaboration in the determination of diversification direction. Without inter-firm collaboration, many diversifications which are less operationally related may not be feasible. Fifth, the study reveals the importance of the interrelationships among factors in the strategic formulation of diversification. The complex interrelationships among strategic resources, industry attractiveness, and inter-firm collaboration also mean that no one single diversification strategy may not be infinitely justified. Last but not least, the study provides further evidence to support a limited amount of existing literature which call for different ways in which relatedness should also be defined and measured at the corporate level. This should bring some attention, particularly those of managerial ones, to recognise that fundamentally, relatedness should not be measured at the operational level only.

Until about ten years ago, management scholars tried to discover whether one type of diversification strategy was superior to another. We now realise the futility of such efforts: the optimal diversification strategy for a firm depends upon the type of resources it possesses and the type of industry within which it operates. However, we are still left with some unanswered questions regarding differences in patterns of corporate diversification across countries. By focusing upon the different conditions under which resources are transacted in countries at different stages of development, this thesis extends our understanding of diversification to take account of the international differences that we observe.

2 Review of Literature

Academic research into corporate diversification began during the 1940s and 1950s, initially by industrial economists and business historians. While economists focused upon quantitative analysis of the extent, the causes, and effects of diversification, business historians undertook longitudinal case studies of the role of diversification in the long-term evolution of corporations. Since then, diversification research has been carried out within other disciplines, most notably finance and strategic management. Strategy research has adopted a multi-disciplinary approach to diversification research (Ramanujam & Varadarajan, 1989 offers a review of the literature up to 1989). In this review of the diversification literature, I focus primarily on contributions within the strategic management discipline, although work within related disciplines is also discussed where appropriate.

Diversification research embraces various sub-topics. While acknowledging the interrelationships among these topics, this review does not aim at comprehensiveness. In the proceeding sections, I will provide overview of diversification research, then address the literature concerning: the definition of diversification, reasons for diversification, classification of diversification direction, justification of diversification, the direction of diversification, the performance implications of diversification, diversification in emerging market countries, and lastly inter-firm collaboration.

2.1 Overview of Diversification Research

One of the early breakthroughs in understanding diversification is the study by Chandler (1942). The study features the qualitative element of diversification by demonstrating the connections between technological aspects to diversification, and diversification to administrative structures. In other words, the implications of diversification surpass a simple quantitative increase in the firm's number of products. This has since provided an important stepping stone for the research on diversification.

Although primarily linked to the economics discipline, Penrose's work (1959) on diversification has been widely accepted and built on by scholars in the strategic management area. Her contribution is principally based on the resource-based view of the firm which sights firms as "pools of resources" hence diversification is seen as a way of utilising the resources in order to achieve growth (Penrose, 1959). Thereafter, a considerable number of studies attempt to illustrate the link between the resource profile and diversification strategy and outcome, in particular the direction and performance of diversification.

From the perspective of corporate strategy, Ansoff's work (1965) provides notable contributions to diversification research. His most significant contribution to the diversification research appears to come largely from the concept of synergy which is referred to as "a measure of joint effects" deriving from operating more than one business which is larger than the sum of its parts (Ansoff, 1965). In other words, diversification strategy should aim to gain synergy and hence create some additional value to the overall firm. Furthermore, a degree of synergy gain varies according to the type of diversification. The concept of synergy has since been used in parallel with diversification research. In addition, Ansoff's work (1965) urges the importance of industry analysis and the cost of entry when appraising the diversification direction.

Discarding the objective product-count measure customarily used by economists, Wrigley's dissertation (1970) on diversification recognises Chandler's work (1942) and adds a qualitative rationale to diversification research. The study accordingly classifies firms into four main categories, namely Single Product, Dominant Product, Related Product, and Unrelated Product. Rumelt (1974) follows Wrigley's framework (1970) and further exerts descriptive strategic factors into the measure of diversity. By using the so-called specialisation ratio and related ratio, additional subcategories of diversification direction are defined. Rumelt's nine categories of diversification are used as a groundwork for the diversification research. Rumelt's other main contribution in the field of diversification is on linking performance to diversification direction which has since been subject to both supports and criticisms.

These early works established several directions of research that were to have a major impact upon subsequent research into diversification within the field of strategy. Thus, Ansoff's (1965) introduction of the concept of synergy had far-reaching implications for further study into the meaning of relatedness in diversification and the conditions under which diversification can create competitive advantage. Wrigley (1970) on the types of diversification, and Rumelt (1974) on the implications of diversification for performance provided a classification of diversification strategies and consideration of the performance implications of diversification that were to sustain diversification research for most of the next two decades. Penrose (1959) on the resource-based view, introduced ideas about the firm and its strategy that, within four decades, would revolutionise strategy thinking. The transaction cost theory originated by Coase (1937), developed by Oliver Williamson (1981) and applied by Teece (1982) would form a foundation for thinking about the product scope of the firm.

2.2 Definition of Diversification

There are numerous ways in which diversification can be defined. Chandler (1942) refers to diversification as a way in which firms responded to new market opportunities or a declining prospect of the existing business by geographical expansion, vertical integration, and product development. Similarly, Ansoff (1965) conceptualises diversification as a means of achieving growth by the introduction of new products into new markets. The use of the industry and/or business boundary to define diversification is adopted by a number of scholars. For instance, Kamien & Schwartz (1975) refer to diversification as an extent to which firms belonging in one industry offer goods classified in another; while Pitts & Hopkins (1982) view diversification as a degree to which firms are involved in several businesses.

However, Penrose (1959) argues that diversification cannot be seen simply as a firm's move into new products or new industries because of the various possible ways of grouping products and industries. For instance, should a move into ladieswear by a company whose existing business is to produce menswear be seen as diversification, or is it simply an increase in product? To overcome this issue, Penrose (1959) defines diversification as "increases in the variety of final products produced, increases in vertical integration, and increases in the number of basic areas of production in which firms operate". The additional areas of production are particularly important as these cannot be measured by simply counting the end product. In order to overcome the potential problem which may arise as a result of the imprecise boundary of product, industry and business, some scholars explicitly state the aim, direction and mode of diversification when defining diversification (Booz, Allen & Hamilton, 1985; Ramanujam & Varadarajan, 1989). In conformity with the Penrosian view (1959) which

regards firms as sets of resources, Montgomery & Wernerfelt (1989) conceptualise diversification as “the matching of a firm’s resources to the set of market opportunities”. All in all, there is still no universally accepted definition of diversification. It is believed that all of these definitions provide a good description of what diversification is about, providing that the drawbacks in some of the earlier work are taken into account.

2.3 Reasons for Diversification

Even though, the focus of this thesis is on the question of what makes firms choose to diversify into certain industries, it is important to address the question of why firms diversify at all. As stated earlier, Chandler (1942) sees diversification as one of the means to achieve growth by meeting the new market opportunities or to defend the firm’s position from a declining prospect of the existing business. Growth and defence (Ansoff, 1965) have since been accepted as core reasons of diversification. In addition, Ansoff (1965) adds a synergy gain as the third reason.

Staudt (1954) puts forward a detailed breakdown, totalling more than forty reasons of diversification. Based on the resource perspective, some researchers suggest that firms diversify in order to utilise their resources to achieve growth (Penrose, 1959). Even though European chief executives rate an increase in profitability and growth as the top two motives of diversification, other reasons include risk hedging, balancing the cyclical earnings, to name but a few (Booz, Allen & Hamilton, 1985). These reasons are also in line with the earlier work by Salter & Weinhold (1979). In general, most proposed reasons appear to centre around or ultimately link to the enhancement of the corporate value.

Although there is a consensus on most of the reasons behind diversification moves, a number of researchers voice their arguments against the risk-sharing aim of diversification. Generally, it is believed that shareholders can spread their risks much more efficiently through their own portfolio management and that some prefer security, rather than growth (Campbell, 1992). The same study goes further in warning that some diversification moves are undertaken mainly to satisfy personal objectives of the top management team.

2.4 Classification of Diversification

Diversification is often classified in accordance to its direction. Direction is also described as “type” and “category” of diversification. Regardless of the term used, diversification is generally classified on the basis of the relatedness to the firm’s existing business activities. An understanding into the ways in which relatedness determines the type of diversification is important in addressing the on-going debate concerning the superiority of one type of diversification to another. It is an essential part of this study whose centrality lies in justifying different types of diversification in different business environments. This section thus examines the various classification approach and the measure of diversification relatedness from the traditional and emerging perspectives.

2.4.1 Traditional View: Classification of Diversification and Measures of Relatedness

The most frequently mentioned types of diversification are related and unrelated diversification. Related diversification is typically referred to as an addition of new activities which possess some tangible relations to the firm’s existing skills or strengths (Rumelt, 1974), while a move into new activities whose key success factors

are independent from the existing activities is regarded as unrelated diversification (Didrichsen, 1972). However, diversification can also be categorised in a more refined way, with an emphasis on the finer sub-categories of related diversification.

Applying variables such as products, markets, and production base in the light of the technological aspect, Penrose's study (1959) categorises diversification into three main groups, namely those involving new markets with new products by utilising existing production base, those pursuing the same market with new products by using new technologically related production base, and lastly, those engaging in new markets with new products by employing new technologically related production base. In other words, related diversification is divided into two sub-categories according to the market and the production base. Ansoff (1965) adopts the same variables to categorise various types of diversification, with an addition of the marketing aspect. As a result, diversification is classified into six types, namely Horizontal Diversification, Vertical Integration, Conglomerate Diversification, and Concentric Diversification which is further divided into Marketing Related, Technology Related, and Marketing and Technology Related. Only one type of diversification, namely Conglomerate represents unrelated diversification.

Subsequently, Wrigley's study (1970) classifies one hundred firms in the sample into four main categories. For instance, firms are classified as Single Product if they have no diversification but as Dominant Product if they have a small degree of diversification. While Related Product refers to firms with expansion into new areas which have some technological or market similarity, Unrelated Product suggests no similarity in the diversification moves. Breaking away from the traditional way of categorising diversification, Didrichsen (1972) uses a firm's motives to categorise diversification into Defensive Supplemental and Offensive Supplemental diversification. Defensive Supplemental includes diversification moves aimed at remedying declining prospects in the existing business while Offensive Supplemental refers to diversification moves to profitably invest surplus capital. These two approaches do not fully differentiate between related and unrelated diversification.

Adopting Wrigley's framework (1970), Rumelt (1974) uses the subjective measures, such as a specialisation ratio and a related ratio to further sub-categorise five hundred firms in the sample. The specialisation ratio indicates the proportion of a firm's revenue deriving from its largest single business whereas the related ratio shows the proportion of a firm's revenue which is obtained from its largest group of related business. As a result, both the Dominant Product and Related Product are divided into Constrained and Linked. Constrained refers to firms who base their diversification on some central skills or strengths while Linked includes those who regularly diversify into new directions. In addition, firms with small degree of diversification, i.e. those under Dominant Product, are further divided into Vertical and Unrelated diversification. Unrelated diversifiers are also separated into Conglomerate and Unrelated Business to demonstrate an intensive use of acquisition of the former. All in all, firms are classified into nine categories, namely Single Business, Dominant Vertical, Dominant Unrelated, Dominant Constrained, Dominant Linked, Related Constrained, Related Linked, Unrelated Business, and lastly Conglomerate. In other words, there are five categories of related diversification and three categories of unrelated diversification.

Salter & Weinhold (1978) also concentrate on related diversification by finely sub-categorising it into Vertical Integration, Horizontal Integration, Supplementary Related, and Complementary Related. While Supplementary Related diversification refers to an entry into new product-markets by utilising existing skills or resources, Complementary Related diversification involves acquiring new skills and resources while leaving the product-markets almost unaltered. Similarly, Chiesa & Manzini (1997) focus on related diversification. Using resources and organisational routines, related diversification is further divided into three groups. Firstly, if firms use the existing resources and routines to diversify, they are categorised as Replication-Based. Secondly, if firms rely on the existing routines but new resources, they are grouped as Routine-Based. Thirdly, Resource-Based is used to describe firms who base their diversification on the new routines but existing resources. Other scholars propose alternative ways of classifying diversification (Booz, Allen & Hamilton, 1985; Roberts & Berry, 1985; Varadarajan & Ramanujam, 1987; Wood, 1971).

There are a number of measures which have traditionally been used to operationalise the type of diversification discussed above. The three primarily used methodologies are the Standard Industrial Classification (SIC) code based measure, the categorical measure (Rumelt, 1974), and the entropy measure (Jacquemin & Berry, 1979).

The Standard Industrial Classification (SIC) code based measure has been used primarily by the industrial economics discipline. It stands on the assumption that two business activities sharing the same SIC code have similar input requirements and share common production and technology functions (Markides & Williamson, 1996). While this measure boasts its user-friendliness, objectivity, and replicability, there are some drawbacks. A simple product count of a firm neglects the strategic intent of the management (Hoskisson, et. al., 1993) and is therefore an appropriate measure to compare inter-industry firms, rather than intra-industry firms (Pitts & Hopkins, 1982). Moreover, this type of assessment cannot very well capture shared resources in marketing and research and development (Davis & Duhaime, 1992).

The categorical measure is a pioneered work of Rumelt (1974) which has been extended from the classification system originally proposed by Wrigley (1970). Despite its relative subjectivity in comparison to the SIC code based measure and a comparatively higher amount of time required to achieve the measure, a large number of diversification research, particularly in the strategic management discipline have adopted this method. In spite of its original aim of conquering the unclear relationship between economic performance and diversification found in the studies which adopt the SIC measure (Rumelt, 1974), the categorical measure has also been widely criticised and blamed for the inconsistency in the findings of diversification strategy and performance.

The entropy measure of diversification was initially developed by Jacquemin & Berry in 1979 and has since been used to support a number of diversification research (Amit & Livnat, 1988; Baysinger & Hoskisson, 1989; Palepu, 1985). The measure takes into account both a number of segments in which firms operate and their relative importance. Despite some issues reserved by Davis and Duhaime (1989); Hoskisson, Hitt, Johnson & Moesel (1993) support the reliability and validity of the entropy measure.

Fundamentally, all of these measures classify diversification into different categories on the basis of relatedness. Relatedness is referred to an ability to transfer resources and skills from one business to another (Porter, 1980). Relatedness is inherently linked to work on synergy originated by Ansoff (1965). Both terms are now used interchangeably. According to Ansoff (1965), synergy is a gain which can be derived by operating two or more

businesses simultaneously and is also referred to as the “2+2=5 effect”. In other words, synergy is the combined effects of operating in more than one business and hence it is a synergy gain that plays an important role in any successful diversification. There are four types of synergy gains, namely sales, operating, investment, and management synergy. By utilising mutual distribution channels and sales administration, sales synergy can be achieved. On the other hand, operating synergy can be derived from utilising operating facilities. Similarly investment synergy can be gained from using the same plant, machinery and raw materials. Although less apparent, management synergy can also be achieved. The synergy gain varies according to the diversification direction.

Porter (1985, 1987) describes the sharing of resources between businesses as “interrelationships”. They are divided into three broad types, namely tangible, intangible, and competitor interrelationships. There are five types of commonalities for the tangible interrelationships, namely production, market, procurement, technology and infrastructure. He also argues that businesses that may not share the same activities may nevertheless be similar in generic terms. Hence the intangible interrelationships refer to management know-how in the similarity of the *type* of buyer, seller, manufacturing process, and government relationships. The competitive interrelationships exist when there are rivals who compete with the firm in more than one industry. Accordingly, the firm's action towards them in one industry may have a strategic implication in another industry. Whilst stressing the importance of the three types of interrelationships in competitive advantage, Porter (1992) warns of the difficulty in implementing intangible interrelationships. Owing to the uncertainty in predicting the value of intangible resources in another business and the transference of management know-how, their roles often represent an ex-post rationalisation of diversification.

Despite his proposed two types of assets, namely physical and invisible assets, Itami (1987) propounds that synergy gain from information-based, i.e. invisible assets will lead to competitive edge. This is because information can be used simultaneously, does not wear out after use, and can be combined to yield out more information.

There are advantages and disadvantages embedded in all of the main types of measure. Work such as that of Hoskisson, et. al. (1993) provides a good review of these measures, with a particular emphasis on the entropy measure. To overcome the fragility embedded in these three measures, scholars have proposed other measures, some as an alternative and others as a complement. While some proposed measures focus on the quantitative evidence of a degree of relatedness, many urge researchers to consider the qualitative, hence, the *strategic relatedness* of diversification.

In spite of the recognition of synergy at the strategic level in terms of management synergy (Ansoff, 1965), invisible assets (Itami, 1987), and intangible interrelationships (Porter, 1992), relatedness is invariably measured at the operational level. In addition, most research rely on quantitative measures (Yip, 1982; Well, 1984; Mahajan & Wind, 1988), SIC data (Montgomery & Hariharan, 1991). Generally, these studies find a propensity of firms to diversify into businesses with similar resources, particularly those at the operational level, such as product distribution systems (Ingham & Thompson, 1995), buyer-seller relationships (Lemelin, 1982), research and development functions (MacDonald, 1985), and advertising intensity (Carleton, Harris & Stewart, 1984). Nevertheless, the inconsistent findings concerning the relationships between relatedness and performance of

diversification have raised a few questions. Among them is how relatedness should be measured. Recent research turned their attention to the strategic relatedness.

2.4.2 *Emerging View: Classification of Diversification and Measures of Relatedness*

The research on diversification has come a long way. Since Rumelt's (1974) original classification of related versus unrelated diversification, it is now recognised that relatedness is a matter of degree (Montgomery, 1982; Caves, Porter, Spence & Scott, 1980; Montgomery and Wernerfelt, 1988).

Prahalad & Bettis (1986) propose the concept of dominant general logic of management as a supplement, rather than a substitute to the previous concepts of relatedness. It is defined as "a mind set or a world view or conceptualisation of the business and the administrative tools to accomplish goals and make decisions in that business" (Prahalad & Bettis, 1986). This concept is based on an argument that relatedness may not be associated with an economic and technical concept only, rather it is also connected with strategic similarity of businesses. As a result, choosing strategically similar businesses can effectively exploit a common managerial dominant logic of the firm. The concept of dominant logic boasts its consideration of strategic similarity which both the business portfolio, and to a lesser extent, the concept of synergy fail to capture. However, the cognitive nature of the concept makes it difficult to operationalise and apply.

Originated by Galbraith & Kazanjian (1986), the centre of gravity concept suggests the transferability of the top management mind-set and skills of one business to the others in the same level of supply chain. Even though the centre of gravity appears to be less popular than the dominant logic, both concepts highlight the gains to be achieved from diversifying into a strategically related business. Diversification into a business which is strategically related is different from a move into a functionally-related diversification which is the basis of several studies (Carleton, Stewart & Harris, 1984; Lemelin, 1982; MacDonald, 1985; Montgomery & Hariharan, 1991).

Similarly, Markides & Williamson (1996) urge the importance of strategic relatedness by looking at five categories of assets, namely customer, channel, input, process, and market knowledge assets. The study argues that the traditional ways of measuring relatedness is somewhat incomplete as they ignore the strategic importance of a strategic similarity in relation to relatedness. Subsequently, Very (1993) sums the two levels of relatedness which are critical to gaining synergy, namely operational and managerial level of relatedness. Stimpert & Duhaime's study (1997) on the conceptualisation of relatedness by managers reveals other factors constituting to the concept of relatedness, namely product-market, differentiation, financial, and lastly commodity relatedness. In spite of a multitudinous measure of diversity, the inconclusiveness between diversity and performance still prevails.

Even though attention has turned to the strategic relatedness of diversification, the cognitive and qualitative nature have made the operationalisation of these concepts difficult. Recognising the flaws in the existing ways of measuring relatedness, Grant (1988) attempts to operationalise the dominant general logic of management proposed by Prahalad & Bettis (1986). In doing so, he proposes that the top management team should be explored in terms of functions, rather than the mind set or conceptualisation of business. As a result, strategic

relatedness can be captured by considering three broad management functions, namely resource allocation, strategy formulation, as well as monitoring and control of performance.

In spite of the traditional way of classifying diversification into related and unrelated categories, there have been suggestions that diversification should perhaps be treated as the continuum, rather than the absolute. In other words, relatedness should be measured by its degree. Work such as that of Grant (1991) provides a significant contribution. Moving away from the argument in regards to related versus unrelated diversification, Nayyar (1993) cautions the implementation of gaining synergy by pointing out that there is a great distinction between potential and realised synergy. Work by Chatterjee (1986) shows that it is generally difficult to achieve realised synergy and that most gains from acquisitions and takeovers are from asset disposals. As a result, there has been some research attempting to identify ways of achieving synergy, with one area of research focusing on the organisational structure (Porter, 1985). All in all, synergy has been and still is one of the concepts used when analysing the direction of diversification.

2.5 Justification of Diversification: Transaction Cost Theory

In organisation economics, the basis for a decision of whether activities should be performed within the firm or in a market rests with the costs and benefits of carrying out a “transaction” within a firm, or across the market. Originated by Coase (1937), transaction cost has become a basis for much diversification research.

Kenneth Arrow (1969) defines transaction costs as “the costs of running the economic system”. As suggested by Williamson (1981), every economic activity has a transaction cost and it occurs when “a good or service is transferred across a technologically separable interface” (Williamson, 1981). The costs of transaction include both direct costs of production, as well as, indirect governance costs of negotiating, writing, monitoring, and enforcing the agreement. The benefits are defined as the speed, efficiency, and quality of these decisions. Fundamentally, activities should only be performed within the firm, i.e. the hierarchy mode if administering these activities within the firm proves to be more efficient than conducting the transactions through a market exchange, i.e. the market mode.

The transaction cost theory has since been a basis for decisions concerning vertical integration, geographical expansion, as well as product diversification. Applying transaction cost theory to diversification, Teece (1982) concluded that justification for diversification into new product markets is determined by the contractual costs of selling or renting excess resources across the market. If the transaction cost in the market is too high and/or subject to market failure, then corporate hierarchy becomes a preferred mode of organisation. The key argument for the role of transaction costs in diversification is that economies of scope in resources alone are not sufficient to justify diversification. If these resources can be traded freely in the market or minimal transaction costs, then companies owning these resources do not need to diversify, they can simply sell or rent these resources to other firms. However, if there are high transaction costs of transferring these resources for usage outside the firm’s boundary, then it is more efficient to utilise these resources within the boundary of the firm, i.e. through diversification into other businesses. Thus the transaction costs determine the choice of where activities should be performed. Later research has provided much insight into the application of the transaction cost theory.

Fundamentally, costs and benefits of the market and hierarchy vary depending on situations, hence no single form of organising activities is universally superior (Collin & Montgomery, 1998). Emphasis has been placed in determining situations in which one mode of organising activities may be more superior to another. As discussed by Collin & Montgomery (1998), opportunism, asset specificity, uncertainty, and high transaction frequency all contribute to a market failure. Other situations that lead to hierarchy being a preferred mode of organisation include inseparability of resources, market information, tacit knowledge and market power. First, resource inseparability refers to the impossibility of separating one resource from others within the firm (Teece, 1980). Second, often valuable and inimitable, tacit knowledge, such as management capabilities cannot be transferred across markets (Polyani, M., 1962). They are indeed the basis for many diversification strategies (Collins & Montgomery, 1998). Third, some firms have access to privilege market information (Arrow, 1984). Lastly, market failure may occur when market power is a drive in the utilisation of resources. Fundamentally, some resources and capabilities, particularly those which are intangible in nature are deeply imbedded in the routines of the firm (Nelson & Winter, 1982; Wernerfelt, 1988). Thus they are often more efficient if utilised within the scope of the firm.

This literature discusses internal factors as causes of market failure. However, market failure may also occur from external factors. In their contributory research supporting diversification found in emerging markets, Khanna & Palepu (1997), suggest three main external sources of market failure. They are information problems, misguided regulations, and inefficient judicial systems. First, owing to a lack of communications infrastructure, quantity and quality of information in emerging markets cannot be compared to that in developed countries. Even when there is information, there is no mechanism or effective legal system to guarantee them. Second, misguided regulatory framework may result from political goals. As a result, firms operating in this environment may be subject to different commercial constraints. Third, ineffective judicial systems mean that contract enforcement can be unreliable and unpredictable. Whilst there exist a range of institutions to overcome these sources of market failure in the more developed economies, this is not always the case in developing countries. Consequently, diversification strategy may provide a means of performing some of these institutional functions lacking in the economy. Subsequently, Booz, Allen & Hamilton (1998) published an article supporting Khanna & Palepu's view (1997) that focused strategy is not necessarily applicable to all business environments.

Supporting work such as that of Teece (1982) and Khanna & Palepu (1997), Claessens, et al (1999) tested the hypothesis that internal factor markets are a more effective way of resource allocation than external markets, leading to prevalent diversification patterns by East Asian firms. The term "internal factor markets" denote within-firm markets for raw materials, labour, and financial capital. Another evidence for the role of internal factor market is from the same study which finds that there is a positive correlation between group-affiliation and firm-level diversification (Claessens, 1999). Essentially, when external markets are subject to distortions and hence high transaction cost, as is the case in less developed economies, group affiliation is a lower-cost mechanism compared to pure firm-level diversification in carrying business activities. The transaction cost theory is also supported by the negative relation between diversification performance and economic development (Fauver et. al, 1998; Claessens, 1999). Hence diversification increases the costs of diversification where external markets are competitive. In reverse, it could be the lowest-cost mechanism of governing business transactions in less developed economies.

Whilst the transaction cost theory has consistently been used to provide explanatory framework for corporate strategy, particularly diversification, several researchers point out some of their assumptions. Fundamentally, the market approach to the economic organisation assumes that the market is perfect. In other words, economic actors have complete information, commodities are homogeneous, firms act independently, and therefore no firm will dominate the market. Hence, explanation is provided through “deviations” from the model, i.e. “market imperfections”. However, in comparing patterns of economic organisation between countries, the unique characteristics of many emerging countries are often referred to as “imperfect” or “underdeveloped”. Orru, Biggart & Hamilton (1997), however, point out that such theories look at the East through the lens of the West. Economic organisations vary substantially across countries. Despite the success of industrial practices in countries which do not conform to the norm of the West, such as Japan, these countries are regarded as exhibiting imperfect and distorted characteristics of the market. The study argues the success of economic organisations in many Asian countries implies that the notions of “perfect versus imperfect” and “developed versus undeveloped” do not truly explain the diversity in economic organisation in different countries (Orru, et.al, 1997). They conclude that this is the result of ethnocentrism, i.e. a Western-based view of the proper organisation and functioning of a market economy. Hence, despite the success of economic organisation in many Asian countries, such a paradigm concludes that Asia possesses imperfect and distorted markets. They propose that the institutional approach will lead to a better analysis of the economic organisation. Work such as that of Whitley (1992) also suggests that a key task is “to understand how different kinds of business organisations and economic rationalities develop and become effective in different institutional contexts”.

2.6 Determination of Diversification Direction

There has been a vast amount of research striving to explain the determination of diversification direction. Within the field of corporate strategy, a choice of products and markets is derived from an evaluation of both internal and external variables. Ultimately, these two sets of variables determine the best match of opportunities and resources (Andrews, 1971; Miles, 1982).

Andrews (1971) identifies external variables as environmental conditions and trends, as well as opportunities and risks, while internal variables include a firm’s distinctive competence and resources. An assessment of internal capability and external market needs provides a framework necessary for any strategic decision, whether it be expansion or diversification. Focusing on diversification, Miles (1982) suggests that all decisions concerning diversification direction are carved around and influenced by the general environment in which the firm operates, the industry’s competitive environment, the firm’s specific attributes and lastly, the firm’s performance.

The literature of strategic management, and specifically on diversification list out various factors which have an important role in the determination of diversification direction. In analysing them, they study Andrews’ and Miles’ framework and therefore broadly divide these factors into two categories, namely internal and external variables. The internal and external variables reflect the strategic resources and business attractiveness proposed in our conceptual framework, respectively.

2.6.1 Internal Variables: Resources

An analysis of the internal variables is also referred to as a firm-level analysis (Foss, Knudsen & Montgomery, 1995). A review of the literature shows that the internal variables cover a firm's resource profile and a firm's attributes. It is, however, noticeable that a resource profile has captured much attention from academic researchers in comparison to the other.

2.6.1.1 *A Resource Profile*

According to Penrose (1959) firms are pools of resources and capabilities; hence it is resources and capabilities that determine the strategic decisions, including diversification. This section discusses definition and types of resources and capabilities, as well as their role in the determination of diversification direction.

Resources can be defined as “the stocks of available factors that are controlled or owned by a firm” (Amit & Schoemaker, 1993). There are numerous ways in which resources are categorised. Penrose (1959) categorises resources into physical and human resources. Hofer & Schendel (1978) classify resources into five main groups, namely financial, physical, human, technological, and lastly, organisational resources. Amit & Schoemaker's work (1993) categorise a firm's resource profile into four groups, namely know-how, financial assets, physical assets, and human capital. Other scholars base their research on three groups of resource, namely physical, intangible, and financial resources (Macdonald, 1984; Montgomery & Hariharan, 1990; Teece, 1982). Despite the various ways in which resources are categorised, they can be broadly categorised into tangible and intangible resources (Caves, 1980; Grant, 1991; Hall, 1992).

(a) Tangible resources

Tangible resources include physical assets, such as plant, equipment and raw materials (Caves, 1980). Moreover, they are comprised of human and financial resources (Grant, 1991). The tangible nature of this type of resources makes it easy to recognise and measure. Owing to an argument that many tangible resources can be acquired and transferred, they are regarded as less important to the firm's competitive advantage (Penrose, 1959). As a result, much interest is placed on intangible resources.

(b) Intangible resources

Intangible resources can be divided into those which are human and non-human related (Grant, 1991) or into assets and skills (Hall, 1992). According to Grant (1991), intangible resources which are human related include skills, knowledge, and other abilities which can be derived from the firm's human capital. On the other hand, technology and brand reputation are regarded as the non-human related intangible resources. While Grant (1991) uses an association with human to classify intangible resources, Hall (1992) adopts the notion of belongingness to differentiate intangible resources into assets and skills. Firstly, assets refer to intangible resources which the firm may own, including intellectual property rights, contracts, and trade secrets. These assets are subject to a certain degree of legal involvement. Other intangible resources which are classified as assets include reputation and networks. Reputation may be referred to as the customer's view in

regards to the firm and its products or services. Networks include both internal and external networks. Internal networks refer to the commercial relationships and the sharing of information among the firm's employees while external networks relate to the firm's relationships with outsiders, such as customers, suppliers, competitors, and other private and public agencies. Secondly, intangible resources which are skills include know-how and organisational culture (Hall, 1992). Know-how is the ability that is based on the skills and experience of the employees and the firm. Organisational culture can be defined as "the beliefs, knowledge, attitudes of mind and customs to which individuals are exposed in an organisation, as a result of which they acquire a language, values, habits of behaviour and thoughts" (Hall, 1992).

(c) Capabilities

If resources include the physical assets, human and financial resources, skills, knowledge, technology, brand reputation, intellectual property rights, networks, and organisational culture, what do capabilities mean? According to Grant (1991), capabilities can be regarded as "the consequence of different resources working together in a complementary team". Capabilities are also defined as "information based, tangible or intangible processes that are firm-specific" (Amit & Schoemaker, 1993). In other words, capabilities are the firm's capacity to make use of its resources in the intended way.

Originated by Penrose (1959), the resource based theory has become the principal theory linking a firm's resource profile to diversification decision. Essentially, the resource based theory views diversification as a means of utilising the firm's resources to meet their potentialities. Such a view has been adopted by an amount of research.

Because firms comprise heterogeneous resources (Penrose, 1959), looking at the firm's resources can assist firms in addressing some key diversification questions, including the extent, motivation, direction and performance (Mahoney & Pandian, 1992). Furthermore, the resource-based view allows an analysis of diversification strategy to be taken from different perspective, i.e. from the resource side, rather than from the conventional product side (Wernerfelt, 1984). The resource-based view is also invaluable in identifying opportunities for profitable diversification by determining the competitive advantage which can be derived from applying existing resources to the new industry (Markides & Williamson, 1996). Similarly, Teece (1982) refers to the resource-based theory as "robust" to diversification analysis owing primarily to their ability to provide an insight into both related and unrelated diversification.

One of the most notable roles of the resource based theory is in the study of diversification direction. Various variables are used to link a firm's resources to diversification direction. They include advertising intensity by Carleton, Harris & Stewart (1984), buyer-seller relationships by Lemelin (1982), research and development functions by Macdonald (1985), product distribution systems (Ingham & Thompson, 1995), and line-of-business data by Montgomery & Hariharan (1991). These studies conclude that the direction of diversification does not occur at random. There is a propensity for firms to diversify into industries which require similar resources to their existing businesses.

Among a large number of research, those with significant contributions include Chatterjee & Wernerfelt (1991), Mahoney & Pandian (1992) and Montgomery & Wernerfelt (1988). Similar to many studies, Chatterjee & Wernerfelt (1991) conclude that there is a systematic connection between a firm's resource profile and the diversification direction. However, the study uses the notion of *asset specificity* as the theme of analysis. Resources are classified into physical resources, intangible assets, and financial resources. Physical resources refer to assets such as plant and machinery while intangible assets are those which derive from knowledge and expertise of the human capital. Financial resources refer to the firm's ability to fund its business activities internally and externally. From the perspective of asset specificity, physical resources and intangible assets are regarded as specific, hence inflexible while financial resources are seen as inspecific, thus flexible. The study detects that resources which are specific are likely to drive firms into related diversification. However, the findings concerning the inspecific resources are less clear cut. It finds that internal financial resources favour unrelated diversification while external financial resources show no association with the diversification direction.

Other studies produce consistent findings that generally, there is a positive correlation between asset specificity and degree of relatedness (Mahoney & Pandian, 1992). In other words, if resources are not eminently specific, then firms tend to diversify into unrelated businesses and vice versa (Montgomery & Wernerfelt, 1988). These three studies are particularly relevant to the construction of our conceptual framework.

Based on the resource based theory, some studies go further by attempting to rate the degree of influence of various types of resources. Penrose (1959) stresses the importance of intangible assets over physical assets in relation to the diversification strategy. This suggestion conforms with Bettis (1981), Chatterjee & Wernerfelt (1991) and Chang (1996)'s findings that intangible and financial resources are more influential than physical assets in regard to the direction of diversification. Such view is based on the argument that physical resources can be easily acquired and transferred, thus providing no real competitive advantage. Accordingly, focus is placed on the intangible assets or knowledge base of the firm. As suggested by Amit & Schoemaker (1993) and Grant (1991), a competitive advantage depends on the firm's capabilities to make use of its resources. All in all, many studies based on the resource based theory conclude that essentially, the resource profile is a key factor affecting the direction of diversification.

2.6.1.2 A Firm's Attributes

Although a majority of research on the relationship between the internal variables and the diversification direction concentrates on the resource profile of the firm, there are also other factors which form part of the internal variable. As suggested by Lemelin (1982), other firm-specific variables may equally be important in determining the diversification direction. These attributes of the firm include size (Ingham & Thompson, 1995), organisation structure, compensation schemes (Chatterjee & Wernerfelt, 1991), performance (Christensen & Montgomery, 1981), previous diversification moves (Wernerfelt, 1984), and the top management team (Michel & Hambrick, 1992).

Chatterjee & Wernerfelt (1991) suggest that a large sized firm may have a tendency to enter into unrelated businesses. Subsequently, work such as that of Ingham & Thompson (1995) concludes that a firm's size which is defined as the total value of assets plays an important role in the diversification in the financial services industry, largely because of the high level of investment required.

Although, the study by Christensen & Montgomery (1981) aims to explain the link between a resource profile and the diversification direction, one of the variables tested is a firm's performance. The study concludes that the direction of diversification does not occur at random. A firm's performance is among the explanatory variables. Generally, low performing firms have a tendency to diversify into unrelated business activities, primarily because of the limited opportunities in the related businesses.

Another attribute which is believed to bear a certain role in the diversification direction is the firm's previous diversification patterns. Wernerfelt's study (1984) suggests that the diversification direction does not occur at random. Many diversification moves are used as a stepping stone to enter into another industry. Moreover, many diversification moves are used as a learning process. In other words, the previous diversification patterns influence the future diversification direction.

It is noticeable that there is a limited amount of research attempting to link a firm's attributes to the direction of diversification. Whilst these attributes may influence the diversification direction, not all of them are empirically tested. With the exception of attributes such as size, performance and previous diversification patterns, the suggestions on other linkages, by and large, come from the concluding remarks from those studies aimed at identifying the relationships between the resource profile to the direction of diversification. To sum up, although most studies conclude that the significance of the firm's attributes are generally lower than that of the resource profile, they suggest that different dimension of these attributes is likely to lead to a particular type of diversification direction.

2.6.2 External Variables

An external variable here refers to a set of factors which are outside the direct control of the firm. The importance of an external analysis has been emphasised in terms of industry characteristics Ansoff (1965), environmental conditions by Andrews (1971), Miles (1982) and the competitive industry environment by Porter (1987). These factors are regarded as contributing to the overall industry attractiveness (Ansoff, 1965; Porter, 1987).

In analysing the industry characteristics, Ansoff (1965) groups industry attributes into seven main categories, namely product-market structure, growth and profitability, technology, investment, marketing, competition, and lastly, strategic perspective. Andrews (1971) stresses the importance of environmental conditions, such as social, political, economic, technological factors. This is similar to work by Miles (1982). Subsequently, Porter (1979) produces a five forces framework which outlines that an industry attractiveness depends on the threat of new entrants, the bargaining power of customers and suppliers, substitute products, and the jockeying among competing firms. Porter (1987) stresses that for an industry to be attractive, it must be "structurally attractive or capable of being made attractive". In other words, it is not necessary to limit the direction of diversification only to industries which are attractive at the time of diversification. Diversified companies can gain from the changes

in the industry structure which may lead to it being more attractive than when the company first decides to enter. However, other researchers argue that the industry conditions at the time of entry are relevant because of the analysis of the investment required and the initial competition the firm is likely to face (Sharma & Kesner, 1996). In analysing the industry attractiveness, both Ansoff (1965) and Porter (1987) point out that the cost of entry test should be applied as the more attractive the industry is, the more likely that it is going to be expensive to enter. The cost of entry should then be weighted against the industry attractiveness in order to determine the future return.

The general view is that both internal and external variables are important to the determination of diversification and that no one single set of variables should be considered in isolation (Ansoff, 1965; Porter, 1987). As suggested by Andrews (1971) "the attractiveness of an industry depends upon the nature of a firm's resources". Similarly, Amit & Schoemaker (1993) consider both strategic assets and strategic industry factors as the main factors which affect economic rents.

The principal reason which supports an analysis of both variables is the value of the resources which adheres greatly to the market environment (Davis & Montgomery, 1995). In other words, resources vary in value and may therefore be valuable in a particular industry during a particular stage of industry development. As a result, it is important to identify the stage of industry development in order to allocate the right resources and skills required. The skills needed to enter the industry as a pioneer differ from those of later entrants (Robinson, Fornell & Sullivan, 1992). This is in line with Porter's view (1987) that continual changes in the competitive market equilibrium will result in a varying value of the firm's resources. Thus without analysing the industry characteristics, firms may mistakenly rate the value of their resources. Though supporting the resource-based view of the firm, Montgomery (1995) urges scholars that while the industry-level analysis can reveal both opportunities and threats, the firm's resource profile may also consist of both strengths and weaknesses. All in all, these views support Abell's work (1978) which suggests that "the resource requirements for success in a business - whether these be financial requirements, market requirements, engineering requirements, or whatever - may change radically with market evolution". In other words, without analysing the market conditions, the real value of resources is unlikely to be recognised.

Despite the emphasis on both sets of variables, there is a lean towards the internal variable in relations to the number of diversification studies. There does not appear to be any study which solely focuses on the external variable by empirically testing its possible linkage to the determination of the diversification direction. Views in regards to the external variables often come from two types of studies, namely those which test both variables but dismiss the external variable as the main determining factor and those which omit the external variable from the study altogether but suggest their possible role in the diversification direction. Most of these studies are based mainly on the resource based theory. We now look at some of the views from these studies which are related to the external variable.

Even though Lemelin (1982) includes the industry factors in the study, the main purpose of the study is to empirically prove the concept of relatedness. The study supports the important role of the relatedness between the origin and target industries in regards to the determination of the diversification direction. While recognising

the role of industry characteristics, such as growth and profitability, the study concludes that firms tend to diversify into industries which have some operational relatedness to their existing activities.

Although, the external variable is not included in the study, Chatterjee & Wernerfelt (1991) point out that industry risks may have some influence on the diversification direction. Mahoney & Pandian (1992) recognise that besides the nature of the available resources of the firm, it is the opportunities in industry that drive the direction of diversification. The study by Ingham & Thompson (1995) on diversification and deregulation of financial services industry refers regulatory arrangements of the industry as determining factors of the direction of diversification. The study argues that changes in external environments have a tremendous impact on a firm's decision to enter or exit an industry.

Chang's study on the manufacturing sector (1996) builds on Levintal & March's research (1981) on intensive and extensive search. Owing to their nature, intensive search can be interpreted along the line of related diversification while extensive search is approximate to unrelated diversification. Generally, there is an optimal mix between intensive and extensive search. However, the study suggests that a knowledge base of a firm plays a more important role in the extensive search, i.e. unrelated diversification whilst industry characteristics are more applicable to intensive search, i.e. related diversification. Even though all these studies suggest possible roles of industry characteristics on diversification direction, they are not the main theme of the research (Chang, 1996; Ingham & Thompson, 1995; Pandian & Mahoney, 1992).

Some studies are even more sceptic about the role of the external variable. For instance, Wernerfelt & Montgomery (1986) argue that the attractiveness of an industry depends greatly on a firm's relative position. By categorising firms into efficient and inefficient diversifiers, and classifying industries into high and low profitability, high and low industry growth, the study concludes that the implication of each industry characteristic is firm-specific.

Grant (1991) warns that a variation in profitability between industries can evaporate due to reasons such as international competition, technological change, and inter-industry diversification. This implies the comparatively less significant role of the external variables to the internal variables in diversification. One of the arguments against the relationship between industry characteristics and the direction of diversification comes from Rumelt (1991) who claims that business-unit effects are more prevalent to the firm's profitability than industry effects. Nevertheless, subsequent studies reveal the opposite. Sharma & Kesner (1996) find that industry factors have stronger effects on a firm's performance than firm-level or relatedness variables. Interestingly, McGahan & Porter (1997) reveal that the role of the internal and external variables on a firm's performance vary dramatically across sectors. Industry effects are much more important than business segment effects in service sectors while the reverse is true in the manufacturing sector. With a large proportion of the diversification research focusing on maturing sectors, such as manufacturing, this perhaps explains the general view that the internal variables are more important than the external variable to the firm's performance and thus diversification strategy.

Despite little support in the role of the external variable on the determination of the diversification direction, Foss, Knudsen & Montgomery (1995) suggest that "an understanding of the industry-level forces behind the appearance and disappearance of entire populations of firms should be helpful to those who are interested in the

destinies of individual firms". This therefore implies the benefit which can be derived from examining the external variables.

To conclude, while some studies may show that certain variables are more important than others, many researchers suggest that any single variable should not be used in solitude. Their interrelationships mean that to consider one without the others is likely to lead to any substantial findings. Levinthal (1995) suggests that benefits can be gained from linking both the firm-level and industry-level in the analysis of diversification. Hence these studies are in effect supporting Andrews' study (1971) on internal and external variables and Miles' work (1982) on the general framework consisting of four main variables, namely the firm's general environment, its attributes, its performance, and the industry's competitive environment.

2.6.3 Business Environment and Diversification

Another important issue resulting from the review of diversification research is the application of diversification theories and concepts on firms operating in different business systems. Most of the research is based on empirical evidence derived from firms operating in North America and Europe.

In addition to the studies on the advanced markets discussed above, there are three key pieces of literature which provide significant contributions to the diversification research, namely those by Chandler (1962), Rumelt (1975), and Whittington (1994).

Chandler's model argues that large industrial firms in advanced economies all over the world would follow a universal logic of corporate development. Large industrial firms would grow by expanding their existing resources into related businesses, and manage the consequent diversification by decentralising operations within divisional structures (Chandler, 1962).

This is in line with findings in the study on the US undertaken by Rumelt (1975), Related-linked and unrelated-passive have not proven rewarding to most firms. Although categories of diversification strategy did not differ significantly in earnings variability itself, there were significant differences in the risk premium ratio (the ratio of earnings variability to growth rates in earnings). Dominant constrained and related constrained firms had the most favourable risk-premium ratios. Hence very little and very great diversity produce equivalent variability in earnings, but carefully controlled diversity is the best form of diversification for reducing fluctuations in earnings. Thus Chandler and Rumelt's studies emphasise the importance of related diversification in corporate strategy.

The question raised by Whittington (1999) is whether the Chandler's original model should be stretched to include the unrelated conglomerate diversification? Whittington (1994) therefore builds on the studies by Rumelt, by looking at diversification patterns in three European countries, namely the UK, Germany, and France. He finds that Chandler's model in the early 1960s turns out to be true. He states that "*conglomerates do emerge typically as "hopeful monsters" (Dosi et al., 1992), prolific but transitory creatures...*" (Scott, 1973). Unrelated conglomerate strategy continues to increase but these conglomerates are generally less stable than related diversifiers, which dominate in all three European economies (Britain, Germany and France) (Whittington, 1999).

This is supported by Kogut (1992) who suggests that *“related diversification appears the normal end point of successful corporate development. There is no call to add the conglomerate as a final “stage four” in the development of the firm”*.

But the key counter argument regarding the significance of business groups comes from Williamson (1975). He suggests that conglomerate firms (of the appropriate kind) are not altogether lacking in social response. *“If maintaining the market for corporate control is thought generally to be beneficial, if reallocating resources away from lower to favour projects with higher net private returns also generally yields social net benefits as well, and if the anti trust enforcement agencies are to maintain a tough policy with respect to horizontal and vertical mergers, a policy of moderation with respect to conglomerate mergers is indicated”*.

Chandler and Williamson, despite their differences, state that the patterns of diversification lie not just with technology, consumer demand and market structure, but also political and legal situations. But all in all, the traditional thinking on diversification is that firms will expand from a one-man business, to multi-divisional business, and most will become a related business (Chandler, 1962). Unrelated business is a temporary stage, ultimately firms would return to related business. Although, there has been an abundance of research looking at the development of firms in the advanced market, comparatively little efforts have been placed in understanding the development patterns of firms in different business environments, particularly those in the emerging market countries.

There is an increasing number of studies which look at diversification patterns found in the emerging market countries. When looking at such a topic, many studies tend to link their theoretical arguments to the existence of business groups.

The study of Leff (1973) suggests that business groups are a common phenomenon in the developing countries. Business groups are an intrafirm organisation that reflect to market imperfections. First, it is an organisation structure for appropriating quasi-rents which accrue from access to scarce and imperfectly marketed inputs such as information and capital. Second, it is an alternative to portfolio diversification due to absence of markets for risk and uncertainty. Third, it is a vertical integration to eliminate problems arising from bilateral monopoly or oligopoly.

One of the most well-known pieces of literature on business groups is by Granovetter (1995) who recognises the differences between business entities in the advanced markets and emerging markets. He discusses the six patterns of business groups, namely axes of solidarity for business groups, ownership relations, authority structure, business groups and moral economy, finance, capital and role of banks, and business groups and the state.

Recently, there have been a number of studies which provide some explanation on the wide range of diversification patterns found in the emerging market countries.

Table 2.1: Recent Studies of the Emerging Market Countries

Authors	Year	Countries Studied	Findings
Khanna, T. & Rivkin J. W.	2001	14 countries in the emerging markets: Argentina, Brazil, Chile, India, Indonesia, Israel, Mexico, Peru, the Philippines, S. Africa, S. Korea, Taiwan, Thailand, Turkey	Business group affiliates earn higher accounting profits than the comparable unaffiliated firms in six of the 14 countries, lower profits in three, with no statistically significant differences in five. In 12 countries, returns of group affiliates are more similar to one another than are return of firms not members of the same group. This is contrary to the conventional thinking that unrelated diversification depresses profitability
Chung, C.	2001	Taiwan	The paper reviews three relevant theories of business groups and their existence: market centred theories, culturalist perspective, and the institutional approach. The institutional arguments supported by the data. The structure of family ownership network in business groups refutes the cultural perspective. The comparison between group firms and non-group firms confirms that lacking a coherent core in ownership and management makes firms unable to respond to institutional incentives promptly. While both markets and culture play a distinct part in the story, it is regulatory institutions that lead to group formation
Chang, S. J. & Hong, J.	2000	South Korea	Group affiliated firms benefit from group membership through sharing intangible and financial resources with other member firms. Internal business transactions such as debt guarantee, equity investment, and internal trade, are used for the purpose of cross-subsidisation. More attention should be paid to resources available at business unit level
Khanna, T. & Palepu, K.	2000	Chile	The net benefits of unrelated diversification are positive if group diversification exceeded a threshold level, although this threshold increases with time. Sizable group benefits unrelated diversification also exist, but they atrophy over time. The authors conjecture that the evolution of institutional context alters the value-creating potential of business groups, albeit slowly
Guillen, M. F.	2000	Cross sectional data in nine emerging markets and longitudinal data from three countries (S. Korea, Spain and Argentina)	Diversification in the form of a business group follows a logic of repeated access to foreign and domestic resources under asymmetric foreign trade and investment, rather than technological, marketing or financial strengths. Firms in emerging economies find it strategically sustainable to diversify into new industries by leveraging their property and knowledge-based resources
Chang and Choi	1988	South Korea	The larger business groups are more diversified than smaller business groups. They found that diversification has spread by 1977, increasingly further by 1982. Business group affiliated firms with multi-divisional structure show superior economic performance to others
Ghemawat, P. & Khanna, T.	1998	India	Large business groups in both Chile and India show no evidence to reduction in scope of activities. This contradicts the view that liberalisation is likely to reduce the role of diversified business groups in the economy. Deregulation of primary markets, without a development of intermediaries to facilitate the market, increases the value creation potential for business groups
Guillen, M. F.	1997	S. Korea and Argentina	Business groups are the outcome of closed inward or outward social relationships

In addition, most research relies on findings derived from analysing firms diversifying into more maturing industries. As a result, the role of these variables and their degree of importance on the direction of diversification of firms in other types of industries and markets is still unclear. The study by Anand and Singh (1997) reveal that the firm's capabilities play a varying role in different market environments. The main theme of the study is whether the market is growing or contracting. Thus it implies that diversification is a valuable strategy when industry is growing possibly because the growth provides a slack enough environment for the company to develop resources required. Nevertheless, industry evolution means that a value perceived during

the growth period may be detracted during a decline period. Recently, a study by McGahan & Porter (1997) concludes that the role of internal and external variables differ in different industries. All in all, Henderson & Mitchell (1997) suggests that the more important question lies with the condition in which the internal or external variables are more appropriate to corporate strategy, including diversification.

2.7 Diversification Strategy and Performance

In general, most firms diversify to achieve growth or defend its declining position (Ansoff, 1965) which will ultimately lead to an enhancement of its performance. As a result, it is important to consider the link between the direction of diversification and performance. There has been a plethora of research on the relationship between direction and performance of diversification. Yet there is no universally accepted framework which explicates the type of diversification strategy (related versus unrelated) to performance. One strand of research supports Rumelt's findings (1982) that related diversification generally outperforms unrelated diversification (Montgomery, 1986; Bettis, 1986; Palepu, 1985; Varadarajan, 1986; Varadarajan & Ramanujam, 1987). Others exhibit the opposite findings (Michel and Shaked, 1984; Rajagopalan & Harrigan, 1986; Chatterjee, 1986). However, some are indifferent (Lubatkin, 1987). The recent research by Khanna & Rivkin (2001) on the cross-country analyses of group performance shows that "business group affiliates earn high accounting profits than do otherwise comparable unaffiliated firms in six of the 14 countries, and lower profits in perhaps three, with no statistically significant difference in the remaining five". With such intense interest from both the academics and practitioners, why is there still such inconsistency in findings?

Some of the inconsistent findings may be derived from the effect of market structure variables (Christensen & Montgomery, 1981). For instance, Bettis & Hall (1982) clarify that the difference in performance of related and unrelated diversification found in Rumelt's study (1974) is largely due to the over-representation of firms operating in a highly profitable industry which are classified in a related-constraint category. However, Rumelt (1982) disputes that an adjustment of industry effects will still lead to the same conclusion that related diversification outperforms unrelated diversification. Montgomery (1982) supports Christensen & Montgomery's views (1981) by concluding that after controlling market structure variables, there is no significant evidence to support the relationship between diversity and performance.

One of the regularly mentioned reasons is an adoption of different methodologies to measure relatedness (Hoskisson & Hitt, 1990, Ramanujam & Varadarajan, 1989). Other scholars offer other possible reasons for the inconsistent findings. Campbell & Goold (1992) condemn the data collection and the way in which different researchers define relatedness for the paradox. They also suggest that perhaps the concept of relatedness cannot be applied to all industries at all points in time (Campbell & Goold, 1992). While these reasons may lead to some explanation for the confusion, no research has been carried out to empirically test their validity and to specifically conclude the reasons for the variation.

It is suggested that the inconsistent findings are resulted partially from three factors, namely the measurement of performance, the type of company and the period of investigation (Very, 1993). Firstly, different research adopts different interpretation of the term "performance", namely the overall profitability, return of capital, to name but a few. For instance, Reed and Luffman (1984) use return on capital and find that unrelated diversification contributes to a higher return on capital than related diversification. Secondly, there has also not

been any conclusive findings confirming that any particular type of company whether it be product versus service, domestic versus international, or conglomerate versus other types of firm, should expect higher or lower performance as a result of related or unrelated diversification. While some suggest that related diversification is a profitable strategy by service firms (Heskett, 1986; Nayyar, 1990), others produce a contrary conclusion (Carman & Langeard, 1980). Thirdly, the period of investment may, at the first glance, seem less valid due to various studies being conducted at the same period. However, without alienating other variables which may potentially have some effects on the findings, the time factors cannot be ignored. Nevertheless, there does not appear to be any study to confirm this.

2.8 Inter-firm Collaboration

The term “inter-firm collaboration” is used here to represent cooperative arrangements between firms. These can be in the form of joint ventures, alliances, licensing agreements, supply agreements, marketing agreements (Glaister, et.al, 1994; Contractor & Lorange, 1988b). Alliances can take several forms, including informal cooperative venture, formal cooperative venture, joint venture, joint ownership and merger and acquisition (Lorange & Roos, 1992).

Cooperative arrangements are regarded as a vehicle to share the organisation know-how and capabilities through the transfer and learning of knowledge and capabilities related to products and process, as well as information regarding the country, social, political and legal structures (Lyles, 1988). There have been a number of studies citing the reasons why firms collaborate. Firms are said to collaborate to improve their strategic position (Kogut, 1988), to deal with competitive pressure, to obtain economies of scale, to gain access to skills, to reduce risks, to co-opt competitors (Contractor & Lorange, 1988; Gomes-Casseres, 1994; Kogut, 1988), to internalise core competencies and enhance competitiveness (Hamel & Prahalad, 1990), to acquire tacit knowledge (Khanna, Gulati & Nohria, 1994), and to increase the probability of innovation (Teece, 1992).

A large number of studies on cooperative arrangements have focused on joint ventures. Among them, West (1959) assessed the reasons for joint ventures and found them to be the role of diversification, governmental control, technology and resource constraints. Hsieh (1996) states that western multinationals offer capital, technology, and management skills in exchange for regional know-how, and, often, political connections possessed by local business enterprises in the emerging markets. From the perspective of MNEs, Luo (2001) found that joint venture is a preferred mode of entry when perceived governmental intervention or environmental uncertainty is high. Asian MNEs from developing countries have different advantages or competitiveness compared to the Western MNEs. They tend to have more country specific knowledge about the markets (Yeung, 1997). Luo (1999) found that Asian MNEs have higher marketing knowledge and environmental familiarity of their host country markets than Western MNEs. These host country markets specific knowledge are largely derived from cultural benefits such as ethnic ties and networks.

The study by Phipatseritham & Yoshihara (1983) states that in many sectors, there have been cooperation between Thai business groups with foreign companies, including other Chinese groups in the region.

To conclude, there are several issues raised by scholars as possible causes of the inconsistent findings resulted from studies of diversification strategy and performance. Many of these issues are connected to the

diversification direction and may provide some explanation on the inconclusive agreement on the variables and their impact on the diversification direction.

3 Conceptual Framework

3.1 Introduction

The literature review in the previous chapter shows that, despite the huge volume of research into corporate diversification during the past three decades, we still lack a theory of diversification that is capable of explaining the diverse, often inconsistent, empirical findings concerning the relationship between diversification and company performance. Resource-based approaches to diversification that emphasise the importance of economies of scope in resources and capabilities suggest the superiority of related over unrelated diversification. Resource-based approaches also point to the risks of widely dispersed diversification - to exploit a core of closely complementary resources and capabilities; firms should “stick to their knitting.” Empirical evidence for North America and Western Europe largely supports these propositions: many studies have shown related diversification to be more profitable than unrelated and, over time, large companies are increasingly focusing upon their “core businesses.” However, the evidence among large companies operating in emerging-market countries is quite different. There is little evidence of the superiority of related over unrelated diversification and, over time, many large business enterprises in the emerging market countries have continued to diversify into a wide range of business activities.

My task in this chapter is to extend the theory of corporate diversification such that it can explain and predict the observed patterns of diversification, not just in the advanced economies, but in the emerging economies too. To do this requires a careful specification of the key differences in the business environment between advanced and emerging economies and a broadening of the theory of diversification to take account of a broader array of environmental circumstances. The goal is not a theory of diversification that is specific to emerging-market economies, but a *contingency theory of diversification* that has the capacity to predict a range of diversification patterns according to the particular circumstances of the business enterprise, its industry, and its national environment.

3.2 Research Questions and Objectives

The question that motivated this research was the desire to explain why the patterns of diversification observed in emerging market economies have diverged from those in the advanced market economies. The immediate implication is the question of whether there is a generally superior corporate strategy. While many conglomerates are facing extinction in the US and much of Western Europe, many large business groups² continue to thrive in much of Asia (and in much of Latin America too). Once we recognise that different diversification strategies are likely to be successful in different business environments and in different time periods, then the challenge is to develop a theory of diversification that is capable of encompassing the range of outcomes that we observe.

Hence, starting with existing theories of diversification, in particular with a resource-based approach to corporate diversification, I shall seek to show that, by exploring differences in the conditions under which resources are

² The term “business group” is used to reflect the business organisational structure of many large business enterprises in the emerging market countries. This is discussed in Chapter 4: Research Design

available in different countries, it is possible to generalise the theory of diversification to take account of a broader set of circumstances. These circumstances that influence resource availability relate to the efficiency of markets for resources and the conditions under which resources can be obtained through inter-firm collaboration.

3.3 The Conceptual Framework

Let me introduce my model of diversification by outlining the bare bones of the conceptual framework before going on to outline the theory in detail. My proposed conceptual framework addresses two aspects of diversification, first, the rationale and scope of diversification, and second, the direction of diversification.

(a) Rationale and Scope of Diversification

Strategic resources are those that can generate rents to the firm through conferring competitive advantage. This means that they cannot be transferred costlessly across market. To support diversification, strategic resources must offer economies of scope, i.e. it must be applicable to more than one business without needing to increase the input of the resource in the same proportion as the output from additional uses.

The scope of a firm's diversification depends upon the range of industries over which its resources can be deployed. Some resources have a wide industry domain, such as finance, general management capabilities, reputation, and political connections. I refer to these unspecialised resources as "industry non-specific resources." Other resources tend to have a narrower industry domain: most product and process technologies, brands, product-market knowledge, and operational capabilities. I refer to these comparatively specialised resources as "industry specific resources".

The conditions under which these two categories of resources are available often vary between the advanced and the emerging economies. In most advanced economies, the markets for most industry non-specific resources tend to be highly efficient. The markets for financial capital, general managerial expertise, and even political influence tend to feature many buyers and sellers, good information flows, and a well-developed legal infrastructure. As a result, these non-specific resources may not be typically strategic, i.e. they may not provide a secure basis for competitive advantage. This raises the question of whether the key drivers of competitive advantage tend to be the more industry specific resources—proprietary technologies, brands, highly specialised management expertise? If this is the case, then it would result in the patterns of diversification which tend to appear to be closely related (in terms of technological and market linkages).

By contrast, in some emerging economies, resource markets in general tend to be less efficient. As a result of less liquidity, less well defined and well enforced contract law, lack of transparency, and a more uncertain regulatory environment. These sources of transaction costs are particularly evident in industry non-specific resources such as finance, reputation and general management capability. In addition, less competitive markets for political influence also mean that privileged political connections become a key, non-specific strategic resource. Thus, industry non-specific resources tend to be of considerable strategic importance in emerging economies. By contrast, the technologies and specialised skills that are the key drivers of diversification in the advanced economies tend to be less important in the emerging countries.

How can this be? Although these resources are typically not readily transferable across markets, they can be accessed through strategic alliances and joint ventures.

From a joint venture perspective, few of the technology and know-how resources of emerging economy companies are likely to be sources of competitive advantage. Business enterprises in the emerging-market countries tend to possess country-based resources, rather than product-based resources. The key opportunity for emerging-economy companies is to access world-class technologies and know how through alliances and joint ventures with US, European and Japanese companies.

If inter-firm collaboration, such as strategic alliances and joint ventures, can be used to allow business enterprises in the emerging market countries to gain access to technology and industry know-how, then does the inter-firm collaboration also result in the transfer of the industry non-specific resources outside the boundary of the firms who have them? This is important because if that is the case, then these industry non-specific resources are less likely to lead to a sustainable competitive advantage.

The answer lies with the distinction between *access* and *transfer* of resources. Whilst a company may have access to resources during the period of inter-firm collaboration, that company may not be able to transfer such resources and utilise them without the consent of the firm that originally possesses these resources. I propose that technology and industry know-how are more easily transferable than resources, such as political connections and finance. The specificity of these resources means that, through a certain period of inter-firm collaboration, these resources become embedded in the business. On the other hand, political connections require a long time to develop and tend to be linked to key individuals, and to a certain extent, the enterprise itself. Hence it is more difficult to transfer them outside the boundary of the company.

Hence the implication is that one can expect quite different patterns of diversification between advanced and emerging economies (see Table 3.1 below).

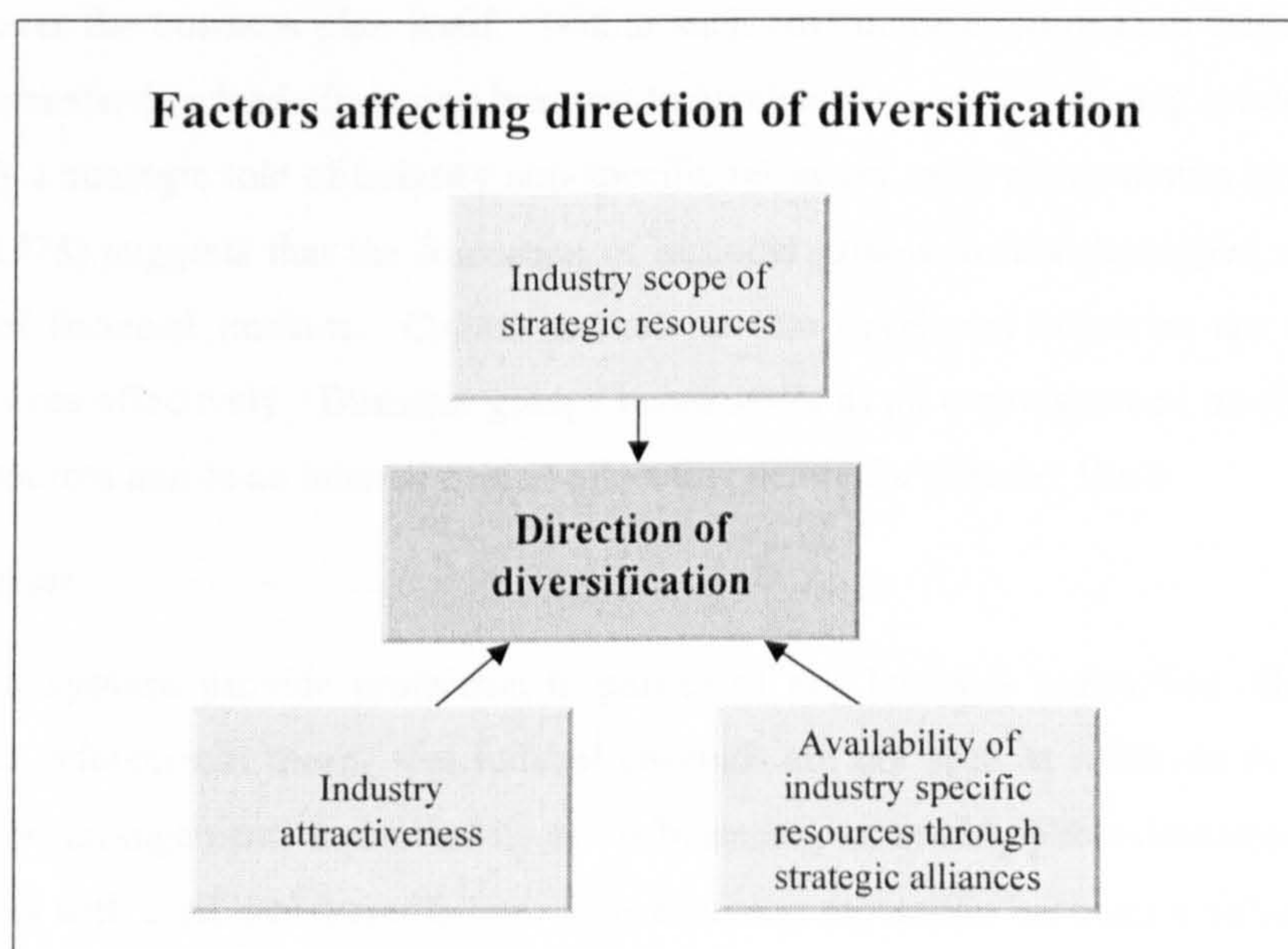
Table 3.1: Resource and their Implications for Diversification

	Industry non-specific resources	Industry specific resources	Implications for diversification strategy
Advanced economies	Efficient markets (i.e. low transaction costs) mean that these are not strategic resources	Technology, brands, market knowledge are primary strategic resources	Diversification is based upon close technological and market relationships
Emerging economies	Inefficient markets and the distinction between <i>access</i> and <i>transfer</i> of resources mean that non-specific resources (e.g. finance, political influence, finance and general management) are strategic resources	Technology, product brands and other industry specific resources typically sources through alliances and joint ventures	Diversification is based upon non-specific resources and has broad industry scope

(b) The Direction of Diversification

While in the advanced economies, the direction of diversification is determined primarily by the limited industry scope of the relevant strategic resources, in emerging economies, the strategic role played by industry non-specific resources means that firms have a wide range of industries into which they can diversify. So, what determines the choice of industry for diversifying firms in emerging economies? Two additional factors will be influential. First, business enterprises will look at the relative attractiveness of different industries (in terms of industry profit potential). Second, whether the industry specific resources that these firms require in order to enter individual industries can typically be acquired through inter-firm collaboration? Thus, the direction of diversification is a product of these three factors.

Figure 3.2: Conceptual Framework: Factors Affecting Direction of Diversification



3.3.1 Rationale and Scope of Diversification

Let us consider these arguments in greater detail. At the root of the analysis of diversification is the fundamental strategy question: How does the firm create value? Hence, the central issue for diversification strategy is creating corporate value by efficiently utilising strategic resources across different industries. In order to understand the rationale for diversification, I shall now discuss the following: a) how do markets for resources influence the type of strategic resources? b) what are the strategic resources?, and c) how does inter-firm collaboration also influence the type of strategic resources and provide some rationale for diversification?

3.3.1.1 How do markets for resources influence the type of strategic resources?

Markets for resources are input markets, such as labour, capital market, legal systems, information and regulatory environment, which influence the national economic systems in each country. It is the link between the markets for resources and the role of resources on diversification strategy that explains the differences in diversification patterns in different countries. In an efficient market, resources can be transferred across markets, i.e. they are imitable. However, this is not the case in many emerging market countries. Compared to more advanced market countries, the markets for resources in the emerging

market countries are less well developed. This is supported by work such as that of Ansoff (1965), Khanna & Palepu (1997, 1999) and Whitley (1992). The section below discusses why markets for resources are inefficient in these economies, i.e. subject to significant transaction costs.

(a) Capital Market

With appropriate mechanisms, a capital market can be ensured of reliable reporting and analysis. Hence investors have access to rigorous evaluation of commercial opportunities. However, such mechanisms vary in different markets, from being effective, inappropriate, to absent. The level of accuracy in the analysis may be influenced by factors such as a lack of information, a lack of skilled investment analysts and weak financial monitoring. In many emerging market countries, investors may prefer to safeguard their investment options by sticking to those with an established reputation. Often a company's reputation has priority over the business plan itself. Within such environment, companies have more freedom in utilising and transferring funds from one business to another. As a result, varying arrangements in capital market signify a strategic role of industry non-specific resources, such as reputation and financial capital. Leff (1976, 1978) suggests that the formation of business groups in less developed countries is due to inefficiency of financial markets. Capital markets in less developed countries are unable to allocate existing resources effectively. Business groups hence serve as an organisational mechanism to mobilise investable resources and as an internal capital-allocating centre for member firms.

(b) Legal Systems

Effective legal systems provide protection to parties of any business transaction. However, a lack of effective legal enforcement means that judicial channels are not seen as solutions to possible disputes. Ineffective legal arrangements mean that investors/business partners/suppliers/customers have a tendency to choose firms with established credibility. Consequently, reputation becomes a valuable asset. Indeed reputation becomes an important asset for firms who rely on foreign technology. As suggested by Khanna & Palepu (1997), the largest and most diversified companies in India gain a disproportionate share of technology from foreign companies.

(c) Information

Countries vary in their availability and quality of information. This is due to differences in the communications infrastructure, as well as the general level of education of consumers. Hence communicating product attributes to consumers in one country can be different from others. Even when information reaches consumers, claims made by companies operating in some countries may not be as reliable as in others because of a lack of arrangements to verify these claims. Again reputation becomes a critical part of business operation. Accordingly, brand switching is less prevalent in some countries than others. In such an environment, companies with well-established reputations have considerable competitive advantage over those without. An information problem also means that firms with a good reputation have advantages in filling in resource gaps, particularly through inter-firm collaboration. A lack of reliable market and company information means that potential joint venture partners, as well as

suppliers are likely to favour firms with established reputations. An information problem also implies an unequal access to public sector information, thus signifying the role of political connections.

(d) Regulatory Environment

Regulatory environment is one of the key factors differentiating the business environment among countries. There often exists uncertain and subjective regulatory framework in some emerging markets, leading to varying levels of political influence. Although relationships between business and government may seem complex and intricate, they are known as the norm in many emerging economies. Work on a non-market strategy in Asia by Baron (1993) urge multinationals to recognise the importance of political influence in some markets. This is also supported by a study by Lasserre (1994). Moreover, regulations in some markets may encourage conglomerate diversification. This includes favourable investment regulations, as well as protection against imports. As observed by Lasserre & Schutte (1999), Asian countries often have a policy that encourages national champions, leading to preferential treatment to local firms, particularly established and large conglomerates. The study by Chung (2001) on the formation of large business groups in Taiwan suggests that regulatory institutions lead to group formation.

Fundamentally, markets for resources in the emerging market countries lead to high transaction costs or difficulties in externally trading the industry non-specific resources, such as reputation, finance, political connections and general management capabilities. The transaction cost theory states that in a zero transaction cost world, market contracts are the means of sharing services, and hence there are no rooms for scope economies (Teece, 1980). Stated differently, market arrangements are such that there are no incentives for diversification. However, the world is far from having a zero market transaction cost. There exist situations in which resources have a greater value when employed within the boundary of the firm than under the external market. Many diversified enterprises in the emerging market countries have resources and capabilities to imitate certain arrangements, which may be inappropriate, ineffective or lacking in the market. These arrangements help in rationalising the distinctive diversification patterns found in many emerging market countries (Khanna & Palepu, 1998).

3.3.1.2 What are the strategic resources?

Strategic resources are resources which can create a competitive advantage for a firm. Hence they must be “valuable, relatively rare, imperfectly imitable, and without strategic substitutes” (Barney, 1988; Conner, 1991; Wernerfelt, 1984). Our main focus is on the “imitability” criterion. Resources are inimitable if they cannot be transferred across markets. Essentially, strategic resources are therefore resources which cannot be transferred costlessly across markets, i.e. they are subject to significant transaction costs.

However, overlooked in the prior literature is the fact that markets are not the only means by which resources are transferred between firms, inter-firm collaboration is also a mechanism for inter-firm resource transfer.

The important point is that not all resources can be transferred outside the boundary of the firms that have them. Hence for the resources to be strategic, they must be those, which even through inter-firm

collaboration, cannot be transferred outside the boundary of the firms who own them, and cannot be used without the acknowledgement of the firms who own them once the inter-firm collaboration ends.

Let me explain further. Through a certain period of inter-firm collaboration, some resources can be transferred in such a way that the partnering firm, who originally lacks these resources, can use the resources for the business purpose afterwards. For instance, once technological capabilities are transferred to the business, those particular capabilities cannot be taken back. Similarly, once the business benefits from the industry know-how, they will be able to use those knowledge even once the inter-firm collaboration ends. However, for certain resources, inter-firm collaboration only provides an access to resources during the period of inter-firm collaboration. Because political connections, reputation, finance and general management capabilities take time to develop and because they are not used for one particular purpose, it is more difficult to use these resources without the acknowledgement of the firms who own them. Hence these resources remain within the boundary of the firms who have them. As a result, despite inter-firm collaboration, they remain strategic.

Hence, for a resource to be the basis for sustainable competitive advantage requires not only that competing firms cannot buy it in the market, but also that competing firms cannot transfer them outside the firm's boundary through inter-firm collaboration.

Another key factor regarding strategic resources is that in order to support diversification, strategic resources must have the potential to create value through economies of scope, i.e. there must be efficiencies from applying them to more than one business. To analyse and predict the scope of diversification, we need to address the questions of what are these strategic resources, what are the conditions that make them strategic, and what is the range of industries over which they can be deployed?

My primary focus is upon those resources that provide a basis for diversification in many emerging market countries. As I have argued, there is a major difference in the resource supply cognitions between advanced and the emerging economies. In the former, most non-specific recognise the availability on competitive, efficient markets, hence these resources are not strategic (i.e. they are not the basis for competitive advantage). By contrast, in emerging market countries, some industry non-specific resources are highly strategic. The opposite is the case for a number of resources, especially those related to technology. In the advanced countries, these are the primary basis for competitive advantage and tend to generate closely-related diversification patterns. However, for emerging market companies such resources tend not to be so important for competitive advantage. Not only are emerging market companies less well endowed with them, but - more importantly - they can be accessed through collaborations with companies based in the advanced countries.

In practice, the distinction between "industry specific" and "industry non-specific" resources is a simplification. In reality resources are arrayed along a continuum that ranges from completely industry specific—i.e. applicable in a single industry—to the completely general—i.e. applicable to any industry (Collin & Montgomery, 1998). For the purposes of diversification, I ignore completely industry specific resources, since these do not support diversification. The remainder of the continuum, I categorise into two classes: industry specific resources (those that can be applied only to a narrow range of industries)

and industry non-specific (those that can be applied to a wide range of industries). However, it is important to bear in mind that my use of the term “specific” and “non-specific” refers to degrees of difference rather than absolutes (Ghemawat & Sol, 1998).

The idea that diversification in emerging market countries may be driven by different types of resources than those that drive diversification in the advanced countries has been advanced in several previous studies (as shown below). I shall now discuss four types of industry non-specific resources and the conditions under which they become strategic. These four types of industry non-specific resources, i.e. finance, reputation, political connections and general management capabilities are not the only industry non-specific resources. They are discussed here as examples of industry non-specific resources and their role in diversification patterns.

Figure 3.3: Factors Influencing Diversification

Authors	Year	Factors influencing unrelated diversification and performance
Guillen	2002	Asymmetric foreign trade and investment
Chung	2001	Regulatory institutions
Chang & Hong	2000	Internal business transactions
Collins & Montgomery	1998	Tacit knowledge, such as management capabilities
Claessens, et.al.	1998	Within-firm markets for raw materials, labours and financial capital
Khanna & Palepu	1997	Information problems, misguided regulations, inefficient judicial system
Arrow	1984	Privilege market information
Leff	1978	Imperfectly marketed inputs, such as information and capital
Polyani	1962	Tacit knowledge, such as management capabilities

(a) Finance

Financial resources are widely available in countries with highly developed capital markets. However, in an environment where banking systems, capital markets, and national monetary systems are less well developed, there may therefore be major advantages associated with internal financing of new ventures. Many large business enterprises in emerging market economies have complex ownership and internal financial structure. Owing to the size and magnitude of their business operations, these companies have a larger asset base to channel capital funding both from internal and external sources. In many cases, large business enterprises in the emerging market countries either have self-owned banks or have special relations with financial institutions or those who can influence the funding decisions. The ability to raise project finance also attracts potential business partners.

(b) Reputation

Reputation is one of the most important mechanisms for conveying information to consumers. Its value is greatest in economies which are subject to high levels of uncertainty, such as those of the emerging market countries. Many large companies, in these countries benefit from their well-established reputation which is often associated with the corporate image, rather than specific to a particular product. Hence general company reputation can be utilised as an effective marketing tool in a number of businesses (Khanna & Palepu, 1997). Furthermore, they have a wider business base to justify the cost of building brand. Corporate reputation is likely to be a more strategically important resource in emerging than advanced

economies because of greater inefficiency of information flows: in the presence of less reliable information about companies and less well developed legal systems for enforcing contracts, so corporate reputations become critically important. In addition, if the product liability law is less effective in the emerging market countries, this further increases the importance of corporate reputation in reducing the perceived risks.

(c) Political Connections

In emerging market countries, public sector policies are often influenced by a few large companies. The emerging market countries have a less efficient market for political influence than some advanced economies. For instance, many companies have the ability to employ lobbyists and purchase political support in the USA. In the emerging market countries, such abilities are limited to few large companies where their top management team usually has well-established relationships with high-level government officials. In some cases, officials are appointed into the company. Furthermore, these companies have resources to deal with regulatory bureaucracy, including assigned personnel who are directly responsible for establishing and maintaining these relationships at every level. Differences in regulations between advanced and emerging economies also lead to different level of advantages to be gained from utilising political connections in businesses. According to a study by Phipatseritham & Yoshihara (1983), political connections have been extremely important for the success for business groups in Thailand. The symbiotic relationships between business and political power have long been established. With such an important role of business-government relationships, Lasserre & Schutte (1999) term this as an “institutionalised” factor in doing business in Asia.

(d) General Management Capabilities

Companies in emerging market countries are often referred to in terms of vision and capabilities of their leaders. Nonetheless, management capabilities are rarer in the emerging market countries. Equally important, these management capabilities are less likely to be transferred freely, i.e. they are subject to high transaction costs.

There are several reasons. First, the tight family ownership and control means that critical senior positions are limited to family members or those who have been with the company for a long time. Hence, outsiders not belonging to these two groups of people are unlikely to be recruited in to assume top executive roles. Many outsiders themselves are also likely to view such organisations as providing no real career progress because they recognise the difficulty in which they may have in progressing to the top executive level. Second, the placement of family members and executives who have been with a company for a long time in the top positions ensures loyalty. The family members are unlikely to move to other companies. Strong loyalty also means that the non-family member executives are also less likely to move. Third, the top positions held by family members and a few key executives further widens the gap of knowledge and experience between those in and out of a business groups’ boundary.

Because of these reasons, there are greater transaction costs of transferring general management capabilities, hence the market for transferring such capabilities is not efficient. As a result, management

capabilities become one of the most critical strategic resources. With its industry non-specific nature, management capabilities are also a powerful incentive for diversification.

The unique management styles of firms in the emerging market countries also support diversification into less closely related businesses in terms of market and technology. With family members taking majority of the company holding, there is less scrutiny from public holdings. As a result, management vision often has a priority over lengthy business analysis, leading to aggressive and opportunistic corporate actions. Moreover, with such a large business base, business groups often possess valuable information about consumers and the market. They exhibit a wide range of local knowledge which is generally regarded as key resource from the joint venture partner's perspectives.

These industry non-specific resources draw out unique resources of business groups in the emerging market countries. I shall now discuss how inter-firm collaboration influences strategic resources and therefore diversification patterns.

3.3.1.2 How does inter-firm collaboration influence the type of strategic resources and provide some rationale for diversification?

So far, I have shown how the characteristics of markets for resources in emerging-market countries differ from those in the advanced economies. Such differences lead to resources that have limited strategic importance in the advanced industrialised countries (namely finance, reputation and political connections) occupying a much more important strategic role in emerging market countries. The fact that these resources are also industry non-specific results in a different pattern of diversification by large businesses in the emerging market world as compared with the advanced industrial world. While in the advanced countries diversification tends to be tightly focused around core technologies and similar markets, in the emerging countries, diversification tends to be broader and less obviously related to technological or market links.

However, this is not the only difference between the advanced and emerging economies in terms of the linkages between resources and diversification. In the advanced countries, the patterns of diversification we observe are primarily the result of technological and market-related resources (e.g. brands and marketing know-how). As a result, diversification tends to be focused around industries with close technological or market linkages. But these technological and market-related resources may be less important for indigenous firms in emerging market countries. Business enterprises in the emerging market countries tend to possess country-based resources (typically industry non-specific resources) but lack product-based resources (typically industry specific resources). To the extent that these countries are open to international competition, it is likely to be multinational corporations rather than local firms that derive competitive advantage from technology, brands, and marketing capability. Not only are these resources unlikely to provide a basis for profitable diversification by local firms, but local business enterprises may be able to gain access to the technologies and brands of foreign multinationals through forming strategic alliances.

Hence, not only are industry non-specific resources (such as finance, general management capability, reputation, and political connections) likely to be the key drivers of diversification for local business enterprises in emerging market countries, but the effectiveness of these resources in driving diversification is enhanced by the ability of these firms to use them to gain access to the technological and market-related industry-specific resources needed to support diversification across a broad range of industrial sectors.

And as discussed above, whilst inter-firm collaboration leads to a transfer of some resources (such as technologies and industry know-how), it only allows an access to some resources (such as political connections and finance). As a result, despite the implications of inter-firm collaboration, industry non-specific resources are more likely to be the source of sustainable competitive advantage to business enterprises in the emerging market countries, than industry-specific resources.

3.3.1.4 Summary

Because industry non-specific resources cannot be costlessly transferred across markets and because they cannot be transferred outside the boundary of the firm through inter-firm collaboration, they are strategic to diversification. The industry non-specific nature of strategic resources allows business enterprises in the emerging market countries to diversify into a wide range of industries. The more industry non-specific the firm's strategic resources are, the higher the potential of diversify into a wider area of businesses. These factors form the rationale and scope of diversification. The study therefore proposes that a degree of industry specificity of strategic resources determines the scope of diversification.

3.3.2 Direction of Diversification

The industry non-specificity of strategic resources suggests that resources alone are not enough to determine the ultimate direction of diversification. I propose that the ultimate direction of diversification is a consequence of three factors, namely strategic resources, industry attractiveness, and inter-firm collaboration.

3.3.2.1 How do strategic resources influence a direction of diversification?

Based on the resource-based view of the firm, a number of studies conclude that a firm's resource profile has a systematic relationship with a direction of diversification (Chatterjee & Wernerfelt, 1991; Mahoney & Pandian, 1992). But as discussed above, strategic resources may vary in their industry specificity. Nonetheless, many studies are based on firms whose strategic resources have a high degree of industry specificity, namely operational functions (Lemelin, 1982) and advertising intensity (Carleton, et.al, 1984). Accordingly, this leads to a preference on diversification which exhibits a high degree of operational relatedness. However, as discussed above, strategic resources of many firms operating in different market environments are industry non-specific. Thus firms have a wider choice for their diversification direction.

3.3.2.2 How does industry attractiveness influence a direction of diversification?

Although diversification may be an efficient means of utilising some resources (industry non-specific resources), firms would only be encouraged to utilise these resources in an attractive business. Industry characteristics vary and so do their attractiveness. As recently revealed, the relative importance of external and internal factors in diversification performance substantially deviates across economic sectors

(McGahan & Porter, 1997). Hence, their observed role in one industry may result in an over and under signification in others. This explains the tendency of previous research which focuses on maturing industries to overlook the significance of industry attractiveness. An analysis of industry attractiveness is beyond characteristics of the industry alone. Whether the industry is attractive depends, to a certain degree, on the national market environment of that market.

3.3.2.3 How does inter-firm collaboration influence a direction of diversification?

Although industry non-specific resources may open an opportunity for a wide scope of diversification, firms still need to acquire and/or develop industry specific resources and capabilities to operate the business. Often, these industry specific resources can be transferred through inter-firm collaboration. Such collaboration may vary in nature, namely an acquisition of another company already operating in the industry, strategic alliances aiming at knowledge transfer or arrangements with suppliers, as well as joint venture with companies with industry knowledge, technological capabilities or operational expertise. As discussed earlier, many companies in the emerging market countries tend to form inter-firm collaboration with companies from the US, Western Europe or Japan in order to gain these industry specific resources.

3.3.2.4 Summary

In summary, the industry non-specific nature of strategic resources means that firms are not constrained to any particular businesses. Firms with such valuable but flexible resources will therefore choose to diversify into the business which is seen as the most attractive. This therefore signifies the role of industry attractiveness in the determination of diversification direction. Nonetheless, the business is only attractive if firms have some but not necessarily all resources to profit from it. As long as it has some of them (industry non-specific resources), it can acquire the others (industry specific resources) by means of inter-firm collaboration. These factors therefore determine the direction of diversification. Hence while the industry specificity of resources determines the scope of diversification, there are also other factors which influence a direction of diversification. The study proposes that a determination of diversification direction rests with 3 factors, namely strategic resources, industry attractiveness, and inter-firm collaboration. Owing to their complex interrelationships, one single factor cannot adequately explain why firms choose to diversify into a particular business.

Although my proposed conceptual framework generalises the rationalisation behind diversification patterns found in different countries, diversification should be analysed on a case by case basis. Complex interrelationships among components (strategic resources, industry attractiveness, inter-firm collaboration) mean that not all diversification in the emerging market countries may create value.

4 Research Design

According to Helmstadter (1970), there are five steps in the research process. They are (1) statement of purpose, (2) description of variables, (3) instruments for gathering data, (4) data analysis, and (5) lastly drawing conclusions. This chapter discusses steps 2 to 4.

4.1 Research Model

4.1.1 Introduction

The central part of my research involved applying the theory of diversification developed in the preceding chapter to the diversification strategies of business enterprises in Thailand. The initial part of the empirical research was to translate the theory of diversification developed in the preceding chapter into empirically testable hypotheses concerning the determinants and direction of diversification. The next part was to use research data to test these hypotheses. As I will explain more fully below, this empirical testing was in two stages. First, I used empirical evidence on the diversification patterns of Thailand's 20 largest business groups to see if these diversification strategies were consistent with my hypotheses. Second, I undertook detailed case studies of diversification by three of Thailand's business groups into a single industry—telecommunications—to provide a careful examination of my hypotheses.

4.1.2 Hypothesis I: Pattern of Diversification

In order to support the pattern of diversification into less closely related businesses activities - in terms of technology, market and process – is widely adopted by large business enterprises in many emerging market countries, I propose that:

The important role of industry non-specific resources in the emerging market countries means that large business groups have a wider scope of diversification. As a result, a majority of these business groups tend to diversify into less closely related areas.

4.1.3 Hypothesis II: Rationale and Scope of Diversification

Chapter 3: Conceptual Framework, investigated the relationships between the resource-base of the firm and its diversification strategy. Diversification is defined here as “increases in the variety of final products produced, increases in vertical integration, and increases in the number of basic areas of production in which firms operate” (Penrose, 1959).

The resources and capabilities of the enterprise are key elements of the rationale and scope of its diversification. My conceptual framework is based on the argument that, for diversification to be profitable, the resources which drive diversification must be, first, strategic, i.e. inimitable and, second, subject to economies of scope, i.e. applicable to more than one business. These two factors provide answers to the questions of “what resources are strategic” and “why are they strategic”?

4.1.3.1 What Resources are Strategic?

There are numerous ways in which resources can be defined and classified (Amit & Schoemaker, 1993; Cave, 1980; Grant, 1991; Hall, 1992; Hofer & Schendel, 1978). In the same way that industry boundary

should be defined according to the issues to be addressed (Grant, 1991), resources should be identified and categorised in a way which serves the purpose of the study.

First, the research identified resources which are critical to business operations. It would be impractical and lead to little contribution to include all resources in the study. It is believed that there are at least six types of resources which are particularly critical to the emerging market countries, hence they should provide some explanation into the different patterns of diversification found in the emerging market countries. These resources are financial capital, reputation, political connections, general management capabilities, technological capabilities, and industry knowledge and experience of human resources. I defined these resources as:

Financial capital: the ability to raise funds internally or externally.

Political connections: relationships with the Government or public officials which can be used to benefit the company.

Reputation: the general perception of the company in delivering corporate value. This is related to general corporate reputation, rather than any specific product brand.

General management capabilities: the general knowledge of the risks and opportunities in the market. They also include the management's abilities to successfully execute the business.

Technological capabilities: technological knowledge and know-how.

Industry knowledge and experience: knowledge and experience regarding the product/service, process, organisation and other specific industry factors which affect the long-term profitability of a particular industry.

Second, if resources are to create value through economies of scope, they must be applicable to more than one business. Potentially, all of the six critical resources identified earlier can provide economies of scope. However, my research aims to understand the reasons for the diverse patterns of diversification in the emerging market countries, i.e. those resources which can be used in a wide range of businesses. Thus the study categorises these six critical resources according to their degree of "industry specificity". It is recognised that the specificity of resources is a continuum. But for the purpose of the study, I categorise resources into two categories. Industry non-specific resources are those with a low degree of association to a particular industry, including financial capital, reputation, political connection, and management capabilities. Industry specific resources are those with a high degree of association to a particular industry, including technological capabilities and industry knowledge and experiences of human resources. It is important to note that even within the same category, the degree of industry specificity may be subject to debate. For instance, political connections which are based on links which are relevant to only limited industries are more industry specific than general political connections. Nonetheless, they are likely to be more relevant or easily adaptable to a wider scope of businesses than other industry specific resources, such as industry knowledge and experience.

The research compares the significance of these two types of resources to diversification. Hypothesis I proposes that the industry non-specific resources are more important than the industry specific resources to diversification in the emerging market countries. This view applies to all of the three case studies.

4.1.3.2. Why are they Strategic?

As discussed in detail in Chapter 3: Conceptual Framework, there are two reasons contributing to the strategic role of the industry non-specific resources in diversification.

First, the input markets (such as labour, capital markets, and information markets) and legal systems and regulatory environment in the emerging market countries are less well developed than in the advanced countries. An inefficient market means that resources are subject to high transaction costs, thus making it inimitable and therefore strategic. Financial capital, reputation, political connections and management capabilities cannot be transferred across markets at low cost in the emerging market countries.

Second, companies in the emerging market countries are still behind those in the advanced countries, in terms of technological capabilities and industry experiences. Their strengths tend to be in country based resources, rather than industry or functional based resources. This is because a firm's competitive advantage does not rest with a possession of specific resources per se, but rather, on an appropriation of the right resources to match opportunities (Penrose, 1959). It is increasingly recognised that resource building and filling in a resource gap are as crucial as the utilisation of existing resources (Grant, 1998). In other words, industry non-specific resources can be used to acquire or develop specific resources which the firms lack. For instance, corporate reputation and financial capability can be used to acquire a strategic partner and specific resources such as human resources. Thus inter-firm collaboration is an efficient way of acquiring resources which companies lack. However, compared to industry specific resources, there is less widespread role of inter-firm collaboration in an acquisition of industry non-specific resources.

The possession of industry specific resources, such as technology and industry knowledge by companies in the advanced economies explains why the studies based on multinational companies in the advanced economies tend to focus on industry specific resources. Additionally, the same studies conclude that there is a systematic relationship between the direction of diversification and a resource profile (Lemelin, 1982; Carleton et al, 1984; MacDonald, 1985; Montgomery & Hariharan, 1990; Lecraw, 1984). Putting these together, the traditional view is that first, resources can be easily transferred across markets or through inter-firm collaboration, thus diversification may not be an efficient means of utilising resources.

All in all, strategic resources which cannot be costlessly transferred across markets or through inter-firm collaboration in the emerging market countries are in fact industry non-specific resources. The lowly specific nature of these resources means a wide scope of diversification. This partly provides support to diversification patterns in the emerging market countries. Hypothesis II therefore states that:

Resources and capabilities with a low level of industry specificity are more influential determinants than those with a high level of industry specificity in the diversification in emerging market countries.

Although the study illustrates how the four industry non-specific resources provide rationale behind diversification patterns found in Thailand, not all of them are needed to justify diversification strategy.

4.1.4 Hypothesis III: Direction of Diversification

Despite an emphasis on the importance of both internal and external variables in corporate strategy (Andrews, 1971; Ansoff, 1965; Porter, 1987), a number of studies still favour internal forces (notably economies of scope in resources and capabilities) as providing the main explanatory link to the determination of the diversification direction (Carleton, et. al., 1984; Chatterjee & Wernerfelt, 1991; MacDonald, 1985; Montgomery & Hariharan, 1991). While acknowledging the influence of internal variables on diversification found in the previous studies, an analysis of diversification in different business environments may produce different findings. Hypothesis II therefore examines the comparative importance between strategic resources (internal factor) and industry attractiveness (external factor) in the determination of diversification direction. As resources are already covered under the Hypothesis I, this section discusses variables used to analyse industry attractiveness.

There are three factors which determine the direction of diversification, namely the strategic resources a firm possesses, the relative attractiveness of different industries, and the potential for inter-firm collaboration in different industries. If a firm's strategic resources are industry non-specific, and if the firm has the potential to acquire industry specific resources by means of inter-firm collaboration, the implication is that the firm faces a wide choice of industries into which it can diversify. Under these circumstances, the relative attractiveness (i.e. profit potential) of different industries emerges as the most important factor determining which industry a firm will diversify into.

So what determines the profit potential of an industry? Porter's five forces framework (Porter, 1980) argues that industry profitability is determined by the competitive structure of an industry. However, for a firm diversifying from outside the industry, overcoming the entry barriers that protect an industry may offset the inherent profitability of the industry (Porter, 1987). Such entry barriers are likely to be determined by the investment cost of entry and the regulatory conditions that can help or hamper a potential entrant.

It is important to note here that the industry attractiveness refers to the executives' perception of the attractiveness. In addition, these executives are not just considering the current profit potential of the industry, but also its potential for generating profit in the future. Hence industry attractiveness is a result of:

Demand Growth: Demand growth refers to the executives' perception of the industry growth at the time of diversification and in the future. It also includes the implications of substitute products/services and possible technological changes.

Industry Structure and Competition: Industry structure and competition affect how attractive the industry is perceived. The study therefore analyses the executives' perception of the number and characteristics of existing competitors, barriers to entry, current and planned industry structure, and competitive tools.

Regulation and Regulatory Environment: Industry regulations play a vital role in the involvement of the private sector, particularly in the emerging markets. Therefore the diversification decision results from the executives' perception of how regulations (such as liberalisation) and regulatory

environment (such as political connections and the level of industry lobbying) are likely to affect the industry.

Investment Cost: The executives' perception of the investment required to participate in the industry.

The industry non-specific nature of strategic resources means that firms are not constrained to any particular businesses. Firms with such valuable but flexible resources, will therefore choose to diversify into the business which is seen as the most attractive. As a result, external factors, which influence the industry attractiveness, become crucial in the determination of diversification direction. Nonetheless, the business is only attractive if firms have resources to profit from it. In the case where firms' strategic resources are industry non-specific, firms will have to fill in the resource gap. Hence inter-firm collaboration plays an important role. It is defined as the following.

Inter-firm collaboration: Cooperative arrangements between firms which can be in the form of joint ventures, licensing agreements, supply agreements, marketing agreements, other formal or informal cooperative ventures, and merger and acquisition (Glaister, et.al, 1994; Contractor & Lorange, 1988b, Lorange & Roos, 1992).

Owing to the complex interrelationships among these three factors, one single factor cannot adequately explain why firms choose to diversify into a particular business. Nonetheless, industry attractiveness is the prime determinant of diversification direction. The study therefore proposes that:

Diversification direction is a function of strategic resources, industry attractiveness and inter-firm collaboration. The less industry specific are a firm's strategic resources and the greater the potential for accessing industry specific resources through inter-firm collaboration, then the more important is industry attractiveness as a determinant of diversification direction.

4.2 Research Methodology

4.2.1 Introduction

Research methodology can be defined as “the process, principles, and procedures by which we approach problems and seek answers” (Bogdan & Taylor, 1975). To test empirically my hypotheses concerning corporate diversification in emerging market countries I examined diversification by leading Thai business groups. The empirical analysis was conducted at two stages.

Stage 1: I examined the overall diversification strategies of the 20 largest Thai business groups.

Stage 2: I conducted detailed case studies of the diversification decisions of three Thai business groups focusing specifically upon diversification into the telecommunications sector.

4.2.2 Qualitative Case Study Research

While stage one of the research (the examination of the diversification patterns of 20 major Thai business groups) was undertaken to show that, at a general level of analysis, the diversification patterns of major Thai businesses were broadly consistent with my research hypotheses, the qualitative case study research provided the detailed empirical evidence and most carefully test the hypotheses. It was the primary methodology of this research.

In order to address my research questions, I needed to understand why companies choose to diversify into certain industries. Essentially, I needed to understand the executives’ perceptions and views of factors that were important to their diversification decisions.

In an ideal situation, I would be able to gather quantitative data and analyse the executives’ perceptions and views of the determinants of diversification. However, this was not the case. There was no quantitative information available to address my research questions. Furthermore, it was difficult to measure perceptions and compare them among companies. Similar to many emerging markets, Thailand suffered from a lack of secondary information. As a result, I used the qualitative method as the key basis for my research.

The qualitative method³ allowed me to gain a deeper understanding into the phenomenon. My research did not aim to address the *how much* question. It aimed to understand the *what, why and how* question. The qualitative method opened up an opportunity for me to discuss with those executives some less-mentioned issues, such as the role of political connections in diversification process. It was unlikely that quantitative data would give me an opportunity to discuss the existence of these factors, not least why these factors were influential in the diversification decision.

But in spite of its strengths, the qualitative research was also subject to some criticisms⁴. But even some weak qualitative data may lead to good insights of the subjects (Sutton, 1997). Nonetheless, I recognised the need to strengthen the rigour of my research. In doing so, I also used other available quantitative data, which, although

³ Through a greater depth of the analysis and flexibility of data, the qualitative research provides much insight into an understanding of complex phenomenon (Bogdan & Taylor, 1975; Van Maanen, 1982).

⁴ The qualitative data is criticised as having a tendency to collect selective data which lead to a non or misrepresentation of data. To counter argue that, by forcing data into the set structure, the quantitative method is also subject to a potential bias or misrepresentation of data (Bogdan & Taylor, 1975).

did not provide direct confirmation/contradiction to my research hypotheses, could be used to provide at least some confirmation/contradiction. The use of quantitative data is discussed later.

So far, I have discussed that the qualitative data was the key type of information to address my research questions. However, there are a number of methods which can be used to reflect the qualitative data. In order to reflect a vast array of qualitative data, I chose to use the case study method⁵. Being one of the most common qualitative research methods⁶, the case study method helped me to understand my research subjects and communicate my understanding of the phenomenon without exerting a high degree of control⁷. Moreover, I viewed the case study method as appropriate because in reflecting the contradictory patterns of diversification found in the emerging market countries, the case study did not aim to relate the findings from its sample to the whole population, rather it aimed to capture new patterns which may provide some insights into or contradict with the existing theory.

The case study method allowed me to investigate into the diversification phenomenon found in Thailand by examining multiple companies in great depth. As pointed out by Hughes (1958), “some aspects of social life can best be studied in each setting, or through each subject, because that is where it is best illuminated”. This resulted in closeness and familiarity of the companies and their diversification decisions. Fundamentally, it assisted me in addressing the “how” and “why” questions (Yin, 1994) of why companies chose to diversify into certain industries. The case study also helped me to analyse data from multiple sources.

However, there are also some concerns on the case study approach. Owing to a lack of the fixed formula approach, the same case may be seen differently from different world views (Stake, 1994). Nevertheless, Yin (1994) argued that the case study is the process of learning about the case, as well as the product of our learning. This is why it has the potential for advanced knowledge which lead to some exploratory insight. Another argument against the case study lay with the data collected leading to the potential problems regarding the validity and generalisability of the findings and conclusion (Bryman, 1989). However, Yin (1994) argued that “case studies, like experiments, are generalisable to theoretical propositions and not to populations or universes”. In other words, case studies approach the phenomenon by analytically generalising the theories, rather than statistically generalising them. While acknowledging the potential problems of the qualitative case study approach, it was believed that the case study approach could reveal new insights which may enhance the theory development of diversification. As illustrated later, various measures were undertaken in order to minimise these potential drawbacks.

Within the case study method, there are a number of research design options available, namely the number of cases (i.e. single or multiple cases) and the number of units of analysis (i.e. single or multiple unit)⁸ (Yin, 1994).

⁵ The case study can be defined as “an empirical inquiry that investigates a contemporary phenomenon within its real life context, especially when the boundaries between phenomenon and context are not clearly evident” (Yin, 1994).

⁶ Although there is a tendency to treat the qualitative research and the case study as synonyms, not all case studies follow the qualitative approach. It is possible that the case study is used to provide substantial quantitative information (Bryman, 1989).

⁷ The only control which the case study method can provide lies with the time, place and respondents (Helmstadter, 1970).

⁸ As suggested by Yin (1994), a single case study design is appropriate for a particular and rare phenomenon so that it is difficult to find any common patterns with other cases. Thus it is often used as an exploratory research. Nonetheless, an adoption of a single case may lead to a misrepresentation of the phenomenon.

I adopted the multiple cases approach because I aimed to analyse the empirical evidence to see if it would lead to similar results across cases or contrasting findings taking into account the different patterns of diversification of the three cases. An adoption of the multiple cases enhanced the rigour of my research through a replication logic (Eisenhardt, 1989). In order to strengthen my research, I used the empirical evidence of both the overall diversification strategy of the cases, as well as their diversification entry into one industry. Hence my research adopted a combination of single and multiple levels of analysis⁹. This should lead to a more powerful set of evidence, and therefore enhance the rigour of the research (Yin, 1994).

4.2.3 Quantitative Data

As mentioned above, I also used some quantitative data to support/contradict the findings from qualitative data. The quantitative research was used to provide the empirical evidence and test the hypothesis for the Stage 1 of this research.

The primary purpose of the Stage 1 was to identify any general patterns of diversification of the 20 largest Thai business groups and observe any systematic differences between the diversification strategies of large Thai enterprises and the diversification strategies of large North American and European enterprises. While such evidence could not test directly the hypothesis that diversification in emerging market countries was driven primarily by industry non-specific resources, it could provide evidence that was either consistent or inconsistent with the hypotheses.

4.2.4 Units of Analysis

The research site for my study was formed by, first, the 20 largest business groups in Thailand, second, the three business groups that form the basis of my case studies and, third, the telecommunications industry into which these three case study enterprises diversified.

4.2.4.1 The 20 Largest Thai Business Groups

To understand the patterns of diversification of large business groups in Thailand, the 20 largest Thai business groups were selected. These business groups were ranked on the basis of market capitalisation and number of companies they operated or had holdings (see Chapter 5: Empirical Evidence for details). The unit of analysis was a *business group*, rather than a company.

A *business group*¹⁰ was defined as “a set of firms which, though legally independent, are bound together by a constellation of formal and informal ties and are accustomed to taking coordinated action. Each firm was a distinct legal entity that publishes its own financial statements, had its own board of directors, and was responsible to its own shareholders” (Khanna & Rivkin, 2001). A business group was used as it reflected the structure of economic activities commonly found not just in Thailand but also in many emerging markets. Many companies which dominated the economic activity in Thailand tended to be

⁹ A multiple level of analysis (embedded) examines sub units within a case, i.e. individual diversification entry within an overall diversification strategy. On the contrary, a single level of analysis (holistic) investigates the overall diversification strategy of the firm.

¹⁰ Chung (2001) characterised business groups as “legally-independent group firms which do not operate as isolated units in the market but have institutionalised relationships with each other and work coherently as an entity”.

part of a large business group which consists of “complex, direct and indirect, cross ownerships and inter-relationships” (The Brooker Group, 2001). In this research, the business activities included as part of a business group would cover companies which a particular business group has direct holdings, indirect holdings, majority stake, as well as minority stakes. These also included companies with operations overseas. These business groups were commonly known by their family name, as well as the name of their key companies. For instance, the Chearavanont Family was well known as the Charoen Phokphand Group (CP) as well as TelecomAsia (TA).

It is worth noting that the term Thai business groups represented *indigenous Thai and private* business groups only. As a result, state enterprises were not included. Additionally, business groups belonged to westerners who have established the business empire in Thailand were not included. Many of the Thai business groups tended to be of Chinese origin (and to a much lesser extent, Indian origin) who were now Thai citizens.

4.2.4.2 The Three Case Studies

Three companies were selected to represent the theoretical sampling appropriate in extending the analytical generalisability, rather than the representative sample aiming at statistical generalisability¹¹. Essentially, the three companies selected as case studies represented different characteristics in their diversification patterns, yet they all diversified into the telecommunications industry. Despite their different characteristics, I used the three cases to find commonalities in their factors driving their diversification decisions, rather than the differences. I aimed to contrast patterns of diversification between the advanced and emerging economies (not amongst the Thai case studies themselves). The three cases included:

The Charoen Phokphand Group: the largest conglomerate in Thailand with business activities covering a large number of industries. The Group was widely known for its close relationships with the Chinese government and was the largest private foreign investor in China.

The Shinawatra Group: the Group has grown rapidly in the past decade with business activities covering computing and telecommunications. The Group was regarded as relatively young compared to the other two cases.

The Samart Group: the Group had a long establishment in Thailand though it was the smallest of the three cases. Its businesses focused on its transmission capabilities, such as satellite manufacturing and various telecommunications services.

With my focus on these three cases, I was able to obtain views on factors that drove diversification. These insights, which could not be found on any secondary research, were obtained from top management executives, all of whom played a strong role during the diversification process and assumed the top management position in the diversified business today. Participating executives from CP include two of the three top management executives who have been the right hand men to the leader for twenty years and

¹¹ As pointed out by Pettigrew (1988), sample size and random selection are neither necessary nor preferable in the case of the analytical generalisability.

typically tailored all of CP's diversification. These executives now acted as the vice-chairman and chief financial officer of the CP Group. I also had detailed discussion with a son of CP's leader who was the President of TelecomAsia and was said to be the likely candidate to control the CP Group in the future. Participating executives from the Shinawatra Group were its current chief executive officer, Shinawatra's family member, as well as a former employee who was the right hand man of Shinawatra's founder and was heavily involved in the diversification process. For Samart, I met the Group's vice-chairman. Not only was he a son of the founder, but importantly, he was the main force in a move into the telecommunications service industry. Other very senior figures in Samart also participated in the study. They included the chief executive officer, vice-president, and a director (a daughter of the founder). All of these executives were highly respected and influential in the Thai business circle. A full list of executives, including those from other private and public organisations is shown in Appendix I.

4.2.4.3 The Telecommunications Industry

When selecting the industry, I considered whether there was a need for cross-sectional evidence. Although, the use of a broad cross-sectional approach enhances the generalisability of the findings, nonetheless, every industry varies in their characteristics and attractiveness (Ansoff, 1965). I therefore chose to control possible unwanted variances by focusing on one industry. I selected telecommunications as many diversification entries were carried during the same period, i.e. in the early 1990s. I also chose the telecommunications service industry because it was seen then as an emerging industry. I found that previous diversification research tended to focus on the maturing industries.

Whilst I recognised the advantages of using cross-sectional approach, I believed that, at this stage of research, a thorough understanding derived from focusing on one industry would be more beneficial. The use of one single industry enhanced the key strength of the case study approach, i.e. detailed investigation into the research subject. The research discussed in great details the motivations and decision making process of diversification of firms operating in the emerging market countries. By looking at one single industry, I was able to receive feedback from those who were directly involved in the diversification.

For the purpose of the thesis, I defined the telecommunications services industry as¹²:

An operation of telecommunication services, such as fixed-line and wireless telephone network, including services, such as domestic and international telephone, mobile phone, paging, trunk mobile radio and satellite. Other communication services, such as voice, image and data which can be transmitted by both fixed and wireless forms of communication are also included.

Although, there were various sub-categories within the telecommunications service, it was not necessary to further narrow my investigation to the sub-category level. Each telecommunications service generally exhibited similar characteristics in relation to the industry attractiveness.

¹² The effect of industry boundary on the measurement of relatedness stresses the need to correctly define the industry. In doing so, the study takes into account Grant's view (1991) that the need to define a broad or narrow industry boundary adheres greatly on the type of issue to be addressed.

As earlier discussed, the industry and market evolution affect the industry attractiveness and strategic resources. This therefore calls for some control in the time period to be studied. All of the three case studies diversified into the industry during the early 1990s. Whilst the longitudinal analysis (covering the period beyond the 1997 Asian economic crisis) was likely to reveal an interesting insight, the timing of my research and my fieldwork meant that it was not possible.

4.2.5 Sources of Data: Primary and Secondary Information

My empirical evidence was obtained from two sources, namely the primary and secondary information.

4.2.5.1 Primary Sources of Data

There were two sources of primary information, namely private companies that diversified into telecommunications and public organisations associated with the industry. 15 business groups diversified into telecommunications services during the first granting of the concession up to 1997. Out of these, two companies declined to participate in the study and two companies were used as a pilot study. Although the study focused on the three case studies, the feedback from other companies was also used to confirm/contradict the response from the three cases. In total, there were 13 participating companies, representing 87 per cent of the population of the diversifiers into telecommunications. There were altogether 15 respondents from the three case study companies and 15 from the remaining companies.

With the strong role of regulation in telecommunications services in Thailand, public organisations were also an important source of information. These organisations can be categorised into those responsible for the planning of the telecommunications industry, and those responsible for the awarding of the concessions and licences (as discussed in Chapter 5.3). In total, 15 executives from the public organisations participated in the study. The researcher also obtained primary data from academics, journalists, consultants, and investment analysts.

4.2.5.2 Secondary Sources of Data

The secondary sources¹³ relevant to the study included publications from the Ministry, the telecommunications state enterprises, research organisations, consulting firms, investment brokerage companies, the Stock Exchange of Thailand, and the companies themselves. Some information was obtained from the National Economic and Social Development Board and the Board of Investment of Thailand. Other sources of secondary information were business magazines, newspapers, as well as the Internet. Because secondary data was collected for the specific purpose, which was likely to differ from the objective of the thesis, I carefully evaluated them to minimise these problems.

¹³ Secondary information refers to data gathered by other people and documented in some forms (Stewart, 1984). In addition to its advantages relating to cost and time, secondary information provides a useful starting point in understanding the research subject prior to the collection of primary data. It can, to a certain extent, be used to check the validity of the primary information.

Although the primary and secondary sources of information were used to gather and analyse the empirical data related to the three case studies, i.e. Stage 1 of my analysis, only the secondary sources of information were used for Stage 2.

The 2001 Unique Guide to the Thai Business Groups published by the Brooker Group provided an invaluable source of information, which helped me to identify the Thai business groups, their business activities and their diversification patterns. The Brooker Group's Guide described business activities of 150 business groups in Thailand. It consisted of a one to three page summary of each business group's business activities, patterns and timing of diversification and expansion, number of companies in each business activity, and some financial information, mostly of listed companies.

I relied on the website of the Stock Exchange of Thailand (SET) for 2001 revenue of listed companies associated with each business group (the 2001 revenue covers the year ending 30th September 2001). This was also the main source of information such as holding proportions. In the case where holding information was not available on the SET website, I referred to company's annual reports.

While both primary and secondary sources of information were used to address the research questions, much emphasis was placed on the primary information. Nonetheless, by using multiple sources of empirical evidence, the study achieved some of the main principles of data collection, namely construct validity and reliability (Yin, 1994).

4.2.6 Methods of Data Collection

The methods of data collection must allow for unexpected information, while at the same time, ensuring reliability and validity¹⁴. My methods of data collection were semi-structured interviews and self-administered questionnaires.

4.2.6.1 Semi-Structured Interviews

One of the most common methods of data collection in the case study research is personal interview¹⁵ (Denzin & Lincoln, 1994; Van Maanen, 1979). I adopted the semi-structure interview method where I had a theme of questions but recognised that some departure from the scheduled questions may occur in order to gain further understanding (Bryman, 1989). The semi-structured interviews allowed interviewees to express themselves without feeling that they were constrained while giving them some clarity of the research purpose and concentrating on the desired frame of question.

4.2.6.2 Self-Administered Closed Questionnaires

In order to minimise the problem which may arise from bias, poor recall, and poor interpretation of data deriving from the interview (Yin, 1994), questionnaires were also used. My questionnaires were based

¹⁴ One of the concerns regarding the data collection of the case study method lies with the difficulty in collecting the less routine data which is relevant to the theoretical framework (Yin, 1994).

¹⁵ There are three types of interview, namely structured, semi-structured, and unstructured. The use of structured interviews is likely to limit the opportunity of gaining some insights which may be important in addressing the research questions. On the other hand, unstructured interviews present the possibility of the interviews drifting outside the scope of the thesis.

on closed questions where the respondents had a selection of different answers to choose from (Oppenheim, 1996). This method was chosen to reduce the burden on the time spent answering a lengthy interview as well as an open questionnaire. It also worked as a checking mechanism for the information obtained from the interview. The potential drawback of misinterpretation of the questions and the loss of expressiveness were reduced through the parallel use of interviews.

The collection of data started with the closed questionnaires, followed by the interviews. There were several advantages of such sequence. First, by leaving the questionnaires before the interview, I reduced the bias view which the respondents may develop during the interview. It was believed that personal communication during the interview was effective in minimising the bias, which the respondents may develop from the questionnaire. I had an opportunity to probe if necessary. Second, my personal communications was tailored in such a way that the interviewees/respondents did not feel that they were repeatedly being asked the same questions. Third, it provided me with an opportunity to probe on questions which the respondent may have in completing the questionnaire. In turn, I could answer any queries which may arise following the initial analysis of the questionnaire prior to the interview. Lastly, a confirmed appointment for the interview after the completion of the questionnaire helped improve the response rate and the completion time of the questionnaire.

The combined two methods worked as the data verification mechanisms against feedback received from each method.

4.2.7 Development of Questions

4.2.7.1 Questionnaire

In developing the questionnaire, I followed the steps suggested by Churchill (1983). First, the *information sought* was generally determined by the objective of the study in analysing different patterns of diversification. Specifically, the study analysed the role of each variable in the determination of diversification direction. The self-administered questionnaire was regarded as the most appropriate *type and method of administration*, primarily because it provided information control (Boyd & Westfall, 1972). In determining the *content of questions*, I considered three factors suggested by Churchill (1983) and Boyd & Westfall (1972), namely the importance of the question to the research, the knowledge of the respondents, and lastly the willingness of the respondents to share that knowledge. In choosing the *forms of response*¹⁶, the scaling form of response is regarded as most suitable. The advantage of using the scale was that the respondents had a set of answers, yet it allowed them to think about the issue and express their opinions. In considering the *wording* of the questionnaire, I tried to avoid ambiguity, leading questions and assumptions. Furthermore, the *sequence* of the questions was such that it started the respondents off with the general and moved toward the specific issues, as well as from the historical events to the future. For the *physical characteristics* of the questionnaire, I used clear fonts and spacing. Headings and sub-headings were used as appropriate.

¹⁶ There are at least three *forms of response* to the questionnaire, including fixed-alternative, open-ended, and scaling.

As shown in Appendix III, the questionnaire consisted of 25 questions and was divided into five parts. They were (1) the diversification patterns and determining process, (2) the company and resources, (3) the telecommunications service industry and its attractiveness, (4) factors affecting the feasibility of diversification, (5) performance of the telecommunications business and the future of the company.

There were some minor differences between the questionnaire aimed at the private and public companies. For the public organisations, Section 2 The Company was left out and Section 5 Performance discussed the general performance of the industry, rather than specific company performance. The questionnaire was also translated into Thai. The researcher went through a rigorous translation process by giving both the English and Thai versions to several people and requesting them to translate it back to one of the two languages. Generally, the respondents from the private companies requested the English version while the majority of the respondents from the public organisations preferred the Thai version.

4.2.7.2 Interview

Although there were differences in the number of questions and overall structure of the interview and the questionnaire, I applied the same logic in developing the interview questions. The interview consisted of 14 open-ended questions, which were divided into three sections, namely general company information, determination of diversification and diversification performance. My research is concerned with management behaviours, attitudes and perceptions which guided the diversification strategy. In overcoming possible ex-post rationalisation of their diversification strategy, the interview questions were worded in such a way that did not add further guidance on what their strategic formulation of diversification should be based. As a result, some background information on the company's business development was prepared and used if probing was deemed necessary.

With advice from my supervisor and other students/colleagues, the questionnaire and the interview were subject to numerous revisions. Finally, the questionnaire was tested on some PhD students, former colleagues, and various industry sources.

4.2.8 Pilot Study

Having tested the questionnaire and the interview questions, I undertook a pilot study. The two companies were selected on the basis that they also diversified into telecommunications. They operated in the same business environment of Thailand. Although Yin (1994) suggests that the pilot case study can be much broader and less focused than the actual data collection plan, I emphasised on making the pilot study as close to the actual study as possible. Ultimately, the two companies were selected.

The feedback received from the pilot study was that there was no requirement for major modifications to the methods of data collection. Despite the usage of both interviews and questionnaires, executives were willing to discuss the diversification patterns in Thailand, particularly those directly related to the telecommunications industry. However, some wordings in the questionnaires and interview questions were further refined to ensure clarity and lessen any potential repeats. Most important, it emerged that the usage of a recording device during the interview was not desirable thus it was omitted from the actual fieldwork. The pilot study proved to be

useful in revealing possible inadequacies which may help to improve the logistics and content in regards to the data collection (Yin, 1994). Moreover, it provided some practical guidance for the actual fieldwork.

4.2.9 The Fieldwork Procedures

Taking into account the research methodology discussed above, the fieldwork was operationalised as follows.

4.2.9.1 Identification of Respondents

The identification of companies and public organisations, and the appropriate respondents was conducted following an analysis of the published information from both the private and public organisations, as well as discussion with industry sources. In some cases, the identification was done through direct contacts with the company. I identified three to four top management executives of each private and public organisation. Top management executives were selected because the decision in regards to the determinants of the diversification direction was likely to be made only by them. In many cases, these were those involved in the founding of the business, subsequent generations of the family, or those who have been with the company for a certain period of time. For the respondents from the public organisations, they were those responsible for the granting of concessions. Often, they held the position of vice-president or higher.

4.2.9.2 Introductory Letter

Although three to four respondents in each organisation were initially identified, an introductory letter on the University letterhead was mailed to only one respondent in each organisation. The initial contact focused on the highest ranked executive in the organisation. This was believed to be appropriate given the business culture in Thailand where seniority was significant. The introductory letter comprised of only one page. The objective was to stimulate interest in the research and secure co-operation. The information contained in the letter can be broadly categorised into five issues, namely the topic and objective of the research, a request for participation, benefits of participation, the importance of the research to the student and general research on the topic, and the promise of confidentiality where required. The letter stated the benefits of an executive summary of the research findings. A copy of the introductory letter is included in Appendix II.

4.2.9.3 Follow-up Contacts

One week after the introductory letters were sent out, all the respondents were contacted by telephone. Some companies contacted me prior to this follow-up contact. There were three objectives of this contact, namely to elaborate on the letter and address any queries which they may have, to confirm their response to the request, and for some companies, to obtain their agreement for their companies to be used as the case studies. The initial response varied from an immediate appointment to a negative response. In the case where an alternative contact was suggested, often the initial contact had already passed or offered to pass the introductory letter to the suggested alternative. When this was not the case, the introductory letter, including the source of advice was sent out again to the suggested contact. In the case where the researcher was unable to obtain a positive response, the introductory letter was sent out again to other contacts within the company identified previously. Generally, these initial responses were very

positive and only a small proportion of the private companies showed no interest in the research. I noticed keen interest from the larger companies and particularly from the public organisations. Despite the difficult situations in Thailand due to the recent economic crisis, I was able to secure the participation from many high-level executives.

4.2.9.4 The First Visit: Introduction and Delivery of Questionnaire

The purpose of the first visit was to discuss the research purpose, request suggestions on additional respondents within the organisation, deliver the questionnaire, and lastly to arrange the date to collect the completed questionnaire. An offer to personally collect the questionnaire added a sense of the importance of the research. This resulted in strong commitment and faster completion of the questionnaire from the respondents. In many cases, the respondents offered to fax, mail or courier the questionnaire back to the researcher. Generally, the respondents took between three to ten days to complete the questionnaire.

4.2.9.5 The Second Visit: Collection of Questionnaire (where appropriate)

In the case where it was agreed that the researcher would personally collect the questionnaire, this opportunity was also used to arrange for the interview appointment.

4.2.9.10 The Third Visit: Interview

This visit was when the actual interview was conducted. The researcher opened the discussion by explaining the research and thanking the respondent for the completed questionnaire. The researcher also gave an opportunity for any queries, which the respondent may have had at that point. With a semi-structured interview approach, the questions were framed in a relatively open manner in order to allow a variety of responses. Emphasis was placed on avoiding pre-specifying answers or guiding the respondents on what the answers would have been in other situations. The semi-structured interview proved to be useful in advancing the researcher's knowledge into various unknown insights. The interview was very much an interactive process with probing and requesting for additional information where necessary. Towards the end of the interview, some crucial pieces of information were played back to the respondents in order to obtain their confirmation. Additionally, I allowed the respondent to suggest other areas of discussion, which were regarded as important but have so far been omitted. At this point, I also confirmed the next step required to take the research forward in the case where additional information was promised and/or further meeting was required. The interview generally lasted between one to one and a half hours.

4.2.9.11 The Fourth Visit: Additional Interview (if required)

The additional interview was required in the cases where the respondents were interrupted by some urgent business matters or where the time allowed for the previous interview proved to be inadequate. The latter was particularly the case for the case study companies.

4.2.9.12 Verification of Data or Additional Queries

The gathering of data from the primary sources was conducted at the same time as the secondary sources. In doing so, I was able to initially verify some information from the two sources. This meant that the researcher had an opportunity to contact the respondents in the case where there were some conflicting evidence or additional queries.

Lastly, the thank you letter was sent out to each respondent. The time taken to complete the fieldwork process including the pilot study and the initial verification of data was seven months.

4.2.9.13 Interview Schedule

Without the use of any recording device, the interview schedule was drafted immediately after the interview was conducted. It is organised in the following manner. The first section consisted of factual records of the interview, namely the respondent and position, the company, as well as the date, length and place of the interview. The second section contained the actual response to the questions and other related areas which emerged during the interview. These responses were listed to coincide with the numbering of the prepared questions. Important variables and crucial pieces of information were highlighted to assist the data analysis process. The third section listed queries, which emerged from the interview and from the initial analysis of the information, as well as any questions omitted during the interview. They were to be examined and subsequently probed back to the respondents, where possible. The last section contained the general view of the respondents perceived by the researcher. It listed possible factors which may affect the reliability, bias and accuracy of the responses. It also stated whether the information given may or may not be quoted.

4.2.10 Data Analysis

Data analysis is an attempt to “see the data in the light of hypotheses and theories, and draw conclusions that are as amendable to theory formation as possible” (Galtung, 1970). I adopted a few guidelines to enhance the rigour of the data analysis, and thus the conclusion¹⁷.

The starting point for the data analysis was through familiarisation with the data. I read all the data literally, interpretatively, and reflexively. Data provided a way into explanation, and to a lesser extent, constitutes concrete evidence. The analysis was aimed at finding themes beyond the obvious. Next, I used different fonts and colour coding to enhance the distinctiveness of data to be analysed¹⁸. However, by coding the data into different categories, it was difficult to capture the explanatory causes of the interviewees’ ideas and their interpretation of the phenomenon (Easterby-Smith, 1991). In overcoming this, the placement of data into different categories was used in parallel with the interview schedules, which might lead to some evidence crucial to our analysis. Thus I also adopted the grounded theory approach which consists of several steps including the

¹⁷ Despite a plethora of studies on research methodology, there are limited amounts of literature on the analysis of qualitative data. Consequently, there is no fixed formula to ensure the derivation of reliable and valid conclusion (Stake, 1994).

¹⁸ Miles and Huberman (1984) recommended putting data into different arrays, making category matrix and placing evidence into categories, clearly displaying data, and putting evidence into chronological order. Similarly, Sapsford and Jupp (1996) suggested that after data have been closely read, they should be segmented into different clearly displayed categories. These suggestions were similar to the “constant comparative method” of Glaser and Strauss (1967) and the content analysis.

familiarisation, reflection, and conceptualisation of data, as well as the cataloguing, recoding, linking and re-evaluation of concepts (Glaser & Strauss, 1967)¹⁹. In placing data in different categories, I aimed to compare and contrast items of evidence that are assigned in the same category according to its importance, themes, companies, to name but a few. Such method was crucial in the cross case analysis²⁰.

In analysing cross cases, I adopted a mix of case-oriented and variable-oriented strategy²¹. I searched for the common themes, as well as distinctiveness that may emerge. First, I focused on finding regularities and irregularities between (1) different sources of information, i.e. primary versus secondary information; (2) different types of organisations, i.e. public versus private organisations; (3) different types of diversifiers, i.e. early versus late diversifiers and small versus large firms; and (4) information collected through different methods, i.e. questionnaires versus interviews. This was replicated across all the cases and variables. Second, I looked for any spurious relations which may contaminate the analysis. Third, an emphasis was placed on finding data which may contrast the emerging patterns of evidence. Fourth, I considered possible alternative conclusions resulting from any negative evidence.

The data analysis process also took into account the analysis methodology suggested by Yin (1994)²². The pattern matching logic is used primarily to explain the phenomenon by comparing the empirical evidence with the predicted patterns (Trochim, 1989). If the role of the variables follows the predicted patterns then the proposition is strengthened. However, if one variable fails to follow the predicted patterns, then the whole proposition needs to be questioned. The explanation building clarifies the links between the set of variables and the case study. The most important feature of this method is that the final explanation derives from a series of iterations of making the proposition, comparing the empirical evidence to the proposition, and then revising the proposition (Yin, 1994). This method follows Eisenhardt's view (1989) that the building of evidence is carried out intertwined with the refining of the constructs. This constant comparison will help direct a vast array of evidence to a well defined construct or propositions. However, there is a possibility of the research being drifted away from its focus due to the iterations.

The method in which the research was conducted meant that the study adopted the hybrid of inductive and deductive reasoning. Thus it was in line with both the pattern matching and explanation building. In other

¹⁹ Grounded theory is used as a general indicator of the desirability of making theory from data, rather than a guide to a method for handling data. Hence it alerts researchers to the desirability of extracting concepts and theory out of data.

²⁰ By looking at multiple actors in multiple settings, the cross case analysis enhances generalisability and extends external validity (Miles and Huberman, 1994). Eisenhardt (1989a) emphasises that the importance of cross case pattern finding is in sharpening constructs by carefully connecting the data, and looking in the literature for constructs that conflict with, as well as, support your emerging findings. Nonetheless, in analysing the qualitative case study, there is no statistical significance to fall back on, hence qualitative research must look at "practical" significance (Miles and Huberman, 1994).

²¹ There are at least three strategies for cross case analysis. First, a case-oriented strategy is good at finding specific, concrete, historically grounded patterns common to small sets of cases, but findings remain particularistic. In order to overcome this, Yin (1984) advocates a replication strategy. Second, a variable-oriented strategy is good for finding probabilistic relationships among variables in a large population, but has difficulties with causal complexities, or dealing with subsamples. In other words, it finds themes that cut across cases. Third, a mixed strategy which combines the case and variable oriented strategies together. Galtung (1970) terms this a mix between the variable centred and the unit centred analysis.

²² According to Yin (1994), there are four dominant modes of analysis to be used for the case study research, namely pattern matching, explanation building, time series analysis, and programme logic models.

words, whilst relying on the empirical evidence in developing the conclusion, the study also focused on applying the existing theoretical framework on diversification to ensure that the analysis was not drifted away from the core research question.

There are four factors which assume the key role in the quality control of the qualitative case study research²³. They are construct validity, internal validity, external validity, and reliability (Yin, 1994). As discussed above, various measures were adopted to ensure the quality of research. Nonetheless, it is recognised that much of the quality control process, in particular, the data analysis rested with the researcher. Through the recognition that regardless of the findings, the study would enhance our knowledge on diversification. Essentially, the emphasis was continuously placed on the objectivity of the researcher.

4.2.11 Case Study Writing Procedures

In presenting the analysis derived from the empirical evidence, the researcher was faced with a vast array of qualitative data which had to be structured systematically and attractively. For the comparative purpose, each case was structured in the same manner. There were a number of issues which were considered when structuring the case. First, the case study demonstrated the background information relevant to the findings. Second, it illustrated the plots across different emerging themes of the research. Third, it presented the information in an analytical chronology in terms of time and significance. Fourth, it laid out the general aspect of specific evidence. And lastly, the case study clearly showed and discussed the variables which are key to the research. Although particular attention was placed on the crucial piece of information, all cases were given equal attention.

The usage of non-narrative form of evidence was emphasised in order to help in the understanding and comparison of cases (Yin, 1994). An identity of the informants was shown when possible.

4.2.12 Theory Development

Hypothesis by its very nature is speculative. If the predictions turn out to be true, then the hypothesis is supported, thus contributing to the development of explanatory theories. Good theory has categories that fit the data, is relevant to the core of what is going on, can be used to explain, predict and interpret what is going on, and is modifiable (Glaser, 1978). In achieving generalisability, it is recognised that better explanations are often “structural”, not too local. Moreover, a useful causal explanation should apply to more than one case. In other words, through analytic induction (Manning, 1982; Miller, 1982), a causal account obtained in one case can be tested elsewhere, be it supported, qualified, or subjected to revision.

²³ Construct validity is defined as the usage of correct operational measures to study the phenomena. Internal validity refers to an establishment of causal relationships, i.e. certain conditions are shown to lead to another. Thus spurious relationships must be distinguished. External validity involves the generalisability of the findings. In other words, the conclusion must be transferable. In ensuring the transferability of the findings, the replication logic forms the key role in strengthening the research propositions (Eisenhardt, 1989). Confirming cases enhance the validity of the framework whilst disconfirming cases provide insights into refining or extending the framework. Such process can also help in the establishment of internal validity in deleting relationships which may simply be spurious in nature. The replication logic is also helpful in demonstrating that the study can be repeated with the same or similar results, thus ensuring validity of the research. Reliability refers the consistency and accuracy of the research method.

4.2.13 *Summary of Research Methodology*

Through qualitative case study approach and some quantitative research, I was able to explore advanced insights into the diversification phenomenon found in the emerging markets²⁴. My research looked at the phenomenon that needed to be understood through the executives' view of factors which determined the diversification direction. As a result, my research leaned towards the phenomenological perspective²⁵ rather than the positivism²⁶.

My research methodology can also be regarded as combining the deductive²⁷ and inductive reasoning²⁸. My research was initially started as a result of the researcher's general observation of the diversification phenomenon in the emerging markets. The study attempted to generalise the findings, which may help in further development of the diversification research. Thus, the research adopted the inductive approach. This is believed to provide flexibility and richness of data. However, the existing theories of diversification have also assumed the key role in the study, both in identifying the units under investigation and framing the questions posed.

Recognising the advantages and disadvantages of each strand of the research method, the study also followed the triangulation approach in relations to the sources and methods of data collection. In enhancing the validity of the research, the replication logic was also adopted. When analysing the empirical evidence, emphasis was placed on the objectivity of the researcher, the importance of data display, the replication logic, thus validity of the research was ensured.

²⁴ As argued that Mintzberg (1979z), effective theory building and subsequent testing in strategy research requires rich description. This is supported by Weiss (1968) who states that qualitative data are superior to quantitative data in its density of information, vividness and clarity of meaning.

²⁵ The phenomenologist takes into account the human behaviour which influences how the subjects see the world (Bogdan & Taylor, 1975). In doing so, the phenomenologist relies on the qualitative methods, such as participant observation, open-ended interviews, and the use of personal documents. The phenomenological approach provides a systematic way to understand the complexity of the phenomenon by investigating the nature of the subjects and the world (Easterby-Smith, 1991).

²⁶ The positivist searches for the explanation of social causes whose boundaries are well-defined (Bogdan & Taylor, 1975). Quantitative data from a large sample is used to statistically certify the relationships among variables. Using the quantitative approach, the positivist boasts the objectivity, replicability, and reliability of the research findings (Parkhe, 1991).

²⁷ The deductive approach proceeds from the theories to specific hypothesis (Ackroyd & Hughes, 1981). It is applicable when there is a good bank of applicable and well-delineated concepts.

²⁸ The inductive approach proceeds from observations of particular events to empirical generalisation, and ultimately to theory development (Bulmer, 1979).

5 Analysis of Empirical Evidence

5.1 Introduction

To test empirically my hypotheses concerning corporate diversification in emerging market countries I examined diversification by leading Thai business groups.

The empirical analysis was conducted at two levels. First, I examined the overall diversification strategies of the 20 largest Thai business groups. Second, I conducted detailed case studies of the diversification decisions of three Thai business groups focusing specifically upon diversification into the telecommunications sector.

The primary purpose of this first stage was to identify any general patterns of diversification among leading Thai business groups and observe any systematic differences between the diversification strategies of large Thai enterprises and the diversification strategies of large North American and European enterprises. While such evidence could not test directly the hypothesis that diversification in emerging market countries was driven primarily by industry non-specific resources, it could provide evidence that was either consistent or inconsistent with this hypothesis.

In the second stage of the analysis, I present feedback from the executives involved in the decision process of diversification into telecommunications. Data from secondary sources were used to support/contradict feedback from these executives. Note that other empirical evidence such as feedback from the other business groups diversifying into the telecommunications industry and comments from the officials from the public organisations were also included.

I outline the relationships between the empirical evidence and the hypotheses in the diagram below.

Figure 5.1.1: Empirical Evidence

<u>Hypotheses</u>	<u>Sections and Contents</u>	<u>Key Evidence</u>	<u>Supporting Evidence</u>
Hypothesis I	5.2 Pattern of Diversification <ul style="list-style-type: none">• <i>Business groups</i>• <i>The 20 largest Thai business groups</i>• <i>Pattern of diversification</i>• <i>Comparison with the advanced markets</i>• <i>Comparison with the other emerging markets</i>	20 largest Thai business groups	
Hypothesis II	5.4 Rationale behind Diversification <ul style="list-style-type: none">• <i>Company overview</i>• <i>Diversification patterns</i>• <i>Diversification into telecommunications</i>• <i>Rationale behind diversification</i><ul style="list-style-type: none">• <i>financial capital</i>• <i>political connections</i>• <i>reputation</i>• <i>general management capabilities</i>• <i>Determinants of diversification direction</i><ul style="list-style-type: none">• <i>industry non-specific resources</i>• <i>industry attractiveness</i>• <i>inter-firm collaboration</i>	3 Case studies: <ul style="list-style-type: none">• CP• Shinawatra• Samart	5.3 Thai Telecoms Industry <ul style="list-style-type: none">• <i>Industry development and structure</i>• <i>Participation by the private sector</i>
Hypothesis III			
5.5 Summary <ul style="list-style-type: none">• <i>Hypothesis I</i>• <i>Hypothesis II</i>• <i>Hypothesis III</i> <i>Supported by views from other diversifiers and views from public organisations</i>			

Note: Italic fonts represent sections within Chapter 5

5.2 Patterns of Diversification (Hypothesis I)

In this section, I focus on examining the overall diversification patterns of 20 largest Thai business groups. The purpose here is to observe whether there are any differences between the patterns found in Thailand and other advanced economies.

As discussed in Chapter 3 Conceptual Framework, my research aims to understand the implications of the industry non-specific resources, industry attractiveness and inter-firm collaboration on diversification. The non-specific nature of strategic resources means that companies have a wider scope of business in which to diversify. This may explain why at the time when companies in North America and Western Europe refocus their businesses, some companies in the emerging market countries exhibit reverse patterns by diversifying into a wide range of activities. In other words, Thailand's business groups tend to be involved in the businesses, which are less closely related to one business to another than companies in the advanced markets.

Hence for Hypothesis I, I propose that:

The important role of industry non-specific resources in the emerging market countries means that large business groups have a wider scope of diversification. As a result, a majority of these business groups tend to diversify into less closely related areas.

In order to test this hypothesis, I will now discuss a) business groups, including the definition of business groups, their key characteristics, and their economic significance, b) the selection of Thailand's 20 largest business groups, c) the pattern of diversification of Thailand's 20 largest business groups, d) how the results are compared to studies in the advanced economies, and e) how the results are compared to studies in the other emerging markets.

5.2.1 Business Groups

As discussed in Chapter 4 Research Design, a "business group" is a "set of firms which, though legally independent, are bound together by a constellation of formal and informal ties and are accustomed to taking coordinated action. The term "business groups" is used to reflect the structure of business organisation in Thailand. Similar to many emerging market countries, many large companies which dominate the economic activity in Thailand tend to be part of a large business group which consists of "complex, direct and indirect, cross ownerships and inter-relationships" (The Brooker Group, 2001).

Business organisations in Thailand can be broadly divided into three categories (Suehiro, 1995). First, the European trading houses which dominated Thailand's export-oriented industries until the Second World War. Second, companies controlled by royal family members and high-class bureaucrats which became heavily involved in the real estate, construction of railways, rice milling, cement industry and commercial banking. They also acted as industrial banks and credit suppliers for European trading houses and the Chinese merchants. Third, overseas and locally born Chinese merchants which have since become the major force of Thailand's economy - 23 out of Thailand's 24 largest industrial groups in 1984 were ethnic Chinese (Suehiro, 1995). The majority of the business groups discussed in my research originated from the latter two types.

Business groups constituted the foundation of the Thai economy. The study by Claessens, et. al (1999) shows that 47% of the firms were affiliated to business groups. The Brooker Group (2001)'s guide to business groups in Thailand shows that each of the 100 largest business groups (in terms of number of associated companies) had an average number of associated companies of 53. Other studies show that the economic significance of business groups was not unique to Thailand (Chang & Hong, 2000, Chung, 2001, Ghemawat & Khanna, 1998; Khanna & Rivkin, 2001). As recorded by Khanna & Rivkin (2001), "groups are ubiquitous in emerging economies, where they often control a substantial fraction of a country's productive assets and account for the largest and most visible of the country's firms". In South Korea, the 30 largest chaebols accounted for 30 per cent of the country's total output in 1996 (Chang & Hong, 2000). In Taiwan, the 100 largest business groups produced one-third of GNP in the past 20 years (Chung, 2001). The same study by Chung (2001) on Taiwan's business groups also found that an average number of member firms per group have increased from 6.25 in 1970 to 10.75 in 1996.

Thailand's business groups were largely controlled by a single family or a group of families, and were typically based on extended family structure (Suehiro, 1995). Supported by Chung's study (2001), the extended family structure encouraged business groups to diversify into various activities, so that each family member had the control of different businesses. In addition to relationships among family members, business groups had close relations with one another through businesses as well as marriages. "Very frequently the promoter of a new venture will invite several other groups to join" (The Brooker Group, 2001).

Lasserre & Schutte (1999) described these Chinese origin business groups as highly entrepreneurial, exhibiting rapid accumulation of capital, and had comprehensive business networks. Opportunities presented to them via personal contacts often had to be seized quickly. Unlike conglomerates in more advanced economies, their deal-making mentality resulted in the less prevalent role of formal evaluation of commercial projects.

5.2.2 The 20 Largest Business Groups in Thailand

In order to select the 20 largest private indigenous business groups in the Thai economy, the following steps were undertaken:

5.2.2.1 Identification of the Thai private and indigenous business groups

The 2001 Unique Guide to Thai Business Groups, published by the Brooker Group covers 150 business groups in Thailand. The description of each business group resulted in the elimination of four business groups. Three business groups can be classified as non-Thai or of Chinese origin. One business group, The Crown Bureau was the organisation acting on behalf of the King and was therefore eliminated. This resulted in the remaining 146 business groups.

5.2.2.2 Ranking of business groups

In order to rank business groups to identify the 20 largest Thai business groups, the most ideal criteria would have been the group's total revenue. However, this was virtually an impossible task. Each business group consisted of between five to 400 companies, leading to the total number of companies of almost 6,000. Even if we took into account that some companies were associated with more than one business group, the revenue data required would still be in the range of a few thousand companies. Some of these business groups did not have listed companies. Most of these business groups only listed a few companies on the Stock Exchange, hence this made the task of trying to analyse each business group's total revenue difficult. In addition, cross holdings amongst business groups and companies increased the complexity of such type and scale of analysis.

There were three types of available information which could make the selection process manageable: first, the number of companies associated with each business group, second, market capitalisation of the listed companies associated to each business group, and third, the general knowledge of the key players in the Thai economy. Whilst not perfect, such information allowed me to analyse the data in the way appropriate to the objectives and within the timescale available. I now discuss the steps, which I adopted.

First, business groups were ranked using the number of companies. Second, business groups were ranked based on the market capitalisation of the companies listed on the Stock Exchange of Thailand. There were ten overlapping business groups that were ranked in the 20 largest by number of companies and also by market capitalisation. These ten were therefore selected. The remaining ten were selected by referring to five business groups which were ranked in the 20 largest by number of companies alone, as well as five business groups which were ranked in the 20 largest by market capitalisation alone. For instance, the Srifuengfung Group, which was ranked as the fifth largest group based on number of companies, was not ranked in the 20 largest using market capitalisation. Similarly, the Shinawatra Group which alone accounted for the largest proportion (9%) of the SET's total market capitalisation was not ranked in the 20 largest using number of companies.

In addition, I took into account the practicality and general knowledge of these business groups. Although the Techaphaibul Family was ranked in the top 20 in terms of number of companies associated with the group, this business group had no listed companies and hence would provide insufficient information for the analysis. It was therefore excluded. Furthermore, the Sirivadhanabhakdi Family replaced one business group, as it was believed to be one of the richest business groups in Thailand. However, the group had a low profile in terms of number of companies it operated as well as the listing on the Stock Exchange of Thailand.

As a result, the 20 largest Thai business groups selected for this research were shown below (in alphabetical order). The selected 20 largest Thai business groups accounted for 38% of the total market capitalisation. Given that the state enterprises and foreign companies accounted for 31% of the total market capitalisation, these 20 largest business groups actually represented around half of the total market capitalisation of the private indigenous companies.

Table 5.2.1: The Selected Thailand's 20 Largest Business Groups

The Largest 20 Thai Business Groups by Companies and Market Capitalisation	Companies	% of SET
- The Asavabhokhin Family (Land and Houses/Quality Houses Group)	41	2.4%
- The Chearavanont Family (Charoen Pokphand Group)	429	4.0%
- The Chirathivat Family (Central Group)	222	1.4%
- The Chokwatana Family (Sahapathana/Sahapathanapibul Group)	400	1.4%
- The Darakananda Family (Saha-Union Group)	105	0.3%
- The Euarchukiati Family (Thai Plastic and Chemical Group)	88	0.2%
- The Lamsam Family (Thai Farmers Bank/Loxley Group)	145	4.0%
- The Laohathai Family (Metro Group)	87	0.2%
- The Maleenont Family (BEC World Group)	23	2.6%
- The Phatraprasit Family (Phatra Group/Royal Group)	69	1.3%
- The Phornprapha Family (Siam Group/SP International Group/Thai Honda Group)	113	0.0%
- The Ratanarak Family (Bank of Ayudhya/Siam City Cement)	32	3.1%
- The Shah Family (G Premjee Group)	93	0.3%
- The Shinawatra Family (Shin Corporations Group)	38	9.3%
- The Sirivadhanabhakdi Family (TCC/Sang Som/New Imperial Hotel Group)	81	0.2%
- The Sophonpanich Family (Bangkok Bank Group)	104	4.9%
- The Srfuengfung Family (THASCO Chemical Group)	127	0.1%
- The Viriyaprapaikit Family (Sahaviriya Group)	85	0.2%
- The Wanglee Family (Poon Phol Group)	36	0.1%
- The Wongkusolkrit Family (Mitr Phol Sugar/Banpu Group)	71	1.4%

5.2.3 Pattern of Diversification

As discussed in Chapter II Review of the Literature, there are a number of methods which are used to analyse the pattern of diversification including, the SIC method, the Wrigley's categorical method, the categorical method developed by Rumelt, and the entropy method pioneered by Jacquemin & Berry (1979). Each method has drawn support as well as criticism. Taking into account the purpose of the study and the availability of information, the research adopted the Rumelt's method. But instead of classifying business groups into nine categories, it was sufficient, for the objective of this research, to classify business groups into four categories, namely "Single Business", "Dominant Business", "Related Business", and "Unrelated Business". Although such categories match with Wrigley's method, I believe that the Related Ratio developed by Rumelt allowed me to understand the key distinction between the "Related Business" and "Unrelated Business". In addition, the information required to analyse Related Ratio is similar to the available information regarding the Thai business groups.

Based partly on Wrigley's method, Rumelt's measure of diversification takes into account the following key information:

Specialisation ratio (SR): the proportion of a firm's annual revenues attributable to its *largest discrete product-market activity*.

Related ratio (RR): the proportion of a firm's revenue attributable to its *largest group of related businesses*.

In order to derive these two ratios, I followed the Rumelt's approach in defining "discrete business" and "related business". As stated by Rumelt (1974), these terms are:

Discrete business: "the one that is strategically independent of the firm's other businesses in that basic changes in its nature and scope can be made without meeting constraints imposed by other of the firm's businesses and without materially affecting the operation and strategic direction of other of the firm's businesses".

Related business: “businesses are related to one another when a common skill, resource, market, or purpose applies to each”.

For instance, in the case of the Chokwatana Family (Sahapathana/Sahapathanapibul Group), textiles, footwear, rubber products and plastic manufacturing and distribution were classified as being a group of related businesses. All these products shared similar raw materials, and to a lesser extent, manufacturing process. Furthermore, they served similar purpose of allowing the Group to serve the textiles and plastic market. Cosmetics manufacturing was based on different raw materials and hence not regarded as related. Within the textiles, footwear, rubber products and plastic manufacturing and distribution, textile manufacturing was regarded as a discrete business on its own as it utilised a somewhat different set of raw materials.

Table 5.2.2: The Chokwatana Family’s Businesses

The Chokwatana Family (Sahapathana/Sahapathanapibul Group)	
Business activities	% of Total Revenue
Business classification	
1 Cosmetics, fragrance, hair products - manufacturing and distribution	19%
2 Consumer products (medicines) - distribution	18%
3 Textiles, footwear, rubber products and plastic - manufacturing and distribution	39%
4 Food and beverage - manufacturing and distribution	21%
5 Machinery and electrical goods - manufacturing	no info avail
6 Real estate	no info avail
7 Power	no info avail
8 Finance, leasing, insurance	no info avail
9 Services	1%
10 Advertising and design	1%
11 Computer, office equipment	1%
Total	100%

The analysis on each of the 20 business groups is shown in Appendix IV.

I recognise that Rumelt’s approach requires a large degree of judgment on what is a group of related businesses and what is a discrete business. But as stated by Rumelt (1974), “while it necessarily introduces problems associated with the lack of totally objective standards, it is doubtful whether such standards are attainable in business research of this type...We would argue in turn that even more “objective” measures can be found, but they bear even less relation to the real issue under investigation...When in doubt, we tended to favour relevancy over exactness”.

Once “discrete business” and “related business” were defined, the next task was to calculate the Related Ratio of each of the 20 business groups. My method was to calculate a Related Ratio before Specialisation Ratio. If the Related Ratio was less than 0.7, then a group was classified as “Unrelated Business”, hence no further analysis was required. For those with Specialisation Ratio of more than 0.7, further analysis related to revenue composition of a discrete business was required to classify whether that particularly group was “Single Business”, “Dominant Business” or “Related Business”. This sequence helped to minimise the lack of revenue information at the discrete business level for some business groups.

Owing to the complexity of gathering revenue information of the total number of companies (which was likely to be in the range of a few thousand companies) associated to these 20 Thai business groups, my analysis was based

on the revenue from the listed companies. The revenue used to calculate the Related Ratio was recalculated using a proportion of holdings which a particular business group had on that particular company.

Although many business groups had a listed company/companies within some of the category of related businesses, not all of the categories of related businesses had a listed company/companies. Each of the 20 Thai business groups had between two to 11 categories of related businesses, of which only four Thai business groups had listed companies associated with all of the categories of related businesses. For the remaining, I have used the information regarding the Thai business group's businesses provided by the Brooker Group to assist in my judgment. This resulted in the following situations.

First, one Thai business group was discarded due to the lack of sufficient information. The Phatraprasit Family (Phatra/Royal Group) was associated with six categories of related businesses, namely 1) banking, finance and insurance, 2) liquor manufacturing and distribution, 3) real estate, 4) mining, 5) porcelain, tiles and bricks manufacturing, and 6) other businesses. However, I only had access to the revenue information of the banking, finance and insurance, through the listing of Bank of Asia. If other sources of information suggested that banking, finance and insurance were in fact the group's core activity, this could perhaps be sufficient to analyse the Related Ratio. However, this was not the case. Although the group had no listed company in other categories of related businesses, it appeared that the group was heavily involved in liquor manufacturing and distribution through a large and well-established company, Sura Maharas. Moreover, the group was associated with large real estate projects, such as the Mall Department, various condominiums, and industrial estates. As a result, it was concluded that there was insufficient information to analyse the group's pattern of diversification, hence the group was discarded from further analysis.

Second, the description of Thai business groups was used to confirm the result when the calculated Related Ratio was between 0.6-0.69 and 0.7-0.79 to assess whether the result should, in fact, be different. There were two Thai business groups with a Related Ratio between 0.7 and 0.79. As a result, an inclusion of revenue from other categories of related businesses may potentially change the outcome from "Single or Dominant or Related business" to "Unrelated business".

The Srifuengfung Family (THASCO Chemical Group) was associated with nine categories of related businesses, namely 1) plastic and chemicals manufacturing, 2) textiles, 3) tyres, 4) finance, 5) real estate and hotels, 6) infrastructure, shipping and transport, 7) telecoms, 8) mining, and 9) glass manufacturing. However, there were no listed companies associated with the latter five categories of business. This resulted in the Related Ratio of 0.75. However, these five businesses did not appear to be regarded as the group's core activities, hence it was believed that the inclusion of revenue from these activities would not alter the pattern of diversification derived by using the available listed revenue. It was likely that the revenue of the non-listed companies from plastic and chemicals, textiles, tyres and finance would also offset such effect. The group was therefore classified as "Single or Dominant or Related business".

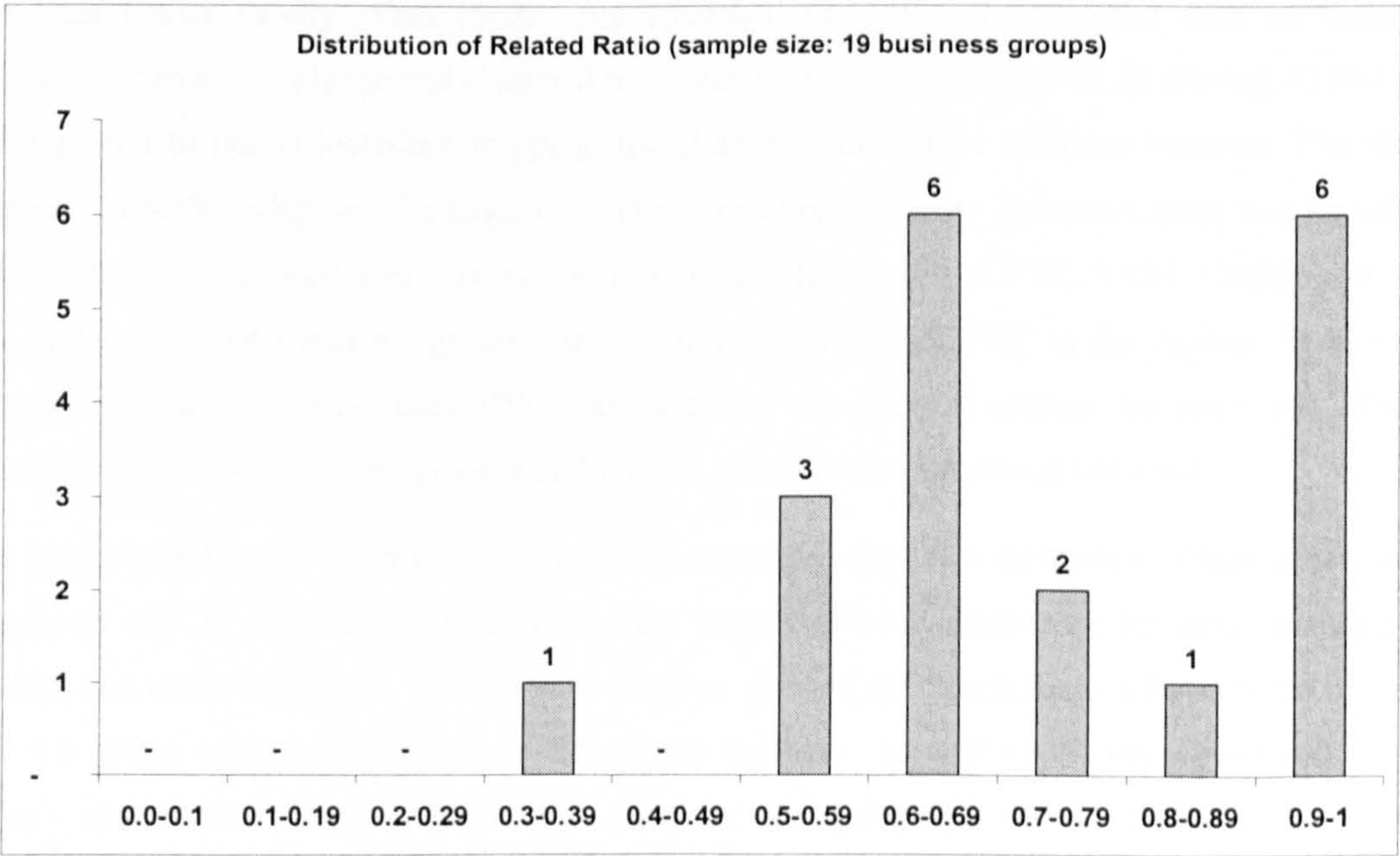
The Ratanarak Family (Bank of Ayudhaya/Siam City Cement Group) was associated with seven categories of businesses, namely 1) banking, finance and insurance, 2) cement and construction materials manufacturing and distribution, 3) mining, 4) wheat, flour and tapioca production, 5) silos, 6) television broadcasting, and 7) real estate. This resulted in the Related Ratio of 0.71. However, there were no listed

companies associated with the latter four categories of business. The group’s television broadcasting business covered the operation of Channel 7 which had the largest market share. Hence it was likely that an inclusion of broadcasting revenue would result in the Related Ratio being lower than 0.7. The group was therefore classified as “Unrelated business”.

Our analysis showed that there were six Thai business Groups with a Related Ratio between 0.6 and 0.69. As a result, an inclusion of revenue from other categories of related businesses would be likely to lower the Related Ratio further, hence unlikely to alter the outcome of “Unrelated business”.

Apart from the one business group discarded due to lack of insufficient information, there were ten business groups classified with the Related Ratio of less than 0.7, and were therefore classified as “Unrelated business”. Nine business groups had Related Ratio of more than 0.7, and were therefore classified as “Single or Dominant or Related business”. These nine business groups needed to be further analysed to identify their Specialisation Ratio.

Figure 5.2.3: Distribution of Related Ratio



Out of these nine business groups, there was sufficient revenue information from the identified discrete business for five business groups. For the remaining four business groups, the limited availability of information meant that some judgement needed to be inserted. Such judgement was based on the group’s description by the Brooker Group, as well as by summary of activities found on the company website and company profile document filed at the Stock Exchange of Thailand. The four business groups were:

The Sirivadhanabhakdi Family (TCC/Sang Som/New Imperial Hotel Group) was associated with five categories of businesses, namely 1) banking, finance and insurance, 2) breweries, liquor, soft drinks, and water manufacturing and distribution, 3) real estate, 4) hotels, and 5) pharmaceutical. The breweries, liquor, soft drinks, and water manufacturing and distribution account for 90% of the revenue. This was based on revenue of Sang Som. However, there was no information to breakdown the revenue by

activities and it was therefore not possible to derive a Specialisation Ratio. But it was known that the group's core activity lay with liquor manufacturing and distribution. As a separate business, the manufacturing and distribution businesses cover Thailand as well as other countries. As a result, each of these two businesses was likely to be very significant in terms of revenue generation. It was therefore judged that as a discrete business, neither the manufacturing nor distribution business was likely to account for more than 70% of the revenue. The group was therefore classified as "Related business".

The Phornprapha Family (Siam/SP International/Thai Honda Group) was associated with eight categories of businesses, namely 1) auto manufacturing and distribution, 2) recreation, 3) transport, 4) real estate, 5) hotels, 6) construction equipment manufacturing and distribution, 7) natural resources, and 8) finance. The auto manufacturing and distribution was the largest revenue generation business. However, there was no information to breakdown the revenue into cars, motorcycles, trucks manufacturing and distribution. It was therefore judged that as a discrete business, neither the manufacturing nor distribution business of cars or trucks or motorcycles was likely to account for more than 70% of the revenue. The group was therefore classified as "Related business".

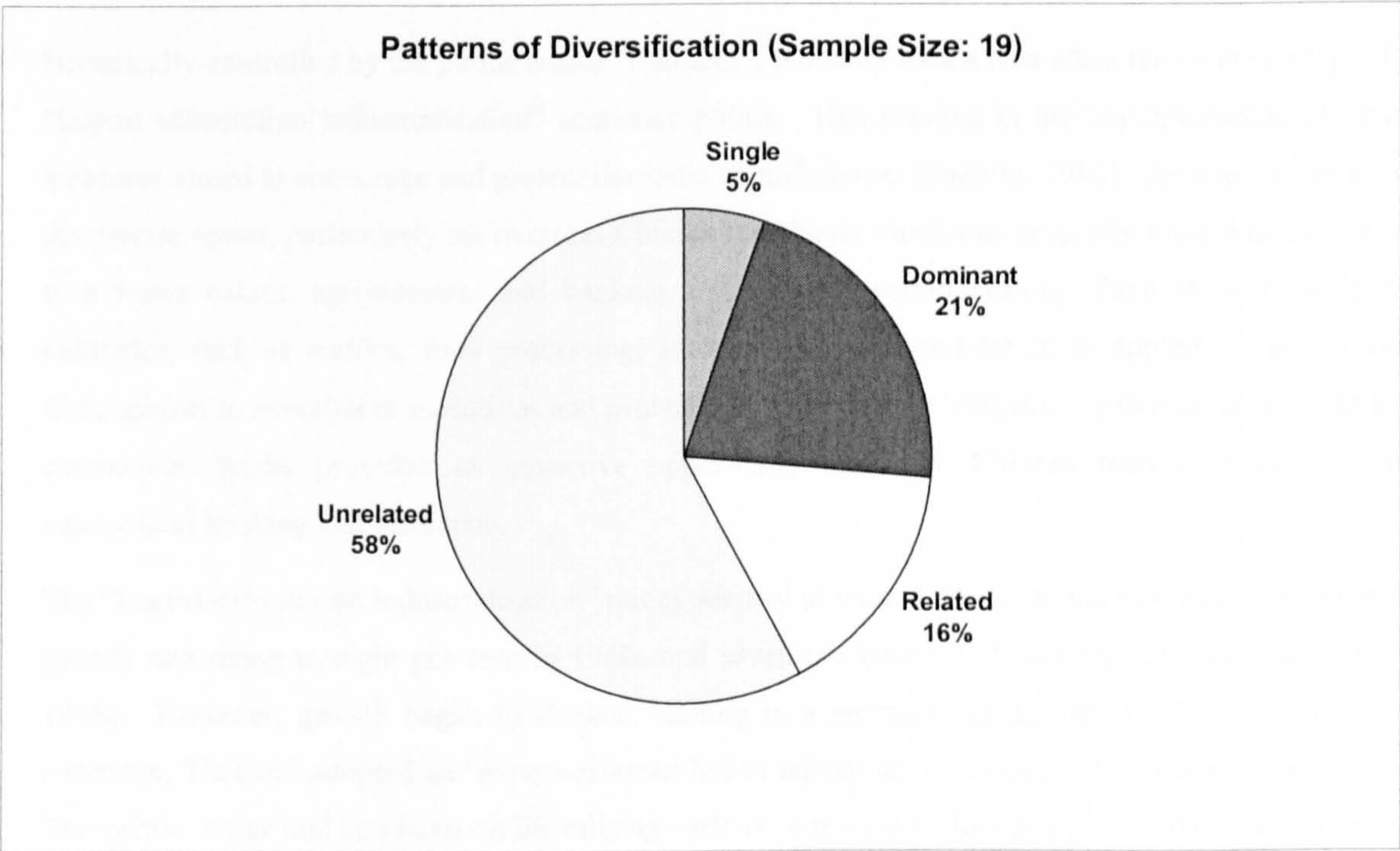
The Euarchukiat Family (Thai Plastic and Chemical Group) was associated with six categories of businesses, namely 1) plastic and chemical manufacturing, 2) petrochemicals, 3) mining, 4) real estate, 5) banking, and 6) others including shipping, travel agency and public relations business. The plastic and chemical manufacturing was the largest revenue generation business. However, there was no information to breakdown the revenue into various kinds of end products, such as PVC, VCM, Olefins and others. It was, however, known that the group was the largest producer of PVC in the region. It was therefore judged that as a discrete business, PVC manufacturing was likely to account for more than 70% but less than 95% of the revenue. The group was therefore classified as "Dominant business".

The Shinawatra Family (Shin Corp Group) was associated with two categories of businesses, namely 1) computers and 2) telecoms. Telecoms was the largest revenue generation business, covering mobile, satellite and cable television. The revenue analysis showed the Specialisation Ratio to be 0.7, implying that this group could be classified as "Dominant business" as well as "Related business". Given the group's focus and success in the mobile business, the group was therefore classified as "Dominant business".

All in all, the analysis showed that there was one business group classified as "Single Business", four as "Dominant Business", three as "Related Business", 11 as "Unrelated Business" and one business group lacked sufficient information. In other words, the findings showed that 58% of the sample size of 19 Thai business groups could be classified as "Unrelated Business".

This findings support Hypothesis I. The majority of the Thai business groups studied have diversified in a range of less closely related businesses, and were therefore classified as "Unrelated Business". This indirectly supports Hypothesis II in the role and implication of having industry non-specific resources as the strategic resources.

Figure 5.2.4: Patterns of Diversification in Thailand



Out of these 11 business groups classified as “Unrelated Business”, only one business group (The Chokwatana Family) had less than half of the revenue generated from the largest category of related business. For the remaining, a majority of the revenue (50%-69%) still came from the largest category of related business.

Interestingly, only one business group was classified as “Single business”, i.e. the Srifuengfung Family who appeared to be associated with nine categories of related businesses. Nonetheless only one discrete business, i.e. plastic and chemicals manufacturing, dominated the group’s revenue.

There did not appear to be any relationship between a) number of categories of related business and Related Ratio, and also b) market capitalisation and Related Ratio. Surprisingly, this did not suggest that the more activities business groups diversified into, the more likely that they would be classified as “Unrelated Business”. Nonetheless, there appeared to be some relationships (though, quite weak) between number of companies associated to a business group and the Related Ratio. The higher the number of companies associated to a business group, the lower than Related Ratio.

Given that the findings appear to support Hypothesis I. I now attempt to demonstrate how developments related to regulations, regulatory environment, and capital environment encourage the growth in both scale and scope of many large business groups.

5.2.3.1 Regulations and Regulatory Environment

(a) Regulations

A majority of the overseas Chinese business groups started their activities in trading. “Since Thai land ownership laws prevented them from conducting their original occupation of farming, the Chinese gained

dominance in trading..." (The Brooker Group, 2001). But the national economic policies have gradually changed this.

Historically controlled by the public sector, Thailand's economy took a turn when the country adopted the "import substitution industrialisation" economic policy. This resulted in the implementation of various measures aimed to encourage and protect domestic manufacturers (Suehiro, 1992). As a result, the role of the private sector, particularly the overseas Chinese merchants which was primarily limited to trading, and to a lesser extent, agri-business and banking, expanded to manufacturing. They became engaged in industries, such as textiles, food processing, automobiles, glass and electrical appliances, all of which were subject to investment incentives and protections. Also the government's initiation to promote local commercial banks provided an attractive opportunity for some Chinese merchants to enter into commercial banking and insurance.

The "import substitution industrialisation" policy seemed to work well. Thailand saw its annual economic growth rate rising to eight per cent in 1960s and seven per cent in 1970s (Bello, Cunningham & Poh, 1998). However, growth began to slacken, leading to a recession in the late 1970s. To remedy the recession, Thailand adopted an "export-oriented industrialisation" economic policy from the early 1980s. The public sector laid emphasis on liberalising various economic sectors and privatising state enterprises. The aim was to promote the scale as well as scope of exports by Thai companies. Several measures were implemented, including increased tariff for import products, reduced import tax for materials used for exports, abolition of various export taxes, establishment of credit facilities for exporters, and various investment privileges for exporters. As suggested by Lasserre & Schutte (1999), many Asian conglomerates depended on domestic protectionism.

Regulations also opened the way for private companies to participate in many traditionally state controlled industries. This was undertaken in the form of privatisation of state enterprises, as well as protection of competition for some capital-intensive industries. Despite the lack of prior experiences, regulations allowed many local companies to undertake these projects. A reason influencing such phenomenon was the willingness of international firms to partner with local firms in order to enter the markets.

(b) Regulatory environment

In addition to regulations themselves, the regulatory environment in Thailand also played a role in the development of many large business groups in Thailand.

Traditionally, Thailand's economy was controlled by the public sector, including the state as well as the army (Phongpaichit & Baker, 1995). Nonetheless, Thailand slowly witnessed the rise of Sino Thai capitalist groups, particularly in the areas of banking, trade, and agricultural commodities (Suehiro, 1992). Recognising the important role of the public sector, Chinese businessmen began to share some of their profits with powerful politicians and army generals. To ensure smooth business operations, many of these companies appointed bureaucrats and military figures in the companies.

The success of Thailand's economic policies gradually shifted the power toward private businesses. This further strengthened the relationships between business and politics. There were a number of reasons.

First, instead of their direct role in business operation of the state enterprises, army generals and politicians began to leverage their political power by indirectly diverting state revenues, setting up taxes and collecting income from businesses. In 1959, the World Bank noted that the board of state enterprises in Thailand was full of high ranking military and influential politicians. With relationships among politicians, army generals and businessmen, senior positions in state industries, such as communications, electricity, water, housing, transports became increasingly filled with selected bureaucrats and business allies. Second, recognising the growing role of the private sector, the military offered courses which attracted attendance from bureaucrats and businessmen. The objective of these courses was to build networks and interdependence among military officers, bureaucrats, and businessmen. Third, businessmen themselves began to enter politics whilst talented technocrats became involved in businesses. Businessmen formed political parties and consequently sat in the Cabinet. Whilst there have been some fluctuations in the proportion of businessmen in the Cabinets, generally, the proportion was rising - 73 per cent of the Cabinet members were businessmen in 1988 (Krikkiat, 1988).

As a result, relationships between businesses and politics became inseparable. As pointed out by the World Bank, "...private gains have been secured at an observable communal expense" (World Bank, 1991). National policies are often distorted to serve particular businesses and personal interests. Even independent organisations, such as the National Economic and Social Development Board and the Bank of Thailand are believed to be subject to much political influence. Although the coup in 1991 has resulted in attempts to untangle the interlocked relationships between business, politics and the army generals, such relationships remain deeply entrenched in the Thai society. These conditions result in the political connections possessed by many large business groups. Nonetheless, it is not unique to Thailand. For instance, the Salim Group was well known for its close connections with the former President Suharto of Indonesia. When the Group faced an accusation of a lack of nationalism over its decision to buy stakes in Singaporean firms earlier this year, two government officials were assigned by the former President Suharto to ward off these criticisms (FEER, 28 August, 1997).

5.2.3.2 Capital Environment

In addition to foreign direction investment, Thai business groups were able to raise funds through other means, including the domestic banks and finance companies, the country's stock market, foreign direct investment, as well as initiations by Thai firms to raise funds abroad.

(a) Domestic banks and finance companies

Traditionally, sources of capital in Thailand were from domestic banks (Phongpaichit & Baker, 1995). Nonetheless, the dominance of local banks as sources of capital gradually declined. Thailand saw a rapid rise of finance companies - assets of finance companies saw a seven-fold increase from 1985 to Baht 918 billion in 1993 (Phongpaichit & Baker, 1995).

(b) The stock market

Though founded in 1975, the role of the Stock Exchange of Thailand (SET) was insignificant until the late 1980s. As the world emerged from the 1987 stock market crash, the SET began to attract foreign

portfolio investment, initially from Hong Kong and Taiwan, and then USA and Europe. During 1989 to 1992, many major international stock broking firms established their presence in Thailand. There were a number of factors, which further increased the importance of the SET. First, the capital inflow was made easier as a result of the government's policy which led to the Baht being freely convertible. Second, the new Securities Exchange Act 1992 simplified company listing procedures, leading to a large number of company flotation. The SET saw its market capitalisation increased from Baht five billion in 1975 to Baht 3,325 billion in 1993. The number of listed companies surged from 21 to 347 during the same period.

(c) Foreign direct investment

Foreign investors were encouraged to enter the market. Foreign direct investment jumped from US\$ 178 million in 1985 to US\$ 2.5 billion in 1990, almost half of which was from Japan (Abegglen, 1994). Many business groups became the direct beneficiary and expanded the scale and scope of their business.

(d) Funds from overseas

High economic growth rate, high interest rates, as well as a large direct investment from Japan exacerbated interests in the foreign financial institutions in channelling capital to Thailand. The removal of foreign exchange restrictions and the amendments of some legislations also allowed Thai firms to source capital through loans and equity abroad.

Essentially, Thailand's liberalisation of the financial sector created a favourable environment for the channelling through of capital as well as direct investment. Total foreign capital inflow as a percentage of gross domestic product increased substantially to an average of nine per cent during 1987 to 1992. Thailand's capital environment was such that it was not difficult for business groups with established reputation to finance their projects. Inexperienced Thai investment analysts, as well as the recent arrival of international brokerage firms in the Thai market meant that well-established Thai firms became the prime beneficiary of the capital influx. Diversification into real estate development by many business groups which could be regarded as opportunistic, were, to some extent, encouraged by the capital market. Large amount of financial capital went into investment opportunities that would produce a high return in a short time. With impressive economic growth rates, financial institutions often lent money based on the potential relationships with their counterparts, rather than on financial fundamentals (Bello, et.al, 1998).

So far, I have shown that business groups were significant to Thailand's economy. Business groups in Thailand also have characteristics, which may not be commonly found in the advanced markets. I have also shown that the majority of the large Thai business groups operated in a number of closely related businesses, in terms of technologies and market. And lastly, I discussed how developments related to regulations, regulatory environment and capital environment in Thailand have influenced the rise of large business groups in Thailand.

I will now compare the pattern of diversification found in Thailand with countries in the advanced and emerging economies. Before discussing the results, it should be noted that it had not been possible to conduct a direct comparison between this study and other previous studies. There were differences attributes, such as years of study and number of companies/business groups studied. Therefore, the comparison should be viewed as indicative only.

5.2.4 Comparison with Diversification in the Advanced Market Economies

In comparing the results of the pattern of diversification of Thailand’s largest 20 business groups with the pattern of diversification in the advanced economies, the following five studies were taken into account. These five studies were chosen due to the similarity to our study in the methodology of measuring diversification, i.e. all the studies were based on the Wrigley/Rumelt’s categorical method. However, this comparison cannot be used to provide a direct comparison of the pattern of diversification between advanced economies such as UK, France and Germany to an emerging market such as Thailand partly because the most recent study of the advanced markets is in 1983.

Table 5.2.5: Studies on Patterns of Diversification in the Advanced Economies

Authors and Year Published	Year Studied	Country
Whittington (1999)	1983 and 1993	UK, France, Germany
Channon (1973)	1950, 1960, 1970	UK
Dyas (1976)	1950, 1960, 1970	France
Thanheiser (1976)	1950, 1960, 1970	Germany
Rumelt (1974)	1950, 1960, 1970	USA

The findings by Whittington (1999) were the key results used for the comparison with my findings. This is because Whittington’s study was the most recent. It took into account the country’s top 100 industrial enterprises by sales in Britain, France and Germany at two time periods, i.e. 1983 and 1999. However, I also took into account the findings by Rumelt (1974) for USA, Channon (1973) for UK, Dyas (1976) for France and Thanheiser (1976) for Germany. These four studies were also the studies which Whittington’s research was built upon.

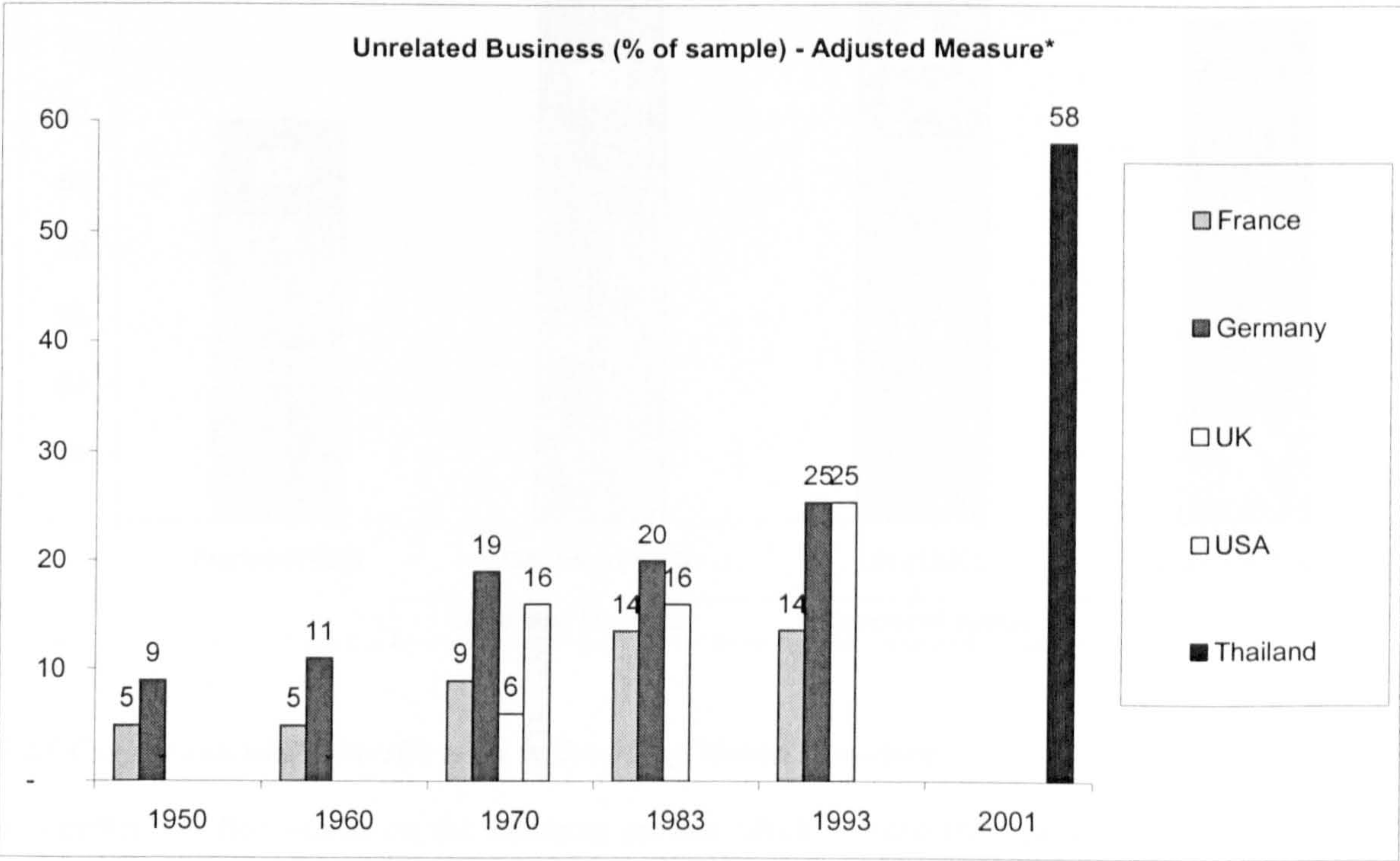
Before continuing further, it is worth noting that Whittington (1999) presented two findings regarding the proportion of companies classified as “Single Business”, “Dominant Business”, “Related Business”, and “Unrelated Business”. First, the findings were based on the specific national classification procedures used by Channon (1973), Dyas (1976) and Thanheiser (1976). I called this “original measurement”. According to Whittington (1999), “these data are consistent longitudinally across the whole period, but not consistent between countries”. As a result, Whittington (1999) also presented his findings based on the Rumeltian scheme consistent with that used by Markides (1996) for the recent period in the USA. I called this “adjusted measurement”. The “original measurement” allocated vertical integrated activities in the “Related Business” category whilst the “adjusted measurement”, which was consistent with the study in the US, assigned vertically integrated activities in the “Dominant Business” category. My discussion below includes the findings from both measurements.

The largest 20 business groups in Thailand in 2001 appeared to have a much higher pattern of Unrelated Business than the companies studied for UK, France and Germany in 1993. The result from Thailand showed that the proportion of “Unrelated Business” accounted for 58% of the sample studied, compared to a range of 14%-32% of UK, France and Germany. The proportion “Unrelated Business” in France has grown from 5% in 1950 to 14% in 1993, compared to 9% in 1950 to 25%/32% in 1993 for Germany²⁹. The UK appeared to have the fastest rate of expansion of “Unrelated Business”. None of the firms studied was classified as “Unrelated Business” in 1950, nonetheless this increased to 24%/25% in 1993.

This shows that the economic activities in Thailand were based on companies which were part of a larger group of businesses. More importantly, these business groups have diversified into a wide range of business activities.

I recognise that there is an 8-year gap between our study and that of Whittington’s. It is impossible to speculate what the proportion of “Unrelated Business” for UK, France and Germany was likely to be in 2001. Nonetheless, even if the proportion of “Unrelated Business” has grown at the same rate as in the past ten years, the proportion of “Unrelated Business” in these three countries would still be lower than that found in Thailand.

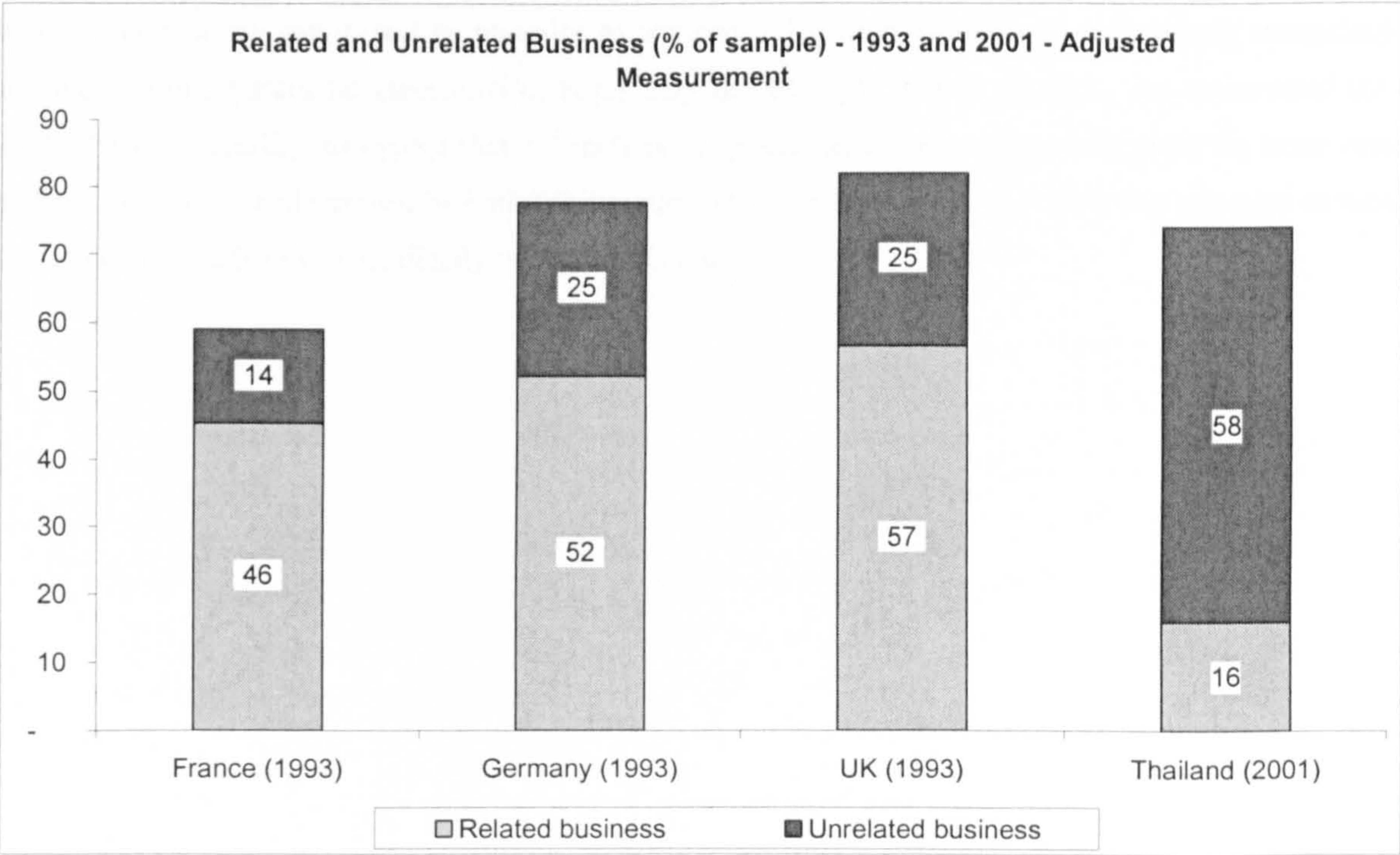
Figure 5.2.6: Unrelated Business – Adjusted Measure



²⁹ Based on the methodology conducted by Thanheiser (1976), the proportion of “Unrelated Business” in Germany would be 32% in 1993. Nonetheless, Whittington (1999) adjusted the measurement in order to draw some comparison with the study in the USA by Rumelt (1974). This resulted in Germany’s proportion of “Unrelated Business” being 25% in 1993

Although Thailand appeared to have a higher proportion of “Unrelated Businesses” than UK, France and Germany, it is interesting to see that Thailand only exceeded France (60%/66%) in terms of the proportion of the diversified business (i.e. Related and Unrelated business). Thailand had a lower proportion of diversified business (74%) than Germany (78%/79%) and UK (82%/85%). The main difference appeared to come from the proportion of “Related Business”. As shown in the graph below, Thailand was far behind those three countries in its proportion of “Related Business”. Without further information, one explanation could be that once diversified, the Thai business groups drew no boundary between “Related and Unrelated Business”. This suggested that the factors used as the basis for diversification tended to be those, which were not business/industry constrained. This provided some confirmation on the role and implications of industry non-specific resources on the patterns of diversification found in Thailand.

Table 5.2.7: Related and Unrelated Business – Adjusted Measure



5.2.5 Comparison with Diversification in Emerging Market Countries

It is difficult to find studies on the emerging markets which adopted the measure of diversification based on Rumelt’s categorical approach. But an increasing number of studies on the emerging market and diversification recognised that business groups and unrelated diversification were not unique to any one country, such as Thailand. They were also prevalent in many emerging markets and that they were significant to the economy of these countries (Ghemawat & Khanna, 1998; Granovetter, 1994; Khanna & Rivkin, 2001).

Chang & Choi (1988) found that the larger business groups (sample included 30 largest by value of shipment of manufactured goods during 1977 and 1982) were more diversified than smaller business groups. They found that diversification has spread by 1977, increasingly further by 1982. Similarly, the study by Chung on Taiwan’s business groups (2001) also found that an average number of member firms per group has increased from 6.25 in 1970 to 10.75 in 1996.

These limited number of studies provided some confirmation that many business groups in the emerging market countries were not constrained to move into a business which was not seen as closely related to their existing businesses, in terms of technology, market and operation. This is in line with my proposed Hypothesis II that such patterns are the result of the industry specificity of strategic resources.

5.2.6 Summary

My findings provide some confirmation on the proposed Hypothesis. Furthermore, it shows quite a contradictory result from the study that “Related Business” strategy dominates corporate strategy (Whittington, 1999). Unlike the UK, France and Germany, “Unrelated Business” dominates the strategy of the Thai business groups. My findings, however, lack insight into the stability of the “Unrelated Business” category.

Whilst the findings by Whittington (1999) show that the Chandlerian model stands up well to the test of time and place in terms of the success of the favoured strategies of related diversification, my findings raise some doubts if this favoured strategy can in fact be regarded as universal. My view supports an increasingly recognised view that studies from certain business environments may not be replicated to another. As commented by Greif (1994), “it is misleading to expect that a beneficial organisation in one society will yield the same results in another”. This is indeed stressed by both Whittington (1999) and Teece, et. al (1994) that selection environment differs and this needs to be specifically taken into account.

5.3 The Thai Telecommunications Industry

Before discussing the case studies and Hypothesis II and III, I will now provide the background of the Thai telecommunications industry, particularly during the hype of diversification in the early 1990s. This is important in understanding the role of industry-specific and industry non-specific resources and inter-firm collaboration in the rationale behind diversification of the three case studies. I will also discuss how the telecommunications industry was seen as attractive, hence supporting the role of industry attractiveness in the determination of diversification direction. I will discuss a) industry development and structure, and b) participation by the private companies.

5.3.1 Industry Development and Structure

In 1881, Thailand saw the installation of the country's first telephone system. Similar to most countries, the telecommunications industry in Thailand was initially operated under the monopoly of the public sector. The monopoly was then regarded as the most efficient way to provide and operate the telecommunications industry. However, with Thailand having one of the lowest telephone density rates in the region of just one per 100 population in 1981 (ITU, 1996), this form of industry structure was subsequently questioned.

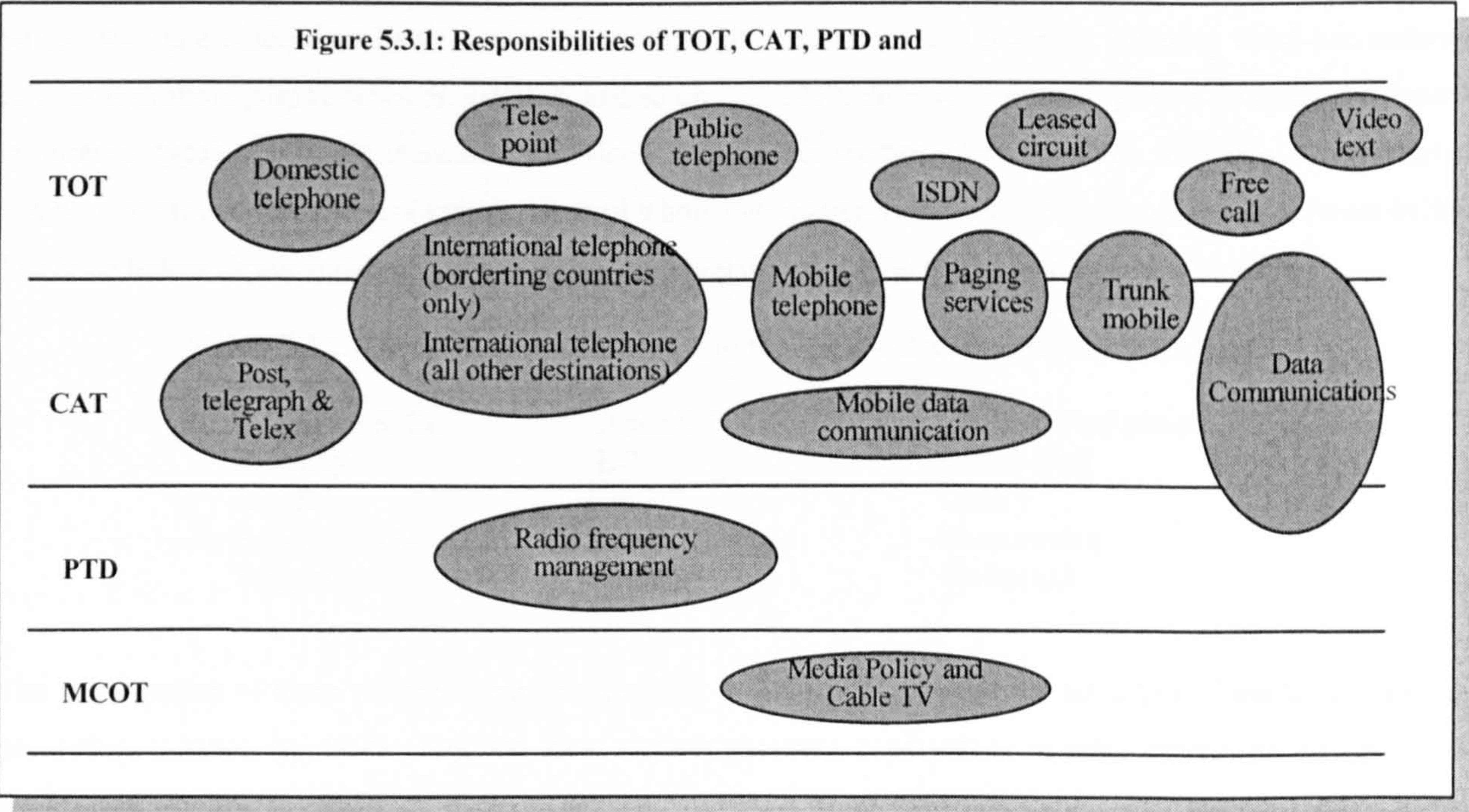
In 1985, a year after the divestiture of the US Bell Companies and the privatisation of the telecommunications monopolies in the UK and Japan, the Thai government initiated an attempt to separate the postal and telecommunications services and to privatise the state enterprises (The Economist, 23 February 1985). The privatisation plan came under strong opposition from several parties, including the unions and managers of the state enterprises. Both groups were backed by the military who had always been in control of the communications in Thailand. Strong opposition from the political dynamics created by these powerful interest groups prevented the reforms proposed by the government in both 1985 and 1988 from taking place (Petrzine, 1995). Another serious blow to the privatisation plan took place in 1991 when the military overthrew the government and cancelled the plan indefinitely.

The future of the telecommunications industry took another turn when the civilian coup successfully overthrew the military in 1992. Hence, the power of the strongest force against the privatisation programme - the military regime - was significantly reduced. The Chuan Administration reviewed the attempts by the previous governments which failed to privatise the relevant state enterprises. This resulted in the entries by a number of private companies.

Currently, there are a number of public organisations involved in the Thai telecommunications industry. The Ministry of Transport and Communications was responsible for the overall industry policy. The three public organisations responsible for the provision of the telecommunications services included two state enterprises: namely the Telephone Organisation of Thailand and the Communications Authority of Thailand, and one Ministerial department: namely the Post and Telegraph Department. Working closely with these organisations was the National Economic and Social Development Board which was responsible for advising and governing the national policy, including telecommunications. In addition, the Ministry of Finance governed revenues generated from the telecommunications industry. The Mass Communications Authority of Thailand also had important roles in media policy, including cable television licences.

The two papers related to the industry policies were the Telecommunications Master Plan and the National Economics and Social Development Plan. Theoretically, the Master Plan covered the period of ten years. However, this was usually divided into two plans of five years. Currently, both the Master Plan, the Eighth National Economics and Social Development Plan covered the period of 1996 to 2001.

In order to understand the structure of the industry, it is important to recognise the responsibilities and organisation of TOT, CAT, PTD and MCOT. Separated from the PTD in 1954, TOT employed over 20,000 staff in 1999. It was primarily responsible for domestic telephone services, international telephone services to Laos, Cambodia, Malaysia and Myanmar, public phone, mobile telephone network, paging services, data communication, and so on. CAT was also spun off from the PTD in 1976. With over 25,000 employees in 1999, it monopolised international telephone services and operated mobile, together with data communication services which accounted for about 80 per cent of its total revenue (CIT, 1996). It was also responsible for the postal, telegraph and telex services. The PTD was responsible for the management of radio frequency and some data communications only. The MCOT was responsible for the media and broadcasting related issues.



Even though each telecommunications service was supposed to be under the monopoly of one of these three organisations, some services were provided by more than one organisation (as shown in Figure 3.4). Recent changes in technological developments meant that the interpretation of who had the right to operate which service was far from clear. Moreover, these organisations had authority to act simultaneously as operators (i.e. by providing services) and regulators (i.e. by granting concessions). This dual role created conflicts of interests. For instance, with a role of an operator, TOT would wish to maximise its revenue but at the same time it had to fulfil the role of the regulator in expanding an appropriate telecommunications network even if this might not maximise its revenue. With these reasons, the government planned to restructure the telecommunications industry.

5.3.2 Participation by the Private Sector

To accommodate a growing waiting list and increased demand, the government set the target for Thailand to have ten telephone lines per 100 population by 1996 (NESDB, 1991). This required an intensive network installation of five million lines within five years. However, the state enterprises alone were unlikely to overcome the immediate constraints concerning the availability and quality of telecommunications services.

With a pressing need for change, the government invited the private sector to participate in the industry in the form of concessions. Since 1988, several forms of arrangement have been undertaken, including the “build-transfer-operate (BTO)” concessions. Under the BTO arrangements, the private concessionaires financed and constructed the required network, transferred the assets to the state enterprises, operated the network, and shared the revenues with the state enterprises according to a predetermined revenue sharing percentage for an agreed period of time. Even though the concessionaires were only allowed an agreed share of the revenue for an agreed period of time, a guarantee of no additional competition for a certain period makes the arrangement very attractive.

So far, the state enterprises have awarded more than 20 concessions and licences, covering fixed-line network, cellular operation, paging services, satellite, and so on. By 1997, there were over 40 private companies operating in different types of telecommunications services. While this seems a large number, they were subsidiaries or alliances of around ten business groups, most of whom had no experience in telecommunications services before. The table below shows some of the companies that diversified into the telecommunications industry.

Table 5.3.2: Diversification Entries into the Thai Telecommunications Industry

B. Grimm & Co	Channel 7	Charoen Phokphand
Grammy	IEC	Italian-Thai
Jasmin	Lenso	Loxley
Sahaviriya OA	Samart	Shinnawatra
Tanayong	Ucom	Wattachak

The participation of these private companies resulted in Thailand achieving its set target of ten telephone lines per 100 population by 1996. But the lack of their previous experiences in telecommunications raises two important questions.

First, why did the government allow companies with no direct experience to participate in the industry? Although, expertise and technology from foreign companies were seen as desirable, there was a general reluctance by the government to allow foreign companies to have control of such an important infrastructure. The government set the limit of foreign ownership to 40 per cent, hence foreign companies could only enter the industry through some kind of inter-firm collaboration with the local firm. The possibility of obtaining technologies and experiences from foreign companies encouraged local companies to diversify into the industry. My discussion with officials from the public organisations revealed that when granting the concession, access to large capital investment, reputation, political connections, and general managerial skills appeared to be most relevant. The reason was although technical expertise and industry knowledge were important, these officials recognised that none of the local companies possessed such resources. Hence they were viewed as resources

which could be obtained through various types of strategic partnership arrangements with foreign companies. As a result, general resources which were not specific to telecommunications played a key role.

Second, why did companies with no direct experience diversify into the industry? There was an increased recognition of the role of the telecommunications industry in the information economy and the economic growth. Several terms were used to dub the telecommunications industry worldwide. It was regarded as “strategic” (Teece, 1991) and “key” (Thurlow, 1992) industry essential to the development of any economies. An estimated world market value of the telecommunications industry of US\$ 600 billion in 1996 was envisaged to double or triple in the next ten years (Financial Times, 17 February 1997). According to the International Telecommunications Union (1993), Asia excluding Japan was expected to show the highest growth rate of ten per cent per annum during 1983 to 1993 and 13 percent per annum during 1993 to 2000. Owing to the relatively low telephone penetration rate and the high economic growth rate, James Capel Asia (1995) forecast that the fixed-line sector of the Thai telecommunications industry was likely to grow at a rapid rate of 20 per cent per annum during 1994 to 2000. Another forecast showed a high growth rate in the cellular subscription rate in Thailand of 44 per cent in 1996 decreasing to 21 per cent in 2000 (HG Asia, 1996).

In addition, the regulatory reform of the Thai telecommunications industry would involve the establishment of the new regulator. Similar to many countries, the regulator would be responsible for governing, supervising and regulating the industry. Experiences in other markets showed that there was a preference for such an organisation to be independent and non-political. Nevertheless, the Thai government has been known to interfere and exert its power over various independent organisations. These included the Bank of Thailand and the Stock Exchange of Thailand. Large numbers of chairpersons of such organisations were hand picked by the government in the hope of retaining a certain degree of control. Considering how influential OFTEL was in the UK telecommunications industry, the Thai government was likely to establish either direct or indirect links with the regulatory body. This may therefore create opportunities for private companies to utilise their political connections to corporate advantage. Local telecom companies had a tendency to form powerful groups in order to win concessions. Most companies which diversified into the industry seemed to have both business as well as political connections related to the telecommunications industry (Prateepchaikul, 1996).

Furthermore, similar to the government’s view, local companies were willing to enter into the industry because of the view that specific telecommunications technology and knowledge could be obtained through inter-firm collaboration.

So far, the questions of why the government allowed local companies with no direct industry experience to participate in the telecommunications industry and why the local companies themselves entered the industry appear to signify the role of industry attractiveness, inter-firm collaboration, and some industry non-specific resources. I will discuss in the next section the feedback I obtained from interviews with the three companies diversifying into the industry.

5.4 Case Studies (Hypothesis II and III)

So far, I have shown that diversification into the less closely related businesses, in terms of technology and market, was adopted by many large business groups in Thailand.

In the next three sections (5.4.1 to 5.4.3), I will narrow down the scope of the analysis in order to achieve the in-depth analysis of the diversification into telecommunications by the three business groups, i.e. the Charoen Phokphand Group, the Shinawatra Group and the Samart Group. Such analysis will be based on interviews with the relevant executives and secondary sources of information. The analysis will focus on the following two hypotheses:

Hypothesis II: Resources and capabilities with a low level of industry specificity are more influential determinants than those with a high level of industry specificity in the diversification in emerging market countries.

Hypothesis III: Diversification direction is a function of strategic resources, industry attractiveness and inter-firm collaboration. The less industry specific are a firm's strategic resources and the greater the potential for accessing industry specific resources through inter-firm collaboration, then the more important is industry attractiveness as a determinant of diversification direction.

The structure of the next three sections is as follows:

Section 5.4.1: The Charoen Phokphand Group

- Overview of the Group
- Diversification Strategy and Patterns
- Diversification into Telecommunications
- Hypothesis II: Rationale behind Diversification into Telecommunications
- Hypothesis III: Factors determining Telecommunications

Section 5.4.2: The Shinawatra Group

- Overview of the Group
- Diversification Strategy and Patterns
- Diversification into Telecommunications
- Hypothesis II: Rationale behind Diversification into Telecommunications
- Hypothesis III: Factors determining Telecommunications

Section 5.4.3: The Samart Group

- Overview of the Group
- Diversification Strategy and Patterns
- Diversification into Telecommunications
- Hypothesis II: Rationale behind Diversification into Telecommunications
- Hypothesis III: Factors determining Telecommunications

Then in Section 5.5, I will summarise the findings related to Hypothesis I, II and III. This will also include feedback from other companies who diversified into telecommunications. It will also show feedback from the public organisations that were responsible for allowing the private companies with telecommunications technologies or experiences to diversify into the industry. And for Hypothesis III, I will also include the analysis of the common industries, which were the target of diversification by Thailand's 20 largest business groups.

5.4.1 The Charoen Phokphand Group (CP)

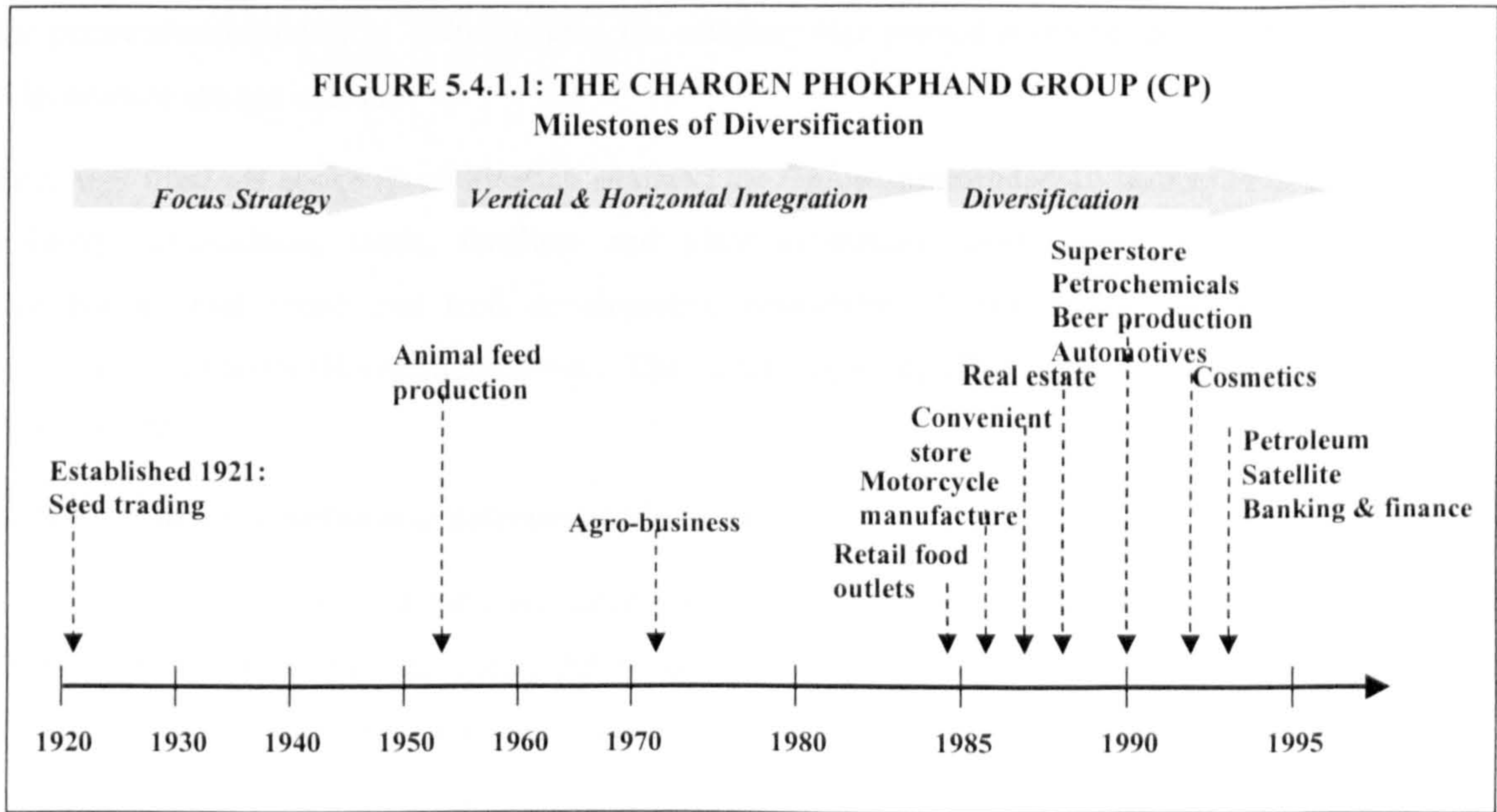
5.4.1.1 Overview of the Group

CP was founded in 1921 by two brothers emigrating from China. The shop called Chia Tai was established to trade seeds, fertiliser, and insecticide. Following the communist takeover in China in 1949, the two brothers decided to permanently base in Thailand and changed their name to Chearavanont.

Dhanin Chearavanont, currently CP’s Chairman, took over the business from his father in 1964. Since then, the Group had entered into various business activities, including numerous numbers of joint ventures with both local and foreign companies in the local as well as overseas markets. Its business activities ranged from agro-business, retailing, construction, petrochemical, automotive, telecommunications, to name but a few. The Group consisted of some 260 companies³⁰, employing around 100,000 people in 2001. Total revenue was estimated to be US\$ 11 billion in 2000 (Company Web Site, 2001). Operating in more than 25 countries worldwide, CP was one of Thailand’s most international business groups. Thailand remained the largest source of the Group’s income, accounting for 35 per cent of revenue in 1996. China, where CP was the largest private foreign investor, was the Group’s second largest revenue generating market (Tara Siam, 1996).

5.4.1.2 Diversification Strategy and Patterns

A study by Pananond & Zeithaml (1997) provided a useful categorisation of CP’s diversification patterns. The study categorised the business development of CP into three phases, namely focus strategy during 1921-1954, vertical and horizontal integration during 1954-1979, and lastly diversification from 1980 until the present.



³⁰ The report by the Brooker Group (2001) suggests that there may be as many as around 400 companies associated with the CP Group through direct and indirect shareholdings.

(a) Focus Strategy

Since the business establishment in 1921, the company had concentrated on seed and fertiliser trading until 1953. This trading company later became one of the largest fertiliser importers in Thailand.

(b) Vertical and Horizontal Integration

In 1954, the company expanded into the manufacturing sector by moving into the animal feed production. By 1968, the company was operating the largest feedmilling business in Thailand. Two companies were set up to carry out other related businesses, namely animal medicines and other animal products. Subsequently, CP started expanding into the vertically integrated agro business, covering both backward and forward integration. CP's expansion into China has also resulted in the establishment of a number of trading firms.

In 1970, CP started its links with foreign firms. It set up the chicken breeding business through its first joint venture with Arbor Acres International. The fully vertical integration of its agro industry started in 1973 when the company started the livestock and chicken farming business. Now the company's involvement in the agro business ranges from feed raw materials, animal feed production, livestock farming, cold storage and processing business, retailing and wholesaling, and also export. Furthermore, CP expanded into other Asian markets, including Indonesia and Taiwan.

(c) Diversification

In 1980s, the company started diversifying into other business activities, such as industrial products and automotive in 1985. In 1988, CP entered into the real estate and land development business, as well as the petrochemical industry. Subsequently, the company was granted several concessions to operate in the telecommunications industry.

Resulting from the above diversification strategy, the Group commanded 10 business lines, namely agro-industry, aquaculture, seeds, fertiliser and plant protection, international trading, marketing and distribution, real estate and land development, petrochemical, automotive and industrial products, petroleum, and lastly telecommunications. The details regarding CP's business activities are discussed in Appendix V.

5.4.1.3 Diversification into Telecommunications

Until the 1980s, an agro-business remained the Group's core activity and the main source of income. Nonetheless, in just over ten years, the telecommunications business became one of the three most strategically important businesses to CP (Dr. Vallobh Vimolvanich, vice-chairman).

I will now describe the main telecommunications business of CP. The analysis of the rationale behind CP's diversification into telecommunications will be discussed in the next section.

(a) Fixed Line Telephony

The fixed-line business was the first major telecommunications business that CP diversified into. Through the concession from the Telephone Organisation of Thailand (TOT), CP's subsidiary, TelecomAsia (TA) was granted a licence to build and operate 2.6 million fixed telephone lines in the Bangkok Metropolitan Area (commonly known as the "2.6-million line" project).

From the registered capital of Baht 1 billion in 1990, TA's assets stood at Baht 103 billion and total number of employees reached 7,300 in 1997. By 2000, TA had some 1.5 million fixed-line subscribers. The revenue generated from the fixed line telephony accounted for 70 per cent of TA's total revenue whilst the remaining 30 per cent came from operations of subsidiaries. Fixed line telephony remained the flagship business of the Group's telecommunications business, employing more than half of TA's employees in 1996 (Annual Report, 1997).

(b) Cable Television

TA further utilised its telephone network by providing cable television services in the Bangkok Metropolitan Area. The cable television business was established in 1995 through the setting up of UTV Cable Television Network Public Co., Ltd. (UTV). UTV became the third cable television operator in Thailand.

By December 1997, the number of UTV subscribers totalled 170,000 (TelecomAsia, 31 December 1997). With all companies competing in a relatively small market, UTV decided to merge with Shinawatra's cable television business, International Broadcasting Company (IBC) at the end of 1997. According to the two companies, this merger was aimed at creating a cost saving synergy by eliminating a price competition derived from an aggressive bidding for the exclusivity of the foreign programme (TelecomAsia, 31 December 1997). Furthermore, a reduction in other operating and administrative expenses was achieved. The new company, United Broadcasting and Communications Co., Ltd., (UBC) commanded a total number of more than 300,000 subscribers, or more than 90 per cent share of the market in 1997.

(c) Multimedia

Asia Multimedia Co., Ltd. (AM), a joint venture between TA and TOT was established in 1997. With a registered capital of Baht 6.5 billion, AM provided multimedia network services via a leased line cable television network, a digital integrated services network, and other high-speed networks owned by TA. These networks could handle various advanced services, such as telemedicine, teleconferencing, interactive broadcasting, video on demand, and high speed data transmission. The company envisaged that the rental of the fibre optic lines would be a big revenue generator in the future (Bangkok Post, 3 January 1998).

(d) Internet Service Provider (ISP)

Through Asia Infonet Co., Ltd. (AI), CP entered into Internet service provision. AI was one of the 16 Internet service providers in Thailand. AI was a joint venture between the Telecom Holding (an

investment arm of CP) and the state enterprise, the Communication Authority of Thailand (CAT). Telecom Holding held 65 per cent stake. AI was believed to be the fifth largest ISP in Thailand, concentrating on high-value business customers.

(e) Mobile Telephony

CP acquired a mobile operator, Wireless Communications Services (WCS), in the late 1990s. CP subsequently formed a joint venture with Orange from the UK to offer mobile services. The company was subsequently known as TA Orange. TA Orange launched its mobile services in 2002.

(f) Other Telecommunications Services

TA operated numerous other telecommunications services.

Fibre Optic Link: A determination to be involved in the advanced technology could also be seen in its 16.2 per cent stake in Fibreoptic Link Around the Globe Ltd. (FLAG) taken in 1994. FLAG was a consortium led by Nynex of the USA to install a 30,000 km optic fibre to support an undersea information superhighway around the world. The Group now had telecommunications businesses in a number of Asian countries, namely India, Nepal, Vietnam, Cambodia, and China.

Satellite: Until very recently, Telecom Holding held a 14.3 per cent stake in APT Satellite Co., Ltd., a Chinese company operating Aptstar satellite which covered Asia Pacific region.

Trunk Mobile Radio: Radio Phone Co., Ltd. was a joint venture between TA and the Jasmine Group. Through a 15-year concession from TOT, it was responsible for the installation, operations and maintenance of a nationwide common base radiotelephone (or trunk mobile radio) network..

Fonepoint: This was a joint venture of the three major domestic companies, Ucom, Shinawatra, and TA, and British Telecom, which received a 10-year concession from TOT to operate a one-way communications system.

Videotext: Such service was established in 1992 through a concession from TOT. However, an introduction of new technology, such as the Internet has made videotex service obsolete.

CP's strategy of vertical integration could also be illustrated in its telecommunications operations. In 1994, the company invested in NEC Communications Systems (Thailand) Co., Ltd., which manufactured switching systems used in the telephone network installation. Through a joint venture with Siemens AG, the Group set up Telecom Equipment Manufacturing Co., Ltd., producing digital switching equipment. These two businesses were aimed to supplying equipment for TA for its "2.6-million line" project.

In 1995, TA took a 15 per cent stake in Kopin Corp. of the USA, a NASDAQ company involving the research, development, and manufacture of electronic and multimedia equipment. A year later, the Group invested in Claybridge Enterprises of the USA which designed, developed, and produced electronic circuits.

5.4.1.4 Hypothesis II: Rationale behind Diversification into Telecommunications

CP's diversification into telecommunications can be traced back to the early 1990s when the Thai government allowed the private sector to operate telecommunications services through "build-operate-transfer" concessions. Without any obvious telecommunications technologies or knowledge, CP was awarded the licence to operate the "2.6-million line" project in the Bangkok Metropolitan Area. This effectively made CP the only competitor to the state enterprise, TOT. This raises the question of why, without any telecommunications experiences, CP decided to enter the industry?

In this section, I will analyse this question. I will discuss the roles of different resources in CP's diversification into telecommunications. The main focus will be on CP's entry into the first major telecommunications business, i.e. the establishment of TA to operate fixed line telephony. However, I will draw on other telecommunications businesses when relevant. The focal point of the discussion will be on the relative importance of industry non-specific resources (such as financial capital, political connections, reputation and general management) and industry specific resources (such as technologies and industry knowledge).

(a) Financial capital

The concession to install and operate the 2.6 million fixed lines in the Bangkok Metropolitan Area was commonly known as the "2.6-million line" project. The "2.6-million line" project was then one of the largest privately funded infrastructure projects in the world (Urban & Wertz, 1995). The investment required to install the network was estimated to be around Baht 60 billion (Annual Report, 1998). The licence terms were such that all of the capacity must be installed within five years after the signing of the contract. With such a rapid speed of network roll-out, CP faced a huge financial burden. In addition to the cost of network installation, there was also an investment required to establish and operate a company. Hence for any company to be awarded with the licence, it must have the ability to raise a substantial amount of capital.

CP recognised the financial burden. And CP believed that it was one of the only two companies in Thailand with financial capabilities to invest in the "2.6-million line" project (Dr. Vallobh Vimolvanich, vice-chairman). CP's chief financial officer, Dr. Veerawat Kanchanadul, also shared this view. He commented that:

"Despite the requirement for large capital, CP was strongly confident it could raise such funding and because of this, CP believed it would be awarded the licence".

CP's strong financial capabilities were supported by Forbes's ranking of CP as one of the richest families in the country. However, it was difficult to obtain a detailed picture of CP's financials. The Group was structured in such a way that the majority ownership and control were still retained by the Cheravanont Family. This had partly led to an image of CP being a secretive business organisation (Urban & Wertz, 1995). Despite a number of studies and reports on CP, none claimed to have a real understanding of how the Group's funding was structured. Although, the listing of its 14 companies on seven different

exchanges had increased the transparency, the interlocking boards and ownership structure and a strong control by the Family still made the analysis difficult.

In order to understand CP's abilities to raise finance in more details, I now discuss the way in which the investment of the "2.6-million line" project was funded. This large investment cost was believed to be funded through both external and internal sources.

The external sources of funding included a) loans from banks and financial institutions, b) public offerings, c) investment from its joint venture partner, and d) equipment from foreign suppliers. First, the funding was met through loans from domestic and international banks and financial institutions. Second, in 1993, the company became listed on the Stock Exchange of Thailand, resulting in an increase in register capital of Baht 1 billion to Baht 22.5 billion. TA became the largest company listed on the Stock Exchange of Thailand. Management capabilities and reputation assisted in securing successful funding from foreign banks and public offerings (Dr. Veerawat Kanchanadul, chief financial officer). The Group's large and diversified asset base influenced the favourable assessment by the investors. Third, through an equity stake in TA, Nynex invested US\$ 470 million (or around Baht 12 billion). Fourth, the financing of telecommunications equipment was done through loans from equipment suppliers. Reputation helped in establishing financial arrangements with suppliers (Dr. Vallobh Vimolvannich, vice-chairman).

Because of its large asset base, CP possessed a large pool of internal capital market. A closely guarded financial information resulting from a high proportion of control by the family allowed the Group to transfer funds among business activities.

CP's abilities to finance a large investment can also be confirmed by looking at other companies. For instance, the executives from Samart Group revealed that although the Group wanted to diversify in fixed line telephony, it did not have the capabilities to meet the investment requirement of the project. CP's abilities to raise a large investment funding were also supported by CP's diversification patterns of moving into capital intensive industries, such as automobiles, petrochemicals and petroleum.

(b) Political Connections

As discussed in Section 5.2 Pattern of Diversification and Section 5.3 Thai Telecommunications Industry, the government held a strong role in business in Thailand. Connections with political parties/individuals and relationships with the public sector became an important part of business operation.

CP itself recognised the importance of political connections. It appointed former prime minister, ministers, Cabinet members, high-ranking army officials, as well as government officials as the Group's advisors. CP was widely known for its powerful relationships with the government in both Thailand and China. CP was believed to have provided a financial backing to various political parties (Far Eastern Economic Review, 23 January 1997). The Group's vice-chairman and one of the four top management team members who tailored CP's diversification into telecommunication, Dr. Vallobh Vimolvannich acknowledged that:

"CP had not grown to a company of this size, without any political connections".

Events surrounding the “2.6-million line” project provided a good illustration of the role of political connections on the Group’s diversification process. In 1991, the Suchinda government announced its plan to invite the private sector to participate in the build-transfer-operate concession of 3-million telephone lines in Thailand. CP had a long established relationship with the army, which Suchinda headed, prior to his appointment as the Prime Minister. The result of the concession was that CP alone would be awarded the concession – this practically gave the monopoly power to CP. Suchinda was later appointed the Honourary Chairman to the Group.

However, during the contract negotiation process, Thailand was faced with a coup. The Suchinda government was forced to resign. The new government called for a review of the concession on the ground that an award to CP alone was a creation of private monopoly in the industry. Consequently, the original project was split into two concessions, namely the 2-million line contract in the Bangkok Metropolitan area granted to CP (through TA) and the 1-million line contract in the provinces granted to another company, The Thai Telephones and Telegraphs (TT&T). What was interesting was that despite much conflict amongst political parties in Thailand, CP received support from all of the leading political groups, which rarely agreed on anything (Institutional Investor, 1996). Subsequently, TA’s contract was altered to increase the number of telephone lines from 2-million to 2.6-million lines.

CP’s political connections also went beyond Thailand. The Group was particularly known for its strong connections with the Chinese government. A number of the CP family members acted as advisors to the Chinese government. CP has been a strong supporter of China since the open door policy commenced in 1970s. In fact, the Group’s diversification into automotive was because of its relationships with the Chinese government. In 1985, CP was approached to address the problem of transportation in China by the Chinese government, with whom the leader, Dhanin Chearavanont, held a long-established relationship. During his visit to Thailand, the Chinese President, Jiang Siamin, made a courtesy call on CP’s Chairman. CP now held more than 130 joint ventures in China and was believed to be the largest private foreign investor in China (Far Eastern Economic Review, 1995).

The above discussion shows that political connections were one of the key factors influencing CP’s diversification into telecommunications and also some other industries.

(c) Reputation

Unlike companies operating in advanced economies, reputation of firms in Thailand was often based on the organisation as a whole, rather than on specific product brands. Hence reputation could be utilised in various businesses.

CP was one of the most well-known companies in Thailand. There had been endless praises of the Group. It was continuously ranked as one of the most admired companies in Asia. It was also used by various educational institutions as a case study. In Thailand, it held a reputation of being able to implement successful projects. It was widely admired on how the Group has grown from a small trading business to become one of the largest companies in Thailand.

CP's executives acknowledged that reputation was a very important factor in diversification (Dr. Vallobh Vimolvanich, vice-chairman). He commented that:

"Originally, CP was not interested in the "2.6-million line" project because of its lack of experience. However, it later became convinced that it could use its track record in businesses in Thailand as one of its key resources when bidding for the project".

CP believed that its reputation would complement the mass consumer service such as the fixed line telephony (Supachai Chearavanont, President). CP's reputation was better perceived than the state enterprise, TOT. As a result, this could help CP in gaining fixed line subscribers, hence gaining the market share.

CP's track record in dealing with foreign companies through its various joint ventures was very useful in obtaining specific telecommunications experiences and capabilities that CP lacked (Vison Garantararat, vice-president, project evaluation). CP's reputation attracted foreign telecommunications companies looking for a partner in Thailand. Despite its lack of telecommunications experience, CP's track record helped to secure funding from multinational telecommunications suppliers, including Lucent Technologies, Alcatel, Marubeni, and Furukawa.

(d) Management Capabilities

Management capabilities refer to general knowledge of the risks and opportunities in the market. They also include the management's abilities to successfully execute the business.

CP was known for its strong management team. Although the Group was established in 1921, it did not become known until Dhanin Chearavanont took control of the business in 1964. The current chairman, Dhanin, was admired for his deal-making abilities and for the successful implementation of many projects. Dhanin's first major business expansion was in 1970 when CP formed the strategic alliance with Abor, marking the first form of technology transfer from foreign companies.

Although, Dhanin Chearavanont was regarded as the main source of CP's strategic vision, the Group's top management team assisted in the successful implementation. The core team was believed to be small, comprising of four senior executives, all of whom had been with the Group for more than 20 years. These executives were regarded as the right-hand men of the Chairman, providing the Group with skills in relevant areas, such as finance, operation, and technology. They held major positions at CP, such as Chief Financial Officer and Vice-Chairman. Although CP stressed that an increase in its business activities meant that outside professionals were important to its success, it was noticeable that two of its business activities that were believed to be strategic were controlled by the family members and close senior executives. These included the rapidly expanding retailing business and telecommunications. Despite an increased number of professional managers, most of CP's important business decisions came from the top management team that consisted mainly of family members and a few key executives. In regards to diversification, the top management team had visions of where the market opportunities were while the tasks of implementation rested with professional managers (FEER, 23 January 1997).

There were a number of instances related to CP's "2.6-million line" project, which illustrated the Group's strong management capabilities. First, despite a lack of telecommunications experiences, CP used its general knowledge of the Thai market to select the right geography for its fixed-line telephony. When the original project was split into two licences, i.e. for the Bangkok and non-Bangkok areas, CP was awarded the Bangkok licence. Bangkok was by far the most affluent area of the country. Bangkok had a higher income per capita than the rest of Thailand. Not only would there be higher demand for fixed line telephony, but also stronger demand for other value added services related to fixed line telephony. Second, despite the estimates that revenue per subscriber would be higher in Bangkok, CP successfully negotiated a lower revenue sharing than the other operator, TT&T. As a result, TA was subject to a share between 16%-21% of its revenue to the state enterprise, TOT. But TT&T was subject to the revenue sharing of around 40%. TT&T now faced some serious financial difficulties.

Lasserre & Schutte (1995) described CP's management capabilities as the "deal-making mentality". Long term planning seemed to be overshadowed by opportunities, which must be seized quickly. Nonetheless, this did not necessarily mean that other considerations relevant to diversification were not taken into account.

For CP, previous experience was seen as irrelevant. Dr. Vallobh Vimolvanich, vice-chairman, revealed that:

"With the top management team being comfortable with changes, CP has indeed utilised its resources to the maximum by diversifying into various businesses".

According to Dr. Veerawat Kanchanadul, chief financial officer:

"CP's most valuable resources were its management and their capabilities to select and adopt foreign know-how while producing better results at a lower cost".

Although CP's top management team did not have knowledge concerning specific industry issues, they have accumulated knowledge of the local business environment (Supachai Chearavanont, President). For CP, their understanding of the risks, constraints, and opportunities in Thailand were believed to be among those resources crucial to any business operation.

(e) Industry specific resources

So far, the discussion above shows how CP utilised resources, such as finance, political connections, reputation and management capabilities to diversify into telecommunications. Nonetheless, to operate in the industry, CP needed to have, among other things, technologies and telecommunications knowledge. I will now discuss the views from CP's executives on the importance of these industry specific resources.

Lasserre & Schutte's study (1995) matched CP's business development to that of the Korean Chaebols, such as Samsung, Hyundai, and Daewoo. Under this pattern of business expansion, firms moved from low cost manufacturing based on cheap labour, to low cost manufacturing through investment in machinery, to the emphasis on brand creation, technology development, and specialisation, to the

reflection of its own technology developments and marketing abilities. CP's business strategy for the company seemed to be moving along this model.

But, CP did not have technological capabilities that were regarded as one of the competitive advantages of the Korean Chaebols. The feedback from CP was that they did not see themselves as an inventor of technology (Supachai Chearavanont, President). CP commented that technology would lead to no competitive advantage if there were no capable management team (Dr. Vallobh Vimolvanich, vice-chairman). Despite its knowledge in transmission, the Samart Group agreed that technological expertise possessed by Thai companies often eroded once multinationals entered the market. Multinationals were often seen as having superior technologies.

Although Supachai Chearavanont, president, recognised the importance of technologies, he explained that the objective of TA was in the operation of telecommunication services, and hence there was no use for them to "reinvent the wheels" by getting involved with the development of technology. Accordingly, technology, as well as industry knowledge were acquired from joint venture partner and suppliers. CP has entered into a large number of strategic alliances in order to obtain technology and know-how. I will discuss this in more detail in the following section.

Whilst the evidence so far suggests the importance of financial capital, reputation, political connections and general management capabilities, it is less clear whether one or more of these resources were more important than others. Nonetheless, it is more prevalent that for CP, industry non-specific resources were more influential in the diversification decision than industry specific resources. This provides the support to Hypothesis II.

5.4.1.5 Hypothesis II: Direction of Diversification

The question here is if the resources, that influenced CP's diversification into telecommunications, were not specific to any industry, what factors ultimately led CP to choose telecommunications?

To answer this question, I will consider two additional factors, namely inter-firm collaboration and industry attractiveness. First, I will provide CP's feedback on the role of industry attractiveness. Second, I will analyse the empirical evidence from CP as well as from the secondary data on how inter-firm collaboration played a role in CP's entry into telecommunications.

(a) Industry attractiveness

During the 1990s, the telecommunications industry was seen as one of the high growth industries in many countries. Thailand was no exception. According to the International Telecommunications Union (1993), Asia excluding Japan was expected to show the highest growth rate of ten per cent per annum during 1983 to 1993 and 13 per cent per annum during 1993 to 2000. Owing to a low telephone penetration rate and a high economic growth rate in Thailand, fixed line telephony was projected to grow at a rapid rate of 20 per cent per annum during 1994 to 2000 (James Capel Asia, 1995).

But these analysts' projections alone were not enough to understand what drove CP to enter the fixed line telephony. It is important to understand not only whether the industry was seen as attractive by the

industry analysts, but also, whether CP perceived the industry as attractive. It is worth noting here that my analysis of factors that drove CP to enter the fixed line telephony was not about the actual industry attractiveness. It was about the executives' perceptions of the industry attractiveness and how that influenced diversification. Because there was no available database on these perceptions and because it would be difficult to quantify these perceptions, I believe the most appropriate way to understand this would be through direct discussions with executives who pioneered and executed the diversification.

Note that industry attractiveness refers to long-term profitability of the industry. I will now discuss factors relevant to long-term profitability, such as demand, industry structure, barrier to entry, and competition.

Similar to the analysts' projections above, CP was very positive about the demand and growth of telecommunications, in particular, the fixed line telephony. At that time, Thailand had one of the lowest fixed line penetration rates in Asia (ITU, 1996). In the late 1980s, people had to wait for years before getting the fixed line connection from the state enterprise, TOT. This encouraged CP to bid for the fixed line telephony project. CP relied on the projection that 3-million lines were needed in Thailand to fill the demand and supply gap (Vison Garantararat, assistant vice-president, Project Evaluation Department). Note that British Telecommunications (BT) of the UK assisted TA in its business plan of the fixed telephony business.

CP also saw other potential benefits of offering value added services on the fixed-line network (Dr. Vallobh Vimolvanich, vice-chairman). Supachai Chearavanont, president commented that:

"The lack of telephone network in Thailand, coupled with the current and future demand of core and value added telecommunications services made the industry highly attractive".

CP also believed it would be able to utilise its fixed-line network to expand into other telecommunications services (Dr. Veerawat Kanchanadul, chief financial officer).

Indeed, after being awarded the "2.6-million line" concession, CP has entered into a number of other telecommunications services, mostly through Telecom Holding Company which acted as an investment arm. TA utilised its network in the Bangkok Metropolitan Area by providing cable television through UTV, which began its first subscription in 1995. TA's fibre optic network was also utilised by leasing lines to other companies. It also used TA's network to offer multimedia services, such as integrated service digital network, video conferencing, and video on demand. Subsequently, TA - through Asia Multimedia (AM) - developed public Internet network by overlaying on TA's network. As a result, the higher speed data transmission was achieved. This provided TA's Internet service provider - Asia Infonet Co., Ltd., a competitive advantage over its competitors. This evidence shows that in addition to the attractiveness of fixed line telephony, CP viewed the fixed line telephony as allowing the Group to also capture the attractiveness in other related services. According to Dr. Vallobh Vimolvanich, vice-chairman, CP foresaw the potentially attractive returns from the "2.6-million line" project from the long-term perspectives.

From the industry structure perspectives, Supachai Chearavanont, president, perceived it to be positive to TA:

"The fixed line telephony was structurally attractive both at the time of diversification and in the future. There was only one operator, i.e. TOT, who could not keep up with the rising demand".

Hence CP saw the competition as insignificant. Bureaucracy embedded in the Thai state enterprises hindered TOT from posing any threats to CP (Supachai Chearavanont, president). He further commented that although there were plans to liberalise the industry, the high cost of installing the fixed-line network imposed a high barrier to entry, which would be positive to CP. Vison Garantararat, assistant vice-president, also shared the same view.

The view from Dr. Vallobh Vimolvanich, vice-chairman was that:

"Industry attractiveness points us to diversification direction. The main determinant of CP's diversification direction rests with the financial viability of the project. This is a pure business decision process and there is no difference regardless of a degree of relatedness in the diversification...Essentially, CP's willingness to learn and adapt to changes in the business environment means that it can successfully operate in any businesses which are financially viable".

Other executives also shared his view. According to CP, the three factors for any investment decisions were the market, technology and capital, but the number one criterion was the market (Vison Garantararat, assistant vice president, project evaluation).

Feedback from CP's executives supported the prime role of industry attractiveness in choosing diversification direction. This is in line with Willis and Goldberg (1993) who interviewed CP's Chairman and concluded that there were three criteria which led to CP's investment strategy, including first, the size and the growth of the market and the significance of the industry, second, the capabilities required to be successful, and third, the availability of resources of CP. Because of the importance of industry attractiveness, Dr. Veerawat Kanchanadul, chief financial officer, saw CP as an "investment and management company", capable of implementing various business activities.

The role of industry attractiveness can also be seen in CP's other diversification. CP tended to take an early move into the less competitive and developed markets, such as Vietnam and China where there were market opportunities, favourable growth, and low level of competition. A lack of infrastructure in the developing markets presented strong market opportunities for CP to pursue (Vison Garantararat, assistant vice-president, project evaluation).

(b) Inter-firm Collaboration

The feedback from CP's executives and the analysis of their diversification patterns show that industry attractiveness was the key factor in deciding their diversification directions? Were they not concerned whether they had resources and capabilities to compete successfully?

Supachai Chearavanont, president, explained that similar to other entrepreneurs, CP looked at opportunity first and thereafter CP would reflect on the resources needed to capture this opportunity. The

consideration of resources rested with both the existing resources and the possibility of acquiring them. Thus CP was not constrained by its existing resources. He commented that:

“Even if there were no real resources available or that there was no clear synergy to be gained, the opportunity could still be captured via strategic alliances”.

Dr. Vallobh Vimolvanich, vice-chairman, also stressed the importance of inter-firm collaboration:

“CP’s diversification into an operation of fixed-line telephony was, to a large extent, possible because of multinationals”.

Recognising a diverse degree of protectionism in the Thai telecommunications industry, multinationals were willing to participate through inter-firm collaboration. This was the only way they could enter the market. In telecommunications, a number of multinational telecommunications companies formed different kinds of collaboration with CP.

BT assumed the role of a consultant to analyse the business plan. This was to assess technically and financially the viability of the fixed-line business. Although CP’s executives had insight into the Thai market, at that time, they still lacked the knowledge to understand the dynamics of the industry. BT therefore assisted them to close that gap. The Group then entered into a joint venture partnership with Nynex of the USA, who held 18.2 per cent (Bangkok Post, 23 July 1999) of the shareholding and provided the telecommunications know-how and experience. Nynex who later became Bell Atlantic, and subsequently, Verizon, had six executives on TA board of directors. The supply of telecommunications equipment and the construction of the network were carried out on a sub-contract basis, involving a number of multinational telecommunications companies, such as Lucent Technologies, Alcatel, Marubeni, Furukawa, to name but a few. Although it was prevalent that CP’s diversification relied to a large extent on imported know-how and technology gained through inter-firm collaboration, the Group placed a great value on its learning capabilities through the knowledge transfer from its alliances. In compliance with CP’s policy concerning the knowledge transfer from its foreign alliances, there was a contractual agreement of technical knowledge transfer from Nynex to CP within the first five years of operation (Dr. Veerawat Kanchanadul, chief financial officer).

CP’s reliance on inter-firm collaboration to obtain knowledge and technology was not unique to its entry into telecommunications. A look at CP’s other businesses provide similar evidence. CP’s first strategic partnership was with Arbor Acres in 1970 to establish the animal husbandry business. Today, the Group had over one hundred strategic alliances with companies from different parts of the world (shown in the table below). These alliances ranged in the nature of partnerships, the period of the alliances, and the size of companies involved.

Table 5.4.1.2: CP's Inter-firm Collaboration

Activities	Business	Country of Business	Partner(s)/Collaborator(s)	Origin of Partner(s)/Collaborator(s)
Agro-industry	Chicken breeding	Thailand	Arbor Acres International	USA
	Poultry	Thailand	Avian	USA
	Poultry feed	Indonesia	PT Central Proteinaprima	Indonesia
	Feedmills	China	Continental Grain	USA
	Dried vegetables/sauces	Thailand	Thai President Foods Plc, Takeda Chemical Industries	Thailand, Japan
	Milk products(CP Meiji)	Thailand	Meiji	Japan
Aquaculture	Shrimps	India	Indo-Aquatics	India
Seeds, fertiliser, plant protection	Corn seeds	Thailand	Dekalb Genetics	USA
International trading	Soy sauce	Thailand	Yamasa Corp.	Japan
Automotive and industrial	Automotive parts	Thailand	Ford, Mazda	Japan
	Automotive parts	China	Nippon Seiki, Honda, Thai Summit Group	Japan, Thailand
	Tank trailers		Heil Trailer	USA
Real estate	Office building	Thailand	Serge Pun & Associates	Thailand
	Shopping centre	China	Super Brand Mall of china, Cana City Hakata of Fukuoka, Dondaemun of Migliore, Breeze Centre	China, Japan, S. Korea, Taiwan
Petrochemicals	Petrochemicals	Thailand	Solvie & Cie	Belgium
	Non woven fabrics	Thailand	Corovin GmbH	Japanese and German
	Paints, gymsum board paints	China	Advance Paint and Chemical Plc, Thai Gymsum Products Plc.	Thailand
	PVC coated fabrics	China	OMNOVA Solutions	USA
Marketing and distribution	Brewery	China	Heineken	Netherlands
	Brewery	China	Boon Rawd Group, Siam Commercial Bank	Thailand
	KFC	Thailand	Tricon	USA
	Retailing (Makro)	Thailand	SHV	Netherlands
	Retailing (Lotus)	Thailand	Tesco	UK
	Retailing (7-eleven)	Thailand	Southland Corp.	USA
	Retailing (Sunny)	Thailand	Saison Corp.	Japan
	Retailing (Value Club)	China/HK	Wal-Marts Store Inc.	USA
	Baby food	Thailand	Gerber	USA
Telecoms	Fixed line business	Thailand	Verizon (formerly Nynex and Bell Atlantic)	USA
	Fixed line business	Thailand	Lucent, NEC, Alcatel, Marubeni, Furukawa	USA, Japan, France
	Telecoms in China	China	Nynex	
	Trunk mobile radio	Thailand	Jasmine Group (or CAT, SVOA)	Thailand
	One-way coms system	Thailand	British Telecom, Ucom, Shinawatra	UK, Thailand
	Fibre optic	Worldwide	Consortium led by Verizon (formerly Nynex, Bell Atlantic)	USA, various
	Satellite	Asiapac	Aptstar	Asia
	PCT	Thailand	Mitsui, NEC, Siew National	Japan, Thailand
	Telecoms equipment manufacturing	Thailand	NEC	Japan
	Telecoms equipment manufacturing	Thailand	Siemens AG	Germany
	R&D in electronic and multimedia equipment	USA	Kopin Corp	USA
	Electronic circuit design & production	USA	Claybridge Enterprises	USA
	Multimedia (broadband services)	Thailand	Telephone Organisation of Thailand	Thailand
	Cable TV	Thailand	International Broadcasting Corp.	Thailand
	ISP	Thailand	Communications Authority of Thailand	Thailand
	Mobile	Thailand	Orange	UK/France
	B2B procurement	Thailand	Bangkok Bank, Siam Commercial Bank, Siam Cement, Ucom	Thailand
Petroleum	Oil retailing	Thailand	Petroleum Authority of Thailand	Thailand
	Oil retailing	China	China Petrochemical Corp.	China
	Import of liquefied natural gas	Thailand	Thai LNG Power Corp.	Thailand
	Construction of power plants for industrial estates	Thailand	Amata Power Co., Ltd.	Thailand
Banking and finance	Banking (TM International Bank of China)	China	M Thai Group, Thai Military Bank, Thai Farmers Bank	Thailand
	Banking	Vietnam	Vietnam Bank of Agriculture	Vietnam
	Life assurance	Thailand	Allianz AG	Germany

As commented by Dr. Veerawat Kanchanadul, chief financial officer:

“Many of CP's diversification were implemented through strategic partnership arrangements where CP provided the financing, the market knowledge, necessary connections, to name but a few, while the foreign partners provided technology and expertise”.

Vison Garantararat, assistant vice-president, Project Evaluation Department, stressed the importance of CP's capabilities in finance in acquiring specific resources from strategic alliances. He said that the more established and stronger the financial capabilities a company had, the better resources would be acquired through inter-firm collaboration.

The point here is that CP did not have all the resources required to operate in all the businesses it diversified into. Various forms of strategic alliances and support from multinationals allowed CP to obtain these resources. But this did not mean that CP did not need to contribute to the diversification at all. Because CP recognised that it could use its strengths in resources, such as finance, reputation, political connections and management capabilities, to obtain resources it required to operate in the business, CP could rely on industry attractiveness when choosing the diversification direction. This therefore provides some support to the Hypothesis III.

5.4.2 The Shinawatra Group

5.4.2.1 Overview of the Group

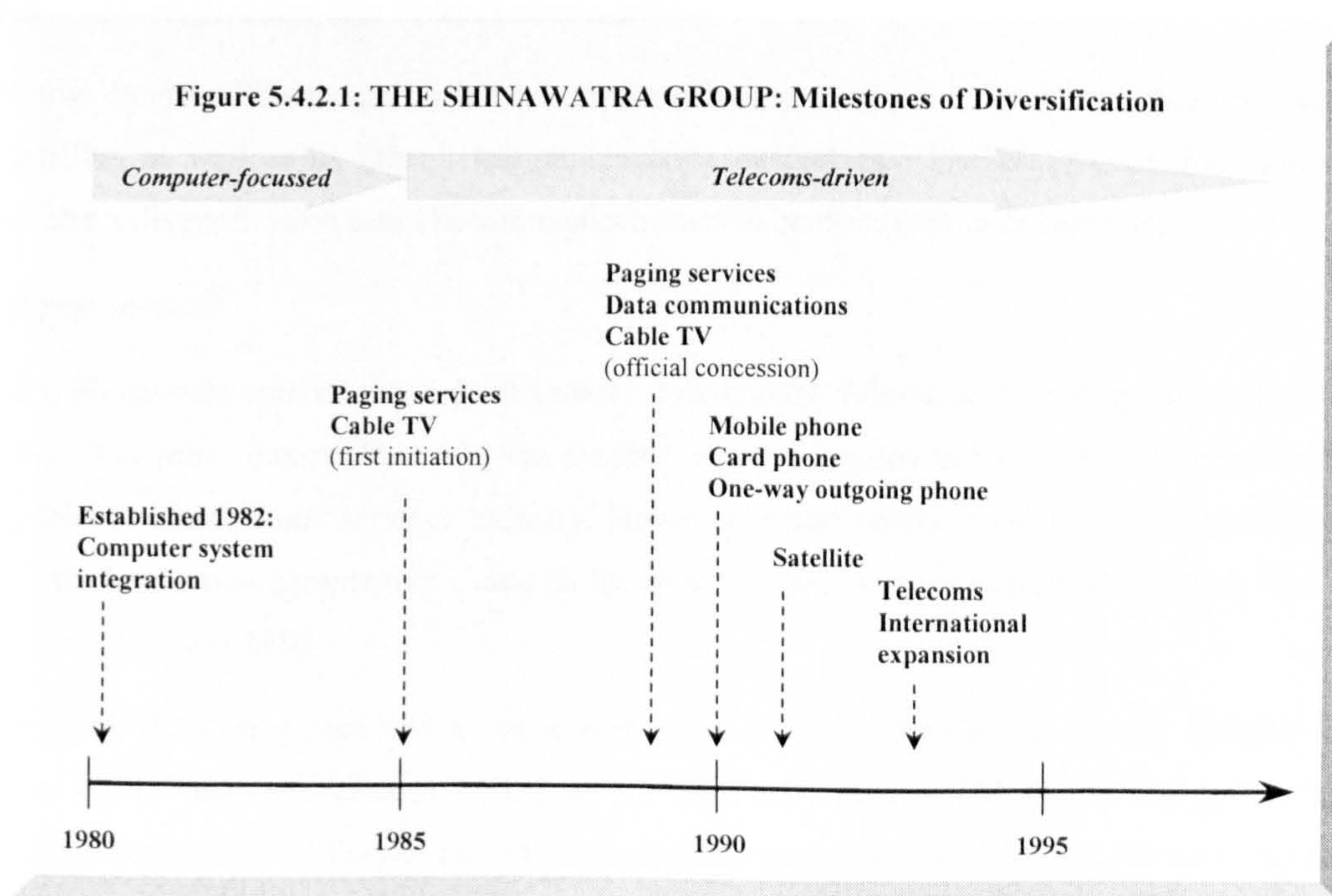
The Shinawatra Group could be traced to the Shinawatra family, which had long been a significant force in the political and commercial aspects in the north of Thailand. The Shinawatra Thai House was one of the largest silk businesses in the country. A number of family members had served as MPs and government officials. However, unlike other companies, the Shinawatra Computer and Communication Group appeared to have little relationships with the family's original business.

In 1982, Pol. Lt. Col. Dr. Thaksin Shinawatra, and his wife co-founded the Group's first company, ICSI Ltd Part. A year later, Shinawatra Computer and Communication (SC&C) was formed and became a dominant system integrator of IBM mainframes and minicomputer suppliers. Since then, Shinawatra has expanded into various computing business activities, including computer rental, leasing, and servicing, as well as software development. However, the milestone of the Group's business expansion was with its diversification into telecommunications services. The Group now operated various telecommunications services, such as paging, mobile, cable television, satellite, to name but a few, covering a number of Asian countries. Shinawatra comprised of more than 40 subsidiaries and affiliated companies.

Although the Shinawatra's family still held the majority ownership in the Group, Dr. Thaksin resigned as the Chairman to pursue his political career. He became Thailand's prime minister in 2000.

5.4.2.2 Diversification Strategy and Patterns

Shinawatra's diversification patterns demonstrated Dr. Thaksin's vision to benefit from the computer and telecommunications convergence. As shown below, there emerged two distinctive phases of the Group's strategy, namely computer-focused and telecommunications-driven.



(a) Computer-focused

Shinawatra's business originated from system integration of IBM mainframes and minicomputers for the public sector, including both the government and the state enterprises in 1982. The business led to collaboration with multinational suppliers such as IBM, Memorex, Acer, NCR, and AT&T. Shinawatra held eighty per cent to ninety per cent of the Thai public sector mainframe market in 1992 (Tara Siam 1993). The business arrangements with IBM prohibited Shinawatra from engaging in the private sector until 1990. Since then, Shinawatra has expanded into other computer related businesses, including rental, leasing, servicing, software development, and training. Computer system integration remained the focus of Shinawatra until 1985.

(b) Telecommunications-driven

The period during 1985 to 1991 marked an important milestone in Shinawatra's business development. Shinawatra became an operator of a number of telecommunications services, including mobile, cable television, paging, and satellite. This is discussed in detail in the following sections. The Group's telecommunications expansion also resulted in expansion into the regional markets, including Cambodia, Laos, Philippines, India and China.

Though focused mainly upon computers and telecommunications, Shinawatra's interests also included a 10 per cent holding in Bangkok Metropolitan Bank. Its earlier 18.5 per cent holding in ITF Finance and Securities Plc. had been sold off. However, Shinawatra's interests in businesses other than computer and telecommunications were insignificant in terms of investment. Furthermore, these involvements were in the form of investment, rather than the management of the business.

5.4.2.3 Diversification into Telecommunications

I will now describe Shinawatra's main telecommunications services, i.e. paging, cable television, mobile and satellite, as well as its other telecommunication businesses. The analysis of the rationale behind Shinawatra's diversification into telecommunications will be discussed in the next section.

(a) Paging Services

In 1985, Shinawatra entered into a joint venture with Pacific Telesis, an operating arm of Pacific Bell of the USA. The joint venture (PacLink) was the first private company to be granted a concession to operate in the telecommunications services industry. However, some conflicts led to Shinawatra's departure in 1986. The 3-year non-competitive clause in the joint venture contract barred Shinawatra from operating paging services until 1989.

In that year, the Group received a concession from TOT to become the second operator of paging services. With Singapore Telecom Pte Ltd. as a joint venture partner, Shinawatra Paging Co., Ltd. (SPC) was established to operate PhoneLink, the alphanumeric paging service. PhoneLink had long maintained its market leader position. Paging services accounted for some ten per cent of AIS's revenue in 1997.

(b) Cable Television Services

Similar to the paging services, Shinawatra's interests in cable television services actually began prior to its official award of concession. Nonetheless, it was only in 1989 that International Broadcasting Corporation Ltd. (IBC) became Thailand's first pay television broadcasting company. This was through collaboration with William Knight (Vittayen Saenghao, head of Legal and Contract Department, MCOT). Although IBC has always maintained its leading position in cable television services against its rival Thai Skycom, IBC subsequently merged with the new entrant, UTV of CP. The merged company, UBC, now held the largest share of around 90 per cent of the cable television market.

(c) Cellular Mobile Services

In 1990, Shinawatra became Thailand's first private operator of cellular mobile services. Advanced Information Services (AIS) offered both the analogue and digital GSM services. Its analogue network was said to have the greatest coverage in the country (Tara Siam, 1993). The cellular mobile phone was regarded as financially and strategically significant, representing approximately 90 per cent of AIS's profit margin, which in turn accounted for 84 per cent of the Group's 1996 pre-tax profit of over Baht 6 billion (DKB, 16 April 1997). Since 1990, Shinawatra has maintained its market leading position in mobile services in Thailand. The Group commanded 48 per cent of the market share in 2001.

(d) Satellite Services

In 1991, Shinawatra became Thailand's first and only satellite operator. Shinawatra Satellite Co., Ltd. (SATTEL) launched three satellites, i.e. Thaicom I, II, and III. Their footprint covered countries such as Japan, Korea, Hong Kong, Taiwan, India, China and other South East Asian countries. Hughes Communications International Inc. of the USA acted as a supplier to SATTEL.

Shinawatra's telecommunication businesses were not limited to Thailand only. The Group set up Shinawatra International Co., Ltd. (SIC) in 1993 to oversee its regional telecommunication service businesses. The Group now operated in countries such as Cambodia, Laos, Philippines, China and India.

Although Shinawatra's business portfolio in telecommunications services did not include the fixed-line telephony, there were rumours that Shinawatra might consider taking over another private fixed-line operator, TT&T of the Jasmine Group. Shinawatra was regarded as one of the few companies with the financial capabilities to do so (Bangkok Post, 28 July 1999).

(e) Other Telecommunications Businesses

One-Way Outgoing Telephone Services (Fonepoint): Shinawatra also held 25 per cent stake in Fonepoint (Thailand) Co., Ltd., whose joint venture partners included British Telecom of the UK, as well as two other telecommunications giants in Thailand, Ucom and TelecomAsia (TA). The company was granted a concession in 1990 to operate a one-way outgoing telephone service.

Data Communication Services: With a registered capital of Baht 407 million, Shinawatra Datacom Co., Ltd. (SDH) was formed in 1989. A joint venture with SingTel, SDH operated "Datanet", a

data transmission service that allowed simultaneous transmission of voice and data information through fixed telephone lines. This was the first data communication service in Thailand.

Trading of Telecommunication Equipment: Not only was Shinawatra an operator of the cellular mobile phone, but it also engaged in the sales of the handsets. This illustrated a neat vertical integration. Shinawatra was also involved in the sales of other telecommunication equipment, including switching, transmission and outside plant equipment. Shinawatra secured many high profile equipment contracts, particularly to the public organisations.

Manufacturing of Telecommunication Equipment: Shinawatra's interest in the equipment sector was also illustrated by its five per cent holding in International Engineering Public Co., Ltd. The Group was also involved in the manufacturing of cables, switching systems, and telephone handsets for TA's "2.6-million line" project.

Installation of Telecommunication Network: Shinawatra and AT&T Consortium were established to undertake installation work for TOT, though the work has so far been limited.

Publication of Telephone Directory: In 1991, Shinawatra took over the directory publishing activities from AT&T Directories (Thailand) Ltd. Through renewals of concessions, Shinawatra Directories Co., Ltd. (SHD) published both Thailand's yellow and white telephone directories.

5.4.2.4 Hypothesis II: Rationale behind Diversification into Telecommunications

Unlike CP, Shinawatra's diversification into telecommunications was generally viewed as being closely linked to the Group's computer business. The perception was that Shinawatra could apply its knowledge and technologies of the computer business to telecommunications.

In this section, I will analyse what actually influenced Shinawatra to move into telecommunications? I will discuss the roles of different resources. The main focus will be on the four major businesses which Shinawatra was granted the licences during 1989 to 1991. These were paging, cable television, mobile and satellite. However, I will draw on other telecommunications businesses when relevant. The focal point of the discussion will be on the relative importance of industry non-specific resources (such as financial capital, political connections, reputation and general management) and industry specific resources (such as technologies and industry knowledge).

(a) Financial capital

Shinawatra required a large capital to fund its entries into mobile, paging, satellite and cable television. Based on the value of Shinawatra's tangible assets, the total investment required for mobile, paging and satellite was likely to be around Baht 500 billion (Annual Report, 1996).

In the case of CP, the executives believed that the Group was one of only two companies in Thailand capable of raising the investment for the “2.6-million line” project. As a result, CP decided to bid for the project. CP’s wide asset base also supported its strong financial capabilities. Nonetheless, Shinawatra did not have large asset base. Prior to the telecommunications business, Shinawatra operated the system integration business. Whilst it was successful in its own right, the computer business was unlikely to provide sufficient funding for the network roll-out of paging, mobile as well as satellite services. But despite a lack of assets to secure funding, Dr. Thaksin was confident that they would be able to finance the projects (Yinglak Shinawatra, vice-president).

The key source of finance came from the stock market. Shinawatra was the first telecommunications company to be listed on the Stock Exchange of Thailand. Four of its companies were listed soon after the company inception. The first to be listed was SC&C in 1990, followed by AIS in 1991, IBC in 1992, and SATTEL in 1994. These listings raised the additional capital. For instance, the register capital of AIS increased from Baht 5 million to Baht 5 billion in 1994. With Shinawatra’s relative recent involvement in telecommunications, the success of the listings could perhaps be explained by the reputation of Dr. Thaksin’s entrepreneurial and management capabilities. The Group’s Chief Executive Officer, Boonklee Plangsiri said that it was Shinawatra’s management capabilities and subsequently, reputation, influenced the Group’s ability to raise capital to fund its entry into telecommunications. Shinawatra had a centralised funding department to allow investment co-ordination and pricing. Despite a lack of corporate guarantee for its subsidiaries, the Shinawatra’s name indirectly provided the guarantee (Chirdsak Kukiattinun, former employee), hence allowing them to obtain short-term funding at interbank rates.

Although the evidence above shows that Shinawatra successfully raised capital to fund the investment required, there was no evidence to suggest that financial capital was the key resource influencing Shinawatra to diversify into telecommunications.

(b) Political connections

I will now illustrate how political connections influenced Dr. Thaksin’s business expansion. To understand this, it is important to trace the origins of Dr. Thaksin’s political connections.

Dr. Thaksin has accumulated relationships with officials in the public sector during his career in the police department. He utilised this by setting up his computer distribution and system integration business. This business focused solely on providing IBM systems to public organisations. The wide scope of Shinawatra’s political connections is supported by Shinawatra’s control of eighty per cent to ninety per cent of the Thai public sector mainframe market in 1992 (Tara Siam, 1993). The computer business further widened his relationships with the public sector, including state enterprises, the army and the police department.

Then in 1985, PacLink, a joint venture between Shinawatra and Pacific Telesis, became the only company awarded the paging licence from the state enterprise, CAT. There were suggestions that it was, in fact, Dr. Thaksin who initiated the build-operate-transfer concession, allowing the private sector to operate telecommunications. However, due to shareholder conflicts, Dr. Thaksin left PacLink in 1986. Because

of the agreement with Pacific Telesis, Dr. Thaksin was prohibited from operating paging service until 1989. Dr. Thaksin was working on ways to return to the paging business. Then in 1989, Shinawatra was awarded the concession to operate a paging service "PhoneLink" by another state enterprise, TOT. The fierce competition that followed between Shinawatra (PhoneLink) and Pacific Telesis (PacLink) exhibited Shinawatra's strong political connections. Despite Shinawatra's entry into the paging service four years after Pacific Telesis, Shinawatra successfully persuaded TOT to impose the numbering tactics on PacLink, hence making it more attractive for subscribers to use PhoneLink than to use PacLink. Consequently, PacLink faced a sharp decline in market share. Since then, Shinawatra has maintained the market leader position in the paging market.

other evidence supporting the role of political connections in Shinawatra's diversification patterns was related to the cable television business. Shinawatra first approached the state enterprises for the cable television licence in 1981 (Pramutr Suthabutr, chairman, Thai Sky Cable TV Co., Ltd., former director at MCOT). Subsequently, Video Links Co., Ltd. was established to provide CNN news to hotels. However, the business was subsequently barred on the grounds that the private sector should not control such broadcasting facilities. Dr. Thaksin did not give up, he used his relationships to ensure that Shinawatra would be able to operate cable television (source requested not to be named). Finally, Shinawatra succeeded in obtaining permission to operate the business.

For satellite, Shinawatra was granted the concession by the Ministry of Transport and Communications (MOTC) to have a monopoly as the satellite operator in Thailand for 30 years. Nonetheless, the original terms of contract were such that organisations in Thailand requiring satellite services were permitted to use other regional satellite operators. Shinawatra utilised the Group's political connections, resulting in the contract being subsequently amended to ensure that all companies and public organisations requiring satellite communications were not permitted to use the service from other regional or international satellite operators. In turn, Shinawatra agreed to reduce the monopoly period to eight years. This contract was very attractive to Shinawatra. All domestic satellite operators were required to lease the transponder capacity from Thaicom. Customers included communication service operators, such as VSAT, cellular, and public phone, as well as broadcasters, including public television, cable television, and radio stations. Governmental agencies and educational institutions were also among Shinawatra's customers.

Apart from the evidence related to the three major businesses discussed above, Shinawatra has also used political connections to secure other telecommunications contracts from the public sector. In 1992, Shinawatra was awarded the Baht 233 million gateway exchange project from the CAT. Under the project, Shinawatra's role was to supply AT&T equipment to the exchange. Shinawatra's trading business was by no means restricted to the public sector. In addition, Shinawatra engaged in the Baht 9,000 million rural public telephone system for 4,500 sub-districts nationwide.

Looking at Shinawatra's concessions, some may argue that Shinawatra's political connections were in fact specific to the telecommunications state enterprises. At first glance, this may be the case, however, it is important to analyse further into who had the authority to decide for the state enterprises, such as TOT and CAT. Similar to many state enterprises in Thailand, the executives (particularly the president) of

these state enterprises were usually handpicked by the government. Owing to a large number of political parties and therefore coalition government, an average life of a government in Thailand was less than two years. This meant that different political parties usually selected different individuals to run and influence the state enterprises to their advantage. Regardless of who were TOT's senior executives, Shinawatra had always maintained favourable relationships. Hence Shinawatra's political connections rest with its general abilities to establish and maintain the political connections with any organisations or individuals, rather than solely with TOT.

The evidence above supports the role of political connections in Shinawatra's diversification into telecommunications. Political connections made the diversification moves possible. Shinawatra was one of the most well connected companies in Thailand (Chirdsak Kukiattinun, former employee). He further commented that:

"Essentially, connections were among the factors which could realise Thaksin Shinawatra's strategic vision in telecommunications".

As a group, Shinawatra has consistently and effectively maintained its relationships with the public sector and utilised them to build the Group's competitive advantage (sources requested not to be named). A number of former executives of various public organisations now chaired executive positions at Shinawatra. They included Dr. Paiboon Limpaphayom (former Director of TOT), Mr. Boonklee Plangsiri (former Director of the International Telephony Division, CAT), and Dr. Niyom Purakham (former Director of the National Statistics Bureau).

(c) Reputation

In comparison to CP and Samart, the Shinawatra Group was a relatively young business enterprise. During the early 1990s, Shinawatra was likely to be less widely known than CP and Samart. Then Shinawatra was known as the distributor of IBM computers. The reputation of Shinawatra, however, played a key role in raising the capital required. Despite receiving the concession in the early 1990s, Shinawatra used its reputation to convince the capital market that as a group, it was capable of implementing the business. This resulted in the listing of AIS in 1991, IBC in 1992, and SATTEL in 1994. Nonetheless, Shinawatra then had a less well-established reputation, compared to CP. Hence although reputation played a role in making the funding feasible, its role as the factor influencing Shinawatra to diversify into telecommunications was less clear, compared to CP.

Since then, the Group has grown to become one of the most well-known companies in Thailand. Shinawatra as a corporate was recognised for its successful mobile business, it is known for launching the first Thai satellite, and it was ranked as one of the most professionally managed organisations in Thailand. However, Shinawatra did not have this reputation. Hence it was unlikely that reputation played a key role in Shinawatra's entry into telecommunications.

(d) Management capabilities

The interview with Shinawatra's executives and other organisations showed that Shinawatra's entry into telecommunications reflected its founder, Dr. Thaksin's capabilities and determination to enter, operate, and succeed in the industry. As commented by Chirdsak Kukiattinun, former employee:

"Shinawatra's diversification into telecommunications was driven by the vision and capabilities of its leader".

There were numerous stories about Dr. Thaksin's early time in the industry when it was still very much a one-man business. It faced and successfully overcame a number of problems. First, despite the legal constraints prohibiting private companies from holding an ownership in the public infrastructure of telecommunication, Dr. Thaksin pioneered the method in which private ownership and operation of the telecommunications network would be possible, i.e. the "build-transfer-operate" concession arrangement. Under such method, private companies invested in the network construction, operated the telecommunications services. The network must be transferred back to the State after an agreed period of time. Essentially, this marked an important milestone which altered the economics and competition of the industry.

Second, Dr. Thaksin initiated the funding pattern of telecommunication services. The Group became the first telecommunication service company to be listed on the Stock Exchange of Thailand. Since then, a number of companies have followed suit.

Third, not only was Dr. Thaksin's initial attempt to operate cable television in hotels barred, but its joint venture with Pacific Telesis to operate paging services also did not materialise. However, his determination and political connections successfully gained Shinawatra concessions to operate both cable television and paging services (as discussed above).

Yinglak Shinawatra, vice-president, commented that:

"Much of Shinawatra's success today was owed to its founder. Indeed, Shinawatra's strengths lay with its top management team".

Although the Shinawatra Group did not carry out as extensive diversification as the CP Group, this should not lead to a conclusion that the Group's management capabilities were industry specific. There were two reasons supporting the idea that Dr. Thaksin's capabilities were, in fact, industry non-specific. First, although many speculated that Shinawatra's entry into telecommunications was based on the similarity between the computer and telecommunications, many of our interviewers confirmed that such similarity was small and did not influence its decision to diversify into telecommunications (Boonklee Plangsiri, chief executive officer, Shinawatra; Chitchai Nantapat, president, Loxley; Rongroj Sriprasertsuk, former chairman of TOT board of directors).

Second, Dr. Thaksin's capabilities were in foreseeing opportunities and creating corporate value. These suggested that his capabilities could have been repeated in any business sector of his choice. However, his vision was always with telecommunications (Chirdsak Kukiattinun, former employee, Shinawatra).

His vision in telecommunications was said to be inspired by the book "The Third Wave" by Alvin Toffler. Since then, Dr. Thaksin looked to businesses that would become inseparable from society. In his view, telecommunications industry was that business.

Dr. Thaksin's vision and management capabilities were also supported by various honours and awards. He was awarded "ASEAN Business Man of the Year" by the ASEAN Institute in Indonesia in 1992, "The Outstanding Telecoms Man of the Year" by Telecommunications Association of Thailand in 1993, one of "The Top 12 Asian Businessmen" by Singapore Business Times in 1992, and lastly one of "Asia's 34th Most Powerful People" by Asia Week in 2000. Then in 2000, he became Thailand's 23rd prime minister.

Following Dr. Thaksin's resignation to pursue his political career, Shinawatra was managed by a number of professionally hired managers. They included well known academics, as well as former executives from the telecommunications state enterprises. Despite a majority holding by the Shinawatra family, the Group was generally seen as one of the most professionally run telecommunications companies in Thailand (HSBC, 2 June 1997). Contrary to other family oriented companies, Shinawatra was headed by four separate executives, each of whom managed separate businesses.

(e) Industry specific resources

With its interests in computers and telecommunications, some might argue that industry specific resources, such as technology must have driven Shinawatra's diversification. The feedback from Boonkee Plangsiri, chief executive officer, was that:

"The diversification was driven more by the attractiveness of the combined industries (i.e. computer and telecommunications) than the utilisation of technology".

Shinawatra never possessed the technological capabilities, the Group was not the creator of computer software, the technological capabilities were obtained through IBM (Chirdsak Kukiattinun, former employee). There were no real resources which could be transferred from the computer to the telecommunications business. Others also confirmed that technology used in telecommunications differed greatly from those used in software (Chitchai Nantapat, President, Loxley). Thavatchai Vilailuck, vice-chairman of the Samart Group supported this view by saying that technological capabilities provided no real strategic resources as they can be bought from other foreign companies.

In terms of market and operation, Shinawatra's computer business dealt mainly with corporate customers whilst the main part of its telecommunications business engaged largely with the mass market. This meant differences in customer segmentation, marketing, and distribution channels (Yinglak Shinawatra, vice-president). Yinglak Shinawatra, vice-president, further commented that despite the perceived similarity between computers and telecommunications by outsiders, one of Shinawatra's weaknesses was in fact in industry knowledge and experiences of its human resources. Telecommunications industry was, at the time, a newly opened industry in Thailand. All of the diversifiers, whether they were perceived to be related or unrelated, did not have the relevant industry knowledge. Similar to CP, Shinawatra recruited a large number of personnel from the telecommunications state enterprises (Vichien Naksrinual, vice-president, TOT). This supports the view that although some people perceived the potential synergy

between computer and telecommunications, the actual similarity between the two businesses was very small. Differences between computer and telecommunications meant that Shinawatra faced the same lack of resources as any other company. For Shinawatra, these resources did not influence its move into telecommunications.

The evidence so far suggests that political connections and management capabilities played very strong roles in Shinawatra's diversification into telecommunications. However, the role of Shinawatra's reputation was small. Finance, however, did not seem to play a role in Shinawatra's diversification. Shinawatra did not have any relevant technologies and knowledge at the time of diversification, hence they were not relevant. All in all, the importance of some industry non-specific in Shinawatra's diversification process therefore supports Hypothesis II.

5.4.1.5 Hypothesis II: Direction of Diversification

The question here is if management capabilities and political connections, which were generic in nature, were the key resources which influenced Shinawatra's diversification, what made Dr. Thaksin choose to diversify into telecommunications?

To answer this question, I will consider two additional factors, namely inter-firm collaboration and industry attractiveness. First, I will provide Shinawatra's feedback on the role of industry attractiveness. Second, I will analyse the empirical evidence from Shinawatra as well as from the secondary data on how inter-firm collaboration played a role in Shinawatra's entry into telecommunications.

(a) Industry attractiveness

Dr. Thaksin Shinawatra believed in the attractiveness of the converged computer and telecommunications industries. He commented that (Dr. Thaksin Shinawatra's website):

"I have been interested in telecommunications since 1986 ... at that time, others in the company didn't like the idea because they thought that the computer business was good enough ... but I thought that computers were okay in terms of giving us a good reputation, but the profit wasn't high, so I started to dip my fingers into telecommunications work..."

Dr. Thaksin's view of the superior attractiveness of telecommunications to computer became highly visible. Shinawatra reorganised its structure in 1992, and telecommunications accounted for four out of five business lines. As at 1997, the Group was divided into five lines of business, namely information technology, wireless communications, satellite business, international business, and media.

Other executives at Shinawatra also suggested that the attractiveness of telecommunications services was the most important factor which led them to diversify into the industry. Specifically, this was from the demand growth and the first mover advantage resulting from industry structure and competition (Boonklee Plangsiri, chief executive officer; Yinglak Shinawatra, vice-president). Dr. Thaksin commented in 1994 that (The Nation, 29 July 1994):

“The opportunities in the year 2000 and onwards will be information technology”.

As discussed in 5.3 The Thai Telecommunications Industry and 5.4.1 The Charoen Phokphand Group, the telecommunications was perceived by many industry analysts as a high growth industry. Similar to other telecommunications services, the mobile sector was also projected to have a high growth - cellular subscription in Thailand was projected to grow at the rate of 44 per cent in 1996 and 21 per cent in 2000 (HG Asia, 1996). At that time, the mobile industry worldwide was also going through a high growth period. It was the beginning of talks of mobile subscription overtaking the subscription of fixed line telephony. At the time of Shinawatra's entry into the mobile sector, there was only one operator (TOT) which was not successful. Hence there was potential room for a new mobile operator in Thailand. In addition, Dr. Thaksin saw the opportunity to generate revenue not only from mobile subscription but also from the sale of handsets. The sale of handsets was believed to provide some 20 to 30 per cent margin to Shinawatra (Phatra, 2 February 1998).

Shinawatra originally saw an opportunity for the cable television services for corporate customers, such as hotels and residential buildings. Then it expanded the idea to provide the services nation-wide. Various factors were considered when Shinawatra forecast the demand. They included limited channels and programmes on the free television, the rising middle class population, and an increased number of hotels and residential buildings (Yinglak Shinawatra, vice-president). Apart from the free television, there was no substitute service to the cable television. Hence, Dr. Thaksin saw the attractiveness of cable television.

Satellite was seen as the last jigsaw of Dr. Thaksin's telecommunications vision (Chirdsak Kukiattinun, former employee). At the time, companies and public organisations in Thailand had to purchase satellite capacity from regional operators. The satellite concession granted to Shinawatra clearly stated that all companies and public organisations could no longer buy the capacity from other operators – they all became customers of Shinawatra. The industry structure was very attractive – Shinawatra was the only operator and would remain so for eight years after the contract was signed. In the long-term perspective, the satellite business offered a future growth potential primarily because of its infrastructure network required for telecommunication and broadcasting (Pramut Sutabutr, chairman, Thai Sky Cable TV Co., Ltd).

The timing of diversification entries and the subsequent expansion into other telecommunication services indicated the Group's calculated strategy to benefit from a high demand and a lack of supply. With all the services being initiated in the early 1990s, the Group became Thailand's first operator of services such as mobile phone, satellite, data communication, and cable television services. Being first in the market meant that Shinawatra was a step ahead of its competitors in terms of communications network, brandname, creditability, and quality of service (Yinglak Shinawatra, vice-president). She further explained that the first mover advantage overcame a concern about the potential newcomers and any likely threats resulting from technological developments.

Shinawatra's emphasis on a lack of supply and first mover advantage was also supported by the Group's regional expansion which tended to focus on less developed countries where there was a lack of communications infrastructure, as well as supply of telecommunications services. The Group focused on

developing countries where competition was low. In 1993, Shinawatra entered the Cambodian market through its 15-year concession to install and operate 14,000 telephone lines, and television stations. Subsequently, the Group established a joint venture of 70 per cent and 30 per cent by Shinawatra and the Cambodian government. In the same year, Shinawatra also entered the Chinese telecommunications market. Again in 1993, Shinawatra entered the Laos market. Shinawatra's extensive projects in Laos included the installation and operation of telephone lines, cellular phone network, public card phone system, paging system, international gateway system, and a radio and television network. With the technical assistance from AT&T and Deutsche Telecom, Shinawatra was awarded the installation of 400,000 fixed lines in the Philippines. By 1997, the fixed line capacity stood at 200,000 lines whilst mobile and paging subscribers were estimated to be 40,000 and 20,000, respectively (HSBC, October 1997). Shinawatra also began its interests in India in 1994 and in 1996, its paging network in Bombay, Calcutta and Gujarat became operational. The venture was said to be very successful. The GSM network in Gujarat was expected to operate in 1997.

According to Boonklee Plangsiri, chief executive officer, Shinawatra placed great emphasis on the potential demand and profitability as these would offset the cost of capital. Shinawatra also interpreted the high cost of entry as an effective tool in raising the barrier to entry (Chirdsak Kukiattinun, former employee). When asked directly on factors which drove Shinawatra's diversification, three of its participating executives agreed that it was industry attractiveness which took the prime role.

Many commented that the attractiveness of telecommunications made it possible for Shinawatra to grow from a relatively unknown company to what it was today. Dr. Thaksin's son became the richest person in Thailand in 2000. The Group now accounted for forty per cent of the market capitalisation of publicly listed telecommunications companies and ten per cent of the Stock Exchange's total market capitalisation in Thailand.

(b) Inter-firm collaboration

The feedback from Shinawatra suggested that industry attractiveness was the key factor in deciding their diversification directions. But similar to many companies, Shinawatra did not have the technology and industry knowledge related to telecommunications. Despite the perception of the technological relatedness between Shinawatra's computer and telecommunications businesses, the Group relied on the technical know-how obtained through various forms of inter-firm collaboration (Chirdsak Kukiattinun, former employee), as shown in the table below. Chirdsak Kukiattinun, former employee, commented that:

"Industry attractiveness was essential because the resources can be acquired and certain functions can be subcontracted".

The analysis of inter-firm collaboration undertaken by Shinawatra supports the view that inter-firm collaboration became the way of fulfilling these resources (Chirdsak Kukiattinun, former employee). Perhaps because these alliances were less commonly known to other companies, many outsiders mistakenly believed Shinawatra possessed many industry specific resources.

In the mobile business, Shinawatra relied on the industry know-how of its joint venture partner, Singapore Telecom. It also obtained technology through telecommunications equipment suppliers, Nokia and Ericsson, who assisted them in roll-out of its mobile network.

After the breakdown of the joint venture in paging services between Shinawatra and Pacific Telesis, Shinawatra teamed with Singapore Telecom to launch PhoneLink. In satellite, the Group gained the technological know-how from Hughes Corporation of the USA. William Knight helped Shinawatra to set up the cable television business.

Some of the inter-firm collaboration was undertaken for the commercial leverage (Ian McLean, vice-president, Grammy). These included a number of both foreign and local companies. Most visible was IBC where high programming and overhead costs had led to the alliances with Grammy, BBTV, Satelvision, and most recently UTV.

Its diversification into the data communication services was through its joint venture with Singapore Telecom International Pte. Shinawatra also held established relationships with AT&T in regard to the telecommunication equipment business. It was appointed as AT&T's distribution arm. Both companies also entered into a joint venture for the installation work in Thailand, as well as the Philippines.

Table 5.4.2.2: Shinawatra’s Inter-firm Collaboration

Activities	Business	Country of Business	Partner(s)/Collaborator(s)	Origin of Partner(s)/Collaborator(s)
Mobile	AIS	Thailand	Singapore Telecoms	Singapore
Paging	Paclink Phonelink	Thailand Thailand	Pacific Telesis (Pacific Bell) Singapore Telecoms	USA Singapore
Cable TV	IBC IBC IBC	Thailand Thailand Thailand	William Knight Grammy MIH	Thailand South Africa
Satellite	Shinawatra Satellite CS Satellite	Thailand Thailand	Hughes Communications International Inc. ICO	USA USA
Data coms	Data transmission via fixed line (Shinawatra datacoms)	Thailand	Singapore Telecoms	Singapore
One way outgoing phone	Fonepoint	Thailand	British Telecom, UCOM, TA	UK, Thailand
Other Telecoms	Sale of other telecoms equipment Rural telecoms Manufacturing of equipment Manufacturing of equipment Network installation	Thailand Thailand Thailand Thailand Thailand	AT&T Ucom Samart International Engineering Plc. AT&T	USA Thailand Thailand Thailand USA
International business	To install and operate phone lines and TV stations To install and operate phone lines and mobile phones To install fixed lines China	Cambodia Laos Philippines China	Cambodian government Laos government AT&T, Deutsche Telecom M-Thai Group	Cambodia Loas USA, Germany Thailand
Computing	Computing	Thailand	IBM, Memerex, Acer, NCR and AT&T	USA

Shinawatra's strategic alliances varied in nationality of partnering company, as well as the nature and mode of partnership. Shinawatra's business partners covered firms originated from various countries, including USA, Germany, Singapore, Thailand, and other Asian countries. They also varied in the type of

resources to be transferred through inter-firm collaboration, but essentially, they were aimed at obtaining technical know-how and industry knowledge which Shinawatra did not have.

Despite the perception that Shinawatra had technologies which could be utilised in telecommunications, the Group relied on foreign partner/assistance in every telecommunications business. Hence strategic alliances and support allowed Shinawatra to obtain the technologies and knowledge to be able to operate successfully in the industry. Because of inter-firm collaboration, Shinawatra was able to realise its vision regarding the attractiveness of telecommunications. This therefore provides some support to the Hypothesis III.

5.4.3 The Samart Group

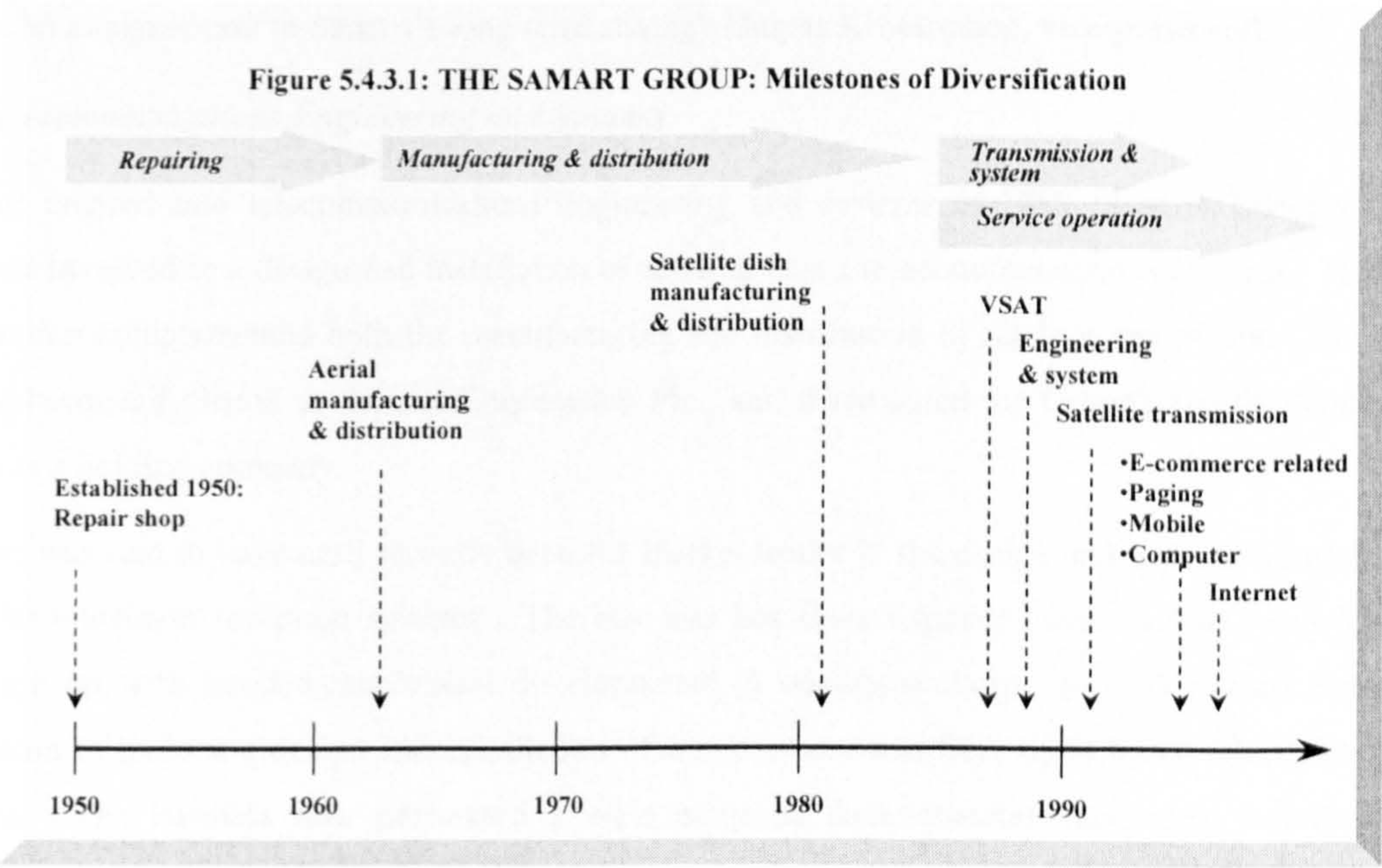
5.4.3.1 Overview of the Group

In 1950, Cherdchai Vilailuck set up a watch and radio repair shop in Saraburi Province of Thailand. Resulting from the skills of the founder in repairing watches, radios, and other electronic appliances, the shop was given the nickname “Samart Shop”, meaning “able” in Thai.

Since then, Samart has been operating various business activities which were directly related to its know-how in “transmission”. These included manufacturing and distribution of telecommunications products, installation and engineering of telecommunications network, as well as operation of telecommunications services. By 1997, the Group employed over 2,000 personnel. Two of its companies were listed on the Stock Exchange of Thailand. Its total revenue stood at Baht 5.4 billion in 1996 (Krungthep Turakij, 3 July 1997). Similar to many Thai companies, the Vilailuck family remained the major shareholder of the Samart Group, i.e., 60 per cent stake in Samart Corporation Plc.

5.4.3.2 Diversification Strategy and Patterns

Samart’s diversification patterns can be divided into four phases.



(a) Repairing

Samart concentrated on its repair business during 1950 to 1962.

(b) Manufacturing and Distribution of Transmission and Telecommunications Equipment

Following the arrival of Thailand’s first television station in 1962, Samart started to produce and distribute television aerials. In 1975, the company set up a Baht 1 million registered capital company, Samart Engineering Co., Ltd., to manufacture television aerials, television reception related accessories, and solid satellite dishes. Developments in television broadcasting in Thailand resulted in a surge in demand for television aerials and related accessories. Then the expansion of television broadcasting to

the provinces in 1981 resulted in an increased demand of satellite dishes. Poor reception and deficient coverage of microwave transmission in remote provincial areas pushed up demand for satellite dishes. Demand was further amplified by the liberalisation of private ownership in 1992. A high import tariff, leading to prohibitively high prices of imported satellite dishes provided a favourable condition for locally made products. But more importantly, a lack of Thai satellite dish manufacturers meant that there was no competition from the local company.

The satellite business gradually became Samart's dominant business. During the peak period in early 1990s, the annual production of satellite dishes reached 5,000. The Group also started to export to a number of countries, including Kuwait, Australia, Africa, Nigeria, Sri Lanka, Hong Kong and Cambodia. Nonetheless, domestic competition gradually increased. The business witnessed a sharp increase in the number of domestic manufacturers. A reduction in import tariff made imported products more price competitive. This led to a reduction in prices and profit margin. The market value of C-Band satellite dishes in Thailand had shrunk by Baht 200-300 million to about Baht 300-400 million in 1996 (Thavatchai Vilailuck, vice-chairman). Samart's market share declined from 70 per cent to 50 per cent (Bangkok Post, 26 September 1996). Its annual production shrank to 1,200 dishes (Bangkok Post, 21 July 1997). In spite of the significant value which the business had created for Samart, it was no longer regarded as significant to Samart's long term strategy (Julpas Kruesophon, vice-president).

(c) Telecommunications Engineering and Systems

Samart entered into telecommunications engineering and systems in 1989. Samart Telcoms Co., Ltd. became involved in a design and installation of satellite based telecommunications systems. This vertical integration complemented both the manufacturing and distribution of satellite equipment. The company was subsequently listed as Samart Corporation Plc., and it remained the Group's flagship company and acted as a holding company.

Samart was said to have until recently been the market leader in the design and installation of centralised satellite television reception systems. The business has since expanded into various related activities. Keeping up with rapid technological developments in communications, in 1995 Samart expanded its operation to include a design and installation of a microwave and fibre optic based telecommunications system. The business now performed a wide range of complementary activities, including survey, installation, testing, demonstration and maintenance services for satellite network and signal reception systems. Samart also set up a Special Project business unit which dealt with the design, consultation and installation of integrated data transmission systems for Management Information Systems (MIS), including both hardware and software.

(d) Telecommunications Services

Samart's diversification into telecommunications services took place in 1988, after gaining the concession to operate the VSAT (Very Small Aperture Terminal) services. Since then, it has engaged in paging, mobile, and Internet services. I will discuss this in the following sections.

(e) Other Businesses

Electronic Commerce: Recognising a trend towards the electronic era, Samart Adsat Co., Ltd. was set up to operate satellite transmitted advertising services in 1991. This electronic medium utilised Samart's integrated satellite communication network. However, Samart's involvement in electronic commerce did not intensify until the appointment of the new President, Charnchai Jarusavatr, at the end of 1994. He was the former head of IBM Thailand. 1995 marked the year of Samart's active diversification into electronic commerce. By founding Postnet Co., Ltd., Samart became Thailand's first independent service provider of electronic fund transfer at the point of sales network. The services were aimed at banks, credit card and retail businesses. Another electronic commerce service which Samart entered into was electronic data interchange which allowed two companies to exchange business documents in an agreed electronic format. Generally, these businesses handled a small number of clients and were yet to generate any return.

Computer and Other Businesses: Though small, Samart also operated a computer distribution and financing company. In order to promote sales, Samart Easy Pay Co., Ltd. was set up in 1995 to provide financing for Samart communications products. Though originally aimed to complement sales of Samart pagers, Samart Easy Pay now covered distribution of other products, including mobile phones. However, the recent economic crisis has resulted in the closure of this business. The venture was undertaken in a form of joint venture with Computerman Co., Ltd., leading to the founding of Samart Computerman Co., Ltd. The Group has also established its own brand of computer, Comstar, which was aimed at the low and middle ends of the market.

International Businesses: Samart's expansion into other markets started in 1992. Now, it covered a wide range of businesses in four Asian countries, namely Cambodia, Myanmar, Malaysia and Hong Kong. Businesses ranged from distribution of telecommunications equipment, installation of network, to operation of cellular mobile phones.

5.4.3.3 *Diversification into Telecommunications*

Since 1988, Samart became involved in the operation of telecommunications services, including VSAT, mobile, paging, and Internet.

(a) VSAT Services

In 1988, Samart Telcoms Co., Ltd. signed a concession contract with the Post and Telegraph Department (PTD) to operate audio-video data transmission service via satellite using very small aperture terminal. With transmission via satellite, VSAT services were aimed at providing faster one-way and two-way voice/data/image communications. They were ideal for businesses that required link-up between headquarters and branches.

(b) Paging Services

Samart Paging Co., Ltd. was established in 1995 to provide a paging service under the name Postel. The 20-year concession was granted to Samart by the PTD.

(c) Internet Service Provider (ISP)

In 1996, Samart set up Samart Infonet Co., Ltd. to act as an Internet service provider. Samart Infonet Co., Ltd. was one of the 16 companies to receive a concession to operate the Internet services from CAT. Samart Infonet Co., Ltd. was subsequently appointed the distributor of the Netscape Navigator software.

(d) Cellular

Samart became Thailand's 4th mobile phone operator. The new mobile service, called "Digital Hello" was launched in May 1998. Despite an increasingly competitive market, Samart believed that the current cellular phone penetration of two per cent provided room for an additional operator. The Group was forecasting to have 15 per cent of the market share by 2003. Nonetheless, the mobile business was divested in 1999.

(e) Other Telecommunications Services

In 1996, Samart Communication Service (SCS), a subsidiary of Samart Telcoms was granted a ten-year concession to install and operate public telephones in rural areas. Known as the Rural Telephone Project, it was aimed at expanding telecommunications into villages in accordance with the 7th National Economic and Social Development Plan. The project covered 978 telephone sites in 1477 villages. In spite of a large investment of Baht 1.6 billion, the project was considered attractive primarily because of the guaranteed income from TOT of some Baht 5 billion during the project life. The project was estimated to produce an operating profit margin of around 60 per cent, with the majority of the cost being for satellite network and the rental of satellite transponder (SCB, February 1997). The rural telephone services would have a great impact on the structure of revenue contribution by SAMTEL, which in priority relied primarily on the VSAT business. The business was envisaged to contribute to one-third of SAMTEL's total revenue.

Despite Samart's comparatively modest expansion into telecommunications services, the sector was seen as strategic to the Group's future. Its diversification into telecommunications services was said to have put Samart on the right track (Sirichai Rasameechan, executive vice-president, The Nation, 6 September 1996).

5.4.3.4 Hypothesis II: Rationale behind Diversification into Telecommunications

The Samart Group has been operating in Thailand for around 50 years. But in contrast to many Thai companies, Samart's diversification appeared to evolve around its know-how in communications "transmission". In this section, I will discuss whether the Group's diversification from telecommunications equipment into telecommunications services was actually driven by its technological capabilities? Or were such capabilities superseded by other industry non-specific resources in terms of importance to diversification strategy?

The main focus will be on Samart's entry into its first major telecommunications business, i.e. the VSAT business. However, I will draw on other telecommunications businesses, particularly the paging and mobile businesses. The focal point of the discussion will be on the relative importance of industry non-specific resources (such as financial capital, political connections, reputation and general management) and industry specific resources (such as technologies and industry knowledge).

(a) Financial capital

The first major telecommunications business which Samart diversified into was VSAT. In comparison to mobile, fixed-line telephony and, to a lesser extent, paging, VSAT required a relatively lower investment. The investment of VSAT by Samart was estimated to be in the range of Baht 10-20 million, compared to the Baht 60 billion for CP's fixed line telephony and Baht 500 billion for Shinawatra's mobile, paging and satellite businesses. But this does not mean that financial capital was not important to Samart's diversification decision.

All of Samart's executives commented that financial capital played a very strong role in Samart's diversification strategy. But unlike CP where its abilities to raise funding resulted in its diversification into highly capital intensive fixed-line business, Samart's weaker financial capabilities led Samart to forego a number of businesses (Dr. Dheera Phong-anant, senior director). Although these businesses were directly linked to its technological know-how in telecommunications transmission, the capital requirement for the fixed-line telephony was beyond Samart's capabilities (Julpas Kruesophon, vice-president). As confirmed by Sukanya Vilailuck, director, Samart was comparatively weaker than its competitors in terms of financial capabilities. Hence, in spite of its focus on satellite business, Samart never became involved in a highly lucrative satellite network construction and operation. An operation of the satellite network would have provided a valuable integration to its various satellite related businesses (Sukanya Vilailuck, director). In the end, Shinawatra became the sole operator of Thailand's satellites.

Additionally, in spite of a rush by various companies to obtain lucrative concessions, such as fixed-line, mobile and paging businesses, Samart only had one concession, i.e. VSAT. The importance of financial capital and Samart's lack of it explains why Samart did not expand into other telecommunications services during 1989 to 1995. According to Rongroj Sriprasertsuk, chairman, TOT's Board of Directors:

"Despite Samart's involvement in telecommunications for 50 years – the longest of all the existing telecommunications companies in Thailand, the Group's lack of finance meant that they missed the opportunity to become a fixed-line operator".

Samart's small base of financial capital can perhaps be explained by Samart's reluctance to dilute the control of the family business. According to Sukanya Vilailuck, director and family member, the founder of Samart did not like the idea of raising additional capital through the capital market. As a result, Samart decided not to bid for the fixed-line telephony and satellite concessions. However, the family members succeeded in convincing the founder. Hence, Samart Corporation Plc. was in 1993 listed on the Stock Exchange of Thailand, raising its registered capital from the initial Baht 5 million to Baht 800 million. This explains why it was not until 1995 when Samart started to aggressively expand into other

telecommunications services, including paging services, Internet, and mobile phone services. With the injection of new capital, Samart diversified into paging and mobile in 1995. This provides support that Samart viewed financial capital as a very important part of their business expansion decision.

(b) Political connections

Samart has long held strong relationships with the army, political parties/individuals, as well as public organisations (Julpas Kruesophon, vice-president). As a result, the Group businesses undertook a number of high profile telecommunications system projects (Sirichai Rasameechan, chief executive and president). Revenue generated from the public sector accounted significantly for the Group's total revenue.

Dr. Dheera Phong-anant, senior director, commented that:

“Samart diversified into VSAT, partly because it could make use of its connections”.

Not only did Samart receive the first concession granted for VSAT, the terms of the concession were also more favourable compared to those granted to other companies. For instance, Samart's contract had a longer period of concession and it was subject to the lowest revenue sharing arrangements. Because the VSAT concessions granted by PTD only included data communications, Samart utilised its relationships with TOT – hence Samart was able to also offer voice and image on its VSAT services.

Its connections with the PTD could also be seen by the subsequent concession to operate paging services, Postel. The PTD initially differentiated Postel from other paging services in that Samart was restricted to serve the civil servants of state enterprises and government agencies only. As a result, Samart was allowed a royalty fee waiver, hence able to price its services below most of its competitors. Whilst most of the paging operators priced their monthly subscription fee at Baht 450-470, Samart's subscription fee was Baht 280. This resulted in Samart's rapid increase in market share. On the ground of unfair competition, other operators successfully negotiated with their concessionaires to lower the revenue sharing arrangement and hence the subscription fee. In response to this, Samart successfully lobbied to lift its restriction of customer segment to cover the general public.

These evidence show that political connections played an important role in Samart's diversification. As put by Sirichai Rasameechan, chief executive officer and president:

“Know-who” was as crucial as know-how in the Thai telecommunications industry”.

Outside Thailand, Samart also have established strong relationships with the public sector in other countries in Asia, as shown particularly by its strong position in Cambodia (sources requested not to be named).

(c) Reputation

Despite Samart's small business portfolio, the Group commanded a reputation for innovativeness and expertise, particularly to public organisations, corporate and selected segments of consumers (Sukanya Vilailuck, director). The reputation with the public organisations and corporate was established through Samart's telecommunications systems and engineering businesses. Satellite dishes provided Samart with a good reputation with the middle or upper end of consumers.

Samart utilised such reputation efficiently by diversifying into the VSAT businesses which were aimed at financial institutions and large companies (Sirichai Rasameechan, chief executive and president). Because of Samart's work with the public sector, Samart was well-perceived by many state enterprises. Reputation represented a valuable resource base for Samart to diversify into another business (Wichien Naksrinual, vice-president, TOT).

Although feedback from Samart's executives and executives from the public organisations suggest that Samart's reputation was well utilised through its entry into VSAT, the evidence regarding financial capital and political connections suggest that even though Samart would want to utilise its reputation when considering its diversification strategy, the importance of financial capital and political connections exceeded that of reputation.

(d) Management capabilities

From a repair shop in the province, the founder of Samart pioneered the first satellite dish manufacturing in Thailand. The second generation, led by Thavatchai Vilailuck, the Group's vice-chairman, pioneered Samart's diversification into telecommunications services after seeing a decline in Samart's market share and profit margin in the manufacturing and distribution business. Though smaller than other telecommunications companies, Samart boasts its entrepreneurial and capable leaders including both the first and second generation (Sethaporn Kusripitak, director general, Post and Telegraph Department).

In comparison to many Thai telecommunications groups, Samart was considered family oriented. This resulted from a lack of professional managers at the top management level. Following a retirement of the founder, the two sons, Charoenrath and Thavatchai Vilailuck assumed the positions of Chairman and Vice Chairman, respectively. Out of the five children, four were currently working with Samart. However, with a move to transform the Group into a professionally run firm, two outside professionals were hired as the President and Chief Executive Officer in 1996.

The capabilities of Samart's management in its entry to VSAT can be seen by Thavatchai's role in the diversification. As mentioned by Thavatchai Vilailuck, vice-chairman, himself, "I saw an opportunity in the VSAT business, and subsequently conducted the feasibility study, contacted potential customers, and finally obtained the licence". This led to Samart's being granted the first VSAT concession. The strength of the Group rests with its management which was always more comfortable in dealing with new and innovative products which did not require large investment (Dr. Dheera Phong-anant, senior director).

Samart initiated various projects to strengthen its business, including market segmentation, as well as horizontal and vertical integration. In 1988, it established Samart Satcom Co., Ltd. to serve the mass market solely, leaving Samart Engineering Co., Ltd. to concentrate on large satellite dishes for specific orders. Samart also horizontally expanded its business into the production of a wide spectrum of antennas. In 1994, the Group began to manufacture and distribute antennas for various uses, including television, radio, cellular phone and car. This was done through a joint venture with Katherein AG of Germany. Recognising the importance of raw materials, Samart began to vertically integrate by acquiring Print Circuit Co., Ltd., a manufacturer of printed circuit boards which was one of the components used at

Samart manufacturing units. The Group enhanced its technological capabilities through its own research, design, and development facilities of satellite dishes. With Samart Research and Development Co., Ltd., the Samart Group remained one of a few Thai companies to have its own research and development facilities. In 1995, an additional research company, SamartTech R&D was set up in San Francisco, though this was subsequently closed.

Hence this evidence suggests that Samart's management capabilities played an important role in its business expansion. These capabilities led Samart to enter into VSAT and other businesses. Nonetheless, it was perhaps Samart's lack of strong management capabilities that left Samart out of many lucrative telecommunications businesses. For instance, seven years after its first entry into telecommunications services, Samart became the 6th paging operator in Thailand. Being a late entrant, Samart faced strong competition. In addition, whilst paging was seen as the key telecommunications service in the early 1990s, by the time Samart entered the market, paging was on the decline. It was mobile services which became the high growth service. This perhaps suggested Samart's inability to foresee the changes in the industry.

Similarly, Samart became a late entrant into the mobile business. Although CP was also a late entrant into the sector, CP teamed up with one of the largest mobile operators in the world, Orange/France Telecom. Such alliances resulted in Orange sending a large number of staff to head the Thai operation, these included the chief executive officer, the chief operational officer, and others. Nonetheless, Samart decided to go alone. Because it was not successful in marketing the service, Samart subsequently had Telekom Malaysia as its shareholder. Samart was the major shareholder of a 59 per cent stake. Telekom Malaysia held a 33.3 per cent stake. Nonetheless, the business was not successful, resulting in the sale of the business to Shinawatra.

All in all, although the management showed the ability to foresee the opportunities in the lack of telecommunications services by its early entry into VSAT, Samart's management has not been successful in spotting the opportunities for other telecommunications services.

(e) Industry specific resources

The Samart Group was one of a few Thai companies to have its own research and development facilities. Even the two state enterprises did not have their own telecommunications technology (Sawait Santanond, senior executive vice-president, Communications Authority of Thailand). This was primarily achieved through the Group's focus on transmission business and its determination to enhance its know-how (Sukanya Vilailuck, director). In 1994, Samart Research and Development Co., Ltd. was established to carry out technological research on telecommunications and information technologies. The Group also set up SamartTech R&D in the USA to carry out research and development of telecommunications technology in 1995. Were Samart's diversification decisions influenced by its technologies and transmission know-how?

Samart revealed that although the Group's own technology in transmission was the main factor influencing it to enter into satellite manufacturing business, such capability played no such role in its

diversification into telecommunications services. This was because Samart learnt that relying on its own technology provided no sustainable competitive advantage. For its satellite manufacturing business, having their own technological capabilities initially provided Samart with the competitive edge in terms of lower operating costs in comparison to competitors, nonetheless, such advantages slowly disappeared following our competitors' alliances with multinationals (Thavatchai Vilailuck, vice-chairman). Rongroj Sriprasertsuk, chairman of TOT's Board of Directors, confirmed that despite Samart's attempts to develop its own technologies, Thai companies, including Samart still fell far behind companies in the advanced economies and therefore would find it difficult to compete on technology.

As a result, Samart did not consider technologies as the main factor in its diversification into VSAT, mobile and paging. And in fact, Samart admitted that the Group still relied on imported equipment and technology (Dr. Dheera Phong-anant, senior director). Similarly, despite Samart's strength in the industry knowledge and experience of its human resources, Thavatchai Vilailuck, vice-chairman, commented that skills required to operate the network integration business were different from skills required to market telecommunications services. In addition, aggressive expansion of telecommunications companies had resulted in a large number of personnel departure. Thus similar to many diversifiers, Samart was faced with the same problem i.e. a lack of skilled human resources. As commented that Julpas Kruesophon, vice-president:

"Because technology and human resources could be transferred outside a firm's boundary, they provided no real sustainable competitive advantage and therefore technology and industry knowledge were not the most important factors influencing our diversification decisions".

The evidence so far shows that Samart possessed technological capabilities and experiences in telecommunications equipment and systems. Although these resources influenced Samart's diversification into telecommunications services, they were not the most important factor. For Samart, financial capital and political connections were the primary factors in deciding whether to diversify into certain businesses. Reputation appeared to play some, but not the most significant, role. Whilst management capability influenced Samart to diversify into VSAT, it seems that Samart lacked the management capability to foresee industry trends. As a result, Samart's diversification into mobile and paging were not successful. All in all, the evidence suggests that some of Samart's industry non-specific resources were key to their diversification decisions. These resources exceeded the role of technology and industry knowledge. This supports Hypothesis II.

5.4.3.5 Hypothesis III: Direction of Diversification

The question here is if general resources, such as political connections and financial capital were the basis of Samart's diversification, what made Samart choose to diversify into VSAT, mobile and paging? To answer this question, I will consider two additional factors, namely inter-firm collaboration and industry attractiveness. First, I will provide Samart's perception of industry attractiveness. Second, I will analyse the empirical evidence from Samart as well as from the secondary data on how inter-firm collaboration played a role in Samart's entry in telecommunications.

(a) Industry attractiveness

At the time of Samart's diversification in 1988, Thailand faced a bottleneck in its communications network, including data transmission over fixed network required by corporate customers. The lack of telephone network was particularly evident outside the capital area. Hence, Samart foresaw a potential demand for data transmission via satellite, i.e. VSAT services. This was aimed at providing corporate customers with communication links between headquarters and branches outside Bangkok. This drove Samart to conduct a feasibility study. Based on discussions with potential clients and the public organisations, Samart projected a favourable demand for VSAT services. Thavatchai Vilailuck, vice-chairman, who pioneered Samart's diversification revealed that demand was the most important factor which encouraged Samart to enter into the VSAT business.

Besides the potential demand, a lack of supply and competition in the VSAT business was another factor which made the business attractive, and formed one of the factors which led Samart to diversify (Thavatchai Vilailuck, vice-chairman). Being the first in the industry meant that Samart could respond to the unmet demand. Furthermore, a typical three-year contract of the VSAT services signified the first mover advantage which overshadowed possible threats from the low barrier to entry (Sirichai Rasameechan, president). Sukanya Vilailuck, director, shared a similar view regarding the attractiveness of VSAT:

"The attractiveness of VSAT was the result of a relatively low investment cost, growing demand and a lack of competition".

Sirichai Rasameechan, chief executive officer, commented that:

"External factors, leading to industry attractiveness were very important because of their uncontrollable nature whereas resources and capabilities were controllable as they might be acquired".

The importance of industry attractiveness to Samart's diversification decision was also illustrated by the following. Samart's weaker financial capabilities meant that the Group failed to get involved in the other telecommunications businesses which required a large amount of funding, such as fixed-line, mobile, paging, and satellite. Nonetheless, these businesses represented a high level of attractiveness, in terms of revenue and profitability. As a result, Samart decided the capital market could provide the funding. Despite the objection from the founder, Samart's second generation of management successfully convinced the founder that Samart needed to raise capital in order to have sufficient financial capabilities to operate in other telecommunications businesses. The listing decision was subject to much debate within the family but finally, it was agreed that strong financial capabilities were key to moving Samart forward (Sukanya Vilailuck, director). As a result, Samart Corporation was listed on the Stock Exchange of Thailand in 1993. This raised Samart's registered capital from Baht 5 million to Baht 800 million. Thereafter, Samart entered into the paging and mobile businesses. This shows that despite Samart's financial constraints, the attractiveness of the industry ultimately influenced its diversification patterns.

The importance of external factors was also illustrated by Samart's expansion into regional countries whose telecommunications markets exhibited strong growth, but little competition. This led to its expansion into countries, such as Cambodia and Myanmar. These two countries were seen as having relatively fewer competitors compared to Vietnam and Laos (Thavatchai Vilailuck, vice-chairman). For instance, Samart entered into Cambodia as there were only 4,000 telephone lines in the country, and hence there was a potential demand growth. Cambodia was the first overseas market which Samart entered. Cambodia Samart Co., Ltd. was also established in 1992 to distribute telecommunications and electronic equipment, as well as, provide services related to television aeriels, satellite equipment, and mobile phones. Through a 35-year concession, Samart currently held a 50 per cent market share or 15,000 mobile phone subscribers. Two years later, the company entered the Burmese market by undertaking the design and installation of telecommunications systems and also a distribution of telecommunications equipment. According to Amrung Sriboonlert, executive vice-president of Samart Corporation, Samart was looking to repeat its mobile phone success in Cambodia into Myanmar also. Myanmar still lacked the cellular infrastructure hence making it the most attractive market in Indochina, after Cambodia (Manager, 6 March 1997, p. 17). In 1995, Samart entered the Malaysian market by distributing telecommunications equipment, undertaking telecommunications services, and installing centralised television systems in Malaysia.

Although, Samart possessed certain resources that could be utilised in telecommunications, the industry attractiveness was very important to its decision to enter the VSAT business. Thavatchai Vilailuck, vice-chairman, commented that:

"Telecommunications services were regarded as very attractive since they offered opportunities for Samart to move away from declining businesses".

Owing to a declining market share in its manufacturing and distribution business, Samart's diversification was aimed towards businesses where there was a predictable and growing income stream (Sukanya Vilailuck, director). Hence industry attractiveness played the major role in Samart's diversification.

(b) Inter-firm collaboration

In spite of Samart's policy of concentrating on utilising resources which it had, an inter-firm collaboration formed a crucial part of its business development. Samart undertook various forms of alliances with overseas, as well as local firms. These alliances were primarily aimed at gaining commercial strengths, and to a lesser extent, technical strengths. But compared to CP, Samart's inter-firm collaboration appeared less extensive (as shown below). This could be explained by the fact that Samart operated less number of businesses as well as less number of companies.

Table 5.4.3.2: Samart’s Inter-firm Collaboration

Activities	Business	Country of Business	Partner(s)/Collaborator(s)	Origin of Partner(s)/Collaborator(s)
Manufacturing and distribution	Aereal manufacturing and distribution	Thailand	Ray DX	USA
	Satellite dish manufacturiing and distribution	Thailand	Katherein AG	Germany
	Antennas for television, radio, cellular phone	USA	Print circuits (acquisition)	USA
	Print circuits			
Telecoms services	Mobile	Thailand	Telekom Malaysia	Malaysia
	Internet	Thailand	Communications Authority of Thailand	Thailand
Computing and others	Computer production	Thailand	Computerman	Thailand

To enhance the Group’s capabilities in the manufacturing of various types of antennas, Samart entered into a joint venture with Katherein AG of Germany and Equipment Print Circuit. In horizontally expanding into the sieve-type satellite dishes, Samart obtained both the technology and brandname from the licensing arrangement with Ray DX of the USA (Sirichai Rasameechan, chief executive officer and president).

According to Dr. Dheera Phong-anant, senior director, Samart’s diversification into distribution of computer hardware and software was initiated through discussion with its current joint-venture partner, Computerman Co., Ltd. Without inter-firm arrangement, the Group was unlikely to enter into the business. To leverage its commercial strengths, Samart also teamed up with Shinawatra in the distribution of satellite dishes (Sukanya Vilailuck, director).

Inter-firm collaboration was an important factor in determining the direction of diversification partly because local business groups did not have certain resources required to operate in the industry. These resources were specific resources such as technology and industry knowledge. For those companies with some specific resources (such as Samart with its transmission technology), these specific resources did not guarantee a sustainable competitive advantage. Samart admitted that their knowledge and technological capabilities related to telecommunications did not lead to a sustainable competitive advantage (Thavatchai Vilailuck, vice-chairman, Samart). Although Samart could utilise some of its human resources in telecommunication services, the company experienced a high staff turnover, resulting from an aggressive recruitment of other diversifiers. Furthermore, Samart’s cost advantage derived from using its own telecommunications equipment evaporated when faced with competitors with an economy of scale.

Despite Samart’s technology and experience in telecommunications equipment and systems, the evidence above shows that its technology and experience did not ultimately influence Samart’s diversification. If that was the case, Samart would have probably diversified into satellite business. Resources such as financial capital and political connections were very important to Samart and it influenced Samart’s pace as well as direction of business expansion. But despite Samart’s constraints in financial capital, the attractiveness of mobile and paging was so important that Samart subsequently listed its company on the Stock Exchange to raise the capital required to fund such diversification. Because Samart had some knowledge of technology, the role of inter-firm collaboration was not that prevalent. All in all, the evidence supports Hypothesis III.

5.5 Results of the Hypotheses

5.5.1 Hypothesis I: Pattern of Diversification

For Hypothesis I, I propose that:

The important role of industry non-specific resources in the emerging market countries means that large business groups have a wider scope of diversification. As a result, a majority of these business groups tend to diversify into less closely related areas.

In this section, I will summarise the findings on the pattern of diversification of Thailand's 20 largest business groups, in comparison to other advanced economies and emerging economies.

My analysis shows that business groups were significant to Thailand's economy. I also show that the majority of the large Thai business groups operated in a number of less closely related businesses, in terms of technologies and market.

The comparison with Whittington's study shows that Thailand had a higher proportion of business enterprises classified as Unrelated Business compared to France, Germany and the UK. Nonetheless, it was interesting that Thailand only exceeded France when both the proportion of Unrelated Business and Related Business were taken into account. One speculation could be that once diversified, the Thai business groups drew no boundary between "Related and Unrelated Business". This suggested that the factors used as the basis for diversification tended to be those, which were not business/industry constrained. I, however, recognise that due to the time differences between my study and Whittington's study, my analysis above could not be directly compared with Whittington's study. Nonetheless, I believe it provided some useful indicative comparison.

It has not been possible to find a direct comparison regarding the pattern of diversification in the emerging economies. Nonetheless, numerous studies acknowledged an important role of business groups. Moreover, there are a number of studies which found that business groups in the emerging markets operate in many less closely related business activities.

All in all, my findings provide some confirmation to Hypothesis I. It shows quite a contradictory result to Whittington's study (1999) that "Related Business" strategy dominates corporate strategy. Unlike the UK, France and Germany, "Unrelated Business" dominates the strategy of the Thai business groups. My findings, however, lack insight into the stability of the "Unrelated Business" category.

Whilst the findings by Whittington (1999) show that the Chandlerian model stands up well to the test of time and place in terms of the success of the favoured strategies of related diversification, my findings raise some doubts if this favoured strategy can in fact be regarded as universal. My findings support an increasingly recognised view that studies from certain business environments may not be replicated to another. As commented by Greif (1994), "it is misleading to expect that a beneficial organisation in one society will yield the same results in another". This is indeed stressed by both Whittington (1999) and Teece, et. al (1994) that selection environment differs and this needs to be specifically taken into account.

Although I acknowledge that my analysis was not based on a full set of information, nonetheless, this reflected the availability of information commonly found in many emerging market countries. My findings provided some initial findings useful in constructing the general theory of diversification. And no doubt, further research would be useful in developing this theory further. Suggestions for future research are discussed in Chapter 6.

5.5.2 *Hypothesis II: Rationale of Diversification*

For Hypothesis II, I propose that:

Resources and capabilities with a low level of industry specificity are more influential determinants than those with a high level of industry specificity in the diversification in emerging market countries.

In this section, I will summarise the feedback from the three case studies. I will also analyse feedback from other companies diversifying into the telecommunications industry, as well as public organisations who were responsible for granting the telecommunications concessions to these companies.

The feedback from the three cases shows that political connections were important to the three companies' decisions to diversify into telecommunications. They had the political connections and they recognised the importance of utilising them in telecommunications. These connections made it possible for them to enter the industry. The fact that a number of former public officials sat on these companies' board of directors today suggests that political connections were not only important to the initial decision to enter but also the continuing operation of the business.

The ability to raise funding influenced the diversification patterns of CP and Samart. The evidence for Shinawatra was, however, less clear. CP recognised the financial burden of its entry into the fixed line telephony. Nonetheless, the high investment required was one of the factors which influenced CP to go into the business because CP viewed this as favourable in terms of having a high barrier to entry. Samart also saw financial capital as essential to its diversification decision. However, Samart's lack of finance meant that it was not able, in the beginning, to move into many telecommunications businesses. For Shinawatra, the evidence of the consideration regarding financial capital appeared less convincing than the consideration of other resources, particularly political connections and general management capabilities. Hence I concluded that finance did not play a key role in Shinawatra's diversification decision.

Corporate reputation influenced CP to diversify into telecommunications. For Shinawatra, reputation appeared to, at least initially, play a minor role in Shinawatra's diversification. At that time, Shinawatra was relatively unknown. Although Samart had reputation in transmission and was known to corporate customers and public organisations, it appeared that other resources, such as financial capital and political connections were more important than reputation in Samart's diversification decision.

Although all three companies agreed that general management capabilities, such as entrepreneurial vision and the ability to successfully execute the business drove the companies to diversify into the telecommunications industry, the evidence seemed to suggest that such capabilities were stronger in CP and Shinawatra, than Samart.

Despite the perception of Shinawatra and Samart's technology and relevant experience, the two companies admitted that they were not the main consideration for their diversification patterns. Shinawatra did not have any

technology or industry knowledge related to telecommunications. The Group's involvement in computers was mainly to act as the distributor for IBM. Moreover, technology and industry knowledge used in computers could not be applied to telecommunications. However, Samart was different. Samart had capabilities in transmission technology. But although the Group would like to utilise such capabilities, it realised that technologies possessed by Thai companies would not provide a sustainable competitive advantage, hence they were not considered the prime factor influencing Samart's diversification. For CP, these resources were not important to the diversification at all. CP did not have such resources, nonetheless, CP believed that these resources could be acquired through some strategic alliances.

Although not all types of industry non-specific resources were important to the diversification decision of CP, Shinawatra and Samart, the feedback from these three companies showed that all of the industry specific resources such as technology and industry experience did not have any significant role in the decision process. Hence it supports the role of industry non-specific resources in their diversification. The quotations below summarise their feedback:

CP

"CP's most valuable resources are its management and their capabilities to select and adopt foreign know-how while producing better results at a lower cost...many of CP's diversification are implemented through strategic partnership arrangements where CP provide the financing, the market knowledge, necessary connections, to name but a few, while the foreign partners provide technology and expertise".

(Dr. Veerawat Kanchanadul, chief financial officer, CP).

Shinawatra

"Much of Shinawatra's success today is owed to its founder. And indeed, Shinawatra's strengths lie with its top management team".

(Yinglak Shinawatra, vice-president, Shinawatra)

"Despite the perception of the technological relatedness between Shinawatra's computer and telecommunications businesses, the Group relies on the technical know-how obtained through various forms of strategic alliances".

(Chirdsak Kukiattinun, former employee, Shinawatra).

Samart

"The role of financial capabilities is so significant that Samart decides to forego diversifying into certain businesses even though there is clearly a technological synergy to be gained...technology provides no real sustainable competitive advantage as it can be acquired from foreign companies".

(Thavatchai Vilailuck, vice-chairman, Samart)

Feedback from other diversifiers also supports the views of the three case study companies. Most companies regarded political connections and financial capital as the crucial factors which influenced diversification.

Although many companies acknowledged the importance of reputation and general management capabilities, those companies tend to be larger companies.

Regarding political connections, Italian-Thai agreed that they usually formed the critical role in the business analysis because they were a very important part of doing business in Thailand (Pathai Chakornbundit, executive vice-president, Italian-Thai). His view was supported by Jack Min Intanate, chairman and chief executive officer of SVOA. Similarly, Lenso acknowledged that the company had strong relationships with various organisations which could influence the regulations in the Thai telecommunications industry (Preeda Sriphong, manager, Lenso). Political connections were important because of the characteristics of business environment in Thailand and the telecommunications industry that everything depended on the government (Chitchai Nantapat, president, Loxly Paging, Loxley). Although some companies were reluctant to discuss the role of connections in their diversification, it was widely known that some companies strongly utilised their political connections to their advantage. For instance, Ucom's management team was known to have established strong relationships with some political parties. This resulted in Ucom's ownership of the largest frequency spectrum in Thailand.

Jack Min Intanate, Chairman and CEO of SVOA revealed that the company wanted to diversify into another industry partly because the company had large financial assets. He further commented that it was, at that time, very easy to borrow money in Thailand and because SVOA was big and well-established, most lenders were keen to provide loans to the company. Similarly, Grammy acknowledged that diversification was partly influenced by the excess cash in the company (Ian MacLean, vice-president, Grammy). Grammy in fact funded its diversification without raising the investment from external sources. For Loxley, financial assets were a key success factor because a company would not be able to compete with its competitors if it did not have strong financial assets (Chitchai Nantapat, president, Loxley Paging, Loxley).

Interestingly, the importance of reputation and management capabilities seemed to be acknowledged only by larger business enterprises. Reputation was important because it increased the possibility of acquiring assistance from foreign multinationals. Loxley was able to secure Hutchison as its strategic partner because of its reputation and past dealing with Hutchison (Suchin Suwanacheep, senior executive vice-president, Loxley). Reputation also helped to increase its credibility when being selected as a concessionaire. Although, SVOA did not have any telecommunications experience, the company had established a good reputation in Thailand. It was seen as one of a few companies with the potential to compete with multinationals such as IBM (Jack Min Intanate, chairman and chief executive officer, SVOA).

Vichu Charuchandr, executive vice-president, SVOA, suggested that it was in fact management capabilities and vision which drove SVOA to its current position. He elaborated that different management teams had resulted in SVOA's involvement in steel, real estate, and finally technology related businesses. His view was supported by the current chairman of SVOA, Jack Min Intanate, whose interest was widely known to be in technology related businesses. However, Jack suggested that SVOA had the management capabilities to identify profitable businesses.

Many of the diversifiers agreed that certain resources, particularly technology, were not seen as crucial to diversification because they could be obtained from external sources, such as strategic partners and suppliers (Dr.

Poosana Premanoch, honorary chairman, Ucom). All in all, the general view appeared to be that diversification was influenced more by the industry non-specific resources than industry specific resources.

Feedback from the public organisations responsible for awarding the telecommunication service concessions supports the key role of industry non-specific resources in the diversification. Although companies should be granted the telecommunications service concessions based on their previous experience, this is not always possible due to TOT's monopoly of the industry (Direk Charoenphol, former deputy minister, Ministry of Transport and Communications). Thus besides the proposed revenue-sharing arrangement, factors used to evaluate an award of concessions included financial capabilities, corporate reputation, management team, and strategic partner (Olarn Pientham, senior executive vice-president, Telephone Organisation of Thailand; Dr. Kittin Udomkiat, senior executive vice-president, Communications Authority of Thailand). Indeed, many executives of the state enterprises responsible for the awarding of concessions acknowledged that often, political connections were one of the most important criteria.

The proposed Hypothesis II aims at understanding the role of industry non-specific resources as strategic resources and how they influenced diversification patterns found in the emerging markets, such as Thailand.

The empirical evidence I obtained from interviews with executives who were involved in the diversification decision suggest that industry non-specific resources were more important than industry specific resources to the decision process of diversification. Though it must be mentioned that not all industry non-specific resources appeared to be important.

Many executives acknowledged the important role of industry non-specific resources. Interestingly, these resources appear to be considered as part of their normal business operation. These industry non-specific resources played a key role in their diversification because they recognised the following. First, industry non-specific resources provide competitive advantage because not all the companies have industry non-specific resources. Many industry non-specific resources tend to be accumulated by larger business groups over a long period of time. And these resources are important because they cannot be transferred from inter-firm collaboration with overseas companies. Second, for those companies that have these industry non-specific resources, they recognise that the non-specific resources can be utilised in a new business. Third, a lack of certain resources, such as technology and experiences, does not stop companies from entering into a new business because these resources can be obtained through inter-firm collaboration, e.g. strategic alliances, joint ventures, and technical support. And for the same reason, the regulators do not discredit local companies who lack these industry specific resources.

My findings support previous work on the importance of resources, such as tacit knowledge, management capabilities (Collins & Montgomery, 1988; Polyani, 1962), financial capital (Claessens, et. al., 1998), privilege market information (Arrow, 1984) and resources to overcome misguided regulations and information problems (Khanna & Palepu, 1997).

Because of the nature of research questions and the availability of information, I am not able to provide any quantitative analysis to support the hypothesis, however, I believe that the insights gained from detailed discussion with executives who were key to the diversification decision and process provide some confirmation

for the proposed hypothesis. The types of information obtained would not have been possible through quantitative research.

5.5.3 *Hypothesis III: Direction of Diversification*

Hypothesis III predicts that:

Diversification direction is a function of strategic resources, industry attractiveness and inter-firm collaboration. The less industry specific are a firm's strategic resources and the greater the potential for accessing industry specific resources through inter-firm collaboration, then the more important is industry attractiveness as a determinant of diversification direction.

The question here is if strategic resources are not industry-specific, and therefore companies are not constrained to utilise these resources in any industries, which industry would companies choose to enter?

In this section, I will summarise the feedback from the three case studies, as well as views from other companies diversifying into telecommunications and relevant comments from the public organisations responsible for allowing companies with no relevant experiences to enter the industry. I will also use the patterns of diversification of the 20 largest business groups in Thailand to support the role of industry attractiveness.

The executives from the three case study companies acknowledged their positive perception of telecommunications. They agreed that the industry attractiveness was the key factor leading to their diversification. Few common points were:

First, revenue and profitability played a vital role in the industry attractiveness and strongly influenced diversification. All firms agreed on the attractiveness of a steady, predictable and recurring income stream, resulting from communications services as a basic necessity. They strongly emphasised the attractiveness of increasing income derived from an expanding consumer base. Aware of the long payback period and the large investment, profitability was appraised from the long term perspective.

Second, a lack of supply to cope with the current and future demand made the industry attractive. Firms stressed the benefit of first mover advantage and entering the industry prior to liberalisation. This view was supported by Sethaporn Kusripitak, the director general of the PTD. He said that by entering the industry first, firms could cream skim the high-end and most profitable users.

Third, most firms analysed the industry attractiveness beyond the initial telecommunications service into which they diversified. The general view was that an entry into the business would provide them with credibility and negotiation power to obtain additional concessions, as well as for future vertical or horizontal expansion (Chitchai Nantapat, president, Loxley Plc.).

Lastly, some issues which could perhaps have an adverse effect on the industry attractiveness were either ignored, played down, or turned into advantage. This applied particularly to regulations and investment cost. All firms emphasised the positive aspect of regulations whilst omitting the possible negative impact. In the short-term, regulation opened ways for private firms to profit from this traditionally monopoly industry. However, no or little consideration was placed on the medium and long-term uncertainty. In addition, though intensive political lobbying could lead to a detrimental impact on the business operation, firms appeared to be confident

that it could turn this to its advantage. This pattern was also applicable to an analysis of investment cost. With the exception of Samart, firms were not concerned about the high cost of entry. Instead, they positively viewed the large financial investment required as positive and an effective entry barrier preventing newcomers from diversifying into the business.

In spite of variance in their size and the initial telecommunication service, all of the three case studies agreed that the role of the industry attractiveness exceeded that of other factors in the determination of diversification direction. For CP and Shinawatra, inter-firm collaboration provided the resources required to operate the business hence industry attractiveness took the prime role in the diversification decision. However, Samart was somewhat different. For Samart, industry attractiveness was important even though Samart did not have to rely on inter-firm collaboration to the same extent as CP and Shinawatra. But despite Samart's technological capabilities and some industry experiences, these resources did not form the most important criteria in their diversification. Still, industry attractiveness was the key factor.

Feedback from other diversifiers, as well as the public organisations also supports this view. SVOA Plc which diversified from its core activities in computer software into telecommunications revealed that financial capabilities and political connections were essential to their evaluation of diversification direction. Nonetheless, industry attractiveness was the most influential (Jack Min Intanate, chief executive officer, SVOA Plc.). Anant Voratitipong, president and chief operating officer, SVOA, explained that originally, SVOA looked at diversifying into telecoms equipment manufacturing but then decided to enter the telecommunications services because it was regarded as a "sunrise" industry, i.e. offering favourable demand growth and returns on investment. Profit was the most important factor. He further commented that when considering diversification, SVOA usually looked at the possibility of making profitable returns. If the industry was attractive then they would consider whether they had the resources to enter. But in the end, there would be no point in entering the industry where the firm had resources but the industry was not attractive. All in all, SVOA followed the Chinese business mentality that a company should go into any industry which had the potential of generating profit (Vichu Charuchandr, executive-vice president, SVOA).

Loxley Plc's senior executive vice-president, Suchin Suwannacheep acknowledged that the industry attractiveness was the most important as it was the key issue in which shareholders would be interested. When deciding on the diversifying target, Loxley looked at demand and profitability because these were the factors that shareholders would care about. Effective utilisation of resources was never the main goal of Loxley's diversification. Vasant Chatikavanij, executive vice-president, Loxley, further explained that diversification into the telecommunications industry seemed to be based on the logic of getting as many concessions as possible. Although some companies undertook the feasibility studies, others simply followed other diversifiers. Most firms did not consider whether they had the resources to operate in the industry. For Loxley, it was important that the company got into the market before the liberalisation. This was because of the potentially good returns of the industry. Although Loxley was involved in the trading of telecommunications equipment, it had no experience in telecommunications services (Chitchai Nantapat, president, Loxley Hutchison, Loxley). However, this was not seen as a barrier because Loxley could utilise the expertise of its strategic partner, Hutchison. Such

joint venture was a good example of the situation where a Thai company contributed financial investment whilst a foreign company brought in the expertise.

Mana Boonkhun, vice-president, Tanayong commented that the telecommunications industry was attractive because of a) high profitability, b) strong demand growth, and c) favourable industry structure. The industry did not require a lot of marketing because of the supply shortages. He said that the industry factors were the most important criteria for diversification as resources could be acquired. Tanayong's diversification into liquified natural gas also had the same diversification process and consideration.

For Lenso, industry factors were more important than resources because the external factors were not controllable. Once Lenso was in the industry then they would consider whether the company had the resources and how it could develop these resources. The Thai telecoms industry was very attractive. Globalisation meant that communications would become an important part of life. Thailand's penetration rate was very low and hence there was likely to be a strong market growth. The industry structure was attractive because there were only three paging operators (Preeda Sriphong, manager, Lenso).

Similarly Ucom acknowledged the attractiveness of the industry mainly because of its good returns and the shortage in supply (Dr. Poosana Premanoch, honorary chairman, Ucom).

For Thai Sky, the telecoms industry was seen as very attractive particularly because of the rising share prices of the earlier diversifiers. External factors were more important than internal factors when diversifying into the telecommunications industry because external factors, such as demand and supply were the key factors for any industry analysis and investment strategy (Pramutr Sutabutr, chairman, Thai Sky, Wattachak). He explained that there was no concern about the production side because the internal factors were flexible, i.e. they could be acquired externally (from foreign firms).

For Italian-Thai, profit potential of a diversifying industry was more important than resources (Pathai Chakornbundit, executive vice-president, Italian-Thai). Although, the company wanted to utilise its resources, it would not have diversified into the telecommunications industry if it did not think there was a potential for profitable returns. Hence industry attractiveness was the most important to its evaluation of whether to diversify into the business.

Olarn Pientham, senior executive vice-president, TOT commented that the business environment of the Thai telecommunications service industry where resources could be obtained through inter-firm collaboration, justified the prime role of the industry attractiveness in the determination of diversification direction.

All in all, the telecommunications industry was perceived as very attractive. This influenced companies to diversify into the industry. I will now look at the empirical evidence from a wider perspective to see if there exists any relationship between industry attractiveness and direction of diversification.

The analysis of the business activities of Thailand's 20 largest business groups shows that certain industries were more of the common target of diversification than others. As shown in the table below almost all of the 20 business groups have operations or associations in real estate and hotels, as well as finance, banking and insurance. Many business groups also viewed attractive industries to be telecommunications, transport and shipping, agri and agro business, and plastic and chemicals.

Without detailed analysis of each diversification entry, it is difficult to specifically rationalise the role of industry attractiveness in each diversification entry. Nonetheless, the table below suggests that business groups in Thailand did not just diversify into any industries. Some industries were more commonly seen as attractive than others. The attractiveness of real estate and hotels was likely to be driven by the fast economic growth rate and property boom in Thailand during the 1990s. Similarly, the liberalisation of banking and finance sector likely encouraged diversification.

Table 5.5.3.1: Industry Targets of Diversification by Large Business Groups in Thailand

	Real Estate, Hotels	Banking, Finance & Insurance	Telecoms, Internet	Transport, Shipping	Agri, Agro	Plastics, Chemicals	Retailing, Trading, Distribution	Computer, Office Equipment, Software	Mining, Natural Resources	Garment, Textile, Footwear Manu	Food, Bev Manu	Power	Warehousing	Liquor and Brewery	Construction Materials, Equipment	Media, Entertainment
The Asavabhokhin Family	1	1		1			1								1	
The Chearavanont Family	1	1	1		1	1	1							1		
The Chirathivat Family	1	1					1			1						
The Chokwatana Family	1	1								1	1	1				
The Darakananda Family	1	1				1		1		1		1				
The Euarchukiati Family		1		1		1			1							
The Lamsam Family	1	1	1				1					1				
The Laohathai Family	1			1	1	1		1					1			
The Maleenont Family	1		1													1
The Phatraprasit Family	1	1							1					1		
The Phornprapha Family	1	1		1					1						1	
The Ratanarak Family	1	1			1				1						1	1
The Shah Family	1			1			1				1		1			
The Shinawatra Family		1	1					1								1
The Sirivadhanabhakdi Family	1	1												1		
The Sophonpanich Family	1	1			1	1	1						1			
The Srfuengfung Family	1	1	1	1		1			1	1						
The Viriyaprapaikit Family	1	1	1	1	1			1		1						
The Wanglee Family	1	1			1	1					1					
The Wongkusolkrit Family	1	1	1		1			1			1	1	1			
Total	18	17	7	7	7	7	6	5	5	5	4	4	4	3	3	3

In summary, the views from the three case study companies support the important role of industry attractiveness. Another level of empirical evidence, i.e. the 20 business groups, also shows that companies did not just diversify into any industries. Some industries were seen as more attractive than others. These industries became the prime diversification targets.

The empirical evidence provides some support to Hypothesis III. This is also in line with the view that “most multinationals in South East Asia are management and investment companies not tied to specific products. Their procedure was to identify opportunities, recruit managers, borrow the money and then buy the technology through a joint venture” (The Economist, 1993).

Similar to Hypothesis II, the nature of research questions and the availability of information, I am not able to provide any detailed quantitative analysis to support the hypothesis, however, I believe that the insights gained from detailed discussion with executives who were key to the diversification decision and process provide some confirmation for the proposed hypothesis. Moreover, the analysis of the common industries found in Thailand’s 20 largest business groups also provide some support to the Hypothesis.

6 Conclusion and Discussion

6.1 Conclusion

Several decades of management experience and academic research have greatly increased our understanding of the causes and consequences of diversification. Nonetheless, there are two issues that limit the generalisability of the existing state of knowledge concerning diversification.

First, a majority of research on diversification direction is based primarily on samples of firms operating in North America and Western Europe. While this research has not generated results that are entirely consistent, it has resulted in a broad consensus of opinion that related—particularly where there is relatedness at the operational level—is superior to unrelated diversification. However, by basing general conclusions upon the results of studies undertaken in the advanced industrialised nations, we are in the danger of ignoring one crucial factor: the characteristics of firms and markets vary across countries. My research raises the question of whether findings based upon studies undertaken in Europe and North America necessarily hold in Asia?. Yet, diversification practice worldwide remains largely influenced by business logic deriving from studies of firms operating in advanced economies which, in some cases, cannot and should not be generalised.

Second, there have emerged a number of studies which have found positive performance results from diversification where there is little or no relatedness at the operational level. These studies have typically been interpreted as providing findings that are inconsistent with prevailing theory. In other words, there is a lack of a theory of diversification that is sufficiently general to encompass the range of empirical findings concerning the performance implications of diversification.

Taking these into account, diversification patterns into distant economic sectors by companies in the emerging market countries are often generalised as destroying corporate value. The research questions whether such generalisation may be based on a one-sided view of the world and it does not reflect the different and dynamic characteristics of business environment in many parts of the world?.

I believe my research has achieved its objective of using a resource-based theory to explain contrast patterns of diversification in the emerging market and advanced-market countries. The key is a) to recognise the different characteristics of resources in different parts of the world, and b) to understand that strategic resources do not depend on just availability of resources in the market and internal resources within the firm, but also the role of inter-firm collaboration.

Hence my research questions whether one type of diversification strategy is universally applicable?. To justify this view, the study develops and extends **a contingency theory of diversification** where *diversification strategy is an outcome not only of a firm's resource base and the characteristics of industries, but also depend upon the level of development and transactional efficiency of resource markets within the country and the role of inter-firm collaboration*. In showing that the diversification strategies observed in Thailand (and elsewhere in South East Asia and other parts of the developing world) are not anomalies, but are consistent with established theories of the determinants of diversification; this study provides a modest contribution to constructing a “general” theory of diversification.

6.2 Research Contributions

Despite the view that firms in the emerging market countries lack focus in its business expansion, the study has shown that many firms indeed practise a focus strategy through its diversification. The main point here is that they adopt a resource-focused strategy, rather than, a business-focus strategy. Companies in the emerging market countries focus on utilising their strategic resources (industry non-specific) by diversifying into an attractive industry and acquiring the highly industry specific resources required through inter-firm collaboration. Such diversification which focuses on the utilisation of resources (though, industry non-specific) therefore follows the resource-based view of the firm.

Furthermore, the study provides further evidence to support the fundamental role of national market environment on corporate strategy. Certain national market factors and strategic resources may play a greater role in diversification in one country than in others. This should partly explain the differences in the role of business enterprises in different countries. The scope of diversification for firms in the emerging market countries that possess industry non-specific resources is extended by their ability to partner with firms that do possess the industry specific resources that they require in order to enter a “distant” industry sector.

In addition, the study supports the previous findings on the existence of large business groups and their economic significance in many emerging market countries. This thus enhances our understanding of development of business entity in different business environment. This provides further understanding of an increasingly global business environment.

The study also urges practitioners to draw out the importance of the less frequently mentioned factors, such as inter-firm collaboration in the determination of diversification direction. Although, the industry non-specific nature of strategic resources creates value for firms in the emerging market countries, without inter-firm collaboration, much diversification which is of less operationally related is not feasible.

Although the study illustrates some justification for diversification in the emerging market countries, this does not imply that all diversification is justified. The task for managers is to correctly identify and utilise strategic resources in the industry where these resources provide valuable competitive advantage. In other words, the returns must be higher than the costs of utilising these resources within a particular environment. Even within the same market environment, one single diversification strategy is not finitely justified. Evolution in the business environment and a firm's resources means that diversification strategy cannot be assumed as static. A strategic consideration should therefore be revisited in accordance with the changes in business environment and the complex interrelationships among various factors, such as strategic resources, industry attractiveness and inter-firm collaboration. No one factor should be viewed in isolation. A small alteration in one factor can have a substantial impact on the overall business environment. Essentially, a firm's success relies greatly on its ability to reflect and foresee changes in the business environment and accordingly implement the appropriate strategy at the right time.

All in all, diversification into a business which may not be operationally related to the core business - a concept which has lost favour in many of the Anglo-Saxon countries – may make strategic sense in the business

environment of the emerging market countries. These countries exhibit an environment where markets for resources result in high transaction costs, where inter-firm collaboration signifies the inimitability of industry non-specific resources, and lastly where the industry attractiveness is high. Essentially, there exists a contingency theory in diversification strategy. The study addresses an important issue that business logic should not and cannot be generalised. Essentially, the same theory of diversification holds true in many cases, but the critical issue is whether the analysis of diversification rightly reflects the characteristics of markets for resources (i.e. transaction cost) and of strategic resources themselves (i.e. industry specificity).

6.3 Discussion

In the section, I will discuss the issue of relatedness, the generalisability of my research, and lastly, suggestions for future research

6.3.1 Relatedness

My study has shown that diversification into “distant” business sectors can, in some cases, create value. But this does not necessarily mean that diversification which does not utilise any resources can create value. The point here is whether the relatedness is measured correctly. I argue that any diversification which is based on economies of scope in resources and capabilities is related.

The essential point is that the nature and extent of relatedness differs according to different resources. Resources with fairly high level of industry specificity, such as production technologies and distribution systems, are often shared at operational level. However, resources, which are less industry specific, are usually transferred and often utilised at the corporate level. Many diversifications, particularly those in the emerging market countries which are based on industry non-specific resources therefore exhibit a certain degree of relatedness which occurs at the corporate level. But owing to the non-specific nature of such resources, the explicitness of such synergy may be less clear. Hence, it is more difficult to measure such benefits. But this should not lead to a conclusion that such diversification exhibits no relatedness. Relatedness should be measured at both corporate and operational levels, and by its degree, rather than by the conventional classification of related versus unrelated diversification. As a result, if diversification which has typically been referred to as “unrelated”, in fact possesses some degree of relatedness at the corporate level, then that diversification has the potential to create value. The study has illustrated this in the case of the Charoen Phokphand Group. Similarly, the seemingly operationally related diversification of the Samart and Shinawatra Group were in fact driven by the relatedness at the corporate level, i.e. by industry non-specific resources. The study therefore provides further evidence to support the studies which call for ways in which relatedness should also be defined and measured at the corporate level. This should bring some attention, particularly those from the managerial side, to recognise that fundamentally, relatedness should not be measured at the operational level only.

6.3.2 Generalisability of Findings

By using qualitative research, the question here is whether my findings and conclusions are generalisable to other industries and other countries.

As shown in the table below, my findings are based mainly on the three business groups diversifying into telecommunications. Nonetheless, I also looked at their diversification patterns into other industries, hence my

research is generalisable to other industries. By analysing the patterns of diversification undertaken by Thailand’s 20 largest business groups, my study is also generalisable to other companies and other industries. Although I did not use empirical evidence from other emerging market countries, my research supports the findings of other studies on the emerging market countries. Hence, my research provides some generalisability to the proposed theory.

Table 6.2.1: Generalisability of Findings

	Thailand: Three Case Studies	Thailand: 20 Business Groups	Other Emerging-Market Countries
Telecoms industry	Hypothesis II and III	Not relevant	Not relevant
All industries	Not relevant	Hypothesis I	My findings support other studies (see Chapter 2: Literature Review)

Some may argue that my comparison between firms in the advanced economies and business groups in Thailand is not based on the same basis. Whilst I acknowledge that this is not a direct comparison, I would argue that by using business groups in Thailand, I appropriately reflect the different ways of business organisations found in many emerging market and advanced-market countries.

I also recognise that my research lacks longitudinal data to understand the trends of diversification. Nonetheless, it is not the purpose of this research to understand the trends, rather, my research emphasises on developing the theory, which can explain the diverse patterns of diversification in different business environments. Once this is undertaken, I agree that it will be useful to conduct a longitudinal study to understand the changes in factors which influence diversification decision.

I acknowledge that whilst the qualitative research allows me to gain insight into the diversification decisions, my empirical evidence could be strengthened by quantitative data. But as explained in Chapter 4: Research Design, the quantitative data to address my research questions either do not exist or would be difficult to operationalise. It is difficult to measure perceptions of factors which determined the diversification decisions. Nonetheless, I believe qualitative data have provided me with evidence to provide some confirmation of the proposed hypotheses. I also use quantitative data where possible to provide some indirect support to my research.

6.3.3 Suggestions for Future Research

Because my research focuses on diversification decisions prior to the 1997 Asian economic crisis, it would be useful to compare the patterns of diversification and rationale for such diversification post the economic crisis. This is likely to reveal how changes in the business environment affect diversification decisions.

Although the industry non-specific resources play a key role in the rationale of diversification patterns in many emerging market countries, the ability to acquire and develop industry specific resources also influence performance of such diversification. Hence it may be useful to investigate into a proportion of companies in the emerging market countries which are able to develop and acquire industry specific resources. This should lead to our understanding of the factors which influence or prevent firms from doing so. Of those companies which are able to establish themselves in the new business territories, what is the timescale required to do so?

As discussed previously, the business environment is not static. If so, can we generalise the timescale in which the markets for resources develop in such a way that the transaction costs become minimal. In other words, what is the timescale in which diversification into distant business sectors in the emerging market countries is no longer an efficient way of utilising resources. Our understanding can be further enhanced if we can identify the industry non-specific resources which are more sustainable than others.

My research has focused primarily on the diversification from the perspective of companies in the emerging-market countries. As discussed previously, inter-firm collaboration makes many of the diversification in the emerging market countries feasible. It may be interesting to investigate further into the role of inter-firm collaboration from the perspective of foreign multinationals. What will be the impact on foreign multinationals if companies in the emerging market countries discontinue their diversification patterns? How will this affect the international expansion strategy of companies in the advanced countries? Will this lead to lower growth for multinationals or will this in fact lead to the liberalisation of such markets? And from the perspective of multinationals, what is the most appropriate strategy to enter a new national market; (a) through inter-firm collaboration which utilises the industry non-specific resources of the local firms, or (b) through a completely liberalised market?

7 Appendices

Appendix I: List of Interviewees

Companies	Respondents	Positions	
<i>Case Study Companies</i>			
1 Samart	K. Thavatchai Vilailuck	Vice chairman	*
2 Samart	K. Sukanya Vilailuck	Director	*
3 Samart	K. Sirichai Rasamichan	Chief executive officer	
4 Samart	K. Julpas Kruesopon	Vice president	
5 Samart	Dr. Dheera Phong Anant	Senior director	
6 Shinawatra	K. Chirdsak Kukiattinun	Former employee	
7 Shinawatra	K. Boonklee Plangsiri	Chief executive officer	
8 Shinawatra	K. Yinglak Shinawatra	Vice president	*
9 TelecomAsia	Dr. Vallobh Vimolvanch	Vice chairman, the CP Group	
10 TelecomAsia	Dr. Veeravat Kanchanadul	Chief financial officer, the CP Group	
11 TelecomAsia	K. Supachai Chearavanont	President	*
12 TelecomAsia	K. Kitti Kerati-thamkul	Vice president	
13 TelecomAsia	K. Ongarj Prapakamol	Vice president, UBC	
14 TelecomAsia	K. Chanin Chinarungsri	Assistant vice president	
15 TelecomAsia	K. Vison Garantararat	Assistant vice president	
<i>Other companies</i>			
16 Grammy	K. Ian McLean	Vice president	
17 Italian-Thai	K. Pathai Chakornbundit	Executive vice president	
18 Jasmine	Dr. Bandhit Rojarayanont	Chief executive officer	
19 Lenso	K. Preeda Sriphong	Manager	
20 Loxley	K. Chitchai Nantapat	President, Loxley Hutchison (Paging)	
21 Loxley	K. Sujin Suwanacheep	Senior Executive Vice President	
22 Loxley	K. Vasant Chatikavanij	Executive vice president	
23 Sahaviriya	K. Jack, Min Intanate	Executive chairman and chief executive officer	*
24 Sahaviriya	K. Anant Voratitipong	President and chief operating officer	
25 Sahaviriya	K. Vitchu Charuchandr	Executive vice president	
26 Tanayong	K. Mana Boonkhun	Vice president	
27 Tanayong	K. Sutham Siritipsakorn	Former employee	
28 Ucom	K. Poosana Premanoch	Honourary chairman	
29 Wattachak	K. Pramut Sutabutr	Chairman	
30 Requested not to be mentioned			
* denotes family members			

Public Organisations	Respondents	Positions
31 TOT	K. Rongroj Sriprasertsuk	Former chairman
32 TOT	K. Wichien Naksrinual	Vice president
33 TOT	K. Olarn Pientham	Senior executive vice president
34 CAT	K. Sawait Santanond	Senior executive vice president
35 CAT	Dr. Kittin Udomkiat	Senior executive vice president
36 CAT	K. Ormsin Chivapruck	Executive vice president
37 PTD	K. Sethaporn Kusripitak	Director general
38 PTD	K. Rienchai Riewilaisuk	Deputy director general
39 PTD	K. Tipsuda Charavejasarn	Director
40 MOTC	K. Direk Charoenpol	Former deputy minister
41 MOTC	K. Jatuporn	Director
42 MOTC	K. Kraison Pornsutee	Advisor
43 MCOT	K. Anya Uthai	Chief of corporation and network link
44 MCOT	K. Vittayen Saenghao	Chief of legal and contract
45 MCOT	K. Anirudh Thawema	Chief of personnel

TOT: The Telephone Organisation of Thailand
CAT: The Communications Authority of Thailand
PTD: The Post and Telegraph Department
MOTC: The Ministry of Transport and Communications
MCOT: The Mass Communications Organisation of Thailand

Appendix II: Introductory Letter

Date
Name
Position
Company name
Address
Address

Name

Subject: PhD Research - Rationale Behind Diversification Strategy

Diversification is indisputably one of the most widely-practiced growth strategies. Among various strategic issues lies the question in regard to factors which companies take into account when determining an industry to enter. An investigation into this important topic is currently undertaken as a *Ph.D. study* at City University Business School, London, UK. The researcher, Arreeya Chanurai is a former consultant at Coopers & Lybrand and was involved in a number of telecommunications assignments.

The study aims to provide a contribution to the existing knowledge in strategic management. In doing so, a strategic formulation process of diversification by companies currently operating in the Thai telecommunications industry is analysed. Being one of the most dominant players in the industry, a participation by *Company Name* in the study will undoubtedly provide a valuable knowledge needed to understand this complex issue.

By participating in the study, a summary of a rigorous analysis on determinants of diversification direction will be available to your company on request. Furthermore, a report on the general findings of the Thai telecommunications industry, which carefully safeguards the confidentiality of all individual participating companies will also be available.

I am therefore writing to seek your agreement to include *Company Name* in the study. I sincerely recognise a valuable contribution which you provide to this research. It will therefore be appreciated if you would agree to participate in the study. I will contact you in the next few days to take the matter further.

I thank you in advance for your kind co-operation.

Yours sincerely

Arreeya Chanurai

Appendix III: Interview Questions

Confirm list of telecoms business activities and year of entry

General Company Information

1. What is the main goal of the company's diversification into the telecommunications industry?
2. Do you see any link between your company's telecommunications business and the company's other businesses? Probe about synergy. Do you regard the diversification into the telecommunications industry as related or unrelated? Why? What determines relatedness?
3. Is the Thai telecommunications industry attractive? What makes the telecoms industry attractive in general? What are the most important factors? (Probe whether industry attractiveness depends on firm's ability to influence or manipulate external factors, if so how?)
4. Follow up on the question regarding a change in the industry attractiveness, whether it has changed, why or why not?

Relative Importance of Factors

5. Can you weigh the relative importance of the factors which influence to the company's move to diversify into the telecommunications industry? Probe about each factor.
6. Generally, which is more important: a utilisation of the firm's resources or the industry factors? Why?
7. Since the company has been operating in the industry for sometime, do you think this ranking (used to decide whether the firm should enter the industry) was appropriate? If not, why? What factors should be more or less important?
8. Is the weighting of the relative importance of factors the same when the firm considers diversifying into another industry? If not, why?

Performance

9. Is the company's continued expansion into other telecommunications businesses a product of its long-term strategy (drawn up since its initial diversification)? Or was it an opportunistic move to expand into other telecommunications businesses? - (some companies only)
10. Has the diversification into the industry been successful? Why or why not? Probe on the effect of each factor, e.g. how important is having previous telecom experience? Do firms with prior experience perform better than those without? What is the role of each resource?
11. What are the company's strengths and weaknesses in comparison to other telecoms companies?
12. How important is the telecoms business to the overall group's business? Probe on the proportion of profit generated by the telecoms services business?
13. Regarding the industry liberalisation, what will happen to the present telecoms companies and your company? Are there any advantages or disadvantages of having been operating in the industry prior to the liberalisation?
14. Are firms that focus on a few core business activities likely to perform better in the long run than those with many unrelated business activities? Why or why not?

Other Remarks

Appendix IV: 150 Thai Business Groups

Source: The 2001 Unique Guide to Thai Business Groups, The Brooker Group

- 1 - The Adireksarn Family (Thai Textile/TTL Industries Group)
- 2 - The Adisayathepkul Family (Thai International Products)
- 3 - The Areecharoenlert Family (Pakpanang Coldstorage Group)
- 4 - The Asadathorn Family (Thai Roong Ruang Group)
- 5 - The Asavabhokhin Family (Land and Houses/Quality Houses Group)
- 6 - The Assakul Family (Ocean Insurance Group)
- 7 - The Asvinvichit Family (Seng Thong Rice Group)
- 8 - The Baiyoke Family (Baiyoke Tower Group)
- 9 - The Bencharongkul Family (UCOM Group)
- 10 - The Benedetti Family (Italasia Group)
- 11 - The Bhiraleus Family (Broadcasting Network Group)
- 12 - The Bhirom Bhakdi Family (Boon Rawd Group)
- 13 - The Bodharamik Family (Jasmine Group)
- 14 - The Bodiratnangkura Family (Thai Melon Group)
- 15 - The Boondicharern Family (Univest Land Group)
- 16 - The Boonnamsap Family (Thai Textile Industry Group)
- 17 - The Boonsoong Family (Boonsoong Group/Tri Petch Isuzu)
- 18 - The Bulakul Family (Mah Boonkrong Group/Chokchai Group)
- 19 - The Bulsook Family (Serm Suk/McThai Group)
- 20 - The Burapachaisri Family (Metro Machinery Group/MEC Group)
- 21 - The Chaisinthop Family (TN Group)
- 22 - The Chaikawan Family (Thai Life Group)
- 23 - The Chansiri Family (Thai Union Group)
- 24 - The Chansrichwala Family (Siam Vidhya Group)
- 25 - The Chantrasmi and Kovitya Families (Phithan Phanich Group)
- 26 - The Charnvirakul Family (Sino-Thai Group)
- 27 - The Charoen-Rajapark Family (Rajapark Group)
- 28 - The Chearavanont Family (Charoen Pokphand Group)
- 29 - The Chetchotisak Family (RS Promotion Group)
- 30 - The Chinthammit Family (Chinthammit/Kwang Soon Lee Group)
- 31 - The Chirathivat Family (Central Group)
- 32 - The Chokwatana Family (Sahapathana/Sahapathanapibul Group)
- 33 - The Chotitawan Family (Saha Farms Group)
- 34 - The Chowkwanyun Family (Thai Oil)
- 35 - *The Crown Property Bureau (Siam Cement Group/Siam Commercial Bank Group)*
- 36 - The Damrongchaitam Family (Grammy Entertainment Group)
- 37 - The Darakananda Family (Saha-Union Group)
- 38 - The Dumnernchanvanit Family (Soon Hua Seng/Kaset Rung Ruang Group)
- 39 - The Euarchukiati Family (Thai Plastic and Chemical Group)
- 40 - *The Heinecke Family (Minor Group)*
- 41 - The Hetrakul Family (Saeng Enterprise/"Daily News" Group)
- 42 - *The Ho Family (Ho Group)*
- 43 - The Ho Family (Thai Wah Group)
- 44 - The Horrung Ruang Family (NTS Steel Group)
- 45 - The Iamsuri Family (Kamol Kij Group)
- 46 - The Issara Family (Charn Issara Tower Group)
- 47 - The Jantaranukul Family (Srithai Livestock Group)
- 48 - The Juengsanguanpornasuk Family (PNA Group)
- 49 - The Junggrung Ruangkit Family (Thai Summit Group)
- 50 - The Kanathanavanich Family (Laemthong Corporation Group)

- 51 - The Karnasuta Family (ItalThai Group)
- 52 - The Karnchanachari Family (Siew National/National Thai Group)
- 53 - The Karnchanapas Family (Muang Thong/Bangkok Land/Tanayong Group)
- 54 - The Kiangsiri Family (Tararom Group)
- 55 - The Kijlertpaioj Family (Imperial Group)
- 56 - The Kitaphanitch Family (Somboon Group)
- 57 - The Kitiparaporn Family (Dream World/Siam Alliance Group)
- 58 - The Krisdathanont Family (Krisda Mahanakorn Group)
- 59 - The Kromadit Family (Amata Group)
- 60 - The Kunanantakul Family (Siam Steel Group)
- 61 - The Kuvanant Family (Kow Yoo Hah Group)
- 62 - The Lamsam Family (Thai Farmers Bank/Loxley Group)
- 63 - The Laohathai Family (Metro Group)
- 64 - The Laovoravitaya Family (Centaco Group)
- 65 - The Lee-Issaranukul Family (MMC Sittipol Group)
- 66 - The Leelaprachakul Family (Thai Mui Group/Thai-German Products)
- 67 - The Leelasithorn Family (Lee Feed Mill/Lee Pattana Group)
- 68 - The Leenutaphong Family (Yontrakit Group)
- 69 - The Leeswadtrakul Family (Siam Steel Pipe Group/Siam Syntech Group)
- 70 - The Leophairatana Family (Thai Petrochemical Industry Group)
- 71 - The Lertsumitkul Family (Srithai Superware Group/Sumit Group)
- 72 - The Limthongkul Family (M Group)
- 73 - *The Link Family (B Grimm Group)*
- 74 - The Mahadumrongkul Family (C Thong Panich Group)
- 75 - The Mahagitsiri Family (Thai Film Industries/PM Group)
- 76 - The Maleenont Family (BEC World Group)
- 77 - The Nakornsri Family (Bangkok Cable Group)
- 78 - The Nandhabiwat Family (Universal Food)
- 79 - The Narongdej Family (KPN Group)
- 80 - The Narula and Plapongpanich Families (Royal Industries/Narula/President Park Groups)
- 81 - The Nganthavee Family (Chinteik Brothers Group)
- 82 - The Nithivasin Family (Hua Kee Group)
- 83 - The Noichaiboon Family (Ekarat Group)
- 84 - The Opaswongse Family (Huay Chuan Group)
- 85 - The Osathanugrah Family (Osotspa Group)
- 86 - The Owlarn Family (OGC Group)
- 87 - The Panichpakdee Family (Kitti Rice/Somprasong Group)
- 88 - The Phanitphichetvong Family (Ban Pong Group)
- 89 - The Phaoenchoke Family (Thai Rung Union Car Group)
- 90 - The Phatraprasit Family (Phatra Group/Royal Group)
- 91 - The Phenjati Family (Union Mosaic Industry/Jutha Maritime)
- 92 - The Phodhivorakhun Family (Kang Yong Watana Group)
- 93 - The Phongsathorn Family (Premier Group)
- 94 - The Phornprapha Family (Siam Group/SP International Group/Thai Honda Group)
- 95 - The Piemongsant Family (Ban Chang Group)
- 96 - The Piyaoui Family (Dusit Thani Group)
- 97 - The Poolvorakul Family (Welco Group)
- 98 - The Praeprewngnarm Family (Siam VMC Group)
- 99 - The Raiva/Sila-on Family (S&P Group)
- 100 - The Ratanarak Family (Bank of Ayudhya/Siam City Cement)

- 101 - The Ratanarat Family (Siam Chemicals Group)
- 102 - The Sahavat Family (Vanachai Group)
- 103 - The Sarasin Family (Thai Pure Drinks)
- 104 - The Sermsirimongkol Family (Pata Department Store Group)
- 105 - The Shah Family (G Premjee Group)
- 106 - The Shinawatra Family (Shin Corporations Group)
- 107 - The Sihanartkathakul Family (Landmark Group)
- 108 - The Sirimongkolkasem Family (P Charoen Phan Group)
- 109 - The Sirivadhanabhakdi Family (TCC/Sang Som/New Imperial Hotel Group)
- 110 - The Sophonpanich Family (Bangkok Bank Group)
- 111 - The Sosothikul Family (Seacon Development)
- 112 - The Srifuengfung Family (THASCO Chemical Group)
- 113 - The Sriorathaikul Family (Beauty Gems Group)
- 114 - The Srivikorn Family (Srivikorn Group)
- 115 - The Sukosol Family (Kamol Sukosol Group)
- 116 - The Supsakorn Family (TIPCO/TASCO Group)
- 117 - The Suriyasat Family (Toshiba Group)
- 118 - The Taepaisitphongse Family (Betagro Group)
- 119 - The Tangkaravakoon Family (TOA Group)
- 120 - The Tangmatitham Family (MK Real Estate/Supalai Group)
- 121 - The Tanthuanit Family (Ngow Hock Group)
- 122 - The Tantipipatpong Family (Pornpat Group)
- 123 - The Tantipong-anant Family (Nanapan Group)
- 124 - The Tantranont Family (Tantraphan Group)
- 125 - The Techaruvichit Family (Asia Hotel Group)
- 126 - The Techasukit Family (Monterey Group)
- 127 - The Tejapaibul Family (World Trade Center/Sang Som Group)
- 128 - The Tejavibul Family (Hiang Seng Fibre/Panjapol Group)
- 129 - The Tiasuwan Family (Pranda Group)
- 130 - The Trichakraphob Family (Srithepthai Group)
- 131 - The Trivisvavet Family (Ch Karnchang Group)
- 132 - The Uahwatanasakul Family (Bara Windsor Group)
- 133 - The Umpujh Family (The Mall Group)
- 134 - The Vachraphol Family (Thai Rath Group)
- 135 - The Vanich Family (Vanich Group)
- 136 - The Vanijchakwong and Pichetpongsa Families (Capital Rice/STC Group)
- 137 - The Vilailuck Family (Samart Group)
- 138 - The Virameteekul Family (M Thai Gr
- 139 - The Viraporn Family (Lenso Group)
- 140 - The Virapuchong Family (Thai Nakorn Patana Group)
- 141 - The Viriyabhan Family (Thonburi Phanich Group)
- 142 - The Viriyaprapaikit Family (Sahaviriya Group)
- 143 - The Vongvanij Family (Vongvanij/British Dispensary Group)
- 144 - The Wanasin Family (Rachathani Group)
- 145 - The Wanglee Family (Poon Phol Group)
- 146 - The Wattanavekin Family (Eastern Sugar/Amarin Group)
- 147 - The Wongkusolkrit Family (Mitr Phol Sugar/Banpu Group)
- 148 - The Wongwan Family (Thepawong Group)
- 149 - The YipInTsoi, Lailert and Chutrakul Families (Yip In Tsoi Group)
- 150 - The Yoovidhaya Family (TC/Krating Daeng Group)

Companies in italic are excluded (i.e. those of western origin or belonging to the King)

The Asavabhokhin Family (Land and Houses/Quality Houses Group)

The Asavabhokin Family (Land and House Group)	
Business activities	% of Total Listed Revenue
Business classification	
1 Construction materials	17%
2 Real estate	77%
3 Hotels	1%
4 Retailing	5%
5 Finance and insurance	0%
6 Others (venture capital, transport)	info not avail
Total	100%
Largest group of businesses	
Construction materials, real estate, hotels	
Related Ratio	0.95
Largest discrete business	
Real estate	
Specialisation Ratio	0.17
Measure of diversification	Dominant Business

From the establishment of the first business in hotel (joint venture with another Thai business group to establish Mandarin Hotel) in 1965, the Asavabhokhin Family expanded to include around 40 companies. The Group was commonly known by the name of the Land and House Group.

In assessing the Related Ratio of the Group’s business, the construction materials business (which covered the manufacturing and distribution of concrete panel floors) was viewed as related to its hotel business and the real estate business (which covered the development and operation of houses, office buildings, condominiums, serviced apartments and shopping malls). This resulted in the Related Ratio of 0.95. Of the related group of businesses, real estate was the largest discrete business, leading to the Specialisation Ratio of 0.17, hence the Group was classified as *Dominant business*.

The analysis, however, lacked the revenue information from two listed finance and securities companies, as well as from other businesses such as transport (Bangkok Mass Transit System) and venture capital business. Nonetheless, this was unlikely to alter the Related Ratio to be lower than 0.7, hence this would not impact the outcome regarding the Group’s measure of diversification.

The Chearavanont Family (Charoen Phokphand Group)

The Chearavanont Family (Charoen Phokphand Group)	
Business activities	% of Total Listed Revenue
Business classification	
1 Agro business, aquaculture, seeds and fertiliser	59%
2 Marketing and retail	28%
3 Telecoms	11%
4 Insurance	no info avail
5 International trading	no info avail
6 Industrial and petrochemicals	2%
7 Real estate	no info avail
Total	100%
Largest group of businesses	
Agro business, aquaculture, seeds and fertiliser	
Related Ratio	0.59
Largest discrete business	
n.a.	
Specialisation Ratio	n.a.
Measure of diversification	Unrelated Business

From the establishment of the first business in seeds and fertiliser trading in 1921, the Chearavanont Family expanded to include around 400 companies. The Group was commonly known by the name of the Charoen Phokphand or CP Group.

In assessing the Related Ratio of the Group’s business, the agro-business, aquaculture, seeds and fertilisers were viewed as related to one another. Other businesses, such as telecoms, insurance, and industrial and petrochemicals did not appear to have any relatedness in terms of resources, process, market or purpose. This resulted in the Related Ratio of 0.59, hence the Group was classified as *Unrelated business*. As a result, there was no requirement to further analyse the Group’s Specialisation Ratio.

The analysis, however, lacked the revenue information from businesses such as insurance, international trading, and real estate. Nonetheless, this was unlikely to alter the Related Ratio to be higher than 0.7, hence this would not impact the outcome regarding the Group’s measure of diversification. The result could also be confirmed by the general view that agro-business, aquaculture, seeds and fertilisers represented around 50%-60% of the Group’s total revenue.

The Chirathivat Family (Central Group)

The Chirathivat Family (Central Group)	
Business activities	% of Total Listed Revenue
Business classification	
1 Consumer retailing and distribution	66%
2 Food retailing and manufacturing	2%
3 Hotels	9%
4 Real estate	21%
5 Garment, textile, sports goods, toys manufacturing	no info avail
6 Insurance	1%
7 Palm oil	0%
Total	100%
Largest group of businesses	
Consumer retailing and distribution and food retailing and manufacturing	
Related Ratio	0.68
Largest discrete business	
n.a.	
Specialisation Ratio	n.a.
Measure of diversification	Unrelated Business

From the establishment of the first retail store in 1928, the Chirathivat Family expanded to include around 200 companies. The Group was commonly known by the name of the Central Group.

In assessing the Related Ratio of the Group’s business, the consumer retailing was classified as related to food retailing and manufacturing. By itself, consumer retailing, which included some 13 branches of Central Department Stores in Thailand, numerous discount stores of Big C Supercentre, and Robinson Department Stores, represented a vast set of businesses. However, it was viewed that food retailing and manufacturing, including Pizza Hut, Burger King, KFC, Baskin Robbins, Mister Donuts and Starbucks, was related to consumer retailing in terms of market served and distribution channels required. This resulted in the Related Ratio of 0.68. However, it could be argued that whilst the food retailing and manufacturing were related, food retailing did not necessarily have to share the distribution channels utilised by the consumer retailing. This was in fact true for many branches of the food retailing which tended to be outside the department stores. This would therefore change the Related Ratio to 0.66. Regardless of how this was categorised, both Related Ratios suggested that the Group was classified as *Unrelated business*. As a result, there was no requirement to further analyse the Group’s Specialisation Ratio.

The analysis, however, lacked the information regarding the revenue from manufacturing of textiles, garments, sports goods and toys, as well as the Group’s holding in a well-known English newspaper, the Bangkok Post.

The Chokwatana Family (Sahapathana/Sahapathanapibul Group)

The Chokwatana Family (Sahapathana/Sahapathanapibul Group)	
Business activities	% of Total Revenue
Business classification	
1 Cosmetics, fragrance, hair products - manufacturing and distribution	19%
2 Consumer products (medicines) - distribution	18%
3 Textiles, footwear, rubber products and plastic - manufacturing and distribution	39%
4 Food and beverage - manufacturing and distribution	21%
5 Machinery and electrical goods - manufacturing	no info avail
6 Real estate	no info avail
7 Power	no info avail
8 Finance, leasing, insurance	no info avail
9 Services	1%
10 Advertising and design	1%
11 Computer, office equipment	1%
Total	100%
Largest group of businesses	
Textiles, footwear, rubber products and plastic - manufacturing and distribution	
Related Ratio	0.39
Largest discrete business	
n.a.	
Specialisation Ratio	n.a.
Measure of diversification	Unrelated Business

From the establishment of the first business in grocery around 1950s, the Chokwatana Family expanded to include around 400 companies. The Group was commonly known by the name of Sahapathana and Sahapathanapibul.

In assessing the Related Ratio of the Group’s business, textiles, footwear, rubber and plastic products were grouped as related businesses due to the raw materials requirement. This resulted in a Related Ratio of 0.39, hence the Group was classified as *Unrelated business*. As a result, there was no requirement to further analyse the Group’s Specialisation Ratio.

Although, the analysis lacked the revenue information from businesses such as machinery and electrical goods, real estate, power, and finance, leasing and insurance because there appeared to be no listed companies under these business categories, the inclusion of these revenue sources was likely to lower the Related Ratio, resulting in the same outcome regarding the Group’s measure of diversification.

The Darakana Family (Saha-Union Group)

The Darakananda Family (Saha-Union Group)	
Business activities	% of Total Listed Revenue
Business classification	
1 Textiles manufacturing	52%
Garments and accessories manufacturing	8%
Footwear manufacturing	34%
2 Plastic product manufacturing	5%
3 Computer manufacturing and distribution	no info avail
4 Real estate	no info avail
5 Power and energy	no info avail
6 Hospitals	no info avail
7 Aluminiums	no info avail
8 Travel services	no info avail
9 Finance and leasing	no info avail
10 Others (consulting, printing)	no info avail
Total	100%
Largest group of businesses	
Textiles, garments, accessories and footwear manufacturing	
Related Ratio	0.95
Largest discrete business	
Textiles manufacturing	
Specialisation Ratio	0.55
Measure of diversification	Related Business

From the establishment of the first business in imports of zipper and other garment accessories from Japan in 1950s, the Darakana Family expanded to include around 100 companies. The Group was commonly known by the name of the Saha-Union Group.

In assessing the Related Ratio of the Group’s business, the core activities of textiles, garments, footwear and accessories manufacturing was viewed as related to one another, primarily because of the raw materials, process and production. This resulted in the Related Ratio of 0.95. However, of the related group of businesses, textiles manufacturing was the largest discrete business, leading to the Specialisation Ratio of 0.55, hence the Group is classified as *Related business*.

The analysis, however, lacked the revenue information from numerous businesses, including computer manufacturing and distribution and power and energy. Both of these businesses represent almost 30 companies, hence likely to account for a sizeable amount of the Group’s revenue. I also lacked the revenue information from other smaller businesses, such as hospitals, travel services, finance and leasing, as well as aluminium. However, these were likely to be negligible in proportion to the total revenue. Despite our lack of information, it was believed that the Related Ratio was less likely to be lower than 0.7 even if these businesses were included. This was also confirmed by the Brooker Group’s analysis (2001) that “most of the 20,000 workers were employed in textiles, garments and footwear industries which together continued to account for the bulk of its earnings”.

The Euarchukiat Family (Thai Plastic and Chemical Group)

The Euarchukiat Family (Thai Plastic and Chemical Group)	
Business activities	% of Total Listed Revenue
Business classification	
1 Plastic and chemicals	90%
2 Petrochemicals	3%
3 Mining	no info avail
4 Real estate	no info avail
5 Banking	7%
6 Others (shipping, travel agency, PR, etc.)	0%
Total	100%
Largest group of businesses	
Plactic, chemicals and petrochemicals Related Ratio	93%
Largest discrete business	
Plastic Specialisation Ratio	Likely to be less than 0.95
Measure of diversification	Dominant Business

From the establishment of the first business in saw milling and trading various commodities such as rice and petroleum, the Euarchukiat Family expanded to include around 80 companies. The Group was commonly known as the Thai Plastic and Chemical Group.

In assessing the Related Ratio of the Group’s business, the plastic (PVC, VCM), chemicals (Olefins) and petrochemical manufacturing were viewed as related to each other, particularly from the raw materials requirements. This resulted in the Related Ratio of 0.93. However, it was somewhat difficult to assess the Group’s largest discrete business. I had no information to quantify the Specialisation Ratio. The Group is said to be the largest PVC producer in the region, nonetheless, the Group was also heavily involved in chemical production. It was therefore likely that the Specialisation Ratio would not be higher than 0.95. Given its large production capacity of plastic products, I categorised the Group as having a Specialisation Ratio of between 0.7 and 0.95, hence the Group was classified as *Dominant business*.

The analysis, however, lacked the revenue information from mining and real estate. The Group had around 12 companies in the real estate business but is believed to have sold some stakes off. Even if these two businesses were included, it was unlikely to alter the Related Ratio to be lower than 0.7, hence this would not impact the outcome regarding the Group’s measure of diversification.

The Lamsam Family (Thai Farmers Bank/Loxley Group)

The Lamsam Family (Thai Farmers Bank and Loxley Group)	
Business activities	% of Total Listed Revenue
Business classification	
1 Banking, finance and insurance	65%
2 Distribution and trading	31%
3 Manufacturing	0%
4 Telecoms, computers, media and advertising	3%
5 Real estate, hotels and construction	0%
6 Infrastructure and power (dam, coal fire power plant)	no info avail
Total	100%
Largest group of businesses	
Banking, finance and insurance Related Ratio	0.65
Largest discrete business	
n.a. Specialisation Ratio	n.a.
Measure of diversification	Unrelated Business

From the establishment of the first business in rice trading in 1939, the Lamsam Family expanded to include around 150 companies. The Group was commonly known by the name of Thai Farmers Bank and Loxley. The Thai Farmers Bank was ranked as the third largest bank in Thailand. Although banking, finance and insurance had higher visibility in the Thai business community, the root of this large business group was based on the success of the trading business of Loxley.

In assessing the Related Ratio of the Group’s business, banking, finance and insurance were grouped as related businesses due to the market and process. This resulted in a Related Ratio of 0.65, hence the Group was classified as *Unrelated business*. As a result, there was no requirement to further analyse the Group’s Specialisation Ratio.

Although, the analysis lacked the revenue information from infrastructure and power businesses, their inclusion would only reduce the Related Ratio resulting in no different outcome regarding the Group’s measure of diversification.

The Laohathai Family (Metro Group)

The Laohathai Family (Metro Group)	
Business activities	% of Total Listed Revenue
Business classification	
1 Agro chemicals	54%
2 Metals	0%
3 Agriculture and food	21%
4 Computer and office equipment distribution and production	25%
5 Chemicals, petrochemicals and oil products	no info avail
6 Real estate and construction	no info avail
7 Warehousing	no info avail
8 Others (shipping, supermarket)	no info avail
Total	100%
Largest group of businesses	
Agro chemicals	
Related Ratio	0.54
Largest discrete business	
n.a.	
Specialisation Ratio	n.a.
Measure of diversification	Unrelated Business

From the establishment of the first business in fertiliser distribution in 1969, the Lamsam Family expanded to include around 90 companies. The Group was commonly known by the name of Metro Group, as well as UFM.

In assessing the Related Ratio of the Group’s business, agro chemical business such as fertiliser and feed mill was viewed as one single group of related businesses. The Group was believed to be the largest producer of fertiliser in Southeast Asia. This resulted in a Related Ratio of 0.54, hence the Group was classified as *Unrelated business*. As a result, there was no requirement to further analyse the Group’s Specialisation Ratio. It was worth noting that given that the agricultural and food business represents mainly the flourmill, bakery and restaurant businesses, this group of businesses was therefore not viewed as related to the agro chemical business.

Although, the analysis lacked the revenue information from businesses such as petrochemicals, oil products, real estate, warehousing and others, their inclusion would only reduce the Related Ratio resulting in no different outcome regarding the Group’s measure of diversification.

The Maleenont Family (BEC World Group)

The Maleenont Family (BEC World Group)	
Business activities	% of Total Listed Revenue
Business classification	
1 Video tape manufacturer	3%
2 Media and entertainment (TV and radio broadcasting), advertising	97%
3 Real estate	no info avail
Total	100%
Largest group of businesses	
Media and entertainment (TV and radio broadcasting), advertising Related Ratio	0.97
Largest discrete business	
TV Broadcasting Specialisation Ratio	0.78
Measure of diversification	Dominant Business

From the first modest business mini bus service, the Maleenont Family expanded to include around 20 companies. The Group was commonly known as the BEC World Group or Channel 3.

In assessing the Related Ratio of the Group’s business, the media and entertainment which included both TV and radio broadcasting, as well as programme production was regarded as related to one another. The advertising business also utilised the same distribution channel. This resulted in the Related Ratio of 0.97. Of this group of related businesses, TV broadcasting was estimated to account for around 78% of revenue, or the Specialisation Ratio of 0.78, hence the Group was classified as *Dominant business*.

The analysis, however, lacked the revenue information from real estate business. Given the high Related Ratio, it was unlikely that an inclusion of the revenue from the real estate business would result in a different outcome regarding the Group’s measure of diversification.

The Phatraprasit Family (Phatra/Royal Group)

The Phatraprasit Family (Phatra/Royal Group)	
Business activities	% of Total Listed Revenue
Business classification	
1 Banking, finance and insurance	100%
2 Liquor manufacturing and distribution	no info avail
3 Real estate	no info avail
4 Mining	no info avail
5 Porcelain, brick, tiles and other manufacturing	no info avail
6 Others	no info avail
Total	100%
Largest group of businesses	
Insufficient information Related Ratio	insufficient infomation
Largest discrete business	
Insufficient information Specialisation Ratio	insufficient information
Measure of diversification	insufficient information

Owing to a lack of information on most of the business activities of the Phatra/Royal Group, it was not possible to analyse the Group’s measure of diversification.

The Phornprapha Family (Siam Group/SP International/Thai Honda Group)

The Phornprapha Family (Siam Motors, SP International, Thai Honda Group)	
Business activities	% of Total Listed Revenue
Business classification	
1 Auto manufacturing, distribution, trading	99%
2 Recreation	no info avail
3 Transport	no info avail
4 Real estate	no info avail
5 Hotels	1%
6 Construction equipment manufacturing and distribution	no info avail
7 National resources	no info avail
8 Finance	no info avail
Total	100%
Largest group of businesses	
Auto manufacturing, distribution, trading	0.99
Related Ratio	
Largest discrete business	
Auto manufacturing or distribution and trading	Likely to be lower than 0.7
Specialisation Ratio	
Measure of diversification	Dominant Business

From the first business in machinery and hardware in 1926, the Phornprapha Family had expanded to include around 110 companies. The Group was commonly known as the Siam Group, SP International as well as the Thai Honda Group.

In assessing the Related Ratio of the Group’s business, the Group’s auto business covering manufacturing, distribution and sales was regarded as related to one another. This resulted in the Related Ratio of 0.99. I, however, lacked quantitative information to categorise whether the Group was in single, dominant or related business. However, given the seemingly equal importance between manufacturing and distribution, it was more likely that the Specialisation Ratio would be lower than 0.7, hence the Group was classified as *Related business*.

The analysis, however, lacked the revenue information from most of the Group’s other businesses. Nonetheless, it was unlikely that an inclusion of the revenue from these businesses would result in a different outcome regarding the Group’s measure of diversification.

The Ratanarak Family (Bank of Ayudhaya/Siam City Cement Group)

The Ratanarak Family (Bank of Ayudhaya/Siam City Cement)	
Business activities	% of Total Listed Revenue
Business classification	
1 Banking, finance and insurance	28%
2 Cement and construction materials manufacturing and distribution	71%
3 Mining	1%
4 Wheat, flour and tapioca production	no info avail
5 Silos	no info avail
6 Television	no info avail
7 Real estate	no info avail
Total	100%
Largest group of businesses	
Cement and construction materials manufacturing and distribution	Likely to be lower than 0.7
Related Ratio	
Largest discrete business	
n.a.	n.a.
Specialisation Ratio	
Measure of diversification	Unrelated Business

From the establishment of the first business in retail and consumer products trading, the Ratanarak Family expanded to include around 30 companies. The Group was commonly known for Bank of Ayudhya and Siam City Cement.

In assessing the Related Ratio of the Group’s business, cement and construction materials manufacturing and distribution was regarded as related to one another, hence related group of businesses. This suggested a Related Ratio of 0.71. However, it was important to note that such analysis was limited by a lack of revenue information from the real estate as well as television broadcasting, both of which were sizeable businesses of their own. The Group operated Channel 7 which had the largest market share in television broadcasting in Thailand. Furthermore, I lacked revenue from one listed company within banking, finance and insurance. Given that additional revenue should be added to the analysis and that the ratio was currently 0.7, it was believed that the actual Related Ratio of the Group would be somewhat lower than 0.7. The Group was therefore classified as *Unrelated business*. As a result, there was no requirement to further analyse the Group’s Specialisation Ratio.

The Shah Family (Premjee Group)

The Shah Family (Premjee Group)	
Business activities	% of Total Listed Revenue
Business classification	
1 Trading	8%
2 Shipping and warehousing	67%
3 Manufacturing	25%
4 Real estate	0%
5 Retail	0%
6 Jewellery	0%
International business (not included above)	
Other holdings (not included above)	
Total	100%
Largest group of businesses	
Shipping and warehousing	
Related Ratio	0.67
Largest discrete business	
n.a.	
Specialisation Ratio	n.a.
Measure of diversification	Unrelated Business

From the establishment of the first business in rice trading in Thailand in 1918, the Shah Family expanded to include around 90 companies. The Group was commonly known for its Premjee Group. The Group was one of Thailand’s largest trading houses, yet, it maintained relatively low profile with close holdings by family. According to the Brooker Group (2001), the Group’s total revenue was estimated to be around US\$ 1.8 billion.

In assessing the Related Ratio of the Group’s business, shipping and warehousing were regarded as related to one another, hence related group of businesses. This suggested a Related Ratio of 0.67. The Group was therefore classified as *Unrelated business*. As a result, there was no requirement to further analyse the Group’s Specialisation Ratio.

The shipping and warehouse business included 35 vessels (believed to be Thailand’s largest fleet) as well as numerous warehousing (including five warehouses overseas). The trading business covered rice, corn, maize, sugar, wheat, beans, rubber, garments, preserved fruits, foods, fertilisers and furniture. Although it may be argued that trading was somewhat linked to shipping and warehousing, while that was true, it was unlikely that the strategic direction of trading business would be altered if the shipping business does not exist.

The Shinawatra Family (Shin Corp Group)

The Shinawatra Family (Shin Group)	
Business activities	% of Total Listed Revenue
Business classification	
1 Computers	18%
2 Telecoms (services and equipment sales)	82%
Total	100%
Largest group of businesses	
Telecoms services (mobile, satellite) and equipment distribution Related Ratio	0.82
Largest discrete business	
Mobile services Specialisation Ratio	0.70
Measure of diversification	Dominant Business

From the establishment of the first business in systems integration in 1982, Dr. Thaksin Shinawatra and his wife expanded the Shin Corp Group to include around 40 companies. The Group was commonly known as the Shin Corp Group and AIS. The Group had the largest market capitalisation on the Stock Exchange of Thailand. Dr. Thaksin Shinawatra later become Thailand’s Prime Minister.

In assessing the Related Ratio of the Group’s business, telecoms services including wireless and satellite, and telecoms equipment sales and installation were regarded as related to one another, hence related group of businesses. This suggested a Related Ratio of 0.82. Of the related group of businesses, mobile business was believed to be the largest discrete business, leading to the Specialisation Ratio of 0.70, hence the Group could be classified as Dominant business or Related business. Given the Group’s strategic focus on mobile, the Group was classified as *Dominant business*.

The Sirivadhanabhakdi Family (TCC/Sang Som/New Imperial Hotel Group)

The Sirivadhanabhakdi Family (TCC/Sang Som, New Imperial Hotel Group)	
Business activities	% of Total Listed Revenue
Business classification	
1 Banking, finance and insurance	7%
2 Breweries, liquor distilling and distribution	90%
3 Real estates	0%
4 Hotels	4%
5 Pharmaceutical	0%
Total	100%
Largest group of businesses	
Breweries, liquor distilling and distribution Related Ratio	0.90
Largest discrete business	
Breweries, liquor distilling or distribution Specialisation Ratio	Likely to be lower than 0.7
Measure of diversification	Related Business

From the first business in supplying machinery to whisky manufacturers, the Sirivadhanabhakdi Family expanded to include around 80 companies. The Group was commonly known for its Sang Som whisky and New Imperial Hotel Group. The Group was extremely substantial in size, but kept a low profile. They used earnings from the liquor business to diversify into other businesses.

In assessing the Related Ratio of the Group’s business, the Group’s breweries, liquor distilling and distribution were regarded as related to one another. This resulted in the Related Ratio of 0.90. I, however, lacked quantitative information to categorise whether the Group was in single, dominant or related business. However, given the seemingly equal importance between manufacturing and distribution, it was more likely that the Specialisation Ratio would be lower than 0.7, hence the Group was classified as *Related business*.

The analysis, however, lacked the revenue information from most of the Group’s other businesses. Nonetheless, it was unlikely that an inclusion of the revenue from these businesses would result in a different outcome regarding the Group’s measure of diversification.

The Sophonpanich Family (Bangkok Bank Group)

The Sophonpanich Family (Bangk Bank Group)	
Business activities	% of Total Listed Revenue
Business classification	
1 Banking, finance and insurance	66%
2 Real estate	3%
3 Petrochemicals and industrial products	14%
4 Agricultural, agro, warehousing, trading and distribution	1%
5 Hospitals	16%
Total	100%
Largest group of businesses	
Banking, finance and insurance	
Related Ratio	0.66
Largest discrete business	
n.a.	
Specialisation Ratio	n.a.
Measure of diversification	Unrelated Business

From the establishment of the first business in rice and lumber import-export company in 1930s, the Sophonpanich Family expanded to include around 100 companies. The Group was commonly known as Bangkok Bank. Bangkok Bank had the largest market share of the banking sector in Thailand. The Group was believed to have direct and indirect holdings in virtually all sectors, with particularly extensive investment in China and Hong Kong.

In assessing the Related Ratio of the Group’s business, banking, finance and insurance were viewed as one single group of related businesses. This resulted in a Related Ratio of 0.66, hence the Group was classified as *Unrelated business*. As a result, there was no requirement to further analyse the Group’s Specialisation Ratio.

The Srfuengfung Family (THASCO Chemical Group)

The Srfuengfung Family (THASCO Chemicals Group)	
Business activities	% of Total Listed Revenue
Business classification	
1 Textiles	15%
2 Plastic pallet and chemicals	75%
3 Tyres	9%
4 Real estate and hotels	no info avail
5 Infrastructure, transport and shipping	no info avail
6 Telecoms	no info avail
7 Mining	no info avail
8 Finance	1%
9 Glass	no info avail
Total	100%
Largest group of businesses	
Plastic pallet and chemicals	
Related Ratio	0.75
Largest discrete business	
Plastic pattet and chemicals	
Specialisation Ratio	1.00
Measure of diversification	Single Business

From the establishment of the first business in banking in 1950s, the Srfuengfung Family has expanded the business to include around 130 companies. The Group was commonly known as THASCO Chemical Group.

In assessing the Related Ratio of the Group’s business, plastic pallet and chemicals appeared to be related to one another. This suggested a Related Ratio of 0.75. It was, however, difficult to identify a single discrete business out of this group of related business. The financial information available tended to include plastic pallet and chemicals as one business. As a result, the Specialisation Ratio of 1.0 appeared reasonable, hence the Group was classified as *Single business*.

However, the research lacked the revenue information from numerous businesses, including real estate business, infrastructure, transport and shipping. The inclusion of such revenue would therefore lower the Related Ratio. However, given that the unlisted THASCO Co., Ltd, which operated the plastic pallet and chemicals business was not included in our revenue analysis above, it is unlikely that the Related Ratio would be altered such that this would impact the measure of diversification.

The Viriyaprapaikit Family (Sahaviriya Group)

The Viriyaprapaikit Family (Sahaviriya Group)	
Business activities	% of Total Listed Revenue
Business classification	
1 Steel	69%
2 Computer trading and software devebpment	31%
3 Telecoms	no info avail
4 Agriculature	no info avail
5 Finance	no info avail
6 Real estate and construction	no info avail
7 Others (Transport, seaport, footwear, tobacco)	no info avail
Total	100%
Largest group of businesses	
Steel	
Related Ratio	0.69
Largest discrete business	
n.a.	
Specialisation Ratio	n.a.
Measure of diversification	Unrelated Business

From the establishment of the first business in the trading of iron scrap in 1940s, the Viriyaprapaikit Family expanded to include around 80 companies. The Group was commonly known as Sahaviriya Group.

In assessing the Related Ratio of the Group’s business, steel appeared to be the single largest group of businesses, consisting of 25 companies. This suggested a Related Ratio of 0.69. The Group was therefore classified as *Unrelated business*. As a result, there was no requirement to further analyse the Group’s Specialisation Ratio.

There was, however, a lack of information regarding other business activities, particularly the real estate and construction business which the Group expanded rapidly into. This business consisted of around 16 companies.

The Wanglee Family (Poon Phol Group)

The Wanglee Family (Metro Group)	
Business activities	% of Total Listed Revenue
Business classification	
1 Banking, finance and insurance	37%
2 Steel drums, rubber latex, chemical manufacturing	63%
3 Carbonated drink and bottle manufacturing	no info avail
4 Agro industry	no info avail
5 Agricultural trading	no info avail
6 Real estate	no info avail
Total	100%
Largest group of businesses	
Steel drums, rubber latex, chemical manufacturing Related Ratio	0.63
Largest discrete business	
n.a. Specialisation Ratio	n.a.
Measure of diversification	Unrelated Business

From the establishment of the first business in the transport of rice and silk between Thailand, China and Hong Kong, the Wanglee Family expanded to include around 40 companies. The Group was commonly known as the Poon Phol Group.

In assessing the Related Ratio of the Group's business, Thai Metal Drum Plc. appeared to be the single largest group of businesses, consisting of businesses such as manufacturing of steel drums, rubber latex and chemicals. This suggested a Related Ratio of 0.63. The Group was therefore classified as *Unrelated business*. As a result, there was no requirement to further analyse the Group's Specialisation Ratio.

There was, however, a lack of information regarding other business activities, particularly the carbonated drinks and bottle manufacturing which was known as one of the important businesses to the Group. The inclusion of such revenue is likely to lower the Related Ratio, hence resulting in no different outcome regarding the Group's measure of diversification.

The Wongkusolkit Family (Mitr Phol Sugar, Banpu Group)

The Wongkusolkit Family (Mitr Phol Sugar and Banpu Group)	
Business activities	% of Total Listed Revenue
Revised classification	
1 Sugar, warehousing and manufacturing	26%
2 Mining	9%
3 Power generation	54%
4 Real estate	11%
5 Finance	0%
6 Internet	0%
Total	100%
Largest group of businesses	
Power generation	
Related Ratio	0.54
Largest discrete business	
n.a.	
Specialisation Ratio	n.a.
Measure of diversification	Unrelated Business

From the establishment of the first business in manufacturing of sugar in 1946, the Wongkusolkit Family expanded to include around 70 companies. The Group was commonly known as the Mitr Phol Sugar or Banpu Group.

In assessing the Related Ratio of the Group’s business, power generation (which consisted of nine companies operating power plant) appeared to be the single largest group of businesses. This suggested a Related Ratio of 0.54. The Group was therefore classified as *Unrelated business*. As a result, there was no requirement to further analyse the Group’s Specialisation Ratio.

It should be noted that no information regarding the Group’s holdings in each businesses listed above was available. As a result, this analysis did not take into account holding proportion.

Appendix V: The Charoen Phokphand Group's Businesses

Following CP's diversification, the Group commanded 10 business lines, namely agro-industry, aquaculture, seeds, fertiliser and plant protection, international trading, marketing and distribution, real estate and land development, petrochemical, automotive and industrial products, petroleum, and lastly telecommunications.

Agro-Industry

Through six major operations, CP's agro-business demonstrated a complete vertical integration, i.e. feed, animal husbandry, animal production, chicken processing, and lastly chicken distribution. The whole process guaranteed CP with an availability of high quality and low cost supply, as well as an effective distribution channel. This vertical integration was made successful, partly because of CP's ability to foresee the value of implementing the contract system with farmers. Farmers who purchased seeds from CP were guaranteed a buy back of crops. Similarly, farmers who used breeding chickens from CP were contracted to raise and sell the chickens back to CP. This process was repeated in CP's other product lines, namely pork, prawns, orchards, and crocodiles. By 1996, CP raised over 25 million chickens a week across Asia, becoming Asia's largest poultry producer (Tara Siam, 1996).

Aquaculture

CP's aquaculture business consisted primarily of production of shrimp and Tiger prawns. The Group demonstrated a vertical integration strategy by covering all operations from aquaculture feed mills, processing and freezing ready for exports. CP alone accounted for approximately 70 per cent of Thailand's aquaculture feed. It was ranked as the largest exporter of shrimp and one of the largest producers of shrimp feed in the world (Urban & Wertz, 1995). Not only did CP export to more than 15 countries, it also set up similar operations which focused on export production in India, Bangladesh, Vietnam, and Indonesia.

Seeds, Fertiliser, and Plant Protection

Through four autonomously operated companies, this business group covered various lines of agricultural input related products. Ranked as the market leader in Thailand, CP offered farmers a mix of imported vegetable seeds adapted for the local conditions and seeds developed by its own R&D programme. In addition, it covered a full range of plant protection products, such as insecticides, herbicides, and fungicides. It also offered compound fertilisers, ammonium sulphate, and urea.

International Trading

With an aim of seeking for new sources of raw materials and technology and exploring market opportunities in other countries, the International Trading Business Group was established in 1979. Business operations covered offshore and barter trade, warehousing, and other logistical services. It now operated 34 offices in 15 countries in North America, Europe, Middle East, Africa, and Asia.

Automotive and Industrial

Unlike other business groups, the automotive and industrial business group was initiated in China. In 1985, three motorcycle production plants were established. By 1996, they had total production outputs of one million units a year (Tara Siam, 1996). CP held approximately 15 per cent market share in this fast growing market (Urban & Wertz, 1995). CP later expanded its activities to cover a production of automotive parts for motorcycles, passenger cars, as well as trucks. Remarkably, 10 years after its automotive operations in China, CP began its interest in the Thai automotive business. Through several joint ventures, companies were established to produce a range of automotive parts, including plastic, electrical, and electronic parts for Ford/Mazda pickup plant in Thailand, as well as speedometers and oil gauges for motorcycles and passenger cars.

Real Estate and Land Development

Similar to many Thai conglomerates, CP foresaw an opportunity in real estate. Through four companies, the Group had involvement in several commercial projects, consisting of office buildings, housing estates, condominiums, hotels, shopping centres, club houses and golf courses in Thailand, Hong Kong, and China.

Petrochemical

CP diversified into the petrochemical business in 1988 through its joint venture with Solvie & Cie, a Belgian petrochemical company. Consistent with CP's strategy of vertical integration, the petrochemical business covered a production of VCM which is the main raw material used to produce PVC, a production of plastic PVC, a production of various artificial plastic products, such as plastic film, piping, leather and sponge leather, blinds, raincoats, luggage and bags. The business group then operated four companies, including those in China and Indonesia. The business later expanded to cover joint ventures with Japanese and German partners.

Marketing and Distribution

CP started its diversification into wholesale and retail distribution and now operated various outlets, namely 7-Eleven, Makro, Lotus, and Sunny's Supermarkets.

Owing to CP's aggressive expansion strategy, Thailand then housed the second largest number of 7-Eleven franchises, after Japan the homebase market. With more than 900 outlets selling household and food items, the Group planned to increase the total number to 2,000 by the year 2003 (Krungthep Turakit, 21 May 1998). There are also plans to expand into other Asian markets, such as China, Vietnam, and Indonesia. Furthermore, CP operated more than ten Makro stores, selling a range of 20,000 products, such as household and food items, clothing, health care products, and household electrical appliances. The concept rapidly caught up in Thailand and by the end of 1997, total sales reached Baht 32 billion (Krungthep Turakit, 21 May 1998). CP also operated Makro outlets in China and Taiwan. CP penetrated another market segment by the establishment of Lotus stores. Lotus differed from others in that it aimed to sell a range of products similar to that of Makro but targeted at end purchasers through low prices. Since its first branch in 1994, there were altogether 13 branches in 1998. The plan was to set up 50 to 60 stores in Thailand by the year 2005. In addition, further expansion would be made in China. Again, this was through a joint venture with another foreign retail company, the Nice Apparel Company.

Vertical integration could also be seen by CP's distribution of its poultry to fast food chains such as its joint venture franchise operations with Kentucky Fried Chicken Inc., and its own Chester's Grill Chicken.

The consumer products saw a 25 per cent rise in revenue to Baht 1.5 billion, of which food accounted for 35 per cent, confectionery 35 per cent and non-food products 30 per cent (Bangkok Post, 28 July 1999).

Petroleum

In 1993, CP went ahead with its plans to be involved in the oil retailing business. In Thailand, PetroAsia Co., Ltd. was established in 1994 through a joint venture with the Petroleum Authority of Thailand. In China, CP entered into a joint venture with China Petrochemical Corporation in the Chinese market. In addition to operating service and distribution stations, the business group vertically integrated into oil refineries and storage facilities. The plan was to set up over 300 service stations and 200 distribution stations by 2005 and to expand into other markets, such as Vietnam, and Cambodia. Through PetroAsia, CP became involved in an import of liquefied natural gas for use in power generation (through Thai LNG Power Corp. Ltd.) and a construction of power plants for local industrial estates (Amata Power Co., Ltd.).

Telecommunications

Diversification into the telecommunications industry is discussed in the main sections.

Although, there was no official line of business dedicated to cover banking and finance, CP held holdings in banks in China and Vietnam. CP's initial involvement in the banking sector was through a 20 per cent stake in TM International Bank in China. The bank was established in 1992 and was a joint venture among Thai companies. Subsequently, CP expanded its interest in banking to Vietnam by taking an equity stake in Vietnam Bank for Agriculture. CP was also believed to have shown interest in entering the banking and finance sector in Thailand.

CP's internationalisation strategy started with the export of chicken to Japan in 1970s. At the time, China formed the largest base for the Group's internationalisation strategy, covering business activities such as feedmills, poultry integration, food production, motorcycles, petrochemicals, beer, as well as real estate and land development. The Group also planned to enter into the Chinese telecommunications market.

Following CP's strategy to extend its food processing and export operations to lower cost countries, CP had established various operations in a number of developing countries. In Indonesia, CP had acquired a 34 per cent stake in the Jakarta-listed company which controlled 45 per cent of Indonesia's poultry feed market. The company's business now covered health care products for chicken, feed additives, and cord seeds. The Group also had seed, feed, livestock, and trading operations in Malaysia, Indonesia, Taiwan, and Singapore. It operated the telephone network of 300,000 lines in Manila of the Philippines. In Vietnam, CP had started animal feed operations which could soon extend to a chicken processing plant. The same moves were planned for other markets, such as India, Philippines, Myanmar, and Cambodia. The Group's operations in other parts of the world included feedmills in Portugal and Turkey, as well as trading relations in Japan, Hong Kong, Belgium and the USA.

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