

# Dharmic Sustainability at Work in Thai Companies

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# What is “Sustainability”?

# What is “Sustainable Development”?



To confront the challenges of overconsumption on the one hand and grinding poverty on the other. The Brundtland Commission called for sustainable development, defined as

*“.....Development that meets the needs of the present without compromising the ability of the future generations to meet their own needs.”*

## Sustainability simplified.....

*A set of **conditions and trends**  
in a given **system** that can **thrive**  
**indefinitely***

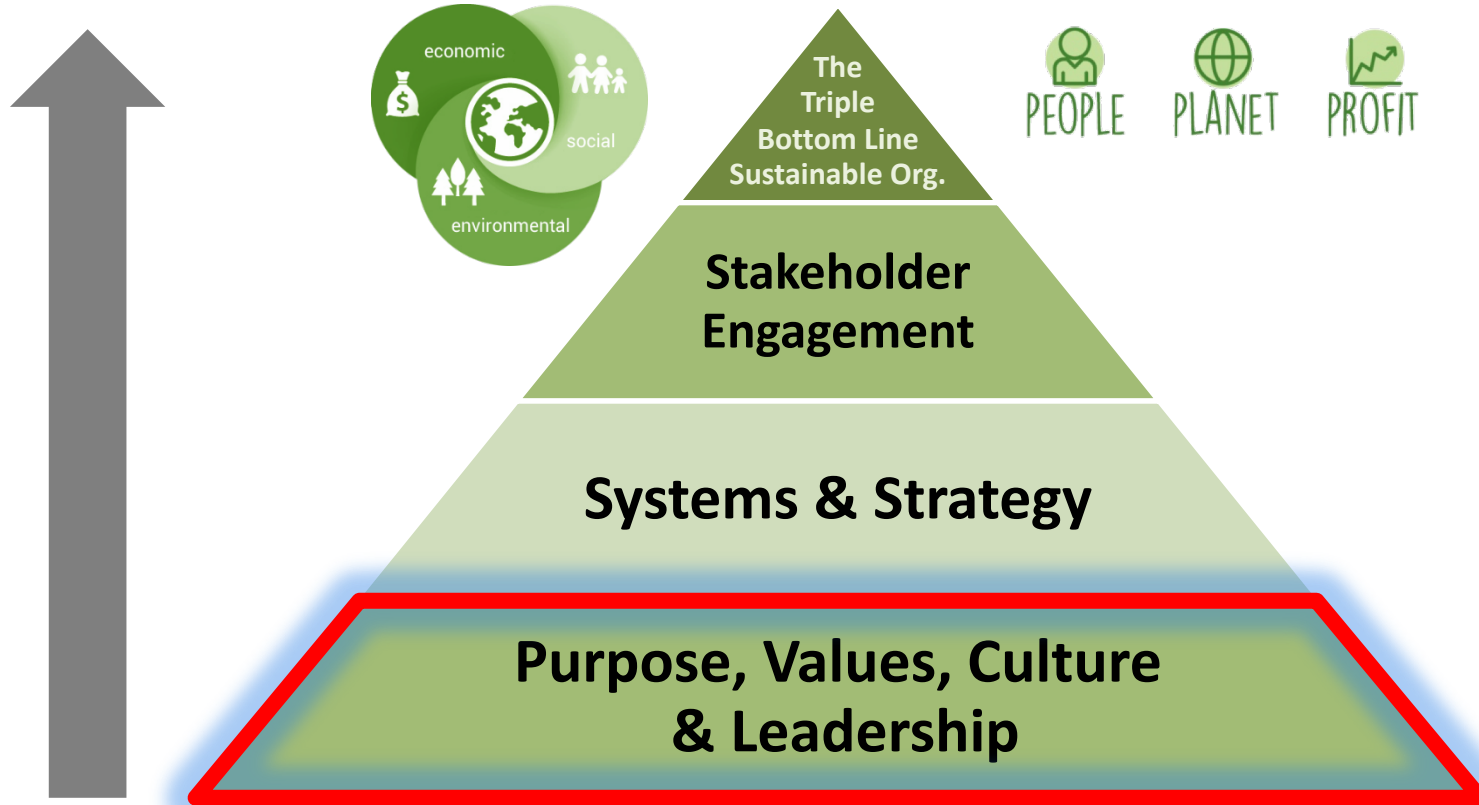
Most of all, it's not about  
what an organization  
does with its profits...

... but

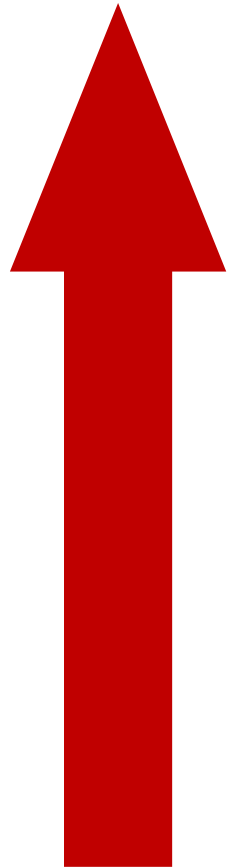
how a company  
makes its money

... and how it  
impacts its  
stakeholders

# What Qualities Enable Sustainability Practices to be Implemented?







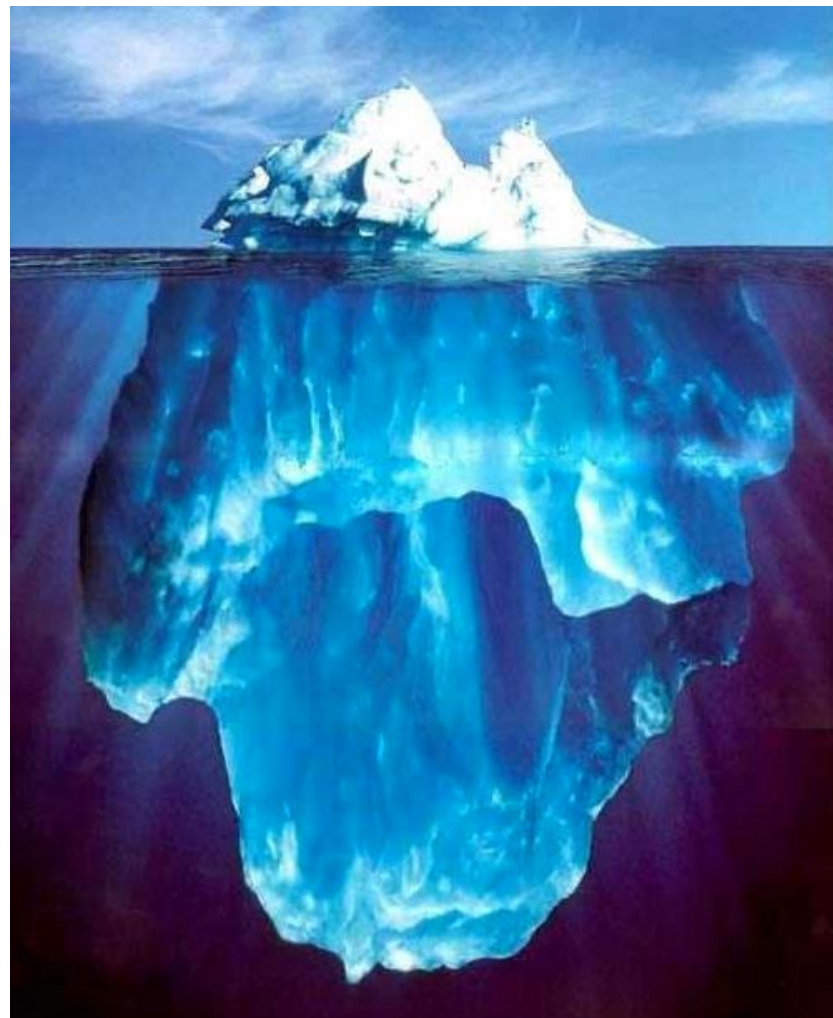
EVENTS / OUTCOMES

PATTERNS OF BEHAVIOUR

SYSTEMS & STRUCTURES

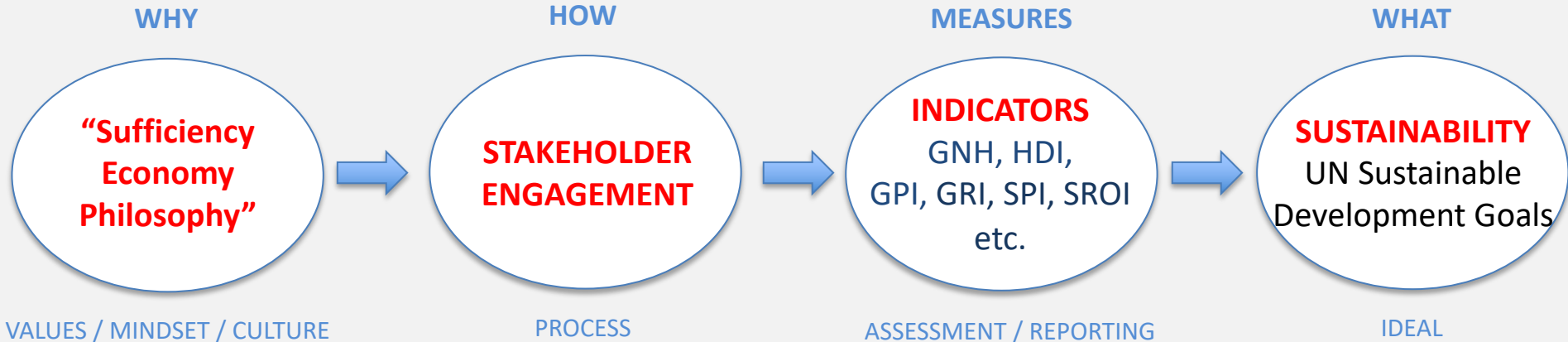
VISION

PURPOSE/VALUES/MINDSET/  
CULTURE



# The Why and How of Sustainability

Meeting the needs of the present  
WITHOUT compromising the future



# What is “Sufficiency Economy Philosophy”?

# HM the late King Rama IX's speech: Development

*“Development of the country must proceed in stages. First of all, there must be a foundation with the majority of the people having enough to live on by using methods and equipment which are economical but technically correct as well. When such a secure foundation is adequately ready and operational, then it can be gradually expanded and developed to raise prosperity and the economic standard to a higher level by stages.”*

KhonKaen University, 20<sup>th</sup> December 1973

# HM the late King Rama IX's speech: Asian Finance Crisis

*“All of this made me think about how this crisis has come about. Our country is rich in natural resources and we have been designated to become an economic power. How is it that we are facing this crisis? In fact, this crisis could have been detected a long time past ... but nobody was aware of it .... Recently so many projects have been implemented; so many factories have been built that it was thought that Thailand would become a little tiger, and then a big tiger. People were crazy about becoming a tiger....I tell you these things because they are the cause of the crisis...”*

4<sup>th</sup> December 1997, during the height of the Asian Financial Crisis

# HM the late King Rama IX's speech: Moderation

*“Sufficiency is moderation..... Being moderate does not mean to be too strictly frugal; luxurious items are permissible ..... but should be moderate according to one's means.”*

*“If one is moderate in one's desires, one will have less craving. If one has less craving, one will take less advantage of others... Sufficiency means to have enough to live on. Sufficiency means to lead a reasonably comfortable life, without excess, or overindulgence in luxury, but enough...”*

# Self-Sufficiency is not a Sufficiency Economy

*“...self-sufficiency is not a sufficiency economy but a stone-age economy... There must be some gradual development, some exchange and cooperation between districts, provinces and countries, something beyond self-sufficiency...”*

*“As we are in the globalization era, we also have to conform to the world”*

Dusit Palace, 4<sup>th</sup> December 1998

## Official Definition of Sufficiency Economy Philosophy (as endorsed by HM the Late King Rama IX of Thailand)

“ Sufficiency Economy is an approach to life and conduct which is applicable at every level from the individual through the family and community to the management and development of the nation. ”

“ It stresses a middle path, especially in developing the economy to keep up with the world in the era of globalization. ”



## Official Definition of Sufficiency Economy Philosophy (as endorsed by HM the Late King Rama IX of Thailand)

“ Sufficiency has three components: moderation; reasonableness; and the need for built-in resilience against the shocks which arise from internal or external change. In addition, the application of theories in planning and implementation requires great care and prudence at every step. ”

## Official Definition of Sufficiency Economy Philosophy (as endorsed by HM the Late King Rama IX of Thailand)

“ At the same time, all members of the nation – especially public officials, academics, and business people – need to develop their commitment to the importance of knowledge, integrity, and honesty, and to conduct their lives with perseverance, tolerance, wisdom, and insight, so that the country has the strength and balance to respond to the rapid and widespread changes in economic or material resources, society, environment, and culture in the world. ”

# Buddhism and Sufficiency Economy Philosophy

- The Sufficiency Economy Philosophy derives its inspiration from Theravada Buddhism, the oldest surviving school of Buddhism and a religion or perhaps one should say a wisdom to which well over 90% of the 67 million Thais subscribe. Of the over half a billion Buddhists in the world, an estimated 100 million belong to the Theravada school which has been the predominant religion of continental South East Asia (Thailand, Myanmar/Burma, Cambodia, and Laos) and Sri Lanka.

# Buddhism and Sufficiency Economy Philosophy

- Above all, the Theravada wisdom stems from a continuous analytical process of life. As such, **causality** (i.e., cause and effect) is a key concept in Theravada, and indeed, in Buddhism as a whole. One of the earliest teachings is the **Four Noble Truths** that describe suffering, its cause, its cessation, and the pathway towards freedom from suffering and self-awakening. The latter is referred to as the **Noble Eightfold Path** that comprises **wisdom** ("right view" and "right intentions"), **ethical conduct** ("right speech", "right action" and "right livelihood"), and **mental discipline** ("right effort", "right concentration" and "right mindfulness").
- This path is fundamental to Buddhist practice and is commonly known as the "Middle Way" or "Middle Path", which is the practice of non-extremism or moderation, away from the extremes of self-indulgence and self-mortification.

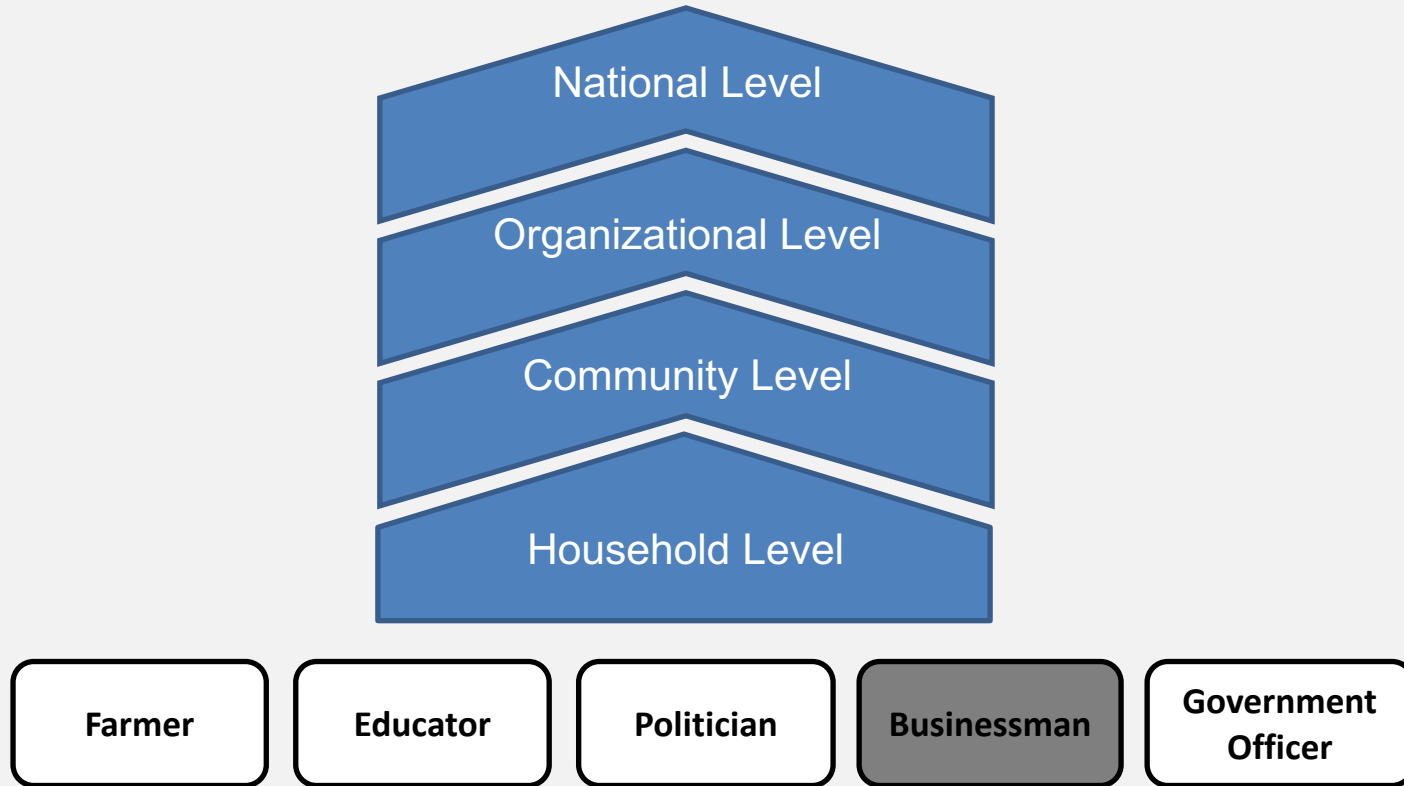
# Sufficiency Economy Philosophy simplified

know what you're doing  
be honest and persevere  
avoid extremes / take middle path  
be sensible & insightful in making decisions  
build protection against shocks

# Sufficiency Economy Philosophy for Sustainability



# Implication and Application of SEP



# Application of SEP for Business

Businessmen adhering to SEP demonstrate the following characteristics:

- They are;
  - more concerned with sustainable & stable long-term profits than short-term results
  - well-informed about business-related knowledge,
  - eager to learn new information in order to cope with changes
  - prudent in decision-making
- They conduct business ethically, with honesty and integrity
- They display perseverance and diligence
  - by continuously developing their business through improvements in production efficiency and product quality, based on changing technologies and market needs
- They are socially responsible and concerned about the environment at every step,
  - While balancing profit-sharing among all stakeholders such as consumers, staff/workers, business partners, and shareholders.



# Case Study: Siam Cement Group

# Siam Cement Group



**SCG** was founded in 1913

# SCG Core Value



**Adherence to Fairness**

ตั้งมั่นในความ**เป็นธรรม**



**Dedication to Excellence**

มุ่งมั่นในความ**เป็นเลิศ**



**Believe in the Value of the Individual**

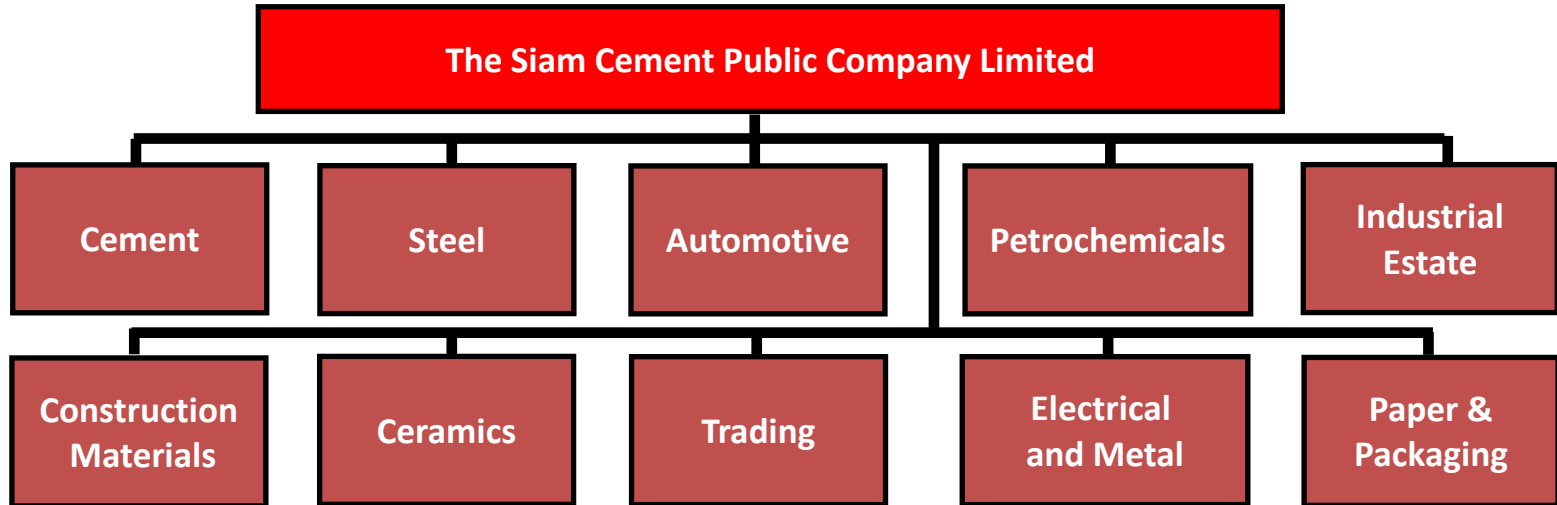
เชื่อมั่นใน**คุณค่าของคน**



**Concern for Social Responsibility**

ถือนมั่นในความ**รับผิดชอบต่อสังคม**

# SCG Business Structure in 1996



- Organized with 10 Business units (plus corporate functions), with more than 100 subsidiaries and joint ventures
- Employed more than 36,000 employees

# SCG in Asian Economic Crisis 1997

## Effects of 1997 Crisis

from “Basket of Currency” into “Managed Float”

## Impacts on Siam Cement Group:

- Double corporate debt burden
- Higher cost in raw materials and energy
- Drastically drop in domestic demand
- ForEx Loss (unrealized)

### At the End of 1997

#### Outstanding Debt:

~ 6 bn USD  
with 80% in foreign currency

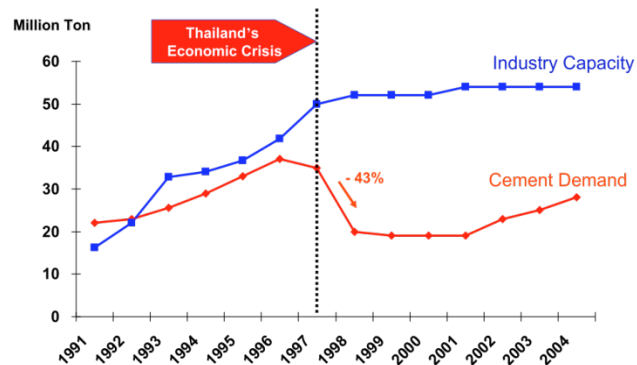
#### Debt peaked:

at 340 bn THB in Q1/1998  
~ 1 bn USD are short-term

#### On-going Projects:

> 30 projects  
Total investment > 5.4 bn USD

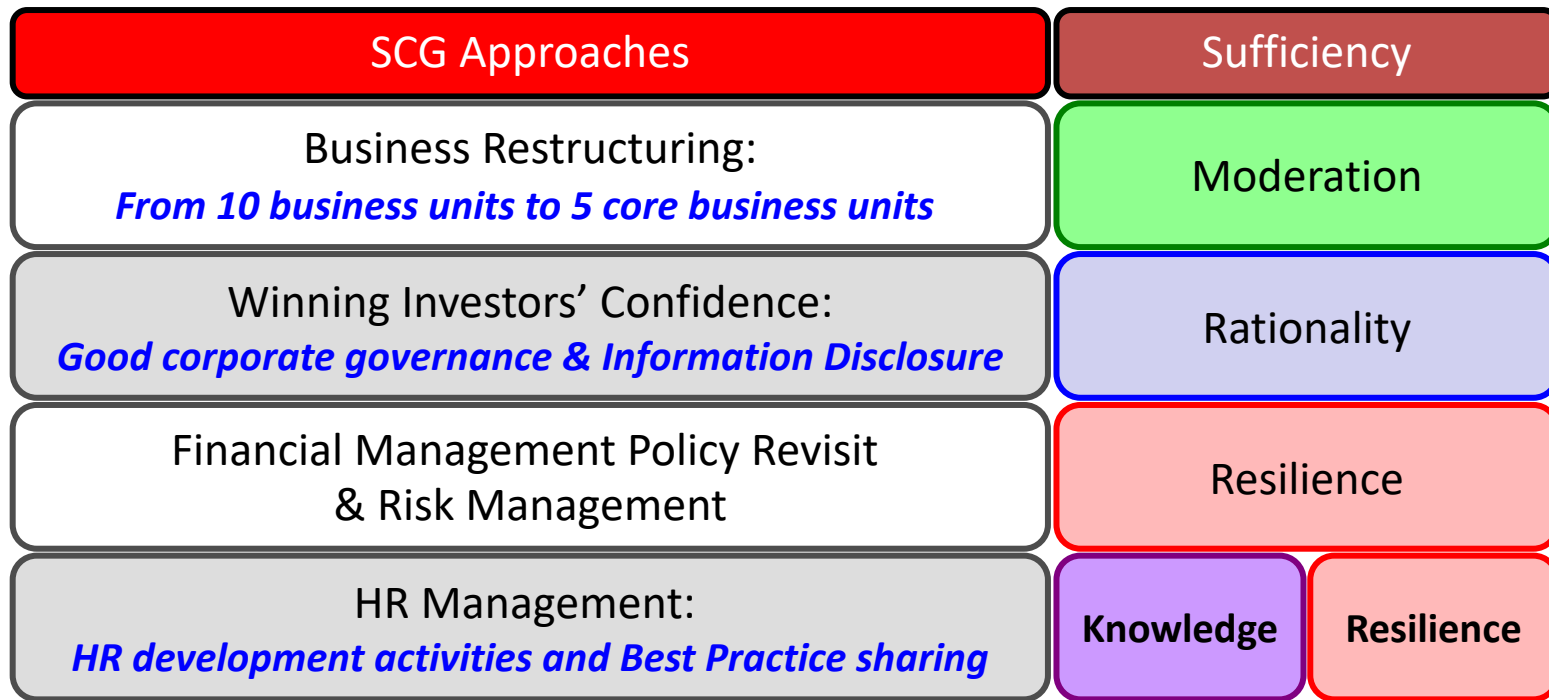
## Cement Domestic Demand – 40%



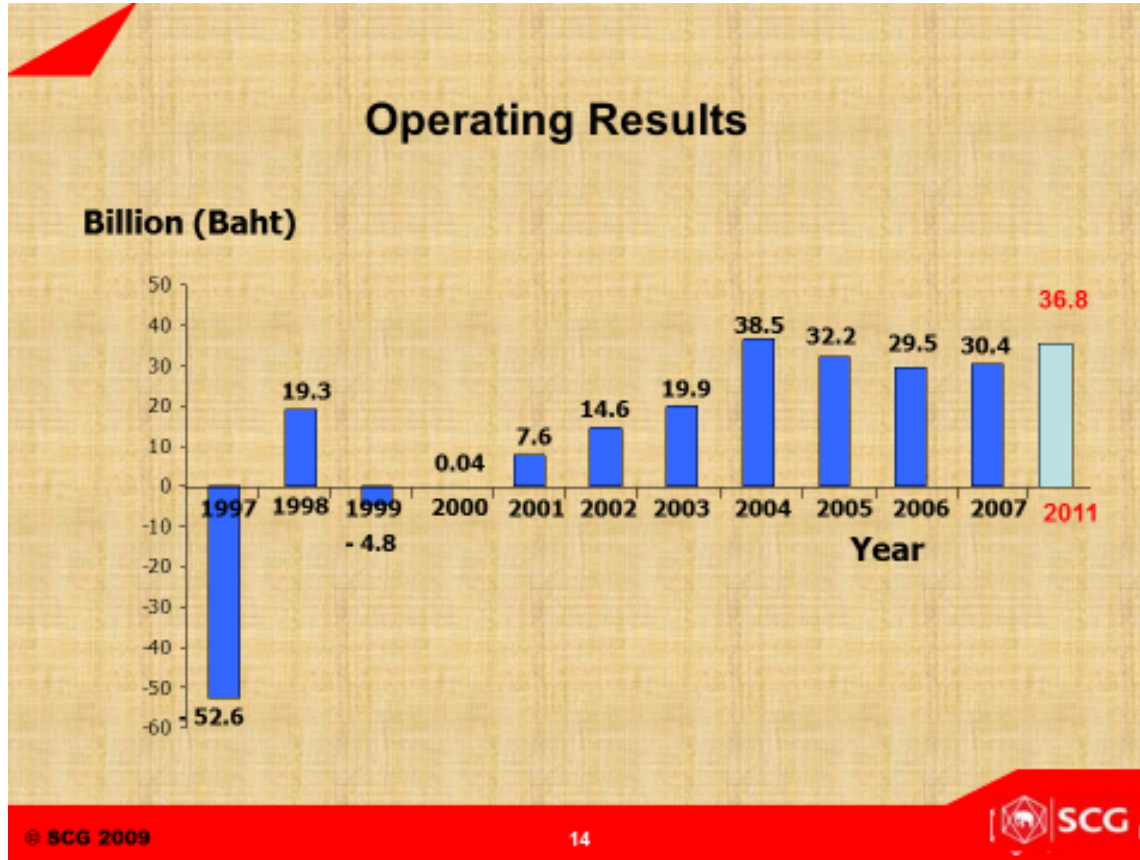
# SCG's Approach to survive crisis: Short term

SCG Approaches	Sufficiency
Postpone or cancel investment projects	Rationality
Minimize working capital & Cost control	Rationality
Increase export: <i>The compensation for a drop in domestic demand</i>	Rationality
Build debtholders' confidence: <i>Transparency plan to roll over short-term debt</i>	Honesty, Integrity

# SCG's Approach to survive crisis: Long term



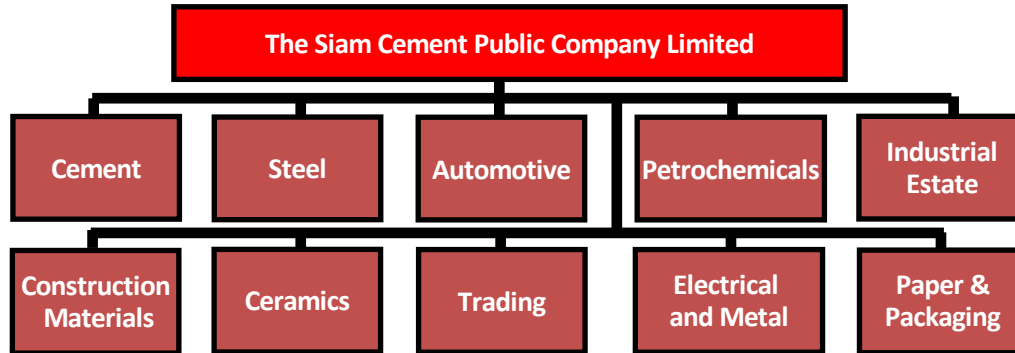
# Operating Results





# SCG Organizational Structure

Before Crisis



Present



# **Sufficiency Economy Philosophy and Financial Results**

# Objective of the Study

- The first research summarizing **performance indicators** to measure firm's alignment with Sufficiency Economy Philosophy
- The first research using **financial data** to study the implication of Sufficiency Economy Philosophy

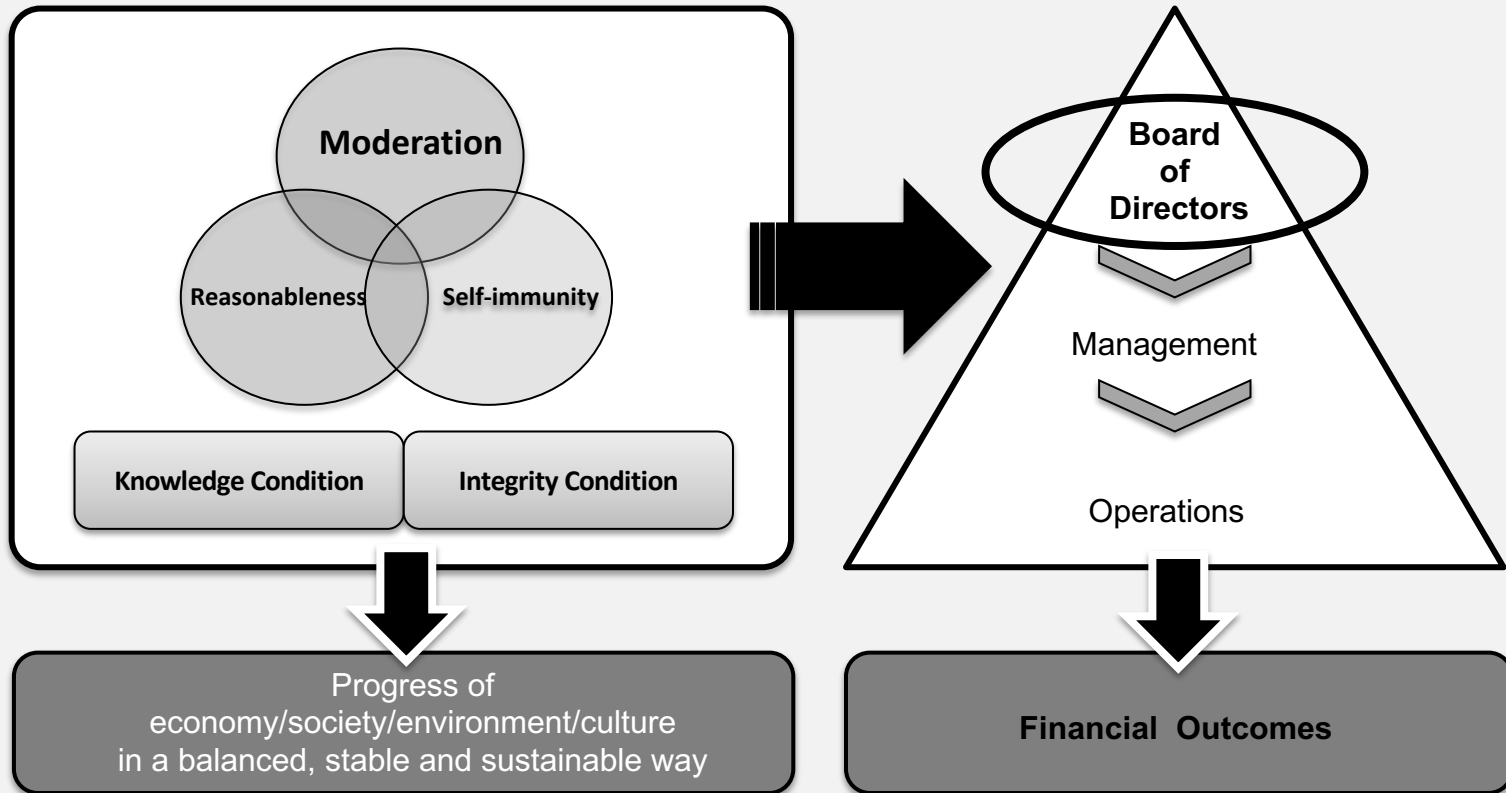
## **Objective of the Study**

- To study the extent to which **corporations** are aligned with Sufficiency Economy Philosophy
- To study the **financial implications** of Sufficiency Economy Philosophy

# Scope of the Study

1. SE performance indicators for board of directors
2. Financial data from traditional financial indicators: firm value, profitability ratio, leverage ratio, and equity beta
3. 50 corporations in the SET50.
4. Performance and outcomes in 2012
5. Disclosure Data
  - News and information on firms' websites
  - Stock Exchange of Thailand (SET)
  - Securities and Exchange Commission Thailand (SEC)

# Conceptual Framework



# Roles of Board of Directors

1. Approve & monitor **enterprise strategy**
2. Approve major **financial decisions**

**Strategy  
Formulation**

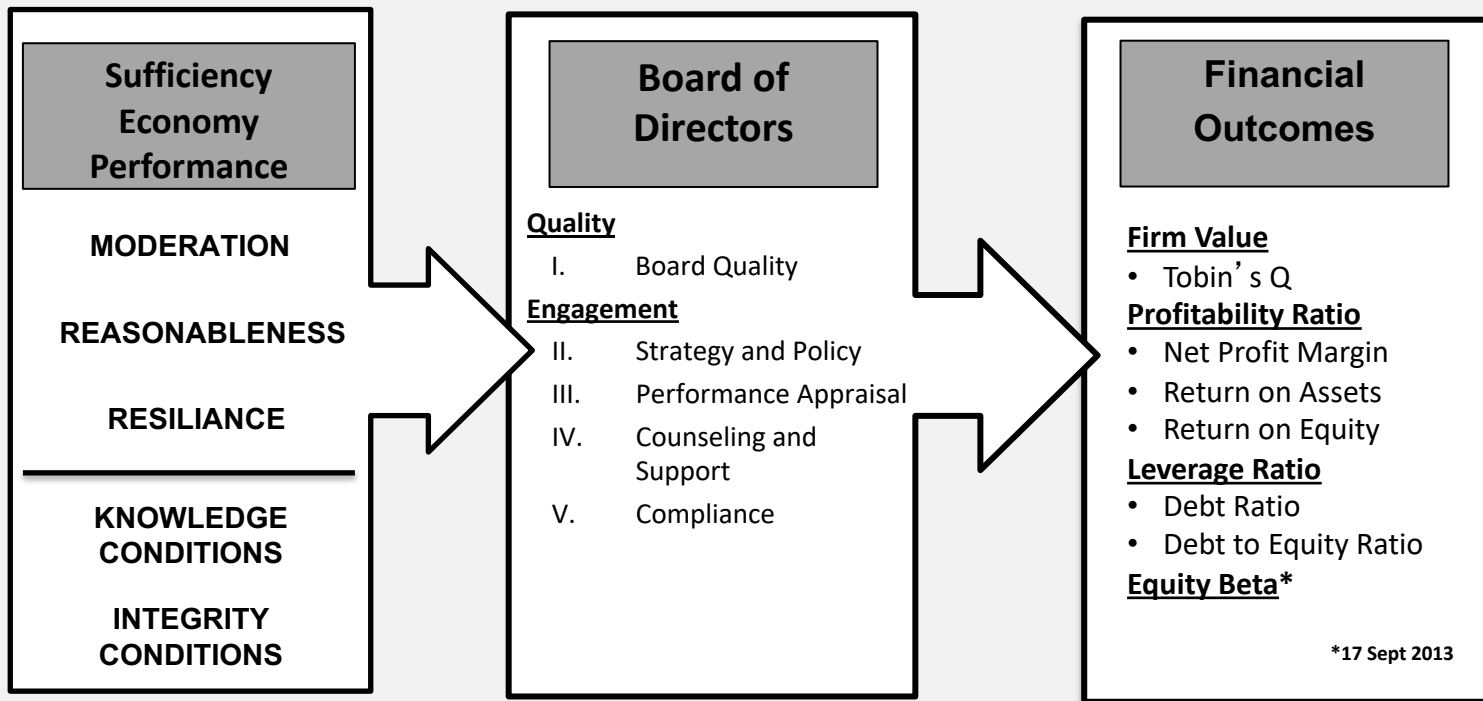
- 
3. Select CEO, **evaluate CEO** and senior executive team, ensure executive succession plans
  4. Provide **counsel and support to CEO**

**Strategy  
Deployment**

- 
5. Ensure **compliance**

**Controlling &  
Evaluation**

# Analytical Framework



# SEP Performance: Moderation

- It stresses **the middle way** between **want and extravagance**, and between **over-consumption** and **under-consumption** (Kantabutra 2006 and Sachayansrisakul 2009).
- People should consume just **enough** for **the right purpose** or necessity (Sufficiency Economy Organization 2009).
- The only way to avoid suffering is to **avoid greed or over demand** for **unnecessary** things and situations (Calkins 2006).

## Indicators

- Utilizing resources effectively and efficiently
- Formulating strategies and policies based on core competencies
- Alignment of visions, mission, strategies, and plans
- Etc.



# SEP Performance: Reasonableness

- It is about **reasoning** prior to **making decision** (Sachayansrisakul 2009).
- Its principle is not only **emphasizes causes and effects** in terms of **making a decision** (Calkins 2006 and Pantasen 2006), but also means **being conscious** and **aware** of what and why the decision is made (Calkins 2006 and Sachayansrisakul 2009).
- Thinking for **long term benefit** is preferable as the **reasonableness** (Issarangkun and Pootrakool 2002).

## Indicators

- Making decision based on the results of analysis or feasibility study
- Encouraging stakeholder to engage in business decision making
- Making decision for long term benefits.
- Etc.

# SEP Performance: Resilience

- It is about **preparation** for:-
  - the **protection for risk** or unexpected shocks (Calkins, 2006)
- as well as ability:-
  - to with stand shocks (Kantabutra 2006),
  - to deal with internal and external environment (Issarangkun and Pootrakool 2002 and Kantabutra 2007),
  - to adjust to events that are uncontrollable or unpredictable, and
  - not to manage for short term gains (Kantabutra 2006).

## Indicators

- Conducting proper risk management and resilience systems
- Preparing internal readiness to be adaptable for external changes
- Preparing effective communication to manage stakeholder expectations
- Etc.

# SEP Performance: Knowledge Conditions

- It is required for the **improvement of human capital** on individual level, and **the promotion of the knowledge economy** at social level (Calkins 2006).
- the principle of knowledge requires **the application of accurate knowledge**, care and giving **mutual assistance and collaboration** (Pruetipibultham 2010).
- Sufficiency Economy focuses on **sharing knowledge with competitors** to develop market (Kantabutra 2007)

## Indicators\*

- Establishing proper systems for knowledge management
- Appointing directors from their knowledge and experience to support corporate's need
- Board diversity
- Etc.

# SEP Performance: Integrity Conditions

- People uphold **honesty and integrity** while conducting their lives with harmlessness, perseverance, and, generosity (Issarangkun and Pootrakool 2002, Kantabutra 2007, and Pruetipibultham 2010)
- The concept of **Corporate Social Responsibility** and **Corporate Governance** are expected as the morality of organization (Pruetipibultham 2010).

## Indicators\*

- Establishing systems or mechanisms to promote morality
- Establishing code of ethics
- Conducting social responsibility for the benefits of stakeholders
- Board responsibility
- Etc.

# SEP Performance Indicators for BOD

## I. Board Quality (17 items)

- A) Qualification of Board and Directors
- B) Appointment of Directors
- C) Board Appraisal

**Quality of Board**

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## II. Strategy and Policy (28 items)

- A) Strategy Development Process
- B) Content of Strategy and Policy
- C) Policy for Financial Decision
- D) Policy for Stakeholder Engagement
- E) Policy for Ethics and Social Responsibility

**Engagement of  
Board**

## III Performance Appraisal (11 items)

## IV. Counseling and Supporting (6 items)

## V. Compliance (12 items)

- A) Managing Risk
- B) Internal Auditing
- C) Ethics and Social Responsibility
- D) Public Communication

# Data Collection

- Assess companies based on 63 measure items
  - **Cronbach's Alpha of SE indicators = .845**
    - Moderation (16 items)
    - Reasonableness (17 items)
    - Self-Immunity (28 items)
    - Knowledge Conditions (15 items)
    - Integrity Conditions (24 items)
- SE scores are from documentary evidence
  1. Researcher detects activities and count the performed items
  2. Another researcher audits scores and supporting evidences
  3. Senior researcher validates scores
- Scores are calculated into percentages

# Data Analysis

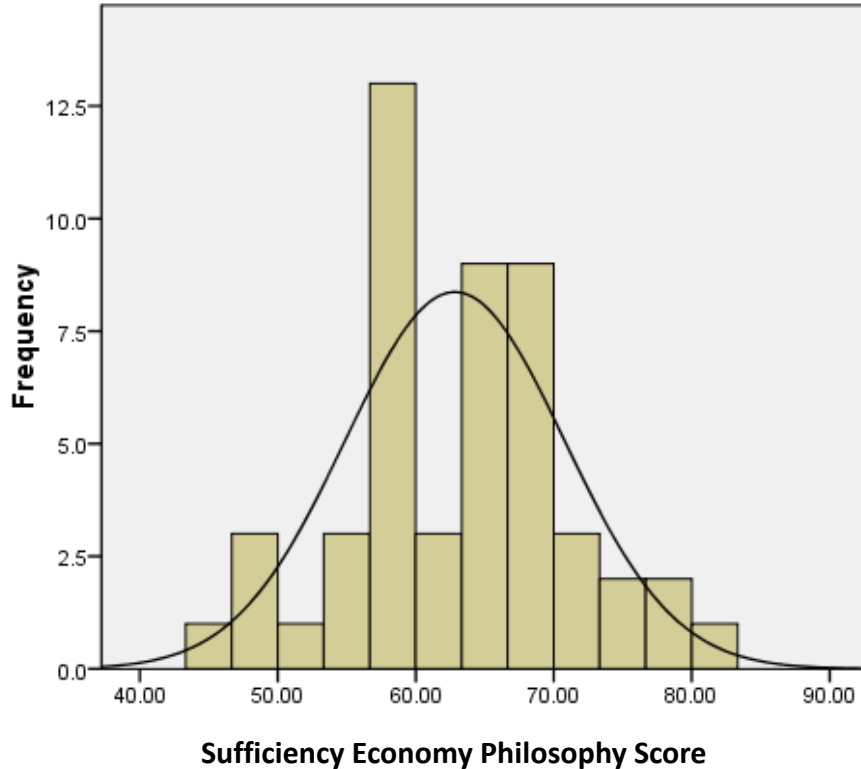
1. Sample Profile
2. Regression controlling firm asset and industry effect
3. SE Performance Mean Differences
  - Profitable and Unprofitable Companies
4. Financial Mean Differences
  - Between High - Low SE Alignment
  - Cutting off by Median

# Sample Profile

Industry	Number of Companies	Percentage	Average SEP Score
Services	12	24	60.44
Resources	10	20	66.40
Financials	9	18	63.14
Property & Construction	9	18	62.86
Technology	5	10	63.91
Agro & Food	3	6	60.93
Industrials	2	4	62.55
<b>Total</b>	<b>50</b>	<b>100</b>	
Profitable Companies	47	94	63.15
Unprofitable Companies	3	6	60.87



# Sufficiency Economy Alignment



Max = 81.00 %  
Median = 63.89 %  
Mean = 63.02 %  
Bottom = 44.59 %  
Std. Dev = 8.05 %  
n = 50

## Sufficiency Economy Alignment: Profitable and Unprofitable Corporations

Sufficiency Economy Philosophy Score

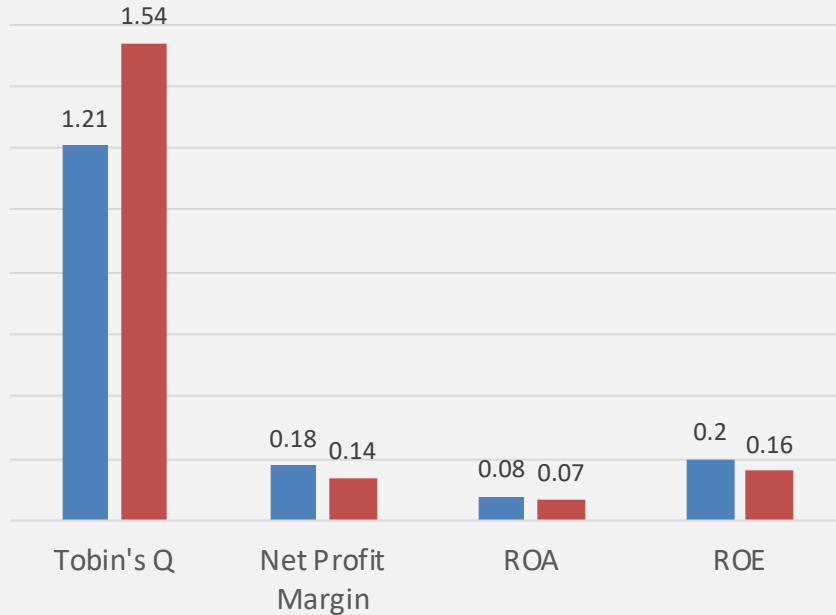


Profitable corporations  
are more aligned than  
unprofitable ones

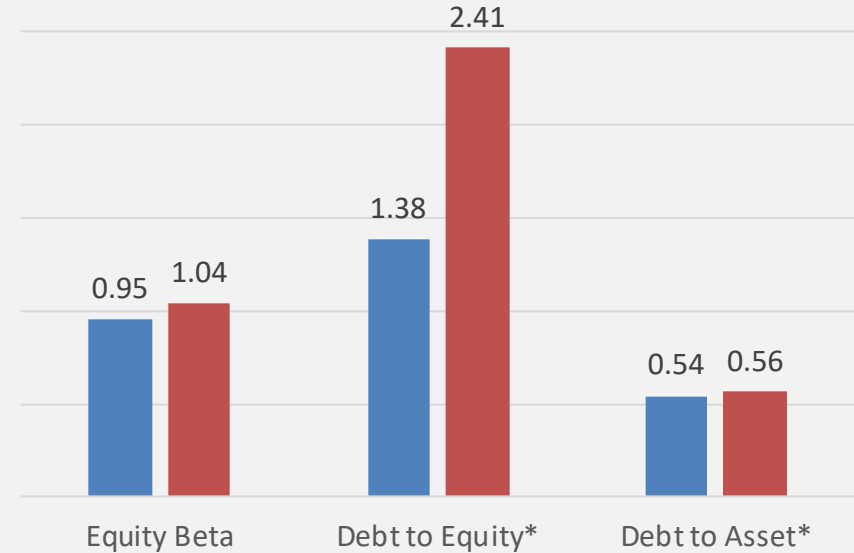
## Sufficiency Economy Alignment: Profitable and Unprofitable Companies

Low aligned companies are more sensitive & leveraged  
BUT  
High aligned companies are more stable & profitable

High Aligned Companies  
Low Aligned Companies



The higher, the better



The lower, the better

## Correlation between SEP and Risk

$$\text{Total Risk} = \text{Market Risk} + \text{Firm-specific Risk}$$



**“risk that affects all investments”**



**“risk that affects specific firms”**

# Capital Asset Pricing Model and SEP

**Total Risk** : STD of stock returns (daily/weekly)

Market Risk:  $\beta$

Firm-specific Risk: STD of  $e_{it}$


$$r_{it} = \alpha_i + \beta r_{mt} + e_{it}$$

$r_{it}$  = return of stock  $i$  in time  $t$  (daily/weekly)

$r_{mt}$  = return of market in time  $t$  (daily/weekly) (Use SET, SET100, or SET50)

$e_{it}$  = residual from the model

Data: Jan 2008 – Dec 2012

# Correlation between SEP score and risk

Higher SEP Alignment, Lower Risks

<b>Total Risk (STD of returns)</b>	<b>-0.276 *</b>
	<b>(0.080)</b>

<b>Market Risk (Beta)</b>	<b>0.123</b>
	<b>(0.443)</b>

<b>Firm-specific Risk (STD of Residual)</b>	<b>-0.310 *</b>
	<b>(0.049)</b>

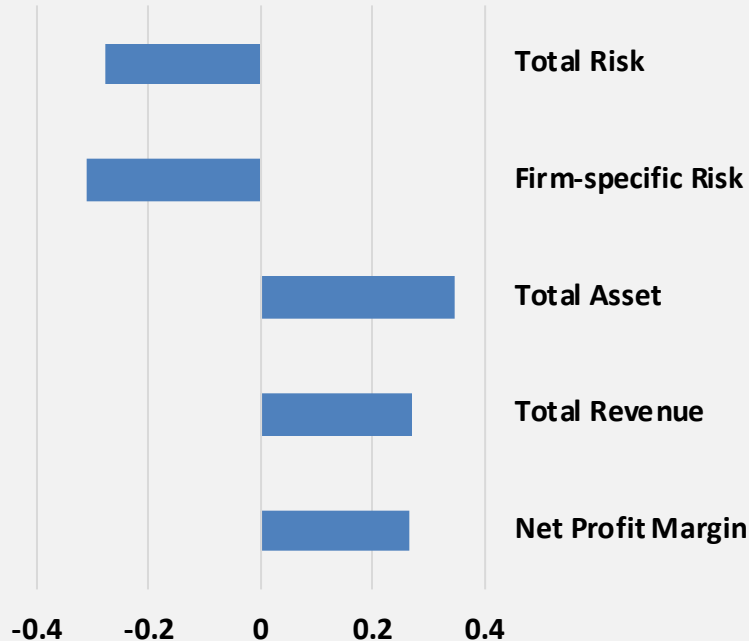
Correlation between SEP score and risk  
(weekly data)

\*The p-values in parentheses

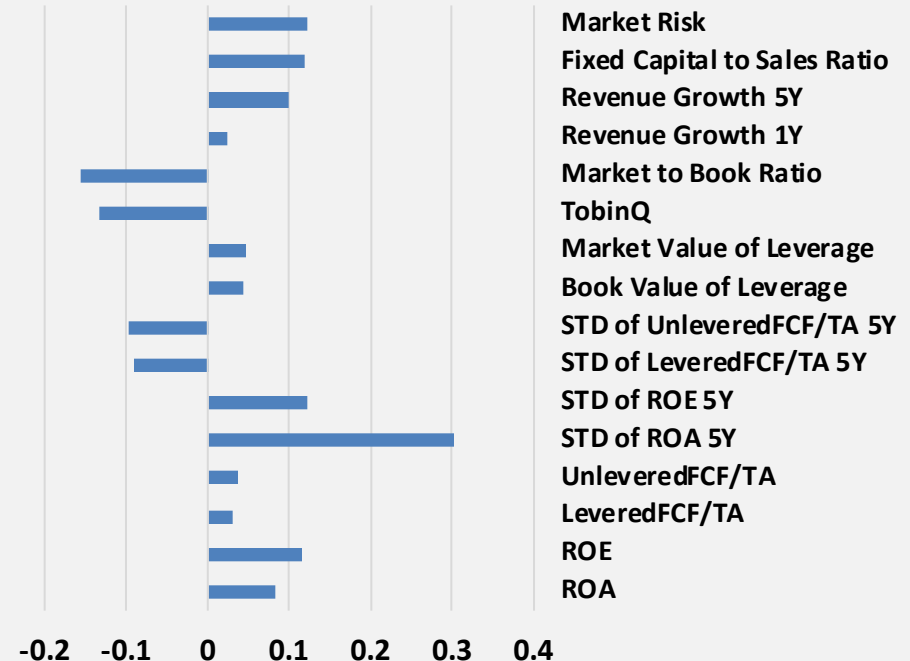
# Correlation between SEP score and other measures

Selected financial data

**Significant ( $P < 10\%$ )**



**Non-significant ( $P > 10\%$ )**

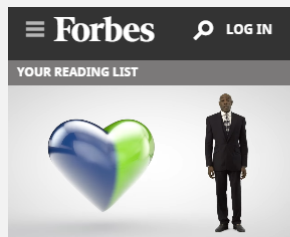


# Conclusion

- 1<sup>st</sup> quantitative study of Sufficiency Economy Philosophy (SEP)
- SEP practices help reduce firm risks.
- SEP practices are NOT anti-development.
- SEP practices are aligned with investors' interests.
- Limitation of the study: small sample size – a pilot version



# Publicity of SEP



King Bhumibol Of Thailand And Business Sustainability

+12k views in the last 24 hours

How I Used Real Estate to Completely Fund My Kid's College Education

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## King Bhumibol Of Thailand And Business Sustainability



**Kenneth Kim**, CONTRIBUTOR

I write about the markets, economy, and investing in Asia and the U.S. [FULL BIO](#) ▾

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BANGKOK, THAILAND – OCTOBER 22: Thai mourners say prayers next to a portrait of the late King on October 22, 2016 in Bangkok, Thailand. Tens of thousands attended the emotional event singing the Royal anthem which was filmed as a tribute to Thailand's King Bhumibol Adulyadej, the world's longest-reigning monarch, died at the age of 88 after his 70-year reign. The Crown Prince Maha Vajiralongkorn had asked for

## Sufficiency Economy Philosophy and Firm Risks

Pattanaorn Chatjuthamard, Vacin Lawatanatrakul, Nick Pisalyaput, and Vasu Srivibha

Sasin Graduate Institute of Business Administration of Chulalongkorn University

Working Paper (Oct 2016)

### ABSTRACT

Using data from Thailand, we designed and created our Sufficiency Economy Philosophy score (SEP score) that measures the extent to which a firm is aligned with Sufficiency Economy Philosophy. We find that our SEP score has a negative relationship with firm-specific risk measured by the standard deviation of residuals from the market model. However we find no relationship between SEP score with neither market risk nor other measures of firms' performance. The findings support the notion that alignment with Sufficiency Economy Philosophy could reduce risk without sacrificing performance, it leads to sustainability, and that Sufficiency Economy Philosophy practices are well aligned with shareholders' interests.

# Publicity of SEP



“Like human development, the Sufficiency Economy places humanity at the centre, focuses on well-being rather than wealth, makes sustainability the very core of the thinking, understands the need for human security and concentrates on building people’s capabilities to develop their potential. And it adds a spiritual dimension to human development, reflecting the King’s own character, convictions and sincerity.”

**Joana Merlin-Scholtes**

UN Resident Coordinator and UNDP Resident Representative Thailand

# Summary

# Summary

## **Sufficiency Economy Philosophy and business**

- Long-term perspective
- Extract appropriate level of profit; use surplus in other constructive ways
- Growth in stages, based on internal capacities that are consciously developed
- Attentive to stakeholders
- Place high value on own people
- Attentive to managing risks
- High ethical standard, with due regard for society & environment



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# Thank you



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