Chapter 2 – Literature Review

2.1 Concepts of Small and Medium Enterprises

Small and Medium Enterprises (SMEs) have long played an important role in the economic development of many countries (Beck et al., 2005). There have been changes in rivalries in the global market and economy drove SMEs to adapt themselves to the new management paradigm where cost reduction becomes an important strategy. Companies that are capable of utilizing strategy, knowledge and shift their businesses into a new market will survive (Glenn, 2009). The study of Young and Molina (2003) has shown that one way for SMEs to survive in today's unsteady business environment is to form strategic alliances or merge with other similar or complementary business companies. When compared with larger businesses, SMEs' contribution to output tends to be lower per firm because they tend to be more labour intensive than larger firms and concentrated in service sectors. They therefore typically achieve lower levels of productivity, though they do contribute significantly to employment (Wymenga et al. 2011).

SMEs can in fact become the engines that sustain growth for long-term development in developing countries. When growth becomes stronger, SMEs gradually assume a key role in industrial development and restructuring. They can satisfy the increasing local demand for services, which allows increasing specialization, and furthermore support larger enterprises with services and inputs (Fjose et al. 2010).

2.2 SMEs and Employment

As noted, SMEs tend to be more labour intensive and at a macro level, therefore, provide a substantial contribution to employment. A World Bank survey of 47,745 businesses across 99 countries revealed that firms with between 5 and 250 employees accounted for 67% of the total permanent, full-time employment (Ayyagari et al. 2011). SMEs were also creating more jobs than large enterprises. Between 2002 and 2010, on average, 85% of total employment growth was attributable to SMEs (de Kok et al. 2011).

Enterprises appear to be taking advantage of agglomeration benefits in the form of industrial zones and clusters, but the infrastructure conditions could be improved. Not all firms have access to electricity and public water and 80 per cent, respectively, are without access), and only 5 per cent of firms have access to the internet.

Overall employment figure by all Thai enterprises in 2018 amounted to 16,322,746 jobs.

Of these, only 2,372,491 came from the large enterprises (LE), while the SME accounted for a much larger portion of 13,950,241 jobs, or 85.47% of the nationwide hiring total. The largest number of job hires occurred in the Small Enterprises domain which accounted for 77.62% of the overall employment market, and equivalent to 90.83% of the SME hiring total. SME hiring in 2018, broken down according to employer's business establishment, indicated that the Juristic-entity SME were responsible for 8,933,941 jobs, or 64.04% of the nationwide SME hiring figure. The remaining portion came from the Sole Proprietors & Other SME which accounted for another 5,016,300 jobs, or 35.96% of the same SME hiring total. Figure 4.8 shows the hiring volumes discussed above.

2.3 SME opportunities in an aging society

The transition of the global population into an ageing society signifies an important phase of societal development that poses new challenges for many countries – challenges in preparing to cope with forthcoming changes in people's social and economic setting, tradition and lifestyle, including the formulation of new strategies to support an expanding base of elderly citizens. Internationally adopted definitions of an ageing society tend to focus on citizens' age of 60 years or more. The degree of seniority is indicated by the nomenclature denoting the age levels in three categories, namely Ageing Society, Complete-aged Society and Super-Aged Society. Indicator of a category is generally determined by the ratio of dependency the retired senior citizens of a society have upon its still working citizens. This dependency ratio varies from country to country due to the differences in geographical regions as well as the context of community settings, whether rural or urban. Demographic profile of Thailand as reported in the 2018 ESCAP Population Data Sheet (compiled by the United Nations Economic and Social Commission for Asia Pacific) showed that as of mid-2018,

Thailand's population count reached 69,183,000. Some 17.6% of this number comprises people in the 60+ age bracket. It is expected the proportion will expand to 35.1% in 2050, or within the next 32 years. Based on this timeline, the dependency ratio of those aged past 65 years to those typically still in the labor force would be 2.0%. It should be noted that this forecasted dependency ratio for 2050 is reduced from the current one, which is 6.0%.

Viewed in the context of potential for business, the arrival of an ageing society may well be a welcome change in terms of an expansion in the productive working age of Thailand's economic labor force; and especially in terms of an emerging multitude of senior consumers who possess substantial purchasing and spending capacity by virtue of their lifelong accumulation of assets. The ESCAP Population Data Sheet puts an estimate of the number of Thai senior citizens for 2018 at more than 12 million. This number makes up an important consumer base that should significantly offer a lucrative market for the SME to access and respond with timely offers of product and service that are specially tailored to suit the needs of this particular group of buyers.

Analysis of the spending capacity within the three senior groupings cited above, in terms of the people's averaged yearly earnings, has uncovered some interesting findings. Of primary interest is the clout in purchasing or spending on SME products and services; this is found among the seniors with an average income of 10,000 to 70,000 baht per year. This group makes up some 65% of the entire senior population, and their combined spending is estimated at 205,000 bt mn per year. Even more significant are seniors with average yearly earnings of 100,000 baht or larger, which make up some 16% of the entire aged population. Their combined spending power would amount to 290,000 bt mn per year. Such a huge spending capacity should pose exciting challenges for Thai SME to seek a means to access and benefit from this senior market

2.4 Business Development

Business development can be explained as the ideas, initiatives, and activities aimed towards finding growth and making business sustainable in the long run. Business development involves systems and processes which are used to develop and implement growth opportunities within and between organizations. Business development can be explained as creating a long-term value for an organization through collaborations and cooperation between different business factors. Business development can be taken to mean any activity by either a small or large organization, non-profit or for-profit enterprise which serves the purpose of 'developing' the business in some way.

Business development and its activities can be done internally and externally, after an organization knows where it lacks competitiveness. External business development can be facilitated through Planning Systems, which are put in place by governments to help small businesses. In addition, brand and goodwill building is a well-known and proven way to ensure business development. Business development is to be thought of as a marketing tactic. The objectives include branding, expansion in markets, new user acquisition, and awareness. However, the main function of business development is to utilize partners in selling to the right customers. Creating opportunities for value to be ongoing in the long-term is very important. To be successful in business development the partnership must be built on strong relationships.

2.5 Business Development and Ethics

Business Development is affected by external factors. "Planning Systems" are systems set in place in order to regulate businesses. In many cases, ruling agencies deem the necessary for business survival.[9] There is a section of Business that is dedicated to facilitating ethical business development in developing countries. In the early 2000s, Business Ethics was dedicated to helping the Businesses in need that are in these countries. However, owing to lots of backlash from critics, they have changed their focus into helping businesses that are going to help the most people develop. These policies have improved the quality of life of the people. However, this facilitation changes the norms and, in turn, harms some groups. In order to enforce the new policies in an ethical manner Business Ethicists have created a cost-benefit analysis, placing an emphasis on basic necessities. These concerns have become so great that Business Ethicists have created a new department called Development Ethics. Now, instead of simply helping developing businesses, international business developers have begun ensuring that the companies keep basic human rights in mind. This especially applies to countries where the laws are not so strict and allow for abuse to take place.

2.6 Characteristics of Business Development

- Business development encompasses a wide scope of ideas, activities, and initiatives that a business owner and management implement with the goal of making the business better.

- Business development can include many objectives, such as sales growth, business expansion, the formation of strategic partnerships, and increased profitability.

- Successful business development impacts every department within a company, including sales, marketing, manufacturing, human resources, accounting, finance, product development, and vendor management.

- Business developers should be aware of new market opportunities, possibilities for expansion, competitor developments, and the current sources of the company's revenue.

2.6 Export Barriers

Recent economic slowdown of Thai economy along with major demographic changes have become a thorn to Thai companies. Although SMEs provide a large chunk of employment to local people, the whole focus has been on Multinational companies. Whereas the SMEs are hit hard by the challenges posed by the aforesaid changes in economy and demography. One of the best way to overcome this hurdle is to look at other economies and going beyond boundaries. Internationalisation among small and medium-sized enterprises (SMEs) is a topic of a grown importance, owing to the observed growth effects of globalisation, and the demonstrated capacity of SMEs to drive economic development at national, regional, and global levels.

Slangen (2014) had noted that research on SMEs internationalisation and relevant strategies are still inconclusive, and a need for further research. Pan and Tse (2000) have emphasized that there are a number of entry mode choices available to firms to enter foreign markets. Prominent among those are export (both direct and indirect), contractual agreements, such a licensing and franchising, joint ventures, acquisitions and wholly owned greenfield investment. The choice of entry is an important strategic decision with substantial bearing on a firm’s commitment to resources, risks faced from the host market (Hill et al., 1990), and level of control (Anderson and

Gatington, 1986). Moreover, Lu and Beamish (2001) mentioned that by changing the entry mode after initial entry could have a serious negative impact on performance. Considering the critical importance of entry mode on internationalisation strategy, a number of authors have come forward to examine various entry strategies - like joint venture, greenfield and acquisition. For example, Georgopoulos and Preusse (2009), Slangen and Hennart (2008) compared the greenfield and acquisition entry from the context of MNCs from developed countries. Demirbag et al. (2008) and Arslan and Larimo (2011) explored the suitability of greenfield and acquisition from the context of emerging markets. Junni et al. (2015) studied the role of strategic agility in acquisition. Almor et al. (2014) examined different aspects of maturing born global firms. Zhang et al. (2015) observed the effect of leadership style on talent management during M&A. Uddin and Boateng (2011) examined the macroeconomic determinants of UK cross-border mergers and acquisitions. Slangen and Hennart (2007) provided a detailed literature review on entry mode choice between greenfield and acquisitions. Recently, Slangen and Dikova (2014) examined greenfield and acquisitions from the context of marketing adaption by internationalising firms.

Most of the above studies focuses on the entry mode studies of MNCs around the world. Hence, SMEs are left behind although they are an essential part of the economy. MNCs and SMEs have different resource commitment so these result cannot be applied on SMes (Erramilli and D'Souza, 1995), sensitivity to external challenges (Lu 2002), and ownership (Kotey, 2005). Therefore, authors like Laufs and Schwens (2014) concluded there is a huge potential for further research on SME entry mode.

Lu and Beamish (2001) explained that entering into foreign markets is one of the most important decisions for any SME in order to increase customer base and maintain organisational growth. Firms enter foreign markets in a number of ways including exporting, licensing, joint venture, acquisitions or greenfield investment (Pan and Tse, 2000). However, exports have been identified as the most dominant and popular entry mode choice for SMEs because of the lower cost commitment and degree of risk involved (Katsikeas et al., 2000; Leonidou et al., 2002; Wheeler et al., 2008). Similarly, Leonidou et al. (2010) and Majocchi et al. (2005) pointed out that SMEs tended to move into foreign markets mainly as exporters because it was the cheapest, simplest and quickest way to achieve internationalization. D'Angelo et al. (2013) stated that export performance, along with its main determinants, is one of the most intensively researched topics in international marketing. Morgan et al. (2004) and Zou et al. (2003) further support this. However, despite the critical role of export for SMEs to internationalise, little is known about the barriers that hinder or slow the process (see Laufs and Schwens, 2014).

A number of scholars have attempted to explore the prominent export barriers including Cavusgil and Nevin (1981), Cavusgil (1984), Gripsrud (1990), Cavusgil and Zou (1994), Cavusgil and Yeoh (1994) and Tesfom and Lutz (2006). However, Uner et al. (2013) pointed out that despite the plethora of studies, little consensus exists due to differences in method and content. They also pointed out, rightly, about the dearth of theoretical framework in explaining export barriers. Although there is scant evidence, suggested by Laufs and Schwens (2014), institutional assessment in expounding export barriers is rare. Exploring export barriers from the context of institutional setting is very important since there is a defined difference between developed and emerging countries (Peng et al., 2008).

Due to differences in institutional settings, export barriers for developed countries could be very different from export barriers in emerging countries. Building on institutional theory developed by North (1990), Scott (1995) and Peng et al. (2008) it was stated that strategic choices, such as export decision, is not just driven by industry conditions and firm capabilities, but also by formal and informal institutional constraints faced by the managers. Formal and informal institutions play a vital role in internationalisation decisions as they affect transaction and coordination costs that engage in internationalisation (Arslan and Larimo, 2011). Institutional factors affect export propensity and performance, and therefore omitting such factors could seriously limit our understanding about exporting (Gao et al., 2010). Hessels and Parker (2013) maintained that due to smaller size, SMEs are vulnerable to institutional barriers, and emphasized careful considerations of such obstacles to maintain expected growth. Laufs and Schwens (2014) pointed out that foreign market entry mode is likely to be dependent on home country institutional factors. However, linking home country factors with the entry mode decision of SMEs is very rare in cases of emerging markets. For example, in a recent comprehensive survey, Laufs and Schwens (2014) stated that most studies in this area focus on developed markets, and there is a scarcity of detailed analysis for the impact of home country factors on SME entry mode decisions.

2.7 Economic Barriers

Economic Barriers North (1990) defined ‘institution’ as humanly devised constraints that structure political, economic and social interactions. There are formal institutions that include government system, legal procedures etc. and informal institutions that include social and cultural components. Political and legal institutional constraints are part of formal institutions and work as economic barriers for SME internationalisation. Politics is the combination of efforts by government, and other bodies and groups, to give future direction to the country - considering the value and interest that people hold - in addition to maintaining governmental and state affairs (Daunton, 2011). Generally, government develops the rules and procedures for day-to-day life through a political and legal framework. Business is considered as the integral part of this daily life, therefore, cannot be conducted against the tide of the political and legal system (Sethi et al., 2012).

How might a political and legal framework influence the business environment? Firstly, the political and legal system of each country directly influences the business environment by amending (or introducing) policies, regulations and laws. Secondly, government determines a fiscal and monetary policy that directly influences the way of doing business. Finally, political stability has a huge and contributing impact on the way business is conducted.

Political forces might assist the internationalization of firms, such as, removing international trade barricades and embargoes, or by setting up export processing zones (EPZ) where the firms can produce and trade under favourable condition. Similarly, certain political and legal factors might become barriers to entering foreign markets, such as, political instability, legal procedural barriers, corruptions and inadequate legal supports (Bhatti and Awais, 2012).

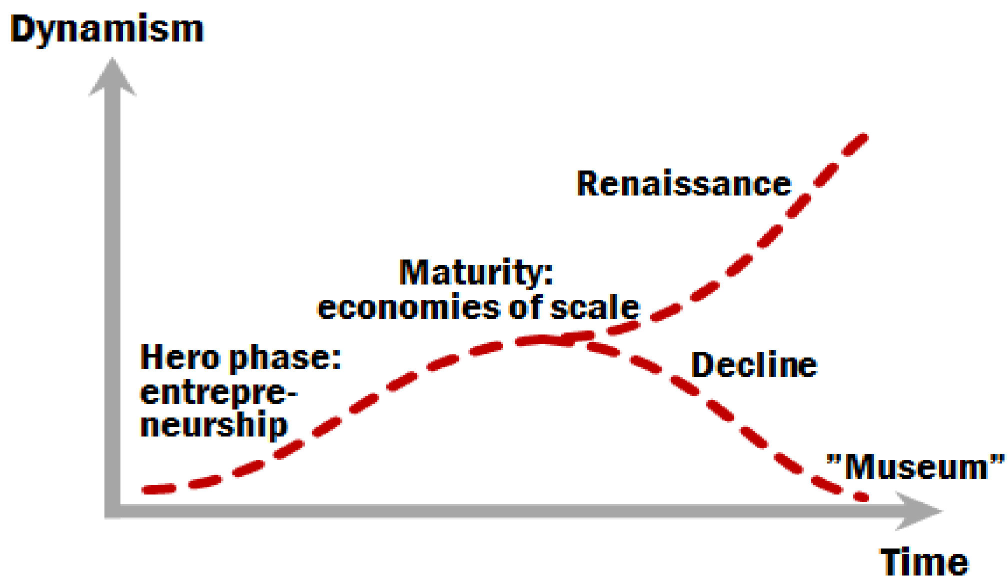
Therefore, the decision to go for international trade expansion should only be taken after understanding the nature of political and legal environment of the target country.

2.8 Social Barriers

The social and cultural environment, which form part of informal institutional dimensions as suggested by North (1990), include the attitudes, tastes, beliefs, behaviors, lifestyle and relationships among the population. Business activities objectively meet the demands of the people, whereas, the demands of the people are based on social needs, functional requirements and cultural aspects. In cases of international business activities, the role of the social and cultural environment is more predominant. By crossing the national boundary through the internationalization process, firms involve themselves with a different culture and society (Gomes et al., 2011, p.238). Although most theories raised these cultural aspects as dominant factor for internationalization (Ellis, 2011), the Uppsala model shed light on the term ‘psychic distance’. According to Johanson and Vahlne (1977), psychic distance is “the sum of factors preventing the flow of information from and to the market.” Furthermore, they have given such examples as, language, education, culture, political factors, business practices and industrial development as related distances. For Uppsala’s model of internationalization, culture is the part of psychic distance. Previous studies collectively identify social and cultural factors as barriers of internationalization including socio-cultural traits, verbal and nonverbal language differences, habits, and attitudinal components of foreign customers and clients (OECD, 2006). Similarly, Barkema and Vermeulen (1997) reported cultural distance as one of the most influential barriers of internationalization. Rothaermel et al. (2006) similarly identified a strong connection between cultural dimension and internationalization.

2.9 SME Cluster life cycle

Every business they start small and then they grow, and SME cluster follows the same trend. SME Cluster life cycle is similar to the development of the industry life cycle in many aspects. As a rule, the stage is described by the age and the growth of the cluster in analogy to the industry life cycle (Enright 2003, Dalum et al. 2005, Maggioni 2002).Audretsch and Feldman (1996) and Pouder and St. John (1996) pointed out that the development of clustered and non-clustered firms differ during different stages of industry development. Clustered firms show better performance at the beginning of the life cycle while they are outperformed by non-clustered firms at the end.



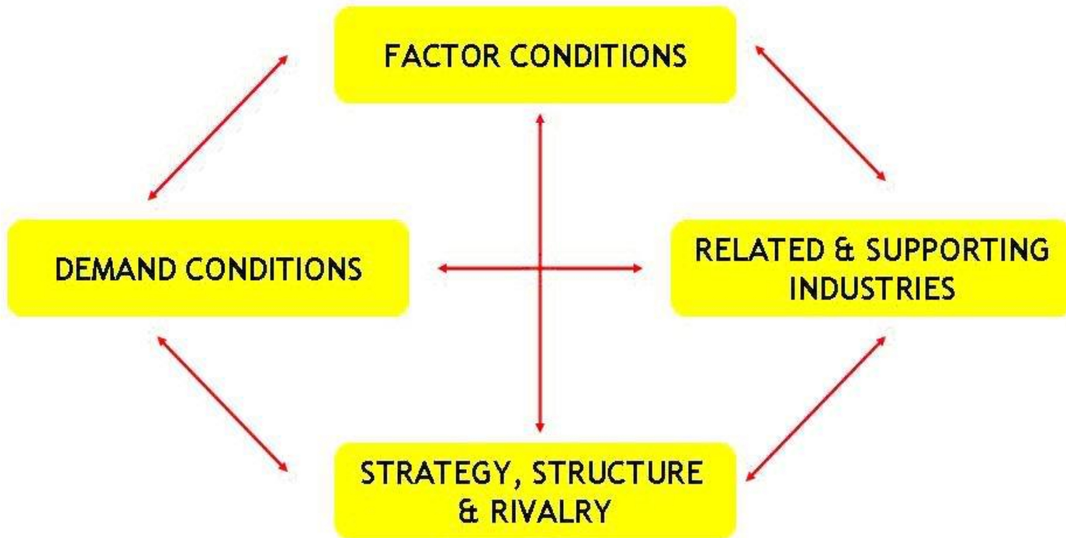
Source: The Green Book (Orjan Solvell: 2003)

Figure 2.2 Cluster Life Cycle

Green book Solvell, Lindvist, Ketel (2003, 52), Cluster failure is strongly related to lack of consensus, and absence of formulative visions and quantitative target for the clusters. Kerstin Press (2006) has stated that the euphoria about successful clusters however neglects that historically, many thriving clusters did deteriorate into old industrial areas.

2.10 Porter's Diamond Model

Porter did a four-year research on competitiveness in focusing on10 nations during early 90's, the studies had shown many remarkable examples of the niche industries with the right valuable proposition to specific target market demands from the aggregation of a large number of firms where by their own individual, they would not be able to stand up for the competition. The condition explained by Porter's Diamond model in which represents a relationship and the interaction of the strategy at the national level and the firm level into four driving factors as the "cluster".



Source: Porter (2012)

Figure 2.3 Diamond Model

Porter's diamond model suggests that there are inherent reasons why some nations, and industries within nations, are more competitive than others on a global scale. The argument is that the national home base of an organization provides organizations with specific factors, which will potentially create competitive advantages on a global scale. Porter's model includes 4 determinants of national advantage, which are shortly described below:

a. Factor Conditions

Factor conditions include those factors that can be exploited by companies in a given nation. Factor conditions can be seen as advantageous factors found within a country that are subsequently build upon by companies to more advanced factors of competition. Factors not normally seen as advantageous, such as workforce shortage, can also be seen as a factor potentially strengthening competitiveness, because this factor may heighten companies' focus on automation and zero defects.

Some examples of factor conditions are highly skilled workforce, linguistic abilities of workforce, rich amount of raw materials, workforce shortage.

b. Demand conditions

If the local market for a product is larger and more demanding at home than in foreign markets, local firms potentially put more emphasis on improvements than foreign companies. This will potentially increase the global competitiveness of local exporting companies. A more demanding home market can thus be seen as a driver of growth, innovation and quality improvements. For instance, Japanese consumers have historically been more demanding of electrical and electronic equipment than western consumers. This has partly founded the success of Japanese manufacturers within this sector.

c. Related and Supporting Industries

When local supporting industries and suppliers are competitive, home country companies will potentially get more cost efficient and receive more innovative parts and products. This will potentially lead to greater competitiveness for national firms. For instance, the Italian shoe industry benefits from a highly competent pool of related businesses and industries, which has strengthened the competitiveness of the Italian shoe industry world-wide.

d. Firm Strategy, Structure, and Rivalry

The structure and management systems of firms in different countries can potentially affect competitiveness. German firms are oftentimes very hierarchical, which has resulted in advantages within industries such as engineering. In comparison, Danish firms are oftentimes flatter and more organic, which leads to advantages within industries such as biochemistry and design.

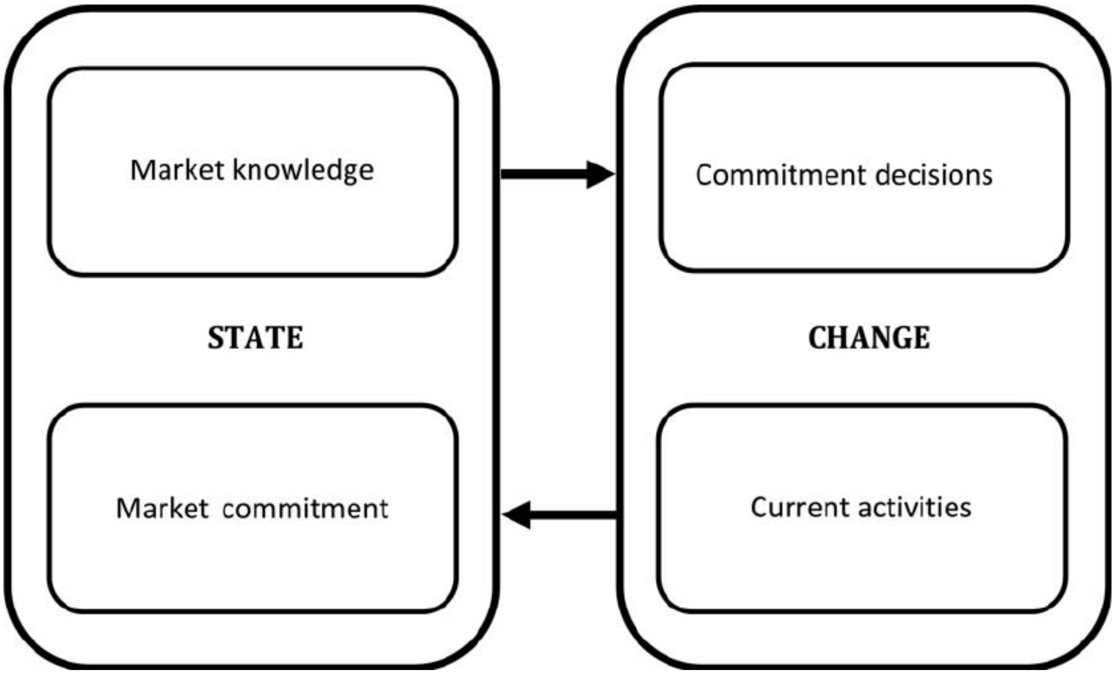
Likewise, if rivalry in the domestic market is very fierce, companies may build up capabilities that can act as competitive advantages on a global scale. Home markets with less rivalry may therefore be counterproductive, and act as a barrier in the generating of global competitive advantages such as innovation and development.

By using Porter's diamond, business leaders may analyze which competitive factors may reside in their company's home country, and which of these factors may be exploited to gain global competitive advantages. Business leaders can also use the Porter's diamond model during a phase of internationalization, in which leaders may use the model to analyze whether or not the home market factors support the process of internationalization, and whether or not the conditions found in the home country are able to create competitive advantages on a global scale.

Finally, business leaders may use this model to assess in which counties to invest and to assess which countries are most likely to be able to sustain growth and development.

2.11 The Uppsala model

Uppsala model is a theory that explains how firms gradually intensify their activities in foreign markets.[1] The key features of Uppsala model are the following: firms first gain experience from the domestic market before they move to foreign markets; firms start their foreign operations from culturally and/or geographically close countries and move gradually to culturally and geographically more distant countries; firms start their foreign operations by using traditional exports and gradually move to using more intensive and demanding operation modes (sales subsidiaries etc.) both at the company and target country level.



Source: Journal of Global Marketing (2012)

Fig 2.4: Uppsala Model

2.12 SME and Competitiveness

Competitiveness is a well-known term in Business and few understand it well. The agony of the competitiveness is that everything matters from production process to infrastructures, from environment to education as well as employee health. Porter (1990) noted that competitiveness can be sustained only through relentless effort to upgrade the standard in the economic regions. Porter further explained that competitiveness is a never-ending process dealing with lots of different sectors all combined to shape the productivity of a region.

Competitive advantage involves managing the entire value system in compassing the value chains of the firm, suppliers, channels and buyers. The importance of the value system to competitive advantage is manifested by the prevalence of clustering (Porter: 1990). Competitiveness is about the way how production and exchange of goods and services can be made more advanced. Firms' sophistication lies at the heart of competitiveness because the firm is at the level at which wealth is created and competition occurs. However, firms' productivity is inextricable interknit with the environment in which they operate. This is what makes the improvement of competitiveness dependent on the government and other societal institutions (World Bank: 2009).

2.13 Pillars of Competitiveness

There are 12 Pillars of Competitiveness (2009 -2010, World Economic Forum) which has been identified and effects the competitiveness of a region. In line with the well-known economic theory of stages of development, the GCI assumes that, in the first stage, the economy is factor-driven and countries compete based on their factor endowments: primarily unskilled labor and natural resources. Companies compete on the basis of price and sell basic products or commodities, with their low productivity reflected in low wages. Maintaining competitiveness at this stage of development hinges primarily on:

- (pillar 1) well-functioning public and private institutions
- (pillar 2) well-developed infrastructure
- (pillar 3) a stable macroeconomic environment
- (pillar 4) a healthy workforce that has received at least a basic education.

As a country becomes more competitive, productivity will increase and wages will rise with advancing development. Countries will then move into the efficiency-driven stage of development, when they must begin to develop more efficient production processes and increase product quality because wages have risen and they cannot increase prices. At this point, competitiveness is increasingly driven by

- (pillar 5) higher education and training
- (pillar 6) efficient goods markets

- (pillar 7) well-functioning labor markets
- (pillar 8) developed financial markets
- (pillar 9) the ability to harness the benefits of existing technologies
- (pillar 10) a large domestic or foreign market.

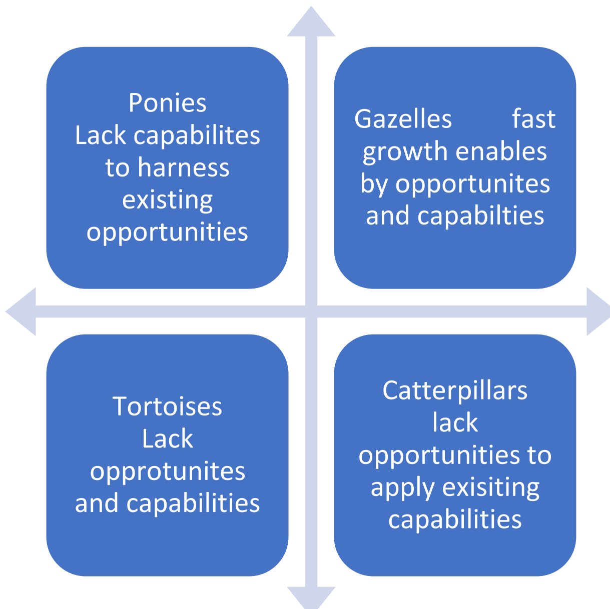
Finally, as countries move into the innovation-driven stage, wages will have risen by so much that they are able to sustain those higher wages and the associated standard of living only if their businesses are able to compete with new and unique products. At this stage, companies must compete by producing new and

- (pillar 11) different goods using the most sophisticated production processes
- (pillar 12) and through innovation

The GCI takes the stages of development into account by attributing higher relative weights to those pillars that are more relevant for an economy given its particular stage of development. That is, although all 12 pillars matter to a certain extent for all countries, the relative importance of each one depends on a country's particular stage of development. To implement this concept, the pillars are organized into three sub-indexes, each critical to a particular stage of development. The basic requirements sub index groups those pillars most critical for countries in the factor-driven stage. The efficiency enhancer's sub index includes those pillars critical for countries in the efficiency-driven stage. And the innovation and sophistication factors sub index includes the pillars critical to countries in the innovation-driven stage.

2.14 Typology of SME Growth

Why do some SMEs expand rapidly, while others stagnate? What factors account for the wide variation observed in SME growth trajectories? Clearly, opportunities for profitable business activities shape the ability of an entrepreneur to expand his or her firm. Yet, profitable business opportunities are a necessary but insufficient condition for firm growth (Mead, interview, 2004). To take advantage of business opportunities, entrepreneurs must also possess appropriate capabilities, such as skills, resources, or technology.



Source: (USAID, 2005)

Figure 2.4: Typology of SME Growth

As we can see from the above figure 2.4 provides an overview of how opportunities and capabilities can interact to shape the trajectories of SME growth. This typology presents four "ideal types" of SME growth profiles— distinctions are blurrier in reality, so a particular SMES may not clearly fall into one category. Most prominently, SMEs that demonstrate high, sustained growth rates are frequently termed "gazelles." These highly performing firms typically share two fundamental characteristics—they have profitable business opportunities and appropriate capabilities to harness these opportunities. Only a minority of firms become "gazelles," which drive overall growth in the SME sector.

Some SMEs may face potentially lucrative business opportunities, but be unable to take full advantage of them due to inadequate capabilities. Although these "ponies" may expand quickly for short durations while trying to harness these opportunities, they often lack endurance as they do not have requisite capabilities for sustained growth. For instance, some small honey producers in Brazil initially experienced strong demand for their organic honey in open marketplaces, and hoped to sustain growth by marketing to supermarkets. However, inadequate capabilities inhibited them from achieving this goal because inappropriate technology prevented them from satisfying the formal packaging requirements of supermarkets (Nichter, 2004).