

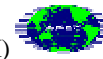
**NEW ZEALAND BIZ PROGRAMME :
INCREASING OPPORTUNITIES FOR HRM IN SMES?**

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NEW ZEALAND BIZ PROGRAMME : INCREASING OPPORTUNITIES FOR HRM IN SMEs?

ABSTRACT

Like other countries, New Zealand's small and medium business enterprises have received support from a variety of sources. This paper analyses central governmental assistance that has been provided over recent years. The historical evolution of this assistance is traced and the level of support for the development of human resource management is discussed.

Traditionally, and up until 1995, the New Zealand government's business development programmes were essentially based on a grants-based focus of assistance. The approach reflected a hands-on emphasis and the programme was administered by the Ministry of Commerce. The programme providers were Business Development Boards acting as crown entities designed to encourage business development in their region.

During 1998 the structure of the business development programme was reviewed. There seemed to be support for a programme that was more responsive to the needs of different businesses and of those in different regions. The government was seeking to re-orient the programme so that delivery would come from experienced community providers, contracted by the government and with a focus on helping to achieve better business management. The new programme, *BIZ*, launched in April 1999 was designed to provide services to small and medium sized businesses throughout the country with the stated aim of improving their management capability.

The small business owner often brings a technical background to the business. While some management experience may be evident, this is by no means always the case. Human resource management skills get even less of a look-in than general management in this environment. By way of comparison, the accounting perspective is far more visible in the early stages and initial growth of the business. Training initiatives, compliance demands, externally-driven deadlines and the financial institutions who fund newer enterprises are factors that tend to drive this emphasis. Thus, for many managers, the elements of best practice in human resource management are often lacking.

Unfortunately, human resource management did not have a high profile in the earlier business development programmes. This appears to be a bleak picture for the development of human resource management in SMEs. In order to address this perceived gap, it was necessary for those businesses that recognised the need to cover the area through the use of specific training or by receiving assistance from various mentors or agencies, including the firm's external accountant, rather than human resource specialists *per se*. However, the new programme, *BIZ*, does offer increased opportunities for human resource management initiatives and principles to become more evident in the smaller business enterprises. This paper advances why there are increased opportunities and how these might be further encouraged.



INTRODUCTION

During a recent literature review I came across a book entitled *The Rise and Decline of Small Firms*. [Boswell] Admittedly it was written in 1973, but it resulted in some reflection.

There has been a prevalent view that many SMEs fail in their first few years of operation and that they have a greater failure rate than large businesses. However, evidence suggests that pure statistics present a harsher picture than actually exists for these recorded "deaths" signify such diverse aspects as, for example, changes in location, ownership, or seasonal fluctuations. [Joint SEEANZ and IIE Conference]

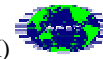
Major changes publicly trumpeted from the rooftops have heralded the restructuring of larger enterprises. Large companies are not only downsizing, they are disappearing. According to information provided by the US Census and Department of Labor, between 1980 and 1994, 40% of the Fortune 500 companies disappeared through break-up, acquisition, or bankruptcy. However, it has been estimated that for every job lost in the Fortune 500 companies, 2.5 jobs are created by small companies.

Most of us are aware that small business has become a vital and vibrant part of the business environment in the developed countries, and that they have become the job creators.

APEC reported in 1995 that most members recognise that the primary role of government in assisting SMEs is to create a business environment conducive to strengthening SME competitiveness. [Best Practices for Small and Medium Enterprises in APEC, APEC, 1995]

At the April 1999 APEC Small and Medium Enterprises Ministers' meeting held in Christchurch, New Zealand an action plan was formed to promote the growth of SMEs in the region. In a prepared statement the chairman, Max Bradford, said, "Ministers and business representatives acknowledged their joint responsibility to promote the growth and profile of SMEs, which are emerging as the engine rooms of the knowledge-based APEC economies of the future." In addition, ministers *inter alia* advanced a number of projects proposed by member economies relating to business networks, e-commerce, enhancing management performance and improving consumers' information.

Like other countries, New Zealand? SMEs have received support from a variety of sources over the years. This paper discusses support that has been provided through one central governmental assistance programme in particular known as the Business Development Programme (BDP). The historical evolution of this assistance is traced and the level of support for, and development of, HRM within that assistance is analysed.



SETTING THE SCENE

Before considering the BDP and its evolution, it would be helpful to place the programme in context. This will enable more appropriate comparisons to be made with other countries or jurisdictions. A few facts and figures about New Zealand follow to assist in contextualising the situation:

- Physical area - a comparatively small country by international standards of about 270,500 square kilometres (roughly the size of countries such as Japan or Great Britain)
- Population - the resident population is estimated to be about 3.8 million (31/12/98)
- Labour force - 1.875 million with a participation rate of around 65% and unemployment about 6.5%
- Full-time workers - 77% (F/T = 30+ hours pw). Over the last decade full-time employment has grown by 7.9%, while part-time employment grew by 42.8%.
- Average working hours - 39pw. This has remained in the range of 38.7-39.4 since 1987.

There is no universally accepted definition of an SME as these can vary across industry sectors, and between different countries. Common definitions are based on number of employees, invested capital, total value of sales, sales volume, and shareholders' funds. By whatever criteria is used, New Zealand is predominantly a country of smaller firms with an average of five full time equivalent workers in each geographical unit. (The formulae used in this calculation regards a geographical unit as one that is economically significant which itself is defined as having \$30,000+ in GST expenses or sales or being GST exempt; part-time workers are calculated as being half-time; and the calculation excludes farms, property owners, etc.).

THE EARLY 1990S BUSINESS DEVELOPMENT PROGRAMME

The 1991 Review of Enterprise Assistance proposed a rationalisation of the Government's enterprise assistance measures. As a result, the Government made changes in a number of specific areas including proceeding with the Business Development Boards Act 1991 which established the Boards as independent Crown agencies (entities from 21/12/92). The day-to-day operating rules and guidelines for the Boards were set down in a single Code for all Business Development Boards which, as required, was amended or revoked as provided for under Section 7 of the Act. By their very nature these Codes were prescriptive. For example, the 1993 Code (No. 2) contained 135 pages and included a raft of forms for each grant type.

The programme was administered by the Ministry of Commerce and the approach reflected a hands-on emphasis. The Ministry was to administer the legislation, appoint board members, review the Boards' Code and pay the Boards' operating costs. The providers of the programme were to be the Boards acting as individual Crown entities designed to encourage business development in their region.



Twenty one Boards were established throughout New Zealand in February 1992 with responsibility for the delivery of the BDP. The Boards operated with 4-7 members, appointed by the Minister of Business Development, but they had the authority to co-opt special assistance from others on a voluntary basis.

The legislation enabled the devolution of responsibility for decision-making on grants to the Boards. Although the Boards were also empowered to provide business advice and referrals, and to encourage business development in their region, the focus was on three types of grant assistance:

- Business Development Investigation Grant - to help applicants investigate business ideas new to the region. Paid 50% of approved costs, \$20,000 maximum.
- Expert Assistance Grant Scheme - to help businesses engage specialists to improve their management skills. Paid 50% of approved costs, \$8,000 maximum.
- Enterprise Growth Development Scheme - to help businesses improve their international competitiveness. Paid 50% of approved costs, \$20,000 maximum.

The Ministry of Commerce? Business Development Group was to assist the Minister to consider appeals against the Boards' decisions on grant applications (of which there were 84 in the year ending 30/6/64). The Business Development Group was part of the Ministry's Business Policy and Programmes Division whose purpose was to promote and sustain the international competitiveness of New Zealand business. Among other things, the group was also to assist the minister to promote and organise the Business Development Quality Awards (BDQAs), develop the ExcellenceNZ programme, produce monthly issues of "Business Development News" and promote better co-ordination among government agencies involved in delivering enterprise assistance.

The BDQAs were entry level quality awards, complementing the premier New Zealand National Quality Awards. Delivered nationally on an annual basis, they were open to all organisations and had no entry fee. The ExcellenceNZ package comprised three measures: Total Quality Management, World Competitive Manufacturing and World Competitive Service. The package? initiatives were offered by the Ministry in agreement with the Business Improvement Branch of the Department of Industry, Science and Technology in Canberra. The ExcellenceNZ initiatives were delivered by consultants contracted to the Ministry which organised consultant training utilising the authors of the initiatives and monitored the performance of the contracted consultants.

THE MID-1990S PROGRAMME REVIEW

Up until 1995 the New Zealand government sponsored BDP in the regions was essentially focused on a grants-based focus of assistance. In September 1994, Cabinet directed the Secretaries of Commerce and Labour to carry out a "stocktake" review of enterprise assistance measures. In May 1995 a broad strategy for enterprise assistance measures was agreed and this included refocusing the BDP to a business capability framework to grow SMEs.



The revised BDP was introduced with effect from 20 November 1995 although new applications to the existing grant schemes had been terminated on 13 September. This gap enabled the Boards to process the applications on hand and to provide training in the refocused programme. An extensive business information needs survey was undertaken by the Ministry and the Boards to assist in developing an appropriate strategy for providing timely and relevant information to businesses.

The refocus had four specific components - information provision, business capability improvement, some grant support and improved inter-agency co-operation. From late 1995 then the Boards' new services were:

- Information - on New Zealand? overall economic and regulatory environment, the regional economy, sources of advice and assistance and techniques to improve business skills.
- Preliminary business appraisal - an independent assessment of business capabilities. Provided on a dollar-for-dollar basis, up to \$500, and free to individuals going into business.
- Business capability improvement programme - a training and education programme built on the results of the appraisal. Businesses attend at their own cost.
- Grant scheme - allows businesses to test and apply the skills gained in three areas - strategy, innovation and research & development, and implementation. Reimburses 50% of eligible costs, up to \$20,000 in a financial year and to a maximum of \$50,000 per business. Restricted to businesses employing up to 50 full time staff.
- Quality initiatives - to foster the application of TQM principles and best practice.

Subsequently, a further area was added to these services:

- Hard business networks - to help a group of companies form a network. This was provided on a dollar-for-dollar basis, up to a maximum of \$20,000 annually to a group.

The BDP continued to include the BDQAs and ExcelleNZ initiatives, to encourage and support the development of a quality culture, best business practice and excellence. However, the then Minister signalled that the refocused programme would involve more rigorous monitoring and evaluation measures to ensure that existing funds were spent in a way that provided maximum value and benefit to taxpayers and that there would be an increased emphasis on fostering participation by women, Maori and Pacific Island people.

GATHERING CLOUDS

In April and May 1997, the Ministry, as part of its monitoring and evaluation measures, undertook a review of 473 grant approvals made by the Boards. On 6 August 1997 the Ministry reported to the Minister of Business Development that "a large proportion of clients are receiving grant funding for which they or the project are not eligible." The Ministry was



advised by the Crown Law Office that payments for grants approved in breach of the BDP Code criteria would be contrary to the appropriation provided by Parliament. Consequently, such payments would be contrary to the Public Finance Act and, therefore, unauthorised and illegal.

The matter was referred to the Auditor-General whose conclusions in March 1998 *inter alia* stated:

We identified 17 cases of grants approved by six Business Development Boards that did not comply with the criteria contained in the *Code for Business Development Boards 1995*. This is a serious matter because of its implications for the Ministry of Commerce in making payments which are other than in accordance with the appropriation provided by Parliament, and are therefore unlawful.... The six Boards we reviewed were conscious of their responsibility to comply with the Code. We found no instances where they purposely disregarded the limits of their authority.... The current arrangements that separate who approves grants (Boards) and who pays them out (the Ministry) create a division of responsibility and accountability which is unusual and gives rise to a duplication of effort because both the Ministry and the Boards must satisfy themselves of the validity of the grant approvals given. The more usual arrangement for similar grant schemes is that the entity that has the power to approve a grant is also funded to pay out the grant.” [Office of the Controller and Auditor-General, p.7]

Parliament had previously validated the unappropriated expenditure on the basis that the Ministry was to develop procedures to be in place by 1 September 1997 to assist Boards to comply with the Code; and to put in place a monitoring and evaluation regime. The Ministry took this action including the issuing of *Guideline Notes for Business Development Board Members* about their respective roles and functions and a booklet entitled *Business Development Boards - A Guide to the Accountability and Relationship Framework for Crown Entities*.

The Ministry reported to the Cabinet Committee on Industry and Commerce on a wide range of concerns including the following:

- The reporting and accountability requirements placed on Boards through the Public Finance Act impose heavy demands on the resources of individual Boards
- Boards have difficulties complying with the *Code for Business Development Boards 1995*, which sets out the activities they are to undertake and the criteria for grant assistance
- The grant measures are very expensive to run, with considerable overheads, locally and centrally - in 1996/97 it cost approximately \$6 million to make payments of approximately \$12 million
- The awareness of the BDP is low in the business community. Research indicates that employer and industry associations are commonly used sources of business assistance while government agencies, including Boards, are considered to be (the) least valuable sources of assistance



- The relevance of the BDP to the needs of target groups (Maori, Women, Pacific Island peoples) has been questioned. Boards are generally not considered to be proactive in delivering services to these groups and accordingly the awareness of the BDP among these groups is low
- The BDP overlaps with initiatives delivered through other government agencies and the private sector.

These and other perceived problems led to a review of the policy approach at the microeconomic level in a paper to the Cabinet Committee on Industry and Environment. Business development assistance was regarded as a subset of enterprise assistance which had been defined previously as those measures targeted at addressing problems which constrain business, especially small to medium-sized firms, from achieving optimal performance. Business development assistance had previously distinguished itself from other forms of enterprise assistance by aiming to improve the performance of small to medium sized firms by improving managerial potential, as opposed to employment potential, trade potential or tourism potential.

The Ministry was authorised to undertake consultation on a BDP review and this was completed by early February 1998. Commerce officials met with representatives from 50 organisations with an interest in business development including the 21 Boards, chambers of commerce, local council enterprise agencies, employers and manufacturers organisations. The Ministry invited 186 organisations to make written submissions, including all enterprise agencies and a range of business and sector groups and about 100 submissions were received. Many points were advanced during this consultation process. Although many of the points do not relate specifically to HRM all the key themes advanced in a paper subsequently presented to the Cabinet Economic Committee are presented (as Appendix I) as they provide insight into the SME sector. A perusal of these is appropriate at this point.

The consultations undertaken by officials and written submissions received had expanded the initial concerns expressed earlier. The key themes are recorded in Appendix I but further issues identified specifically related to the BDP and the Boards:

- the BDP grant scheme was important to Boards for attracting clients who then receive assistance with non-grant elements of the BDP;
- it is the enhanced skills and capabilities that result from business education and upskilling that are important to SME growth, rather than grants;
- there are difficulties in measuring value for money and additionality;
- the Code is seen as inflexible to meet the regional needs of business;
- the autonomy of the 21 Boards had worked against any national co-ordination and promotion of the BDP; and
- in the main centres Boards are considered by some as not being proactive and not having a profile in the business community.



The papers presented to the Cabinet Committee traversed various options for the future and proposed

“... that capability enhancement assistance be delivered to small and medium-sized enterprises (SMEs) by way of a local autonomy model under a service contract approach.”

It was argued that this approach would allow for flexible and tailored responses to varying business needs, including target group needs and would encourage SMEs to take responsibility for enhancing their own capabilities. The approach would involve a reverse contract system whereby interested parties would tender for government funding to design and deliver capability enhancement and information facilitation assistance (within defined broad parameters) in areas, and to target groups, throughout New Zealand. Deliverers would need to demonstrate an intention and ability to co-ordinate delivery with other enterprise assistance deliverers in their area of coverage, and would be held accountable for achieving agreed outcomes.

The Minister announced that the Coalition Government has decided in principle to terminate the grant elements of the programme. This is because they are not effectively meeting our business development objectives, and because of the administrative difficulties highlighted in the recent Controller and Auditor-General's report.”

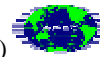
Six of the Boards legally challenged the suspension but in February 1999 the High Court refused an order which effectively would have lifted it at that stage. Subsequently the suspension on grant approvals was lifted to enable the approximately 900 applications to be processed, but the Boards were required to give assurances that they would apply procedures designed to ensure their compliance with the Code.

THE 1999 BDP

The new programme, *BIZ*, was designed to provide services to small and medium sized businesses throughout the country with the stated aim of improving their management capability. *BIZ* with the by-line “achieving Better Business Management” is a nation-wide government funded scheme set up to offer training, advice and mentoring to SMEs. Under the reshaped programme, government awards a contract for service to business assistance experts to design and provide services for their local region, and in some instances nationally. As appropriate, these organisations may then contract themselves with specialist sources of professional, management or technical skills that the programme will provide to businesses. The second element of the new programme was to set up a national business information service (NBIS) to deliver user-friendly information.

These moves signalled a complete change of focus for the BDP. The government was to replace the grants-based focus of its assistance and would no longer be a hands-on provider. The two initiatives were budgeted to receive about \$12 million of annual funding from the government.

The Ministry of Commerce was to manage the delivery of *BIZ*, including quality assurance monitoring and auditing of performance against the contracts. The Ministry, via the *BIZ* programme funds a variety of training and advisory workshops and courses giving access



to training and advice aimed at upskilling owners/managers of SMEs. Effectively there are to be no price barriers to a person gaining knowledge that will assist in the successful running of the business.

The 21 Boards who were the providers of the existing BDP, were to cease to operate as crown entities by the end of 1998 but they were eligible to participate in the tender process, if they wished to operate as new business entities. On 30 September 1998, the Ministry sought expressions of interest on an open tender basis in the government? reshaped BDP, *BIZ* and the NBIS. Applications closed on 13 November and were evaluated by four people from the private sector and two from the Ministry.

The preferred providers were selected from over 400 who tendered and the Ministry worked towards finalising the contracts for an official launch in April. Services provided by the 46 providers contracted under *BIZ* include business needs assessment, financial forecasting and HRM training, strategic planning, IT, accounting and cashflow training, mentoring and networking, legal compliance training. These providers represented a mix of national and regional providers to ensure national coverage and to cater for local needs. Some of the providers under the previous BDP were successful in gaining contracts.

The Ministry also received 10 proposals from parties interested in operating the new NBIS to provide a single source of information about the assistance available to small and medium sized businesses. *BIZinfo* is a free service provided by NBIS Ltd., which was successful in winning the contract. NBIS Ltd is a partnership of four organisations - the New Zealand Chambers of Commerce, a combined NZ Employers' Federation-NZ Manufacturers' Federation grouping, Poutama Trust and the Pacific Island Business Trust.

BIZinfo was launched on 14 April 1999 by the Prime Minister to provide businesses with one-stop access to information and assistance. There are over 30 physical locations nationally although the majority of these occupy an area staffed by people from associated enterprises who have access to resources including the NBIS website. The five stand-alone metropolitan offices also act as the call centres for a national call-free telephone number. *BIZinfo* works in conjunction with *BIZ*, to steer businesses in the right direction for information, advice and assistance to help them "survive and thrive". It has a comprehensive database of government agencies, business advisors and education and training providers.

By 23 June *BIZinfo* had received 3,000 phone calls and recorded almost 60,000 searches for information at its website. The website indexes a wide range of topics and the subject headings include *BIZ* programmes (free of charge); business associations and networking; business skills; financial advice; grants and funding sources; importing, exporting and trade; markets and marketing; as well as a weekly update section. Each subject area gives access to details of relevant organisation publications and businesses, with over 200 sources indexed in several of the subject areas. Users can also search the website by location, selecting their home region for a listing of available services.

The scheme is pitched at people who have probably been in business for two to five years and need to improve their skills. Although there will not be courses for those wanting



advice on how to start out, the NBIS website does include a "Business Start-Ups" subject category also to direct searchers to other public and private sources of assistance.

It seems that the new programme may have struck a responsive chord. A weekly New Zealand business newspaper, *The Independent*, summed up the new programme with the banner head-line "IZ Delivers Lists And Lessons, Not Lolly" [Speden, p.19].

At the political level with an election later this year, the major opposition party in the New Zealand parliament, Labour, re-released its industry policy in April 1999 with little change from last year's draft. It also proposes contracting out business training programmes to providers like local bodies and business groups. It proposes no new nation-wide delivery network, which could see something like the *BIZinfo* survive. Labour's policy specifically allows for *BIZ* training contracts to be "honoured and woven in" to its own scheme.

SMEs AND HRM

The role of HRM is under scrutiny. Recently, I read a couple of brief articles about the outsourcing of HR. [Ceelen; Field] They described the benefits and problems associated with organisations wanting to outsource non-core business activity. Such protagonists believe that there are surplus activities within organisations and that HRM may be one of them.

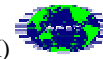
Re-engineering and restructuring are, as the terms imply, "engineering" responses to organisational challenges. The restructuring in New Zealand, as elsewhere, has been based on what might be termed an "economic rationalism" model which, as far as employee motivation is concerned, largely dismisses the optimistic view of human nature held by the mainstream writers on motivation.

And what about the skills required by the future organisation? We are all aware of the impact of the pace of technological change. Burstein and Kline (p.2) express it as follows:

"The next few decades will witness profound alterations not only in the way we live, work, entertain, and inform ourselves, but also in the strategies of businesses, the dynamics of the marketplace, the competition between companies and between countries, the process of wealth creation, and even the role of government."

Computer literacy is a recognised skill. Computer fluency is another skill altogether as it involves being able to access and process information without thinking about technical abilities. A study conducted by the US Bureau of Labor Statistics of 54 jobs identified as having the highest growth between now and the year 2005, found that only eight do not require computer fluency. This reinforces again that we need the ability to constantly acquire new knowledge and skills and will have to be lifelong learners. The response to this is a challenge for us all as well as for HRM.

Likewise, as the number of businesses is increasing and the average size of businesses is shrinking, the specialist HRM role becomes more problematic. Perhaps the changed environment demands a different response from those who espouse HRM's importance? Reference to some recent studies provides some clues.



A forthcoming publication (due September 1999) is based on a study of New Zealand manufacturers' business practices and compares the results internationally. An initial stage of this comprehensive study by the Ministry of Commerce and Statistics New Zealand was based on the results of a questionnaire distributed to 1,400 manufacturers with more than 10 employees. There was a high 84% response rate and participating firms were sent a score-card of their results allowing them to compare themselves with the average firm in their sector and to benchmark. This study followed a 1994 joint study *Leading the Way* carried out in Australia and New Zealand by the Australian Manufacturing Council and the New Zealand Manufacturing Advisory Group.

Although as yet unpublished, initial results found New Zealand manufacturers have a high degree of customer focus. They also have well developed supplier relations, quality and operations practices but need to focus on improving their leadership and staff development practice if they are to achieve world-class performance. Manufacturers should also look at taking a more strategic approach to innovation, rather than letting technology drive their business.

The study found that many manufacturers still have relatively weak leadership and planning practices. Although the majority of firms have well developed planning processes, the extent of consultation with stakeholders, especially employees, appears to be limited. This suggests that there is scope for developing effective employee practices. Many businesses do not seem to recognise that their performance depends not only on their ability to attract and retain the best people, but on empowering them to reach their full potential and providing them with incentives to commit themselves to the firm's objectives.

The second view emanates from the strategist Professor Michael Porter who asserted in an address to business people and government representatives in Wellington on 10 November 1998 that New Zealand has to fundamentally change the character of its economic reform process. This was a follow-up visit seven years after he wrote a study of New Zealand's competitive advantage, the so-called "Porter Project", based on an analysis of the country's top 20 export industries.

Professor Porter described the areas where New Zealand had to change - in innovation, human resources (people), the New Zealand worker, university research, equity capital, investment, producer boards, customers, and clusters. These may not have been specifically ranked but the first three of these (and possibly the fourth) are fertile ground for "HRM". If one uses the term "human response" rather than HRM then the opportunities are even wider.

The Cabinet papers referred to earlier identified the six major barriers restraining growth of New Zealand SMEs as access to appropriate information; access to capital; technology development and innovation; developing linkages; management skills; and motivational factors. Again this looks like a strong demand for a "human response" to the perceived issues.

We must be conscious of the wariness expressed by SMEs to seek assistance as referred to earlier. But perhaps there is a perception problem also. Traditionally, a common image of HRM has been the person (or face) who helps (or hinders) in various people-



oriented processes. Consider an SME seeking to increase the level of staffing by a massive 20% ? his year". In numerical terms that he/she may be talking about one person and that person may be part-time. HRM terminology such as training needs analysis, job analysis, position and person specification, recruitment policies, interviewing skills, assessment testing, selection, ability-job fit and the like is altogether too much for such people.

Tway in her book *People, Common Sense and Small Business* describes these in terms such as how to find the right people; hire the right people; train ...; motivate ...; develop the right people. This type of terminology is probably more SME-friendly.

In a sense, HRM needs a different paradigm package to present what it has to offer in assisting SMEs.

Ulrich presents a more radical conceptualisation using a three-domain framework. He and his fellow researchers have spent a number of years studying the relative competencies for HR professionals as business partners. In his recent book Ulrich (p.251ff) has analysed data from 12,689 associates which would suggest that HR people have four different roles to play and have to play all of them, all of the time. The relative weightings of the three key areas of knowledge and skills needed for effective performance in HRM are described by Ulrich as being:

1. Management of change (creating meaning, problem solving, innovation and transformation, relationship influence, role influence) - 41.2%
2. Knowledge of HR practices (staffing, development appraisal, rewards, organizational planning, communication) - 23.3%
3. Knowledge of business (financial capability, strategic capability, technological capability) - 18.8%

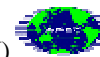
An interpretation offered by Ulrich is that knowing the business lets an HR professional *join* the management team; knowing HR practices helps the professional *contribute*; and managing change helps the HR professionals *make things happen*. Significantly, less than a quarter of this framework involves the functional and technical areas which have traditionally been the mainstay of HRM or personnel management.

Moreover, the picture is not complete without the fourth dimension of

4. Personal credibility - 16.7%

The researchers' interviews with HR professionals have yielded insights into what HR professionals can do to acquire this ? ersonal credibility". The behaviours that enhance credibility include the following:

- Accuracy: being accurate in all HR work.
- Consistency: being predictable.
- Meeting commitments: doing what you say you will do on time and within budget.



- Chemistry: being personally comfortable with peers, subordinates, and supervisors.

This may be a missing link between the technical and professional skills of many HR practitioners and their ability to practice their craft effectively and successfully. This is likely to be compounded within the SME situations where there is no specialist HRM element.

Where can those SME owners/managers who seek to manage more effectively go for HRM assistance? Here is an interesting exercise. Take a visit to a typical public library. Not a specialist library that you may have access to through either an academic institution or a large corporate enterprise. In doing so I have found that there is a real dearth of information about how to manage people more effectively in a smaller enterprise. There are occasionally earlier editions of the text-books used in local tertiary institutions. In my experience of both manual and computer searches, I have found more resources to guide a business on purchasing a computer than on how to manage its people better. There are far more resources on how to prepare a business plan (with a financial emphasis) than on the management of the people in that business. HRM is the poor relation of accounting and information technology in that environment.

Within the BDP, HRM has not had a high profile to date. The earlier emphasis had been on establishment grants. The 1993 Code, for example, did have provision for HRM as one of nine types of projects eligible for funding under the Expert Assistance Grant Scheme where it was described as:

? RM assists the applicants to be a good employer and ensure productivity through the development of strategies and programmes that will:

- employ the right people
- pay them appropriately
- train and develop them
- ensure productivity.

Assistance will not be provided for ? ne-off' activities, such as staff training, recruitment, or negotiating pay rates."

As in many other countries, the SME owner often brings a technical background to the business. While some management experience may be evident, this is by no means always the case. HRM skills get even less of a look-in than general management. By way of comparison, the accounting perspective is far more visible at least in the early stages of the business. The training initiatives and the financial institutions who fund newer enterprises tend to drive this emphasis. Compliance costs, externally-driven deadlines and the like mean that for many managers the elements of best practice in HRM are lacking and often perceived as secondary.

This appears to be a bleak picture for the development of HRM in SMEs. In order to address this perceived gap, it is necessary for those businesses that recognise the need, to cover the area through the use of specific training or by receiving assistance from various



mentors or agencies, including the firm? external accountant, rather than HRM assistance *per se*.

SMEs share mutual challenges, such as restrictions on time, space, money and staff. However, there are options available that might be considered and some of these are advanced now.

Effectively HRM has never been “insourced” in many SME business situations. There are some parallels then with the mainstreaming or even outsourcing of HRM in larger businesses. Here a common scenario now is for an HR Adviser to assist the line manager or team leader as and when required. This is the sort of model that is more appropriate to smaller enterprises where the whole business is the team.

Mentoring is an oft-quoted example of assistance. This is an option in New Zealand under the BDP as well as outside of it.

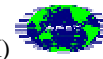
Another option available now is to tender for the specific provision of HRM advice and/or training within the contestable environment of the BDP.

Training or education opportunities allow people from smaller businesses to leverage these opportunities by attending classes or taking distance-learning options in conjunction with other businesses. Even if such training opportunities are not available “free” under the BDP or similar programme, the costs that may be incurred will be shared. Together small companies have more buying power and more options for accessing needed training.

The shared resource approach is also fruitful if the accountants that work with SMEs are aware of the benefits of using HRM skills appropriately. The accountant is often the most commonly used information source and should be able to access easily the skills required. Perhaps the real access to assisting SMEs with their people issues is through networking via accountants that specialise in SMEs’ business.

Katherine Curtis, former director of human resources at the American Society for Training and Development, suggests that one way to supplement a small (training) staff is to use volunteers from local colleges and high schools. They can provide valuable skills (training) where the business lacks specialised skills and could be obtained at low or no cost.

Likewise, there are many seasoned managers and others including those who are skilled in HRM who are looking for part-time working opportunities. They will have some of the credibility that Ulrich refers to and they may not be seeking permanent employ that involves set hours. The growth in the number of those who seek “portfolio” type of work situations for economic and/or life-style reasons has added to a pool of those who have appropriate people skills. Such people can perform a role that differs from the consulting image to which some small businesses may be averse.



CONCLUSION

Small and medium sized businesses or enterprises constitute the majority of all enterprises in New Zealand:

- 85% of enterprises employ the equivalent of five or less staff
- 93% employ 19 or less staff
- 96% of business can be described as SMEs
- Enterprises with 100 or more staff make up less than one percent of all businesses in New Zealand.

Like many developed countries, New Zealand? SME sector has been growing. The owner/manager needs to be multi-skilled, rather than be a specialist, and also have expertise in a diverse range of areas. The owners/managers are also constrained by the amount of time and money that they can invest in searching for information and assistance. It is these different needs which the BDP has been designed to meet.

A vital topic to be addressed is ways of developing workplaces which are suited to future ways of working. Modern enterprises increasingly require motivated, highly skilled, innovative, committed employees who are capable of making decisions and taking responsibility.

The 1999 World Competitiveness Yearbook, released recently by the Switzerland-based IMD (Institute for Management Development), ranked New Zealand 39 out of 47 countries in the "rain Drain" list - saying that nearly six in ten well educated people left the country for other shores.

Opening the *BIZinfo* office in Wellington on 14 April, the Prime Minister advanced that the difference between a successful and mediocre business in today? environment was its people and their attitude. ? they need to have the right information. *BIZ* is a network of fresh ideas and information, providing hands-on experience and practical advice. It shows businesses how to improve management, especially within small and medium sized enterprises which are the real workshop of New Zealand business."

Improving the quality of management is seen by the government as the best and most cost-effective way of helping New Zealand? businesses to grow and succeed. Under the old grants-based programme, less than one percent of SMEs benefited and perhaps dependency may have become a problem for some of those. However, to be fair, some of those businesses owe their subsequent survival or growth to the grants and associated assistance that they received.

It is to be hoped that the changed focus on BDP will play a positive part in the upskilling of people and business practice. The signs appear positive so far and there are opportunities for HRM to play a part.



APPENDIX I

Results of consultation process

The following are the key themes to come out of the meetings that were held and written submissions received during this review:

- The main barriers to SME growth are limited access to information and lack of management capability within firms;
- Motivational factors can also inhibit SME growth. Factors such as owners' desire to grow, and their confidence to do so, are extremely important;
- SMEs do not have all the skills they need in-house (typically owner/managers are technical experts, not necessarily skilled in business management, marketing etc);
- Businesses receiving assistance should be required to make some sort of reinvestment in the future growth of the business community once they realise the benefits of the assistance received;
- Some SMEs are reluctant to utilise consultants and other professional advisors because of their high cost, uncertainty over their value, a lack of trust, and because SME managers do not always recognise the type of assistance they require;
- While a large number of consultants exist, some are not suitably qualified or experienced business advisors, and are primarily concerned with ensuring the profitability of their own business. This may affect their ability to provide honest and independent advice to clients;
- Regions vary considerably in the availability of business assistance services. Regions also vary in terms of the types of businesses that operate and the nature of problems faced;
- In the main centres, rationalisation of delivery is favoured by many. The large number of existing assistance sources is seen as confusing and detrimental to achieving enhanced SME performance;
- Outside the main centres, a "one-stop" or "first-stop" approach was favoured whereby all regional delivery agencies would be co-located and coordinated;
- Flexible, tailored responses to meet the needs of individual businesses, and account for local variations in these needs, is important;
- It is extremely difficult to measure the success of an assistance programme. Assessment relies a great deal on qualitative measures. Communication and face-to-face follow-up with firms may be the most effective method of determining additionality from assistance."

Source: Cabinet Economic Committee paper entitled *Review of the Business Development Programme*, March/April 1998(?), p.3



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Relevant Internet sites include the following

BIZinfo at <www.bizinfo.co.nz>

Ministry of Commerce at <www.moc.govt.nz>

New Zealand Government at <www.govt.nz>

Small Business Enterprise Centres at <www.sbecnz.org.nz>

Statistics New Zealand at <www.stats.govt.nz>

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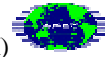
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**HRM PRACTICES AND STRATEGIES OF SMES IN THAILAND
TO FIGHT WITH ASIAN ECONOMIC CRISIS**

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HRM PRACTICES AND STRATEGIES OF SMES IN THAILAND TO FIGHT WITH ASIAN ECONOMIC CRISIS

ABSTRACT

Many Asian countries such as Thailand, South Korea, Malaysia, Indonesia, and Japan, etc. have been facing the economic crisis. It causes various problems to most the Small and Medium Enterprises (SMEs) in this region in running business such as the lack of financial liquidity, changing behavior of the target customers, out of date technology and the lack of potential employees. Aside from these, there is a problem of lack of good information for making business decision, etc.

To survive in the current economic condition, the Thai SMEs must be sincerely supported by the government. Their must be productivity and quality improvement with low cost ; it can be done by using resources in their firms or organizations with most efficiency. This is because the more we decrease waste, the more we decrease capital ; that is, the cause of waste within the firms or organization is from the staff most. Therefore, the way the entrepreneurs can do immediately and easily is productivity improvement of the employees in the firms or organizations. This means that the employees must have potential to match with their organizational vision and mission. Also, they must suit to the task given in order to manufacture products or perform services that meet the customer needs.

Aside from the productivity of the employees, the entrepreneurs themselves must improve their potential particularly their knowledge of efficient management. The entrepreneurs of the SMEs must know the human resource management strategies in order to get the potential employees. If the entrepreneurs can establish and maintain the human resource management system, they will finally get the potential employees who can help the SMEs entrepreneurs to have a competitive advantage. That can make their organization survive in the competition and succeed in the future.



I. AN OVERVIEW OF ASIA ECONOMIC CRISIS

On July 1997, The Bank of Thailand admitted defeat and floated the baht. Other Asian currencies, such as the Malaysian ringgit, Indonesian rupiah and Philippine peso, soon followed downward. That financial crisis hit Thailand first, moved on to Indonesia, Malaysia, the Philippines, South Korea and is coughing away at Hong Kong and the Chinese mainland. This led Thailand, Indonesia and South Korea to sign up for International Monetary Fund (IMF) loans and programs, and other countries to adopt similar tight-money and austerity policies. One year later, currencies remain under pressure and foreign investors were still staying away. Arup Raha, an economist with Citibank in Singapore, said “The Asian crisis was and remains a debt crisis, first and foremost”.¹ A stumbling block has been the way Asia’s problem debts were spread across thousands of companies, unlike the 1995 Mexican crisis that was centered on government debt. That makes any initiative harder to implement.² With devaluation, high interest rates and a spending crunch, domestic banks and companies wilted, further undermining the financial health of crisis-hit economies.

The economic crisis which happened to the Asian region resulted in many aspects such as fall in currency versus US\$, decline in stock-market index, percent decline in imports, by value, rise in unemployment rate (see Table 1), decline in GDP growth, rise in inflation rate (see Table 2). Aside from this, it effected the 1998 competitive ranks of Asian countries ; that was, they could not maintain their ranks compared to the year 1997 (except China) while most countries outside Asia could still maintain their ranks as there were in 1997 (see Table 3)

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Countries	Currencies	Stock Index	Imports	Unemployment 1997	
Indonesia	-83.2%	-35.0%	-33.4%	16.8%	<i>14.2%</i>
Thailand	-40.2%	-48.0%	-39.5%	8.8%	<i>3.0%</i>
Malaysia	-39.4%	-56.0%	-22.4%	5.0%	<i>2.7%</i>
Philippines	-36.1%	-33.8%	-7.5%	13.3%	<i>10.4%</i>
South Korea	-34.1%	-58.7%	-36.1%	6.9%	<i>2.6%</i>
Singapore	-16.5%	-43.5%	-19.5%	2.2%	<i>1.7%</i>
Hong Kong	nil	-43.2%	-4.0%	4.2%	<i>2.5%</i>

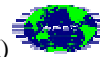
Note : *Fall in currency vs. US\$, June 30 1997-July 3,1998 ; percent decline in stock-market index ; unemployment (1997 in italics) ; percent decline in imports, by value

Source: Adapted from Ricardo Saludo and Assif Shameen, “How Much Longer?,” *Asiaweek*, July 17, 1998, p.41.

¹Ricardo Saludo and Assif Shameen, “How Much Longer?,” *Asiaweek*. (July 17,1998), p. 38.

²Anonymous, “Indiscriminate Slaughter”, *Asiaweek*. (January 16,1998), p. 15

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Countries	Growth				Inflation			
	1996	1997	1998	1999*	1996	1997	1998	1999*
Indonesia	7.6	4.6	-13.4	-2.0	6.5	6.6	65.4	28.5
Thailand	6.7	-0.3	-6.4	-0.2	5.8	5.6	10.5	7.0
Malaysia	8.2	7.8	-1.7	0.5	3.5	2.7	7.0	5.4
Philippines	5.7	5.1	1.9	3.5	8.4	5.1	10.7	7.5
South Korea	6.9	5.5	-3.8	1.4	4.6	4.5	9.3	5.7
Singapore	6.6	7.8	1.2	2.0	1.4	2.0	1.5	1.9
Hong Kong	4.6	5.3	-1.3	1.0	7.0	5.7	3.3	3.3

Note : *Predicted Value

Source: Adapted from Ricardo Saludo and Assif Shameen, "How Much Longer?," *Asiaweek*, July 17, 1998, pp.52-55.

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Countries	Overall Score 1998*	Rank	
		1997	1998
United States	100	1	1
Singapore	84.3	2	2
Hong Kong	69.3	3	3
Netherlands	67.6	6	4
Finland	66.1	4	5
Norway	64.5	5	6
Switzerland	63.6	7	7
Denmark	63.5	8	8
Luxembourg	63.2	12	9
Canada	62.6	10	10
New Zealand	57.2	13	13
Chinese Taipei	54.6	23	16
Japan	53.7	9	18
Malaysia	48.7	17	20
China	44.0	27	24
Philippines	27.8	31	32
South Korea	25.5	30	35
Thailand	22.9	29	39
Indonesia	21.8	39	40
India	19.6	41	41

Note : *The Institute for Management Development (IMD), a Swiss business school, issues a World Competitiveness Yearbook. Using 259 criteria, the IMD ranks "ability of a nation to provide an environment which sustains the competitiveness of enterprises."

**Index : U.S. = 100

Source : Adapted from Anonymous, "Ranking Competitiveness," *Asiaweek*, May 1, 1998, p.



Aside from the economic crisis, it effects the Small and Medium Enterprises (SMEs) in this region to run their business. These enterprises are facing various problems such as low financial liquidity due to restriction on loan consideration of financial institutes ; decline in purchasing power of target groups ; close their offices or minimize the size of the offices and lay-off their employees. These problems cause and increase unemployment condition which the entrepreneurs must find the solution ; especially the problem of Human Resource Management (HRM). This is because the number of employees is limited, so the employers must find an effective way to ultimately develop their employees' potential. If the entrepreneurs succeed in developing their employees' potential, good quality product can be made to meet the requirements of their target groups. In addition, the entrepreneurs must offer attractive fringe benefits as an incentive of industry. It will lead to make their employees have sense of belonging and royalty to their firms. It could be believed that these enterprises would be able to survive and compete with other enterprises efficiently.

In this study of mine, I would like to discuss only on how HRM could have contribution to the survival of the SMEs in Thailand when they are facing the current economic crisis.

II. THE ROLE OF SMES IN THE ECONOMIC DEVELOPMENT IN THAILAND

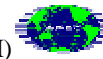
Due to the decline in economic of Thailand at present, Most Large Enterprises (LEs), are not able to increase their productive circulation. This is because they are facing inadequate capital to run their business. Therefore, it is essential to develop Small and Medium Enterprises (SMEs) to have adequate potential to help support Large Enterprises. If this incident is applicable, Thai's industry and its economic will be expanded again.

According to the study of World Bank, it is found that the SMEs generally has the rate of increase in efficiency more than that of the LEs.³ At present, there are approximately almost 400,000 the SMEs in Thailand or 80 percent of all enterprises.⁴ In fact, there are around 127,400 industrial plants for the SMEs or 98 percent of all sizes of industrial plants.⁵ It is also found that most sizes of industry are the SMEs in terms of the classification of their industrial production line. (see Table 4)

³Prusanee, "5 Steps to the SMEs Development," *The Interest Journal*. Vol. 17, n. 213 (March 1999), p. 57.

⁴Narut Terdsatheerasak, "The Roles of the Government in the SMEs Development," *Thailand's Investment Promotion Journal*. Vol. 10, n. 2 (February 1999), p.28.

⁵Danai Tianput, "Entrepreneur and SMEs : Survival of Thai Economic," *HR Magazine*, Vol. 20, n. 1(January – March 1999), pp. 42-43.

**Table 4 : Size of Industry on the Basis of Line of Production**

Unit : Percentage

Line of Production	Size		
	Large	Medium	Small
Food and Drink	3.3	5.7	91.0
Textile and Clothes	10.5	30.6	58.9
Shoes and Leather Accessory	11.6	19.6	68.9
Electronic and Electrical Appliances	9.3	16.6	74.1
Jewelry	7.0	23.0	70.0
Timber and Furniture	1.8	8.3	89.9
Motor Vehicle and Its Assembly	3.8	8.8	87.5
Plastic Products	3.5	11.2	85.3
Para Rubber Products	5.8	17.6	76.6

Note : Large Industry refers to as any industrial firm that hire more than 200 employees.

Medium Industry refers to as any industrial firm that hire 50 - 200 employees.

Small Industry refers to as any industrial firm that hire not more than 50 employees.

Source :Adapted from Chanin Meephokee, "The SMES Situation in Thailand," *Economic Monitor Journal*, Vol. 7, n. 1 (January – February 1999), p. 21

As a result, the SMEs plays an important role to Thailand's economic development process and its society in many aspects as follows :⁶

1. The SMEs is the large source of production that is able to hire a large number of employees in Thailand. It is believed that the SMEs in Thailand employs 4.5 million people which can be considered as 74 percent of industrial employment.
2. The SMEs is considered as an important part of Thailand's economic system since it dominates almost all kinds of industrial production : manufacturing, wholesaling, retailing, and services. Indeed, the export value which is 50 percent of the total export value of the industrial sector belongs to the SMEs' products. Besides, the SMEs produce products and services which can substitute imported products and services.
3. The SMEs is the source for enriching working experience, especially for new entrepreneurs that need not use a large sum of money for investment.
4. The SMEs supports large industries in case of producing raw material and intermediate goods by system of subcontracting between large industrial firm and the SMEs, it will make the manufacturing process complete.
5. Add value to domestic raw materials because it is an industry that domestic resources are mainly used.
6. This will lead to concerning manufacturing such as agriculture sector and there is a way for income distribution and progress to other rural area regions.

⁶Danai Tianput, op. cit., ; Narut Terdsatheerasak, op. cit., ; Anonymous, "The Policy and Determination of Small Industrial Promotion," *Industrial Journal*, 40(February – March 1998), p. 32.



III. DEFINITION OF THE SMES

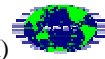
At present, there has no same standard fixed definition of the SMEs ; each firm unit has their own criterion in defining their SMEs. However, classification of size is depending on criterion of employment and fixed asset (see Table 5). Meanwhile, another definition is defined on the basis of types (lines) of production : Production Sector, Service Sector and Trading Sector (see Table 6)

Table 5 : Classification of Thailand’s SMEs on the Basis of Fixed Asset and Labor Force

Organization	Medium		Small	
	Fixed Asset (million baht)	Labor Force (person)	Fixed Asset (million baht)	Labor Force (person)
The Small Industrial Finance Corporation of Thailand, SIFC	-	-	Not over 50	
The Small Industrial Credit Guarantee Corporation	-	-	Not over 50	
The Industrial Promotion Department, DIP	20 - 100	50 – 200	Not over 20	Not over 50
The Industrial Council of Thailand	20 – 100	50 – 200	Not over 20	Not over 50
The Industrial Finance Corporation of Thailand, IFCT	100 – 500	-	Not over 100	
Bank of Thailand	Not over 500*	-	Not over 50	

Note : *Only Loans through the Finance Corporation

Sources : Adapted from Somchai Tuntithanawatt, “The SMEs Situation in Thailand.” *Thailand’s Investment Promotion Journal*. Vol. 10, n. 2 (February 1999), p. 26 ; IFCT, “The SMEs Support,” *Report presented to Ministry of Finance*, December 1998, p. 51

**Table 6 : Classification of Thailand's SMEs on the Basis of Business Line (Type)**

Line (Type)	Medium and Small	Small
1. Production	Not over 200 million baht	Not over 50 million baht
2. Trading		
- Wholesaling	Not over 100 million baht	Not over 50 million baht
- Retailing	Not over 50 million baht	Not over 30 million baht
3. Service	Not over 200 million baht	Not over 50 million baht

Source : Adapted from Pornsarun Rungcharoenkittkul, "Risk Reduction and Be Ready Before Giving Loan to the SMEs," *The Money and Banking Journal*. Vol. 18, n. 204 (April 1999), p. 122.

It is obvious that there is a restriction to study this issue because there are different criteria in defining definition. This is because database collected by each organization may not be the fix ones ; it may change a little bit. Most definitions depend on the number of employees and fixed asset as criteria in classifying the SMEs

IV. THE STRUCTURE OF THAILAND'S SMEs

Most SMEs in Thailand are run by the Thai whereas there are few SMEs of which investment and new technology are shared by foreign enterprises. The SMEs entrepreneurs are expertise in a particular field and they have an average working experience about 15 years. Most of them graduated not over secondary school level and the rest are Bachelor's Degree holders or above. It is found that the SMEs entrepreneurs in Bangkok and its periphery have more working experience and higher education background than those of other regions (see Table 7)

Table 7 : Working Experience and Education Background of the Entrepreneurs

Regions	Working Experience (years)	Education Background (%)				
		Bachelor	Cert./ Dip	Secondary School	Primary	Others
Bangkok and its periphery	18	46	12	15	20	7
North	15	39	11	20	29	1
Northeast	13	21	15	19	39	6
South	13	14	18	27	39	2
East	11	29	10	7	50	4
Central	16	12	13	20	50	5
Average	15	28	13	18	36	5

Source : Adapted from IFCT, "The SMEs Support," *Report presented to Ministry of Finance*, December 1998, p. 55



The SMEs organization has been registered in the form of sole and limited partnership of 57 percent ; especially 39 percent for the sole. This shows that the administration style of the SMEs is like “One Man Show and Family Business” (see Table 8)

Table 8 : Format of SMEs Registration in Terms of Regions

Regions	Registration Format					
	Sole		Limited Partnership		Company Limited	
	Number	%	Number	%	Number	%
Bangkok and its periphery	21	5.6	76	20.1	281	74.3
North	53	40.5	34	26.0	44	33.6
Northeast	64	55.2	25	21.6	27	23.3
South	72	75.1	16	16.7	8	8.3
East	41	39.8	11	10.7	51	49.5
Central	142	78.5	21	11.6	18	9.9
Total	393	39.1	183	18.2	429	42.7

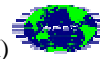
Source : Adapted from IFCT, “The SMEs Support,” *Report presented to Ministry of Finance*, December 1998, p. 57

The business performance of the SMEs is supported by 2 capital sources : internal source capital and external source capital. The former is own capital and profit from the business which both can be estimated as 32 percent of the overall capital. The latter is mostly from commercial banks (45 percent) and the rest is from state-owned bank (9 percent). Aside from this, the SMEs non-systematic source of capital such as loan from relatives or from private sources of loan where its interest is very high (10 percent) (see Table 9)

Table 9 : The SMEs’ Sources of Capital

Sources of Capital	Capital Ratio(%)
1. Commercial Banks	44.6
2. Own Capital and Profit from Business	32.3
3. State-Owned Banks	8.9
4. State Financial Institute for Special Purpose	1.5
5. Foreign Investment	1.4
6. Finances and Trusts	1.4
7. Special Credit in the Government Project	0.3
8. Non-Systematic Financial Sources	9.6
Total	100

Source : Adapted from IFCT, “The SMEs Support,” *Report presented to Ministry of Finance*, December 1998, p. 60



V. POLICY AND PLAN OF THE STATE SECTION FOR SUPPORTING THE THAILAND'S SMEs

The Government has focused on the importance of the SMEs towards the economic recovery of Thailand. The SMEs has been supported to meet the production factors within the rural areas which will lead to the poverty eradication at the moment. In addition, these will result income distribution, rural development and equality in basic standard of living. The state sector plays important roles in supporting SMEs as follows :⁷

1. The government has set the policy to promote the SMEs in the National Economic and Society Development Plan, Version 8 (1997 – 2001). It is briefly described as :
 - 1.1. To develop the potential of the Thai people to have managerial administration and information technology skills ; especially for those who are entrepreneurs, business leaders in communities, members of woman groups and cooperative groups.
 - 1.2. To support cottage industry, agro-industry and processed agricultural-items or industry in communities that are in line to the communities' resources. Also, it focuses on change in trend of thoughts : from not only investment for profit but also to investment for social development.
 - 1.3. To support human development and to improve quality of human life. This means to promote the communities to initiate business run and owned by each community which coordinated by private sector, private development organizations and community administrative organizations. The target businesses are agricultural business, handicraft business and business that needs local employment.
 - 1.4. To promote the SMEs distribution to the regions. It can be done by improving the local entrepreneurs' abilities and skills. Aside from this, moving basis of manufacture in Bangkok to its nearby areas and increase the roles of private and non-government development organizations.
 - 1.5. To establish provide a permanent organization to systematically develop the SMEs. This is to cement the job planning policy, allotment, and distribution of resources to be in the same direction.
2. Trends for the SMEs Promotion in the Industry Master Plan, Version 1 (1997 – 2001) of the Ministry for Industrial Affairs (Small and Medium Industries)
 - 2.1. General Trends - long term plan is provided. It focuses on decreasing capital, increasing products' value, improving administrative system, and creating network among small and medium industries. The government must arrange a working system of the state sector efficiently to meet trends mentioned above.

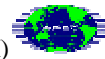
⁷ IFCT, "The SMEs Support," *Report presented to Ministry of Finance*, December 1998, pp. 66-77.

- 2.2. Trends for Medium Industry Development – provide budget for staff of the SMEs development organization and national productivity institute. Support provincial



Industry Council and Provincial Chamber of Commerce unification in order to determine the trends and direction of the SMEs development and also to establish the “one stop service” center.

- 2.3. Trends for Moving of Domestic Manufacturing Base – support budget for infrastructure at least 50 percent in order to establish industrial estates in various regions rather than only in Bangkok. Also, support budget and staff to develop industry in communities and rural areas project.
3. In the Plan of Industrial Structure Adjustment (1998 – 2002) which determines development mechanism for the SMEs as follows :
 - 3.1. Develop coordination between the state and public organizations to be the coordination center for industrial development policy advice.
 - 3.2. Provide motivation for unification within SMEs group as an association to maintain their rights and represent their group in business negotiation.
 - 3.3. Create linkage between the SMEs and large business for the benefits of technological transfer and necessary supports.
 - 3.4. Support unification in the form of co-operative to be the appropriate size in running their business
 - 3.5. Support loan from both financial institution of the state and the private sectors
 - 3.6. There must be “Venture Capital” between state and private sectors
4. Major firms or organizations concerning with the promotion and development of SMEs :
 - 4.1 Firms or organizations that support capital are as follows :
 - Commercial Bank, Finance Company, and Financial and Securities Company
 - The Industrial Finance Corporation of Thailand
 - The Small Industries Finance Corporation
 - The Small Industry Credit Guarantee Corporation
 - The Export - Import Bank
 - The Bank for Agriculture and Agricultural Cooperative
 - The Government Housing Projects Bank
 - The Government Savings Bank
 - The Bank of Thailand



- Department of Industrial Promotion

4.2 Major firms or organizations concerning with marketing support :

- Department of Exporting Promotion
- Department of Industrial Promotion

4.3 Major firms or organizations supporting the development of staff, technology, and management

- Department of Industrial Promotion
- Department of Skill Development
- National Science and Technology Development Agency
- Thailand Institute of Science and Technological Research
- The Thai Industrial Standards Institute
- The Industrial Textile Development Institute, Food Institute, Thai-German Institute
- Department of Science Services
- The National Institute for Productivity
- The Thai-Japan Technological Support Foundation
- Department of Non-Formal Education
- Department of Vocational Education

4.4 Major firms or organizations supporting investment and information for investment :

- Office of Board of Investment
- The Federation of Thai Industries
- The Board of Trade of Thailand
- The Industrial Estate Authority of Thailand
- The Provincial Industry Office
- The Office of Commercial Affairs
- Department of Employment
- The Foundation for the Promotion of Supplementary Occupations and Related Technic of Her Majesty Queen Sirikit of Thailand



VI. THE ECONOMIC CRISIS INFLUENCING SMEs IN THAILAND

According to the economic crisis mentioned above, it causes the SMEs in Thailand facing problems in various aspects :

1. Marketing

The results of the World Bank’s study reveal that the most important problem of the Thai SMEs is the lack of purchasing power of the target group.⁸ When the economic crisis happens, the country’s economic slow down. The lower the purchasing power of the target group is the demand of products is also lower. In fact, most Thai SMEs focus on producing goods or service to meet the needs of domestic market. Also, there are a lot of SMEs producing or offering goods or services to meet the needs of the people living nearby. These problems affect on the Thai SMEs a lot. Besides, free trade policy causes the Thai SMEs face competition not only among themselves but also with products manufactured by large firms, and imported products.

2. Capital

The Thai SMEs are facing the lack of financial liquidity resulting from the economic crisis. The uncertainty of the currency exchange rate causes the Thai SMEs reduces the quantity of production to save cost. The result of the Bank of Thailand’s survey (1992-1997) reveals that every kind of SMEs has tendency to decrease its production capacity. (see Table 10)

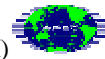
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Types of Business	Production Capacity (%)					
	1992	1993	1994	1995	1996	1997
Food	49.1	51.2	52.6	51.0	45.4	43.8
Beverage	80.6	81.0	79.2	88.9	91.4	80.7
Tobacco	71.1	73.5	79.3	75.2	84.2	79.0
Building	79.9	77.6	79.0	83.0	72.1	68.6
Transport Equipment	76.2	79.1	79.4	85.4	74.0	49.8
Petroleum Products	100.0	100.0	100.0	93.2	85.7	90.1
Others	77.6	72.7	80.1	77.1	71.6	66.8

Source : Adapted from IFCT, “The SMEs Support,” *Report presented to Ministry of Finance*, December 1998, p. 59

⁸Karnjana Noppan, Sanya Aksonmut and Bunsom Sittipong, “Talking of the SMEs Problem Solving with Somsak Tamesomboonchai,” *Thailand’s Investment Promotion Journal*. Vol. 10, n. 2 (February 1999), p. 36

Aside from this, it is found that in the last quarter of the 1998s and the first quarter of the 1999s ; the number of firms closed reaches to 3,391 and 2,544 firms respectively. It is indicated that the number of firms closed in Bangkok and its periphery is 3,081 and 2,276 respectively (90.8% and 89.5%) out of the whole country. (see Table 11)



7 DEOH ' DMRQ) IIP V&@VHG IQWH<HDU -

Unit : Amount

Areas	Quarter 1 1997	Quarter 2 1997	Quarter 3 1997	Quarter 4 1997	Quarter 1 1998
Bangkok and its periphery	1,193	1,193	1,690	3,081	2,276
Other regions	285	109	121	310	268
7RWO	1,478	1,302	1,811	3,391	2,544

Source : Adapted from IFCT, "The SMEs Support," *Report presented to Ministry of Finance*, December 1998, p. 59

Thanks to the Thai SMEs are facing the problem of the lack of financial liquidity due to ; (1) Finance Institutes are important sources of capital which is now strict in credit much more than before. This will prevent from non -profit liabilities (NPL) because it will affect to the working performance of the finance institutes if the NPL is increased. Thus, this can be seen that only 3 percent of credit is given to the SMEs by the state's finance institutes and other institutes carrying out the policy followed that of the state. However, the rest (97 percent) is the credit of the institute of the private sector whereas the Japanese's finance institute supports the Japanese SMEs for 9 percent of the credit given to all SMEs (see Table 12). (2) Most SMEs entrepreneurs manage their business either by themselves or together with their families. This leads to problems in various aspects : the accounting is not systematic, knowledge in financial administration is inadequate, lack of knowledge in planning accounting and duty tax, lack of understanding in credit acquisition. (3) Lack of collateral ; it can be seen that credit guaranty of the government for the Thai SMEs is much less than that of the Japanese. (see Table 13) The credit guaranty institute for the SMEs in Thailand is the Small Industries Finance Corporation, this private organization shares with the Thai government. There is some restriction to support the SMEs since cost-benefit of such Finance Corporation is overly concrened. (4) Finance institute like commercial banks seldom offer loan to SMEs, particularly for small firms in remote areas. This can be summed-up that the problem of the lack of financial liquidity, unusually high interest rate of loan and uncertainty of currency exchange rate are major problems of the Thai SMEs at the present



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Unit : A million million baht

	Japan	Thailand
State (Government)*	9 (9%)	0.08 (3%)
Private	91 (91%)	2 (97%)

Note : *Finance institutes of private sector following the policy of the government are included

Source : Adapted from Prusanee, “5 Steps to the SMEs Development,” *The Interest Journal*. Vol. 17, n. 213 (March 1999), p. 60

7 DEOH &RPSDULRQIRU&UFGYMIHFGW 60 (V

Unit : A million million baht

	Japan	Thailand
7KH60 (V&UFGW	100	2
Credit guaranteed by the government	9 (9%)	0.002 (0.09%)

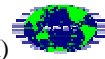
Source : Adapted from Prusanee, “5 Steps to the SMEs Development,” *The Interest Journal*. Vol. 17, n. 213 (March 1999), p. 60

3. Labor Force

Thanks to the financial problem of the Thai SMEs at present, Production have to be decreased and many are closed. As a result, a lot of entrepreneurs have to lay-off their employees and some have to lessen or decrease the employees’ salary. The report of the Ministry of Finance shows that the first quarter of 1998 has a decreasing employment of 8.7 percent. It mostly happens to household and glass products business (23% decrease) next are Textile and clothes business (22.5% decrease) and followed by paper products and publication business (16% decrease).⁹

The Thai SMEs generally depends on labor force chiefly ; especially the SMEs in the regions. These labor force are not well-educated and most of them do not work as permanent job, which is considered as one major problem. Since the uncertainty of the number of employees in each factory, it affects the production process and the quality of products. This is because the potential of the employees is limited. Moreover, the employees have no motivation to work because there is inadequate fringe benefits and they don’t know when to be laid off. This is one reason why the labor often apply for the SMEs jobs and work there not so long time before leaving. As a result, the entrepreneurs are not able to arrange seminar and workshop training continuously. It is also included, very often, that many skill-labors like to move to another bigger firm which offers more attractive fringe benefits.

⁹IFCT, op. cit., p. 63.



4. Management

The Thai SMEs has developed from knowledge and experience of its owners or inherited from their parents. Therefore, it is not a systematic administration because the business is carried out by the family members or relatives. Making decisions of the entrepreneurs are based on their knowledge or experience rather than good studying and data analysis ; particularly knowledge of marketing information, law, accounting and finance, labor force relations, and human resource management. The entrepreneurs also have problems in the trends of thought in administration which keeps stick on traditional system and their accounting system has no quality as well.

5. Production and Information Technology

The Thai SMEs often use simple technics due to low capital which causes low efficiency in production needed to be improved. Meanwhile, the SMEs also having a problem of supporting capital source and it causes restriction in improving technology to meet the needs of the markets. In fact, foreign markets need complicated process of production and have more specific character than before. Lastly, the entrepreneurs and their staff or employees lack of basic knowledge to achieve new knowledge or renovation. Eventually, there is no development in product forms and quality.

However, Thailand still needs more complement on the management of data and information both international and business aspects. The entrepreneurs also lack of potential in making use of data or information existing in the world which they can adopt it to their system such as Internet and Managerial Information System Literacy.

6. Access of Data Information and Promotion Service of State(Government) Sector and Other Organizations.

Many of the SMEs informally establish their firms e.g. at home or factory in town houses which no trading registration. This obstructs state sector's service when contact, or even they have already registered, but still not understand about tax policy of the government. They sometimes afraid of paying some more tax, or to be testified about environmental conservation or safety standard as the law has determined.

Moreover, Private organizations i.e. The Thai Banks Association, The Thai Chamber of Commerce and Councils of Thai Industry, etc. have no significant roles in offering services due to limited staff and budget. Nevertheless, most SMEs entrepreneurs worry that their trading secret may be revealed to their competitors and the public since Thailand has no law concerning about trading secret to protect the SMEs.

VII. TRENDS OF THE THAI SMES DEVELOPMENT IN THE ECONOMIC CRISIS

As years pass by, Thailand has not focused on the essentials of the SMEs development. The Thai SMEs is now facing various problems due to the economic crisis as



mentioned. In order to develop the Thai SMEs to survive in this situation, 2 factors are recommended :

1. Being supported by the government.
2. Managerial efficiency of the entrepreneurs and the quality of the employees development.

1. Being Supported by the Government

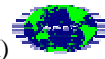
The government must support the SMEs development in every aspects which will lead to success. It comprises :

1.1 Financial support

- 1.1.1 Credit support – One significant problem is the lack of capital. Although there are some particular finance institutes such as the Small Industrial Finance Corporation of Thailand (SICF) and the Industrial Finance Corporation of Thailand (IFCT), it is not successful since there is a financial restriction and no branch in the regions. Thus, roles and scope of these finance institutes should be expanded ; especially the SIFC that should have roles in promoting credit offering rather than being the competitor of the commercial banks. The SIFC should not offer lower interest than that of the commercial banks as well. Otherwise, the borrowers will pay debt when they have much money enough to the commercial banks which offer higher interests. The IFCT should raise its roles in offering services to the SMEs especially for Small and Medium Industries (SMIs). Both the SIFC and IFCT should raise their roles in counseling services and project study for the borrowers.

Moreover, the government should encourage the commercial banks to raise their roles because they scatter almost everywhere in the regions. The Bank of Thailand should provide loan with low interests to commercial banks offering this loan to the SMEs. However, there must be adequate motivation in providing loan to commercial banks ; suggestion to commercial banks to offer loan with interests as high as interests in the market. This would be compensations of risk and expenses in project assessment.

Meanwhile, finance institutes controlled by the government ; the Export - Import Bank, the Government Saving Bank, the Government Housing Bank, the Bank for Agriculture and Agricultural Cooperatives for instance, must expand their roles and scope in supporting loan for the SMEs. Especially, the Bank for Agriculture and Agricultural Cooperatives which also offer loan to activities which exclude from agricultural activities. Also, they should have roles in allocation of loan to the SMEs in rural areas. It may be credit for rural development or credit for supporting saving groups in rural areas.



- 1.1.2 Credit guaranty – Credit guaranty for the SMEs is one aspect to encourage private finance institute to support credit for the SMEs. Therefore, the Small Industrial Credit Guarantee Corporation, which provides credit guaranty to the Thai SMEs supported by the government, must have a certain target in expanding size of providing credit guaranty. To reduce guaranty fee should also be included which will be helpful for the SMEs.

1.2 Up-grade of technology and management

Most of the Thai SMEs have problems in manufacturing ; machines and technology are out of date, problems of management, administration is not systematic and lack of business running knowledge. The Thai SMEs should do as follows :

- 1.2.1 Form a central organization with a direct responsibility to upgrade the SMEs in the aspects of technology and management. It also acts as the center for development, recruitment and registration of staff who are resource persons and staff who are the consultants of the SMEs.
- 1.2.2 Establish organization networks or centers for regional up-grade throughout the country. Besides, the educational institute's roles must be expanded to play important roles as the center of technology. Universities will be the centers for research, development and seminar. Meanwhile, colleges will play roles in technology and management counseling directly to the SMEs.
- 1.2.3 Support budget and privilege to concerning organizations.
- 1.2.4 Provide seminar courses to develop potential of counseling staff and staff within institutes.
- 1.2.5 The structure of the concerning organization can be classified as national organization, regional organization and local organization. (see Figure 1)

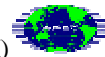
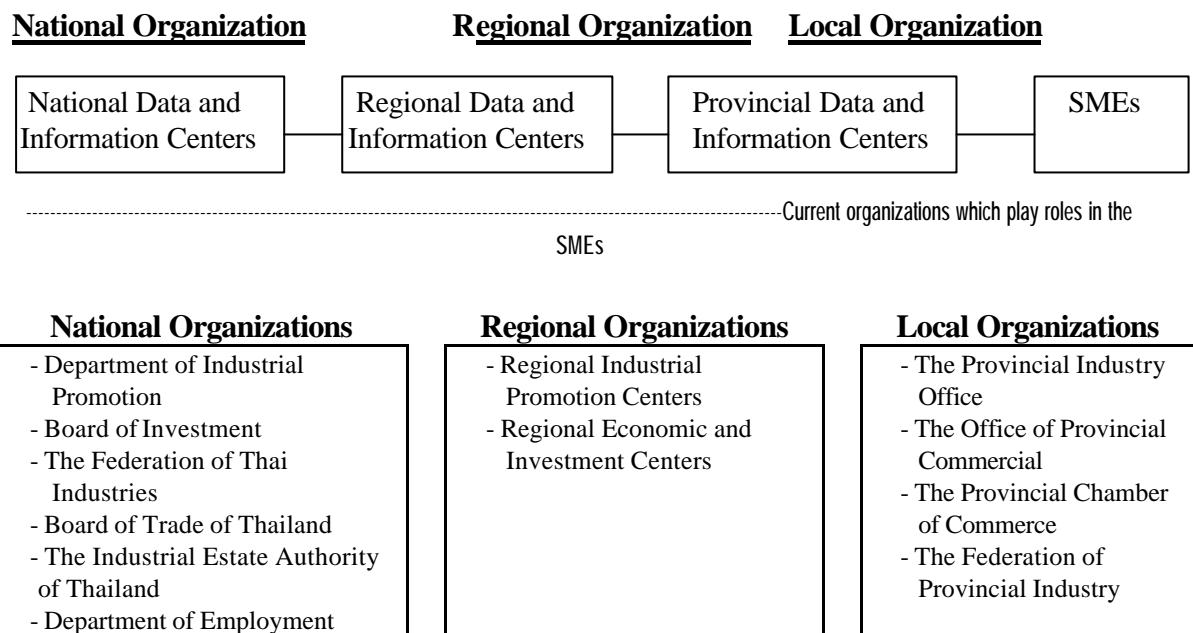


Figure 2 : Working Performance of Data and Information Centers



Source : Adapted from IFCT, “The SMEs Support,” *Report presented to Ministry of Finance*, December 1998, p. 88

1.4 Unification of the SMEs

This helps allocate limited resources efficiently. The government should support the SMEs unification as follows :

- 1.4.1 Provide motivation for the unification of the SMEs such as tax and investment privilege and long-term loan with low interest.
- 1.4.2 Promote the SMEs unification in the form of a cooperative to have more power in negotiation and to reduce expenses. The entrepreneurs who have the same business must group themselves as a cooperative in order to have the “economy of scale” when carry on various activities such as purchasing, manufacturing, market planning, product distribution, product development and loan of the members.
- 1.4.3 Establish saving cooperative of entrepreneurs for financial aid when having the problem of the lack of financial liquidity. This means to help each other before asking for help from other financial institutes.
- 1.4.4 Establish an organization as the center of policies and trends of operation setting for various cooperatives at a time to operate in the same trends. This organization will be their representative to contact or coordinate activities with the government sector in case of need for help.



1.5 Establish an office for the SMEs support

The government should establish an office for the SMEs support which will be the center to submit policies concerning the SMEs to the government systematically and continuously. This office will conduct academic research study of the SMEs' problems.

In conclusion, although the government sector plays roles as the supporter, clear directions for development may be set for the two groups of SMEs, one for the SMEs in rural areas, and the other for the high-tech SMEs. The former's direction must be related to agricultural development and self-dependent community etc. Meanwhile, the latter's direction must be related to policies for admitting foreign investment and receiving technology abroad.

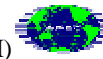
2. Managerial Efficiency of the Entrepreneurs and the Quality of the Employees Development.

2.1 Managerial Efficiency of the Entrepreneurs Development

2.1.1 The entrepreneurs must improve their entrepreneurship of which characteristics are as follows :

- Need for achievement
- Calculated risk-taking and risk sharing prosperity
- Locus of control
- Personal values, integrity
- Need for power
- Need for affiliation
- Commitment, determination and perseverance
- Assuming personal responsibility
- A grip on reality
- Sense of humour
- Tolerance of ambiguity, stress and uncertainty
- Decisive, urgent
- Tolerance of failure.¹⁰

¹⁰Carson, David., Stanley Cromie, Paucic McGowan and Jimmy Hill, "*Marketing and Entrepreneurship in SMEs : An Innovative Approach*," New Jersey : Prentice Hall Inc., 1995, p. 51



At present, the entrepreneurs must have broader vision particularly in complex problem identification and they must be optimists and ready to confront problems. In fact, the entrepreneurs should avoid running the same business as other large entrepreneurs are doing. Also, the business they are going to run should be difficult for the large entrepreneurs to carry on or even they can do it but with no efficiency. The entrepreneurs must be tolerance, flexible and flair in running their business.

- 2.1.2 The entrepreneurs must have knowledge of financial management. They should plan their financial administration, have clear objective in spending money both long-term and short-term. Besides, they must have knowledge and understanding in the principles of project planning preparation and credit acquisition. They must have numeral data showing their financial condition systematically because it must be considered when asking for loan from finance institutes.
- 2.1.3 The entrepreneurs must have knowledge of marketing management. Since the customer needs nowadays are changing, the entrepreneurs must learn the condition of market demand. They must change their trend concept of thought from product oriented to market oriented ; that is – manufacturing for their target customers. This will begin with learning their target customer behavior in order to clearly have adequate customers for selling their products. Also, they will be able to place their positions correctly focused on quality of their products. The prices of their products must be accepted with enough profit. The entrepreneurs must focus on the advantage of the SMEs ; quick making decision to meet the need of their customers in time. According to the current economic condition, the entrepreneurs should use the low cost marketing strategy by decreasing the capital and other expenses within their organization. Also, they can use marketing tools with low budget to increase sales which will lead to make profit e.g. if there is clear target group and small market size, they should change from Mass Media to Direct Marketing. Otherwise, the entrepreneurs may use database marketing by always finding information concerning with the customers continuously. This method makes the customers feel they are important to the organization. Relationship marketing which makes good relationship continuously will inspire the customers to be loyal to the organizations for a long time, etc.
- 2.1.4 The entrepreneurs must always adapt themselves and improve production technology focusing on quality control systems. This will help manufacturing standard products focusing on the importance of the internal quality control section. Manufacturing procedures using labor force needs to be inspected during the periods of before and after manufacturing and before leaving from the factory. For the entrepreneurs who have modern machines or equipment (which have production efficiency but do not use it much enough), group themselves in manufacturing products is advised. They may share their raw materials order which enhances them have an advantage in economy of scale. Moreover, the entrepreneurs ought to study various basic knowledge



which is useful for efficient manufacturing : Total Productivity Management, Total Quality Management, Quality Control Circle, and Material Registration Process, for instance. However, the SMEs having the policy in joint venture with foreign firms should prepare basic technology and their own staff for the technology transferred from abroad. This includes the study of manufacturing process leading to the standard system of manufacturing among the countries such as ISO and JIS. On the other hand, the industry using a lot of labor force (local labor) ; using natural raw materials or local raw materials and producing products to meet the needs of the customers in their communities should unify groups of local labor force and use the machines or equipment together in order to produce products more efficiently.

2.2 Quality of Employees Development

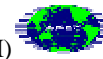
The productivity improvement suits to the SMEs in the economic condition nowadays means to increase efficiency with low cost. This method can be done by using resources in their firms or organizations with most efficiency. This is because the more we decrease waste, the more we decrease capital ; that is, the cause of waste within the firms or organizations is from the staff most. The staff or employees must have quality, responsibility and discipline. They are able to learn from their jobs or duties and finally perform their jobs given correctly since the beginning . Therefore, human resource management to have good quality staff or employees is an important basic aspect of survival of the SMEs at present. It can be done as follows :

2.2.1 Promote every staff or employee in their firms or organizations to help improve environment within their firms by using the 5 S :¹¹

- (1) Seiri – clearly identify objects need to be used and those need not to be used
- (2) Seiton – placing objects in order and can be reached easily
- (3) Seiso – cleaning the area within the firm
- (4) Seiketsu – always keep clean and tidy by doing like the 3 S mentioned
- (5) Shitsuke – keep following the instruction correctly and continuously.

¹¹Witoon Simachockdee, “SMEs : A Chief Industrial Pillar for the Nations’ Recovery,” Bangkok : Prachachon Co., Ltd., 1999, pp. 80-81

As you can see, the 5 S is easy to do and can be practiced at once if it get to be in habit, the basic of resource utilization will be worthwhile and efficient. It creates quality both of the staff or employees and the firms or organizations itself.



2.2.2 There should be public relations communication within their organizations. According to employees lay-off, decreasing employees' salary, and reengineering their organizations, it causes some employees lack of confidence on their current jobs. There must be tension and it will lead to have bad attitude towards their organizations. To prevent from this, it is recommended as follows :¹²

- (1) Give direct information and open more chances to employees to discuss with their administrators.
- (2) Inform employees by the administrators at once when there are changes within their organizations. Give the employees chances to discuss or show opinion ; especially some employees who have negative attitude towards changes.
- (3) The employees must receive information continuously, including printed media that must be distributed for certain continuous periods during changes. Causes and effects of changes must really be informed to make understanding between the employees and their administrators.

2.2.3 Arrange workshop training for the employees in order that they are able to produce good quality products. The following are advised :¹³

- (1) On-the-Job-Training for employees by the administrators or the appointed staff.
- (2) Group Training. This method gives the employees chances to show their opinions and change experience to one another.
- (3) Job Rotation. It enhances employees the knowledge skills and experience to make them able to work more than one given job in case of someone discharge. The employees will be proud as they are worthwhile for the organizations and there is high tendency for promotion.

¹²Tayat Sriprang, "Look Back for Hope of Advancement," *HM Magazine*, Vol. 20, n. 1 (January-March 1999), p. 17

¹³ Chanin Chunnaphantharuck, "*Small Business Management*," Bangkok : Division of Document and zBook. Rajabhat Institute Suandusit, 1998, p.208

Aside from this, the employees should be encouraged to learn by themselves such as reading, watching V.D.O. or listening to tape recorders, etc. In other words, they may be recruited to attend seminar or workshop training or invite some people who succeed in their career to transfer knowledge and experience to the co-workers.



There must be 3 aspects in the workshop training :¹⁴

- (1) To improve the employees' knowledge and working skills.
- (2) To create good attitude towards their organizations, customers and co-workers.
- (3) To educate the employees carry on their way of life with ethic and modesty.

2.2.4 Set the policies of trends and encourage every section to have goals and measures (GAMs) and it must be agreed among the employees and the administrators. The policies must be compatible with the goal of the organizations. Indeed, the GAMs can be changed annually depending on agreement of both employees and administrators. Evaluation on work performance must be compared with the GAMs.¹⁵ Salary increment, bonus and promotion must depend on work performance compared to the GAMs.

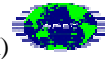
2.2.5 There must be compensation administration. Salary is an important factor for employees. Therefore, the entrepreneurs must have a clear policy of salary by classifying types of job and evaluating work performance following the GAMs. This helps salary payment more justly and the paying system will be more flexible and easier to operate. Besides, the entrepreneurs have to consider about what fringe benefits should be added to keep potential employees stay with them for a long time.

2.2.6 Create relationships within organization by using two-way communication. The entrepreneurs must give their employees chances to show opinions, suggestions and problems that are happening. It can be done by meeting, circulation, and informal discussion, etc. Moreover, recreation activities should be provided for employees to relax. It enriches unity and friendship among employees themselves or between employees and entrepreneurs such as sports day and party.

¹⁴Seree Wongmontha, "*Low Cost Marketing*," Bangkok : A.N. Printing Co., 1997, pp. 137-138

¹⁵Anonymous, "Plan of Personnel Resource for the Year 1999," *HM Magazine*, Vol. 20, n. 1 (January-March 1999), p. 22

The productivity and the quality improvement (particularly of the employees) must be developed to suit their firms or organizations. They have to do this process continuously now that employees who have potential will also make the SMEs have good quality as well.



VIII. CONCLUSION

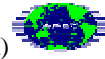
As you can see, the economic crisis at present makes the Thai entrepreneurs face various problems such as marketing problems which target customer groups has less purchase power. Besides, there are behavior changing of the target customer groups, the lack of financial liquidity which is an important problem now due to finance institutes are strict in giving credit much more than before. Also, there are problems of employee lay-off to decrease their number. The problems of lack of knowledge and managerial skill of the entrepreneurs, modern technology and good information system for making business decision are also included.

Hence, to recover the Thai SMEs, the government must be sincere to help them. The entrepreneurs must improve their potential and use the strategies of human resource management in order to develop their employees' potential. As a result, they are able to produce good quality products which are needed by the customers and result in the SMEs survival and their growth in the future.



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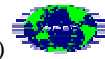
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HUMAN RESOURCES AND SME's IN MEXICO

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HUMAN RESOURCES AND SME'S IN MEXICO

The significance of SME's in the global market has been increasingly recognised. In the APEC region, SME's make up 90% of all enterprises and are responsible for an average of 58% of employment in their respective member economies, contributing also with an average of 45% of the GDP and about 35% of the regions total exports.

Latin America is not exception to this, where around 20% of the enterprises are small and medium, and 90% are micro. The micro sector is composed mainly of selfenterprisers, family business, and economic units of around of 10 to 5 employees. In Latin America there are more than 50 million of this units, which employ more than 150 million people.

In Mexico as well, it is clear the great importance of the SME's. According to the 1994 statistics around 99.8% of the enterprises in México are SME's¹, meaning around 2,400,000; out of these 99.8%, 98.8% are micro enterprises, 0.6% are small and 0.4% are medium. They employ around 78% of the economically active population, and contribute to 69% of the GDP. Approximately 32% are in the service industry, 12% in the manufacturing, 55% in commerce, and 1% in the construction.

The roll of the SME's is crucial to our economy in the actual competitive world and their contribution to growth and development is essential. It has been proved that SME's have a fundamental roll against the unemployment problem. Due to it's characteristics the SME's employ more people in proportion to the capital investment than large companies, are more flexible to adapt to the demand variations, innovate in smaller time gaps, can be located anywhere, and have the ability to integrate their productive process to those of bigger enterprises.

On one side we have the SME's that are the result of unemployed people, who do not have an opportunity in the formal economy, and are composed of nonqualified people, like the self employed people throughout Latin America. These enterprises have been the right place for a higher generation of employment to the lowest cost, working as a mechanism of income distribution to the low status of the society. And on the other side, there are cases in which they are dynamic entities that adopt flexible forms of specialisation in order to compete in the different markets.

In Mexico the sector of the SME's has grown considerably since the eighties, contributing in a more important manner to the creation of new employment than the bigger companies. Even though it has been consider in the last years a sector of great priority in the industrial policy, this has to be critically evaluated, due to the fact that there are still a lot of limitants that affect the productive units in this sector.

The diagnosis made here takes into consideration, in a general manner, the fact that the entrepreneurial development has been limited by two types of problems: the internal problems, theoretically within the control of the enterprises, like personnel administration, technology election, and the capability to use the information. And the

¹ We consider micro enterprises those with 1-15 employees, we consider small enterprises those with 16-100 employees, medium enterprises with those from 101-250, and with a higher number they are considered big enterprises. There is another way of classification according to annual sales.



external ones, out of the control of the enterprises, like the structure of the market, the sources of information, the legal and institutional factors, and the official policies.

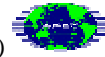
EXTERNAL PROBLEMS

There are external problems that affect the productivity and efficiency of SME's and their human resources:

- Fiscal problems: high taxes alter the SME's cost structure, affecting their investment policy in human resources. There is a need to give some kind of fiscal stimulus or deductibility if SME's invest in training and modernisation of technology according to their size, activity and maturity.
- There are problems due to lack of information: SME's are not aware of the different existing programs for their support given by the government and other institutions. The chambers of the sectors are not accomplishing their roll of informing the entrepreneurs, due to the lack of sensibility and articulation between them and the needs of the enterprises.
- There is a lack of programs to support the SME's in different areas, like laboratories to certify quality controls, etc. There are a couple of programs to support them in the diagnosis of their enterprise, but they do not propose or take that diagnosis into practice.
- Financing problems due to high interest rates, lack of support for new projects, and lack of competitive instruments to finance SME's.
- Problems related with technological assistance, SME's have problems of access to technology due to a lack of knowledge and economic resources. The universities do not offer adequate solutions to technical problems in enterprises, and the support given for technological development, consultancy and assistance is mainly designed for big enterprises.
- Problems related with the legislation, which instead of supporting the SME's increase their operational difficulties.
- Problems related with the environment of the enterprises: corruption, bureaucracy, and the great amount of economic and political problems within the country.
- Lack of institutional support for SME's.

INTERNAL PROBLEMS

The most important internal problems, which need to be solved are: the small priority assigned to human resources, which results in a low level of efficiency and make them unable to be competitive in the long run; the lack of qualified labour hand and managerial culture; the lack of a technological strategy and appropriate quality control practices; and the high percentage of idle capacity, amongst others.

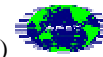


A study by NAFIN – INEGI outline the actual problems within the SME's:

- Only around 40% of the SME's use technical criteria to set product prices.
- More than 50% of the SME's do not use any type of propaganda to promote their products.
- As a consequence more than 40% of the enterprises have excessive capacity.
- Around 60% are conscious of the need to expand and renovate their equipment, but more than 60% find it difficult due to high costs and lack of specialised people.
- Most of these enterprises use their utilities mainly to buy raw material.
- Only around 15 % know about the need of training in production.
- Around half do not ask for loans, due to high interest rates, paper work, and being afraid of not having payment capability.
- General:
 - Lack of interest by the entrepreneur for group work rather than individual
 - Lack of negotiation capabilities due to its reduce scale, its lack of organization and limited management
 - A tendency to improvisation
 - Restricted participation in the markets
 - Lack of input due to small scales
 - They have to many products, they are too diversified.
- Problems related to education:
 - Lack of link between universities and enterprises in order to adapt their needs to the study plans and research programs of the universities.
 - Lack of training and qualify labour hand that can face the challenges of globalisation, lacking the qualifications and the attitude to understand what is being competitive all about.
 - Lack of managerial culture, capabilities as important as administration, marketing, financing, and management of human resources.
 - The importance of human resources is only in matters of speech, because in reality there is low investment in recruitment, training, and remuneration of personnel.



- The average age of the entrepreneurs is 35 years old with an average education as follows: In the micro enterprises 38.3% have a primary level or under and 18.3% have a professional level; in the small and medium enterprises only 5.2% and 1.9% respectively are under the primary level, and 55.4% and 63.4% have a professional level.
- There is a lack of interest in entering other markets; around 8.8% are not interested in exporting, 68.8% have not exported, 13.5% do export. Around 56% do have or will have in the short run an export capacity.
- In the area of technological capabilities, the SME's have the following problems:
 - Most of them define a development strategy, but due to lack of co-ordination they have a low level of efficiency in the achievement of their objectives.
 - The use of computers is mainly for administrative uses.
 - There is not define technological strategy, it has no congruency with the global objectives.
 - The use of obsolete machinery and equipment is very common and there is not much investment in its modernisation.
 - Only around 40% of them have an established plan for the development of their suppliers, most of them do not have any kind of communication which would help them have mutual benefit.
 - SME's have a high percentage of idle capacity.
 - Most of their quality control practices are based on the detection and correction of problem.
 - The financing strategies of most of these enterprises is very conservative, they do not use the different instruments of support given by the commercial and development banks.
- Problems related to equipment:
 - One of the most important problems within the SME's is the lack of conscience to expand and renovate their equipment, technology and productive process. Only 34% of the micro enterprises do consider this, 54% of the small and 62% of the medium do as well. The main difficulties to achieve this are the high costs and the lack of qualified people. It is important to consider that 50% of the enterprises do not have idle machinery, but those who do have this idle machinery, do not use it productively.
 - The micro and small enterprises invest most of their utilities in raw materials, while the medium enterprises invest mainly in machinery.
- Problems with human resources:



- There is very low efficiency of direct and indirect labour hand; SME's face a big problem of rotation and absenteeism, due to salary aspects and lack of training. There is a high percentage of absenteeism, which represents around 42% of the labour problems, followed by high rotation that is in average around 38% and training problems, which are around 26%.
- Around 72% of the medium enterprises have received some kind of training, 64% of the small enterprises and only 19% of the micro enterprises. In their opinion, training is needed mainly in marketing, administration and production. It is important to mention that ¼ of the entrepreneurs do not know where training is needed. Regarding the technical assistance, they think this type of training should focus on the production area and quality control, while 41% of the entrepreneurs ignore which type of technical assistance they need.
- Around 48% of the small and medium entrepreneurs believe that the training of their personnel, the optimisation of the resources and the specialisation of their activities are the most viable alternatives in order to stay in the market and grow. In counterpart, only 17.2% of the micro enterprises believe that training of their human resources is needed for success.
- Nine of every 10 enterprises know of the need to improve quality in order to survive. Around 62% of the micro enterprises know that human resources contribute to the achievement of the quality objectives, while in the small and medium enterprises this percentage grows to 93%. In the micro enterprises only 37% of them have develop a process to know if their human resources are satisfy in their job, while 3 out of 4 small and medium enterprises do have a process.
- SME's in Mexico train their employees in an informal manner, according to their resources and capabilities. In 1991, there were 138,774 enterprises in the manufacturing sector, of which 87% where micro, 9% small, 2% medium and 2% big; employing 15%, 18%, 16% and 51% respectively; and of which the percentage of enterprises that train their employees represented 7%, 52%, 76%, 90%.

The lack of training in small and medium enterprises reflects the lack of culture in this sense, and as well the lack of resources. As the size of the enterprise decrease, the informal training increases. This informal training takes place through an experience work peer, in labour competencies according to their resources. Statistics also show that the percentage of training increases as the educational degree increases and as the responsibility in the job increases, while the lower levels lack training.

<i>Associated with cost factors</i>	<i>Associated with production management</i>
High costs of materials and components	Low efficiency of the direct labour force
Idle capacity	Obsolete technology
High taxation	Maintenance and repair problems
High transport and communication costs	Low efficiency of the indirect labour force
High interest rates	To many products

SUPPORT PROGRAMS



Regarding to human resources, elevating the productive potential of the labour force is crucial for the SME's in Mexico. In this sense a strategic instrument of the industrial policy needs to promote the opportunities for the technical formation and training of the employees. Even though Mexico has important and successful programs for these means, we need to recognise that in relation with the actual needs of the country, these efforts are still limited.

The government intervention in the training programs has been fundamental and has been justified due to the need of cheap training in public institutions, the lack of sufficient training by the private enterprises, and due to the need of training to all levels. The public training needs to focus on the support to employees of low income, and to increase the labour competencies of their employees.

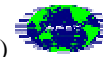
Mexico's problems regarding labour training are not only quantitative; there are still many others: there is a lack of co-ordination between the efforts of the public and the private sector, substantial differences between the training programs offered and the market needs, lack of knowledge of the actual competence that the productive sector demands, lack of mechanisms to recognise these competence and abilities which are acquired informally or on the job. These programs are sometimes too sophisticated or require too much paperwork, they have low diffusion, co-ordination and evaluation

It has been proved that the rate of return on training is economically profitable, not only for individuals but as well for the society as a whole. The most profitable investment in human capital is in work training (21%), translated into an economical benefit to the employee, and a productivity benefit to the employer.

In México there are more than 3,600 support private and public programs, but it's cover, range and resources just satisfy around 3% of the market. Just to give an example there are 12,000 consultors and we need around 80,000.

Support programs in Mexico:

Institution	Program	Objectives
Nafin	<ul style="list-style-type: none"> • Rental • Promyp • Promin • Prodem • Prodeg • Pice 	<ul style="list-style-type: none"> • For machinery • Loans for work capital and investment • Loans for technological development • Enforce the managerial profile of SME's through training programs. • Complement the guarantees required by the banks. • Program for the development of suppliers.
Secofi	<ul style="list-style-type: none"> • Compite • Crece 	<ul style="list-style-type: none"> • Seminars to analyse their production line problems • Specialised consultancy to elaborate a diagnosis of the



	<ul style="list-style-type: none"> • SIS • PDR • Funtec 	<p>enterprises and technical advisory.</p> <ul style="list-style-type: none"> • An information system to establish links between enterprises. • Program to explore and exploit the potentialities of each region. • Funds for research and development
STPS	<ul style="list-style-type: none"> • CIMO (STPS and WB) • CONOCER • PMETYC 	<ul style="list-style-type: none"> • Supports the personal development, and the quality, productivity and competitiveness of the enterprises, through training, information, specialisation and process consultancy. • Revalue the importance of the labour capabilities, and transform the traditional process of training and technical education. • A plan to improve radically the labour competencies
Conacyt	<ul style="list-style-type: none"> • Fidotec • FFCCT • Preaem • PAE • RCCT 	<ul style="list-style-type: none"> • Fund to foment innovation investment in the private enterprises. • Fund to support the creation of research and development within SME's. • Promotes the links between the academy and the SME's in joint projects. • Events that promote the links between the industry, organisms, and research institutes. • Gives access to specialised information for the development of innovative capabilities.
Bancomext	<ul style="list-style-type: none"> • Loans 	<ul style="list-style-type: none"> • For imports and exports • Training • Promotion and diffusion

Source: Diverse, 1995.



Support programs and policies to the SME's in Mexico:

- The different programs established need to be consistent with the needs of the enterprises, need to be continuous and to focus on a long-term vision. Continuity gives enterprises security and certainty, and the ability to innovate and adapt to future challenges.
- They also need to be very specific according to sectors, and by subgroups divided by areas of economic priority, in order to establish the needed programs.
- They need to focus on competitive enterprises that can really take advantage of them, companies with a global vision capable of transforming threats into opportunities, and able to respond to the challenges of globalisation.
- These programs need to be elaborated with the direct participation of the entrepreneurs, in order to identify their problems and needs.
- In order to launch successfully these programs we need human and economic resources, but we need as well the right administrative practices, the technological and training instruments, and good operational programs and practices to achieve them successfully.

We have the need to elevate the effectiveness and efficiency of the programs and projects for the development of the SME's, in order to solve the problem of fragmentation of the different institutions in Mexico. In order to achieve this it is necessary to promote communication and interaction between the public and the private sector, apart from facilitating the diffusion of organizational know how and the infrastructure of cooperative interinstitutional networks.

SOLUTIONS

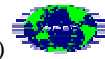
Based on a thorough study of the SME's in México, their importance, their characteristics, and their problems, I have study and outline a series of solutions according to our reality, needs, and resources in order to support the SME's and their human resources.

To start with, the industrial policy in Mexico needs to include a group of activities related with the macro aspects, or aspects that permit the existence of efficient markets that allow an adequate resource allocation. And the micro aspects oriented to guarantee the entrepreneurial and collective capabilities in order to consolidate an industrial environment.

There is the need to solve the external problems in order to have positive spill over in the internal structure of these enterprises. Each country needs to develop its right support policies in a national scale, and at the same time, concentrate a joint effort to give coherence, integration and expansion to these policies, increase the base of information and guarantee the regional exchange and the entrepreneurial cooperation within the country.

Government actions to improve the industrial policy:

- Macroeconomic stability and financial development



- Improvement of infrastructure and institutional base
- Promotion of productive networks
- Improvement of the technological industry development
- Economic deregulation
- Promotion of exports
- International business negotiations
- Competitiveness promotion

Mechanisms that reinforce the interaction of the enterprises with the government

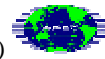
- There is the need to reduce the great amount of bureaucratic procedures in order to promote the formation of enterprises and allow their efficient operation by having quick mechanisms to respond to their needs.
- Information booths that facilitate the access to database that can facilitate useful information to the entrepreneurs.
- Revision and adaptation of government program, identifying those that are repeated and launching new programs to fill in the urgent gaps.
- The great need to increase the number of supporting industries for the SME's.
- There is an urgent need to establish links between different institutions in order to provide a complete network of support to these enterprises.
- Subcontractors or industrial linkage like the Japanese where 55% of the SME's are connected with the big enterprises.
- The organization of forums and conference where the enterprises can propose their needs to the government.
- Establishing instruments that promote synergies within the different institutions involved in this process.

Instruments to reinforce the management capacity

- The idea is to identify the real training needs, and then assign resources to satisfy them. Training in finance, management of human resources, decision making, use of information.
- There is the need to invest more on the youth, the human resource problem in SME's is a problem of education and of behaviour, if we invest now in behavioural changes even though the results will be shown in the long run, our new generations will be aware of this problem.



- The need to train the SME's in subjects related to internationalisation and external expansion of markets, external opportunities and exporting strategies.
- Assistance in the elaboration of proposals, negotiation and development strategies.
- Promotion of technology transfer through a technological diagnosis, a systematic evaluation of the organization to determine their capacity of commitment and abilities, and the financial support.
- Promotion and diffusion of good entrepreneurial practices, by learning from successful experiences, studying them, and applying them to other enterprises. Example of this have taken place in Oaxaca and Guanajuato, where the government has been establishing some training schemes, were a research institute in joint action with the local government have exchange managers with Japan, with the idea of learning from the Japanese networks, in order to establish them in Mexico.
- Organization of forums and conferences to teach new methods and concepts, and administrative practices to the entrepreneurs.
- Support Programs of research and development: Financial support for innovation programs, transfer and adaptation of technology, evaluation of feasible projects of expansion and diversification, etc. The idea is to give as well technical and industrial advise with experiences people from universities, research institutions, and private consulting firms, who help them to get information, define their needs, establish contacts, formulate projects, and integrate their technology.
- Programs that promote the links between universities and industries through which exchanges of technical and scientific personnel can be done, the formation of work groups between the university and the industry members, and joint research programs.
- More universities of technical education
- Hiring of foreign experts in order to train their people
- Government programs in order to train unemployed professionals so that they can give consultancy of training needed for SME's.
- Universities that work in co-ordination with the SME's in order to satisfy the needs required within these enterprises, and the implementation of consultancy and training programs, at reasonable prices, in order to support the companies. It is also very important for universities to teach their alumni of the importance of the SME's and their human resources in our country, so that they promote and support their activities once they are part of the work force, either as entrepreneurs of as employees.
- Entrepreneurs should involved as well in a more direct way; not only by increasing investment in training their human resources, but also by organizing



courses in which they participate as instructors, in a way that they can share their knowledge and experience.

Instruments to have a greater access to the markets

- Having better information and diffusion sources.
- Assistance in the fulfilment of requirements in order to facilitate things for the entrepreneurs.
- Government purchasing with minimum requirements and quick payment mechanisms.
- Training in the adoption of a commercial strategy is needed to have access to other markets; this strategy should include marketing, distribution and commercialisation, practices.
- The promotion of technology and computers in order to create an electronic market.
- Programs which are focused to develop SME's as government suppliers, by searching them, giving them the same opportunity to be subcontractors, by giving them advice of how to negotiate with the government, etc.

Increase competitiveness

- Create the conditions for the direct and indirect exports
- Accelerate the mechanisms for the development of industrial, regional and sectorial networks, with high international competitiveness, and highly integrated relations.
- Promote the development of the internal market, as the base to achieve their international insertion.
- Information Access: An information center for SME's where they can have an answer to all their questions related to the beginning of a business, operational problems, tax information, support programs, etc.

Financing Instruments to support them

- Low interest rates and low taxes for those SME's that are assigning resources for the development and training of human resources, research activities, technology modernisation and implementation.
- More economic resources assigned by the government to SME's and a bigger budget assigned to the training of the human resources.
- Mexico should benchmark the different fiscal systems and an incentive given to SME's within other countries in order to adapt them to our own. There is a need of more and better incentives to these enterprises so that their cost structure is reduce and could be assigned to the development of human resources, amongst



other things. These incentives could be assigned to those enterprises that somehow use the government programs to train their human resources.

- There should be loans at competitive rates so that SME's can use these loans to modernise their technology and their human resources.
- Other programs of financial assistance: Creation of investment networks between public and private institutions that can increase the disposition of capital to those credit entities that give loans to SME's.

General training or workshops to promote the importance of SME's

- Giving a diagnosis to the entrepreneurs
- Sensitise government employees, entrepreneurial leaders, and the general public of the importance of the development of SME's.
- Make consensus about the necessary alternatives to foster the SME's
- Propose regional and sectorial specific projects.
- The government should give much more economical support and promotion in order to create conscience of the importance of the training and development of human resources in SME's, due that the main problem is a lack of awareness and a lack of information within the population.
- Increasing the chambers of commerce important roll as a diffuser of information.

CHALLENGES

Family managed

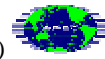
The SME's face different challenges. One of the main ones is that these enterprises are family owned managed, meaning that it is constituted by the confluence of two complexities: the enterprise and the family. Values, attitudes, and social norms of both social institutions, which inhibits or difficult the alliances with other enterprises, the forms of associations, and how professional it's administration can be.

Low value added investment

Another problem of the SME's in Mexico is that the amount of value added of the investment in Mexico is very low. There is a great amount of local industries, light industries with low linkages between enterprises that do not promote innovation and competitiveness within the market; in contrast with supporting industries or large-scale industries, with high linkages with the SME's. There is the need to differentiate the promotion policies between these two industries in order to achieve a greater development of the SME's in Mexico.

Associations or integrative enterprises

Associations have taken place since 1993 through chambers of commerce, credit unions, cooperatives of producers, and integrative enterprises; through the association



of SME's with the idea of increasing productivity, efficiency and competitively, obtaining common specialised services, and the common realisation of activities such as purchasing, commercialisation, technological improvements, financing, training and design activities.

This new model was proposed by the government to the SME's in order to take a common front to globalisation. It was evident that in an open market, SME's needed to implement quality and quantity changes for their survival, and they needed to get together according to diverse modalities in order to benefit from the positive changes. Associations are important for the strengthening and permanency of SME's, because they increase their negotiation bargaining power by representing their common interests, and obtaining certain services which otherwise are out of their reach.

The main objectives of the network can be either economical or social. Economically, the entrepreneurial networks are a way to reduce transaction costs in the market, through the acquisition of cheaper products. Socially, the benefits come from personal contacts as an instrument to obtain what they want.

In order to construct these integrative enterprises, the government establishes certain requirements in order to give mainly three types of support: fiscal, having a preferential tax regime; financial, through better access to loans; and administrative, through diverse mechanisms to strengthen the managerial activities of the entrepreneurs, through training and technical assistance.

The association of integrative enterprises can only be adequate to elevate the competitiveness of the SME's, as long as it exists a long-term development economic policy that contemplates among other things, the development of the human resources.

In other aspects, even though the SME's in México are represented by different organizations, their size and heterogeneity generate high asymmetries and unbalances, in which the most powerful groups have a higher control. The lack of well represented associations in Mexico, inhibit the SME's possibility to be represented and express and demand the needs of the sector.

Subcontracts

During the last decades, subcontracting has started to take place in Mexico, and the government has established certain programs to support it. This has been useful in developing the integration of productive networks between enterprises of different scale. These brings as a consequence advantages to the enterprises by helping them develop their productive install capacity, allowing them to develop competitive advantages by specialising and promoting work division, giving them the possibility to have new investments and increase their human resource efficiency.

Although we have realise the importance of subcontracting, there are still difficulties that these enterprises face in order to incorporate to the subcontracting system: the lack of market knowledge, the low product quality, the lack of financing, low technical capacity, lack of managerial capabilities, and lack of formality in their delivering timing.



Innovation and Link Institutions

The need to introduce changes in the production and the entrepreneurial conduct in the SME's will bring as a consequence a group of institutional and regional changes, resulting in the need of new processes and institutions in order to respond to the new needs of growth and industrial modernisation.

The concept of innovation do not only represent a group of isolated activities which are oriented to develop new products and process, but it involves a joint group of incremental improvements in the different areas involved (organization, commercialisation, production and quality), where the link institutions can play an important role.

Those institutions interested in selling their services and working as intermediaries to give specialised technological, consultancy, and training services, amongst others, to other enterprises are called link institutions. The action of the link institutions contribute to complement the support programs offered by the promotion institutions, in order to increase the confidence and co-ordination of the activities within the enterprises.

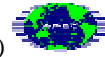
These institutions work as a fundamental instrument for the mobilisation of information, science and technology, and all those players that can develop an intermediary structure of support and control in the innovation process. These exchanges give the enterprises new expertise of the products, of the market strategies, of the organizational know-how and of the tacit knowledge, giving as a result the possibility to expand the learning horizons of the enterprises, and reducing uncertainty and transaction costs. At the same time these institutions make up the innovative capabilities of enterprises.

That is the reason why innovation is having greater importance to the policy makers. Innovation is understood in a wide sense, meaning technological or organizational incorporation, the conformation of exchange links, or human resource capabilities.

In the process of innovation complementary factors, as the qualifications of human resources and the organization or insertion of technology in social contexts and productive process, are of great importance. In this sense, technology cannot be separated from the environment where it starts, neither from organizational structures. From there the need to identify new competencies in SME's, as the capabilities that are converted in the key factor in the search of competitiveness.

During these last years in Mexico these institutions have acquired much more importance, although we still have a long way to go. The important issue here is not only the existence of these enterprises, but also the creation of technological co-operation networks that allow the existence of a national system of innovation.

The limitations that the SME's have related with the insufficiency of knowledge, organizational capabilities, and the training and administration of human resources; restrict the capability of innovation and the efficiency of these networks. There are as well other problems, which make difficult the consolidation of more complex relations. The limits of effective information and diffusion of resources, and the lack of



transparency, make difficult the consolidation of more complex relations. To this we can add the lack of communication between the research institutes, the technical formation and the industrial activities, which develop their strategies with little interest in knowing the specific problems of the regions and the productive sectors. This lack of interinstitutional co-operation brings as a consequence isolation, lack of information, and the multiplication of inefficient programs with weak repercussions.

CONCLUSIONS

In order to achieve the development of SME's and their human resources we need the joint action of different groups: enterprises with innovative capabilities, government efforts to develop the micro and macro general conditions, and the right institutional environment which allows the flow of information between the different social actors, and as a consequence contributes to the continuous social learning. This has to be strengthened by the development of productive promotion institutions, private and public, intermediary organisms, specialised service enterprises, and scientific and technological institutions.

It has been proved that the successful experiences of industrialisation of the SME's depends directly from the competitive strategies developed, in the way they behave and are linked with other enterprises, upon the existence of an institutional frame of support that allows them to have access to the necessary resources for the constant innovation of products and processes, as well as the training of their human resources, and to the existence of adequate and specific economic and political policies for their support. This is the road that Mexico needs to follow.



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ENTERPRISE'S SIZE			
Scholarship Level	Enterprise's Size		
	Micro	Small	Medium
None	3.7	0.2	0.2
Unfinished Elementary School	15.5	1.0	0.5
Finished Elementary School	19.1	3.9	1.2
Unfinished Secondary	12.6	5.5	1.8
Finished Secondary	2.3	1.6	1.0
Unfinished Technical Studies	5.9	6.5	4.1
Unfinished High School	3.0	1.2	2.0
Finished High School	6.6	7.8	5.4
Unfinished College	5.1	8.5	7.9
Finished College	18.3	55.4	63.4
Professional	2.3	6.9	11.6

Difficulties	Enterprise's Size		
	Micro	Small	Medium
High cost of purchasing or repairing	82.5	75.5	69.9
Lack of personnel's capacitating	3.4	6.8	7.9
Insufficiency of national supply	2.6	2.3	2.3
Disregard for how to do it	3.4	1.2	2.0
Insecurity	2.6	2.5	1.5
Financial problems	1.0	2.8	2.0
Others	4.5	8.9	14.4

INVESTMENT ITEMS			
Investment Items	Enterprise's Size		
	Micro	Small	Medium
Machinery	15.3	41.8	47.3
Raw Material	62.3	49.7	40.8
Installations	14.2	38.7	40.8
Salary	13.9	29.4	27.5
Out of business	35.3	6.4	4.9
Do not make profits	1.8	3.6	4.3
Others	1.8	1.7	3.8

LABOUR DISPUTES			
Problems	Enterprise's Size		
	Micro	Small	Medium
Absenteeism	44.5	42.9	41.8
High rotation	22.4	38.3	47.5
Capacitating	24.2	30.8	26.0
Salaries Increase	19.3	23.0	32.8
Selection	18.5	19.9	16.9
Labour Disputes	10.6	16.1	17.5

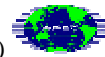


Benefits Increase	3.9	10.7	9.0
Others	2.8	2.9	2.2
CAPACITATING AREAS			
Areas	Enterprise's Size		
	Micro	Small	Medium
Marketing	27.0	31.5	31.9
Administration	18.9	21.0	15.3
Production	10.1	13.8	18.6
Finance	7.8	14.3	12.0
Human Resources	3.7	8.3	10.2
Legislation	2.4	3.0	4.9
All of them	0.7	2.4	2.6
Don't Know	25.6	3.5	1.8
Others	3.8	2.2	2.7

Areas	Enterprise's Size		
	Micro	Small	Medium
Production, quality control	17.9	34.3	47.8
Marketing	6.8	8.4	6.9
Human Resources	3.2	5.9	5.9
Administration	5.2	7.1	3.8
Sales	3.9	5.1	3.6
Finance	1.6	2.9	3.1
Do not require	6.1	4.7	3.9
Don't know	41.2	17.9	13.9

USE OF THE CREDIT			
Use of the credit	Enterprise's Size		
	Micro	Small	Medium
Raw Material Purchasing	69.3	65.5	63.5
Acquisition of machinery and equipment	19.5	30	36.6
Settlement	2.4	6.2	5.9
Demodulation	1.4	3.1	3.1
Site purchasing	3.6	2.2	3.4

Factors that influence the growth and Maintenance on the market	Enterprise's Size		
	Micro	Small	Medium
Personnel Capacitating	17.2	47.3	49.4
Activities Specialisation	38.8	38.8	33.7
Material Resources Optimisation	18.4	38	50.4
Don't know how to do it	21	2.7	0.8
Getting grouped in order to be more productive	17.9	19	17.5
Offering a better price	2.3	1.9	2.1
Other	4	3.3	2.1



Enterprise's Size	Number of employees	Annual Sales	
		SECOFI's approach	NAFIN's approach
Micro	1 trough 15	\$ 900,000.00	\$ 2,100,000.00
Small	16 trough 100	\$ 9,000,000.00	\$ 21,000,000.00
Medium	101 trough 250	\$ 20,000,000.00	\$ 50,000,000.00
Big	More than 250	Minimum \$20,000,000	Minimum \$50,000,000

Management Universe in Mexico			
Enterprise	% Economic Units	Occupied Personnel	% GDP
MICRO	97	47	31
SMALL	2.7	20	26
MEDIUM	0.2	11	12
BIG	0.1	22	31

Size	Average of the	Size	Who is managing
	Manager's age		
Micro	41	64%	87% the manager
Small	39	11%	63% the manager

