To what extent is the varieties of capitalism framework transferable? The example of the political economy of Thailand.

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Topic: Human Resource Management

December 2012
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Abstract

Our article uses 'varieties of capitalism' analysis to distinguish key elements in the political economy of a 'non-traditional' example and argues that elements are both inter-locking and self-reinforcing. We show that Thailand has: a financial system that is bank-centred with weak corporate governance; firms with top down decision-making, albeit with some shifts towards somewhat more participative styles, where paternalism remains key; an industrial relations system of a strong state, dominant employers and weak and unorganized employees and trade unions; education and skill formation development is poor; inter-company relations predominantly based on joint ventures motivated by technological advancement. These features do not fit neatly into either of the two broad models of liberal market or coordinated economies and have locked the economy into a low cost mode of competition. Furthermore, we argue that the role and influence of national cultural values are inextricably linked to historical, social and political structures and should be part of the analysis of any country’s political economy.

1. Introduction

There are common calls for economies to 'upgrade' and 'upskill' and move up the value chain not least to avoid the ratchet of chasing downward pressure on labour costs in a globalised world. However, too often the realities of attempting this are ignored, not least that it requires inter-locking elements within societies to all shift. Our first contribution here is that we highlight the importance of integration and the inter-locking nature of business systems. A second contribution is to stimulate debate on the 'varieties of capitalism' (VOC) in respect of its wider applicability, particularly to Asia, using Thailand as an example. A third contribution is that we stress the influence of national cultural values and argue that they a crucial element in any VOC analysis.

We achieve these contributions by using the Hall and Soskice (2001) 'varieties of capitalism' framework of ‘Five Spheres’ comprising: 1) financial system and governance; 2) internal structure of firms; 3) industrial relations; 4) education and training skills formation; 5) inter-company relations. These areas form the analytical framework for the rest of our article following this introduction and background section on the evolution and structure of the economy, state and firms in Thailand.

The VOC model remains debated from across a range of areas (e.g., Rueda & Pontusson 2000; Kelly & Hamann 2008; Andriesse & Western 2009; Streeck 2010, Rowley & Quang 2012), including in this journal (Lallement 2005). We address Lallement’s (2005) debate and through our analysis argue that the core features of the Thai political economy do not characterize it as either a liberal market economy (LME) or as a coordinated market economy (CME).

Nevertheless, as an analytical framework the VOC framework still serves a good purpose. It allows us to see forms of comparative advantage as inter-locking, i.e., underpinned by the use of cheap, largely uneducated and unorganized labour, producing simple, low value added goods, requiring commensurate forms of control, education and skills. Yet, this configuration in turn encourages forms of competition which trigger further low wage competition – a circular and self-reinforcing prophecy. For example, Thai firms' responses to competitive pressures generally involved reductions in wages...
and benefits, outsourcing and temporary workers (Lawler et al. 1998) rather than more innovative, added value responses which in turn need to be underpinned by up-skilling. Yet, how long this mode of competition can survive is debated.

It should be noted that Thailand is taking steps to become a more knowledge-intensive economy and moving into producing high value added products. In the agricultural sector, Thailand is developing into a manufacturer of processed foods and not simply a supplier of raw materials. In the auto industry, Thailand is employing more technologically advanced components to increase its production capacity and auto production is expected to secure the 10th position in the world by 2013 (BOI 2012), whilst ranked 6th in the world for auto and auto parts exports in 2012 (Pantong 2012). It is against this background that we examine the case of Thailand.

2. Evolutionary Dynamics, State Structure, and Firm Types

A. Context
Thailand borders Laos and Cambodia in the North and East and Malaysia and the Gulf of Thailand in the South and has two distinct parts: the Chao Phraya River valley and the Korat Plateau which form a compact area; the extension which reaches the Malaysian frontier (Gullaprawit 2002). The vast majority (95 per cent) of Thais are Buddhists (Lawler & Suttawet 2000). Thailand is a multi-ethnic country. Ethnic Thais form 82 percent of the population and although many speak different dialects, Bangkok’s official Thai language is widespread. The Chinese are the largest ethnic group. Ethnic Malays are concentrated in the South and constitute a majority of the Muslim population and are the majority, or near majority, in four of the 14 Southern provinces (out of 76 in total). Other ethnic groups include Indians and Pakistanis, Cambodians remaining from the ancient Khmer Empire and Vietnamese in the North East, while principal hill tribes include Meos, Karens, Lahus, Lissus and Khas.

Thailand’s post-1960s economic development emphasised agricultural development, then import substitution, with manufacturing replacing agriculture as the most important sector from the 1980s, with change into an export-orientated, industrializing economy. Prior to the 1997 Asian financial crisis Thailand was one of the fastest growing economies in the world. Following the post-crisis collapse, Thailand’s economy recovered and expanded by 7.8 percent in 2010 (BOTn.d) and the financial system gradually improved (Satsanguan & Lewis 2009). This, in terms of GDP growth and proportions from agriculture, industry, services, can be seen in the table.

Table 1 here

B. State structure
Thailand operates as a unitary administrative system with government structured under a single hierarchy with ministries, departments and divisions. At the top of the pyramid is the prime minister, followed by the minister who oversees subdivisions within the ministry. Each ministry is broken down into departments which are further divided into divisions. State owned enterprises (SOEs), introduced about 50 years ago, are attached to the ministries whose respective ministers have direct control over them. Ministers are also responsible for the appointment of members of SOE boards. Some have argued that it is through the appointment of the minister’s circle of friends and senior bureaucrats that SOEs, in effect, remain under a single hierarchy and are not operationally autonomous (Bowornwathana 2006). Hence, in practice all actors in a unitary system operate under a single hierarchy.

In the late 1990s the government introduced ‘autonomisation’, the process of creating autonomous public organisations (APO). The underlying principle implies that organisations created lie outside the single hierarchy. While SOEs can be considered as a form of APO, they have only limited autonomy and operate in a similar manner to departments. Three types of APOs exist. First, agency-type APOs (autonomisation through agencification), created through the (Autonomous) Public Organisations Act (1999) which perform a specific social function in education, culture, sports, research training, science and technology, public health, environmental and natural resources conservation and social welfare
(Bowornwathana 2004). Attached to the ministries, these organisations are overseen by an APO board appointed by the respective minister. Second, APOs mandated by the Constitution (1997) to promote governance, transparency and openness in government and which are independent of the government’s chain of command. Hence, these organisations are autonomous and are required to be neutral. Examples include the Ombudsmen, the National Human Rights Commission, the National Counter Corruption Commission, the Elections Commission. Third, APOs created by the Constitution (1997) when government was required to allocate 35 per cent of its annual budget to cover expenditures of local government. There are 74 provincial administrative organisations, 289 municipalities and 2,496 sub-district administrative organisations.

Some argue that the APOs, in practice, are not independent. This is because they operate within the conventional hierarchical structure of the government rather than autonomously due to the politics of autonomisation that involve power struggles between political executives and ministry bureaucrats in agency-type APOs, power struggles between citizens versus political executives and bureaucrats in APOs mandated by the Constitution, and between local government units and central government officials in local government APOs (Bowornwathana 2006).

C. Firm types

Firms range from different ownership types and size of locally owned companies (LOCs) i.e., public, private, small and medium size enterprise (SME), MNC, foreign-invested enterprise (FIE), JV and non-Thai MNC. This variable clearly has an impact on the operation of VOC at the micro level. Some of these can be seen in the table. This shows VOC structured: by sector/product; focus/intensity; skills.

Table 2 here

The corporate ownership structure of listed non-financial firms can be categorized on the basis of major shareholders: single family-owned firms, SOEs, foreign-controlled firms and other types of firms that do not fall into those three. One survey found the following distribution of firms (Wiwattanakantang 1999). First, single family-owned firms represented the largest proportion (34.8 per cent) and could be further classified into: conglomerates and non-conglomerates. Conglomerates are a group of companies that have subsidiaries and affiliates in diversified industries. There are 26 conglomerates (9.6 per cent) under the control of a single family through the establishment of holding companies or affiliated companies. Non-conglomerates (25.2 per cent) are directly owned by the founders and their family members and are less diversified than conglomerates. The second category of firms is SOEs. There were two SOEs (0.7 per cent) controlled by the government. While the government had holdings (25–50 per cent) of four others, it was not a majority shareholder in them. Foreign firms are the third category with two types: financial institutions and MNCs or individual investors that engage in direct investment. Foreign firms accounted for nearly one-tenth (9.6 per cent). The fourth category included firms that had more than one group of shareholders, accounting for more than half (54.8 per cent).

Thus, firm ownership concentration level is characterised as high rather than diffuse, with many firms owned by a few groups of affluent families who have large shareholdings (Udomsirikul, Junmroernvong & Jiraporn 2011). These families either own the firms directly or indirectly through affiliates or subsidiaries (Wiwattanakantang 1999). Family members, who are large shareholders, also take part in managing the firms that they own (Wiwattanakantang 1999). Ownership is concentrated and the largest individual shareholders own one-fifth (20.6 per cent) and the largest corporate shareholders nearly one-fifth (24.2 per cent). Furthermore, about two-thirds (over 65 per cent) of the shares are held by the top five shareholders, a situation which reflects a very high degree of ownership concentration.

Some assert that Thai firms may be unique in that high ownership concentration is predominantly associated with family-dominated firms (Connelly, Limpaphayom & Siraprapsiri 2004). Others suggest that ownership structure and concentration is not significantly different from that found in other countries at similar levels of economic and institutional development (Claessens, Djankov &
Lang 2000). Indeed, highly concentrated ownership structures are also found in other Asian countries (Jongsureyapart 2006).

Another study found that the majority of family positions within each business group are occupied by the business group head and their brothers (Bertrand, Johnson, Sampantharak & Schoar 2008). This practice reflects Thai culture and gender role expectations in society. Traditionally, females are expected to be supportive to males, who would assume the lead role in society (Yukongdi 2009). Such practices also serve to perpetuate the continued domination of families in family-controlled firms.

3. The VOC Framework

National political economies can be analyzed in terms of how firms coordinate their activities and resolve coordination problems in five spheres: financial system, education and skills training, industrial relations, inter-company relations and employees (Hall & Soskice 2001). Firms in LMEs coordinate their activities via competitive market relationships while firms in CMEs coordinate activities on the basis of collaborative, non-market relationships (see Tables 3 and 4). Our analysis examines Thailand’s political economy in a similar way via the: financial system and corporate governance; internal structure of the firm; education and skills formation; industrial relations; and inter-company relations.

Tables 3 & 4 here

4. Financial system and governance

The first element in the VOC framework concerns the financial system and governance. The principal source of funding for the financial system is the banking sector (Satsanguan & Lewis 2009). The financial system underwent structural reform post-1997 Asian financial crisis (Rattanapintha 2010) and again post-2008 global financial crisis (Satsanguan & Lewis 2009). The government has focused on the development of the capital market and fixed-income securities market in an attempt to reduce dependence on the banking sector (Rattanapintha 2010).

The financial system comprises four major constituents: commercial banks; capital markets (including stock and bond markets); non-bank financial intermediaries (e.g., finance companies, credit foncier companies; life insurance companies and various co-operatives); and government-owned specialized financial institutions, which include Government Savings Bank, Government Housing Bank, the Bank for Agriculture and Agricultural Co-operatives, Export-Import Bank, SME Bank (Disyatat & Nakornthab 2003). Commercial banks dominated the financial sector and still hold the largest share in the financial system, although the stock and bond markets have taken on a more important role (Satsanguan & Lewis 2009, Rattanapintha 2010). The growth in the equity and bond markets indicates that the capital market and non-bank financial institutions as alternative sources of capital are emerging as important to the financial system.

At the organisational level the principal source of capital is through commercial bank loans. The earlier study (Wiwattanakantang 1999) found that firms rely on financial institutions, mainly banks, as a source of capital and less on the bond market, which remains under-developed, but which is gaining a stronger presence in the financial system (Jiraporn, Udomsirikul & Jumreornvong 2011).

As noted previously, the financial system is bank-centered. Firms obtain both short-term and long-term loans from commercial banks and financial institutions and rely less on external financing (Jiraporn, Udomsirikul & Jumreornvong 2011). Local banks are the main source of capital for short-term credit. Some commentators have suggested that banks deal with domestic firms on a personal basis by assessing potential borrowers on their knowledge of and confidence in the potential borrowers’ management than on financial statements (Economist Intelligence Unit 2008).

While corporate governance has improved considerably, there is evidence that the separation of ownership and control, particularly in family-owned businesses, may still be an issue. Corporations
are likely to be family-controlled. Half of corporate assets are controlled by the largest ten families in Thailand (Claessens, Djankov & Lang 2000). Due in part to cultural values that emphasise non-confrontation in interpersonal relationships, outside directors on company boards effectively function as ‘rubber stamps’ out of respect and consideration for owners (Limpaphayom & Connelly 2004). Few outside directors and members of audit committees could be considered to be truly independent in family-owned businesses due to the reliance on personal connections with the owners. Some have observed that this situation is not limited to family-owned businesses (Jongsureyapart 2006).

B. Internal structure of the firm
The second aspect of the VOC framework concerns the firms’ internal structure. National culture influences organisational culture and practices (see Hofstede 1980, 1984; House, Hanges, Javidan, Dorfman & Gupta 2004). Thailand has the highest score on power distance practices and the least assertive societal values among other Southern Asian cluster countries (House, Hanges, Javidan, Dorfman & Gupta 2004). These cultural characteristics contribute to a relatively higher degree of centralization in decision-making and respect for individuals in supervisory positions at work through paternalism and dependence (Niffenegger, Kulviwat & Engchanil 2006). Thai firms tend to be centralized and large organisations have tall structures, consistent with firms in high power distance countries (see Hofstede 1980). One study examining innovativeness found that small and flat organisational structures are not significantly associated with large enterprises in Thailand (Aeimtitiwat 2006). The majority of firms are family-styled businesses and the management style is based on an obligation to look after employees in a manner similar to taking care of children (Komin 1990; Niffenegger et al. 2006). Hence, decision-making tends to be concentrated at the top and managers would, therefore, have greater flexibility in dealing with competitive pressures.

In terms of management styles, charismatic, team-oriented and participative leadership are among the top three most effective models for Thailand (Gupta, Surie, Javidan, & Chhokar 2002). One study found transformational leadership styles adopted most frequently, transactional quite often and laissez-faire rarely adopted, while transformational yielded the most positive outcomes (Limsila & Ogunlana 2007). In another study, those who had higher emotional intelligence scores tended to delegate work to others, were more proactive in their attitudes and used more open communication (Sunindijo, Hadikusumo, & Ogunlana 2007). Furthermore, more democratic styles of leadership were found in a study that examined the preferred and perceived style of managers among Thai employees (Yukongdi 2010). The most preferred style was consultative, followed by participative, then paternalistic, while the least preferred was autocratic with the largest proportion of employees perceiving their managers to be consultative, followed by paternalistic, autocratic and participative. Leadership styles were found to impact on organisational outcomes (in terms of effectiveness) in Thailand, with the most effective being transformational and transactional (Michie and Zumtazavan 2012). Thus, studies suggest that managers appear to be adopting somewhat more participative styles of leadership, reflecting shifts in societal values (Yukongdi 2010).

C. Industrial relations
The third aspect of the VOC framework concerns industrial relations. The Thai industrial relations system has been dominated by the state and the influence of military-dominated regimes that governed from the mid-1980s until the early 1990s and its laws. This can be seen as the pattern of economic development adopted. These strongly influenced the industrial relations system (Lawler and Suttawet 2006).

While very much a collectivist culture, there is a lack of class consciousness “And the centrality of Theravada Buddhism to Thai culture certainly contributes to the industrial relations framework” (Lawler and Suttawet 2006: 216). Society is hierarchical and reflected in the management of organisations, such ordering of society supplemented by Buddhist doctrine – to accept one’s station in life and work for a good ‘next life’ and Theravada Buddhism is personal and introspective and prone to social activism (Ibid.).
Industrial relations are seen as underpinned by eight sets of Buddhist philosophy and principles (see Joungtrakul, 2005) identified as: 1) the six directions; 2) the divine abiding; 3) helpful integration; 4) of success; 5) the ten regal qualities; 6) the qualities of a good or genuine person; 7) collective responsibility; and 8) the principles for conducting oneself as a good citizen. Thai culture is also seen as having seven relevant concepts (Ibid.): 1) helping each other; 2) Bunkhun; 3) Kreng Jai; 4) face saving; 5) criticism avoidance; 6) sympathy; 7) compromising. As Yukongdi (2008) reminds us, the influence of religion and culture means less social activism; with Buddhist (Theravada) doctrine, to accept situations; hierarchical society, inequality in power and deference to authority figures.

The legal status of trade unions has shifted several times since 1950s. Just as industrialisation was accelerating in the 1970s, Thailand was only part way to having freedom of association. For example, individuals could not join workers from other provinces or from establishments having different working conditions. This policy served to hinder larger unions and promote enterprise unionism as the dominant form. So, the labour movement, though tolerated, was kept relatively weak. Rather than a single, strong peak trade union organisation, they were several competing ones (Yukongdi 2008). Furthermore, national trade unionism has not been stimulated or encouraged by any employer developments or national collective bargaining (Yukongdi 2008).

Overall, unions remain weak and fragmented and even the formerly strong SOE unions were disbanded by the military after the 1991 coup. Private sector unions remain small and with very low rates of unionization and have limited unity. Union problems, such as financial, rivalry and training, remain prevalent and unions are weakened further by economic restructuring; financial market liberalization; labour market deregulation; employer tactics (sacking leaders, subcontracting and casualisation of labour) (Yukongdi 2008).

The number, types and size of labour organisations and union membership post-2006 can be seen in the tables, as can the number of labour disputes, strikes and lockouts.

Table 5 & 6 here

Another significant impact on trade unions has been the importation of newer and highly effective methods of union avoidance by MNCs (Lawler and Suttawet 2000). Employers had relied on ‘union suppression’ strategies: discharging union supporters, using armed force and colluding with government to foster state opposition (bans, restricting union activities).

There are wide variations in industrial relations practices by type of organization, i.e., local (private or public) and multinational (Asian and Western), etc. This organizational range was detailed earlier.

D. **Education and training skills formation**

The fourth aspect of the VOC framework concerns education and skills formation. The literature suggests that different types of economy are related to comparative advantage in various types of learning and innovation (Ramirez & Rainbird 2010). A survey of firms in 2007 (World Bank 2008) showed that traditional labour cost advantage was declining with fast growing countries and currency appreciation. Apart from political instability, the survey found skills shortages and education of available workers were perceived by the most (39 percent) firms to be major obstacles to doing business (World Bank 2012).

Lawler et al (1998) usefully distinguish provision and forms of training (i.e., focus, breadth, purpose, planning) by type of organisation. These are outlined in the Table and detailed further below.

Table 7 here

Family enterprises – training is a problematic issue as it is seen as cost with unclear future benefits and risk, although distinctions between family members and outsiders (who are not expected to move a great deal within the firm), so when training takes place it is: narrow, spontaneous and short-term in focus, and towards productivity rather than relational and quality of life issues.

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Thai corporations — more pervasive training as they are often in competition with foreign firms and so it can be more difficult to recruit, although more extensive training for managers than workers and much involves management development activities, so long-term focus, planned, fairly broad and concerned with both enhancing productivity and quality of work life versus training workers that is more productivity enhancing and on-the-job and thus while planned, likely to be narrow and short-term focus.

Foreign owned – Western – training is not a high priority as they buy-in skills rather than develop them internally, although there is more for management than workers (similar to Thai corporations in this respect), with training tending to be long-term, broad and systematic, with an emphasis on both productivity and quality of work and some management development versus employee training that is on-the-job, relatively narrow, short-term and productivity-orientated, though planned.

Foreign owned – Japanese – training at all levels is considerably more prevalent (and consistent with Japanese practice) given the focus on internal development, tending to be long-term, broad and systematic, involving both productivity and quality of life issues (related to socialization concerns) and employees as well as management, sent to Japan for extended training.

The labour market may be undergoing a segmentation process due to industry premiums that in turn contribute to wage differentiation (World Bank 2012). Manufacturing industry and trade continue to attract higher skill premiums while those in agriculture and mining industries are declining. In addition, there is a wage premium for employees with tertiary education of approximately 120 per cent relative to those with secondary education, the highest level among the countries in the East Asia region in the survey (World Bank 2012). Such wage differentiation may have contributed to the rapid increase in tertiary enrolment and in the proportion of employees with tertiary education in larger industries, which doubled in the last 20 years (World Bank 2012).

Employers face difficulties in filling job vacancies, specifically, in manufacturing industry where nearly one-third (30 per cent) report shortages of skilled production workers, one-fifth (20 per cent) of professional workers and nearly one-half (48 per cent) of unskilled production workers (World Bank 2008). The 2007 survey (World Bank 2008) highlighted two main reasons for skilled labour shortages: the available workforce had poor skills (skill shortage); or workers did not have the skills required by firms even if they might possess certain skills at a sufficient level (skills mismatch).

There has been a long recognition of the problems plaguing the education system, relating to equity, quality and financing, in four inter-related concerns: low secondary enrolment; inadequate quality of education; lack of equity in access to education; inappropriate subsidy (Khoman 2005). Since the late 1990s there has been major education reform (Chalamwong & Archapiraj 2011), which has successfully raised levels of educational qualifications below graduate-degree level. Subsequently, the unemployment rates of these educationally improved groups have declined, especially those equipped with diplomas or vocational diplomas, where unemployment rates have declined by more than 1.4 per cent since 1999. The low-skilled labour force (primary school and lower) has shrunk by almost 4 million since 1999 (Chalamwong & Archapiraj 2011). Reasons for this include free education policies, compulsory education expansion and smaller cohorts due to demographics. The result is an excess demand for low-skilled workers. Since 2001 this gap has been filled gradually with almost 3 million migrant workers from neighbouring countries, enabling labour intensive sectors to continue. The low-skilled Thai workforce cannot be easily expanded as unemployment is already very low, at just 0.33 per cent in 2011. Nevertheless, there could be incentives to develop the skills of the estimated 231,872 unemployed with a middle-school education to fill the demand gap for semi-skilled workers, who numbered 217,775 in 2011.

E. Inter-company relations

The fifth aspect of the VOC framework concerns inter-company relations. Inter-firm alliances are becoming an increasingly attractive strategic option for organisations in Thailand. Thai firms are establishing various forms of strategic alliances including: JVs (82.7 per cent), cooperation
agreements to jointly carry out tasks with other firms (22.9 per cent), cooperation agreements to gather information (13.5 per cent) cooperation agreements to exchange information (13.3 per cent) and other forms of alliances (0.2 per cent) (Thechatakerkg 2006). Hence, JVs represent the most common form of inter-firm alliance.

The majority that engage in inter-firm alliances are medium and large enterprises. In terms of sectors, over three-quarters (over 75 per cent) in one study (Thechantakerng 2006) were in basic manufacturing (e.g., textiles, vehicle supplies, heavy fabrics, plastics), 12 per cent in natural resources (e.g., feed mills, agricultural process products, wood processing, minerals), 6.4 per in services (e.g., wholesale/retail, lodging/entertainment) and 6.2 per cent in high technology (electronic products, electronic supplies, telecommunication). The types of alliance include technology alliances relating to product R&D, process R&D, production, distribution and purchaser-supplier relationships, export management and marketing. The principal motivating factor for forming a strategic alliance was technological advancement. Over half (52.9 per cent) entered into alliances with a foreign partner, while the remainder (47.1 per cent) established inter-firm cooperation with Thai firms (Thechantakerng 2006).

While technological advancement may be the main reason for forming a strategic alliance, the 2007 survey (World Bank 2008) found only a very few (1 per cent) firms collaborated with universities and public institutions as a channel to acquire technological innovation. Firms mentioned that the services offered by universities did not match their needs and most were unaware that such services were available. This finding underscores the weak linkage between firms and institutions that are crucial for the generation of technological innovation (World Bank 2008).

Firms do not wish to establish inter-firm alliances with their competitors (Thechantakerng 2006). However, one study found entrepreneurs claimed that they do not maintain close relationships with other entrepreneurs in the same sector, actually had friendly and cooperative relationships with other firms (Dulbecco & Vagneron 2001). Nearly one-half report sharing orders with other firms, which occurred between firms that were located within close proximity or were between entrepreneurs who knew each other. The sharing of orders is based on reciprocity which reflects the Thai concept of Bun Khun (‘indebted goodness’) (Niffenegger et al. 2006) and implies an obligation to reciprocate favours. In addition, firms also share information relating to potential business partners, new production techniques, problems and solutions, including a blacklist of dishonest contractors. A number of firms also share their skilled workers. In the garment industry, the instability in the market renders it impossible for individual firms to be efficient. Hence, firms needed to respond collectively to demand variability. A collective response among firms tends to create a community of interests and solidarity among firms that would, otherwise, be considered their competitors (Dulbecco & Vagneron 2001). Structures that minimize risks tend to prevail (Vincent 2005), as may be the case here.

4. Discussion

Our analysis of Thailand’s political economy paints a somewhat mixed picture. This can be seen in the table.

Table 8 here

The financial system is bank-led and corporate governance provides firms with access to finance that is not entirely dependent on publicly available financial data or current returns and underscores the importance of having access to ‘private’ or ‘inside’ information on the firm’s operations. Business networks are dense and joint membership in industry associations together enable the monitoring of company reputation. There are close relationships with major suppliers and clients and networks of cross-shareholding, hence hostile takeovers and acquisitions are rare. These features are characteristic of CMEs. On the other hand, the internal structure of firms tends towards top-down decision making. This is somewhat similar, to some degree, to those in LMEs, but culturally specific or unique to Thailand is the paternalistic leadership style shifting towards somewhat more participative styles. Education and skills formation rely on general skills (as opposed to highly skilled labour and

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industry-specific skills). Skills mismatch and low-skilled shortage exist as well as the poaching of skilled workers by other firms and from the government. This is LME-like. Industrial relations are dominated by powerful employers while labour unions remain weak. These features are similar to those found in LMEs. Inter-company relations emphasise relational contract as the basis for inter-firm collaboration. Firms tend to rely on informal rules and understanding. Thus, formal contracts are inadequate to sustain inter-firm relationships. Monitoring of behaviours of other actors and network reputational monitoring occur via informal channels similar to firms operating in CMEs.

Our analysis shows that the features of Thailand’s political economy do not fit neatly into either of the two broad models of LME nor CME. Three elements (i.e., internal structure, education and skills formation, industrial relations) typify those found in LMEs while the remaining two elements (i.e., financial system and governance, inter-firm relations) correspond to those found in CMEs. Finally, of particular importance, we note the role of cultural values and their influence on actors in the political economy. We argue that cultural values are inextricably linked to historical, social and political structures. Therefore, it would not be possible to exclude the role that national culture plays in the analysis of a country’s political economy and is a crucial element in any VOC analysis.

5. Conclusion

Our analysis of Thailand using the five spheres of the VOC framework indicates the following. First, in terms of the financial system and governance, the country’s financial system is bank-centered. Commercial bank loans represent the main source of financing for Thai firms while the capital and bond markets and non-financial institutions are becoming important alternative sources of capital. Corporate governance is relatively weak and has undergone regulatory reform, but the separation of ownership and control in firms, particularly in family-owned businesses, may not be truly independent. Second, in terms of the internal structure of firms, management style is shifting somewhat, moving from autocratic towards more participative styles of decision-making, while paternalism remains the key characteristic. Third, industrial relations are dominated by a strong state. Trade unions are weak and employer organisations have a limited role. Fourth, in terms of education and skills there is a shortage of semi-skilled labour (i.e. vocational graduates) and an oversupply of university graduates. Fifth, inter-firm relations exist in the form of JVs driven by technological advancement and on an informal basis in some industries (i.e., garments), inter-firm alliances involve the sharing of information and workers. On the basis of our analysis, we argue that the key features of the Thai political economy do not characterize it as either a LME or as a CME and a hybrid model and one which took account of national culture, would provide a better explanation for the case of Thailand.

We have a few personal final thoughts about Thailand’s future trajectory. First, the inter-locking nature of forms of capitalism remains, meaning that that industrial strategy and structure results in the use of cheap, unskilled labour strategy requiring an unorganized workforce and weak trade unions and dominant employers; then promotion of FDI via industrial estates which in turn leads to union avoidance. Breaking out of this ‘race to the bottom’ type competition is a challenge especially in the context where the influence of Buddhism and practices in the ‘Middle Way’, with Thai cultural influences, with norms and social values emphasizing harmonious social relations and consideration of others, remains.
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Table 1: GDP growth (annual %), agriculture, industry, services, value added (% of GDP)

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<td>44</td>
</tr>
<tr>
<td>Services</td>
<td>51</td>
<td>49</td>
<td>50</td>
<td>50</td>
<td>49</td>
<td>45</td>
<td>45</td>
<td>44</td>
<td>45</td>
<td>43</td>
<td>44</td>
</tr>
</tbody>
</table>


Table 2: Organisational; Mediating Impacts on VOC in Thailand

<table>
<thead>
<tr>
<th>Organisation Type and Size</th>
<th>LOC</th>
<th>FIE</th>
<th>JV</th>
<th>MNC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public</td>
<td>Private</td>
<td>SME</td>
<td>MNC</td>
<td>Partner</td>
</tr>
<tr>
<td>Sector/Product (primary-secondary-tertiary) (simplicity-complexity)</td>
<td>Spread across primary, secondary, tertiary</td>
<td>Spread across primary, secondary, tertiary</td>
<td>Spread across primary, secondary, tertiary</td>
<td>Spread across primary, secondary, tertiary</td>
</tr>
<tr>
<td>Focus/Intensity (labour versus capital)</td>
<td>Varies from labour to capital intensive</td>
<td>Varies from labour to capital intensive</td>
<td>Varies from labour to capital intensive</td>
<td>Ranging from labour and leaning towards capital intensive</td>
</tr>
<tr>
<td>Skills (low versus high)</td>
<td>Ranging from low to high</td>
<td>Ranging from low to high</td>
<td>Ranging from low to high</td>
<td>Medium to high</td>
</tr>
</tbody>
</table>

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Table 3: Liberal market economies (e.g., Britain, USA, Australia, Canada, New Zealand, Ireland)

<table>
<thead>
<tr>
<th>Financial system</th>
<th>Internal structure of firm</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Access to capital linked to profitability</td>
<td>• Top management unilateral control over firms</td>
</tr>
<tr>
<td>• Pay attention to current earnings and share price</td>
<td>• Fluid labour market, relatively easy to release or hire labour to take advantage of new opportunities</td>
</tr>
<tr>
<td>• Investors depend on publicly available information to value the firm</td>
<td>• Less attractive to pursue production strategies based on long-term employment</td>
</tr>
<tr>
<td>• Regulatory regimes tolerant of mergers and acquisitions and hostile takeovers</td>
<td>• Institutional features highly supportive of radical innovation*</td>
</tr>
<tr>
<td>• Large firms secure finance dependent on their valuation in equity markets</td>
<td>• High rates of labour mobility conducive to the development of new product lines as can hire in employees with requisite expertise who can be released if project proves unprofitable</td>
</tr>
<tr>
<td>• Compensation system reward top management for net earnings or share price increases</td>
<td>• Price increase passed on to consumers in order to maintain current profitability</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Education and training</th>
<th>Industrial relations</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Vocational training focuses on general skills</td>
<td>• Firms under no obligation to establish representative bodies</td>
</tr>
<tr>
<td>• Loath to invest in apprenticeship schemes imparting industry-specific skills for fear of poaching by other firms not investing in training</td>
<td>• Trade unions less powerful</td>
</tr>
<tr>
<td>• Companies invest in substantial amount of in-house training</td>
<td>• Trade unions and employer associations less cohesive and encompassing</td>
</tr>
<tr>
<td>• Employees face shorter job tenures and fluid labour markets</td>
<td>• Economy-wide wage coordination difficult to secure and therefore depends more on macro-economic policy and market competition to control wages and inflation</td>
</tr>
<tr>
<td>• Firms encourage individuals to invest in general skills, transferable across firms</td>
<td></td>
</tr>
<tr>
<td>• Career success depends on acquiring general skills transferable across firms</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Inter-firm relations</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Competitive relationships, standard market relationships</td>
<td></td>
</tr>
<tr>
<td>• Arm’s length exchange of goods and services</td>
<td></td>
</tr>
<tr>
<td>• Formal contracting; strict interpretation of written contracts</td>
<td></td>
</tr>
<tr>
<td>• Anti-trust regulations to prevent companies from colluding to control price or markets</td>
<td></td>
</tr>
<tr>
<td>• Firms run risk of being sued for damages under anti-trust law</td>
<td></td>
</tr>
<tr>
<td>• Relations based primarily on markets enhance firms’ capacities to buy other companies, to poach their employees, to licence new products (i.e., means of acquiring new technologies quickly)</td>
<td></td>
</tr>
<tr>
<td>• Technology transfer secured through movement of scientists and engineers from one company to another that fluid labour markets facilitate</td>
<td></td>
</tr>
<tr>
<td>• Firms rely heavily on licensing or sale of innovations</td>
<td></td>
</tr>
</tbody>
</table>

Compiled from Hall & Soskice (2001) *Radical innovation entails substantial shifts in product lines, development of entirely new goods, or major changes to the production process

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Table 4: Coordinated market economies (e.g., Germany, Japan, Switzerland, the Netherlands, Belgium, Sweden, Norway, Denmark)

| Financial system |  ● Access to capital independent of current profitability  
|                 |  ● Access to capital not entirely dependent on publicly available information  
|                 |  ● Financial system provides capital on terms not sensitive to current profitability (“patient capital”) so long-term employment more feasible  
|                 |  ● Possible to retain skilled workforce through economic downturns and invest in projects generating returns in long run  
|                 |  ● Finance not dependent on balance-sheet criteria so investors must have access to ‘private’ or ‘inside’ information about firm’s operations  
|                 |  ● Close-knit corporate networks provide investors with inside information  
|                 |  ● Attentive to share price or current profitability to ensure access to finance or deter hostile takeovers  
| Internal structure of firm |  ● Structural bias toward consensus decision-making  
|                 |  ● Production strategies based on long-term employment  
|                 |  ● Institutional features highly supportive of incremental innovation**  
|                 |  ● Lower rates of labour mobility conducive to development of product differentiation rather than intense product competition  
|                 |  ● Price increases not passed on to customers  
|                 |  ● Maintain prices and accept lower returns to preserve market share  
| Education and training |  ● Firms invest in substantial amount of in-house training in form of intensive apprenticeships  
|                 |  ● Intensive apprenticeships used to develop company-specific or industry-specific skills  
|                 |  ● Employees face longer tenures and less fluid labour markets  
|                 |  ● Firms encourage individuals to invest in company-specific skills  
|                 |  ● Career success for employees depend on acquiring highly specialised skills  
| Industrial relations |  ● Firms under no obligation to establish representative bodies  
|                 |  ● Strong trade unions  
|                 |  ● Powerful business or employer associations  
|                 |  ● Trade unions and employer associations cohesive and encompassing  
|                 |  ● Economy-wide wage coordination easier to secure (than in liberal market economies)  
|                 |  ● Long-term employment strategies as layoffs difficult  
| Inter-firm relations |  ● Non-market relationships, more collaborative relationships  
|                 |  ● More extensive relational contracting or incomplete contracting  
|                 |  ● Exchange of private information inside networks  
|                 |  ● Extensive networks of cross-shareholding  
|                 |  ● Legal or regulatory systems to facilitate information sharing and collaboration  
|                 |  ● Institutions provide capacity for monitoring of behaviour, network reputational monitoring  
|                 |  ● Extensive reputation building possible given dense business networks  
|                 |  ● Reputation for risk-taking or cut-throat competition rarely an asset in such networks  

Compiled from Hall & Soskice (2001) **Incremental innovation is marked by continuous but small-scale improvements to existing product lines and production processes

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Table 5: Labour Organisations and Labour Union Members

<table>
<thead>
<tr>
<th>Labour organisation/year</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of state enterprise unions</td>
<td>45</td>
<td>43</td>
<td>44</td>
<td>44</td>
</tr>
<tr>
<td>Member of state enterprise unions (no. of persons)</td>
<td>180,500</td>
<td>170,630</td>
<td>175,000</td>
<td>182,147</td>
</tr>
<tr>
<td>Number of labour union (private enterprises)</td>
<td>1,313</td>
<td>1,243</td>
<td>1,229</td>
<td>1,264</td>
</tr>
<tr>
<td>Member of labour union (private enterprises) (no. of persons)</td>
<td>335,600</td>
<td>331,250</td>
<td>341,520</td>
<td>349,501</td>
</tr>
<tr>
<td>Union density (total number of union members computed as a proportion of total employment*)</td>
<td>1.4</td>
<td>1.35</td>
<td>1.37</td>
<td>1.37</td>
</tr>
</tbody>
</table>

NB: statistics are not available for 2009
Compiled from the Yearbook of Labour Protection and Welfare Statistics for various years, Labour Relations Bureau, Department of Labour Protection and Welfare
*Total employment figures are derived from the National Statistical Office Thailand

Table 6: Labour Disputes, Strikes and Lockouts

<table>
<thead>
<tr>
<th>Labour organisation/year</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labour disputes</td>
<td>80</td>
<td>100</td>
<td>57</td>
<td>119</td>
<td>77</td>
</tr>
<tr>
<td>Strikes</td>
<td>2</td>
<td>2</td>
<td>4</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Lockouts</td>
<td>-</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>1</td>
</tr>
</tbody>
</table>

Compiled from the Yearbook of Labour Protection and Welfare Statistics for various years, Labour Relations Bureau, Department of Labour Protection and Welfare
The Ministry of Labour provides definitions for the following terms as follows:
Strike: A temporary stoppage of work by a group of employees in order to express a grievance or to enforce a demand concerning changes in working conditions. Government statistics exclude all strikes lasting less than one day or involving fewer than six workers, and make no distinction between strikes and lockouts
Lockout: A temporary withholding or shutting down of work by an employer, in protest against employee actions or to coerce them into accepting his terms.
Labour disputes: no definition available on the Ministry of Labour’s website.

Table 7: Skills and Training in Different Types of Firms in Thailand

<table>
<thead>
<tr>
<th>Type of Firm</th>
<th>Training</th>
<th>Family Enterprise</th>
<th>Thai Corporation</th>
<th>Western Subsidiary</th>
<th>Japanese Subsidiary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Focus</td>
<td>Short-term</td>
<td>Long-term</td>
<td>Mixed</td>
<td>Long-term</td>
<td></td>
</tr>
<tr>
<td>Breadth</td>
<td>Narrow</td>
<td>Broad</td>
<td>Mixed</td>
<td>Broad</td>
<td></td>
</tr>
<tr>
<td>Purpose</td>
<td>Productivity</td>
<td>Mixed</td>
<td>Mixed</td>
<td>Mixed</td>
<td></td>
</tr>
<tr>
<td>Planning</td>
<td>Spontaneous</td>
<td>Planned</td>
<td>Planned</td>
<td>Planned</td>
<td></td>
</tr>
</tbody>
</table>

Source: adapted from Lawler et al (2008)
Table 8: VOC Situation in Thailand

| Financial system                                                                 | • Corporate governance provides firms with access to finance not entirely dependent on publicly available financial data or current returns  
|                                                                                   | • Access to ‘private’ or ‘inside’ information about firm’s operations  
|                                                                                   | • Dense business networks  
|                                                                                   | • Network reputational monitoring  
|                                                                                   | • Close relationships with major suppliers and clients  
|                                                                                   | • Networks of cross-share holding  
|                                                                                   | • Hostile takeovers and acquisitions are rare  
|                                                                                   | • Joint membership in industry associations  
| Internal structure of the firm                                                  | • Top-down decision making  
|                                                                                   | • Paternalistic leadership shifting towards somewhat more participative styles  
| Education and skills formation                                                  | • Rely on general skills (as opposed to highly skilled labour and industry-specific skills)  
|                                                                                   | • Skills mismatch, low-skilled shortage  
|                                                                                   | • Poaching of skilled workers by other firms and from the government  
| Industrial relations                                                            | • Powerful employers  
|                                                                                   | • Weak labour unions  
|                                                                                   | • Among the lowest union density in the world  
| Inter-company relations                                                         | • Emphasis on relational contract as the basis for inter-firm collaboration  
|                                                                                   | • Tendency to rely on informal rules and understanding  
|                                                                                   | • Formal contracts are inadequate to sustain inter-firm relationships  
|                                                                                   | • Monitoring of behaviours of other actors  
|                                                                                   | • Network reputational monitoring  
|                                                                                   | • Joint ventures motivated by technological advancement  

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