



CHAPTER I

INTRODUCTION AND OVERVIEW

1.1 Rationale

Global economic integration (GEI) is becoming increasingly effective in integrating goods and services markets at the global level. The process of globalization is thus not only reorganizing power at world level but also at national and sub-national levels.

To understand the dynamics of the certain industry, it is necessary to consider the collective impact of these globalization forces on the structures and performance of individual firms. Research on the effects of globalization is to give an overview of the diverse range of phenomena occurring in the industry and explain them in theoretical terms.

In a world in which the structures of financial service industries are changing rapidly, the transformation of the financial markets since the mid-1960s has gone beyond anyone's expectations. Much of the transformation, interestingly, was neither planned nor predicted. In addition to restructuring regulations, the banking industry is in the midst of a dramatic consolidation wave in which many of the nation's largest banking organizations are merging with one another.

1.2 Objectives

The intention of this research is to look into an empirical evidence of the economic globalization for exploring new areas of research and see how the impact of globalization affects the competitiveness of the local companies. The research is of importance for gaining a general understanding of the industry as a whole and also for understanding the development of individual firms, either under Thai ownership or foreign one.

The objectives of the research project are as follows;

- a) To examine the differences in efficiency among Thai local firms and Foreign-owned firms that operate their business activities in Thailand. The research will study the effects of globalization factors on the performance of these firms.
- b) To analyze the differences in utilization of factors of production among local firms and Foreign-owned firms, especially comparing the differences in the intellectual assets.
- c) To focus on the sustainability of Thai local firms and provide how they position themselves in the market by comparing the aspects of firms' economic activities in the age of dynamic globalization.

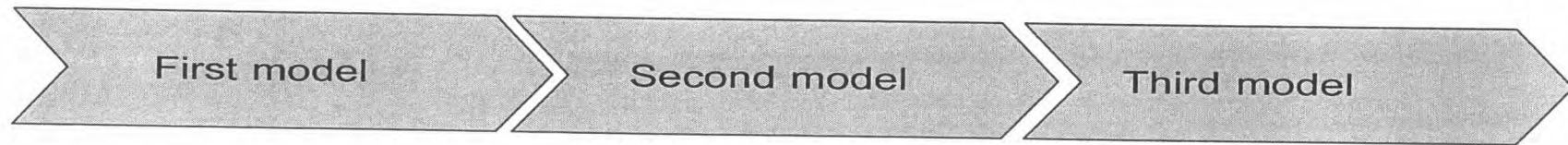
The first objective is to examine the effects of globalization factors on the performance of the firms. The research will study differences in efficiency among Thai local firms and Foreign-owned firms, which operate their business activities in Thailand. In order to obtain profit inefficiency indexes of sample banks, a stochastic frontier approach, which becomes a common approach in bank efficiency research will be employed. The stochastic frontier (SFA) model is used for the reason that it allows for measurement error, which is an important feature in the light of the fact that measuring bank production can be difficult due to data availability and the choice of a set of inputs and outputs.

In terms of the second objective, it analyzes the differences in the utilization of Factors of production among local firms and Foreign-owned firms, especially comparing the differences in the intellectual assets. The method of Value Added Intellectual Coefficient (VAICTM) is an insight to measures of value creation and monitors the value creation efficiency in companies using basic accounting figures. VAIC is designed to effectively monitor and evaluate the 'efficiency' in adding value (VA) to a firm's total resources and each major resource component, focusing on value addition in an organization and not on cost control (Pulic, 2000).

Lastly, the third objective is to compare the aspect of firm economic activities, aimed at focusing on the sustainability of Thai local firms and providing how they position themselves. The determinants of bank performance can be classified by the internal resources and external environment variables of the bank. For internal resources, bank performance is related to factors such as size, equity-assets ratio, liquidity, expenses, growth rate of assets, and the number of personnel per branch. External environment variables, which are the market factors or country factors influencing the operation of banks, are market concentration, rate to interest, government ownership, the growth rate of money, the level of equity investment for governing firms, and the level of financial market development

Figure 1 Model estimation

Model Estimation



To examine **differences in efficiency** among Thai local firms and Foreign-owned firms, which operates their business activities in Thailand

To analyze **differences in the utilization of Factors of production** among local firms and Foreign-owned firms, especially comparing the difference in the **intellectual assets**.

To focus on the **sustainability** of Thai local firms and provide how they position themselves by comparing the aspects of **firms' economic activities** in the age of dynamic globalization.

1.3 Scope of the Study

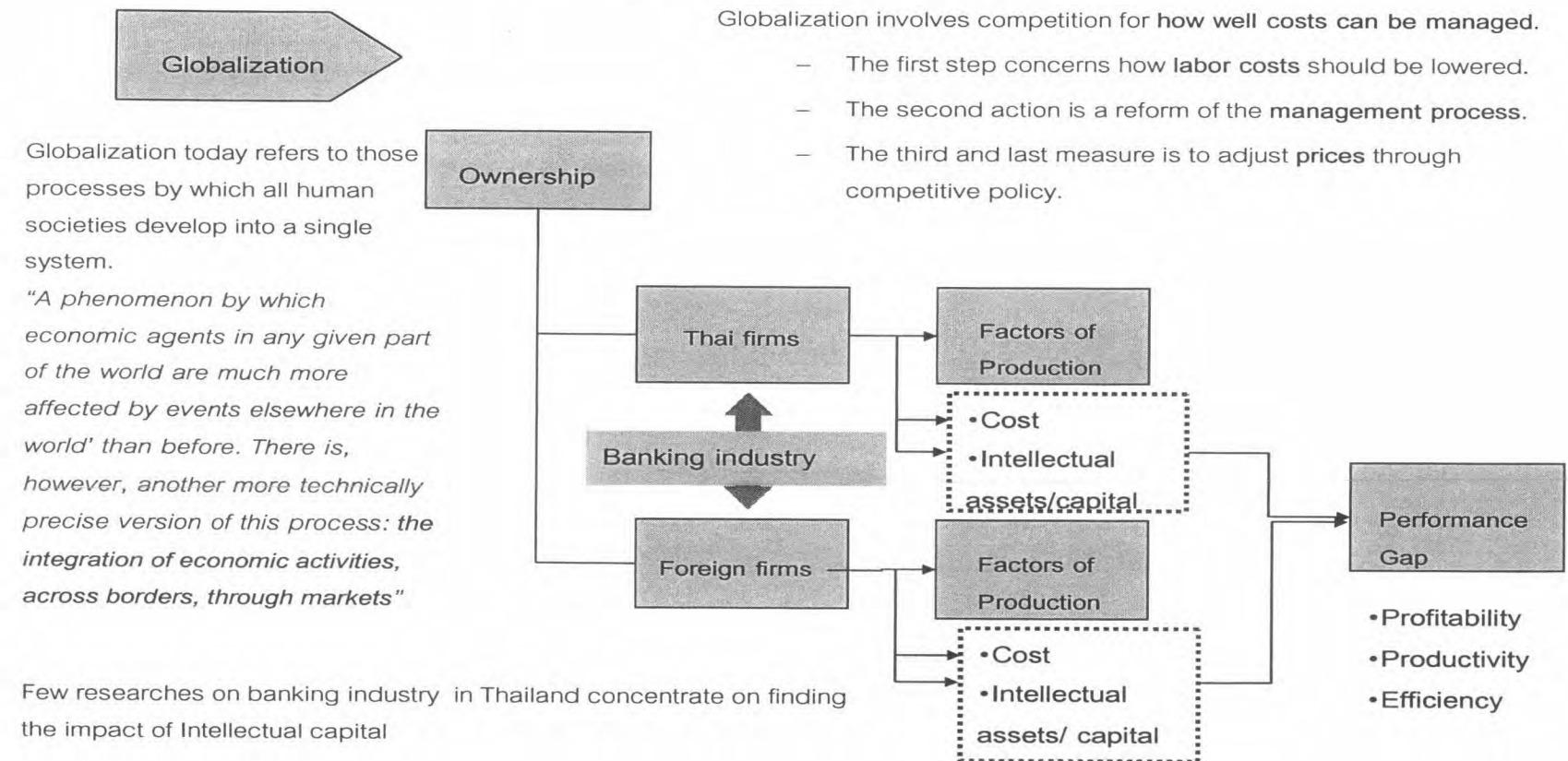
The commercial banking sector will be the main study of this research. Developments in the global financial service industry have been rapid and the level of competition has increased in recent years. New competitors have entered the industry as cross-border constraints have been abolished or decreased. The border lines between the various types of financial institutions, such as commercial banks, saving banks, investment banks, and insurance firms, have become increasingly blurred. To date, global banking industry appears to operate under conditions of greater free market price than they did before. Product and territorial competition have also heightened. In light of these developments it is important to investigate and evaluate cost economies and efficiency issues among different regimes of banking industry as well as to evaluate the relationships between market structure and bank performance across countries.

The globalization of financial markets has almost become a reality as the national barriers to foreign banks have crumbled. As financial markets reach across national boundaries, banks, both as participants in and as competitors to financial markets, have expanded the scope of their international operations. The 1990s were a time of dramatic structure change in the global banking industry. The consolidation of banking offers both opportunities and challenges for both local and international banks.

Efficiency and performance become critically important in an integrated market environment where competition may come from other financial intermediaries as well as from foreign banks. As banks face stiffer competition for markets and market share, issues of bank efficiency become more important as inefficient banks may not long survive. Global competition among financial intermediaries should enhance their operations efficiency, thereby discouraging any deviation from cost minimizing and optimal production plans.

Figure 2 Framework of study

Effects of Globalization



The globalization effect will be analyzed in the context of the Thai banking industry, which comprises commercial banks incorporated in Thailand, branches of banks incorporated in other countries, representative offices of foreign banks incorporated abroad, restricted or specialized banks and IBFs (International Banking Facilities). The time span of 2000 to 2007, using bank-level data, is covered to the dynamic movement in both external environments e.g. deregulation and competition in new product offers and internal activities e.g. improved IT capabilities of the Thai banking industry.

With regards to purpose of the study at the micro level, the study will not include the current situation of economic crisis, even though it would affect the banking industry as a whole. The study is aimed at seeing the capability of the firms and how they improve their performance when globalization get into the industry.

1.4. Data

The study of Thai banking industry will include an investigation of an evolutionary 8-year path of the industry from 2000 until 2007, which is the period of events, leading to changes in banks' competitiveness. The selection of 5 major Thai commercial banks listed at the Security Exchange of Thailand; Bangkok Bank, Bank of Ayudhya, Kasikorn Bank, Siam Commercial Bank, and Krung Thai Bank, will be used to compare with the data from the foreign banks which have operations in Thailand. The data used consists of yearly bank-level data from financial statements for commercial banks incorporated in Thailand.

1.5. Outline

Following the introductory chapter, Chapter 2 includes the revision of the theoretical background on economic globalization and how it links to create competitiveness among firms. It is followed by Chapter 3 which focuses on the

transformation of the banking industry in Thailand, covering industry structure, industry environment, regulatory environment, and business model.

Chapter 4 initiates the study of cost efficiency in the banking industry by investigating empirically the relationship between the intellectual capital and firms' financial performance by identifying perceived value of this organizational variable in the commercial banks. The study estimates and compares cost efficiency of domestic and foreign banks in Thailand. The stochastic frontier (SFA) model is used to illustrate the differences in efficiency among the banks. Total factor productivity is also covered in this chapter.

Chapter 5 is the second empirical study on the role of intellectual capital in creating value. An effect of intellectual capital has been calculated to reveal what types of capitals or resources help firms create value.

Chapter 6 is the last empirical research on the impact of intellectual capital on productivity. The relationship between the value creation efficiency and firms' financial productivity is investigated.

Finally, Chapter 7 concludes the findings and remarks that would lead the policy recommendations. Also, limitations on the study will be discussed so that it would lead to further researches.

1.6. Contribution

Globalization means: the availability of cheap and rapid communications; cost effective transportation systems; open markets that make possible the global dissemination of ideas, technology and investment. Firms see globalization as a matter of taking superior conducts and extending it geographically, with necessary modifications, to maximize the firm's economies of scale. From this perspective, the key strategic challenge is determine the adaptation of firms' conducts and the standardization from country to country. But no matter how they balance localization and standardization, all firms focus on similarities across countries, and the potential for the scale economies, as their primary source of added value.

With regards to the objectives, the research would contribute to a capability enhancement in the banking industry. There are times for firms to adjust to a diverse set of changes simultaneously. The globalization of markets and competition, the rapid maturation of the information age, the expansion of the service-based economy, the impact of deregulation and privatization, the explosion of the knowledge revolution—these forces are driving firms to fundamentally rethink their conducts and radically transform their organizational capabilities.

Additionally, an area of intellectual capital is gaining to be recognized as one of the factors of production. Few researches in Thailand had been targeted to investigate the impacts of intellectual capital on competition. Moreover, a comparison between Thai firms and foreign firms in terms of the utilization of intellectual capital would lead to the upgrade of organizational capability of Thai firms.