Abstract

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Small and Medium sized Enterprises (SMEs) play a significant role in the economies of most countries. This is because of the high ratio of SMEs among firms, their share of total employment and their role in innovation. SMEs came to the attention of researchers few decades ago. The period following the 1974 oil crisis resulted in rekindling of interest in SMEs and their potential contribution to economic growth. Many large firms failed to adjust to abrupt changes in demand and relative costs. It was believed that, because SMEs were individually owned or operated by a small group of managers, they would respond more rapidly to changing conditions than large firms and thereby contribute to job generation, innovation and new organization structures.

SMEs in Thailand came to the attention of the economists and policymakers after the 1997 financial crisis, in the same way that they did so in most countries after the oil shock. Since Thailand devalued its exchange rate on 2 July 1997, the country fell into the deepest crisis it had ever had. Large firms have been hit hard and SMEs have been promoted as a flagship for economic recovery. Many new organizations have been established while the others have adjusted their policy toward SMEs. In Thailand, all roads seem to lead to SMEs. However, not so many research articles have studied SMEs seriously.

Research in this field, as in any other, has unique problems associated with it. Readers interested in documenting the importance of SMEs found less facts or studies. The main reason, posing serious problems for researchers, is the limitation of data on SMEs. Analysis of the role of new and small firms in market growth has been hampered by the absence of firm size or firm age data in most business registries. For years, the small firm sector remained ignored and poorly understood. But all that has begun to change as large data sets have enabled researchers to assemble a far better understanding of the economic role of small firms.

This dissertation aims to fill scarce evidence about SMEs by studying it empirically in various issues. SMEs have special character compared to larger firms. They involve more regenerate function, tacit agreement and informal forms of decision-making. Their market shares are smaller than large firms and they usually have less capital, management skills or other resources. These characteristics lead to different behavior in all key aspects; finance, production, innovation and labor. Each chapter in this dissertation tests controversial hypothesis related to SMEs. Chapters 2, 3, 5 study financial aspects and Chapter 4 studies the labor aspect of SMEs. Chapter 2 takes up a stylized fact about SMEs' financing that comparatively, small banks lend more to SMEs than large banks. The theoretical background proposes that small banks that have fewer organization layers could deal with "soft information" such as creditability, owner character of SMEs better than large banks.

Chapter 3 tests one of the most frequently referenced predictions about small firms and financial crisis. Both bank lending channel and balance sheet channel predict that these firms would be hit disproportionately hard by the financial crisis more than their larger counterparts. However, the 1997 financial crisis was also affected by currency devaluation that affected large firms who had greater foreign debt than SMEs. The role of SMEs as a "Shock Absorber" after the crisis; such that SMEs help smooth the labor market through higher job creation and less job destruction is studied in Chapter 4. Chapter 5 proposes an original approach in estimating credit demand and supply from survey data. Studying changes in bank lending always faces identification problem whether change in bank lending come from the demand or supply side. The method applied here could benefit credit market analysis and could apply to all sizes of firms.

As mentioned before, barriers in SMEs research lie mostly in data limitation. This dissertation overcomes this difficulty partly by using survey data. The 1999 Thailand National Industrial Survey, conducted by Thailand National Statistical Office, is used in Chapters 3 and 4. It surveyed 8,552 manufacturing firms from across the country that has more than 10 employees. It contains far more than other databases or surveys, with regard to the number of firms. This higher number of data increases statistical reliability, which is often a problem for doing research in developing countries. The wide range of firm sizes is also suitable to study the size effect of firms. Chapter 5 uses two sets of Japanese survey data; the TANKAN and the new compiled Loan Survey, both from the Bank of Japan.

The evidence found in these studies is expected to be useful, considering the scarcity of the studies of its kind. The methodologies and results of these studies based on Thai and Japanese data could be applied to other countries as well, particularly in questions of financial crisis. For the case of Thailand, the Bank of Thailand started to compile the Business Sentiment Survey in 1999. The survey aims to collect information on the economic condition of business firms in Thailand as one of the developments after the country was hit by the crisis in 1997. This survey is similar to TANKAN of the Bank of Japan. The methodology that is used in Chapter 5, therefore, could be applied to this data in the future. The dissertation will contain five main chapters. The first chapter is the introduction to the dissertation. The rest of this dissertation is organized as follows:

Chapter 2 Small Banks and SMEs Lending: Evidence from Thailand

This chapter examines one of the stylized facts about SMEs' financing: comparatively, small banks lend more to SMEs than large banks. By using Thai data, the study finds that small bank lending has more relation to SMEs' growth, both in term of establishment and employment, than large bank lending. The results support the argument that comparatively, small banks lend more to SMEs than large banks. This may be due to the comparative advantage of a small organization in dealing with SMEs' information. An interesting policy implication from this result is that recent Thai government policy supporting SMEs' financing may work more smoothly through small banks than large banks. The study also provides theoretical background, traces backward to examine factors that affect this bank lending, and reviews the recent situation for SMEs in Thailand.

Chapter 3 Firm Size and Financing After the Crisis: Evidence from the 1999 Thailand Industrial Survey

It is generally argued that small firms were negatively affected by the 1997 Asian financial crisis than their larger counterparts. This study empirically examines the validity of this argument. By using the 1999 Thailand Industrial Survey, generalized ordered logistic regression is employed to estimate the probability that firms suffered from a decline in credit availability. The results show that even though all firms reported a sharp decrease in credit, SMEs did not suffer from liquidity constraints more than larger firms, as generally believed. This does not imply that small firms were not affected by the crisis, but rather, larger firms were hit by the crisis harder than thought.

Chapter 4 SMEs as an "Economic Shock Absorber": Some Empirical Evidence

This chapter examines small firms' contribution to employment in the aftermath of the 1997 Asian crisis, compared to their larger counterparts. The empirical results show that small firms have higher probability of increase in employment and less probability of decrease in employment than large firms.

Chapter 5 Listening to the Market: Estimating Credit Demand and Supply from Survey Data

The literature referring to the credit slowdown has been plagued by the identification problem of whether a decline in a bank's credit is derived from the demand or the supply side. This paper proposes an original approach in directly estimating the credit demand and the credit supply from survey data. Using the TANKAN and the recently published Senior Loan Officer Survey data, the paper demonstrates that the observed lending amount did not change much during the period of study; however, the observed lending amount deviated, as one might expect, from the estimated credit demand and credit supply for every firm size. This credit mismatch presents evidence of credit market imperfections and is of interest for further investigation as a possible explanation of firms' liquidity constraints and banks' lending mechanisms.