

Perceived Problems and SMEs Performance: A comparative perspective of SMEs in Thailand and China

Rossarin Osathanunkul¹

Abstract

This study focuses on the comparative study of perceived problems facing SMEs in Thailand and in China. It also attempts to find out the relationships between perceived problems of small and medium-sized enterprises (SMEs) and firm performance in Thailand and in China. It is based on the findings of a sample survey-based research into 30 SMEs in different sectors, carried out during April and June, 2009. In order to collect empirical data, this study employs questionnaire survey and semi-structured face-to-face interview. The findings indicate that there are a number of similarities as well as differences between perceived problems of SMEs in Thailand and in China. In case of Thailand, external environments such as slowdown of national economy and marketing opportunities have been reported by Thai SMEs. For Chinese SMEs, they found that they still encountered serious financial problems and poor government policies. The results also show the negative significant relationship between perceived problems and firm performance. As expected, the overall profits and the overall sales have negative significant with financial and marketing problems in both Thailand and China's cases.

Keywords: SMEs, Perceived problems, Performances, Thailand, China

¹ Faculty of Economics, Chiang Mai University, Thailand

Introduction

Small and medium-sized enterprises (SMEs) play a significant role in the national and regional economies of both developed and developing countries. Moreover, growing SME sector is perceived to be crucial for sustainable competitive advantage and economic development at local, regional and national levels (Porter, 2006). Although SMEs represent significant contributions to the economy in terms of output, employment and effective utilisation of regional resources, SMEs have encountered many difficulties which believed to have an impact on firm performances. Realising their importance and potentials, the government in both developed and developing countries have initiated a package of policies, aiming to foster SME development by reducing various problems facing SMEs in marketing, human resources and management, technology, infrastructure and regulations, financing which emphasised in poverty alleviation.

However, overcoming problems faced by SMEs is not as easy as assisting large firms. Some SMEs are not able to perceive their own problems. Others may not want to seek for outside assistance to overcome their existing problems (Abdullah and Bakar, 2000). In order to overcome SMEs' problems, the SME owners/managers themselves should recognise the need for better management knowledge and practices and, therefore, an understanding of the problems faced by SMEs is of practical importance for those involved in SMEs. For SMEs owners/managers, the perception of a situation as a problem can influence their business performance (Walsh, 1988). For policy-makers, understanding the problems faced by SMEs and differences between SMEs and large firms will help in formulating policies and developing SMEs assistance programmes (Huang and Brown, 1999). In addition, the design of intervention programmes to promote the development and growth of SME sector should be distinctly different from those programmes targeting large firms (White, 1999).

To date, relatively little research has examined the problems and impact of these problems on firm performance in both Thailand and China. Hence, this study focused on perceived problems facing SMEs in Thailand and in China. The main purpose of this study is therefore to identify the major problems and the impacts of these problems on performance of Thai and Chinese SMEs. This study is expected to provide policy-makers with the information they need for designing effective policies and support programmes in favour of the SME sector. This paper is divided into four sections. The first section presents the overview of SMEs in Thailand and in China. The second section is the theoretical review and refinement that connects the concepts of SMEs barriers/problems and firm performance. Next, the research

design and methodology are provided. The final section is a presentation of results of the research including the description of empirical data and the statistical relationships of perceived problems and firm performance.

An overview of SMEs in Thailand

SMEs in Thailand have been the main driving force behind Thailand's economic development. SMEs are fundamental business units spread all over the country. The contributions of SMEs to Thai economy have been recognised since the financial crisis in 1997. In addition to job creation, the SME sector contributes to other important socio-economic objectives, such as the gross national product, value added and foreign exchange savings.

SME Definition

Different countries and organisations define SME differently. According to the Ministry of Industry of Thailand (2002), SMEs can be classified either by employment which is determined from the number of employees or hired as it appears in official documents as specified by law or the value of the total fixed asset that does not include land and consider the one that is lower or the total fixed assets which must have been evaluated by financial institutions or creditable consulting companies. In addition, business activities in Thailand can be classified into four categories, namely, the manufacturing sector, the wholesale sector, the retail sector, and the service sector. Table 1 presents the number of employees and the fixed assets which are used to classified size of business in Thailand.

Table 1 Classification of SMEs according to number of workers employed and fixed assets

<i>Sector</i>	<i>Medium-sized Enterprises</i>	<i>Small-sized Enterprises</i>
Manufacturing	51-200 person/< BHT 200 million	< 50 person/< BHT 50 million
Services	51-200 person/< BHT 200 million	< 50 person/< BHT 50 million
Wholesale	26- 50 person/< BHT 100 million	< 25 person/< BHT 50 million
Retail	16- 30 person/< BHT 60 million	< 15 person/< BHT 30 million

Source: The Office of Small and Medium Enterprises Promotion (OSMEP), 2002

Contributions of SMEs in Thai Economy

The contributions of SMEs in the Thai economy is indicated by predominately large share of SMEs in terms of number of establishments, total number of employees, total value added in various sectors. The following statistics showing in Table 2 clearly reflect that SMEs are essential to the Thai economy. According to the National Statistical Office of Thailand (NSO), during the past decade, SMEs accounted for more than 99 per cent of all enterprises in Thailand and produce more than one-third of the country's national output. The number of employment under SME sector has also grown continually.

Table 2 Thai SMEs by Number of Establishments

No. of Establishment	1997	2002	2003	2004	2005	2006	2007	2008
SMEs	799,033	1,639,427	1,995,929	2,161,577	2,239,280	2,274,525	2,366,227	2,827,633
%	99.5	99.6	99.5	99.8	99.5	99.4	99.6	99.7
Total Establishment	803,201	1,645,530	2,006,528	2,166,621	2,249,718	2,287,057	2,375,368	2,836,377

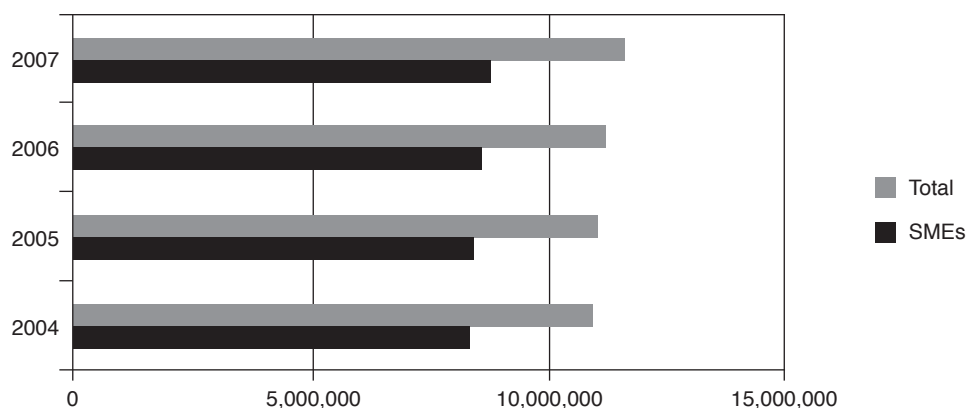
Source: White Paper on Small and Medium Enterprises (SMEs) in Thailand 2001-2008

Table 3 GDP contributing by Thai SMEs

GDP	2003	2004	2005	2006	2007	2008
GDP by SMEs	2,367,109	2,598,656	2,816,640	3,041,895	3,236,634	3,446,589
% of Total GDP	39.9	40	39.6	38.9	38.2	37.9
Growth of GDP by SMEs	4.6	7.6	4.9	5.5	4.9	1.9

Source: Department of Business Development, 2008

Figure 1 Number of employees under SME sector and total enterprises between 2004 and 2007



Source: NSO, 2008

Characteristics of Thai SMEs

It is well documented that SMEs have unique characteristics that differentiate them from large firms (Carson, 1990). The specific characteristics of Thai SMEs are described by Intrapairot and Srivihok (2003):

- *Thai SMEs are flexible and able to change product lines and production processes which help to adapt themselves well to customers' requirements.*
- *SMEs are able to initiate their businesses with low investment.*
- *SMEs use skill, mainly manual, in production.*
- *Products are made on the basis of mass customisation rather than mass production to serve individual requirements.*
- *Products are unique and high quality.*
- *SMEs perform an active part in their communities by employing local or domestic resources such as funds, and materials and also mainly use the skills and know-how of local people.*

SME Development and Government Policies toward SMEs in Thailand

SMEs in Thailand have come to the attention of the economists and policy-makers since the 1997 financial crisis. The Royal Thai government recognised the positive contribution that the SME sector can make to overcome the impact of the crisis affecting Thailand (Brimble et al., 2002). Consequently, the Thai government's commitment to the development of SMEs has been clearly evident since late 1990s.

The Thai government has taken several initiatives in offering economic packages to boost the economy in general and the SME sector in particular. Those programmes and initiatives aim to foster SME development by reducing various problems facing SMEs in marketing, human resources and management, technology, infrastructure and regulations, and financing and are embodied and articulated in various form including Acts of Parliament, National Economic and Social Development Plan, and Cabinet resolutions (Leopairote, 1997).

Table 4 Development of SMEs in Thailand Source: Department of Business Development, 2006

1999-2000	2001-2002	2003-2004	After 2004
Enacting small and medium enterprises promotion Act 2000	Brainstorming strategies for SMEs development	Establishing the Assets Capitalisation Bureau	Focusing on medium-long term plans, promoting sustainable development
Establishing the Broad of SMEs Promotion	Establishing the Office of Small and Medium Enterprises Promotion (the central planning office)	Establishing more Venture Capital Funds	Gradually changing in government roles to assume a role of a supporter rather than a leading developer
Establishing the market for Alternative Investment (MAI) to create new fund-raising opportunities for SMEs	Setting and implementing the national plans of SMEs Promotion (2002-2006)	Solving existing problems and expanding roles of several government agencies	Emphasising on coordination between businesses and clustering systems especially for the strategic sectors
Establishing SMEs Venture Capital Fund	Establishing the SMEs Bank		
Recapitalising the small industry credit guarantee corporation	Creating entrepreneur society		

Source: Department of Business Development, 2006.

In August 1999, the first SME master plan was established and disclosed by the ministry of industry. It explains the new vision of SME development that emphasises three major issues: competitiveness in the global markets, self-reliance on manufacture and marketing, and comprehensive linkages of enterprises. The implementation of the first SME master plan was expected to coincide with the passage of the SME law, which creates a high-level policy making SME promotion committee headed by the Prime Minister and an SME promotion office, which is responsible for coordinating the formulation of the SME action plan and for managing the SME promotion fund. At present, the second promotion plan of SMEs (2007-2011) is used as the direction for SME sector development in Thailand. The second SME promotion plan consists of strategies for developing entrepreneurs and promoting production, trade, and services. The Thai government has attempted to create an investment atmosphere favorable to business operation and also increase the efficiency of business operation in line with the changing behaviour of consumers.

Figure 2 Summary of SMEs promotion plan in the national plan year 1997-2006

Developing Plan; 8th issue (1997-2001)

Promoting SMEs Policy:

- The government will play an important role in supporting financial services for SMEs as follows:
 - Settle credit line for SMEs through specialised
 - Financial Institute under government control.
 - Establish mutual fund to invest in SMEs.
 - Establish SMEs & People Financial Advisory Center.
- Industry Restructuring Plan (AD.1998-2002)
 - Incubation and strengthening plans for small and medium industries in supporting industry.
 - Initiating of "SHINDAN" system as a mechanism to promote SMEs.
 - Arranging master plan for developing SMEs (Industrial Sector) April 1999
- Establishing Institute for Small and Medium Enterprises Development (5 April 1999) as a fundamental organisation for developing entrepreneurs, human resource in SMEs and building local service network.
- Mark a SMEs Promotion Act year 2000 which is effective as of 18 February 2000. Important factors of this regulation are as follows:
 - A SMEs Promotion Committee which the Prime Minister as a chairman.
 - Establishing Office of Small and Medium Enterprises Promotion (OSMEP)
 - Having fund to support SMEs.
- Issuing Regulation of Ministry of Industry in order to settle employment and fixed asset excluding land of SMEs year 2002. This will set definition of SMEs as the first time which includes manufacturing, trade and service sectors.
- Promoting SMEs is part of government policy announced to a parliament and will announce the operational results annually.

Developing Plan; 9th issue (2002-2006)

Promoting SMEs Policy:

- Promoting SMEs and community enterprises in order to creating jobs and up scaling production bases.
 - Developing management system for SMEs
 - Building up network for developing community enterprises
- A SMEs Promotion Master Plan (2002-2006) has been approved by the Cabinet on 6 May, 2003 as a National Master Plan to promote SMEs.

Source: White Paper on Small and Medium-sized Enterprises (SMEs) Promotion, 2003

Problems facing Thai SMEs

In recent years, the research direction is aimed at the Thai SMEs' problems. It is argued that SMEs in different sector may encounter different environment, problems, and barriers. Hence, the problem solving and SME development supporting should be based on knowledge, understanding, and delicacy problems. It appears that Thai SMEs are characterised by poor management and/or administrative skills, limited marketing skills, minimal technology skills, lack of access to finance, market, and support provided by government agencies. These problems facing SMEs in Thailand has been recognised as an important factor which significant impact on their performances.

According to NSO (1999) survey, small firms complained the most about the problem of insufficient capital or lack of financial sources. Practically, SME owners/managers in Thailand depend on personal financial sources to start their operations. When they want to expand their operations, the internal financial sources are insufficient. Therefore, they need to find finance from outside sources. Their next most important problems were labour shortages and marketing. Whereas medium-sized firms ranked insufficient capital and labor shortages as their first and second most important problems just as small firms did. However, they chose uncertain government policies as the third most important problem.

Similarly, the Office of Small and Medium Enterprises Promotion (OSMEP)'s study (2002), also reported that one of the main obstacles of SMEs in Thailand is financial problems. Limited access to financial capital has found a main financial problem. For example, enterprises are not in a position to mobilise funds from the capital market or from any other sources because their management system is not sufficiently sophisticated. Furthermore, loans from financial institutions could be costly and also limited because of high ratio of non-performing loans. SMEs also faced the loss in the ability to compete in terms of comparative advantages of labour and resources. Second, it is reported that lack of corporate governance, know-how both in utilisation and adaptation of technology, insufficient research on product development and production techniques are obstacles of SMEs development in Thailand.

Lack of management skills is also a major problem of Thai SMEs. According to Wongtada (2001), most entrepreneurs have not been trained in business management and operate their enterprise without proper business planning. As a result, they face many management problems including underestimating required funding, overestimating of their marketing ability, and choosing poor production technology. Furthermore, most enterprises do not have any proper internal bookkeeping system to facilitate vital financial decisions. The Office of Small and Medium Enterprises Promotion (OSMEP)'s report (2002) also found that management system of the government in SMEs promotion is one of the barriers to SME development. It is claimed that SMEs promotion provided by government lacked of appropriate, systematical, clear, and coordinated planning and management.

An overview of SMEs in China

It appears that the growing significance of SMEs in China's economy is hard to ignore. Chinese SMEs have played an important role in stimulating economic growth, increasing employment, expanding exports and promoting science and technology innovations (Chen, 2006). The Chinese government is acutely aware of the impact that SMEs as job-creators and also contributor of national and regional economy, therefore integrating issues of small business development into strategic planning for both national economic and social development.

SME Definition

The definition of an SME in China is quite complex. SME definition in China depends on the industry category and is defined based on the number of employees, annual revenue, and total assets. According to the National Development and Reform Commission (NDRC), the Interim Categorising Criteria on Small and Medium-sized Enterprises (SMEs), published in 2003 and based on the SME Promotion Law of China, set the guidelines for classifying SMEs is provided in Table 6 below.

Table 6 Industry-specific criteria for SMEs in China

<i>Size Category</i>	<i>Industries</i>	<i>Employment based</i>	<i>Business Revenue</i>	<i>Total Assets</i>
Small	Industry	< 300	< RMB 30 million	< RMB 40 million
	Construction	< 600	< RMB 30 million	< RMB 40 million
	Wholesale	< 100	< RMB 30 million	
	Retail	< 100	< RMB 10 million	
	Transportation	< 500	< RMB 30 million	
	Post	< 400	< RMB 30 million	
	Hotels and restaurants	< 400	< RMB 30 million	
Medium	Industry	300-2,000	< RMB 30-300 million	< RMB 40-400 million
	Construction	600-3,000	< RMB 30-300 million	< RMB 40-400 million
	Wholesale	100-200	< RMB 30-300 million	
	Retail	100-500	< RMB 10-150 million	
	Transportation	500-3,000	< RMB 30-300 million	
	Post	400-1,000	< RMB 30-300 million	
	Hotels and restaurants	400-800	< RMB 30-150 million	

Note: SMEs must meet one or more of the conditions.

Source: National Development and Reform Commission (NDRC) of China, 2007

Contributions of SMEs in Chinese Economy

The SME sector has increasingly contributed to China's economic growth. In 2007, medium-sized businesses accounted for 1.78 per cent of the total enterprises with a total of 4,291 and a total of 2,327,969 enterprises, or 98 per cent, were small-sized enterprises. Overall, SMEs accounted for 99.7 percent of the total number of companies operating in China. In terms of economic growth, the output value of SMEs accounts for at least 60 percent of the country's gross domestic product in the past decade. Business revenue of SMEs accounts for 60.42 percent of total earnings. The industrial income of SMEs accounts for 66.28 percent. In terms of employment expansion, SMEs have increasingly played an important part role in employment generation in China as can be seen from the number of employment under SME sector. In 2007, medium-sized enterprises accounted for 35,464.3 thousand individuals, or 30.76 per cent and small-sized enterprises made up for 58,947.8 thousand individuals or 51.13 per cent of total employment.

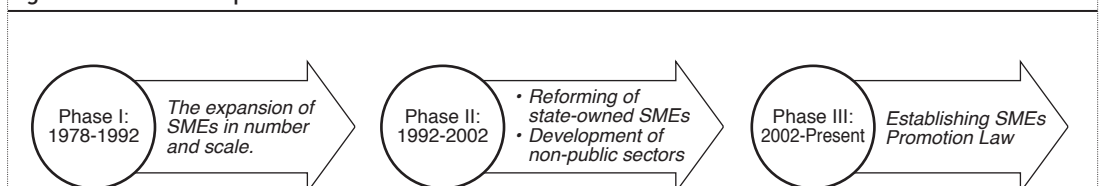
Characteristics of Chinese SMEs

Chinese SMEs are seen to be blessed with unique nature including small investment, fast yield, flexible operation and quick adaptability to market changes and customer's demand. SMEs in China are often in an unfavourable position in market competition, and therefore have difficulties in competing with large firms (Zhang, 2007). Further, SMEs depend highly on local resources for their operation. SME operations are generally family run enterprises with limited, instead of large-scale, factory production. The business structure tends to be rigid, with limited entrepreneurial and managerial skills and therefore business management under SMEs is poor (Zhao 2003),

SME Development and Government Policies toward SMEs in China

It is undeniable that SMEs have a significance role in Chinese economy over the past two decades. The Chinese government has promulgated a series of laws and regulations to protect and promote the development of SME sector. According to Chen (2006), Chinese SMEs have gone through three development phases as provided in Figure 2.

Figure 3 SMEs Development in China



Source: Chen, 2006

The first phase was between 1978 and 1992. At this stage, the government encouraged and supported SMEs for the development of township, collective and self-employed enterprises. Consequently, there were the rapidly expansion of SMEs which made great contribution to economic development and improvement of living standards of Chinese people. The second stage lasted from 1992 to 2002. The Chinese government adopted various measures and policies to gradually reduce state-owned enterprises and support more private-owned SMEs.

The third stage began with 2002, the Chinese government set up the small and medium-sized enterprises promotion law which aims to remove institutional barriers of development of SME sector, promote scientific and technological innovations, and enhance the overall quality and competitiveness of SMEs.

Problems facing Chinese SMEs

Small firms in China appear to face a number of difficulties in business operation. Those difficulties include;

- *Lack of core technologies and intellectual property rights*
- *Poor cooperation between foreign companies and local enterprises*
- *Lack of preferential policies and advantageous labor costs that are disincentives*
- *Limited access to funding*
- *Weak local government service system*
- *Access to Information,*
- *Minimum registered capital requirements,*
- *Human resource (HR) retention,*
- *Product standardisation,*
- *Weak linkages with external market*

Chinese SMEs have been affected not only by domestic policies, but also by regional economic growth. The increase in uncertainties forces Chinese SMEs to adjust their strategies or make significant changes to improve their product quality, cost competitiveness, and management practices, otherwise they are unlikely to survive in their present form. Most of the Chinese SMEs are also founded to be lack of skilled employees because they did not receive any professional training. Consequently, employees hired under SME sector are of low quality. In addition, operational costs are high and physical infrastructure is poor.

With those problems mentioned above, they may lead to low efficiency, poor product quality, disorder corporate management, high material and energy consumption, as well as high costs for Chinese SMEs.

Literature Review

SMEs Performances

According to Laitinen (2002:66), firm performance can be defined as *"the ability of an object to produce results in a dimension determined a priori, in relation to a target"*. The performance profile of small business is claimed to be a complex matter and multi-dimensional in scope and character (Scase and Goffee, 1984). Since 1980s, a number of studies investigating what factors influence or associate with the performance of firms have been undertaken (Hall, 1999). The literature reveals that there are a wide range of factors that affect the overall firm performance. For instance, SMEs performance can be influenced by a number of factors including 1) a lack of demand for product or service, 2) poor management and/or administrative skills of the owner/manager, 3) a lack of experience in the particular industry, 4) insufficient capital invested by the owner, 5) an over-reliance on external borrowings, 6) poor record-keeping (Brooks et al., 1990). Furthermore, according to Durand (2001), there are three elements which can be associated with performance of firms, namely, the unit of analysis (population, and resources), the origin of the selection force (external and internal factors), and the role of strategic management in the conduct of organisations. Gibb and Davies (1990) also suggested that an academic literature concerning the factors influencing the performance of small and medium-sized enterprises (SMEs) can be classified under the four major headings of entrepreneurial personality, organisational development, functional management skills and sectoral economics.

A variety of measures can be used to assess how well the business was doing. These include both financial and non-financial criteria. Firm performance has traditionally been measured in financial terms (Murphy et al., 1996). The most commonly used measures of performance are efficiency-ROI, growth- increase in sales and profit, increase in number of employees (Ibrahim and Goodwin, 1986; Murphy et al., 1996). Although financial measures have been given most attention in the literature, non-financial measures are also received attention to a number of researchers. This is because financial measures alone are not sufficient for making decisions in modern firms and non-financial measure sometimes

deemed more sensitive and faster reacting than financial measures (Jarvis et al., 2000). It is difficult to say which of measures represent the best indicator of performance. To select only one measure to indicate performance means sacrificing potential performance on other indicators (Donaldson, 1984). Hence, performance measures should include both financial and non-financial measures.

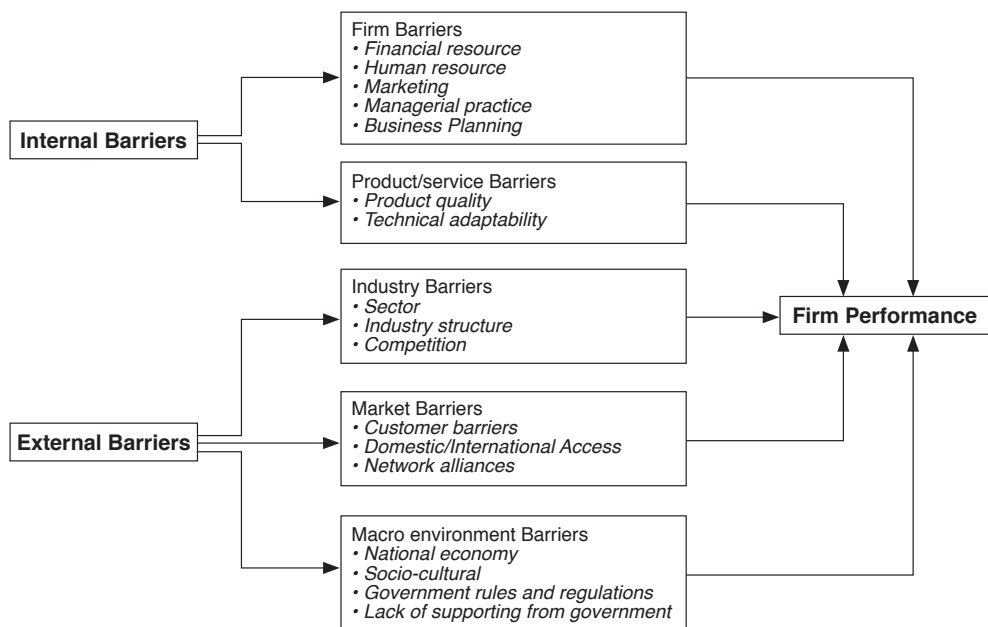
Barriers and Constraints on SMEs Performance

Apart from the important role of SMEs in terms of their contribution to employment, export, and economic growth and development, there is a wide recognition in the literature about the challenges and barriers facing SMEs. Generally, it is believe that SMEs have more intensity of constraints as compared to large firms. The main barriers to be competitive for SMEs are inadequate technologies as well as inadequate in-house human expertise and poor financial resources (Armstrong, 1991). Resource scarcity can also impact on the ability of smaller firms to enter markets. Moreover, access to and cost of finance and absence of adequate funding are often ranked as one of most constraining feature of the business environment by SMEs (Westhead and Wright, 2000). Not only finance that SMEs have faced, marketing is also the main barrier to SME growth as asserted by Barber et al. (1989) that the success of small firms will be significantly influenced by the market structures within which they operate and the opportunities which these market presents.

Taken together, problems and barriers to SMEs can be distinguished between institutional barriers such as the legislative framework, the degree of corruption and bribery a firm encounters, barriers due to the external market position of a firm including the sector in which the firm operates, the degree of competition, extent of network alliances to support growth, financial barriers such as availability and cost of capital and finance, internal organisational barriers including managerial capacity and capability, objectives of firm, SME owners/managers' skills, and social barriers such as lack of the support from public or private organisations, and lack of business network in both local and international (Bartlett et al., 1995). Moreover, It is argued that government policy through a number of measures, supports, and programmes have had ambiguous effects on SME performance as asserted by Bridge et al. (1998) that there appears to be no strong body of evidence to say that intervention works, but also there is no clear evidence that it doesn't.

In studies of SME context much attention has been paid to factors that affect firm performance. Numerous studies have focused on measures of success and failure of small businesses (Ali et al., 2001; Gardenne, 1998; Lin, 1998;). Several of these have attempted to indicate the factors responsible for business success, while others have addressed the issue from the point of view of business failure. The main importance factors include the personality of the SME owners/managers, the business environment (Bouchikhi, 1993), innovation and planning (Georgellis et al., 1999), marketing (Romana and Ratnatunga, 1995; Sharma, 2004), finance (Walker and Petty, 1978; Barrow, 2006), human resource (Lado and Wilson, 1994; Ferligoj et al., 1997). According to Cambridge Small Business Research Centre (1992), the common barriers and constraints can be seen to be related to factors on internal and external factors Figure 4 presents internal and external problems and barriers that may influence firm performance.

Figure 4 Internal and external problems that influence firm performances



Source: Literature Reviewed

Research Methodology

Sampling Frame

The sample group was composed of owners/managers of small and medium-sized enterprises. The initial participants were selected from referrals or contacts via the chamber of commerce. Respondents were asked to fill-in a survey which defines if they met the selection criteria. The two comparative samples were deliberately limited to two geographical areas: the Northern region of Thailand and the Southern region of China.

Sampling Technique

This study employed simple random sampling method. The target population for this study consists of 30 SMEs which registered with the Institute for Small and Medium-sized Enterprises Development (ISMED) and 30 SMEs which are the member of Chinese chamber of commerce. According to Jeffcote et al. (2002), small and new firms are fragile as they fail easily during the periods of startups. Consequently, the sample selection was based on the criterion that the firm had to be established for at least two years because it is not possible to gather enough data to consider the success of firms operating in a shorter period of time.

Questionnaire Design

As the data were collected in Thailand and China, original questionnaire was in Thai and then experts translated the original questionnaire into Chinese. A pre-test and a pilot study were conducted on a small sub-sample of firms and the outcomes were considered carefully in order to improve the final version of the questionnaire. All questions in the survey were close-ended to limit the respondents' answers to the survey questions and encourage their focus on the issue at hand.

Data Collection

The approach to the research involved gathering data via a questionnaire survey. The questionnaires were distributed and addressed to the owners/managers of 30 SMEs in Thailand and China by mail and in person. The respondents were asked to complete the questionnaires and mail them back. This study also collected empirical data through semi-structured interview which aim to explain reasons behind the statistics that received from the questionnaire survey.

Preliminary Results and Discussion

The characteristics of the sample are summarised in Table 7. The preliminary results that emerged from this research study have highlighted a number of similarities and differences between the two samples. The main findings are briefly described below.

Table 7 SMEs' characteristics

<i>Characteristic</i>	<i>Thai</i>		<i>Chinese</i>	
	<i>Frequency</i>	<i>Percent</i>	<i>Frequency</i>	<i>Percent</i>
Owner/Manager				
Gender				
Male	21	70.0	19	63.3
Female	9	30.0	11	36.7
Age				
16-25 years	2	6.70	1	3.30
26-35 years	5	16.7	8	26.7
36-45 years	7	23.3	15	50.0
46-55 years	12	40.0	6	20.0
over 55 years	4	13.3	0	0
Education				
Primary school	4	13.3	1	3.30
Secondary school	2	6.70	2	6.70
High school	6	20.0	5	16.7
Diploma/Certificate	2	6.70	1	3.30
Bachelor Degree	10	33.3	17	56.7
Master Degree or higher	6	20.0	4	13.3
Business Characteristics				
Sector				
Manufacturing sector	11	36.7	13	43.3
Service sector	10	33.3	8	26.7
Retail sector	5	16.7	6	20.0
Wholesale sector	4	13.3	3	10.0
Number of Employees				
1-15 employees	12	40.0	4	13.3
16-30 employees	8	26.7	6	20.0
31-50 employees	4	13.3	2	6.7
51-100 employees	4	13.3	3	10.0
over 100 employees	2	6.70	15	50.0
Length of time in business				
2-3 years	11	36.7	16	53.3
4-5 years	5	16.7	5	16.7
over 5 years	14	46.6	9	30.0
Ownership				
One-person /business	16	53.3	3	10.0
Partnership	2	6.70	2	6.70
Limited liability Company	10	33.3	25	83.3
Co-operative society	2	6.70	0	0

Source: Survey, 2009

Sample Characteristics

Owner/Manager Characteristics

Gender: The vast majority of respondents in this research sample were male: 70.0 per cent in Thailand and 63.3 per cent in China. Only 30.0 per cent of respondents in Thailand and 36.7 per cent in China were female owner/managers.

Age: An analysis of the age of owner/managers in the research sample showed that in Thailand, the highest proportion of the respondents in this research are between 46 and 55 years old, followed by the 36-45 (23.3 per cent) years, 26-35 (16.7 per cent) years, over 55 (13.3 per cent) years, and 16-25 (6.7 per cent) years old. While the highest proportion of owner/managers in China was positioned in the 36-45 (50.0 per cent) age range, followed by the 26-35 (26.7 per cent) years old respondents, the 46-55 (20.0 per cent) years, 16 -25 (3.3 per cent) years old respondents. Interestingly, none of the owner/managers in China fitted into the above 50 age range.

Education: The respondents in this research are well educated in both Thailand and China' samples. In Thailand, most of respondents hold bachelor's degree with 33.3 per cent, followed by master degree and high school with 20.0 per cent each. The least proportion of respondents with 6.7 per cent completed secondary school and received diploma or certificate. In case of China, most respondents hold bachelor's degree with 56.7 per cent, followed by high school with 16.7 per cent, master degree with 13.3 per cent. The least proportion of respondents with 3.3 per cent completed primary school and received diploma or certificate.

Business characteristics

Sector of economic activity: The sector of economic activity in which respondents operated was similar in both countries. In Thailand, the highest proportion of firms in the sample are in the manufacturing sector (36.7 per cent), followed by the service sector (33.3 per cent), the retail sector (16.7 per cent), and the wholesale sector (13.3 per cent). Similarly, in China, firms were active in the manufacturing sector (43.3 per cent) and 26.7 per cent in the service sector. The balance of 20.0 per cent of firms was positioned in the retail sector and a smaller proportion of respondents (10.0 per cent) were operating in the wholesale sector.

Number of employees: In total, 40.0 per cent of sample firms in Thailand operated businesses that employed less than 15 individuals compare with only 13.3 per cent of sample

firms in China. Not surprisingly, most of sample firms (50.0 per cent) in China employed over 100 employees whereas only 6.7 per cent of sample firms in Thailand employed over 100 employees.

Duration of the business: The longevity of businesses in the sample was also measured in terms of continuous, economically active years in existence since inception. In total, 46.7 per cent of sample firms in both Thailand and China have been economically active for 4 to 5 years. The highest proportion of respondents continued in business for 2 to 3 years: 53.3 per cent in China and over 5 years: 46.6 per cent in Thailand.

Ownership: It is interesting to find that majority of Thai SMEs in this study were owned by the owner himself/herself (53.3 per cent) whereas most Chinese SMEs in this study were in form of limited liability company (83.3 per cent).

Measuring Perceived Problems

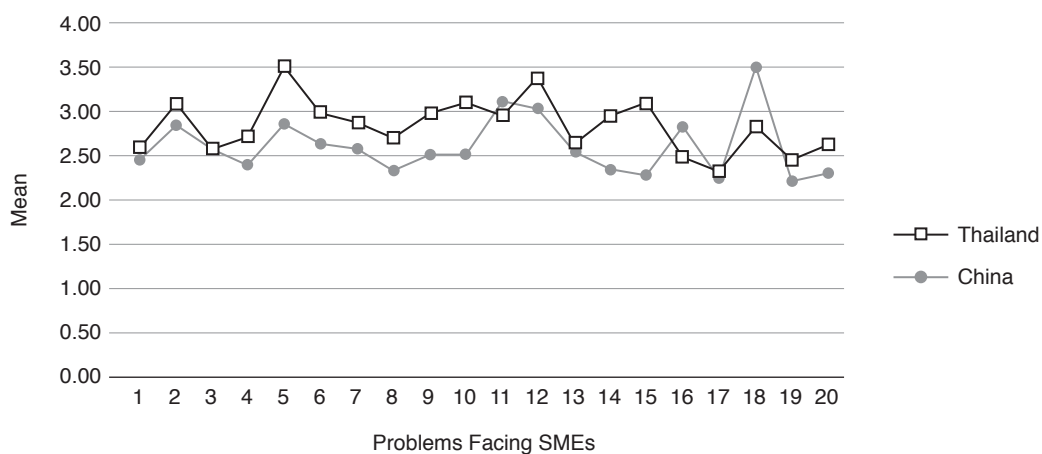
An understanding of the problems faced by SMEs is of practical importance for those involved in SMEs. For SMEs owners/managers, the perception of a situation as a problem can influence their business performance (Walsh, 1988). For policy-makers understanding among other things, will help in formulating policies and developing SMEs assistance programmes (Huang and Brown, 1999). The common problems faced by SMEs are claimed to associate with financing of SME operations, planning, marketing, production, training, human resource management, and also government policy and regulations.

In this study, to investigate the types of problems facing SMEs and the intensity of those problems, a total of 20 questions associated with government policy and regulations, business plan, finance, operations, marketing, human resource, managerial skill, and environmental factors were included in the questionnaire to ask the respondents to rate these problems. The respondents were asked to rate from 1 to 5 the problems that have impacted on their performances. Results from the survey were downloaded into Excel format and then placed into SPSS for further analysis. The first stage of the analysis is to indicate to what extent SME owners/managers considered various different problems/barriers to his/her firm's performance. Table 8 displays the 20 problems/barriers according to respondents' perceptions.

Table 8 Perceived problems stating by SMEs owner/manager

Item	Thai		Chinese	
	Mean	SD	Mean	SD
Government and Policy				
1. Government bureaucracy	2.48	1.05	2.60	0.93
2. Poor government policies and regulations	2.87	0.87	3.10	0.85
3. Corruption of government officials	2.57	1.02	2.60	0.89
Business Plan				
4. Difficulty in planning	2.40	0.66	2.60	0.82
Finance				
5. Lack of capitals	2.85	0.87	3.53	0.97
6. Increase overall operating expenses	2.62	0.92	3.00	0.95
7. High tax	2.60	0.91	2.93	0.56
8. High interest	2.35	1.06	2.73	1.02
Operations				
9. Power supply and Infrastructures	2.53	0.71	3.00	0.90
10. Lack of materials	2.55	1.03	3.13	0.81
11. Lack of technology for better production	3.00	0.83	2.97	0.89
Marketing				
12. Changing customer's taste	3.12	0.80	3.40	1.07
13. Lack of access market	3.30	1.07	2.67	0.96
Human Resource				
14. Lack of skilled employees	2.38	0.85	2.67	0.89
15. HRM practice	2.30	0.93	3.13	0.77
Managerial skill				
16. Lack of ability to manage the business	2.84	0.97	2.97	0.86
Others				
17. Crime	2.26	0.92	2.37	0.95
18. National economy	3.48	0.83	2.83	0.74
19. Population trends	2.24	0.87	2.47	0.77
20. Globalisation	2.33	0.98	2.63	0.62

Figure 5 Comparison of mean of perceived problems of Thai and Chinese SMEs



Cronbach's coefficient was used to measure the scale reliability of collected data. The coefficients of Cronbach's of the constructs-perceived problems were all higher than 0.7 (range from 0.7052 to 0.8494). This indicated an acceptable internal consistency of the measurements in this study according to Nunnally (1978).

According to Table 8 for Thai SMEs, the most serious problem was concerned about national economy (Mean = 3.48). Most of Thai SMEs owners/managers in this study believed that downturn of Thai economy has impacted on their business performances as noticed from interview with the SME owner that national economy is the major problem which had most an impact on his firm performances *"I think the national economy is the major problem which impact my business performance because I cannot do much about this problem. The national economy is largely external to the organisation and I myself cannot control it".* Another SME owner also indicated that *'We always believe that the slowdown of national economy is the main factor that affects our business performances. Because we manage our business as usual but the profits and sales volumes had dropped"*.

As expected, for Chinese SMEs, they reported higher rating on lack of capital (Mean = 3.53). The difficulty of SME financing has been found during the economic slowdown. In 2008, more than 700,000 SMEs went bankrupt. Therefore, there was no doubt SME owners/managers reported the serious financial problem in this study. In addition, it is believed that SMEs encounter great difficulties while raising capital because of the limit access to finance and reluctance of banks to provide loans to SMEs. This may be due to a high level of uncertainty typically associated with small-sized and the characteristically lower levels of collateral held by small businesses. Furthermore, it is difficult for lenders to assess the risk of an investment to small firms. Hence, banks reluctant to lend loans to SMEs because of high processing and monitoring costs of loans to SMEs (Harrison et al., 2004; Rutherford et al., 2001). Moreover, traditionally banks have used fixed asset ownership, particularly land ownership as the basis for judging credit-worthiness. This puts SMEs at a relative disadvantage to SMEs. Therefore, SMEs find it difficult to use non real estate assets as collateral to obtain loans from the banks. This is evident by one of the SME owner who stated that *"I found that it was so hard to get the loan from the bank. Owing to increase in price of material and operational expense, I needed loan to keep my business running. My business has been operated for 2 and half years. I rented small building to open the business. I have not what the bank needs for credit guarantee. So, it is impossible for me to get the loan that I needed for"*.

However, it is interesting to find that even though finance is one of the most important problems for SMEs, overall lack of capital (Mean = 2.85) was not rated very high for Thai

SMEs compared with Chinese SMEs (Mean = 3.53). This is may be because at present, Thai government has been attempting to alleviate SMEs' financial problems through specialised financial institutions and commercial banks resulted in a number of financial assistance agencies have been offered to SMEs such as SME Bank, EXIM Bank, Bank of Agriculture and Agricultural cooperative.

According to government bureaucracy and its policy, both Chinese and Thai SMEs recognised the important of uncertain government policy towards SMEs, government bureaucracy and corruption problem issues. This is not surprisingly to find this result because government policy towards SMEs is directly related to SMEs activities while bureaucracy and corruption of government can be regarded as indirect to business.

With regard to the marketing problem reported by the Thai SMEs, lack of access to market (Mean = 3.30) and changing customer behaviour (Mean = 3.12) were rated quite high in this study. It is not surprising to find that marketing problem was rated quite high. Huang and Brown (1999) concluded that sales and marketing is often the most dominant problem encountered by small business operators and yet has been acknowledged to be the most important of all business activities and essential for the survival and growth of small business. SME manager mentioned that *"We do not know where we can sell our products. We need the assistance from government to help us find both domestic and international market"*. Similarly, Chinese SMEs also concerned about marketing problem which believed to have an impact on their firm performances.

Taken together, Chinese SMEs seem to face problems involving lack of capital, changing customer's taste/behaviour, HRM practice, poor government policies, increasing overall operating expenses, power supply and infrastructure. On the other hand, Thai SMEs appear to encounter the problems associated with the downturn of national economy, access to market, changing customer's taste/behaviour, and lack of technology for better production.

Measuring Firm Performance

Garg et al. (2003) suggest that as most of the small firms are privately held, SME owners/managers will not be willing to provide detailed accounting data on the firms' performance. Consequently, they suggested the use of self-reporting measures of performance. Therefore, this study measures firm performance by using five-point Likert scale. This study also employed

multi dimensions of firm performance including financial measures-profits, sales, capital assets, nonfinancial measures- stock of materials, sale inventory, lines of product, human resource measure- number of employees, efficient measure-cost of production/operation, customer satisfaction measure-image of firm.

Relationship between Perceived Problems and Performance

As one of the objectives of this study, the relationship between problems or barriers faced by SMEs and firm performances is examined. With regard to the literature, problems or barriers can have an impact of firm performances. In this study, partial correlation was applied to analyse the relationships between perceived problems (Independent variables) and firm performances (Dependent variables). Table 9 and Table 10 show the coefficients on the independent variables with the significance level of the variables. The problems or barriers facing SMEs are expected to have negative impact on firm performance including the overall profits, the overall volume of sales, the number of employees, the value of capital assets, the overall line of products, stock of raw materials, sales inventory, and the image of business. Only the overall cost of production is expected to see positive relationship with perceived problems. The list of firm performance outcome is provided as follows;

Performance variables

- 1: *The overall profits*
- 2: *The overall volume of sales*
- 3: *The number of employees*
- 4: *The value of capital assets*
- 5: *The overall cost of production*
- 6: *The overall line of products*
- 7: *Stock of raw materials*
- 8: *Sales inventory*
- 9: *The image of business*

Table 9 Means, Standard Deviations, and Correlations of Thai SMEs

	Mean	S.D.	1	2	3	4	5	6	7	8	9
Government	2.64	0.92	0.095	-0.233	-0.035*	-0.120	-0.209	-0.114	0.284	-0.047	-0.103
Business Plan	2.40	0.66	-0.011	0.109	0.32	-0.032	-0.155	-0.205	-0.038	0.369	-0.128
Finance	2.61	0.97	-0.387*	-0.405	-0.156	-0.255	0.107	0.271	-0.142**	0.121	0.320
Operation	2.69	0.85	-0.102	-0.231	-0.877	0.117	0.165*	-0.089	-0.018	-0.192	-0.047
Marketing	3.21	0.76	-0.233**	-0.33**	0.111	-0.089	0.209	-0.156	0.025	0.254	0.034
Human Resource	2.34	0.81	0.214	-0.089	-0.228	0.123	-0.026	0.134	-0.115	-0.303	0.259
Managerial Skill	2.84	0.97	-0.185	-0.064*	-0.022	-0.066	0.019	0.098	0.022	0.056	-0.126
Others	2.58	0.69	0.009	-0.152	0.043	-0.130	-0.021	-0.047	0.143	0.025	0.059

Notes: * $p < 0.5$; ** $p < 0.01$

Table 10 Means, Standard Deviations, and Correlations of Chinese SMEs

	Mean	S.D.	1	2	3	4	5	6	7	8	9
Government	2.73	0.65	-0.152	-0.098	-0.191	-0.33	0.419**	-0.41**	0.295	-0.223	-0.296
Business Plan	2.6	0.89	0.007	-0.052	-0.025	-0.003	-0.123	-0.025	0.047	-0.018	-0.189
Finance	3.32	0.58	-0.579**	0.311	0.139	-0.448*	0.367*	-0.203	-0.113	0.012	-0.095
Operation	2.96	0.82	-0.199*	-0.021	-0.010	0.164	0.098	0.18	-0.198	-0.042	-0.012
Marketing	2.95	0.76	-0.159	-0.057*	0.231	0.198	0.027	-0.209	0.135	0.244	0.019
Human Resource	2.9	1.09	-0.048	-0.200	-0.03	0.033	-0.048	0.108	-0.103	-0.319	-0.250
Managerial Skill	2.97	0.89	0.242	-0.117	-0.115	0.161	0.016	-0.140	-0.082	0.008	-0.020
Others	2.57	0.58	0.114	-0.088	0.019	-0.018	-0.004	-0.053	0.053	0.190	0.009

Notes: * $p < 0.5$; ** $p < 0.01$

As the result of partial correlation in Table 9 and 10 shows, it provides some interesting findings. First, government policy has a negative significance on number of employees hired under Thai SMEs. This finding suggests that Thai SMEs were aware of the role of government policy of creating and maintaining a desirable level of competition in the economy which can secure the existence of business in the long run. Therefore, SME policies are necessary in a market economy. If in the case that policies are biased against small enterprises (for example, import licenses that are difficult for small firms to obtain), it will be difficult for SMEs to compete with large firms and survive in the market (Seong, 1993). Therefore, SMEs may have to reduce the number of employees in order to reduce the expenditure of the firm. On the other hand, government policy has significant negative relationship with the overall lines of product but has positive relationship with the overall cost of production/operation

for SMEs in China. This finding is not surprisingly because policies refer to the rules that influence how resources are allocated (whether directly, through markets, or in government budgets) and more broadly to government actions that affect firm's capabilities and capacity as mentioned by Steel (1993). This is also consistent with Stewart (1987) who asserted that government can influence the performance and development of small enterprises through policies that affect firms' objectives, accessibility to resource, technology availability, and factor and product market.

Second, in this study problem with business plan has no significant relationship with any firm performances in both Thailand and China's cases. With regard to the literature, the previous studies on the relationship between business planning and firm performance have presented mixed results. Some researchers are of the opinion that planning does not lead to better performance improvement (Armstrong, 1991; Berman et al, 1997). In contrast, Bracker et al. (1993); Aram and Cowen (1990); Schwenk and Shrader (1993); Bryers (1991) found an association between business planning and firm performance. Therefore, this study supports that we cannot say that problem with business planning lead to poor performance of firm.

Third, the partial correlation findings suggest that, the greater the relationship, the more likely financial problem will enhance negative changes in the overall profits and stock of raw materials for Thai SMEs. Similarly, for Chinese SMEs, financial problem showed a significant negative relationship with the overall profits and the values of capital assets. In contrast, financial problem is found to have a positive relationship with the overall cost of production/operation. These findings support Deakins et al. (2002)'s study, they note that financial problems in small firms need to be seen as evolving dynamic processes, which have consequences for policy intervention. In with regard of the result, financial problem was the most reported problem of SMEs in China. It is claimed that the most seriously thing is that SMEs cannot get the financing on the market. Most of SMEs get loans from government, from public finance agencies; however, this money is in limited amount. Consequently, SMEs may be short of cash and credits to operate and expand their businesses which are believed to impact on business outcome.

Fourth, problem associated with business operation for Thai SMEs is found to have positive significant relationship with the overall cost of production/operation which suggests that the greater the relationship, the more likely operational problem will enhance positive changes in the overall cost of production/operation. While significant negative relationship between operational problem and the overall profits was found in Chinese SMEs.

Fifth, as expected, the partial correlation findings reveal that market related problem has negative relationship with the overall profits and the overall sales for Thai SMEs. Similarly, for Chinese SMEs, marketing problem has significant impact on only the overall sales. The findings support the argument that effective marketing activities will facilitate the achievement of typical organisational objectives such as higher sales, market share, profits and competitive advantage (Okoroafo, 1996).

Sixth, it is surprisingly to find that in both Thailand and China's case problems associated with human resource and external institutions have no significant relationship with any firm performances.

Finally, managerial skills of SME owners/managers have found to have significant negative relationship only with the overall sales in case of SMEs in Thailand. The literature reviewed suggest that many the major cause of small business failure is *"poor management"*. Whether the causes are labeled as financing, competition, marketing, and inventory, they can be safely avoided if good management was in place. SME owners/managers need to develop basic managerial skills and knowledge. If they are to succeed, owners/managers need to have adequate skills in the area of planning, organising, directing and controlling organisational resources (Temtime and Pansiri, 2005). Hence, managerial skill is seen to be the most essential ingredient for productive performance of the SMEs and is an important need for success and long-time survival (Mullins, 1993).

Discussion and Conclusion

An analysis of the preliminary results that emerged from this research study has highlighted a number of similarities as well as differences between perceived problems of SMEs in Thailand and in China. In case of Thai SMEs, the most serious problem was concerned about national economy. It seems that many SME owners/managers still perceived the negative impact of the Thai economy with the consequence of the financial crisis in 1997 and the slowdown of national economy during the past decade. Hence, it is possible that SME owners/managers may think of this major problems does not lead to better firm performances. On the other hand, the external institutional environments like the slowdown national economy did not seem to have been worried by Chinese SMEs but financial problem was found to be the most serious problem for them. This is may be because Chinese SMEs themselves. Size of business, irregular management, and an unclear development direction

of SMEs often discouraged banks and funds from supporting them. However, there are some similarities of both Thai and Chinese SMEs. It is found that changing in customer's behavior/taste/needs/expectations were highly rated by Thai and Chinese SMEs. This suggests that SME owners/managers believe in the importance of changing customer buying behavior on firm performances. This is also associated with the marketing problem which seems to influence on firm outcomes. Furthermore, the external problems including globalisation, population trends, and crime have not been in attention by Thai and Chinese SMEs.

In the light of perceived problems and firm performance, this appears to confirm the previous evidences indicating the significance impact of perceived problems or barriers on firm performance and firm growth in both developed and developing countries. However, caution should be exercised in interpreting the findings because of the small number of sample in this study.

Taken together, SMEs in Thailand and China are in need of several improvements to internal factors and overcoming external factors which seem to impact on their business operations. Moreover, they may need an institutional support to overcome some of those barriers or problems. Special enterprise agencies provided by government can ideally provide much needed support to new and growing SMEs in the form of provision of information, advice and training services. Those services may be an effective way of overcoming the problems to SME development.

To sum up, the findings from this study give better understanding of the perceived problems and as well as an insight of the need for government assistance areas for SME sector. An attempt to find out relationship between perceived problems of SMEs and firm performance outcome in Thailand and in China has been successfully examined as it is one of the objectives of this study.

Limitations and Directions for Future Research

This study obtained valuable results, however, several limitations should be mentioned. The first potential problem relates to the size of samples. The firm samples of this study are quite small due to the limitation of budget and time. In addition, it was concentrated in one particular region in Thailand and one particular region in China. Therefore, the results may be generalised only with regard to firms that are similar to those in this study's sample. Second, comparability of Thai SMEs and Chinese SMEs in this study did not consider the differences

between SMEs in Thailand and China, in terms of organisational, structural, environment, and also management variables. Finally, the bias and problems of data can be occurred when collecting the subjective data based on personal respondent judgments. Although Dess and Robinson (1984) asserted that subjective data could be used where objective data were unavailable. It is suggested that for future study, researchers could consider some secondary data sources as complementary information which could equally represent the concept of firm performance.

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