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

NARUANARD SARAPAIVANICH
B.Acc(Hons), MBA, CPA

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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:

Sarapaivanich, N. 2003. The use of accounting information in financing decision and performance of SMEs in Thailand. Proceedings of the 16th Small Enterprise Association of Australia and New Zealand, at Ballarat, Australia

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ABSTRACT

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.

TABLE OF CONTENTS

DECLARATION ..... **I**

ACKNOWLEDGEMENTS ..... **III**

ABSTRACT ..... **V**

TABLE OF CONTENTS ..... **VIII**

LIST OF TABLES ..... **XIV**

LIST OF FIGURES ..... **XVI**

LIST OF ABBREVIATIONS ..... **XVIII**

CHAPTER 1 INTRODUCTION **1**

1.1 Background to the Research 1

1.2 Problem Identification 3

1.3 Research Objectives 4

1.4 Justification for the Research 4

1.5 Research Methodology 5

1.6 Definitions 6

1.7 Limitations of the Present Study 10

1.8 Outline of the Study 10

CHAPTER 2 SMALL AND MEDIUM ENTERPRISES IN THAILAND **13**

2.1 Introduction 13

2.2 Definition of SMEs 13

2.3 Overview of SMEs in Thailand 16

2.4 The Role and Importance of SMEs in the Thai Economy 21

2.4.1 Employment Creation 21

2.4.2 Export Value 23

2.4.3 Gross Domestic Product (GDP) 24

2.4.4 Innovation 25

2.5 Obstacles Faced by SMEs in Thailand 25

2.5.1 Limited Access to Financial Capital 26

2.5.2 Loss of Competitive Advantage 27

2.5.3 Lack of Good Corporate Governance 28
2.5.4 Ineffective Support from Government 29
2.6 The Government Policy on SMEs in Thailand 30
2.7 Conclusion 32

CHAPTER 3 LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT 33

3.1 Introduction 33
3.2 Performance of SMEs 33
3.2.1 Goal Approach 34
3.2.2 Systems Resource Approach 35
3.2.3 Process Approach 35
3.2.4 Constituency Approach 36
3.3 Factor Influencing SME Performance 38
3.4 Sources of Finance and Financial Structure in SMEs 42
3.4.1 Sources of Finance 42
3.4.1.1 Equity 42
3.4.1.2 Debt 44
3.4.1.3 Source of Finance for SMEs in Thailand 45
3.4.2 Financial Structure 46
3.4.3 Theories of Financial Structure 49
3.4.3.1 Traditional Theory 49
3.4.3.2 Modigliani and Miller (M&M) Optimal Financial Structure 50
3.4.3.3 Pecking Order Framework 52
3.4.3.4 Trade-off Choice Framework 53
3.5 Access to Finance and SME Performance 57
3.6 Factors Influencing Access to Finance 59
3.6.1 Supply-side Factors 59
3.6.2 Demand-Side Factors (Investment Readiness) 63
3.7 Owner/manager readiness 65
3.7.1 Owner/managers' Experience, Access to Finance, and Performance 65
3.7.1.1 Owner/managers' Experience and Access to Finance 66
3.7.1.2 Owner/managers' Experience and Performance 67
3.7.2 Education, Access to Finance, and Performance 68

3.7.2.1 Education and Access to Finance 68
3.7.2.2 Education and Performance 69
3.7.3 Age, Access to Finance, and Performance 71
3.7.3.1 Age and Access to Finance 71
3.7.3.2 Age and Performance 73
3.7.4 Gender, Access to Finance, and Performance 74
3.7.4.1 Gender and Access to Finance 75
3.7.4.2 Gender and Performance 77
3.8 Business Readiness 78
3.8.1 Financial Leverage Ratio, Access to Finance, and Performance 79
3.8.1.1 Financial Leverage Ratio and Access to Finance 79
3.8.1.2 Financial Leverage Ratio and Performance 80
3.8.2 Size, Access to Finance, and Performance 81
3.8.2.1 Size and Access to Finance 81
3.8.2.2 Size and Performance 83
3.9 Information Readiness 84
3.9.1 Financial Information Types 85
3.9.2 Characteristics of Financial Information 87
3.9.3 Financial Information Practice in SMEs 88
3.9.3.1 Financial Information Practices: Evidence from Other Countries 89
3.9.3.2 Frameworks for SME Financial Information Practices 91
3.9.3.3 Financial Information Practices: Evidence from Thailand 94
3.9.4 Financial Information and Access to Finance 96
3.9.5 Financial Information and SME Performance 99
3.10 Conclusion 105

CHAPTER 4 RESEARCH METHODOLOGY 106

4.1 Introduction 106
4.2 Survey Design 106
4.2.1 Preliminary Decisions 107
4.2.1.1 Information Required 107
4.2.1.1.1 Measurement of Performance 109
4.2.1.1.2 Measurement of Access to Finance 114
4.2.1.1.3 Measurement of Experience 117

4.2.1.1.4 Measurement of Education 117
4.2.1.1.5 Measurement of Age 118
4.2.1.1.6 Measurement of Gender 118
4.2.1.1.7 Measurement of Financial Leverage Ratio 118
4.2.1.1.8 Measurement of Firm Size 119
4.2.1.1.9 Measurement of Financial Information 120
4.2.1.2 Target Respondents 127
4.2.1.3 Method of Communication 128
4.2.1.3.1 Sampling Method 129
4.2.1.3.2 Data Collection Method 130
4.2.2 Question Content 132
4.2.3 Question Phrasing 132
4.2.4 Response Format 133
4.2.5 Question Sequence 134
4.2.6 Question Layout 134
4.2.7 Pretest and Revise 135
4.3 Data Collection 135
4.4 Statistical Methods for Hypothesis Testing 136
4.4.1 Structural Equation Modeling (SEM) 136
4.4.2 Justification for the Use of Partial Least Squares (PLS) 137
4.4.3 Process for Structural Equation Modeling 141
4.4.3.1 Develop a Theoretically Based Model 141
4.4.3.2 Construct a Path Diagram 143
4.4.3.3 Convert Path Diagram into Structural and Measurement Models 143
4.4.3.3.1 The Structural Model 145
4.4.3.3.2 Assessment of Structural Model 146
4.4.3.3.3 The Measurement Model 147
4.4.3.3.4 Assessment of the Measurement Model 154
4.4.3.4 Choose the Input Matrix Type and Estimate the Proposed Model 156
4.4.3.4.1 Input Matrix Type 156
4.4.3.4.2 Examining the Precision of the PLS estimates 157
4.4.3.5 Assess the Identification of the Model 157
4.4.3.6 Evaluate Goodness-of-Fit Criteria 157
4.4.3.7 Interpret and Modify the Model 158

4.5 Conclusion 158

CHAPTER 5 DATA ANALYSIS AND TESTING OF HYPOTHESES 159

5.1 Introduction 159

5.2 General Results 159

5.2.1 Business Characteristics 159

5.2.2 Performance 161

5.2.3 Access to Finance 163

5.2.4 Investment Readiness 169

5.2.4.1 Owner/manager readiness 169

5.2.4.2 Business Readiness 172

5.2.4.3 Information Readiness 175

5.3 Assessment of the Measurement Model 179

5.4 Assessment of the Structural Model 188

5.4.1 Hypothesis Testing of the Influence of Access to Finance on Performance of SMEs in Thailand 189

5.4.2 Hypothesis Testing of the Influence of Investment Readiness on Access to Finance of SMEs in Thailand 189

5.4.3 Hypothesis Testing of the Influence of Investment Readiness on Performance of SMEs in Thailand 192

5.4.4 Hypothesis Testing of the Indirect Effect of Investment Readiness on Performance through Access to Finance of SMEs in Thailand 195

5.5 Conclusion 199

CHAPTER 6 SUMMARY AND DISCUSSIONS 200

6.1 Introduction 200

6.2 Research Objectives and Major Findings 200

6.2.1 The Influence of Access to Finance on Performance 200

6.2.2 The Influence of Investment Readiness on Access to Finance 201

6.2.3 The Influence of Investment Readiness on Performance 207

6.2.4 The Indirect Effect of Investment Readiness on Performance through Access to Finance 212

6.3 Recommendations and Policy Implications 216

6.4 Contribution to Knowledge 221

6.4.1 Theoretical Framework 221
6.4.2 Research Design and Variables Measurement 222
6.4.3 Method of Analysis 223
6.5 Limitations of the Study 223
6.6 Suggestions for Future Research 224
6.7 Conclusion 225

BIBLIOGRAPHY 226

APPENDICES 248

Appendix 1 Cover Letter and Survey Questionnaire 248
Appendix 2 Cover Letter and Survey Questionnaire (Thai Version) 259

LIST OF TABLES

Table 2.1 Definition of SMEs in Asian and other countries 14
Table 2.2 Definition of SMEs in Thailand 15
Table 2.3 Percentage Contribution of Various Sized Enterprises to Economic Activities 22
Table 2.4 Gross Domestic Product over the Period 1998 - 2002 24
Table 2.5 Awareness and Usage of Management Techniques among Thai SMEs 29
Table 3.1 Approaches to Conceptualising Organisational Performance 37
Table 3.2 A Comparison of Variables Identified in the Literature as Factors Contributing to SMEs Performance 41
Table 3.3 Sources of Funding in Australian Manufacturing Enterprises 48
Table 3.4 Theories of Financial Structure 56
Table 3.5 Economic Problems Faced by Thai SMEs 58
Table 3.6 Three Dimensions of Investment Readiness 64
Table 3.7 Financial Information Practices among SMEs in Australia 90
Table 3.8 Preparation and Usage of Financial Statements 90
Table 3.9 Hypotheses in This Study 104
Table 4.1 Financial Information Operationalised in Previous Studies 121
Table 4.2 Financial Information Criteria Used in Previous Studies 123
Table 4.3 Financial Information Criteria Used in this Study 124
Table 4.4 Research Methods Criteria 128
Table 4.5 Differences between Variance-based Approach and Covariance-based Approach 139
Table 4.6 Unobserved and Observed Variables for this Study 128
Table 5.1 Important Level of Performance 162
Table 5.2 Satisfaction with the Firm's Performance 162
Table 5.3 Sources of Finance after Start-up Classified by Business Area 164
Table 5.4 Level of Importance Attached to the Indicators of Access to Finance 167
Table 5.5 Access to Finance 168
Table 5.6 Owner/managers' Gender Classified by Business Area 172
Table 5.7 Reasons Why Owner/Managers Use Financial Information to Support their Business Decisions 176

Table 5.8 Reasons Why Owner/Managers Did Not Use Financial Information to Support Business Decisions 177
Table 5.9 Important Level of Financial Information 177
Table 5.10 Quality of Financial Information 178
Table 5.11 Average Variance Extracted (AVE), Factor Loadings, and Composite Reliability Using 158 Samples 180
Table 5.12 Average Variance Extracted (AVE), Factor Loadings, and Composite Reliability of New Measurement Model Using 158 Samples 181
Table 5.13 Discriminant Validity of Constructs Used in the Measurement Model Using 158 Samples 184
Table 5.14 Average Variance extracted (AVE), Factor Loadings, and Composite Reliability Using 407 Samples 185
Table 5.15 Average Variance Extracted (AVE), Factor Loadings, and Composite Reliability of New Measurement Model Using 407 Samples 186
Table 5.16 Discriminant Validity of Constructs Used in the Measurement Model of the Second Hypothesis 188
Table 5.17 Path Coefficient and t-statistic 189
Table 5.18 Path Coefficients and t-statistics 190
Table 5.19 Hypotheses for Direct Effect of Investment Readiness on Access to Finance 192
Table 5.20 Path Coefficients and t-statistics 193
Table 5.21 Hypotheses for Direct Effect of Investment Readiness on Performance. 195
Table 5.22 Path Coefficients and *t*-statistic of Indirect Effect 196
Table 5.23 Hypotheses for Indirect Effect of Investment Readiness on Performance through Access to Finance 198

LIST OF FIGURES

Figure 1.1 Structure of the Study 11
Figure 2.1 Location of Thailand 16
Figure 2.2 Map of Thailand 17
Figure 2.3 Number of Small and Medium Enterprises in 2003 and 2004 by Sector ... 18
Figure 2.4 Distribution of Employment under Small and Medium Enterprises in 2004 by Sector and Region 19
Figure 2.5 Proportion of Thai SMEs by Region 20
Figure 2.6 Proportion of Thai SMEs in the Major Provinces 20
Figure 2.7 Proportion of Thai SMEs in the Three Main Regions Classified According to Business Sector 21
Figure 2.8 The Proportion of Export of Firms Classified by Size over the Period 2000 – 2002 23
Figure 2.9 Competitive position of Thai SMEs 28
Figure 3.1 The Relationships among Performance, Access to Finance, and Investment Readiness Factors 103
Figure 4.1 Survey Design Process 108
Figure 4.2 A Classificatory Scheme for the Measurement of Business Performance 109
Figure 4.3 Stages in Structural Equation Modeling 142
Figure 4.4 The relationships among performance, access to finance, and investment readiness factors 145
Figure 4.5 The Measurement Model for Performance 147
Figure 4.6 The Measurement Model for Access to Finance 148
Figure 4.7 The Measurement Model for Experience 148
Figure 4.8 The Measurement Model for Education 148
Figure 4.9 The Measurement Model for Age 148
Figure 4.10 The Measurement Model for Gender 149
Figure 4.11 The Measurement Model for Financial Leverage Ratio 149
Figure 4.12 The Measurement Model for Size 149
Figure 4.13 The Measurement Model for Financial Information 149
Figure 4.14 The Structural Equation Model for the First Objective 150
Figure 4.15 The Structural Equation Model for the Second Objective 150

Figure 4.16 The Structural Equation Model for the Third Objective 151
Figure 4.17 The Structural Equation Model for the Forth Objective 152
Figure 5.1 Business Organisation Form 160
Figure 5.2 Business Area 161
Figure 5.3 Sources of Finance after Start-up 163
Figure 5.4 Purposes of Seeking Finance in Addition to the Start-up Capital 165
Figure 5.5 Problems Encountered When Seeking Finance 165
Figure 5.6 Reasons that Owner/managers Had Never Sought Finance 166
Figure 5.7 Experience 169
Figure 5.8 Education Level 170
Figure 5.9 Age Group 171
Figure 5.10 Gender 171
Figure 5.11 Proportion of Start-up Debt to Total Start-up Capital 172
Figure 5.12 Proportion of Current Debt to Total Finance 173
Figure 5.13 Number of Employees 174
Figure 5.14 Value of Fixed Assets 175
Figure 5.15 Revised Structural Equation Model for the First Objective 182
Figure 5.16 Revised Structural Equation Model for the Second Objective 182
Figure 5.17 Revised Structural Equation Model for the Fourth Objective 183
Figure 5.18 Revised Structural Equation Model for the Third Objective 187
Figure 5.19 Path Coefficients for Direct Effect 199
Figure 6.1 A Modified Model of an Investment-ready Program 219

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 .....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..... C_{24}	Regression coefficients (factor loadings)
E_1 ..... 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
FI	Financial Information
FI1	Accuracy and completeness
FI2	Timeliness
FI3	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
$Q_{1 \ldots \ldots} Q_{13}$	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
$X_{1 \ldots \ldots} X_{24}$	Intercepts
α_1, α_2	Intercepts
θ	Indicator error variances
λ	Indicator loadings
ρ_c	Composite reliability
Σ	Summation over the indicators of the unobserved variable