

**Lampang Small and Medium Enterprises (SMEs) Barriers to enter into a
Foreign Market: A study on Ceramic Industry in Lampang, Thailand**

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Chapter 1 - Introduction

1.1 Background of the study

Small and medium-sized enterprises (SMEs) play an important role in the world economy and contribute substantially to income, output and employment. Small and Medium Enterprises (SMEs) play a major role particularly in developing countries. They help to transform the region into a high-income group. As per data from Situation and Economic Indicators of SME'S Thailand, The GDP value of small and medium enterprises (SMEs) in 2015 was 5,559,534 million baht or 41.1% of the country's GDP whereby the GDP value of SMEs expanded 5.3%, an increase from the 0.4% rise in the previous year. We can see from the above data that SMEs constitute almost half of Thailand economy and hence, it plays a major role in economic growth and development of Thailand.

Rapid changes in technology and globalization has brought opportunity as well challenges in the field of international businesses. In the age of globalization, where economy is turning more into digital, competitiveness and gaining access to markets is particularly important for small and medium-sized enterprises (SMEs). In developing countries and countries with economies in transition competitiveness of SMEs is crucial for their survival and growth.

Entering foreign markets has been a topic of extensive debate for the past decades, yet researchers agree that more needs to be understood (Hennart and Slangen, 2014; Arslan et al., 2015). In International business research it has been generally suggested that there is a positive relationship between international involvement and firm performance (Hilmersson, 2014). Most of the research in regards to entering into a foreign market has been centered on Multinational companies, hence SMEs were left behind as MNC

have generated a lot of interest in business diaspora (Brouthers and Hennart, 2007). It is very crucial to select an appropriate way to enter in a new market as there is risk involved in it, and inappropriate decision-making by SMEs could have serious financial and survival implications (Gatington and Anderson, 1988; Root, 1994).

SMEs have a number of foreign entry mode options and exporting has been identified as one of the most important among those (Lu and Beamish, 2001). Exporting (both direct and indirect) has been identified as the most dominant, and popular due to the lower cost commitment and lower degree of risk involved in it (Wheeler et al., 2008 and Leonidou et al., 2010).

Exporting to another country has many benefits for SMEs which assist them to become more competitive and make a goodwill for their respective Countries. However, despite the need for SMEs to internationalize, little is known about the barriers that hinder or slow down the process (see Laufs and Schwens, 2014). This, despite an increasing number of international SMEs failing to thrive, is regardless of the size of the economy (Hulbert et al., 2013). The failure rates are extremely high for emerging countries as mentioned by Khaliq et al. (2011).

Lampang is famous for the production of ceramic goods and mining operations in Northern Thailand. A great deal of ball clay, china stone, and lignite are extracted from the surrounding mountains. There are more than 200 ceramic factories in and around Muang Lampang. Most of ceramic factories are small to medium size operations mainly producing novelties (plant pots, dolls), table wares, and building materials (tiles, railings), etc. Thus, Lampang is popularly known as ceramic capital of Thailand attracting huge tourists and shoppers.

1,2 Objectives and significance of the study

Over the past two decades, the local or regional SMEs have become a model for economic development for developed as well as developing economies. UNIDO (2010) “The high-tech industry of Bangalore, India, the Chilean wine clusters and the Sialkot, Pakistan, surgical instruments are examples of many successful cases. These dynamic SMEs clusters have achieved high growth levels, gained a stable foothold in the international market and generated wealth and prosperity at the local level”. In various business research, it has been generally suggested and accepted that there are number of benefits for SMEs if they enter into a foreign market and also it enhances in the firms performance which has been notably emphasized by Hilmersoon (2014). Foreign market entry is considered as a key strategy to grow and survive over longer period of time for the Small and Medium Enterprises (SMEs). The decision to enter in a foreign market is not an easy one as because there are many factors involved and which are need to be considered. Considering the resource limitation, SMEs need to analyze the key barriers to enter in foreign markets very carefully. The purpose of this paper is to identify these barriers for the SMEs in an emerging economy. Some of the objectives of the study are below:

- a. To gain an overview of Lampang Small and Medium Enterprise Industry.
- b. To explore current problems in the Lampang Small and Medium Enterprise Industry and find the possible way to solve the problem.
- c. To understand the barriers faced by Lampang Small and Medium Enterprise while exporting their products.

- d. To conclude the impact of barriers to internationalization on SME cluster and to the competitiveness of the region.

“SME’s constitute the largest economic and business entities and assume a major role in employment generation. As such, many member countries place great importance on the development of the competitiveness of SMEs so that they can serve as the engine of growth for national economies”, APO 2007 (5). We can see from the above excerpt that SME’s play an important role in the economy not only generating income but also by providing jobs. Fabio Russo (UNIDO, A tool to increase SME exports 2005: 2) “Small and medium enterprises (SMEs) usually have difficulty exporting to foreign markets: they may lack the necessary knowledge and financing, may not meet foreign regulatory requirements, or may produce products in quantities or quality that are not adequate for foreign buyers, among many other potential problems. However, these problems can often be overcome through cooperation among SMEs. By combining their knowledge, financial resources and contacts within an export consortium, SMEs can significantly improve their export potential and reduce the costs and risks involved in penetrating foreign markets”.

1.3 Statement of Problem and research questions

In developing countries, the private sector consists of micro, small and medium enterprises, they generate a large share of employment and are main source of income for the population. (SMEs) are known to face barriers which limit their ability to grow. The barriers can be internal as well as external, one of the major barriers for SMEs growth is the limitation of the economy in which they operate. Hence, one of the

options for the SMEs is to look for International Market as it may provide opportunity to tap into a new market and expand into new horizons. (UNIDO, A tool to increase SME exports 2005: 2) “Establishing a successful presence in foreign markets is considerably more difficult than in domestic markets. SMEs are often deterred from exporting by the complexities of the export business and the high risks involved”. It has been seen that the failure rates are pretty high during the early stages. Going international is a risky affair for SMEs due to low significant knowledge and preparation, attempts to export are doomed to failure. It may even jeopardize the financial stability of the enterprise as a whole.

In Lampang many SMEs are managed as family businesses. They often tend to use basic management methods, have limited financial and human resources available and are generally not familiar with the demands and characteristics of end consumers in foreign markets. Hence, they view the risk of entering foreign markets to be high and do not perceive the returns obtained from entering foreign markets to justify the effort and costs involved

To explore the barriers of Lampang SMEs to enter into foreign markets, this paper will use an institutional approach. Due to their size, SMEs are vulnerable to institutional barriers, and careful consideration of such obstacles to maintaining growth must be emphasized (Hessels and Parker, 2013). The need for additional research in the area of home country institutional possible barriers is vital (Laufs and Scshwens, 2014). The different determinants of SMEs entry into foreign markets have been previously examined in international marketing literature (D’Angelo et al., 2013; Morgan et al., 2004). However, findings may not be applicable to developing economies as a majority

of studies are focused on North American or European SME sectors (Bruton et al., 2008).

Socio-economic aspects of developed countries differ from developing countries (Gao et al., 2010; Peng et al., 2008), so generalizing could be misleading (Milanzi, 2012).

This study collected data from Lampang SMEs. Lampang was chosen due to a heavy dependence on SMEs as a major source of economic growth

1. Would language difference work as a barrier for Lampang SMEs to enter into foreign markets?
2. Would difference in social approaches work as a barrier for Lampang SMEs to enter into foreign markets?
3. Would insufficient R&D investments work as a barrier for Lampang SMEs to enter into foreign markets?
4. Would legal procedural complexity work as a barrier for Lampang SMEs to enter into foreign countries?
5. Would lack of express service work as a barrier for Lampang SMEs to enter into foreign markets?
6. Would corruption in the home economy work as a barrier for Lampang SMEs to enter into foreign markets?

1.4 Scope of the study

SME's play an important role in the economy of a country and they are good source of job for the economy. SMEs are important to economic growth and significantly

essential to generate employment (Harvie and Lee, 2005; World Bank, 2009). To strengthen SME's, they need to cooperate and form a cluster so as they can compete against internal and external factors.

This research has limited its scope to only study the Ceramic SMEs in the Lampang province in the North Thailand. There are numerous SME's which specialize in Ceramic products. The study is focused on the Table ware industry, one of the main collaborators of the ceramic cluster.

The study can be done deeply, understanding the whole relevant environment from a common man, to white collar and blue-collar employees, and also the policy makers as the researcher stay in Lampang and have been teaching in a college in Lampang. There are many areas on which light can be thrown, highlight important issues, so that necessary steps can be taken to limit the barriers related to export of ceramic products to foreign countries.

1.5 Expected outputs of the study

This study aims in expansion of the knowledge of SMEs in Lampang focusing on ceramic industry. Understanding the barriers faced by exporting firms while exporting and how it effects to the competitiveness of the firms and the region as a whole. The recommendations derived from the research are intended to act as guide not only for policy makers but also to all major players in the SMEs to enhance their involvement, growth and overall competitiveness. The model derived in the research can also be applicable in similar type of SME Cluster.

1.6 Significance of the research

With the slowing down of Thai economy along with demographic changes in society, there are many challenges which are being faced by Thai companies and one of the options to tackle this problem is looking into other market. There is a vast focus on the bigger companies and hence, SMEs are seemed to be left out. The significance of the research is to understand the SMEs in Lampang and how the SME's are affected by the Socio-economic barriers faced by them while trying to go international, plus their side effects also highlighting some social issues which hampers the ceramic cluster. This will give a view on the difficulties faced by the SMEs in Thailand and this will assist to find options and ways to assist. This will be beneficial for the whole economy as SMEs play a major role in providing jobs to the population.

1.7 Definition of terms

Thai SME's: A SME is small or medium based on the number of employees and the value of total fixed assets excluding land value (Pour, 2006; OSMEP, 2007 b). Therefore an enterprise is categorised as an SME if it employs less than 200 employees and fixed capital not more than 200 million baht, excluding land and properties (SME Bank, 2010).

SMEs in Thailand are grouped in 3 categories based on the business: (1) Manufacturing sector, (2) the service sector, and (3) Trade sector which is composed by wholesale and retail (3) (Pour, 2006; SME Bank, 2007; OSMEP, 2007 a).

SME Internationalization: SME internationalization can take the form of exporting, the creation of partnerships across national borders, and the establishment of operations in other countries (Wilson 2007).

Barriers facing SMEs: Becoming internationally active is clearly good for business and the wider economy, but SMEs face a range of both internal and external barriers when they seek to internationalise (ACCA 2010). Internal barriers include the pricing of products and the high costs involved with internationalization. External barriers include a lack of capital to finance international activity, a shortage of adequate and reliable information, lack of adequate public support and the costs and difficulties of paperwork associated with transport

Competitiveness: Rainer Feurer and Kazem Chaharbaghi (Defining Competitiveness a Holistic Approach) defines Competitiveness as follows: Competitiveness is relative and not absolute. It depends on shareholder and customer values, financial strength which determines the ability to act and react within the competitive environment and the potential of people and technology in implementing the necessary strategic changes. Competitiveness can only be sustained if an appropriate balance is maintained between these factors which can be of a conflicting nature. Klaus Schwab (World Economic Forum 2012), “Competitiveness as the set of institutions, policies, and factors that determine the level of productivity of a country”.

1.8 Theoretical and conceptual framework

SMEs have been shown to make vital contributions to global economic health. There is also evidence that more internationalised businesses tend to be more successful. It is important, therefore, to understand thoroughly the challenges faced by SMEs when they seek to internationalise. Many theories were studied and analyzed to find the factors which might affect the SMEs going international, Michael Porters Diamond Model along with Uppsala model was thoroughly studied but there were some limitation as

they are developed for developed economy and might not be relevant for Lampang Region.

The following variables were found from different papers, research and articles which are the following Language barrier, social approaches, research and development, legal framework, express service and corruption in home country.

Research variables are based on the various literature review and articles from OECD and other relevant secondary sources. Based on the extant literature review socio-economic barriers to entering foreign, this paper proposes the following research model.

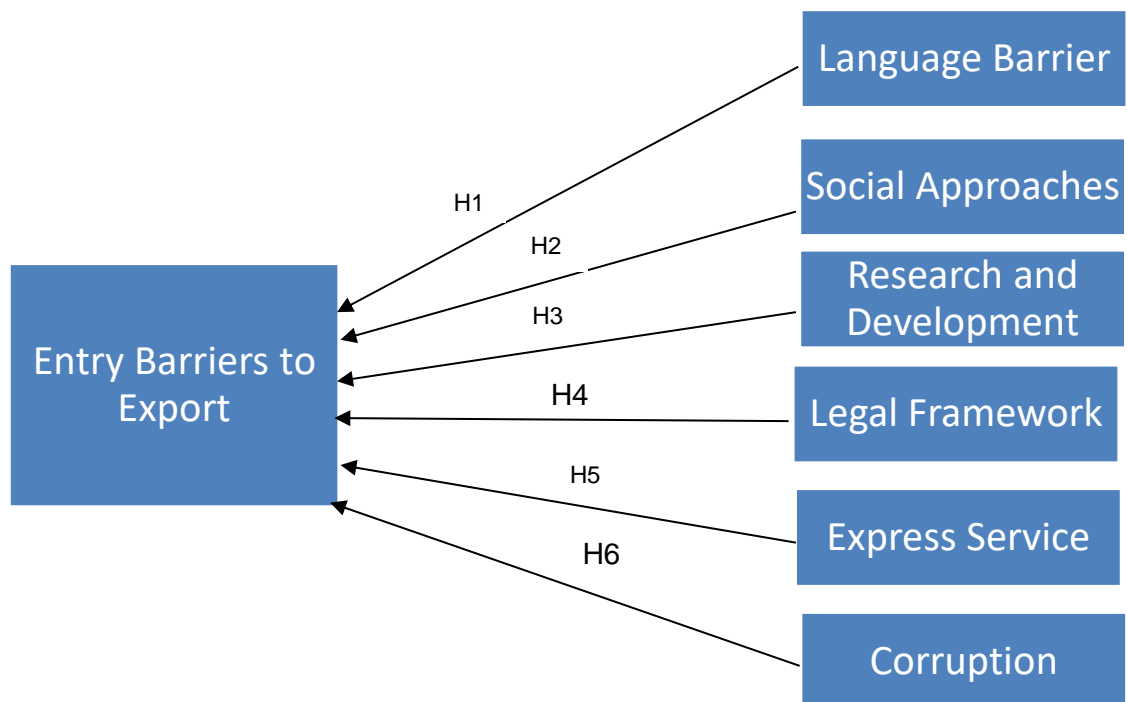


Fig 1.1: Conceptual Framework of the Study

1.10 Research Hypothesis

Language is the medium of communication between two or more individuals by using arbitrary signals (speech, script, signs etc.). The failure to communicate properly, would hinder overseas business prospects. By crossing national boundaries, Thailand has been ranked low in English proficiency level when compared to another ASEAN economies. According to the EF English Proficiency Index 2015 conducted by Education First Language Institute, Thailand is a non-English speaking country with "very low" English proficiency. SMEs have to be active in an alien economic, political and cultural climate (OECD, 2006; Kiss et al., 2012). Hence, Language differences is one of the major factor which can act as a barrier during exporting.

H1: Language difference between home and host country would work as a barrier for Lampang SMEs to enter into foreign markets.

A common socio-cultural barrier faced by SMEs is the varying social approaches (Barkema and Vermeulen, 1997; Child and Hsieh, 2014). Social approaches differ between countries and region due to various reasons. Previous studies have shown light on negative impacts of different socio-cultural approaches, others (Hsu et al., 2013; Krishnan et al., 1997; Morosini et al., 1998) have claimed the diversity may be a source of value creation.

H2: Difference in social approaches between home and host country wouldn't work as a barrier for Lampang SMEs to enter into foreign markets

With limited R&D resources, organizations then find it difficult to compete internationally (Tseng et al., 2009). R&D plays a major role when targeting a foreign market as they need to compete with other companies in the international region.

H3: Insufficient R&D investments would work as a barrier for Lampang SMEs to enter into foreign markets.

In cases of international business, firms may face additional legal restrictions than domestic firms, such as, currency restrictions, quotas, or tariffs. Based on the country of origin of the foreign partners, additional formalities may be in place, for example, product standards, compliance procedures, health and safety requirements, and patent and trademark issues (OECD, 2006).

H4: Legal procedural complexity in the home country wouldn't work as a barrier for Lampang SMEs to enter into foreign countries.

OECD (2006) has reported that duration for developing countries to complete the process of either exporting or importing is three times higher than developed countries. Despite the critical role of express service to facilitate internationalisation of SMEs, earlier studies failed to identify this as a key barrier for SME internationalization process (Al-Hyari et al., 2012; Okpara and Kabongo, 2010).

H5: Lack of express service within Lampang wouldn't work as a barrier for Lampang SMEs to enter into foreign markets

Corruption is not only costly for business but can be arbitrary and unpredictable. Morrissey and Udomkerdmongkol (2012) argue that corruption discourages both domestic and foreign investments. In cases of SMEs, corruption is considered as a significant political and legal barrier in a number of countries (Al-Hyari et al., 2012; Okpara and Kabongo, 2010).

H6: Corruption in the home economy wouldn't work as a barrier for Lampang SMEs to enter into foreign markets.