

Factors Affecting Business Success of Small & Medium Enterprises (SMEs); Case Study of Thailand

^{1*}Prof. Ann Otuko Jasper

¹Department of Entrepreneurship, Mansoura University

Corresponding author's e-mail: jharper@edithcowanjournals.org

How to cite this article: Jasper, A., O. (2020). Factors Affecting Business Success of Small & Medium Enterprises (SMEs); Case Study of Thailand. *Edith Cowan Journal of Entrepreneurship and Project Management*, 1(1), 27-34

ARTICLE INFO

Article history:

Received Date: 2nd June 2021
Revised Date: 7th June 2021
Accepted Date: 10th June 2021

Keywords:

Business success, SMEs, External environment, Management know-how.

ECJEP Classification:
G20, O40

ABSTRACT

Purpose: The purpose of this research is to conduct a study on the factors affecting business success of Small & Medium Enterprises (SMEs), with a Case Study of Thailand.

Design/ Methodology/Approach: For the research methodology, the paper adopted the desktop literature review method (desk study), which involved a vast and detailed review of studies and research addressing the on the factors affecting business success of Small & Medium Enterprises (SMEs), with a Case Study of Thailand. Simultaneously, an in-depth research of the top keywords related to the same topic was conducted in various databases. As a result, the study was purely qualitative, drawing its findings from secondary sources of information.

Findings: The results show that customer and market, and resources and finance played an important role in ensuring the SMEs business success in Thailand. Innovative product, quality, cost, reliability, and services are the key strategic dimension in business success. Innovative product gives added value to the customer and it is important to achieve a suitable balance between product quality and costs. Small-business owners must have a missionary zeal about their products or services, be willing to be personally involved in it, be willing to stick with the business, be able to define the market clearly and pay attention to details and proactiveness. Beside that, companies must compete based on their strength and specialization which is classified as cost leadership.

Originality/Value: The study concluded that the SMEs Characteristic, Customer and Markets, the way of doing Business & Cooperation, Resources and Finance, and External Environment have significant positive effect on the Business Success of SMEs in Thailand. Management know-how, Product and Services, and Strategy were found to have no significant effect on the Business Success of SMEs in Thailand.

Background

An enterprise is considered to be an SME based on value of assets or number of full-time employees. In terms of the total number of SMEs in the country, the 2002 census, which was conducted by the National Statistic Office Thailand, showed there was a total of 817,691 active establish in the trading sector. Out of which 288,877 or 35.3 percent were retail trade. The manufacturing sector accounted for 118,829 or 14.5 percent of the total, followed by hotel and restaurants with more than 116,807 or 14.3 percent, recreation and other services (10.2 percent), sale and maintenance repair accounted for 8.2 percent. The real estate (4.3 percent), wholesale trade and commission (4.1 percent), renting of machinery and equipment (3.8 percent), other land transport activities (3.6 percent), construction (1.2 percent) and computer and related activities (0.5 percent) (NSO, 2007). SMEs have long been believed to be important in supporting economics development within a country (Mazzarol, Volery, Doss, & Thein, 1999). One of the important roles of SMEs in this context includes poverty alleviation through job creation. Thai SMEs are increasingly seen as creator of new jobs (Swierczek & Ha, 2003) and Vietnamese SMEs employ 64% of industrial workforce. SMEs in Thailand play an important role in the country's economic development. According to statistics provided by NSO (2007), SMEs accounted for 76.1% per cent of all establishments in the manufacturing sector in the year 2007. The largest concentration, by number, of SMEs in Thailand is in the food and beverage sector, textiles, wearing apparel, and wood and wood products (NSO, 2007).

The definition of small and medium sized enterprise (SME) varies. Because of the diversity of small business, every simple definition is subject to criticism. According to Institute For Small and Medium Enterprises Development enterprises in Thailand have been defined according to 3 broad categories: 1. Production Sector are Agriculture Processing, manufacturing and Mining, 2. Trading Sector are Wholesale and Retail, and 3. Service Sector. Type of SME in Thailand has been defined according 1. Value of assets of each type of enterprises 1.1 Production Sector : medium size not exceeding 200 million bath and small size not exceeding 50 million bath 1.2 Service Sector: medium size not exceeding 200 million bath and small size not exceeding 50 million bath. 3. Trading Sector medium size: wholesale not exceeding 100 million and small size not exceeding

50 million. Medium size: retail not exceeding 60 million and small size not exceeding 30 million. 2 number of full-time employees of each type of enterprises 2.1 Production Sector: medium size not exceeding 200 employees and small size not exceeding 50 employees. 2.2 Service Sector: medium size not exceeding 200 employees and small size not exceeding 50 employees. 2.3 Trading Sector: wholesale medium size not exceeding 50 employees, retail medium size not exceeding 30 employees and small size not exceeding 15 employees (Norlaphoompipat, 2008).

Research into small and medium sized enterprises (SMEs) has grown strikingly during the last decade. This intense attention in the backdrop of the failure of various structural and trade policy reforms to stimulate any significant response from the private sector is remarkable, and seems to suggest that liberalization measures must be supplemented by pro-active policies to attain the desired goal (Bhattacharya, 2002). A huge majority of firms worldwide are SMEs, and they play a significant role in the economy. There is a broad consensus that a vibrant SME sector is one of the principal driving forces in the development of a market economy. SMEs stimulate private ownership and entrepreneurial skills, are flexible and can adapt quickly to changing market demand and supply situations, generate employment, help diversify economic activity, and make a significant contribution to exports and trade. Even in the developed market economies SMEs account for a large share in output and employment (UNECE, 2003).

Most of the previous studies dealing with the conditions of successful business have focused on large companies rather than SMEs (i.e., Ghosh and Kwan, 1996; Kauranen, 1996 and Pelham, 2000). However, changes in the environment cause more uncertainty in SMEs than in large companies. Their resources for acquiring information about the market and changing the course of the enterprise are more limited. The response to environmental changes is different in SMEs than in large companies. Large firms may even exit from one of its business areas, but this is not usually possible in a single-business firm. The options for responding are limited by the firms' resources and strategic choices as well as by the opportunities offered by the industry and location. Those ways may also differ between the development stages of the firm. SMEs have long been believed to be important in supporting economics development within a country (Mazzarol, Volery, Doss, & Thein, 1999). One of the important roles of SMEs in this context includes poverty alleviation

through job creation. Thai SMEs are increasingly seen as creator of new jobs (Swierczek & Ha, 2003) and Vietnamese SMEs employ 64% of industrial workforce.

For the research methodology, the paper adopted the desktop literature review method (desk study), which involved a vast and detailed review of studies and research addressing the on the factors affecting business success of Small & Medium Enterprises (SMEs), with a Case Study of Thailand. Simultaneously, in-depth research of the top keywords related to the same topic was conducted in various databases. As a result, the study was purely qualitative, drawing its findings from secondary sources of information.

After the filtration was done, the third step involved the selection of fully accessible publications. Reduction of the literature to only fully accessible publications yielded specificity and allowed the authors to focus on articles related to the top keywords. Finally, the analysis was done using content analysis.

FINDINGS

Based on the findings of earlier research, the factors affecting SME business success were classified into the following categories: (1) an entrepreneur Characteristics (Kristiansen, Furuholt, & Wahid, 2003; and Rutherford & Oswald, 2000), (2) characteristic of SME (Kristiansen, Furuholt, & Wahid; 2003), (3) management and know-how (Swierczek & Ha, 2003), (4) products and services (Hitt & Ireland 2000). (5) customers and markets (William, James, & Susan; 2005), (6) the way of doing business and cooperation (Hitt & Ireland 2000; and Jarillo 1988). (7) resources and finance (Swierczek & Ha, 2003; and Kristiansen, Furuholt & Wahid, 2003). (8) strategy (McMahon, 2001), (9) external environment (Huggins, 2000; and Nurul Indarti & Marja Langenberg, 2005); and (10) internet (Henriette Hesselmann, Comcare, and Peter Bangs; 2002). However only 6 factors namely Characteristics of SMEs, Management and know-how, Products and Services, The Way of Doing Business and Cooperation, Resources and Finance and External Environment were considered for the theoretical framework of this study based on suitability with Bangladeshi context. Therefore, Business success is the dependent variable and independent variables are: characteristic of entrepreneur and SMEs, management and know-how, products and

services, the way of doing business and cooperation, resources and finance, and external environment.

Thus, based on the findings, to achieve business success, many factors should be optimal simultaneously, since SMEs success is a multidimensional phenomenon. Both firm-internal and firm-external factors affect firm success. Entrepreneurs in successful SMEs and those in failed SMEs thought that pretty much the same factors are the most important for business success, and held the same views on the factors to be avoided in business. The research has looked into characteristic of SMEs, management and know-how, products and services, the way of doing business and cooperation, resources and finance, and external environment.

The results show that product and services played an important role in ensuring the SMEs business success in Bangladesh. Innovative product, quality, cost, reliability, and services are the key strategic dimension in business success. Innovative product gives added value to the customer and it is important to achieve a suitable balance between product quality and costs. Small-business owners must have a missionary zeal about their products or services, be willing to be personally involved in it, be willing to stick with the business, be able to define the market clearly and pay attention to details and proactiveness. Beside that, companies must compete based on their strength and specialization which is classified as cost leadership, differentiation, and focused Michael Porter (1985). Cost leadership-based companies have tight controls on their operational costs, have efficient production, are volume producers or focused on tonnage.

Differentiation described companies which offer differences in their product or services. They tend to put brands as a market capture, have high service levels, unique distribution and non-standard terms of business. Lastly, focused companies are companies concentrating on a particular buyer, group, geographic area or segment of the product line, continual improvement in quality, cost, delivery lead time, customer service and flexibility are part of the package to become world class. Innovators with continuous growth should pay special attention to their research and development, and the ability to maintain their innovativeness. External environment factor play a very important role as well for firm success. Social network, government support, and legality, are the key strategic dimension in external environment in business success. Networks represent a means for

entrepreneurs to reduce risks and transaction costs and also to improve access to business ideas, knowledge and capital.

DISCUSSIONS

In conclusion, the study found out that the SMEs Characteristic, Customer and Markets, the way of doing Business & Cooperation, Resources and Finance, and External Environment have significant positive effect on the Business Success of SMEs in Thailand. Management know-how, Product and Services, and Strategy were found to have no significant effect on the Business Success of SMEs in Thailand. Moreover, Innovative product, quality, cost, reliability, and services are the key strategic dimension in business success. Innovative product gives added value to the customer and it is important to achieve a suitable balance between product quality and costs. Small-business owners must have a missionary zeal about their products or services, be willing to be personally involved in it, be willing to stick with the business, be able to define the market clearly and pay attention to details and proactiveness. Beside that, companies must compete based on their strength and specialization which is classified as cost leadership.

REFERENCES

- Bhattacharya, D. (2002), "Bangladesh Economy in Fiscal Year 2001: Macroeconomic Performance", in Rehman Sobhan (ed.) Chapter 2 in Bangladesh Facing the Challenges of Globalisation: A Review of Bangladesh's Development 2001, Centre for Policy Dialogue and University Press Limited, Dhaka.
- Ghosh, B. & W. Kwan (1996). An analysis of key success factors of SMEs: a comparative study of Singapore/Malaysia and Australia/New Zealand, in The 41st ICSB World Conference Proceedings I, 215-252. Stockholm, Sweden, June 16-19.
- Henriette Hesselmann, Comcare, Peter Bangs. 2002. Benchmarking national and regional e-business policies for SMEs: Final report of the "E-business Policy Group".
- Hitt, M. & D. Ireland. (2000). The intersection of entrepreneurship and strategic management research, in Handbook of entrepreneurship, D. Sexton & H. Landström (eds.), 45-63. Oxford: Blackwell.

- Huggins, R. (2000). The success and failure of policy-implanted inter-firm network initiatives: motivations, processes and structure. *Entrepreneurship and Regional Development*, 12(2), 211-236.
- Jarillo, J. (1988). On strategic networks. *Strategic Management Journal* 9 (1), 31-41.
- Kauranen, I. (1996). The start-up characteristics of a new entrepreneurial firm as determinants of the future success of the firms in the short term and in the long term. *Journal of Enterprising Culture* 4 (4), 363-383.
- Kristiansen, S., Furuholt, B., & Wahid, F. (2003). Internet cafe entrepreneurs: pioneers in information dissemination in Indonesia. *The International Journal of Entrepreneurship and Innovation*, 4(4), p.251-263.
- Mazzarol, T., Volery, T., Doss, N., & Thein, V. (1999). Factors influencing small business start-ups. *International Journal of Entrepreneurial Behaviour and Research*, 5(2), p.48-63.
- McMahon, R. G. P. (2001). Growth and performance of manufacturing SMEs: The influence of financial management characteristics. *International Small Business Journal*, 19(3), 10-28.
- Norlaphoompipat, T. (2008). Definitions of SMEs. Institute for Small and Medium Enterprise Development, Bangkok.
- Nurul Indarti & Marja Langenberg, (2005). A Study of Factors Affecting Business Success Among SMEs: Empirical Evidences from Indonesia.
- NSO. (2007). Data Summary Report of the 2007 Industrial Census: Whole Kingdom. National Statistical Office Bangkok Thailand.
- Pelham, A. (2000). Market orientation and other potential influences on performance in small and medium-sized manufacturing firms. *Journal of Small Business Management* 38 (1), 48-67.
- Swierczek, F. W., & Ha, T. T. (2003). Entrepreneurial orientation, uncertainty avoidance and firm performance: an analysis of Thai and Vietnamese SMEs. *International Journal of Entrepreneurship and Innovation*, 4(1), p.46-58.

UNECE (2003), Conclusions And Recommendations of the Expert Meeting On How To Become Suppliers Of Large Enterprises And Transnational Corporations, held in Geneva on 20-21March, 2003.

William G, James M, SusanM., (2005). Fundamentals of Business: Starting a Small Business. McGraw-Hill/Irwin: New York.