

# Strategy Execution by Thai Large Companies for ASEAN Economic Community

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Received: February 8, 2014

Accepted: February 28, 2014

Online Published: April 18, 2014

doi:10.5539/ijbm.v9n5p138

URL: <http://dx.doi.org/10.5539/ijbm.v9n5p138>

## Abstract

The ASEAN Economic Community's (AEC) road map targets implementation by December 2015. It promotes a single market and production base by supporting the free flow of goods, services, investment, capital, and skilled labor. Although there are a number of studies related to the AEC, few studies, if any, address this issue from the perspective of private companies, especially in Thailand. In this study, a survey was conducted on executives in large Thai corporations listed on the Stock Exchange of Thailand (SET), covering eight industries including retail, property, banking, telecommunications, oil and gas, chemicals, transportation, and food. Results showed that large Thai firms are aware of the AEC, but most of them do not have specific strategies for the AEC. Some of these firms have already entered other ASEAN markets, while others look further beyond. It seems that most executives in large Thai firms perceive the AEC as an opportunity for companies rather than a threat. However, they also believe that more in-depth AEC integration is required in order to fully utilize its benefits.

**Keywords:** ASEAN, AEC, Thailand, strategy execution

## 1. Introduction

Globally, all governments and companies find translating strategy into action a challenge (Kaplan & Norton, 1996), whether it is connecting the strategy to changing elements of established business practices, or to connect it with initiatives, programs, or projects. Although there is a body of research in this area (Kaplan & Norton, 1993; 2000; 2001a; 2001b; 2004a; 2004b; 2006; 2008), there is little research, if any, undertaken to include Thailand. The Balanced Scorecard introduced in 1992 (Kaplan & Norton, 1992) went some way to addressing this challenge and many studies are now available from the USA and Europe (see for example, Petic & Dahlgaard, 2013; Kollberg & Elg, 2010; Greiling, D., 2010). There are also methods, tools, and techniques attempting to address strategy execution, mainly by monitoring lead and lag indicator measurements. There is no known consolidated knowledge of strategy execution by government, state, and private companies in Thailand. In addition, there is no consolidated knowledge of their readiness for ASEAN Economic Community (AEC) integration in 2015, researched through an independent study.

This study will therefore propose to identify the challenges in Thailand for expediting and executing strategy, the readiness of Thai corporations' strategy for the AEC, the solution to expedite and execute strategy, and corporations' strategies that are needed to ready themselves for integration into the AEC. This study will also allow the Thai government and companies to better understand how other companies are responding to the upcoming changes. Today, strategies will need to address AEC integration. Thailand, with this knowledge, may move to a timely implementation of solutions to improve national economic competitiveness. For the research community, this will be one of the first intensive studies done in Thailand. It will also look into new solutions for connecting strategy to regular business operations.

The expected outcome of the research study is to provide consolidated knowledge of a selected set of organizations and to what extent their strategy methodology can translate the strategy into action. The focus will be on strategies for AEC integration, so secondarily there will be an understanding of the extent of the plan that is required to put the organization's strategy in place to be ready for the AEC or validation that the strategies are in

place. The potential managerial implications are that gaps will be found and that a plan to fill these gaps will be required.

## **2. Literature Review**

At the ASEAN summit in October 2003 in Bali, ASEAN leaders proposed the establishment of an ASEAN community (Soesastro, 2003). This idea finally led to the AEC's road map, targeted for implementation by December 2015. According to the ASEAN Economic Community Blueprint (Association of Southeast Asian Nations, 2008), the AEC promotes a single market and production base by supporting the free flow of goods, services, investment, capital, and skilled labor. In order to promote a highly competitive economic region, ASEAN focuses on a competition policy, consumer protection, intellectual property rights, infrastructure development, taxation, and E-commerce. ASEAN also promotes equitable economic development and integration into the global economy.

Since the AEC plan was announced, research looking into how the AEC should be implemented and lessons learned from other economic communities has been conducted. Hew and Soesastro (2003) suggested that initiatives to implement the AEC included fast-tracked integration of priority sectors, faster customs clearance and simplified customs procedures, elimination of barriers to trade, accelerated implementation of the Mutual Recognition Arrangement (MRAs) for key sectors, and harmonization of standards and technical regulations.

Soesastro (2005) further suggested that the AEC should be accelerated and move beyond the ASEAN Free Trade Agreement (AFTA). A new ASEAN way will have to be developed and accepted as the rule of the game. In a more recent study, Soesastro (2008) proposed a method to implement the AEC blueprint. In his study, the significance of the AEC blueprint was identified and critical areas of implementation were proposed. It was also suggested that the development of institutions to implement the blueprint must also be in place.

Plummer (2006a), on the other hand, suggested the necessity for an ASEAN Customs Union (ACU) to ensure the free movement of goods for the AEC to succeed. The AEC should also learn from the European Economic Community (EEC) experience. According to Plummer (2006b), there are five lessons that the AEC can learn from the EEC.

- (1) The institutional environment facing ASEAN is much different from that of the EEC.
- (2) The international economic environment is far different today than it was in the 1950s when the EEC was established.
- (3) ASEAN members represent far greater diversity in terms of economic development.
- (4) ASEAN countries are far more open than was the case of Europe in the 1950s.

Thus, it can be concluded that although the AEC might be similar in terms of concept to the EEC, the model cannot be copied as there are more differences than similarities.

In a more recent study, Ravenhill (2008) suggested that the financial crisis of 1997–1998 may have strengthened ASEAN member countries. Apart from that, the rivalry between China and Japan for regional leadership led them to seek negotiations with ASEAN. Nevertheless, ASEAN made very slow progress in economic cooperation. It was also found in this study that the private sector makes little use of ASEAN's arrangement because they gain little advantage due to tariff issues. ASEAN members need to address deeper integration issues.

Although there were a number of studies related to ASEAN or AEC, most of those studies focus more on the broader issue of how to implement the AEC successfully as a nation. Few studies, if any, address this issue from the perspective of private companies. Especially in Thailand, where the AEC has become a more popular issue, no study has been done to identify whether the private sector is ready for this opportunity or threat and how firms will react strategically to this change.

## **3. Research Method**

Interviews form the primary method in this study. Targeted interviewees include executives in large Thai corporations listed on the Stock Exchange of Thailand (SET). The list of companies was obtained from the SET50, the top fifty largest listed companies in terms of market capitalization on the Stock Exchange of Thailand.

Letters were sent to the CEOs of SET50 companies to ask for interviews with top executives who are involved in the strategic management process. Of the 50 companies, 15 companies agreed to participate in the study, covering eight industries, including retail, property, banking, telecommunications, oil and gas, chemicals, transportation, and food. Fifteen interviews were carried out with members of the executive management of these firms.

Top executives or selected strategy planning heads were interviewed based on a prescribed questionnaire, the basis of which has been tested in the USA and Europe previously. A set of nine questions and a discussion was developed specifically referring to the AEC roadmap for 2015 implementation. The list of questions is as follows:

- What specific objectives do you have with regards to AEC 2015?
- How are you supporting the AEC single market?
- What specifically do you support in the AEC for the free flow of goods, services, capital, and skilled labor?
- What are the key sectors that will comply with integration objectives or fail to do so?
- Will there be any areas that do not comply with competition or consumer protection policies?
- Are there any areas you feel need more work to create better policies or integration?
- How will current immigration laws change to allow the free flow of skilled labor?
- Would there be any changes to quotas for residency or changes in how visas or work permits are processed for ASEAN individuals or companies?
- What lessons have been learned from the European Community's implementation compared with the ASEAN's three pillars?

The interview session lasted approximately one hour at the workplace of the interviewees. Data collection was carried out over an eight-month period between October 2012 and May 2013.

After data was collected, a qualitative approach was used to analyze the data. The analysis includes the percentages of those problems and challenges supporting or not supporting AEC and all opinions related to AEC. The results are presented in the next section.

#### **4. Findings and Discussion**

The fifteen companies participating in this study represent eight industries as shown in Table 1.

Table 1. Number of companies that participated in this study and industry distribution

Sector	Number of companies participating in the study
Retail	1
Property and Construction	3
Banking	4
Telecommunications	2
Oil and Gas	2
Chemicals	1
Transportation	1
Food	1
Total	15

Post the interviews, this data were categorized by counting the frequencies according to the main topics of the study. The results of the interviews can be summarized and is shown in Table 2.

Table 2. Interview results by study topics and frequency

Topic		Frequency
Problem with AEC	Yes	14
	No	1
Focusing internationally	Yes	12
	No	3
Supporting the idea of a single market	Yes	12
	No	3
Problem with free flow of goods	Yes	1
	No	14
Problem with free flow of capital	Yes	7
	No	8
Problem with free flow of labor	Yes	14
	No	1
Problem with free flow of service	Yes	11
	No	4

According to the results of the interviews, 14 out of 15 companies noted problems with AEC integration as Thailand is not ready for it yet. However, they also stated that they would comply with the ASEAN roadmaps, although there are still problems with compliance. Most of the interviewees (12 out of 15) are focusing internationally and not specifically on ASEAN markets. Only 4 out of 15 interviewees said they have specific ASEAN objectives. Although most companies (12 out of 15) supported the idea of a single market, ASEAN was said to be a fashion term for South-East Asian governments who are looking at tax and incentives for their countries to increase trade between borders. To expand internationally, companies need to strengthen their core business processes and business outlook before moving on more than one front.

Further analyses of the interviews also revealed that 2015 is only the beginning of the journey and the ASEAN Economic pillar is studying the EEC and looking at how integration in the European Union has been achieved. According to the interviewees, the AEC should have a single visa, customs, market, and open borders like the EEC, but not a single currency. The best thing in the EEC is the single market and production base and businesses suggest that the AEC should not go any further. Integration of financial services is desirable as long as it does not go too far. Based on the lessons learned from the EEC, the currencies and policies should be kept separate from each other.

Large oil and gas enterprises seem to be best suited to work together for AEC expansion, which appears to be the initial thrust for AEC 2015 and what the road maps support. It is the integration of economies for governments, not for business per se. Road maps will need to support the free flow statements for business and actually lessen the regulations, not increase them, to stimulate ASEAN cross-border business.

In terms of the free flow of goods, according to the interviewees, infrastructure and border crossings are not being addressed comprehensively. One of the interviewees related that their company has problems moving goods due to the border infrastructure. As one example demonstrating logistical problems inherent to the current border infrastructure, Thai provinces move goods through the ASEAN territory via an 800-kilometer route from the Cambodian border via Bangkok rather than having open borders that would allow a 200 kilometer route to Cambodia and Vietnam allowing access to the sea. This is one demonstration that regulations and the free flow of goods and labor are yet to open up the borders between ASEAN countries.

In terms of the free flow of capital, 7 out of 15 interviewees stated that they have problems moving capital between countries. The free flow of capital requires ASEAN normalization of banking regulations and financial laws rather than addressing them separately at the transactional level. The banking community is suggesting that the AEC roadmap does not include banking regulations; therefore each country is setting its own banking policies. The same is true for property developers, as each country has protectionist laws for its land and therefore cross-border property development can only be carried out through local indigenous companies.

For the property sector, the way must be cleared for land capital investment. Currently, each country has created a protectionist environment so only local companies can purchase land. This leads foreign companies to acquire local companies to carry out their business, lessening competition as a result of government policy. Based on results from the interviews, 5 of 15 interviewees said that they believed that buying real estate in other ASEAN countries would remain a problem.

In terms of the free flow of labor, most interviewees (14 of 15 interviewees) see it as a problem. This issue has not been addressed at all in their opinion. According to top executives in SET50 companies, quotas for working immigrants are seen as a barrier and restriction to business growth within several ASEAN countries. There is no change to immigration policies except for specific roles and easing transit at borders. Therefore, the objective of the free flow of labor seems far from having any affect. The Immigration and Department of Labor in most countries are two different entities who do not communicate with each other.

In terms of the free flow of services, 11 of 15 interviewees see it as a problem. Again, it is related to regulations, mainly with respect to labor. Interviewees from the telecommunications sector partly addressed this issue. After many years, Europe has only recently looked at roaming rates for voice and data and is finally addressing them from a governmental point of view.

Those companies that have invested in expanding into other ASEAN countries have done so through local partners, but those that are most successful have expanded through mergers and acquisitions. With relationships and regulations still very country specific, companies still need to work through a local company to enter that particular country market.

According to responses from most interviewees in Thailand, there is no single point within the Thai government or supporting business institute to obtain ASEAN information about expanding or operating in a particular country. As each country is very different, there is no such thing as an ASEAN approach. Although the ASEAN secretariat provides relevant information, there are no documents providing Thailand or any other ASEAN country a guideline for businesses who wish to operate cross-border.

According to the results from the interviews, country regulations are not aligned to ASEAN roadmaps. Most legislation, labor, goods, and services are very country specific and there is still a significant amount of work to be done by each country to integrate the free flow statements.

## **5. Conclusion**

The AEC was created to gain potential benefits from creating a single market (Plummer, 2006). As the AEC's road map includes a significant milestone in December 2015, understanding the views of some of the SET50 companies from Thailand adds a perspective on the work that has been done to date and that required in the future.

Large Thai firms are aware of the AEC, but most of them do not have specific strategies for the AEC. Some of these firms have already entered ASEAN markets while some of them look further beyond the AEC. It seems that most executives in large Thai firms perceive the AEC as an opportunity for companies rather than a threat. However, they also believe that more in-depth AEC integration is required in order to fully utilize its benefits.

Firms in different industries seem to look at the AEC from a different point of view. For example, firms in the financial industry seem to support the AEC as long as it does not go too far, for example, adopting a single currency. Firms in the oil and gas business seem more ready for AEC integration than firms in other industries. Firms in the property sector are more concerned about protectionist laws on land ownership in ASEAN countries, limiting cross-border property development to local, indigenous companies.

In conclusion, although the AEC has targeted implementation by the end of 2015, its current form only suits government to government and state-owned to state-owned businesses. It is the start of a journey and a comprehensive roadmap for the removal of regulations. A significant amount of work is left to be done in terms of the free flow of capital, labor, and services in order to satisfy the business community at the large corporate level.

## **Acknowledgements**

This study received a research grant from the Thammasat Business School, Thammasat University.

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