

MASTER'S THESIS

Internal and External factors hampering SME growth

-A qualitative case study of SMEs in Thailand-

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Abstract

Small and medium-sized enterprises (SMEs) in Thailand are very important to economic growth and considerably essential to generate employment as in many other developing countries. SMEs account for 99.5% of the overall enterprises in Thailand while their contribution to the overall employment account for around 76% of all jobs. However, SMEs growth rate is still at a low level. Hence, this is qualitative study of the external and internal factors hampering the growth of SMEs in Thailand. Regarding external factors, there are a number of obstacles constraining their growth such as access to finance, competition, corruption, barriers to trade and macroeconomic factors as amongst some of the most significant issues. In terms of internal factors, there are also important constrains hindering their growth, for instance, poor management competences, lack of skilled labour, deficiencies in marketing strategies, little efforts on R&D, lack of new technology and low awareness concerning CSR are identified as some of the most important obstacles.

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Summary

Background problem: Small and medium-sized enterprises (SMEs) are important to economic growth and significantly essential to generate employment. Therefore, the future of the Thai economy depends to a great degree on the success of SMEs as in many other developing countries. Thai SMEs are facing a series of external and internal factors that have significant adverse effects on their growth and additionally there are challenges for them to make a greater contribution to the economy.

Purpose: The purpose of this thesis is to explicitly research and consider aspects that are hampering the growth of SMEs in Thailand. The issue is researched from two different perspectives; external and internal factors that have an impact on the growth of SMEs.

Limitations: The thesis is limited to SMEs in Thailand and the three companies selected for the research are the results of contacts. Institutions interviewed have been selected to obtain a deeper and broader understanding for the problem area in Thailand.

Method: In this thesis both primary and secondary data are collected. The secondary data used has been critically evaluated and has been collected from relevant literature, databases and internet sources. The primary data is collected by semi-structured qualitative interviews with managers of SMEs in Bangkok as well as representatives from different institutions cooperating with SMEs in Thailand.

Findings: The research reveals that that there are a number of significant factors hampering Thai SMEs to grow. The major obstacles are attributed to lack of access to finance, competition, barriers to trade, management competence, lack of skilled labour, low investment in R&D and new technology.

Keywords: SMEs, Thailand, external, internal, obstacles, growth.

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Visby, May 2010

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Abbreviations

APO Asian Productivity Organization
AIT Asian Institute of Technology
CSR Corporate social responsibility
CPI Corruption perception index

FTA Free trade agreements
GDP Gross domestic product

GMO Genetically modified organism
GMP Good manufacturing practice

HR Human resources
LE Large enterprises
ME Medium enterprises

NSTDA National science and Technology Development Agency
OSMEP Office for Small and Medium sized Enterprise Promotion

R&D Research and Development

R&F Rein & Fresh Co. Ltd.
SE Small Enterprises

SEA Organic Southeast Asia Organic Co. Ltd.

SIDA Swedish International Development Cooperation Agency

SME Small and Medium-sized Enterprises
STS STS Consumer Products Co. Ltd.

THB Thai Baht (exchange rate 1USD-->32.30)
UTCC University of Thai Chamber of Commerce

VAT Valued- Added tax

WTO World trade organization

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1. Introduction

The Kingdom of Thailand known as Siam until the mid-twenty century was established over 600 years ago. Thailand means "Land of the free" and it is an amazing nation that has many things in common with other countries in Asia, nevertheless, it also has other interesting exclusive characteristics such as religion, ethic homogeneity and so forth (Thassanabanjong et al., 2009). Hence the aim of the thesis is to focus on the external and internal factors hampering the growth of small and medium-sized enterprises (SMEs) in this ancient nation. Thai SMEs have an important role in the creation of jobs as they account for a relevant number of the total enterprises in the nation. In addition, it is argued that the growth of the Thai economy depends to a great extent to the success of the SME sector since they generate a significant contribution to GDP and employment. However, the current situation for the majority of Thai SMEs is a low growth rate which can be attributed to a series of external and internal problems.

1.1. Background problem

SMEs are important to economic growth and significantly essential to generate employment (Harvie and Lee, 2005; World Bank, 2009). 70% of new jobs creation in Southeast Asia are claimed to be coming from SMEs and in addition Harvie and Lee (2005) argue that SMEs contribute to more than half of the labour force within the private sector in the region. Particularly in Thailand their contribution to employment account for three quarters of all jobs and for that reason they also have an important role in the contribution of poverty alleviation in the country (Harvie and Lee, 2005; World Bank, 2009). Therefore, the future of the Thai economy depends to a great degree on the success of SMEs as in many other developing countries given that SMEs are a very important element of the Thai economy as it accounts for 2,274,525 or 99.5% of the overall enterprises (Tannock et al., 2002; World Bank, 2009). In 2006, SMEs share in the overall employment was 8,863,334 or 76.7%, while their contribution in generating average value added was approximately 39% of the overall GDP and in terms of direct export, they accounted for over 29% of overall export value (World Bank, 2009; OSMEP, 2007 a). However, Thai SMEs are facing a series of external and internal factors that have significant adverse effects on their growth and additionally there are challenges for them to make a greater contribution to the economy (OSMEP, 2007 a; World Bank, 2009). Some of the external and internal obstacles that Thai SMEs are facing are deficiencies in management capabilities, marketing, technology and innovation, problems arising from global economic, social and environmental changes, new stipulation of international rules, change in consumer behaviour, the government efforts in promoting SMEs, lack of competitive advantage and the access to credit as among the greatest barriers to their operation and growth (OSMEP, 2007 a; Harvie and Lee, 2005; World Bank, 2009).

For almost the whole decade ending in 1995, the Thai economy had been the fastest growing in the world which was seen as one of the most dramatic economic booms

experienced anywhere in the post-war world, however, the economic growth was followed by a collapse at the end of the decade (Warr, 2000). Thus, SMEs development in Thailand is perceived to be essential if the country want to progress from its present status of an emerging economy to the level of a recently industrialized economy and then join the ranks of the industrial nations (Régnier, 2000). On the other hand, the growth of SMEs in developing countries is observed to be lower than in industrialized economies (Sleuwaegen and Goedhuys, 2002). Furthermore, SMEs in developing economies have a tendency to contribute more to the total employment at an average of 70%. In contrast, SMEs in industrialized economies make on average a contribution to employment of around 50% (Harvie and Lee, 2005). In other words, SMEs contribution to employment tends to decrease as economies become more industrialized (Harvie and Lee, 2005). Additionally, Harvie and Lee (2005) state that starts-up have a tendency to create more jobs in developing economies, while in industrialized countries jobs seems to be created more by high-growth SMEs.

1.2. Problem discussion

One of the problems that occur when looking at different studies of firm growth is the measurement of company growth. There is no general approach on how to measure firm growth, thus, researchers use different indicators for growth (Barkham *et al.*, 1996). However, one of the most frequently used variables within researches is employment growth during a specific period of time, since the information is easy to access and uncomplicated to measure (Delmar *et al.*, 2003; Sleuwaegen and Goedhuys, 2002; Barkham *et al.*, 1996). Furthermore, added value is important to consider as developing countries have low productivity level (measured as added value per employee) which is one of the factors indicating the level of living standard within a country (Lind, 2005). In this study employment and added value are taken as principal measures of firm growth, though other growth indicators are further discussed in the following chapter.

As argued earlier SMEs are important contributors of economic development and Macpherson and Holt (2007) state that it is therefore relevant to study obstacles of small firm growth. This paper examines both external and internal factors hampering Thai SMEs to grow and this section will shortly discuss some of the problems identified in the literature reviewed. Nevertheless, other factors hampering growth are considered during the research.

- Laws and regulations Within a nation, governmental policies and regulations, such as various forms of taxes and price systems can constrain the growth of SMEs (Sleuwaegen and Goedhuys, 2002).
- Financial support Sleuwaegen and Goedhuys (2002) argue that restricted access to finance is great problem for SMEs in developing countries and most SMEs face problems in ensuring security for loan guarantees (OSMEP, 2007 a).

- Business location Brush et al. (2009) state that firm growth is dependent upon decisions made regarding its market, such as the geographical position of the firm, geographic expansion, market orientation and diversification.
- Competition The competition is increasing from transnational firms that have advantage of high levels of know-how within management and the pressure is also increasing from foreign direct investment projects that transfer operations to other locations where production cost is lower (OSMEP, 2007 a).
- Effects of globalization Globalization is pressuring SMEs to develop environmental aware strategies in order to compete with LE that promote their environmental policies to attract customers (Courseault Trumbach et al., 2006).
- Competence of management and employees Sleuwaegen and Goedhuys (2002) state that lack of managerial knowledge as well as difficulties in finding skilled labour are growth hampering factors for SMEs in developing countries.
- *Technical barriers to trade* SMEs in developing countries face problems in complying with trade regulations due to poor quality (Lind, 2009 c).
- Technology SMEs in developing countries tend to have low productivity and they
 are weak in terms of competition, as the result of using inadvanced technology, not
 maximizing machinery utility and not improving in technology due to the limitation of
 funding (OSMEP, 2007 a).
- Research and development (R&D) In general the spending on R&D in Thailand is rather low, as a result of shortcomings in knowledge and lack in ability to develop in innovative capabilities (OSMEP, 2007 a).

1.3. Purpose and research question

The purpose of this thesis is to explicitly research and consider aspects that are hampering the growth of SMEs in Thailand and identify possible answers to these issues. The authors look at this issue from two different perspectives; external and internal factors which have an impact on the growth of SMEs. The findings from the investigations are analysed and primary data and secondary data are compared in order to draw conclusions. Therefore, the following research questions will be addressed:

- A) What are the external factors hampering the growth of SMEs in Thailand?
- B) What internal obstacles are hindering the growth of Thai SMEs?

1.4. Method

The research questions require a general overview of the SMEs current situation in Thailand in order to identify external and internal factors that are hampering their growth. In this thesis both primary and secondary data are collected. The secondary data used has been critically evaluated and has been collected from relevant literature, databases and internet sources. The primary data is collected by semi-structured qualitative interviews with managers of SMEs in Bangkok as well as representatives from different institutions

cooperating with SMEs in Thailand. The results of the research from the interviews are examined in relation to the theory in order to be able to evaluate the most significant factors that hamper Thai SMEs to grow. Eight weeks of field work has been taking place in Bangkok from the end of March to the end of May in 2010. This period has been used for interviews in order to gather information. A more detailed description of the chosen methodology is provided in the following chapter.

2. Methodology

The objective of this chapter is to describe and discuss the research method and methodology that has been applied for this research. In addition, an evaluation of the sources will be presented as well as the methods used to increase reliability and validity will be emphasized.

2.1. Research strategy

In order to find out possible answers to the research questions, it is necessary to plan and design a research strategy. Thus, the strategy must contain diverse types of methods and tools that are relevant to accomplish the research. Moreover, it is of significant importance to utilize tools and research methods that highlight the reliability and validity of the material and data collected. In addition, it is essential that all the material and collected data is critically analyzed and examined.

The research strategy for this thesis began by gathering and studying some background information regarding the situation of SMEs in Thailand; thereafter the research questions were decided. Questions for the interviews are structured based on the research from significant literature within the SMEs area.

The results from the primary and the secondary data collected will be analyzed and discussed in order to identify the most important results. Moreover, some conclusions will be drawn based on the results associated to the research questions.

2.2. Research methods

There are two types of methods of research which are normally the most used in the collection of data; these are identified as following: quantitative and qualitative methods (Ghauri *et al.*, 1995). The quantitative methods consist in the systematic empirical studies which involve quantifying through the assistance of mathematics and statistics (Bryman and Bell, 2007). Data is collected and transformed into numbers which are empirically tested to see if a relationship can be found in order to be able to draw conclusions from the results gained. In other words, quantitative methods are related to numerical interpretations. On the other hand, qualitative research does not rely on statistics or numbers. Qualitative methods often refer to case studies where the collection of information can be received from a few studying objects (Bryman and Bell, 2007). Furthermore, qualitative methods emphasize on understanding, interpretation, observations in natural settings and closeness to data with a sort of insider view (Ghauri *et al.*, 1995). According to Bryman and Bell (2007) qualitative research is an appropriate approach for research in business and management administration.

The type of research approach to select depends on the kind of studies that will be conducted. However, Gunnarson (2002) argues that the benefit of applying a qualitative

method in a research is that the method takes into consideration the overall picture in a way that the quantified method cannot. A qualitative approach will be more suitable in order to fulfil the purpose of this research, since this thesis is researching what factors are hampering firm growth, due to the fact that perceptions, beliefs, ideas and opinions are difficult to measure in a quantitative way. By thoroughly studying each firm, its internal behaviour and its external elements, using qualitative methods, it will be possible to understand perceptions and opinions regarding hampering factors of firm growth. However, quantitative methods are also used in this research in order to measure if the firms have been growing or not. Data are collected from each firm regarding their added value production and number of employees which are the two growth indicators chosen for this thesis. This data is collected by means of a questionnaire which is sent out to the companies and then returned to the authors through e-mail.

2.3. Data collection

Ghauri *et al.* (1995) state that when using a special technique for collecting data the collecting data can be either primary or secondary. Bryman and Bell (2007) goes on by saying that primary data is information that the researcher gathers on his own, for instance by using interviews, questionnaires and tests. On the other hand, secondary data refers to the data such as literature, documents and articles that is collected by other researchers and institutions (Bryman and Bell, 2007). In this thesis both primary and secondary data are collected. The secondary data used has been critically evaluated and collected from books, scientific articles, company reports and internet sources, in order to obtain some better insight of the situation of SMEs in Thailand and to support the theoretical as well as methodological part of the thesis.

The primary data is collected by qualitative interviews and open-ended questions with each firm's respectively manager. Due to a scholarship from SIDA, the authors received the opportunity to travel to Thailand to collect the primary data in the local environment. In order to carry out a more accurate research it has been decided to make interviews with managers of SMEs in Thailand. To be able to achieve a deeper understanding regarding SMEs in Thailand and what hamper their growth it has been considered necessary to experience and observe the Thai culture from a business perspective in their natural environment. This approach is declared by Bryman & Bell (2005) as interpretivism which means that the researcher studies the object in its natural environment in order to achieve an understandable view of the theory, in this case factors hampering firm growth. To reach further understanding regarding the theory, it has also been decided to make interviews with other Thai organizations that cooperate with SMEs in Thailand.

2.4. Selected research method

The research questions require a general overview of the SMEs current situation in Thailand in order to identify external and internal factors that are hampering their growth. The questions also require a deeper and more qualitative understanding of how Thai SMEs are complying with these issues and how they perceive these factors are affecting the growth of their firms. Therefore, the qualitative approach has been selected together with few quantitative features as the research method in this thesis.

2.5. Scientific approach

There are generally two different theories of the nature of the relationship between theory and research; deductive and inductive theory. It is basically the question whether data is collected in order to test theories or whether to build theories (Bryman and Bell, 2007). In inductive theories conclusions are derived from empirical observations leading the researcher to theories and hypotheses, although hundreds of observations are carried out, researchers can never achieve 100 % certainty about the inductive conclusion (Ghauri *et al.*, 1995). On the other hand, in deductive approach theory is considered in order to work out hypotheses and tested by data collecting thus rejecting or accepting the hypotheses (Ghauri *et al.*, 1995). Bryman and Bell (2007, p. 14) plainly sketch the two approaches as:

Deductive: theory → observations/findings
 Inductive: observations/findings → theory

In this thesis a deductive approach is used. This approach might be perceived as very linear; all steps in the process are following a logical order, however, Bryman and Bell (2007) state various reasons to change of the researchers' opinions regarding the theory after collected data have been analyzed. The reasons might be the fact that new theories have been published before the researcher have formulated any conclusions, the relevance of any data might only become clear after collected data or the data collected might not meet the terms

of the hypotheses.

2.6. Case study

According to Bryman and Bell (2007) the case study design involves detailed and intensive analysis of a single or few cases where the complexity of the nature of the case is sincerely studied. The case study design has been used in many well-known studies within the field of business and management research. However, there are limitations regarding the case study design; the external validity is questioned when using this method since one or a few cases cannot represent a certain group of organizations. The purpose of the case study is not to generalize the findings to other cases or larger populations (Bryman and Bell, 2007), the focus is rather on the cases and their distinctive contexts and to create a framework for

discussion of the issue. The multiple-case study design which has been chosen for this research allows the authors to compare and contrast the findings from the different cases as well as to consider what is common and what is unique across the cases.

2.7. Interviews

Due to the magnitude of the studies, there is a need to collect as much significant data as possible from the selected managers of companies in order to be able to accomplish a deeper understanding of the external and internal factors hindering the growth of SMEs in Thailand.

It has been decided to use qualitative interviews in order to collect primary data. Qualitative interviewing is quiet different in many aspects in comparison with interviewing in quantitative research, for instance, qualitative interviewing is generally much less structured (Bryman and Bell, 2007). Furthermore, qualitative interviewing is usually seen as being flexible; the interviewer adjusts and responds to the interviewee, there is a great interest in the respondents point of view, detailed and rich answers are desired, the interviewer is allowed to depart from any schedule that is being utilized, new questions may arise due to respondent's replies and the order of questions may be revised (Bryman and Bell, 2007).

There are different approaches to qualitative interviewing; unstructured and semistructured interviewing. During an unstructured interview the researcher might start the conversation with a question and then actively listens to the respondent who talks freely while a semi-structured interview follow a checklist of issues and questions that the researcher wish to cover during the session (Darmer, 1995; Bryman and Bell, 2007). Thus, semi-structured interviews have been chosen as method in this thesis. The reason for choosing the semi-structured interview technique is essentially due to our aim to encourage the interviewees to freely discuss their own opinion on what is hampering the growth of their firms. This method with open-ended questions will allow us to adjust our questions depending on the attributes of the specific firm and the given type of problems that they face. According to Darmer (1995) the semi-structured interview is neither a free conversation nor a highly structured questionnaire. Semi-structure interviews provide the opportunity to regulate the order of the questions and the respondents have the possibility to expand their ideas and speak in great detail about diverse subjects rather than relying only on concepts and questions defined in advance of the interview. In other words, semistructured interviews are more flexible than standardised methods such as the structured interview or survey.

One general problem when conducting qualitative interviews, with open-ended questions, is that the interview is "flavoured" by the interest and opinions of the interviewer. Semi-structured interviews are rather organized in terms of what issue will be discussed during the interview but the follow-up questions will be depending on the opinions of the

interviewer. Another problem that can occur is misunderstandings and misinterpretations of words. This could in particular be a problem within this research since interviews have been conducted in English which is not the mother tongue, for neither the respondents nor the interviewers. However, in order to increase the reliability of the answers all interviews have been recorded, subsequently transcribed material have been sent to the respondents, statements have been amended according to the respondents' comments and finally the material has been approved by the interviewees.

2.8. The respondents

The segment of the population that has been selected for this research, in other words the sample, is based on a non-probability approach which means that the sample has not been chosen by using a random selection method, thus some organizations are more expected to be selected instead of others (Bryman and Bell, 2007).

The companies selected for the research are the results of contacts through supervisor Professor Per Lind, in addition, the authors also received support from AIT (Asian Institute of Technology) through Head of Gotland University Jörgen Tholin and International Coordinator Suk-hi Cho and UTCC (University of Thai Chamber of Commerce) through Professor Per Lind. At UTCC in Bangkok the authors came into contact with Mr. Roongroj who was able to assist with local contacts with different institutions working with SMEs in Thailand due to his local knowledge and network. The OSMEP and World Bank were selected by the authors themselves and were approached via e-mail where they were asked if they could participate in the study. The ten in-depth interviews have all been taking place in Bangkok and all transcribed material from the interviews have been approved by the respondents in order to reduce possible misunderstandings. Some further questions have been sent to the respondents through e-mail after conducting the interviews in order to achieve improved understanding regarding any particular issue. Moreover, the questionnaire used to measure the firm growth was also send out to the companies and returned via e-mail.

After selecting the companies and organizations the subsequent task was to select the persons to be interviewed. The importance of interviewing the right person who has a central position within the company or organization is crucial since it limits the risk of misrepresentations due to a lack of knowledge and increase the accuracy of the answers. Given that this research focuses on SMEs, the owners of the companies were chosen as respondents and within the institutions supporting SMEs, respondents working closely with this issue have been selected since they were considered the most appropriate contributors to find possible answers to the research questions. The respondents are as following:

Companies

- STS Consumer Products Co. Ltd. (STS): Ms. Chutima Sirichaovanickharn (Owner and Managing Director) interview 01-04-2010.
- Southeast Asia Organic Co. Ltd. (SEA Organic): Mr. Chatchaphon Pittayathikhun (Owner), Ms. Piyanart Boonyubol (Marketing), Ms. Premkamon Bunsri (Customer service), Miss Sukanya Authanit (Exports/imports) and Ms. Piyarat Krachangnate (Social development projects) interview 02-04-2010.
- Rein & Fresh Co. Ltd. (R&F): Mrs. Somlak Panascharoen (Owner and Managing Director) interview 05-04-2010.

Organizations cooperating with SMEs

- The World Bank: Mr. Frederico Gil Sander (Economist) interview 02-04-2010.
- NSTDA (Technology Management Centre of National Science and Technology Development Agency): Mrs. Sonthawan Supattaraprateep (Director of Industrial Technology Assistance Program - iTAP) interview 08-04-2010.
- OSMEP (Office of Small and Medium Enterprises Promotion): Mrs. Rasmi Hanvajanavong (Head of SMEs Data and Information Dissemination Division, Department of General Affairs), Mrs. Pairin Yamchinda (Deputy Director, SMEs Macro Strategies Department), Mrs. Luckana Tangchitnob (Deputy Director, SMEs Promotional Scheme Development Department), Mr. Nussati Khaneekul (Chief of SMEs Situation Analysis Division) interview 09-04-2010.
- **SME Bank**: Mr. Artch Bunnag (Assistant Manager, International Relations Division International Banking Department) interview 09-04-2010.

Academic institutions

- UTCC (University of the Thai Chamber of Commerce): Mr. Roongroj Benjamasutin (Associate Dean for Academic Affairs, School of Economics) interview 30-03-2010 and Professor Cachapum Sirichanachai (School of Economics) interview 17-04-2010.
- **AIT (Asian Institute of Technology)**: Mr. Somchai Ruangpermpool (PhD student and SME consultant) interview 08-04-2010.

2.9. Reliability and validity

The two concepts reliability and validity are very important to take into consideration when carrying out a qualitative research since they help to determine the objectivity of the research. Reliability and validity could be seen as two different measurement instruments that illustrate the level of trustworthiness and credibility of a research. Bryman and Bell (2007) explain that reliability and validity are separated into internal and external concepts. Internal reliability refers to whether there is more than one researcher within the study group thus the observers can agree as regards to what they see and hear. External reliability

means to what extent a research can be completed again with results comparable to the original study. It might be difficult to achieve high external reliability since the scene and the setting is likely to change from the time of the original research to the time of a second one. However, a strategy mentioned by Bryman and Bell (2007) is to adapt a similar role as taken on by the original researcher in order to be able to replicate the initial research. Subsequently, to achieve high reliability in this thesis, this chapter describes in detail the process of gathering data as well as how the interviews are performed. In addition, all interview questions are distributed in appendix 1. This detailed description increases the ability for other researcher to replicate this study under same conditions with comparable results.

Internal validity refers to what degree the researchers are able to agree and come to same conclusions i.e. if there is a good match between their observations and theoretical thoughts that they expand throughout the research (Bryman and Bell, 2007). Internal validity is usually perceived as a strength within qualitative research since the researchers tend to observe the social setting over a long period of time which generally results in excellent correspondence between observations and concepts (Bryman and Bell, 2007). External validity, on the other hand, can be seen as a problem within qualitative research, since it refers to the extent that findings can be applicable in other social settings and qualitative researchers generally make use of small samples and case studies (Bryman and Bell, 2007). In this thesis all interviews has been recorded and after transcribing the interviews the material has been sent back to the interviewees to receive their approval of the transcript material in order to increase the validity and to decrease the possibilities of using the authors own interpretation of the data.

3. Theoretical framework

This chapter will present an overview of previous studies related to the research question. The first part of the chapter will evaluate the literature concerning aspects affecting firm growth. The second part of the chapter will present and discuss a review of the literature related to the external and internal factors hampering the growth of SMEs. The third part of this section will introduce a review of the literature regarding the definition and current situation of SMEs in Thailand.

3.1. Measuring firm growth

When researching the hampering factors for SMEs to grow, it is first necessary to define firm growth i.e. how firm growth is measured. There is no general measurement for firm growth and scholars use various growth indicators when researching the field (Barkham *et al.*, 1996). The most common indicators are to measure absolute sales growth or relative employment growth during a specific period of time (Delmar *et al.*, 2003; Sleuwaegen and Goedhuys, 2002). Delmar *et al.* (2003) have identified further growth indicators applied by various scholars such as; assets, market share, physical output and profits. However, these indicators are generally not commonly used as sales and employment, since their applicability is limited; thus, total assets value depends on industrial capital intensity and is sensitive to change over time, market share and physical output vary within different industries and are therefore difficult to compare and finally, profits are only relevant in order to measure size over a long period of time (Delmar *et al.*, 2003).

Sales and employment are two important indicators when analyzing size of firms (Delmar et al., 2003). Employment is often used within studies since it is relatively easy to access and measure as well as it lies within interest for policy makers (Barkham et al., 1996). Sales are the most common measure indicator of firm growth though sales are effected by inflation and exchange rates furthermore it can be difficult to compare sales figures in different industries, whereby Delmar et al. (2003) argue the importance of using multiple growth indicators when studying firm growth. Barkham et al. (1996) highlight the importance of using at least one indicator based on changes in turnover when studying firm growth, one alternative could be to use added value as a variable. According to Lind (2005) SMEs in developing countries are often competing in price, thus, they do not focus on adding value to products and services. Lind (2005) points out the importance of added value since value creation is what makes a firm competitive and it is argued that added value is a more accurate measurement of SMEs' competitiveness than market shares, return on investment or profit. SMEs in developing countries have generally lower productivity than developed countries and since a country's ability to produce high level of productivity is one of the contributors towards improved living standards, added value could be seen as an important growth indicator.

Considering the discussion above regarding some of the different growth indicators and the advantages versus disadvantages of using them, the authors have decided to take employment and added value as the principal measures of firm growth in this study.

3.2. External factors hampering the growth of SMEs

According to Morrison (2006), businesses are affected by external macro-environments that they cannot control such as political, economic, social, technological, environmental and legal factors which can rarely be influenced by management decisions since they are external to the company, in other words, they are beyond the control of SMEs.

Competition

By entering into competition an organisation is searching for competitive advantage which to a great extent depends to the success of the business (Walley, 1998). SMEs are generally facing low competitiveness in terms of knowledge, innovation, prudent investment, business operation, and good management, which are important factors required to elevate the quality level (OSMEP, 2007 a).

Developing countries are facing competition from other countries due to globalisation and trade is increasing but restrictions generally favour developed countries (Lind, 2009 b). The competition is increasing from transnational firms that have advantage of high levels of know-how within management as well as increased competition from foreign firms due to FTA (OSMEP, 2007 a). Numerous SMEs find difficulties in complying with regulations set up by organizations such as the World Trade Organization (WTO), in other words technical barriers to trade due to poor quality (Lind, 2009 c). In addition, many countries for instance China, India, Vietnam and Indonesia produce similar products as Thai businesses, such as low-cost, low value-added, labour-intensive products, thus, Thai SMEs have to compete with these countries since many Thai businesses focus on price competition strategy through low labour cost (World Bank, 2009; The Government Public Relations Department, 2007; OSMEP, 2007 a; Leopairote, 1997). Hence, as Lind (2009 a) argues, SMEs must understand that the most important in business is not to compete in price since it can hamper their growth; therefore, SMEs need to concentrate in increasing added value in order to enhance competitiveness and stay out of the vicious circle.

Economic crisis

According to Cheah and Cheah (2005) economic crisis has constrained the development process in many developing countries in Asia which has a great impact on SMEs as they play an important role in these countries. It is argued that SMEs are more vulnerable to economic crisis and due to their small size they have limited resources such as finance, knowledge, technology and skills (Cheah and Cheah, 2005).

Consumer behaviour

Consumer behaviour pressure SMEs to constantly adapt in order to meet changes in demand for instance the spread of consumer awareness of sustainable development and environmentally friendly products force firms to adjust their business (OSMEP, 2007 a). Cheah and Cheah (2005) argue that it is an opportunity for SMEs to incorporate sustainability policies in their business strategies and operational activities, though, there is a need for more institutional support and governmental encourage to promote the benefits. In addition, Hassan and Agus (2005) state that demand is changing due to globalization which also has a great impact on SMEs.

Governmental policies

The significance of SMEs within an economy emphasize the importance of having governmental policies that support SMEs; issuing regulations that help them and their ability to operate efficiently and regulations that imply low administrative costs (Harvie and Lee, 2005 b). Although there has been an increase in governmental policies promoting and supporting SMEs in order to achieve economic growth and reduce poverty, there is still a lack of laws, administrative procedures and access to assistance from governmental agencies (Harvie, 2005).

Access to finance

According to APO (2001) and Sleuwaegen and Goedhuys (2002) insufficient capital or lack of financial sources is the major obstacle for SMEs and usually entrepreneurs need to utilize personal financial sources to start up their business and to expand the operations, since the internal financial sources are normally insufficient. Nichter and Goldmark (2009) claim that there are policy biases towards large enterprises and small firms face problems in growing due to lack of access to finance. SMEs have difficulty in growing due to insufficient collateral, high transaction costs and incapability to deal with the complexity of formal financial institutions (Harvie, 2005; APO, 2001; Leopairote, 1997). Moreover, SMEs in developing countries generally do not get accepted formal bank loans (Nichter and Goldmark, 2009; World Bank, 2009) because of perceived high risk of default, low profitability and incapability to demonstrate required physical collateral (Harvie, 2005). In order to cope with these concerns the Thai government has put together a stimulus package including an increase of the capital of the SME Bank which is a government financial institution (World Bank, 2009).

Geographical location

According to Macpherson and Holt (2006) geographical location has an impact on firm growth. Sleuwaegen and Goedhuys, (2002) argue that some of the main determinants of location are the availability of industrial sites, infrastructure, distribution and transport logistics, subcontractors, access to raw materials and skilled labour. APO (2001) highlights the problem for SMEs outside the Bangkok region to access information; they have less knowledge regarding tax, governmental regulations, marketing opportunities and production technology. Additionally Macpherson and Holt (2006) state that if an enterprise

chose its location strategically such as near to universities or a science park, then the firm could benefit by formal or informal contacts since these institutions can provide resource advantages that reinforce existing technological and managerial skills.

Corruption

Corruption has been a serious problem in Thailand for many years. It has been widespread, deeply rooted, well-organized and tolerated (Treerat, 2000). In 2001, Thailand's Corruption Perceptions Index (CPI) was 3.2 (ranked 61), whereas in 2009, the CPI was 3.4 (ranked 84) out of 180 countries (Transparency International, 2009). It means that the perception of corruption in Thailand has been increasing over the past years. One of the most recent and important scandals of corruption in Thailand is the case of the ex Prime Minister Thaksin Shinawatra who has been accused and sentenced for corruption, tax evasion, and of selling national assets to international investors (Fuller, 2008). In terms of business, companies consider corruption to be a large barrier when doing business in Thailand, along with hidden costs related to government, policy instability and inefficient government bureaucracy (SME toolkit, 2009). Transparency International (2008) highlights that in the case of SMEs, bribery is an even more problematic issue since they may feel powerless in the face of demands for bribes and are often unaware that bribery can be resisted.

3.3. Internal factors hampering the growth of SMEs

According to Morrison (2006), internal factors within an organization reveal how management decisions and the features of a company can affect on the decisions taken regarding the growth of a firm. Factors that are frequently considered part of the internal environment include the marketing objectives, HR strategies such as employee motivation, staff turnover and provision of training, leadership styles, investment in R&D and its organizational culture (Morrison, 2006).

Management competence

Macpherson and Holt (2007) and Barratt-Pugh (2005) claim that firm growth is dependent on managerial knowledge. In comparison with LEs managers in SMEs are generally less trained (Tannock *et al.*, 2001), consequently, they chose poor production technology, do not use proper accounting systems and underestimate required funding (APO, 2001). Generally SMEs spend less on formal training than LE due to financial limitations and the fact that it can be difficult to take employees out of the production (Thassanabanjong *et al.*, 2009; Tannock *et al.*, 2001). Training is crucial for the productivity and quality as well as it influences the effectiveness, efficiency and motivation of the employees (Thassanabanjong *et al.*, 2009). Managers of SMEs fail to listen to employees who really understand the process and product (Tannock *et al.*, 2001). This might be a problem due to the Thai culture which scores high in power distance (Hofstede and Hofstede, 2005) and influence the business environment where managers have high authority and workers fear to communicate with their managers.

Another problem, due to lack of management knowledge, identified by Lind (2005) is the lack of communication between the supplier and the customer in many developing countries. Lind highlights the importance of listening to the customer requirements in order to understand their expected and perceived benefit of the product. The goal of the customer's customer concept is to comprehend how a firm's products and services can contribute to improving the customer's business with his customers (Lind, 2005).

Lack of skilled labour

Lack of skilled labour is a hampering factor for SMEs in developing countries (Sleuwaegen and Goedhuys, 2002). According to (Holden *et al.*, 2007) firms in all sectors and of all sizes can progress through greater use of graduate labour but there is generally a mutual distrust between graduates and SMEs. APO (2001) highlights the lack of skilled labour as one of the most crucial obstacles for SMEs, thus, it is difficult for them to attract highly educated workers and retain skilled employees (high labour turnover) since they prefer to work for LEs that can offer higher salary, job security and career possibilities, resulting in a slowdown in workforce development which has a negative impact on the quality of goods and services (OSMEP, 2007 a).

Marketing

According to Brush *et al.* (2009) marketing is another obstacle for companies to grow since many businesses confront challenges establishing effective distribution channels, communicating product features, pricing products and services in an attractive way, implementing sales and marketing efforts to win and retain customers and undertaking constant product development in order to sustain sales. Furthermore, the OSMEP, (2009) identifies other aspects such as the understanding of the domestic and international marketing; lack of capabilities to create innovation, image, exclusive branding; and the lack of appropriate support from marketing infrastructure.

SMEs generally do not have the knowledge or information about other markets, thus, this limit their ability to market their products to larger groups of customers and expand their business (APO, 2001). Though, Brush *et al.* (2009) argue that massive marketing campaigns are not the best form to achieve success, conversely, close personal relationships, word-of-mouth referrals, repeat business, and niche marketing efforts have proven to be more cost effective and successful.

Technology

SMEs tend to have low productivity and they are weak in terms of competition which is the result of using inadvanced technology, not maximizing machinery utility and not improving in technology due to the limitation of funding and most SMEs are mainly users of technology, not adaptors of technology (OSMEP, 2007 a). Many managers are not aware of applying the accurate technology in their business and they do not have the ability to choose

appropriate technology for their business. The World Bank (2009) claims that investments in technology are required in order to build up existing capacity and to improve the quality and productivity of production which will generate in higher value-added products that will improve the competitiveness for firms. Additionally, it is crucial for small firms to make the most strategic business decisions hence government support of technology initiatives and networks with research institutions should assist SMEs in terms of technological development (Courseault Trumbach *et al.*, 2006).

Research and development (R&D) - Innovation

The impacts of globalization have pressured SMEs to greater demands (Raymond and St-Pierre, 2004). Particularly in the manufacturing sector SMEs are facing a pressure to increase R&D, innovation and quality. Innovation relies on bringing together different types of research and utilizing this knowledge to design new products, thus, innovation increasingly depends on links between scientific research and industrial R&D and without an R&D focus, companies risk falling behind competitors in innovative new products (Morrison, 2006).

Normally developed countries allocate about 3% of GDP to R&D activities. Some developing countries, including China, India and Brazil, have rapidly increased their R&D expenditure, to levels with those of the world's most developed countries (Morrison, 2006). On the other hand, the overall spending on R&D in Thailand is still low at 0.26% of total expenses (OSMEP b, 2007). Thus, there is a need to increase government subsidies in terms of R&D support in order to gain competitive advantage over foreign competitors (OSMEP b, 2007; Morrison, 2006). Furthermore, there are many SMEs managers in Thailand that lack in education, knowledge and capability to drive advanced development in terms of innovation which consequently lead to technological weakness in Thai companies (OSMEP b, 2007).

Corporate Social Responsibility (CSR)

Environmental degradation is a global problem of increasing concern throughout society and among consumers (European Commission, 2007). The concept of CSR is usually associated with LEs (Morrison, 2008; European Commission, 2007) and SMEs are generally assumed to be more focus on economics purposes rather than social mostly due to their relatively limited financial resources. As a consequence these types of limitations increase weakness and disadvantage of SMEs when compared to LEs (OSMEP b, 2007). Though, SMEs generally have close relations with employees, the local community and business partners and they are typically not less responsible than LEs but they may not know and use the term which limit them to take advantages of promoting CSR (Bangkok Post, 2010; OSMEP, 2007 b).

3.4. Overview of the SME situation in Thailand

3.4.1. Definition of Thai SMEs

SMEs in Thailand are defined as either small or medium using the size of SMEs based on the number of employees and the value of total fixed assets excluding land value (Pour, 2006; OSMEP, 2007 b). Hence, an enterprise is categorised as an SME if it has less than 200 employees and fixed capital with less than 200 million baht, excluding land and properties (SME Bank, 2010). Furthermore, SMEs in Thailand are classified into three categories based on the business sector: (1) Manufacturing sector, (2) the service sector, and (3) Trade sector which is composed by wholesale and retail (3) (Pour, 2006; SME Bank, 2007; OSMEP, 2007 a).

Table 1.1 SME classification:

Туре	Small		Medium	
	No. of Employees	Fixed Assets Excluding Land (THB mil)	No. of Employees	Fixed Assets Excluding Land (THB mil)
Manufacturing	50 or less	50 or less	51 - 200	>50 to 200
Services	50 or less	50 or less	51 - 200	>50 to 200
Wholesale	25 or less	50 or less	26 - 50	>50 to 100
Retail	15 or less	30 or less	16 - 30	>30 to 60

Source adapted from: SME Bank of Thailand, 2007

3.4.2. Number of enterprises in Thailand by size in 2006-2008

Diagram 1.1, shows the total number of SMEs in 2006 and 2008 according to OSMEP (2008). The total number of SMEs in Thailand increased from 2,274,525 to 2,827,633 (accounting for 99.5 % of total enterprises) with great dominance of small enterprises. In 2006 the total number of enterprises was divided as following: Large-sized enterprises (LE) accounted for 0.2%, medium-sized enterprises (ME) 0.4%, small-sized enterprises (SE) 99.0% and 0.4% were unidentified (OSMEP, 2007 b). The total number of all enterprises in Thailand increased from 2,287,057 to 2,836,377. On the other hand, the number of unidentified enterprises decreased in 2008 (OSMEP, 2008).

3000000 2836377 2815560 2827633 2500000 2287057 2274525 2264734 2000000 1500000 2006 **2008** 1000000 500000 9791 12073 8240 ₄₁₅₈ 4292 4586 0 n/a LE ME SE **SMEs** Total

Diagram 1.1 – Number of Enterprises in Thailand in 2006 and 2008

Source adapted from: OSMEP - White Paper on SMEs 2006 and Trends 2007, White Paper on SMEs 2008 and Trends 2009

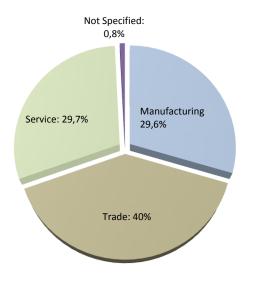
3.4.3. Number of Small and Medium Enterprises by Sector in Thailand

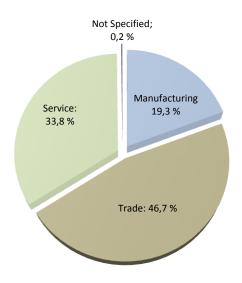
In 2006, the classification by business sector of the 2,274,525 SMEs were as following: The trade sector accounted for 40.0% of the total number, followed by service at 29.7%, manufacturing with 29.6% and 0.8% were not specified (OSMEP, 2007 b). Thereafter in 2008, the classification was as following: the trade sector increased to 46.7% and the service sector also faced a slightly increase to 33.8%. On the other hand, the manufacturing sector experienced a sharply decrease to 19.3%. Moreover, the number of not identified also decreased to 0.2% (OSMEP, 2007 b).

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Diagram 1.2 - Distribution of SMEs Number by Sector in 2006 (%):

Diagram 1.3 - Distribution of SMEs Number by Sector in 2008 (%):





Source adapted from: Office of SME Promotion, White Paper on SMEs 2008 and Trends 2009

3.4.4. Number of Registered SMEs in Thailand in 2008

According to the OSMEP (2008), the total number of juristic enterprises i.e. companies registered to the Department of Business Development and the Ministry of Commerce in Thailand in 2008 was 581,596 which comprised of 4,388 LEs and 564,788 SEs and 8,704 MEs. In other words, SMEs accounted for 98.6% of the overall juristic enterprises. The juristic companies pay tax and VAT although the large majority of enterprises (2,254,781 in 2008) in Thailand are only owner registered. They are categorized as sole proprietors and they do not pay corporate tax or VAT, nevertheless they are legal.

4. Empirical findings

This chapter highlights the results of the empirical data collected from the conducted qualitative interviews as well as findings from quantitative data researched. The first part presents a background of the selected companies that has participated in the research. Thereafter, respondents' experiences regarding their firm growth and development during the period 2004-2008 and the obstacles connected are outlined. The respondent's answers are divided into the two sub-questions; external and internal obstacles. The second part presents the results of the empirical research with institutions and associations interviewed.

4.1. Presentation of the companies

4.1.1. STS Consumer Products Co. Ldt.

STS was founded in 1999 and it is a soap manufacturing company, they use vegetable soap base to produce all kinds of soap and have expertise in aroma, natural, and especially Thai traditional and Asian herbal soap. The company is a family business and the family has been producing soap for a couple of generations. Today they have 104 employees. The managing director, Ms. Chutima Sirichaovanickharn, has a master degree in industrial engineering from the USA and has been running the company since it was founded.

4.1.2. Southeast Asia Organic Co. Ldt.

SEA Organic is a trading company that was founded in 2003. Their vision is to develop organic agriculture in order to achieve sustainable development in Thailand. The company is part of the family group company, CPP Group (Chaiyaphum Plant Products). 99% of their production is exported and only 1% is for domestic sales. The owner, Mr. Chatchaphon Pittayathikhun has a bachelor degree in political science and a master degree in organic science. The company has ten employees; four persons working with administration and six persons working in the field developing the organic agriculture.

4.1.3. Rein & Fresh Co. Ltd.

The company was founded by its owner Mrs. Somlak Panascharoen in 1992 under the name of Rein and Fresh Co. Ltd. Regarding the product, it is a deodorant made of alum crystal which is a mineral salt derived from naturally occurring bauxite. The owner has two bachelor degrees; one in education and the other in business administration. The company operates in the manufacturing sector and 90% of the products are exported to different countries. Fifty employees are working permanently but depending on order status the number can increase to seventy.

4.2. External factor hampering firm growth

4.2.1. STS Consumer Products Co. Ldt.

Access to finance has not been a significant problem since Sirichaovanickharn started up the company with the help of her parents with internal resources. She started with 440 000 THB and explains that she started small and now have more money. Sirichaovanickharn states that she has bought new land with the company's money to be able to build a new factory but she will loan money from a commercial bank for the building of the factory. She mentions that the bank looks at the balance sheets from the past when approving the loan to her and she also has the new land as collateral.

One problem according to Sirichaovanickharn is competition, she mentions that some of her customers have started to buy from China and there are also other countries producing low cost products which mean increased competition. Thus, she realizes that she have to move faster, by being innovative though, she does not perceive that she really competes with those countries, since she tries to have good quality products. Furthermore, she describes that she was not concerned about competitors in the past, though, in 2005 due to the crisis in Thailand after the tsunami she started to see the way of doing business from another perspective. Due to the crisis Thai people had to find new ways to survive, thus many started their own business which increased competition.

Another issue is export regulations. Sirichaovanickharn explains that different countries have different regulations for the raw material, for example Europe has some restrictions on some raw material that she uses. There are a lot of regulations regarding the raw material. Moreover, many countries require her to have a Good Manufacturing Practice (GMP) certificate which she does not have yet. Sirichaovanickharn states that she has lost some customers because they have chosen to buy from GMP certified competitors. Though, the new factory that she will build will allow her to apply for the GMP certificate. She goes on by saying that FTA is a factor that might hamper her growth, since she does not know so much about it, she does not know the global market (only a few countries) and she is not yet prepared for it.

Sirichaovanickharn describes that governmental laws and regulations are not a great problem for her business. The government requires a lot of data and papers though she perceives it as making her company more reliable and easier for her to control the business. She also highlights that procedures with the government goes faster today than in the past. Nevertheless, she thinks that the employee's regulation is problematic, since she can only employ staff with a probation period of three months but this is not enough time to judge whether the employ meet the company's needs or not. Regarding support from the government, Sirichaovanickharn has attended SME courses and seminars held by the government. Moreover, she also had consultants from the government to evaluate the business to help her and tell her what she needs to improve.

Additionally, the increase in the price of palm oil in 2006 has been an external factor affecting her business since the cost of raw material became very high.

4.2.2. Southeast Asia Organic Co. Ldt.

Pittayathikhun describes how difficult it was to receive credit when starting up the business in 2003. He contacted several banks in order to apply for a loan in year 2000 however, they found it too risky. He was not able to receive credit from any bank and therefore he had to ask his family for financial support in order to start to up the company. Pittayathikhun states that he has not faced any problems with access to finance since the start up and he has been able to pay back the loan to his parents. Moreover, he claims that he contacted some institutions that support SMEs but did not receive any financial support, though he highlights that there are many institutions and training programmes promoting SMEs.

Another problem affecting the business is competition, especially from low-cost production countries such as India and Brazil, though Pittayathikhun mention that they try to offer better quality instead and not compete in price. Since SEA Organic focuses on export, the crisis last year and 2008 had a great impact on their work, especially due to volatile currency exchange rates. Moreover, Boonyubol states that some customers are worried about the political situation in Thailand; clients are afraid that they will not be able to supply them.

An additional problem for the firm has been regulations regarding trade (i.e. technical barriers to trade) such as problems with exporting to the USA and Korea due to strict regulations regarding labels. Many countries also require the firm to have a certificate for products free from genetically modified organism (GMO) which has been a rather large cost for the company. Pittayathikhun highlights the importance of understanding the new FTA which might both bring opportunities and threats for the firm. On the other hand, in terms of Thai governmental law and policies, Boonyubol states that the government try to promote the SMEs and "generally most governmental policies and regulations are supporting us". Additionally, she declares that the firm has never faced any problems regarding corruption or crime.

4.2.3. Rein & Fresh Co. Ltd.

Panascharoen points out that getting access to finance was not an issue when she started the business since she had own capital of one million baht which allowed her to get some orders and contracts. This helped her to obtain a loan from the bank in order to purchase her first small factory. With the contracts and orders, the bank was able to calculate turnover and costs in order to detect if the profit and margin would be enough to pay them back. Since the company's capital increased with the years it was not difficult to get an approval for a new loan from the bank which was needed to build a new factory.

Concerning government's support for SMEs, the owner emphasizes that she has received training courses from the department of export promotion but no financial support has been received from any SME institutions or government.

According to Panascharoen, in order to export products to other countries in Asia or Europe it is mandatory to have the GMP certificate. It was very difficult to obtain the official document because the whole production facility had to be rebuilt and improved. In addition, it was not possible just to close down the factory since production had to continue, it took about two years to make all the changes in the factory and the documentation process to acquire the certification required another year, thus, in total it required three years to obtain the GMP certificate.

In term of finance, the total cost to obtain the GMP was around two million baht including the redesigning of the factory. However, Panascharoen argues that obtaining the GMP has been of great contribution to the growth of the company because without this certification it would not be possible for them to export as they do today. On the other hand, she does not see the FTA as a problem and she stresses that the certificate can be obtained easily from the government. She also argues that a reduction in taxes could contribute to the growth of the firm; the company is currently paying a 30% tax which is too high. Another issue might be the import tax in a particular country because some countries have a very high import tax on deodorants.

Regarding competition Panascharoen estimates that there are around seven companies in Thailand producing the same kind of products but she considers only one company as a main competitor. The reason is that this particular company introduced a new process which has enabled them to produce with lower costs and to sell at a lower price but she believes that in terms of quality her company is better. She points out that her customers are aware of her high quality products; however, price is still a concern for her clients and they demand significant reduction in price.

Moreover, even though many customers are more interested in quality than in price they still put a lot of pressure to decrease the price. From 2004 to 2008 the company had a production problem related to a new production method invented by a new competitor. With the introduction of this new process the competitor was able to reduce the average selling price by around 20%. In other words, the pressure from the competitor has pushed the company to reduce the price. On the other hand, Panascharoen does not perceive other countries with low-production costs as competitors because she believes that Thailand is leading in this kind of product. Nonetheless, China also produces this type of products but so far it is not affecting the company. In addition it is very difficult to develop this product.

The location has affected the company in terms of environment, there are rice fields around the factory and therefore it is extremely important not to leave any waste water that has been used to process the products. Thus, an external company had to be hired in order to

move away the wasted water. Panascharoen highlights that in terms of the environment, location will be considered if another factory is built. Another factor related to the environment is that these products do not contain any alcohol or any harmful chemicals, therefore these products are environmentally friendly.

The owner points out that the company has never faced any problems related to corruption or crime.

4.3. Internal factors hampering firm growth

4.3.1. STS Consumer Products Co. Ldt.

According to Sirichaovanickharn the structure of the company is very centralized. She does the marketing, finance and planning of the company though, she tends to plan only in short term. She did not have much money in the beginning and therefore had to do many different duties within the company, although, today she tries to find the time to learn new things and to acquire more knowledge by attending courses regarding SMEs. She says that she tends to control everything and that her organisational structure is an internal problem.

Sirichaovanickharn states that it has been very difficult to find employees with higher level of education. In the past she did not have many employees with high educational background; however, current members of the management team have a higher level of education.

Another problem mentioned by Sirichaovanickharn is to access new technology, since the company does not have much money to invest in technology. She tries to get information about technology and she gets expertise advice in order to improve the process. She thinks that the company needs to improve the production efficiency. In terms of innovation and R&D she states that she does not spend much money, it is a small company and that is why it is difficult to spend money on R&D. She does not have the information regarding innovation; though she goes to exhibitions to look for new information.

An additional weakness of the company according to Sirichaovanickharn is the marketing. In the past she did not have a marketing department, the company only waited for customers to call. Nevertheless, today she attends exhibitions and tries to teach the staff how to contact customers.

4.3.2. Southeast Asia Organic Co. Ldt.

Pittayathikhun explains that the company has a flat structure; the employees talk to each other regarding what they need to do and they take decisions by themselves, they have their own meetings and come to their own conclusions. Boonyubol claims: "we are all responsible for the fail or success of the company". Further, she mentions that it can be a problem and take a lot of time for new employees to learn to get use to their organizational structure since some people in Thailand actually like to be controlled.

In terms of growth strategy Pittayathikhun claims that the strategy is to launch a new product every year, in order to develop and keep on moving. In order to develop, the firm spends money on R&D. He states that they have a very good relation with universities such as the Thammasat University in Thailand; moreover, they give away scholarships to students researching in the field of organic agriculture. "We benefit from their research since we are also able to receive the analysis and results from their projects" (Pittayathikhun). Furthermore, he mentions that it is not difficult to get access to new technology, the firm operates in an IT-building which make the access relatively easy.

According to Boonyubol marketing is the most important factor hampering their growth; they need more tools in order to promote the company. As of today, they use their website (develop it and to have as much information there as possible), they attend exhibitions, both domestically and internationally and they participate in governmental projects for promotion opportunities such as the exporters list of the government. Boonyubol states that they follow up their customers in order to solve any problems or concerns and contact them once a month. She goes on by saying that they try to keep a good relationship with their current customers and try to give their customer's customer what they can. Pittayathikhun adds that they do not want to compete in price; they want to offer better service and better quality than their competitors. In terms of CSR, Boonyubol regards it as the main object with their business and that it contributes to their popularity, their customers want to see that they have certificates. However, Pittayathikhun states that they have an eco social certificate and that they have applied for an eco energy certificate and that they help the local community as it is part of the Thai culture and not for using it as a marketing tool.

Language barrier is another issue identified by the firm since they are mainly exporting and it is at times difficult to communicate with international customers. Additionally, Boonyubol also mentions that logistics can be a problem for them as it is very important that their deliveries arrive on time and that they take care of the goods until the delivery reach the customers.

4.3.3. Rein & Fresh Co. Ltd.

Regarding the company's structure, there is one person responsible for production and one for R&D. Panascharoen is responsible for sales and marketing. Since the company mainly export there is no need to visit customers and therefore she is normally in the factory running the operations and making most of the decisions.

Concerning skilled labour, she emphasizes that is not very hard to find highly-educated staff; the issue is to find good ones. However, it is difficult to find a good replacement and it also takes a lot of time and effort. Furthermore, the company is facing problems with staff working in production due to their lack of cooperation with each other, lack of motivation and lack of leadership skills by supervisors which has a negative impact on production.

Regarding R&D Panascharoen highlights that they should be able to stay innovative by applying available knowledge and making experiments but to acquire new technology from outside sources might be difficult. At the moment there are two persons in the company working in R&D, one pharmacist and one chemist. The company have spent a lot of money in introducing a new production method in order to improve product quality.

The main marketing channels are, exhibitions, product design, printing of posters, leaflets, website etc. However, she argues that a well-planned marketing strategy could contribute to increase sales, particularly in the local market. Moreover, at this moment the products might not reflect the image and value of the high quality that customers are willing to pay for. There is neither long term strategy nor growth strategy.

Regarding environment the company does not possess any specific certificate which demonstrates that products are environmentally friendly. She states that such type of certificate might be useful to promote the product abroad but not so much in the local market. Furthermore, the company is not familiar with the concept of CSR and therefore there is no strategy to take advantage of promoting CSR.

Panascharoen also draws attention to other internal factors hampering the growth of the firm which can be attributed to herself as a manager since she does not have enough knowledge regarding production. Furthermore, there is a lack of marketing, improvements in production and human resources problems related to poor team work and motivation.

4.4. Organizations

4.4.1. External factors hampering the growth of SMEs in Thailand

In terms of access to finance all the respondents agree that it is an obstacle for Thai SMEs to grow. According to Bunnag the reason why it is difficult for SMEs to receive loans is that they do not have the collateral, management skill or the accounting system put in place. Supattaraprateep also states that the collateral is the major issue for SMEs applying for loans since generally they have used the collateral for loans already. She further mentions that the bank want to see positive figures for the past three years, in other words, it is very difficult for someone that wants to start up a business to access finance. Yamchinda argues that finance is an important area where SMEs need support. OSMEP tries to support SMEs by promoting cooperation with small firms and the governmental institute as well as with commercial banks. Another problem that Bunnag highlights is that SMEs do not have the knowledge, they do not prepare a good business plan when applying for loans and they do not have the vision nor the discipline that is needed. Further, SMEs do not know how to deal with banks and some Thai people fear to go to the bank, especially the government bank since it is bureaucratic and it is the authority. Bunnag emphasizes that the SME Bank does not approve loans to entrepreneurs and commercial banks focus on LEs and individuals, thus, when starting up a business in Thailand it is most common to use internal resources. Sander states that Thailand is lacking of micro credit schemes and the problem for SMEs is that they have less collateral, are riskier and have more difficulties to access finance. Though, he does not think that this problem is especially severe in Thailand than in other countries.

One of the major obstacles for Thai SMEs to grow mentioned by all the respondents is competition. Supattaraprateep states that Thai SMEs face a lot of competition from Thai enterprises as well as from overseas enterprises and Thai SMEs do not have the same standard. She argues that small firms need to seek a partner, to network and work closely together, in order to be able to compete with others. Yamchinda mentions that due to the openness of the country Thai SMEs face competition from China and their low costs of production as well as from neighbouring countries, and in the domestic context they have to compete with large companies. As a result, many Thai SMEs compete in price (Sander, 2010). According to Khaneekul and Supattaraprateep Thai SMEs are low in competitiveness and low in value-added production.

Another external factor hampering the growth is technical barriers to trade. Supattaraprateep states that there are many new regulations and standards that companies are forced to follow which is costly for the SMEs. Moreover, FTA is an issue since SMEs that export need to adapt the standards in addition both domestically and export oriented firms need to acquire GMP certificate. Yamchinda further mentions that it is much more difficult for SMEs to adapt to these regulations than for Les.

Governmental policies and regulations seem not to be of a major constraint for Thai SMEs. Supattaraprateep declares that it is not a great problem though improvements could still be made. Sander also states that the regulatory environment is in general very supportive for Thai SMEs and in terms of ease of doing business Thailand usually ranks very well.

Other external factors identified by the respondents are global crisis, the increase in oil price, volatile currency exchange rates and the political instability in Thailand (Tangchitnob, 2010). Sander also confirms that the political situation might affect SMEs in Thailand since many domestically oriented SMEs depend on tourism and investors might be convinced that the country has gone out of control. Corruption is also still an issue within the country. Khaneekul mentions that corruption still exists in most developing countries when you need to approach governmental authority, though it is decreasing. Hanvajanavong states that some Thai firms perceive it as a cost, they prepare for it for their operation, it is an acceptable cost and it makes things go faster or if you cannot reach the standard. Bunnag describes that some corruption exist and that many firms have two accounts; one that they keep for themselves and one to demonstrate to the revenue department to pay tax. On the other hand, Sander declares that is difficult to articulate though according to the investment climate survey corruption and crime do not score as highly as in other countries.

4.4.2. Internal factors hampering the growth of SMEs in Thailand

All respondents agree that marketing is one of the major internal obstacles for Thai SMEs to grow. According to Supattaraprateep marketing is very difficult for SMEs since they lack knowledge in terms of how to market and sell their products. They do not know how to reach their target market and many SMEs lack in terms of long term marketing strategies. Supattaraprateep mentions that some SMEs have programs regarding CSR though they are not aware of the concept and they do not use it as a marketing strategy to attract customers.

Management competence is another great factor hampering growth. Supattaraprateep mentions that SMEs do not know exactly why or how to produce their products and they do not know how to use their machines by full capacity. Hanvajanavong further states that SMEs are very weak in production knowledge and skills, weak in management skills as well as they have capital limitation in terms of upgrading themselves in production and management. Tangchitnob also claims that SMEs do not apply systematic accounting; they do not know how to manage their costs, stock, inventory and financial system.

Another problem faced by SMEs in Thailand is difficulties to attract well educated employees. Yamchinda describes that people with high level of educational background prefer to work for the LEs rather than for the SMEs, since SMEs pay lower salary and offer lower social welfare conditions. Sander argues that lack of high quality skilled labour is one of the major problems for SMEs in Thailand since SMEs that try to grow the relative availability and cost of the skilled labour are important obstacles.

Supattaraprateep states that access to new technology is also one of the main problems for SMEs. They do not know where to look for information regarding technology, they do not know how to choose the right option and many only look at what their competitors buy and copy them. Another issue is that SMEs have limited resources and do not afford to invest in new technology.

An additional problem is that SMEs spend little time and money on innovation and R&D. Sander argues that the government has some structure for innovation though there is a gap between universities, the government research centres and the firms in order to get the firms to use new technology. According to Tangchitnob SMEs have little ability to innovate they do not have sufficient money to do it or not enough knowledge to innovate their product and process. The interest and awareness for innovation is low, they do not see it as necessary to be innovative in terms of production innovation, process innovation, organizational innovation and marketing innovation.

4.5. Academic Institutions

4.5.1. External factors hampering the growth of SMEs in Thailand

All respondents have agreed that many Thai SMEs have problems regarding access to finance. SMEs have to pay higher interest rates since they are considered to be high risk. Moreover, Sirichanachai emphasizes that SMEs need to have collateral in order to get a loan from the bank; another issue is that most of SMEs have already used their collateral for other loans. Furthermore, the large number of requirements to get a loan approved constrains access to finance for SMEs.

Considering the impacts of globalization and the FTA, Ruangpermpool argues that Thai SMEs are not ready to compete against foreign companies because they still need to improve quality, innovation and technology. Globalization and FTA set higher pressure on SMEs to increase quality standards (Sirichanachai, 2010). Hence, it is very important that Thai SMEs keep continuously improving and innovating. Another problem is language because most people within SMEs in Thailand do not speak English (Benjamasutin, 2010). Thus, language barriers might hamper their capabilities of doing business in an international context.

According to Ruangpermpool the reason that many Thai SMEs compete in price instead of added value is because by doing that they do not have to invest in order to increase the knowledge of people. Moreover, the fact that Thai SMEs compete in price instead of using a strategy in differentiation can also be attributed to their lack of knowledge. But, competition in low price products is dangerous because other countries are much stronger than Thailand in price competition. Benjamasutin states that every sector has its weaknesses in term of competition, for instance the manufacturing industry faces more problems than the service sector. There is also a lack of cross functional management, synergy and networking among Thais SMEs.

All respondents have argued that corruption is still an issue for some SMEs in Thailand. For instance, Sirichanachai highlights that financial support from the government does not always get to the hands of SMEs, particularly in rural areas this is a problem. Moreover, it has been found that some SMEs need to pay bribes in order to get permissions from the government.

4.5.2. Internal factors hampering the growth of SMEs in Thailand

According to Ruangpermpool lack of education and lack of training are some of the main barriers affecting Thai SMEs because people normally start a business before they have acquired the knowledge. People look at the market and they believe that there is a demand, thus, they start to produce but they don't know how to grow, how to develop in terms of management, technology, management principles, size of the market, etc (Ruangpermpool, 2010; Sirichanachai, 2010). Ruangpermpool additionally argues that many SMEs have the knowledge to produce products but that there is a lack of knowledge in terms of marketing,

management, finance, etc, thus, many SMEs do not know how to run the business. Furthermore, Benjamasutin also states that SMEs also have difficulties to attract high skilled labour since graduates normally apply for LEs. In addition, many SMEs are reluctant to hire other professionals since they want to do everything by themselves (Ruangpermpool, 2010).

Ruangpermpool stresses that SMEs in Thailand use cheap labour to produce products instead of investing to produce innovative products; therefore technology and innovation are important problems for Thai SMEs. Benjamasutin further discusses that innovation is a way for SMEs to compete although SMEs are reluctant to invest due to their financial limitation.

Regarding technology for SMEs to stay innovated Ruangpermpool argues that it is not only a matter of finance but also a matter of knowledge because hardly 10% of SMEs in Thailand might be aware of their needs. Benjamasutin also highlights that many SMEs are not open to information regarding technology; however, those with a higher level of education tend to be more concerned and open to it. In addition, the relationship or linkage between SMEs, industry, government and universities is still very weak. The government also have a very limited budget for innovation (Ruangpermpool, 2010). Many people are also afraid or reluctant to contact universities because they perceive it is impossible to obtain support from institutions.

All respondents have the same opinion that issues related to marketing are a serious problem for Thai SMEs. Ruangpermpool points out that it might be due to their limited management capabilities and also that to contract someone else to do the job might be regarded as a waste of money since most SMEs consider marketing as an extra cost. Furthermore, many SMEs don't know where to find the market and how to set up prices, this might be seen as very untouchable and intangible.

In terms of CSR to attract customers, SMEs do not have the financial resources to compete with LEs in order to promote their engagement with the community (Benjamasutin, 2010). The way of doing business by the new generation is different. More and more Thai people study abroad and the impacts of globalization have an influence in the way of thinking.

5. Analysis

In this chapter the results from the empirical investigation will be analysed with the support of the theoretical framework.

5.1. Analysis of the companies

The following section will analyse the growth of the three companies studied in this research for the period of 2005 to 2008. However, the available data of number of employees for STS is from 2006 to 2008.

Diagram 2.1 demonstrates the firm growth in terms of number of employees. All companies have been growing, though R&F has experienced the most significant growth by 45%, SEA Organic increased by 25% from 2005 to 2008 and STS by 10% from 2006 to 2008.

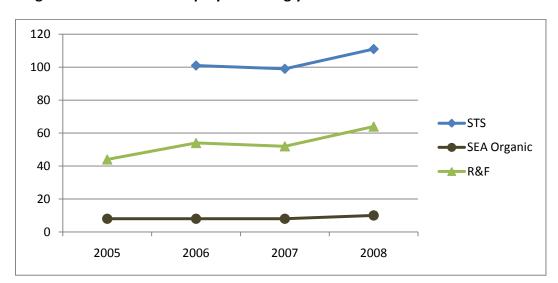


Diagram 2.1 Number of employees during year 2005 to 2008

Diagram 2.2 shows the firm growth in terms of added-value grade. STS has grown but experienced a slight downturn in 2007 due to a decrease in total sales and an increase in material cost. SEA Organic's added-value grade raised in 2006 and 2007, nevertheless, it declined significantly in 2008 as a result of a great increase in material costs. R&F has grown in overall, though; the company faced a significant decrease of added-value grade in 2006 and 2007 due to higher material costs. However, R&F managed to increase total sales and reduce material cost which resulted in a higher added-value grade from 36% in 2006 to 59% in 2008.

60%
55%
50%
45%
40%
35%
30%

2007

2008

Diagram 2.2 Added-value grade during year 2005 to 2008

2006

2005

The diagram below displays firm productivity in terms of added-value per employee. Average added-value per employee in developing countries is 16.800 USD and 45.700 USD for developed countries (Lind, 2005). Even though, R&F has experienced an increase by 5% from 2005 to 2008 and STS by 11% from 2006 to 2008, added-value per employee is still very low. It might be difficult to compare SEA Organic with manufacturing companies since the firm operates within the trade sector. SEA Organic has shown a significant increase by 205%.

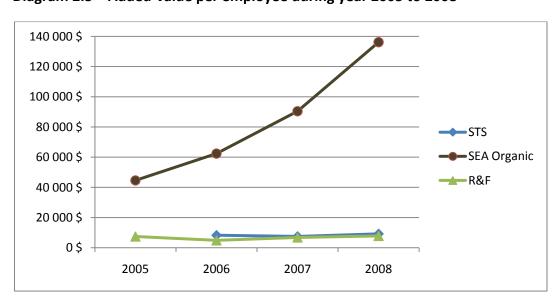


Diagram 2.3 – Added-value per employee during year 2005 to 2008

Grimsholm, E. and Poblete, L.

Diagram 2.4 shows the average salary for employees at each firm. The average salary is rather similar for the two manufacturing companies (STS and R&F) and it has decreased within the period. Though, the trading company (SEA Organic) has increased average salary yearly.

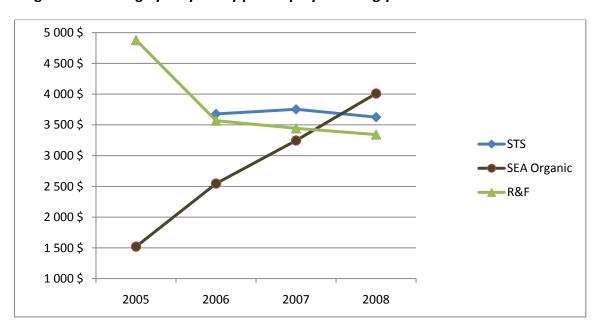


Diagram 2.4 Average yearly salary per employee during year 2005 to 2008

The four diagrams in this section demonstrate that all three firms have been growing slightly during the studied period. Though, STS and R&F experienced some difficulties in 2006 and 2007 due to tougher competition and an increase in costs of raw-materials. Moreover, the GMP certificate has been another obstacle for both of these companies to grow, for STS in terms of lost customers as well as difficulties to enter new markets and for R&F in terms of high implementation costs. SEA Organic has grown in number of employees but has shown a significant drop in added-value grade from 44% in 2007 to 33% in 2008. This is attributed to a dramatic raise in material costs by 194% in contrast with sales which increased by 148%.

Comparing the average salary within the companies, STS and R&F have similar salary levels at around 3.500 USD yearly per employee which is considered as low. The graph also reveals that SEA Organic has increased average salary as they have been growing. Low salary costs can be attributed to management decisions to recruit low skilled labour which might lead to unmotivated staff, high labour turnover and lower productivity.

Table 2.1 The main external obstacles affecting firm growth.

Companies Theory	STS	SEA Organic	R&F
Competition	Yes	Yes	Yes
Access to finance	Yes, to some extent	Yes, to some extent	No
Barriers to trade	Yes	Yes	Yes
Consumer behaviour	Yes	No	Yes
Governmental regulations	No	No	Yes
Corruption	No	No	No
Political instability	No	Yes, to some extent	Yes, to some extent
Geographical location	No	No	Yes, to some extent
Macroeconomic instability	Yes	Yes	Yes

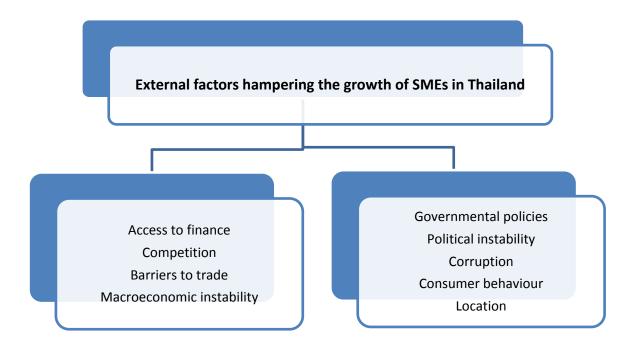
Table 2.2 The main internal obstacles affecting firm growth.

Companies	STS	SEA Organic	R&F
Theory			
Marketing	Yes	Yes	Yes
Lack of skilled labour	Yes	No	Yes
Management competence/Leadership	Yes	Yes	Yes
R&D - Innovation	Yes	No	Yes, to some extent
Technology	Yes	No	Yes
CSR	Yes	No	Yes
Language barriers	Yes	Yes	Yes
Culture	Yes	Yes	Yes

5.2. Analyses of factors hampering Thai SMEs to grow

In this section external and internal factors hampering Thai SMEs to grow are analysed. The authors have identified several important factors through the theory and the empirical investigation conducted. Therefore, this section will highlight the most important obstacles to grow.

5.2.1. External factors



Access to finance

According to Nichter and Goldmark (2009) there are policy biases towards LEs and small firms face problems in growing due to lack of access to finance. Generally these policies favour LEs and SMEs have difficulty in growing due to insufficient collateral, high transaction costs and incapability to deal with the complexity of formal financial institutions (Harvie, 2005; APO, 2001; Leopairote, 1997). Bunnag (SME Bank) is confirming this problem by stating that commercial banks in Thailand focus on LEs and the reason why it is difficult for SMEs to receive loans is that they do not have the collateral, management skill or the accounting system put in place and SMEs are perceived as high risk. Further APO (2001) declares that lack of financial sources is the major obstacle for SMEs and usually entrepreneurs in Thailand need to utilize personal financial sources to start up their business and to expand the operations.

All three companies studied during this research started up with internal sources and in addition Bunnag (SME Bank) emphasizes that entrepreneurs starting up a business in Thailand generally use their own capital, since it is extremely difficult for entrepreneurs to receive a loan. Supattaraprateep (NSTDA) also states that lack of collateral is the major issue for SMEs applying for loans as well as incapability of demonstrating the bank positive figures

for the past three years. The two manufacturing firms in this research were able to receive loans from the bank when expanding their business with larger factories since they were able to demonstrate positive past records to the bank. Though, all the respondents agree that access to finance is an obstacle for Thai SMEs to grow.

Competition

Competition is also one of the major factors hampering Thai SMEs to grow. Many countries such as China, India, Vietnam and Indonesia produce similar products as Thai businesses, for example low-cost, low value-added and labour-intensive products, thus, many Thai SMEs focus on price competition strategy through low labour cost (World Bank, 2009; The Government Public Relations Department, 2007; OSMEP, 2007 a; Leopairote, 1997). Moreover, SMEs are less competitive in terms of knowledge, added-value production, marketing strategies innovation, careful investment, business operation, and good management, which are important factors required to elevate the quality level (OSMEP, 2007 a).

All companies studied have identified competition from China or other countries producing low cost products as a major factor affecting their company, though they all declare that they focus on quality instead of price. On the other hand, the firms articulate that their customers demand lower prices, thus, it might force them into price competition. According to Sander (World Bank) many Thai SMEs compete in price due to competition from China and other countries with low cost production. In addition, Khaneekul (OSMEP) and Supattaraprateep (NSTDA) state that Thai SMEs are low in competitiveness and low in value-added production. Ruangpermpool (AIT) further argues that Thai SMEs compete in price instead of using a strategy in differentiation due to lack of knowledge.

Barriers to trade

Another important issue that is hampering Thai SMEs to grow is technical barriers to trade. The competition is increasing from transnational firms that have advantage of high levels of know-how within management due to FTA (OSMEP, 2007 a) and many Thai SMEs find difficulties in complying with regulations issued by organizations such as the WTO due to poor quality (Lind, 2009 c). The three firms in this research have all mentioned difficulties with trade regulations and complying with international standards. R&F has been forced by customers to acquire the GMP certificate which has resulted in costly and lengthy procedures and STS has lost customers due to the fact that the company still does not have this certificate. SEA Organic mentions various certificates that are needed to be able to trade which has been a large cost for the company.

The companies are also worried how the FTA and openness of Thailand will affect their business. They declare that they do not have enough knowledge regarding these new agreements. Supattaraprateep (NSTDA) confirms this is a problem in Thailand; she states that FTA as well as trade regulations is a concern for SMEs since they are forced to adapt to

new standards such as the GMP certificate which is costly for the SMEs. Since SMEs generally are limited in finance it is more difficult for SMEs to comply with these standards than for LEs. Ruangpermpool (AIT) further emphasizes that FTA might be a constraint for Thai SMEs since they are not prepared to compete with foreign companies, as Thai SMEs still need to improve quality, technology and innovation.

Macroeconomic instability

According to Cheah and Cheah (2005) economic crisis has constrained the development process in many developing countries and SMEs are more vulnerable to economic crisis, due to their small size and due to limitation in resources. All respondents from the companies in the research have declared that economic crisis in the past have affected their businesses as well as other macroeconomic factors such as currency exchange rate and prices of raw material. Since all three firms export their products, volatile currency exchange rates have a great impact on their businesses. In addition, the appreciation of the Thai Baht affects Thai SMEs since some customers chose to buy from international competitors instead (World Bank, 2009). STS also mentions the increase in the price of palm oil in 2006 as a significant factor affecting her business since the cost of raw material became very high. Tangchitnob (OSMEP) also highlights macroeconomic factors such as global crisis, increase in oil price and volatile currency exchange rates as slowing down the growth for Thai SMEs.

Governmental policies

According to Harvie (2005) there has been an increase in governmental policies promoting and supporting SMEs in order to achieve economic growth and reduce poverty, though there is still a lack of laws, administrative procedures and support from governmental agencies, thus, their legal standing are weakened. Though, the companies studied have all agreed that the governmental procedures and regulations have been supportive with SMEs. The owners have all received training from governmental agencies to improve their business. Hence, they perceive governmental laws and policies as a less significant issue hampering their growth. However, there are aspects that could be improved; according to the owner of R&F paying 30% in tax is too high. Supattaraprateep (NSTDA) declares that governmental policies are not a great problem in Thailand and Sander (World Bank) also states that the regulatory environment is in general very supportive for Thai SMEs. Though, one problem mentioned by Yamchinda (OSMEP) is the issue with the non-registered SMEs in Thailand; approximately 500 000 firms are registered out of 2,8 million. OSMEP tries to promote SMEs to register, because without a complete register they do not get any governmental support. The problem is that these SMEs do not want to register; one of the main reasons can be attributed to high corporate tax that SMEs want to avoid paying.

Political instability

The current instable political situation in Thailand (BBC, 2010) might affect Thai SMEs. The manager of SEA Organic mentions that some customers are worried about the political

situation in Thailand; clients are afraid that they will not be able to supply them. Furthermore, Tangchitnob (OSMEP) and Sander (World Bank) also confirm that the political situation might affect SMEs in Thailand since many domestically oriented SMEs depend on tourism and investors might be convinced that the country has gone out of control. However, it is too early to predict the affects of the current political situation in Thailand.

Corruption

Corruption has been a serious problem in Thailand for many years (Treerat, 2000) and companies consider corruption to be a large barrier when doing business in Thailand (SME toolkit, 2009). According to Transparency International (2009) the perception of corruption in Thailand has been increasing over the past years. All respondents from the companies state that they have never faced any problems related to corruption or crime. Though, all respondents from the institutions interviewed have argued that corruption is still an issue for some SMEs in Thailand. Hanvajanavong (OSMEP) states that some Thai firms perceive corruption as a cost, they prepare for it for their operation, it is an acceptable cost and it makes things go faster or if they cannot reach the standards. Bunnag (SME Bank) describes that some corruption exist and that many firms have two accounts; one that they keep for themselves and one to demonstrate to the revenue department to pay tax. In addition Sirichanachai (UTCC) highlights that financial support from the government does not always get to the hands of SMEs.

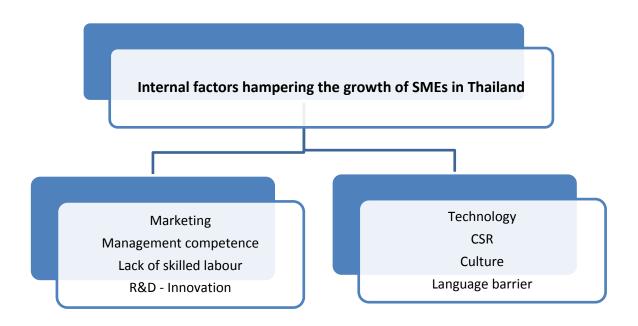
Consumer behaviour

Consumer behaviour pressure SMEs to constantly adapt in order to meet changes in demand; an example of change is the spread of consumer awareness of sustainable development and environmentally friendly products (OSMEP, 2007 a). Cheah and Cheah (2005) argue that it is an opportunity for SMEs to incorporate sustainability policies in their business strategies and operational activities. Though, the respondents seem to perceive that this is not an important issue in Thailand. The manager of R&F states that Thai people are not concerned about environmental questions. However, the authors consider it important since all companies interviewed export to countries where these questions are a trend and significant for many consumers.

Location

Macpherson and Holt (2006) argue that geographical location has an impact on firm growth. The geographical location has affected the companies in this research in diverse forms. SEA Organic benefits of its location in terms of technology because the company is located in an IT-building which increases their access to the latest technology. On the other hand, R&F has been affected by environmental issues due to their close location to rice fields. However, all firms in this research also benefit by the closeness to Bangkok which provides them easy access to raw materials, infrastructure, access to information, distribution and transport logistics. This can be seen as a positive factor contributing to their growth.

5.2.2. Internal factors



Marketing

Lack of marketing is one of the most important factors affecting the growth of many businesses (Brush et.al, 2009; APO, 2001). Institutions such as OSMEP, AIT, UTCC, NSTDA, and World Bank have also indentified lack of marketing knowledge and strategies as one of the main constrains for Thai SMEs to grow. There is lack of developing effective distribution channels, insufficient knowledge or information about other markets, lack of communicating features of products and services, poor capabilities to create innovation and shortage of appropriate support from marketing infrastructure which as a consequence decrease their competitiveness. Another issue is that marketing is still regarded as an extra cost, thus, many SMEs do not perceive any benefits of investing in marketing.

Sirichaovanickharn considers marketing as a serious factor affecting her firm growth, thus, she states that deficient marketing knowledge has caused negative impacts on STS, in the past they did not have any marketing at all and they only waited for customers to call. In addition, SEA Organic points out that marketing is the most important factor hampering their growth. R&F puts emphasis on insufficient marketing knowledge as one of the major factors constraining the growth of the company. Hence, Supattaraprateep (NSTDA) also claims that many Thai SMEs lack knowledge in terms of how to market and sell their products or services. In other words, the effects of deficient marketing capabilities and strategies is one of the most concerning factors hampering the growth of many SMEs in Thailand. In this research all respondents have stated that lack of marketing is one of the most significant obstacles for Thai firms to grow.

Management competence

Macpherson and Holt (2007) argue that firm growth is dependent on managerial knowledge. Therefore, Thassanabanjong *et al.* (2009) claim that trained managers help SMEs to progress. Poor management is a considerable issue for a number of SMEs in Thailand since many companies do not have a specific knowledge of why and how to produce their product and how to use their machines by full capacity (Leopairote, 1997; Supattaraprateep, NSTDA). Moreover, Ruangpermpool (AIT) and Sirichanachai (UTCC), agree that many people in Thailand start up a company before they have acquired basic management competences required to run a business.

According to Hanvajanavong (OSMEP), SMEs are weak in production knowledge and skills; there is a lack in management skills and they do not invest a lot of financial resources in terms of upgrading themselves in production and management. This statement is also supported by Supattaraprateep (NSTDA); she argues that Thai SMEs spend just a little amount of their revenue on training and as Thassanabanjong *et al.* (2009) state, training is crucial for the productivity and quality as well as it influences the effectiveness, efficiency and motivation of the employees. Furthermore, Tangchitnob (OSMEP) also mentions that SMEs do not apply systematic accounting; they do not know how to manage their costs, stock, inventory and financial system.

STS recognizes that the organisational structure of the company is an internal problem affecting the business since it is very centralized. Furthermore, R&F is facing problems related to management competence because the owner lacks knowledge regarding human resources which has led to deficiencies in creating team work and a decrease in motivation among employees. At the moment there is no strategy in terms of education or training for employees. On the other hand, SEA Organic is willing to invest part of their revenue in training and education for employees, the issue is that personnel are reluctant to attend training. As a result, deficient management capabilities has been identified as one of the most challenging internal factors constraining the growth of many SMEs in Thailand.

Lack of skilled labour

Sleuwaegen and Goedhuys (2002) claim lack of skilled labour is a hindering factor for SMEs in developing countries. Moreover, Holden *et al.* (2007) and APO (2001) state that SMEs have difficulties to attract highly educated workforce due to the fact that LEs can offer better benefits. This argument is supported by Yamchinda (OSMEP), and Benjamasutin (UTCC), they highlight that people in Thailand with high level of educational prefer to work for LEs rather than for the SMEs since LEs offer higher salary and better social welfare conditions. Sander (World Bank) further argues that lack of high quality skilled labour is one of the major problems hampering the growth of SMEs in Thailand. Moreover, Ruangpermpool (AIT) and Benjamasutin (UTCC) claim that many SMEs are reluctant to hire other professionals since they want to do everything by themselves and in addition SMEs perceive the cost of high skilled labour too high.

STS has faced severe problems to find and employ high skilled labour, though the owner aims to increase the number of employees with high educational background. Furthermore, R&F states that if the company lose any of the high educated staff it would be difficult to find a good replacement and besides it takes a lot of time and effort. In the case of SEA Organic, the owner put emphasis on the holistic structure of the company and he claims that it is difficult to find highly educated personnel that understand the concept; hence, he also argues that it would take long time to replace any of his employees. In other words, lack of skilled labour has been considered as one of the major obstacles constraining the growth of SMEs in Thailand.

R&D - Innovation

Innovation progressively depends on links between scientific research and industrial R&D (Morrison, 2006). Raymond and St-Pierre (2004) put emphasis on how the impacts of globalization have pressured SMEs to greater demands. On the other hand, Thai SMEs put little focus on innovation and in addition the government is not very supportive in terms of encouraging SMEs to engage more with R&D activities (OSMEP b, 2007).

Sander (World Bank) and Benjamasutin (UTCC) claim that the government has some structure for innovation; however, the cooperation between universities, government research centres and firms is still weak. In addition, the government has very limited budget for innovation. Other constraints mentioned by Tangchitnob (OSMEP) and Benjamasutin (UTCC) are that SMEs have little ability to innovate and they are reluctant to invest in R&D due to their financial limitations. Furthermore, the interest and awareness for innovation is low since many SMEs do not find relevant benefits by innovating in terms of production, organization and marketing.

STS does not spend much money in R&D because it is a small company and the owner points out that information regarding innovation is difficult to acquire. Panascharoen highlights that in order to stay competitive R&F has invested a lot of money and time on R&D to introduce a new production method which has improved product quality. SEA Organic states that besides investing on R&D they also cooperate with local and international universities in order to stay innovative.

Technology

SMEs tend to have low productivity which is the result of using inadvanced technology, not maximizing machinery utility and not improving in technology due to limitation of funding (OSMEP, 2007 a). This issue is confirmed by Supattaraprateep (NSTDA) who states that SMEs do not know where to look for information regarding technology, how to choose the right option and many look at what their competitors buy and copy them, in addition, SMEs have limited resources and do not afford to invest in new technology. STS mentioned that the company does not have much money to invest in technology and R&F founds it difficult to acquire new technology. In contrary, SEA Organic has not faced any problems with acquiring

new technology which might be the result of the location of the company and management awareness regarding technology.

Corporate Social Responsibility (CSR)

SMEs are generally assumed to be more focus on economic purposes rather than social mostly due to their relatively limited financial resources (Morrison, 2008; European Commission, 2007). Supattaraprateep (NSTDA) and Benjamasutin (UTCC) argue that some SMEs in Thailand have CSR programs but they do not have the financial resources to compete with LEs in order to promote their engagement with the community. SEA Organic provides scholarships to students researching in the field of organic agriculture, they help local communities and have close relations with employees. However, the owner claims that helping the local community is part of the Thai culture therefore Thai SMEs do not use the term as a marketing tool. This might limit SMEs to take advantages of promoting CSR (Bangkok Post, 2010; OSMEP b, 2007). STS do not have any engagement in terms of CSR and R&F is not familiar with the concept.

Culture

Management behaviour in Thailand has been identified as high power distance (Hofstede and Hofstede, 2005). The majority of respondents in this research have stated that subordinates feel dependent on their superiors and are afraid to express disagreement. Thus, leadership style becomes more autocratic than consultative and it makes communication only one way approach.

Language barriers

In an international business context, the use of English as a second language to communicate can lead to misunderstandings or problems and in addition Lind (2009 b) states that the interpretation of terms might be different due to dissimilar connotations. This decreases possibilities to expand Thai companies internationally and to enter new markets. Respondents in this study recognize that language barrier is a constraining growth factor for Thai SMEs.

6. Conclusion and Discussion

The purpose of this study has been to identify and analyse the main issues impeding the growth of SMEs in Thailand. Hence, this chapter aims to answer the research questions of the thesis. Conclusions are drawn based on the analysis from the previous chapter. The findings as well as suggestions for further studies will be discussed.

6.1. Research question 1: What are the external factors hampering the growth of SMEs in Thailand?

Several external factors hampering the growth of SMEs in Thailand have been identified during this research. As literature on SMEs suggest, the access to finance is one of the most significant obstacles. The empirical research also demonstrates that this is an important issue, though, the firms studied have all overcome this problem since they started up with internal resources and have been able to receive loans by demonstrating positive past records. However, the firms mention that limitations of funding have restricted them in certain aspects for example not having enough resources to invest in R&D, CSR or new technology. Competition has also been identified as a very important factor both in the literature reviewed and by the interviewees. Many Thai SMEs focus on price competition due to lack in knowledge and competition pressure from countries such as China, India, Vietnam and Indonesia producing low-cost and low value-added products. The three firms interviewed state that they concentrate in quality instead of price, though, the two manufacturing companies are worried about competitors having lower prices which might indicate that they also compete in price. The added value grade of R&F decreased in 2006 mainly due to competition.

The theory affirms that barriers to trade is an issue for SMEs in developing countries and the empirical investigation has confirmed that this is a great problem also in Thailand. All respondents have agreed that SMEs face many problems regarding trade regulations and FTA. The firms state that it is time-consuming and costly for them to comply with all regulations, standards and certificates that are required in order to trade. Another subject discussed in the theoretical framework is the issue that SMEs are very vulnerable to economic crisis due to their small size and their limitation of resources. The interviews have revealed that this is the case for Thai SMEs. Additional macro economical factors such as exchange currency rates and oil prices have also been declared as obstacles to grow by the respondents.

This research has demonstrated that governmental policies and regulations are rather supportive for SMEs in Thailand and the respondents have stated that governmental policies is not one of the most significant growth hampering factors. Though, the authors would like to highlight the issue with the majority of unregistered SMEs in Thailand, since firms that are not registered do not get any external support and they are not able to grow. Another

obstacle emphasized in the theoretical framework is corruption, though, the firms interviewed state that they never have faced any problems regarding corruption. Some of the institutions claim that it is still a problem for SMEs in Thailand although the situation has improved. The authors' assumption is that it is nevertheless an ongoing dilemma in Thailand and that it is a sensitive subject to discuss which was observed during the interviews.

The authors did not consider the political instability as a growth hampering factor within the theoretical framework though, the empirical investigation in Thailand points out this problem. Respondents from both the firms and institutions argued that the past political situations as well as the current one is affecting Thai SMEs, since customers, tourists and investors might choose to go elsewhere. Location on the other hand was an obstacle discussed in the theoretical chapter although the interviewees did not consider this as a major problem which might be attributed to the firms' closeness to Bangkok. In other words, location is more crucial for SMEs outside Bangkok area and especially in the rural areas where it is more difficult to access information, support, infrastructure, distribution, transport and raw material.

As it is highlighted in the theoretical part, firms must be aware of changes within consumer behaviour. In many countries customers are demanding more environmentally friendly products and companies need to adjust to these demands in order to be able to grow. The respondents declare that this is not important in Thailand though the authors consider it significant since the firms are exporting to countries where consumers are concerned about environmental issues. This also indicates that Thai SMEs have little awareness of the customer's customer concept since many firms do not seem to consider the needs of the end user.

6.2. Research question 2: What internal obstacles are hindering the growth of Thai SMEs?

As it has been identified in the literature and the empirical research, there are a number of internal factors hampering the growth of SMEs in Thailand. Thus, this study has revealed that one of the most significant obstacles for Thai SMEs to grow is attributed to lack of marketing. Many SMEs in Thailand have low levels of marketing abilities which affect their businesses in terms of how to promote products, find markets and ineffective use of marketing channels, in addition, all respondents agree that deficiencies in marketing are severe issues hampering firm growth. Furthermore, both the theoretical framework and empirical results have revealed that SMEs have serious difficulties to compete with LEs in order to attract high skilled labour and they also perceive the cost of high skilled workforce as too expensive which as consequence turns out to be one of the major constrains for Thai firms to grow. Hence, the authors have observed that there is a correlation between these problems and poor management competencies since many people in Thailand tend to start up a business before they have attained essential management knowledge required to run a firm.

The theoretical framework also demonstrates that in terms of innovation companies working closely with universities and science institutions have greater opportunities to grow, the authors have also noticed that SEA Organic have benefited positively from this relationship. On the other hand, this study have also revealed that SMEs in Thailand tend to put little efforts on R&D and the cooperation between SMEs, universities and government is still very weak which is the current situation for R&F and STS. R&F also claim that they have invested significant financial resources in universities in order to research and stay innovative but the results have not been successful. This could also mean that the cooperation between SMEs and universities does not always assure positive results.

Another factor highlighted during the research is that many Thai SMEs have problems to select the right alternative in terms of new technology such as new machinery for their company which is due to poor access to information, limitations in finance and lack of management capabilities. Consequently many firms acquire technology by copying from competitors resulting in low productivity and inefficient machinery utility. Furthermore, this study has found out that there is low awareness regarding CSR as well as the fact that many Thai SMEs do not even understand the concept; therefore they cannot take any advantage of it.

Concerning culture, Thai SMEs tend to have strong hierarchy management structures which offer little freedom for subordinates to discuss and interact with their superiors. Respondents in the research have acknowledged that there is a lack of communication between managers and employees that diminish synergy and limit the chance to learn from each other. Moreover, the lack of knowledge of foreign languages also reduces opportunities for Thai SMEs to trade in an international context and it also creates misunderstanding when doing business. For instance, SEA Organic have emphasized on the fact that language barriers have affected their business in several opportunities.

6.3. Discussion

Considering that all respondents in this research have similar perceptions and experiences regarding factors affecting businesses, the authors have identified these issues as the major or severe obstacles constraining the growth of SMEs in Thailand. As discussed in the analysis chapter, all companies studied grew slightly during the research period from 2005 to 2008. However, all firms have experienced similar external and internal obstacles constraining their growth. Regarding external factors, it could be argued that limitations in finance make Thai SMEs more vulnerable to threats such as macroeconomic instability, corruption, political instability and it also makes it more difficult for them to comply with trade regulations.

In terms of internal hampering factors, all firms and institutions recognize that similar issues are affecting the growth of Thai SMEs. For instance, lack in management competencies have been mentioned as one of the major or severe obstacle for firms to grow. Thus, one could

argue that poor management capabilities have very negative impacts on firms since it affects the entire performance. Furthermore, as in many developing countries, SMEs in Thailand tend to compete in price and low added-value products rather than quality which also could be attributed to weaknesses in management decisions. As a result these issues have an adverse effect on firm growth.

6.4. Suggestions for further research

This thesis has studied three SMEs in Thailand during a certain period and their internal and external obstacles to grow. Institutions and organizations have also contributed in the research in order to reach a better representation of the growth hampering factors for SMEs in Thailand. During the study the authors have come across various areas that would be interested for further investigation. As this thesis is indicating there are several factors hampering the growth for SMEs in Thailand though they vary within the different sectors. Consequently, it would be interesting to compare SMEs within the service, manufacturing and trading sector in order to identify specific problem areas within each sector. Further research could also be carried out to compare the situation for different countries. For instance, this thesis could be used in a further study where growth hampering factors for SMEs in neighbouring countries could be compared. An additional area of interest for research could be to study why there are so many unregistered SMEs in Thailand and what changes need to be made in order to encourage firms to register.

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Appendix 1 - Interviews

Interview 1

Name: Mr. Roongroj Benjamasutin

Title: Associate Dean for Academic Affairs, School of Economics, University of

the Thai Chamber of Commerce

Institution: University of the Thai Chamber of Commerce, Bangkok.

Date: 30-03-2010 Time: 10:00-13:00

Questions:

1. What factor do you find is the major one hampering the growth of SMEs in Thailand?

- 2. What problems are Thai SMEs facing regards to competition?
- 3. Does Thailand have a competitive advantage within the manufacturing of automobile parts?
- 4. Does SMEs in Thailand face problems in attracting skilled labour and competent managers?
- 5. Do think that added value production is a problem for SMEs in Thailand?
- 6. Does SMEs in Thailand face difficulties with advancement in technology?
- 7. Do you think corruption is a problem for Thai SMEs
- 8. Does the demand for environmental issues such as green products have an impact on SMEs in Thailand?
- 9. Are there any governmental laws that you perceive as hampering the growth of SMEs?
- 10. Does Thai SMEs face any problems with technical barriers to trade such as difficulties with international organizations (ex WTO) that regulate trading?
- 11. Do you think SMEs have strategies in terms of corporate social responsibility to attract customers?
- 12. Are SMEs in Thailand concerned about innovation?
- 13. Do you think the organizational structure have an impact of the growth of SMEs?
- 14. Does the location affect the success of SMEs?
- 15. Have you seen any particular changes regarding the situation for Thai SMEs during the past years?

Name: Ms. Chutima Sirichaovanickharn

Title: Managing director

Company: STS Consumer Products

Date: 01-04-2010 Time: 13:00 – 16:30

Questions:

1. Year of funding

- 2. Number of employees
- 3. Is it a family-run company?
- 4. Is the firm part of any group?
- 5. In what sector is the company operating?
- 6. What is the core product or service?
- 7. What is your position within the firm?
- 8. How long have you been working for the company? How long in the current position?
- 9. What is your formal background (education and training)?
- 10. What is the typical formal background of your employees (education and training)?
- 11. What are your duties as manager of the company in terms of the daily operational activity?
- 12. In your opinion, what internal factors did you perceive as hampering the growth of your business between 2005 and 2008?
- 13. In your opinion, what external factors did you perceive as hampering the growth of your business between 2005 and 2008?
- 14. How did you master these problems?
- 15. Did you have any growth strategy planned during this period?
- 16. Did you employ any staff during this period?
- 17. Have there been any changes within the organization during this period e.g. in production, marketing, employee responsibility, changes in management style and hierarchy?
- 18. In what ways have investments and operations been financed?
- 19. Was there any problem for you to receive the bank loan for the new factory?
- 20. In case you have received support from SME institutions what kind of support?
- 21. Do you find it difficult to get access or acquire new technology? Do you find it difficult to stay innovative?
- 22. Do you spend any time or/and money on research and development?

- 23. Where do you perceive your position in the market and do you find competitors hampering your firm growth?
- 24. Do you perceive other countries especially those with low-production costs as competitors due to globalization?
- 25. Have you faced any problems with technical barriers to trade such as difficulties with international organizations (ex WTO) that regulate trading?
- 26. Do you have any strategies in terms of corporate social responsibility to attract customers?
- 27. Are there any governmental laws that you perceive as hampering the growth of your business?
- 28. Have you faced any problems with corruption and crime?
- 29. Do you think that the location of your company affect your business?
- 30. You speak English very well but have you had any problems with language when doing business?
- 31. Are there any other factors that are hampering your firm growth?
- 32. Could you rank from 1 to 5 of the most essential factors that are hampering the growth of your business?

Questionnaire

	2005	2006	2007	2008
Total Sales	US\$ 1 517 028	US\$ 1 919 505	US\$ 1 857 585	US\$ 2 291 022
Total Material	US\$ 959 752	US\$ 1 083 591	US\$ 1 114 551	US\$ 1 269 350
costs				
Number of	N/A	101	99	111
Employees				
Salary Costs	US\$ 309 598	US\$ 371 517	US\$ 371 517	US\$ 402 477

Name: Mr. Chatchaphon Pittayathikhun (Mr. Chat), Ms. Piyanart Boonyubol (Ms.

Tem), Ms. Premkamon Bunsri (Ms. Ann), Miss Sukanya Authanit (Ms. Nin)

and Ms. Piyarat Krachangnate (Ms. Pai).

Title: Mr. Chat: Owner and General Manager

Company: Southeast Asia Organic

Date: 02-04-2010 Time: 10:00 – 12:30

Questions:

1. Year of funding

- 2. Number of employees
- 3. Is it a family-run company?
- 4. Is the firm part of any group?
- 5. In what sector is the company operating?
- 6. What is the core product or service?
- 7. What is your formal background (education and training)?
- 8. What is your position within the firm, your formal background and (education and training) and how long have you been working for the company?
- 9. What are your duties as manager of the company in terms of the daily operational activity?
- 10. In your opinion, what internal factors did you perceive as hampering the growth of your business between 2005 and 2008?
- 11. Regarding the management structure of your company (holistic) you have a different style than most companies have in Thailand (hierarchic). Was it difficult for you to adapt to this kind of management style?
- 12. In your opinion, what external factors did you perceive as hampering the growth of your business between 2005 and 2008?
- 13. Did you have any growth strategy planned during this period?
- 14. Have there been any changes within the organization during this period e.g. in production, marketing, employee responsibility, changes in management style and hierarchy?
- 15. Did you choose the location of your company strategically? Does the location affect your business?
- 16. Did you have access to internal or external resources?
- 17. In case you have received support from SME institutions what kind of support?
- 18. Do you find it difficult to get access or acquire new technology? Do you find it difficult to stay innovative?
- 19. Do you spend any time or/and money on research and development?

- 20. How do you market your company? Have you faced any problem reaching your target market?
- 21. Where do you perceive your position in the market and do you find competitors hampering your firm growth?
- 22. Do you perceive other countries especially those with low-production costs as competitors due to globalization?
- 23. Have you faced any problems with technical barriers to trade such as difficulties with international organizations (ex WTO) that regulate trading?
- 24. Do you have any strategies in terms of corporate social responsibility to attract customers?
- 25. Are there any governmental laws that you perceive as hampering the growth of your business?
- 26. How could governmental policies and regulations be amended in order to promote SMEs?
- 27. Have you faced any problems with corruption and crime?
- 28. Are there any other factors that are hampering your firm growth?
- 29. Could you rank from 1 to 5 of the most essential factors that are hampering the growth of your business?

Questionnaire:

2005	2006	2007	2008
US\$ 911 814	US\$ 1 141 013	US\$ 1 661 076	US\$ 4 120 556
US\$555 176	US\$642 180	US\$ 937 933	US\$ 2 759 060
8	8	8	10
US\$ 12 162	US\$ 20 366	US\$ 25 971	US\$ 40 096
	US\$ 911 814 US\$555 176 8	US\$ 911 814 US\$ 1 141 013 US\$555 176 US\$642 180 8 8	US\$ 911 814 US\$ 1 141 013 US\$ 1 661 076 US\$555 176 US\$642 180 US\$ 937 933 8 8 8

Name: Mr. Frederico Gil Sander

Title: Economist
Institution: The World Bank

Date: 02-04-2010 Time: 16:00 – 17:30

Questions:

1. Could you tell us about the importance of SMEs for the Thai economy?

- 2. Was the manufacturing sector worst hit by the crisis in Thailand?
- 3. If not looking at the financial crisis, what major external factors do you think hamper the growth of SMEs in Thailand? For example the access to finance is a huge problem in many countries, do you think that is the case in Thailand as well?
- 4. When it comes to competition do you think that most Thai SMEs compete in price?
- 5. What is the main reason for SMEs having problems with receiving loans from bank and institutions?
- 6. Do you think there is any cultural reason why educated people rather want to work for LE than for SMEs?
- 7. What is your perception of marketing being a problem for SMEs?
- 8. The governmental body in charge of marketing exports need incentives to promote SMEs Does the political situation affect the growth of SMEs in Thailand?
- 9. Do you think that corruption and crime are hampering factors for Thai SMEs?
- 10. Looking at Transparency International Thailand scores quiet high on the corruptness level. Do you think that is noticed for SMEs doing business in Thailand?
- 11. What is your perception regarding cooperation between Thai SMEs and research institutions, universities and science parks?
- 12. Do you think that Thai SMEs use any strategies in terms of corporate social responsibility in order to attract customers?
- 13. Are there any governmental laws that you perceive as hampering the growth for Thai SMEs?
- 14. Does the World Bank promote or support Thai SMEs in any way?
- 15. Do you think Thai SMEs face any problems with technical barriers to trade such as difficulties with international organizations (ex WTO) that regulate trading?
- 16. What are the main factors hampering the growth for Thai SMEs?

Name: Mrs. Somlak Panascharoen

Title: Managing Director Company: Rein & Fresh Co. Ltd.

Date: 05-04-2010 Time: 10:00-12:00

Questions:

1. Can you describe briefly the company history?

- 2. In which year did you send the sample to the American company, was it the beginning of your business?
- 3. How many employees do you have in the company now?
- 4. Is the firm part of any group?
- 5. In what sector is the company operating?
- 6. Do you sell only your brand name?
- 7. Do you run the company together with your husband?
- 8. What is the typical formal background of your employees (education and training)?
- 9. Are they heads of departments?
- 10. Is it difficult to attract personnel with high education?
- 11. Do you think it would be easy or difficult to find high educated staff now?
- 12. What do you think would be the right time for the promotion period?
- 13. Do you find difficult keeping your staff?
- 14. Do you think it would be easy to find new person to replace that position?
- 15. What are your duties as manager of the company in terms of the daily operational activity?
- 16. How do you feel about taking care of everything in the company, do you think it is the most efficient way for your business?
- 17. What changes have you faced in your company after you hired personnel with bachelor degrees?
- 18. Do you think it is a cultural factor?
- 19. Do you think you can have a good communication with your workers even if they have respect for you and they see you as the boss, can you communicate with them if they have any ideas about how to develop the product for example?
- 20. If a worker in production has an idea about the product or anything else, would they talk to you and inform you about it?
- 21. In your opinion, what internal factors did you perceive as hampering the growth of your business between 2005 and 2008?
- 22. How did you master these problems?
- 23. Did you experience big changes in sales?

- 24. Did you lose any customer?
- 25. Do you compete in quality rather than in price?
- 26. In your opinion, what external factors did you perceive as hampering the growth of your business between 2005 and 2008?
- 27. Did you have any growth strategy planned during this period?
- 28. What is you strategy to market your product and to find new customers?
- 29. Have there been any changes within the organization during this period e.g. in production, marketing, employee responsibility, changes in management style and hierarchy?
- 30. Did you choose this location for your factory for any special reason; did you have any strategy for it?
- 31. In what ways have investments and operations been financed?
- 32. In case you have received support from SME institutions what kind of support?
- 33. Do you find it difficult to get access or acquire new technology? Do you find it difficult to stay innovative?
- 34. Do you spend any time or/and money on research and development now?
- 35. How do you market your company? Have you faced any problem reaching your target market?
- 36. Do you know anything about your customer's customers?
- 37. Where do you perceive your position in the market and do you find competitors hampering your firm growth?
- 38. Do you perceive other countries especially those with low-production costs as competitors due to globalization?
- 39. Have you faced any problems with technical barriers to trade such as difficulties with international organizations (ex WTO, FTA) that regulate trading?
- 40. Do you have any strategies in terms of corporate social responsibility to attract customers?
- 41. Regarding the environment, which are the impacts of your product?
- 42. Are there any governmental laws that you perceive as hampering the growth of your business?
- 43. Which do you think are the positives and negatives impacts of globalization on your company?
- 44. Have you faced any problems with corruption and crime?
- 45. Are there any other factors that are hampering your firm growth?
- 46. Could you rank from 1 to 5 of the most essential factors that are hampering the growth of your business?
- 47. Strengths of your company

Questionnaire:

	2005	2006	2007	2008
Total Sales	US\$ 614 500	US\$ 728 300	US\$ 795 400	US\$ 844 500
Total Material	US\$ 286 600	US\$ 463 700	US\$ 441 300	US\$ 343 300
costs				
Number of	44	54	52	64
Employees				
Salary Costs	US\$ 214 700	US\$ 192 700	US\$ 179 100	US\$ 213 900

Name: Mrs. Sonthawan Supattaraprateep

Title: Director of Industrial Technology Assistance Program (iTAP)

Institute: Technology Management Centre of National Science and Technology

Development Agency (NSTDA)

Date: 08-04-2010 Time: 14:00-17:00

NSTDA is a governmental agency which has four main missions; research and development (R&D) of science and development, support for technology transfer, human resource development and development of infrastructure. NSTDA has about 2700 employees and their mission is to support SMEs to update their technology and to stay innovative.

Questions:

- 1. Could you briefly describe the organization?
- 2. What is your position within NSTDA?
- 3. Within which sector do you support SMEs?
- 4. How do SMEs get in contact with you?
- 5. Why do you think it is difficult for SMEs to access finance?
- 6. Why is it difficult for them to receive loans?
- 7. In your opinion, what external factors do you perceive as hampering the growth of Thai SMEs?
- 8. Why do you think it is so difficult for SMEs to market themselves?
- 9. You mentioned that you look at the needs, what is the most common need for Thai SMEs?
- 10. How come it increased this year? (Looking at some graphs, the number of SMEs increased significantly in year 2005).
- 11. How has the situation of the SMEs developed during the five last years in Thailand?
- 12. Why do you think it is difficult for Thai SMEs to get access or acquire new technology and to stay innovative?
- 13. Do Thai SMEs spend any time or/and money on research and development?
- 14. Do you think firms face any problems with technical barriers to trade such as difficulties with international organizations (ex WTO or FTA) that regulate trading?
- 15. Is corruption and crime a problem for SMEs doing business in Thailand?
- 16. Do SMEs in Thailand use any strategies in terms of corporate social responsibility or environmental programmes to attract customers?
- 17. Are there any governmental laws that you perceive as hampering the growth of Thai SMEs?
- 18. Are there any other factors that are hampering the firm growth?

- 19. What are the opportunities and threats for Thai SMEs?
- 20. Is it difficult for Thai SMEs to attract skilled labour?
- 21. Do you think it is more common for Thai SMEs to compete in price or in quality?
- 22. Could you rank from 1 to 5 the most essential factors that are hampering the growth of SMEs in Thailand?

Name: Mr. Somchai Ruangpermpool

Title: PhD Student and SME consultant
Institute: Asian Institute of Technology (AIT)

Date: 08-04-2010 Time: 18:00-20:00

Questions:

1. Do you think the main problems hampering the firm growth lies on the manager, the owner of the firm or the government?

- 2. What do you think many Thai SMEs compete in price instead of added value?
- 3. What is exactly you relationship with Thais SMEs?
- 4. Regarding technology for SMEs to stay innovated, do you think it is a matter of finance or knowledge because they might not be aware that they need to improve?
- 5. What major problems do you see for SMEs within the manufacturing sector hampering their growth?
- 6. According to you which are the most important external and internal factors affecting Thai SMEs operating within the manufacturing sector today?

Name: Mrs. Rasmi Hanvajanavong

Title: Head of SMEs Data and Information Dissemination Division,

Department of General Affairs

Name: Mrs. Pairin Yamchinda

Title: Deputy Director, SMEs Macro Strategies Department

Name: Mrs. Luckana Tangchitnob

Title: Deputy Director, SMEs Promotional Scheme Development Department

Name: Mr. Nussati Khaneekul

Title: Chief of SMEs Situation Analysis Division

Institute: OSMEP (Office of Small and Medium Enterprises Promotion)

Date: 09-04-2010 Time: 09:00-12:00

OSMEP is a governmental institution founded in 2000. They study the situation that affects SMEs, evaluate the past performance of their previous master plan, and evaluate the success of the implementation. OSMEP's main issue is to promote and strengthen Thai SMEs.

Questions:

- 1. Could you briefly describe the organization?
- 2. How many SMEs are registered in Thailand?
- 3. Do you count them as SMEs?
- 4. How come so many businesses do not register in Thailand?
- 5. Is corruption and crime a problem for SMEs doing business in Thailand?
- 6. Do you think it is difficult for the manufacturing sector to attract labour?
- 7. Do you think it is difficult for SMEs to attract well educated labour?
- 8. Do you think that SMEs are open for your support?
- 9. Could you rank from 1 to 5 the most essential external factors that are hampering the growth of SMEs in Thailand?
- 10. Could you rank from 1 to 5 the most essential internal factors that are hampering the growth of SMEs in Thailand?

Name: Mr. Artch Bunnag

Title: Assistant Manager International Relations Division International

Banking Department

Institute SME Bank
Date: 09-04-2010
Time: 13:00-15:00

SME Bank is the special financial institution in Thailand, a governmental bank. The specialized financial institutions for SMEs are SME Development Bank, Bank of Agriculture and Agricultural Cooperatives, Governmental Savings Bank and Export-Import Bank of Thailand. There are 99 branches in Thailand and they have the general loan and the policy loan which has a low fixed interest rate. The SME Bank also incubates the SMEs and offer SMEs training courses.

Questions:

- 1. Could you briefly describe the organization?
- 2. What are the requirements for a SME to get your support?
- 3. Are these requirements for entrepreneurs starting up a business or for the already existing SME?
- 4. What are the main problems with SMEs, why do they not get the loan?
- 5. Are you able to help all the SMEs that need your support?
- 6. Do you mean some kind of corruption?
- 7. Do you think that businesses can manipulate this kind of documents to get a loan?
- 8. What do you look at when an existing business wants to expand or buy new equipment and ask for a loan?
- 9. Regarding your interest rate is beneficial in comparison with commercial banks?
- 10. Is there any sector that is riskier than others?
- 11. Why do SMEs choose your bank?
- 12. Have you seen any common features of the SMEs that succeed?
- 13. Are SMEs aware that you exist?
- 14. Why would a SME choose to go to a commercial bank instead of you?
- 15. Why would a SME choose to go to you instead of a commercial bank?
- 16. Are there any charges for applying for the loans?
- 17. Could you rank from 1 to 5 the most essential factors that are hampering SMEs in Thailand to access finance?
- 18. Do you use any strategies in terms of corporate social responsibility or environmental programmes?

Name: Professor Cachapum Sirichanachai
Title: Professor School of Economics

Institute University of the Thai Chamber of Commerce

Date: 17-04-2010 Time: 14:00-17:00

Questions:

1. What factor do you find is the major one hampering the growth of SMEs in Thailand?

- 2. How does SMEs in Thailand register their company?
- 3. What problems are Thai SMEs facing regards to marketing?
- 4. Why do you think it is a problem for SMEs to access finance?
- 5. Does SMEs in Thailand face problems in attracting skilled labour and competent managers?
- 6. Do think that added value production is a problem for SMEs in Thailand?
- 7. Does SMEs in Thailand face difficulties with advancement in technology?
- 8. Do you think corruption is a problem for Thai SMEs
- 9. Are there any governmental laws that you perceive as hampering the growth of SMEs?
- 10. Does Thai SMEs face any problems with technical barriers to trade such as difficulties with international organizations (ex WTO) that regulate trading?
- 11. Are SMEs in Thailand concerned about innovation?
- 12. Do you think the organizational structure have an impact of the growth of SMEs?
- 13. Is the political situation affecting Thai SMEs?
- 14. Does the location affect the success of SMEs?