

The Financial Impediment of SMEs in Creative Business of Thailand

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Abstract: The small and medium enterprises (SMEs) sector in creative business has been acknowledged as a key driver of economic growth in Thailand. Capital investment is a fundamental component to developing business in the creative business, however, SMEs have comparatively limited resources and greater difficulty in accessing to funding sources that means they are often vulnerable to barriers that may hamper their growth prospects. This study focused on creative business in SMEs of Thailand and study aim that is financial impediments of SMEs in creative business face from financial resource using questionnaires in surveyed data and study both demand side 400 SMEs and supply side 31 agencies. The results show many SMEs in creative business face more financing impediments form domestic investment than foreign investment, whether it is high collateral requirement and loan interest rate, the amount of the loan too small, and regulation of agency too. The financial impediments of supply side the finding are in line with those collected from the demand side.

Key words: creative business; SMEs; financial impediments; financial resource

JEL codes: G2, M1

1. Introduction

In the past, Thailand format of development emphasized economic growth with a dependence on affordable raw materials (a factor-driven economy) coupled with a reliance on private sector (an investment driven economy). Thailand can change from the growth by factors of productions and natural resource to the drive by knowledge and creativity (Srisamai & Kaenmanee, 2013); chances are that economic development will be sustainable expanded. In 2001, Thai government to introduced a Thai version of One Village One Product namely OTOP stands for One Tambon (meaning sub-district) One Product for stimulating rural development in the country. The primary objective of the Thai OTOP scheme is to promote cottage industries as well as Small and Medium-sized Enterprises (SMEs) (Narsuda, Igusa, Wiboonpongse & Thoburn, 2011). OTOP product is based on local materials and creativities, handicrafts, cotton and silk garments, pottery, fashion accessories, household items, and foods. The 2013-2014 Thai political crisis was a period of political instability in Thailand effect to the economy has stagnated, a number of the OTOP entrepreneurs struggled to compete and some eventually failed, the one issues of problem is a result of financial management and capital resources. Subsequently Thai government announced that

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it would promote creative economy in its National Agenda by including in the National Economic and Social Development Plan (2012-2016), which would aim to uplift Thailand into a hub for creativity in the region and increase the economic value of creative industries, the same time Thailand has been entering into ASEAN Economic Community (AEC) in 2015 with the other nine nations: Myanmar, Laos, Vietnam, Malaysia, Singapore, Indonesia, Philippines, Cambodia and Brunei.

Office of the National Economic and Social Development (NESDB) determine creative economy of Thailand, widely define framework for measuring the economic benefits of the creative industries of Thailand and reflects importance of Thai economy. Based on The United Nations Conference on Trade and Development (UNCTAD) format and additional format along United Nations Educational, Scientific and Cultural Organization (UNESCO) format into four main groups and 15 branches are Advertising, Architecture, Design, Fashion, Film, Tourism, Music, Printing, Software, Performing Arts, Broadcasting, Visual Art, Thai foods, and Thai Tradition Medicine. Creative industries already contribute to employment generation and export expansion (Chiyapat, 2013) show in Table 1 and Figure 1.

Table 1 Values and Shares of Creative Industry Good Export, Annual 2003-2012 of Thailand (Million US dollars)

YEAR	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Product										
Art Crafts	249.4	281.4	282.5	336.9	375.3	399.3	361.4	448.8	424.1	384.6
Audio Visuals	11.8	18.9	22.8	67.1	447.8	397.6	255.9	349.2	329.41	269.2
Design	2492.1	2770.9	3185.7	3200.5	3678.2	4370.1	3822.2	4717.7	5398.2	5474.1
New Media	4.6	16.7	17.6	12.8	59.7	75.7	130.5	168.3	156.2	145.2
Performing Arts	14.8	13.1	16.6	13.9	15.9	17.5	14.647	17.5	17.844	24.2
Publishing	70.2	62.5	116.8	109.2	78.1	81.2	70.726	80.9	83.311	72.2
Visual Arts	85.1	78.9	83.5	75.2	79.0	95.0	69.299	65.5	87.310	90.5

Source: UNCTAD, statistics on creative economies

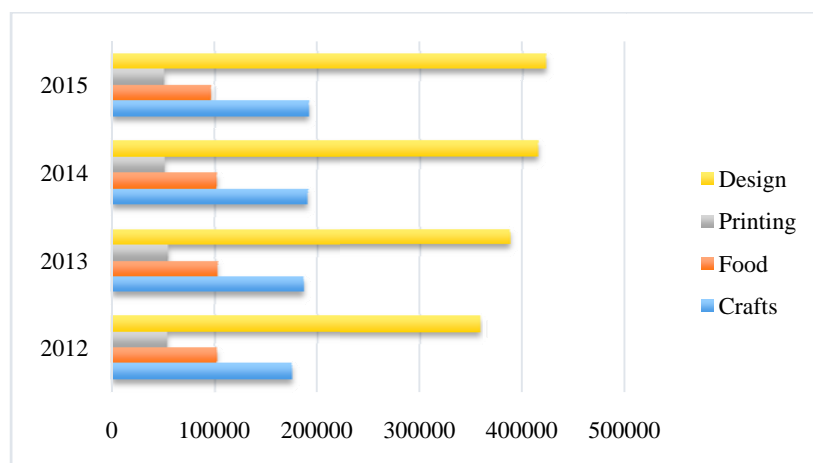


Figure 1 Employee in Design, Printing, Food, and Crafts Sector, Annual 2012-2015 of Thailand

Source: Ministry of Labor Thailand

The integration of AEC will affect the adaptation of creative business because SMEs in the creative business must face with high competition from foreign firms; resulting difficulties for SMEs attract capital from the foreign and domestic country, which financial impediments that SMEs in creative business will have faced from financial

resources because the financial vital importance for a business to run operations profitably (Chittithaworn, Islam, Keawchana & Muhd-Yusuf, 2011) and SMEs account for a large proportion of the total enterprise in the various sectors finance factors that affect the business success of SMEs in Thailand. Subhanij (2011) using database of entrepreneurs registered with the ministry of commerce, it is found that SMEs in Thailand, particularly small and start-up firms, still face constraints with regard to external financing. Potential entrepreneurs suggest that access to finance is one of the biggest barriers to starting and growing a new business (Kerr & Nansa 2009). Source of Financial (% of SMEs cited using) show in Figure 2

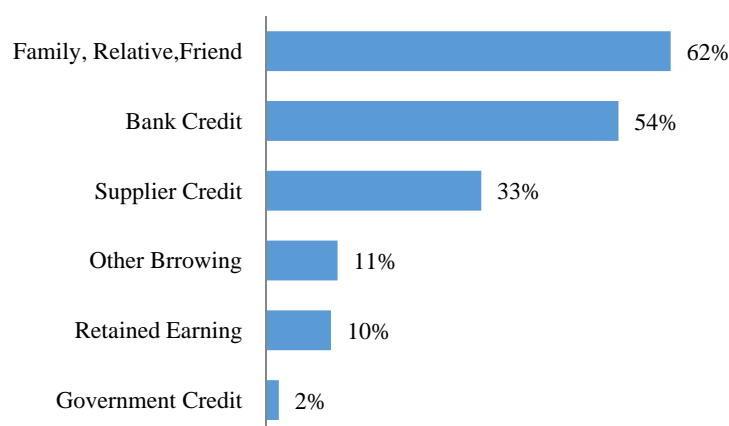


Figure 2 Source of Financial
Source: (Mehrotra, Tan & Ng, 2015)

Financial resources are the most significant factor in the success of small and medium enterprises (Mahmood, Khan, Hunjra, Rehmen & Azam, 2011). Access to appropriate levels of finance is essential to the development of a business. The barriers to accessing finance for the creative business exist in both the supply and the demand. From the supply side, the perception of the creative business as high risk, and having a different model operand from other, more traditional, sectors contributes to these barriers. The creative product an unstable commodity that is difficult to value therefore high risks. Because of the difficulty of valuing intellectual property, the creative business tends to lack of collateral required to secure debt finance. Limited access to credit, and high costs of credit are major determinants of financial impediment that prevent entrepreneurs from funding all desired investments (Behr, Norden & Noth, 2013). The most important factor limiting loans to SMEs especially for start-up and very small SMEs is collateral requirement (Poonpatpibul & Limthammahisron, 2005; Kung, 2011; Osana & Languitone, 2016), unavailability of reliable credit histories, interest rate charged (Wouter, & Tine, 2011), information asymmetry and business risks (Waari & Mwangi, 2015) influence access to capital.

2. Methodology

This study use primary data collection and focused on SMEs in creative business. The research data are collection from survey by questionnaires. We surveyed questions both the demand and supply side of SMEs in the six region of Thailand. Sample size determination: demand side, the population of this study is 7,952 enterprises who are SMEs in creative business is register with department of internal trade and they gave the address on database. The sample size is using the Taro Yamane (1967).

The sample size will be 400 entrepreneurs that are SMEs in the creative business, 400 entrepreneurs distributed to each province by probability proportional to size sampling (Vanishbancha, 2007). Questionnaires sent to 400 entrepreneurs that are considered to SMEs in creative business and the owner/manager of 31 agencies. The questionnaire are conducted with the respondents, a questionnaire used 5 point likert scale (with 1 = Strongly disagree, 2 = Disagree, 3 = Neither agree, 4 = Agree and 5 = Strongly agree), analysis to seek financial impediments SMEs in creative business are expected to face.

3. Results

This section presents the analysis of quantitative data both the demand and supply side of SMEs in creative business of Thailand. The questionnaire surveys distributed to 400 SMEs and 31 agencies for support SMEs by mail and 386 SMEs and 31 institutions of survey respondents.

3.1 The Demand Side

The most popular sub-sector of respondents surveyed was Crafts followed by Designing with a percentage frequency of (44%) and (19.5%) respectively as show in Table 2. The status of crafts sectors are identified as a key strategy for sustainable development that can provide opportunities for employment, especially in rural communities, as well as contributing to economic growth (Chusasri, Walker & Evans, 2012). The craft sector included; basketry, ceramics, molding, jewelry, carving, furniture, instruments, leather, silverware, gold ornaments, textiles, and furnishing.

Table 2 The Type of Business

Type of business	Frequency	Percentage
Advertising	9	2.3
Architecture	2	0.5
Design	75	19.5
Fashion	17	4.5
Film	2	0.5
Tourism	13	3.4
Music	1	0.3
Printing	25	6.5
Software	11	2.8
Performing Art	4	1
Thai traditional medicine	15	3.9
Thai food	37	9.6
Crafts	170	44
Visual Art	5	1.3
Total	386	100%

While Table 3 show that the most popular form of respondents surveyed was Sole Proprietorship and Limited Corporation with a percentage frequency of (32.6%) and (31.3%) respectively.

Table 3 Legal of Business

Legal	Frequency	Percentage
Sole Proprietorship	126	32.6
Partnership	26	6.7
Limited Corporation	121	31.3
Community Enterprise	113	29.3
	386	100%

Many SMEs in creative business consider financial institutions or agency supporting, but state that collateral requirements (3.64) and interests rate (3.44) are high (see in Table 4). Moreover, in financial institutions or agency supporting regulation is too strict (3.49) and takes long a time for consideration capital granted (3.60).

Table 4 The Financial Impediments to Attract Financial Institution/Agency Supports for Investment

List	Mean score	Significance	%Score1	%Score2	%Score4	%Score5
Financial institutions or agency supporting have high collateral requirements	3.64	0.000	8.0	11.1	38.6	26.2
Financial institutions or agency supporting have high loan interests rate	3.44	0.000	7.5	8.5	30.6	18.4
The amount of the loan is too small	3.66	0.000	6.5	5.2	45.9	18.4
My business lacks of reputation and credibility	2.70	0.000	16.8	11.5	13.7	2.1
Financial institution or agency supporting refuses to accept domestic collateral	2.77	0.000	20.7	11.7	23.3	3.6
Financial institution or agency supporting regulation is too strict	3.49	0.000	9.1	11.7	32.1	23.6
The financial performance of my business is disagreeable to the financial institutions or agency supporting regulation	3.05	0.259	6.5	18.1	27.7	4.4
Capital granted from financial institutions or agency supporting takes long time for consideration.	3.60	0.000	3.1	16.3	28.0	26.9
There is corruption at financial institution or agency supporting	2.77	0.000	20.5	7.5	13.2	6.0

Note: Significance indicates whether the mean score is statistically significantly different from 3 (p-value < 0.05 from a one sample t-test). % Score 1 and 2 represents the percentage of respondents that strongly disagree and disagree respectively for this statement. While % Score 4 and 5 shows the percentage of respondents that agree and strongly agree respectively for this statement.

As show in Table 5, the SMEs in creative business in our sample does not have to face financial impediments for foreign investment (mean score: 2.66) but they are faced with financial impediments for domestic investment (3.31), which not a lot impacts their growth potential because some SMEs use their own sources of funding for their business. Overall, it SMEs in creative business lake business lacks domestic funds, it would be very difficult to find the foreign funds for investment (3.59).

According to the SMEs in creative business surveyed (see in Table 6), the key factor driving the institution's loan decision is the realism and feasibility of the business plan (4.30), as verify a minimum solvency level (4.08). Other relevant factors are management of business team (4.04), the risks of the SMEs in creative business (4.03), strength of the underlying product (4.03), economic and political stability (4.03) and financial performance of business (4.02).

Table 5 Financial Impediments Faced by SMEs from Domestic and Foreign Investment: General Overview

List	Mean score	Significance	%Score1	%Score2	%Score4	%Score5
My business faces financial impediments for foreign investment	2.66	0.000	21.8	14.8	17.1	3.6
My business faces financial impediments for domestic investment	3.31	0.000	4.7	9.3	34.7	7.5
Financial impediments for foreign investment hinder my business growth	2.79	0.002	25.1	12.4	22.3	9.8
Financial impediments for domestic investment hinder my business growth	3.05	0.405	16.8	16.6	31.3	12.2
Financial impediments for foreign investment are more severe than domestic investment	2.92	0.113	10.1	15.8	13.0	7.5
Financial impediments for domestic investment are more severe than foreign investment	2.97	0.595	11.1	15.3	18.7	8.0
If my business lack domestic funds, it would be very difficult to find the foreign funds for investment	3.59	0.000	12.4	7.0	20.5	35.0

Note: Significance indicates whether the mean score is statistically significantly different from 3 (p-value < 0.05 from a one sample t-test). % Score 1 and 2 represents the percentage of respondents that strongly disagree and disagree respectively for this statement. While % Score 4 and 5 shows the percentage of respondents that agree and strongly agree respectively for this statement.

Table 6 Factors that Financial Institution/Agency Considers in Evaluating Loan Request

List	Mean score	Significance	%Score1	%Score2	%Score4	%Score5
Economic and political stability	4.03	0.000	1.3	3.9	64.0	22.8
Type of assets to be financed	3.71	0.000	2.3	2.1	56.5	10.6
Sector of business investment	3.66	0.000	0.8	7.8	60.4	7.3
Realism and feasibility of the business plan	4.30	0.000	0.8	4.1	38.3	48.7
Trust and relationship between business and finance institution	3.73	0.000	1.8	0.5	62.2	7.5
Credit limits	3.80	0.000	1.8	2.8	56.2	15.3
Minimum solvency level	4.08	0.000	3.9	6.6	41.7	40.2
Strength of the underlying product	4.03	0.000	0.8	6.2	60.1	25.1
Financial performance of business	4.02	0.000	1.0	9.1	46.1	27.2
Management of business team	4.04	0.000	1.0	9.1	46.1	34.5
Business risks	4.03	0.000	1.0	11.1	42.5	36.8
Pledge collateral of business for capital loan	3.82	0.000	2.1	5.4	52.8	19.7

Note: Significance indicates whether the mean score is statistically significantly different from 3 (p-value < 0.05 from a one sample t-test). % Score 1 and 2 represents the percentage of respondents that strongly disagree and disagree respectively for this statement. While % Score 4 and 5 shows the percentage of respondents that agree and strongly agree respectively for this statement.

3.2 The Supply Side

The most popular title of respondents surveyed was government followed by state enterprises, private sector, and venture capital with a percentage frequency of 54.8%, 25.8%, 16.1%, and 3.2% respectively (Table 7).

Agencies provide a source of fund for growing businesses. In addition to provide funding for business, agencies support our entrepreneurs to achieve their business goal and to become successful by providing various means such as introducing of strategic partner, increasing of investee's productivity, improving management system, supplies information and data on business to entrepreneurs, supporting the production and development of personnel, public relations activity in creative business, assistance small enterprises in obtaining a greater amount of credit from financial institutions, and providing credits to small enterprises.

Table 7 Type of Agency Supporting

Type of business	Frequency	Percentage
Government	17	54.8
Private sector	8	25.8
Venture capital	1	3.2
State enterprises	5	16.1
Total	31	100%

Table 8 indicates financial institutions or agency supporting requires SMEs to high collateral requirements (3.87) and loan interests rate (3.58), they have considered too small for loan for SMEs (3.71).

As indicated in Table 9, the most respondents the most respondents believed that if entrepreneur lack domestic funds, it would be very difficult to find the foreign funds for investment (3.71). And SMEs in the creative business face more financial impediments from domestic investment (3.58) than foreign investment and impact entrepreneur's growth (3.53).

Table 8 The Financial Impediments to Attract Financial Institutions or Agency Supports for Investment

List	Mean score	Significance	%Score1	%Score2	%Score4	%Score5
Financial institutions or agency supporting have high collateral requirements	3.87	0.000	0	3.2	38.7	22.6
Financial institutions or agency supporting have high loan interests rate	3.58	0.000	0	9.7	48.4	9.7
The amount of the loan is too small	3.71	0.000	0	9.7	41.9	19.4
My business lacks of reputation and credibility	2.94	0.810	25.8	12.9	19.4	19.4
Financial institution or agency supporting refuses to accept domestic collateral	2.97	0.865	6.5	29.0	25.8	6.5
Financial institution or agency supporting regulation is too strict	3.16	0.282	0	22.6	32.2	3.2
The financial performance of my business is disagreeable to the financial institutions or agency supporting regulation	3.03	0.873	6.5	29.0	25.8	9.7
Capital granted from financial institutions or agency supporting takes long time for consideration.	3.32	0.067	0	19.4	25.8	12.9
There is corruption at financial institution or agency supporting	2.71	0.059	9.7	22.6	12.9	0

Note: Significance indicates whether the mean score is statistically significantly different from 3 (p-value < 0.05 from a one sample t-test). % Score 1 and 2 represents the percentage of respondents that strongly disagree and disagree respectively for this statement. While % Score 4 and 5 shows the percentage of respondents that agree and strongly agree respectively for this statement.

Table 9 Financial Impediments Faced by SMEs from Domestic and Foreign Investment: General Overview

List	Mean score	Significance	%Score1	%Score2	%Score4	%Score5
Entrepreneurs face financial impediments for foreign investment	3.35	0.070	0	29.0	38.7	12.9
Entrepreneurs face financial impediments for domestic investment	3.58	0.001	0	12.9	45.2	12.9
Financial impediments for foreign investment hinder my business growth	3.29	0.071	0	19.4	35.5	6.5
Financial impediments for domestic investment hinder my business growth	3.53	0.003	0	12.9	38.7	12.9
Financial impediments for foreign investment are more severe than domestic investment	2.93	0.677	0	32.3	12.9	6.5
Financial impediments for domestic investment are more severe than foreign investment	3.48	0.002	0	6.5	29.0	12.9
If entrepreneurs lack domestic funds, it would be very difficult to find the foreign funds for investment	3.71	0.000	0	9.7	41.9	19.4

Note: Significance indicates whether the mean score is statistically significantly different from 3 (p-value < 0.05 from a one sample t-test). % Score 1 and 2 represents the percentage of respondents that strongly disagree and disagree respectively for this statement. While % Score 4 and 5 shows the percentage of respondents that agree and strongly agree respectively for this statement.

According to the agency (see in Table 10), the key factor criteria for supplying finance for SMEs in creative business are realism and feasibility of the business plan (4.65), management of business team (4.42), minimum solvency level (4.39), strength of the underlying product (4.29), business risks (4.32), financial performance of business (4.26), and economic and political stability (4.10).

Table 10 Factors that Financial Institution/Organization Considers in Evaluating Loan Request

List	Mean score	Significance	%Score1	%Score2	%Score4	%Score5
Economic and political stability	4.10	0.000	0	0	45.2	32.3
Type of assets to be financed	3.90	0.000	0	0	45.2	22.6
Sector of business investment	3.97	0.000	0	0	38.7	29.0
Realism and feasibility of the business plan	4.65	0.000	0	0	35.5	64.5
Trust and relationship between business and finance institution	3.55	0.002	0	12.9	35.5	16.1
Credit limits	4.00	0.000	0	0	48.4	25.8
Minimum solvency level	4.39	0.000	0	0	41.9	48.4
Strength of the underlying product	4.29	0.000	0	0	71.0	29.0
Financial performance of business	4.26	0.000	0	0	67.7	29.0
Management of business team	4.42	0.000	0	0	51.6	45.2
Business risks	4.32	0.000	0	3.2	58.1	38.7
Pledge collateral of business for capital loan	3.93	0.000	0	0	54.8	19.4

Note: Significance indicates whether the mean score is statistically significantly different from 3 (p -value < 0.05 from a one sample t -test). % Score 1 and 2 represents the percentage of respondents that strongly disagree and disagree respectively for this statement. While % Score 4 and 5 shows the percentage of respondents that agree and strongly agree respectively for this statement.

4. Conclusion

The study revealed that understanding in financing impediments of supply side finding are in line with those collected from the demand side that is to say many SMEs in creative business face more financing impediments form domestic investment than foreign investment. The results show the financial impediments to attract agency for investment are high collateral requirements, high loan interest rate, and the amount of the load too small, and regulation of agency too strict. Meanwhile, the results identified between demand side and supply side are on the same page to the factor evaluate a capital request from SMEs in the creative business as follow economic and political stability, realism and feasibility of the business plan, minimum solvency level, strength of the underlying product, financial performance of business, management of business team, and business risks. Despite the limitation, this study identifies key financial impediments factor that SMEs in creative business face in Thailand, indicates the government, financial institution, and other agency will have formulated financial policies for supporting because SMEs have comparatively limited resources and greater difficulty in accessing to funding sources (Chittithaworn, Islam, Keawchana & Muhd-Yusuf, 2011).

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