

Chapter 3

Analysis of Factors Supporting the Development of SMEs

3.1 Finance

Even though the government has been attempting to alleviate SMEs' financial problems through specialized financial institutions (SFIs) and commercial banks, the problems still persist especially with small and community enterprises.

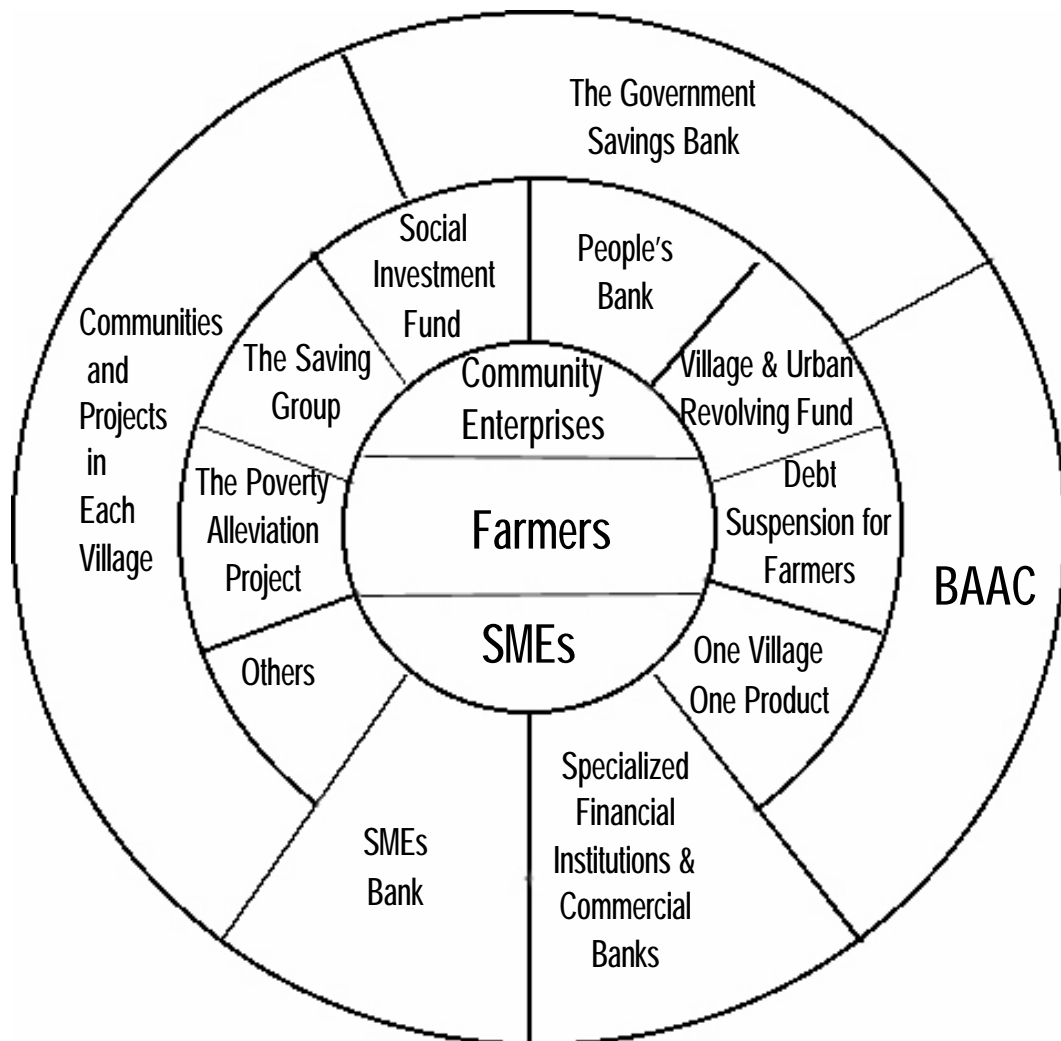
Overall, there are plenty sources of funds for rural communities. In addition, the present government has rigorous policies and measures to assist the rural communities, such as village and urban revolving fund, people's bank, one tambon one product project, debt suspension for farmers.

Up to the present, the Bank for Agriculture and Agricultural Cooperatives (BAAC) has played a key role in the rural areas in accordance with the government policies. It's role has now been adjusted to serve as a rural development bank and adjusts its strategy to facilitate and/or support the government's policies and measures mentioned previously.

Besides BAAC, the Government Savings Bank is another financial institution that has a significant role of extending financial services to rural communities under the government measure on people's bank scheme. As of 31 January 2002, there were 488,605 members in this project and 281,756 loans (3,741 million baht) had been already approved.

Aside from the specialized financial institutions and commercial banks, there are other forms of financial assistance for the rural communities, such as savings groups, the poverty alleviation project, and the social investment fund (SIF). In the near future, the Small Industry Finance Corporation (SIFC) will be transformed into an SMEs Bank having a role of supporting SMEs and community enterprises. The relationships among government policies, SMEs, community enterprises and farmers are depicted in Figure 8.

Figure 8 : Relationship among Government Policies, SMEs, Community Enterprises, and Farmers



Although there are plenty sources of funds, poor people have difficulties to access them. Therefore, the government should target to loan out funds to this specific group. The credit facilitation should be channeled not only to support manufacturing sector but also to support ordinary consumers so that the less privileged group can survive and continue their businesses.

Loan provision must be accompanied by advisory and consulting services from the government agencies in order to assure business success.

3.2 Marketing and Export

The role of marketing is crucial to business success and survival. Due to high competition in the world market with tariff and non-tariff barriers, major market for SMEs remains, therefore, domestic market.

Many SMEs' productions are not market-oriented, with lack of marketing know-how in terms of increasing the value-added of products, distribution channels, and lack of marketing cooperation among SMEs. As a consequence, their marketing is not successful both in domestic and foreign markets. In the trade sector, SMEs have to struggle with high competition from large enterprises and imported products including modern trade, discount, and convenient stores.

For export markets, Thai exporters are facing severe competition from countries that have lower production costs such as China and India, not to mention the global economic slump and both tariff and non-tariff barriers from other major importers such as the United States, European Union, and Japan. Thus, Thai exports are in a downturn as long as the efficiency of their production does not improve.

The service sector is, however, not much affected by the global economic slump. In particular, the tourism is the largest source of income from abroad due to location, natural resources and Thai's friendliness. Another service business with good potential is restaurants and Thai food restaurants that grow rapidly overseas. This also leads to increase in export demand for other related businesses such as raw materials for food and beverage, kitchen utensils, and interior decoration for restaurants.

The changing marketing environment and increasingly high competition both in domestic and foreign markets make it imperative for SMEs to adapt for survival. SMEs can apply their strength, such as flexibility and mobility in providing goods and services different from large enterprises', to penetrate niche markets using market-oriented and value-chain grouping approaches. The approaches can result in exchange of factors of production, information, and technology, as well as creation of networks which do not necessarily have to be in the same areas of production, and eventually result in

mutual benefits for each sub-sector. An example of the practice is the case of jewelry and ornament industry in the North where there is a cooperation between jewelry enterprises and the transport sector to bring customers, Thai and foreign tourists, to the factories. At the same time, the manufacturers also conduct market surveys to identify consumers' demand. Another popular marketing strategy is through E-commerce. This should largely increase market channels for SMEs because E-commerce can reach targeted customers more widely and easily.

In this regard, the government should play a key role in providing SMEs with necessary information for all manufacturing, trade, and services sectors. The government should also encourage SMEs' networking for their mutual benefits and should launch necessary measures to protect SMEs from unfair competition and trade barriers.

3.3 Information, Technology and Innovation

In the world of free trade where trade competition becomes increasingly intensified, access to information and technology in every sector is vital to the process of productions, management, and selling. Accordingly, technology and information are inseparable and are key instruments on which production, commercial, and service sectors have to rely. They are now widely accepted as an index of business viability.

Among large companies, there is continuous development in information and technology (IT). Large enterprises have applied IT to management such as management of supply chain, commodity inventories, and e-commerce system. Accordingly, the large enterprise can simplify their work, save their costs of production, and reach customers better than SMEs. Most SMEs, however, still adopt traditional ways of business operation which rely little on IT. Moreover, a majority of SME entrepreneurs and employees have relatively low education and their accesses to information are limited. Hence, application of IT to SMEs is difficult. Although government agencies have provided almost a full range of technological supports for SMEs, for example, the supports provided for the "Software Park" established in 1997, only a small number of SMEs can benefit. This is

partly due to lack of marketing which focus on targeted clients. As a result, SMEs are not aware of the IT services available from government agencies.

The probable solution to the problems is obvious. The related government agencies should strengthen their public relation and campaigns to increase awareness of and encourage SMEs to know and utilize the agencies' services. The supports should emphasize capacity building through training, education, and transfer of existing technology for SMEs.

Innovations relating creative thinking, improvement of technology to increase economic values of products and services, are not given due consideration by SMEs. At the present, most SMEs' innovations are limited to the agricultural sector and related products. This is partly due to low level of education of most personnel in the sector. As a result, educational system emphasizes learning by memorizing without creative thinking. Moreover, a government concrete support by establishing an innovation development fund in 2000 is in the beginning stage, so the result is still not clear.

3.4 Human Resource Development

Human resources is one of the most important factor for SMEs development. The governments from past to present have given due consideration to investment in education and allocate a large budget for education. However, the Thai average education is lower than that of many neighboring countries such as the Philippines, Malaysia, and Indonesia. Nearly 70 percent of the labor force finished only primary school level.

Most SMEs' workers have only primary education or lower. Sixty-two percent of the total SMEs' workers have only primary school degrees whereas 7 percent have bachelor degrees or higher.

The work status of SMEs' labor force can be classified into employees and employers or entrepreneurs:

(1) Employees: More than half of the SMEs' labor force are employees most of which have only primary education or lower (unskilled workers). As such, training and learning can be conducted with limitation and difficulty. For those having higher education,

from secondary education up to diploma levels (middle level workers), there is a language problem which results in communication problems.

Furthermore, the turnover rate of SMEs' workers is rather high because of seasonal farming and other better paid jobs. This causes SMEs' employers lack of motivation to train their employees.

(2) Employers: Most of SMEs employers have low education and are unable to encourage their descendants to keep their traditional businesses since their SMEs' business environment is unattractive for the new generation who has become more educated. This is because some SMEs enterprises were transferred from the previous generation which has a family type management with no systematic business planning and accounting. Some of SMEs' descendants are not interested in family business and prefer working in a large organization. Hence, it is difficult to find the new and able generation to take over the family business. Moreover, some employers started their businesses without experiences and skills in many business aspects. Some lack entrepreneur's qualification such as ability to take risk, enthusiasm, eagerness to learn, ambition, willingness to face challenge, leadership, self restriction. As a result, there is a high chance of failure because of lack of business preparedness.

The government supports for SMEs' human resources development include training and consulting services through concerned agencies such as ISMED, the Department of Industrial Promotion, the Department of Skill Development, the National Science and Technology Development Agency, the Department of Science Service, independent institutes under the Ministry of Industry, International training institutes, the Department of Internal Trade, the Federation of Thai Industries, and the Tourism Authority of Thailand. The past experience indicates that the HRD supports help improve the basic knowledge of both employees and employers, in Bangkok and vicinity, to some extent. In the areas outside Bangkok, however, the supports are not sufficiently extended to SMEs and the coordination among the government agencies is lacking.

SMEs human resource development can be classified into two parts as follows:

The first part is the development of education system. School curriculum should encourage creative thinking among students, put greater emphasis on science and technology, and second language applicable to practical uses, as well as conduct to promote good working attitude.

The second part is the development of personnel on the job.

(1) Employee development: Emphasis should be placed on training and upgrading with a view to promoting the quality of and updating employees, by training institutes for general training and skill upgrading and by specialized institutes and regional higher education institutes for higher level of knowledge.

(2) Employer development: There should be 2 types of training programs. First, comprehensive training programs which cover every aspects of operating a business for immediate practical use, starting from formulation of a business, business management, accounting, marketing and sales. This program is suitable for employers who already have a business and are facing business management problems and new employers who lack business experiences. Second, specific training programs are available for present employers who want to upgrade their business knowledge and skills in some areas and new employers who has some educational background and want to start a business. This program is aimed at filling the knowledge gap of SMEs in various areas such as accounting, management, IT and ICT management.