THE EFFECT OF DEMAND-SIDE FACTORS ON ACCESSING EXTERNAL FINANCE AND PERFORMANCE OF SMEs IN THAILAND

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A THESIS SUBMITTED FOR THE DEGREE OF DOCTOR OF PHILOSOPHY OF THE UNIVERSITY OF NEW ENGLAND

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DECLARATION

I certify that the substance of this thesis has not already been submitted for any degree and is not currently being submitted for any other degree.

I certify that to the best of my knowledge any help received in preparing this thesis, and all sources used, have been acknowledged in this thesis.

Naruanard Sarapaivanich
Some sections of this thesis have already been presented as conference papers or have been published in conference proceedings and journal. They are:


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my candidature. I thank him for his patience, loving support and for being my inspiration.
SMEs make substantial contributions to the Thai economy in terms of output, employment, and effective utilisation of regional resources. In view of these contributions, SMEs are at the heart of the country’s strategy aimed at making Thailand a competitive and dynamic knowledge-based economy. SMEs make up the majority of businesses in the country. The Department of Industrial Promotion revealed that, in 2002, there were 1,639,427 SMEs in Thailand, comprising 99.63 percent of all enterprises. The crucial role of SMEs in the overall health of the economy is dependent on their performance.

Several factors have been identified as affecting SME performance, in particular access to finance. As the SME sector is the backbone of the Thai economy, the government has intervened to address their inability to access finance. However, intervention programs focus on supply factors; that is, they are aimed at increasing supply of funds to the sector. Despite financial sector reforms involving an increase in the number of financial institutions and the introduction of a secondary stock market with lower listing requirements, access to finance continues to be a major problem that constrains SME performance in Thailand. Persistence of the problem suggests that addressing only the supply factors by increasing finance to SMEs will not enable SMEs to access finance. In addition, a focus on supply factors alone may lead to the protection of inefficient businesses, as policies that subsidise inefficient firms interfere with their competitiveness. Previous research indicates that demand-side factors account more for the inability of SME to access finance. The demand-side argument suggests that SMEs are unable to access finance because they are not investment ready. Investment readiness enhances a firm’s ability to access finance and its performance. Increased performance of the SME sector ultimately boosts national economies by encouraging survival of the most efficient firms.

A number of studies have examined the relationships among investment readiness, access to finance, and the performance of large, publicly quoted companies. A few studies have examined these relationships for the SME sector in developed economies, but similar studies for developing economies are few and far between. This study
therefore examines the relationships among investment readiness, access to finance and performance of SMEs in Thailand, with the aim of assessing the extent to which findings in the Western literature apply to the Thai context.

The majority of SMEs in Thailand are in the trading sector and are primarily located in Bangkok, Khon Kan, and Chiang Mai. Thus, SMEs in the trading sector within these three provinces were chosen as the target population from which the sample was drawn for this study. Due to time and resource limitations, convenience sampling was used to collect data for this study as it is the best method for obtaining a large number of responses quickly and economically. Face-to-face interviews using a structured questionnaire were conducted to collect primary data from 407 respondents. Partial Least Square (PLS), a structural equation modeling technique, was used to analyse the relationships depicted in the theoretical model for SMEs in Thailand.

The results of the hypotheses tests revealed that access to finance has a significant positive effect on the performance of SMEs in Thailand. Further, a number of the investment readiness variables (owner/manager’s age and gender, business size, financial leverage and financial information) were found to have significant associations with the access to finance and/or performance of SMEs. Several investment readiness variables were also found to have significant indirect effects on performance through access to finance.

The study provides empirical support for the relationships among investment readiness, access to finance, and performance using data on SMEs in Thailand. The findings indicate that SMEs are, to a significant extent, responsible for their inability to access capital from external sources. The findings also suggest that being investment ready will place SMEs in a better position to access external capital and enhance their performance. The study implies that, in addition to increasing the supply of finance to the SME sector, governments can enhance the ability of SMEs to access the available funds by ensuring they are investment ready. This can be achieved through education and training programs that assist SMEs in maintaining proper financial records, and understanding, interpreting and using the records for management decisions that involve access to finance. Owner/managers can also be trained to make realistic
assessments of their business ability to access finance, and to present a convincing case to finance providers.
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LIST OF ABBREVIATIONS

- Does not mention variable as a factor contributing to performance

\(a\) Raw (unstandardised) regression coefficient for the association between independent and mediator

\(A_1 \ldots A_{14}\) Structural parameters, regression coefficients of unobservable exogenous variables

ACCESS Access to finance

ACCESS1 Perception of ability to access outside equity capital

ACCESS2 Perception of ability to achieve low costs of accessing outside equity capital

ACCESS3 Perception of ability to achieve low interest rates

ACCESS4 Perception of ability to achieve low processing costs

ACCESS5 Perception of ability to achieve low collateral requirements

ACCESS6 Perception of ease of handling loan application processes

AGE Age

AGE1 Age of owner/managers

AUD Australian dollar

AVE Average variance extracted

\(b\) Raw coefficient for the association between the mediator and the dependent variable

\(B_1\) Structural parameters, regression coefficients of unobservable endogenous variable

\(C_1 \ldots C_{24}\) Regression coefficients (factor loadings)

\(E_1 \ldots E_{11}\) Measurement errors in observed exogenous variables

EDU Education

EDU1 Highest educational qualification or nearest equivalent of owner/managers

EIS Enterprise Investment Scheme

EXP Experience
EXP1 Number of years owner/managers have owned or managed their businesses
F1 Financial Information
F11 Accuracy and completeness
F12 Timeliness
F13 Consistency
FLR Financial Leverage Ratio
FLR1 Proportion of debt in start-up capital
FLR2 Proportion of debt in current capital
GDP Gross Domestic Product
GEN Gender
GEN1 Sex of owner/managers
H Hypothesis
IFCT Industrial Finance Corporation of Thailand
ISA3 Statement of accounting concept no.3
ISMED Institute for Small and Medium Enterprises Development
M&M Modigliani and Miller
MAI Market for Alternative Investment
MIs Medium Industries
N Does not consider variable a factor contributing to performance
P Variable is considered a factor contributing to performance
P1 Personal quality and traits, such as self-confidence, optimist
P2 Social factors, such as employment and refugees
P3 Costs, such as cost of finance, materials, and equipment
P4 Non-financial inputs, such as materials and equipment
P5 Technology
P6 Overseas exposure
P7 Economic timing
PERF Performance
PERF1 Satisfaction with profitability
PERF2 Satisfaction with growth in sales
PERF3 Satisfaction with return on assets
PERF4 Satisfaction with cash flow
PERF5 Satisfaction with lifestyle
PERF6 Satisfaction with independence
PERF7 Satisfaction with job security
PLS Partial least Squares
POF Pecking Order Framework
$Q_{1,\ldots,13}$ Measurement errors in observed endogenous variables
ROA Return on Assets
ROE Return on Equity
$S_1, S_2$ Random errors
$s_a$ Standard error of $a$
$s_b$ Standard error of $b$
SEM Structural Equation Modeling
SIFC Small Industry Finance Corporation
Sis Small Industries
SIZE Size
SIZE1 Fixed assets value
SIZE2 Number of employees
SMEs Small and medium enterprises
SMIs Small and Medium Industries
SMMEs Small, Medium, and Micro Enterprises
SQRT Square root
THB Thai baht
VCTs Venture Capital Trusts
$X_{1,\ldots,24}$ Intercepts
$a_1, a_2$ Intercepts
$\theta$ Indicator error variances
$\lambda$ Indicator loadings
$\rho_c$ Composite reliability
$\Sigma$ Summation over the indicators of the unobserved variable