

Guidelines for Upgrading Small Enterprises to Medium-sized Enterprises for Sustainable Growth

By

Supanupat Wongpudee

Associate Professor Sunee Wattanakomol, Professor Thanin Silpcharu

Introduction

Small and medium-sized businesses are considered an important mechanism for driving the country's economy ([Alhakimi, and Mahmoud, 2020](#)) as they play an important role in creating jobs in the system ([Okundaye et al., 2019](#), [Olaore, et al., 2020](#)), and most importantly, they are also a link to the industry's supply chain ([Olaore et al., 2021](#)). According to the Office of Small and Medium Enterprises Promotion (2021), the value of gross domestic product has continuously increased, with the value of 5.0 million baht in 2018, 5.2 million baht in 2019, and up to 5.5 million baht in 2020, respectively.

When taken the size of the existing enterprises in Thailand into consideration, it can be seen that most the enterprises are small. Only 0.5 percent are of medium-size ([National Statistical Office, 2021](#)). According to the economy perspective, if the number of the medium sized enterprises is less than 1.0 percent out of the total number of the whole country's enterprises, it becomes a huge obstacle for driving the country's economic growth since this group of enterprises is supposed to have higher potential in international competitiveness which can cause the country's advantage on international trade and investment. Furthermore, medium enterprises have the opportunity to create more innovative products with higher added value. That is why the proportion of medium-sized enterprises in developed countries is as high as 5-10 percent ([Office of Small and Medium Enterprise Promotion, 2020](#)) while that in Thailand is extremely low. This is so because there may be various constraints preventing small enterprises from growing into the medium-sized one such as productivity, management, application of modern technology or innovation, personnel development to have the potential to be ready for higher competition, and, the most important one, the problem of expanding both domestic and international markets, etc. The Organization for Economic Co-operation and Development (OECD) calls those constraints the "Missing Middle". Therefore, upgrading small enterprises to become the medium-sized ones is regarded as an important matter for the country's economic system, which may lead to the success in developing the potential of Thai small and medium enterprises to have skills and ability to run the business and eventually to become more competitive in line with the dynamic changes of the trading world.

Research Objectives

To investigate guidelines for upgrading small enterprises to the medium-sized ones for sustainable growth, and

To develop a structural equation model on guidelines for upgrading small enterprises to medium-sized ones for sustainable growth.

Literature Review

Concepts of Internal Process, Innovation and Technology, Workforce and Competitiveness

Good management style will result in good business performance. Businesses need to manage the challenges that arise within the organization as well as in the outside environment (Eklund, 2020) whether they are caused by the change of generation of working age people, market volatility, intense and complicated competition (Muller, 2019). Therefore, businesses need to have clear strategies, and develop a plan of action to avoid the risks arising from these operations (de Araujo Lima et al., 2021). In addition, situations must be analyzed in all aspects in order to improve operational efficiency (Kyal et al., 2022). These will enable businesses to operate more efficiently and effectively (Gosnik and Stubelj, 2021).

Presently, innovation and technology play an important role in business operations, and this issue has been widely discussed as innovations and new technologies will become even more influential in business operations in the future. Therefore, changes and adjustments in the business sector are inevitable (Rezaei et al., 2018, Depaoli et al., 2020). Businesses need to develop innovation and technology capabilities to keep up with changes and competition (Alhakimi, and Mahmoud, 2020). In particular, the adjustment of small and medium-sized enterprises is very essential in order to meet new opportunities and challenges in the digital age (Kraft et al., 2022).

One of the key factors of business operations under the rapid change in the globalization era, is potential and knowledgeable personnel as they are the key person to create competitive advantages (Mitmek and Worawattanaparinya, 2020, Ardito, et al., 2021), especially in the digital world of competition, where both executives as guides and employees as operators need to develop their working skills (Kraft et al., 2022).

Business' competitive ability is dependent on a number of factors including a competitive advantage, price competition, leadership, using existing knowledge and skills to create new quality products and services different from the others' (Cong and Thu, 2021). In addition, businesses need to build networks to strengthen their operations (Reijonen et al., 2021), and offer different products and services (Mustapha et al., 2020). According to Padilla-Lozano and Collazzo (2021), businesses should be responsible for the society as such responsibility will yield the benefit to the business in return.

Hypotheses

Internal process directly influences innovation and technology.
Internal process directly influences workforce.
Internal process directly influences competitiveness
Innovation and technology directly influences workforce.
Workforce directly influences competitiveness.

Research Methodology

The population used in this research was 40,652 entrepreneurs in medium-sized enterprises gaining profits for three consecutive years (Office of Small and Medium Enterprise Promotion, 2020). The sample size was determined using the criteria of factor analysis or a structural equation model, and 500 samples defined as very good were obtained (Comey & Lee, 1992 cited in Thanin, 2020).

The variables used in this research consisted of 1) Independent Variable, i.e. medium-sized enterprises in manufacturing and service businesses; 2) Dependent Variable, i.e. components of the guidelines for upgrading small enterprises, which were divided into two categories; namely, Exogenous Latent Variable referring to the component related to internal process, and Endogenous Latent Variable including components related to innovation and technology, workforce, and competitiveness.

The instrument for collecting the data was copies of questionnaires for investigating guidelines for upgrading small enterprises to the medium-sized ones for sustainable growth. It was of a 5-point rating scale type based on Likert's criteria. The tool was tested for its quality, gaining the values of IOC = 0.60 – 1.00, discrimination = 0.41-1.76 > 0.30, and reliability = 0.994 > 0.80.

Data collection was done by means of meeting the subjects for interviews.

Descriptive statistics including frequency, percentage, arithmetic mean, standard deviation, was used to analyze the data. T-test was employed to test the difference of the means of two independent populations. The statistical significance level was set at the 0.05. The data and the developed structure equation model were analyzed with IBM SPSS Statistics and AMOS software.

Results

The analysis of the demographic of the organizations revealed that the respondents were from medium-sized enterprises engaged in manufacturing business and service business in the equal number (50.00% each). The total number of the personnel in their organizations was less than 101 people (53.20%). The businesses were of a sole proprietor or not more than 2 partners (53.80 percent), less than 10 years in operation (79.00 percent), and in downtown location (59.20%).

The results of the analysis of the importance level of the factors of the guidelines for upgrading small enterprises to the medium-sized ones for sustainable growth, as a whole, are shown in Table 1.

Table 1: Mean and standard deviation of the level of importance of the overall guidelines for upgrading small to medium-sized enterprises for sustainable growth

	Guidelines for upgrading small to medium-sized enterprises for sustainable growth	\bar{X}	S.D.	Importance level
	Overall picture	4.24	0.57	high
1.	Innovation and Technology	4.15	0.58	high
2.	Internal Process	4.27	0.59	high
3.	Workforce	4.25	0.64	high
4.	Competitiveness	4.31	0.66	high

The top three guidelines for upgrading small enterprises to medium-sized ones for sustainable growth ranked according to their arithmetic mean are as follows:

Innovation and Technology: having an online financial transaction system to facilitate the clients ($\bar{X} = 4.45$); having a system to prevent access to corporate information and to classify the access to information ($\bar{X} = 4.44$); and choosing a software suitable for the specific type of work of the organization ($\bar{X} = 4.43$).

Internal Process: having accurate, transparent and accountable financial and accounting systems ($\bar{X} = 4.60$); establishing effective internal control and auditing ($\bar{X} = 4.49$); and analyzing risks as well as preparing a backup plan for use in emergency situations ($\bar{X} = 4.47$).

Workforce: organization leaders behaving as a role model for personnel ($\bar{X} = 4.52$); assigning work appropriate to the skills and knowledge of personnel ($\bar{X} = 4.50$); fairly allocating special compensation (Bonus) to personnel ($\bar{X} = 4.48$).

Competitiveness: having a quality system to deliver products and services to customers at the right time ($\bar{X} = 4.51$); having a variety of distribution channels both online and offline ($\bar{X} = 4.50$); and adopting strategies to create good relationship with customers (CRM) to create a brand loyalty, and referrals ($\bar{X} = 4.48$).

The analysis of the developed structural equation model disclosed that it was consistent with the empirical data with $CMIN-p = 0.077 > 0.05$, $CMIN/DF = 1.152 < 2.0$, $GFI = 0.962 > 0.90$, $RMSEA = 0.017 < 0.08$, passing all 4 assessment criteria as shown in Figure 1. The definition of the variables is shown in Table 2.

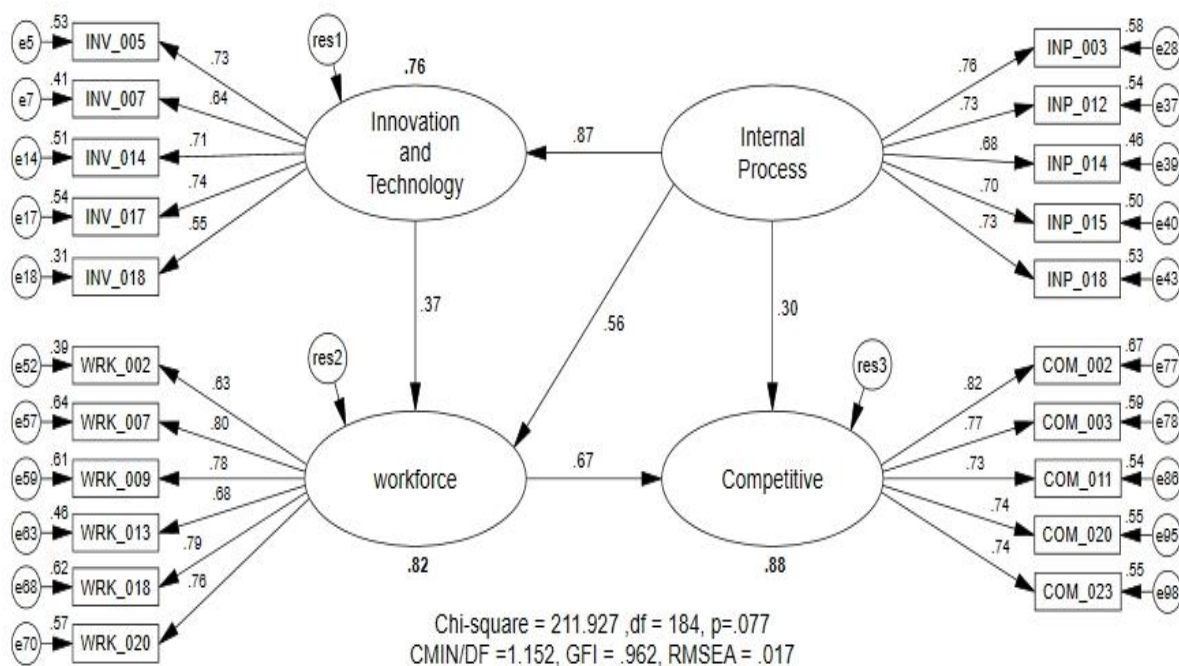


Figure 1: The structure equation model on guidelines for upgrading small enterprises to medium-sized enterprises for sustainable growth

Table 2: Definition of variables of the developed structure equation model

Innovation And Technology	
INV5	Providing adequate technological infrastructure for use.
INV7	Implementing information technology system for searching information easily and quickly, no matter where one is.
INV14	Creating an atmosphere in the workplace for personnel so that they have creativity and look for innovative technologies for organizational development.
INV17	Using modern communication innovation technology in corporate marketing.
INV18	Developing a large database system or Big Data for analyzing customers' ever-changing needs.
Internal Process	
INP3	Establishing effective internal controls and audits.
INP12	Studying the government policies related to SMEs in order to apply them for the benefit of business operations.
INP14	Organizing a work system for the executives to regularly visit the site (Line Walk) for accessible tracking and checks.
INP15	Providing opportunities for stakeholders to share their opinions on the development of work.
INP18	Providing sufficient working capital for business expansion.
Workforce	
WRK2	Encouraging teamwork rather than individual focus.
WRK7	Continuously creating employees' awareness of changes that will occur in the organization in the future.
WRK9	Organizing activities to build relationships for personnel to have a positive attitude towards working together.
WRK13	Providing a forum for employees to have the opportunity to share their opinions and help each other develop an efficient work system.
WRK18	Creating an effective communication system within the organization to thoroughly communicate information to personnel in the organization.
WRK20	Fairly allocate special compensation (Bonus) to the personnel.
Competitiveness	
COM2	Seeking ways to add value to the products.
COM3	Having the products or services certified or awarded to use as a selling point and create a good image for the organization.
COM11	Increasing new target customers domestically and internationally.
COM20	Creating characteristics of the organization, products or services that clearly reflects the identity of the organization.
COM23	Providing appropriate budget for product development and public relations.

Conclusion and Discussion

The results of the study on the 4 components of the guidelines to upgrade small enterprises to medium-sized enterprises for sustainable growth revealed that the most important element is competitiveness. This is so because all organizations have to rely on competition to increase their organization's potential. This finding is consistent with that of [Benjamin, Henry and Rhona's, \(2021\)](#); and [Sine's \(2021\)](#) in that creating a competitive advantage is of utmost

importance to supply chain management, thereby affecting the changing customer's demand. Competitiveness can be created through planning, supporting, and controlling of the flow of raw materials or goods as well as keeping goods or services in original condition from the beginning to the destination,

The investigation on the studied component related to the internal process unveiled that the item recognized as the most important was having accurate, transparent and accountable financial and accounting systems. This finding accords with that of Rasid et al's (2014), who recommend that organizations use information from management accounting to formulate operational strategy plan to increase organizational efficiency. In addition, [Cong and Thu \(2021\)](#) opinionated that the internal process of the organization is the key element that serve to determine the direction of the organization's operations. Therefore, executives need to have visions and basic knowledge of the business in which they are working. They should also possess expertise in specific areas such as accounting and finance. Last but not least they should behave as a role model in moral and ethics for personnel ([Sunee & Thanin, 2020](#)).

The hypothesis test revealed that the factor related to internal process directly influenced that concerning innovation and technology the highest at the Standardized Regression Weight of 0.87 Organizational operations are driven by internal processes. However, everyone can take part in driving the operation process only on the condition that the leaders clearly define the organization's operating guidelines and convey them to the operators so that they have the same direction of understanding, which will enable them to cope with the arising changes and competition. This finding is in accordance with that of [Rasheed and Shahzad's \(2021\)](#) who investigated "the Transformational Leadership and Employee Resonance to Product Creation and Innovation in SMEs" and found that organizational leaders play a key role in the adoption of technology and innovation in organizational processes, and are responsible for communicating to employees about ways to improve production processes along the supply chain in order to effectively reduce operating costs.

Implications

Small enterprises to be upgraded to the medium sized need capital. If the government has a policy on financial services access, it will help drive SME businesses in terms of working capital more.

Digital media technology is essential to marketing as it can be used as channels for product distribution, transaction, advertisement, and public relations. Therefore, the government should have a policy to enhance competitiveness, and facilitate consumers to access digital media technology more.

The government should promote investment by having a policy of allowing large enterprises of private sector to engage with small and medium enterprises, especially those in manufacturing and service businesses.

Educating small enterprises via a business incubator for SMEs as a mentor in business operations. The more concrete support from the government to provide research and new innovations for SMEs, the more small enterprises will become medium-sized ones.

Suggestions for Future Researchers

Other strategies of medium-sized enterprises, such as supply chain management and logistics, etc. are suggested to study as a guideline for small enterprises to upgrade themselves for sustainable growth,

Research related to the guidelines for upgrading small enterprises to medium-sized enterprises for sustainable growth is advised to reconduct after the situation of COVID 2019 is unraveling to analyze, compare, and synthesize for the benefit of manufacturing and service businesses.

It is expected that the education sector to conduct various research on building SMEs competitiveness for organization development in the right direction.

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