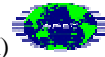


**HRM PRACTICES AND STRATEGIES OF SMES IN THAILAND  
TO FIGHT WITH ASIAN ECONOMIC CRISIS**

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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in this region in running business such as the lack of financial liquidity, changing behavior of the target customers, out of date technology and the lack of potential employees.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”.<sup>1</sup> 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.<sup>2</sup> 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>

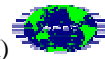
**Note :** \*Fall in currency vs. US\$, June 30 1997-July 3,1998 ; percent decline in stock-market index ; unemployment (1997 in italics) ; percent decline in imports, by value

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

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

<sup>2</sup>Anonymous, “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.

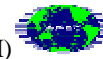
According to the study of World Bank, it is found that the SMEs generally has the rate of increase in efficiency more than that of the LEs.<sup>3</sup> At present, there are approximately almost 400,000 the SMEs in Thailand or 80 percent of all enterprises.<sup>4</sup> In fact, there are around 127,400 industrial plants for the SMEs or 98 percent of all sizes of industrial plants.<sup>5</sup> 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)

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

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

<sup>5</sup>Danai 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 :<sup>6</sup>

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.

<sup>6</sup>Danai 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

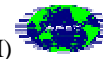
At present, there has no same standard fixed definition of the SMEs ; each firm unit has their own criterion in defining their SMEs. However, classification of size is depending on criterion of employment and fixed asset (see Table 5). Meanwhile, another definition is defined on the basis of types (lines) 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
<b>Total</b>	<b>393</b>	<b>39.1</b>	<b>183</b>	<b>18.2</b>	<b>429</b>	<b>42.7</b>

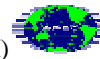
**Source** : Adapted from IFCT, “The SMEs Support,” *Report presented to Ministry of Finance*, December 1998, p. 57

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
<b>Total</b>	<b>100</b>

**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 :<sup>7</sup>

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.

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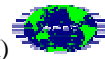
<sup>7</sup> IFCT, "The SMEs Support," *Report presented to Ministry of Finance*, December 1998, pp. 66-77.

- 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.<sup>8</sup> 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)

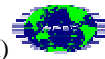
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Types of Business	Production Capacity (%)					
	1992	1993	1994	1995	1996	1997
Food	49.1	51.2	52.6	51.0	45.4	43.8
Beverage	80.6	81.0	79.2	88.9	91.4	80.7
Tobacco	71.1	73.5	79.3	75.2	84.2	79.0
Building	79.9	77.6	79.0	83.0	72.1	68.6
Transport Equipment	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

<sup>8</sup>Karnjana 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)



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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
<b>7RWO</b>	<b>1,478</b>	<b>1,302</b>	<b>1,811</b>	<b>3,391</b>	<b>2,544</b>

**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

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Unit : A million million baht

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

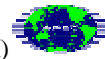
**Source :** Adapted from Prusanee, “5 Steps to the SMEs Development,” *The Interest Journal*. Vol. 17, n. 213 (March 1999), p. 60

### 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).<sup>9</sup>

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.

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<sup>9</sup>IFCT, 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**

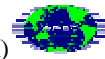
The government must support the SMEs development in every aspects which will lead to success. It comprises :

#### **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.

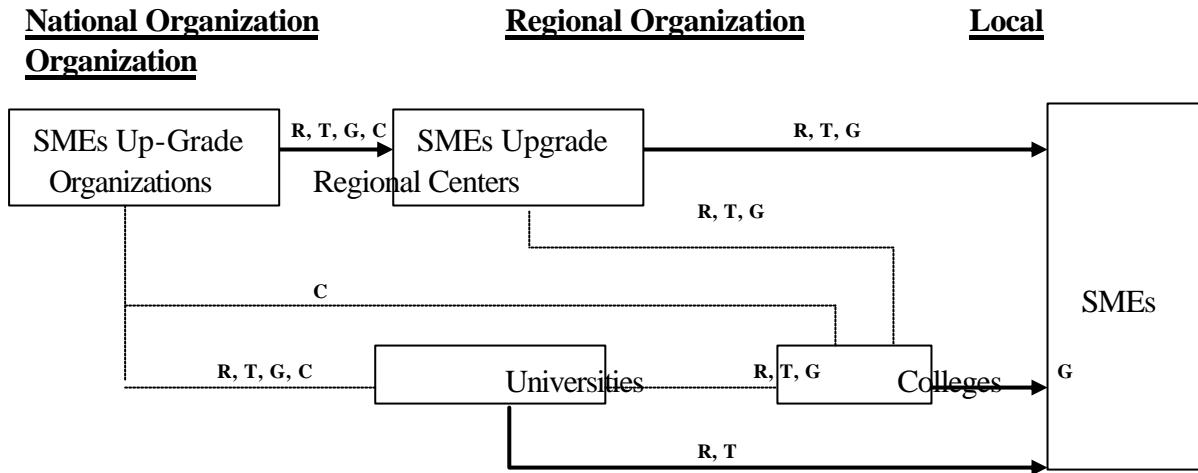
## 1.2 Up-grade of technology and management

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 1 : Working Performance of the Organizations Concerning Up-Grade Technology and Management of the SMEs**



**Note :** R – Research and Development      T – Training      G – Guidance  
 C – Giving certificates to seminar and counseling staff

- - Direct SMEs up-grade organizations
- - - - - - - Indirect SMEs up-grade organizations

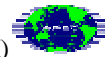
**Current organizations which play roles in the SMEs**

<b>National Organizations</b>	<b>Regional Organizations</b>	<b>Local Organizations</b>
<ul style="list-style-type: none"> <li>- Department of Industrial Promotion</li> <li>- Department of Skill Development</li> <li>- National Science and Technology Development Agency</li> <li>- The Thai Industrial Standards Institute</li> <li>- Thai-German Institute</li> <li>- Department of Science Service</li> <li>- The Nation Institute of Increase Product, etc.</li> </ul>	<ul style="list-style-type: none"> <li>- Regional Industrial Promotion Centers</li> <li>- Skill Development Centers</li> <li>- Universities, etc.</li> </ul>	<ul style="list-style-type: none"> <li>- Rajabhat Institutes</li> <li>- Rajamongala Institute of Technology</li> <li>- Colleges, etc.</li> </ul>

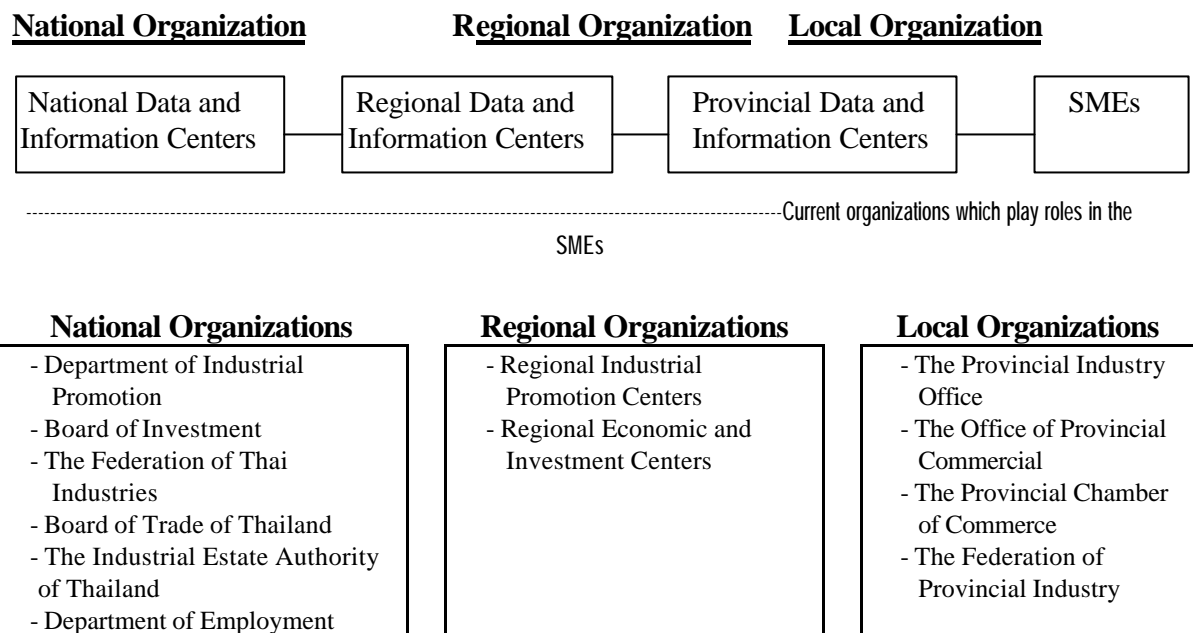
**Source :** Adapted from IFCT, “The SMEs Support,” *Report presented to Ministry of Finance*, December 1998, p. 87

**1.3 Information center establishment**

The government should establish the national SMEs information center to collect, arrange and support data and information of technology, manufacturing, marketing, and management. Sub-centers must be established, both regional and provincial centers, to support these data and information to the SMEs. (see Figure 2)



**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.**

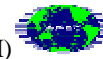
### 2.1 Managerial Efficiency of the Entrepreneurs Development

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.<sup>10</sup>

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<sup>10</sup>Carson, 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 :

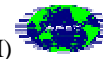
### 2.2.1 Promote every staff or employee in their firms or organizations to help improve environment within their firms by using the 5 S :<sup>11</sup>

- (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.

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<sup>11</sup>Witoon 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 :<sup>12</sup>

- (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 :<sup>13</sup>

- (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.

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

<sup>13</sup> 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 :<sup>14</sup>

- (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.<sup>15</sup> 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.

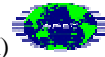
2.2.6 Create relationships within organization by using two-way communication. The entrepreneurs must give their employees chances to show opinions, suggestions and problems that are happening. It can be done by meeting, circulation, and informal discussion, etc. Moreover, recreation activities should 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.

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

<sup>15</sup>Anonymous, "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

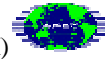
As you can see, the economic crisis at present makes the Thai entrepreneurs face various problems such as marketing problems which target customer groups has less purchase power. Besides, there are behavior changing of the target customer groups, the lack of financial liquidity which is an important 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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