# Entrepreneurial Start-Up and Growth: A Case Study of Thailand

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The purpose of this study is to evaluate the stagesBof-development process and the growth patterns of entrepreneurial ventures of the Thai economy. The four-stage growth model developed by Kazanjian (1988) was used to determine the stage of growth of each firm. Stages consist of organizational design variables representing how firms respond to the dominant problems they face. The relationships between stages of growth and dominant problems are presented using a database of 169 Thai entrepreneurial firms.

In the summer of 1998, the authors conducted a survey to determine the types of small and medium (SME) sized firms being formed in Thailand and the background of the firms= founders. The study was designed to evaluate the stagesBof-development process and the growth patterns of SME entrepreneurial ventures of the Thai economy. The four-stage growth model utilised in this study describes combinations of organizational design variables representing how a firm responds to the dominant problems that each faces. The paper shows that specific barriers to a firm=s development are influenced by its stage of entrepreneurial development but can arise for a variety of reasons. This study helps explain the types of problems that the Thai firms need to solve to

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continue to grow and perform effectively, particularly given financial and economic crisis the country has faced since mid-1997.

**Literature review**

Development in the private sector remains the main mechanism for economic growth. Given the significance of entrepreneurial activities in economic growth and other economic outcomes, encouraging the development of entrepreneurs is beneficial to society (Kirchhoff 1991, McClelland 1961, Schumpeter 1934). Various researchers have developed models for examining entrepreneurial businesses (Kent 1982, Taylor 1975, Terpstra 1993, Gnyawali et al 1994). Significant amongst these are theories and models of organizational lifecycle and stages of development which explain the various types and problems encountered by firms at each stage of entrepreneurial development. A major strength of the literature on life-stage/cycle models is adding to our understanding of the complex phenomenon of growth and the effect that it has on organizations.

A number of multistage models have been proposed which predict patterns in the growth of organizations (O=Farrel et al 1988, Mason 1989, Kimberly 1980, Terpstra 1993, Churchill et al 1983). These models suggest that firms progress through major stages of development: start-up, growth, maturity, and stability (Galbrait 1982, Storey 1985, Zapalska 1997, Block et al 1985). According to Kuratko (et al. 1989) each stage of development is associated with a unique set of problems. Kuratko (1989) and Olson (1987) find that the start-up stage is characterized by problems related to the creation and development of products and services, while the growth stage is characterized by problems related to management and organization design.

The study by Kazanjian (1988) represents one of the better empirical investigations that address the relationship between the dominant problems and the stage of development. His model indicates that problems may influence stage characteristics not only by their absolute importance to a firm at one time, but also according to their relative importance across stages.

**Model**

Like the Kazanjian model, this study uses four stage. Exhibit 1 depicts the stages and their characteristics.

The first stage is the conception and development stage where product design begins. The basic task is to invent, manufacture and operate the product within technical limitations, secure adequate financial resources, and start to distribute the product/service in volume. The decision process, information systems, control systems, and structure are all informal, natural, and spontaneously adopted.

In the second stage, commercialization, a firm has a product that performs well and meets a need in the market place. The growth of a firm is set by the growth of the market. The challenge is to make production profitable, and establish a strong market position. Administrative functions of finance and employee relations emerge as important.

The next stage is the stage of growth. High rates in both sales and the number of employees are achieved. The major focus is to produce, sell, and distribute the firm=s products in volume profitability. The task is to achieve dominance of a market niche.

In the last stage, stability, a successful firm not only manages multiple functions and supports the current product line but also diversifies into new markets, undertakes international expansion, and develops $2^{nd}$ and $3^{rd}$ generation products and/or new product lines.

Although some variations may occur, these stages provide a sequence through which firms progress. The stages and organization of each stage are predictable but an individual firm may vary from this sequence depending on whether it uses internally generated capital or venture investment.

**Exhibit 1**
**Four Stages of Firm=s Development**

| Stage # | Stage of Development | Characteristics |
|---|---|---|
| 1 | Conception and Development | Product development and design. Securing adequate financial resources. Developing a market. Formality and procedures are non-existent. Most employees have technical tasks. |
| 2 | Commercialization | Has a product that performs well and meets a need in the market place. Has the capability to produce and sell. Has some revenues and backlog of orders. Must establish its position in the market place. |
| 3 | Growth | High growth in both sales and number of employees. The major focus is on how to produce, sell, and distribute the products in volume while attaining profitability. The company has a single product line. |
| 4 | Stability | Develops 2nd, 3rd generation products and/or new product lines. Secures growth funding, larger market shares. Penetrates the new geographic territories. Has a formal organization structure, values, and procedures. |

Understanding the stages firms pass through, the appropriate organisational structure at each stage and the transition issues and problems facing firms at different stages of development explain the success of small and medium sized entrepreneurial firms. This study analyses Thai entrepreneurship using this modelMethodologyEach Thai entrepreneur was asked to respond to a postal questionnaire that was followed up by an interview. The forty-four multiple choice and short-answer questions covered areas such as the owners= background, type and size of production, sources of capital, value of total assets, net income, sales, allocation of funds, and personal efforts. To supplement this information, the entrepreneur was asked to describe briefly the most important functional areas of his/her business and to summarize the largest problems he/she encountered. The subjects also supplied responses to a question about the effectiveness of their businesses and of other sources of information used in solving business-related problems. These data were analyzed in the context of the Kazanjian model, and the results are presented below.

**Profiles of the Thai Entrepreneurial Firms and Entrepreneurs**

The entrepreneurs surveyed in Thailand were generally between the ages of 21 and 65, with the median age falling around 35 and an average 38. Women consisted of 37.8 percent of the total sample. On average, these entrepreneurs had over 13 years= previous work experience. The 169 entrepreneurs in our sample were generally well educated. The majority, 7 percent had earned a Master=s degree, 34 percent had an undergraduate degree, and nearly 11 percent had some college-level training. The age and educational level of Thai founders corresponds to those reported in previous studies of entrepreneurs conducted in other countries (Gartner 1989, 1989, Kent 1982, Zapalska 1997a, 1997b).

The average age of the Thai firm was 9 years. More than half of the entrepreneurs surveyed stated that their business involved either wholesale or retail sales. An additional 14.7 percent produced personal and business services. About 8.8 percent of the entrepreneurs operated distribution facilities and 10 percent were manufacturing businesses.

There are many different factors that can motivate individuals to establish a new business venture. As in past studies, responses indicate that Thai entrepreneurs are characteristically independent and seek courses of actions that allow them the widest degree of freedom. As the primary motivation for their businesses, about half of the entrepreneurs chose the response: Adesire for independence.@ About forty percent of respondents expected that the current business would provide job security and thirty percent that it would make them wealthy. Forty seven percent of the entrepreneurs were motivated to run the business by their business family background; about twenty percent expected challenge; and only ten percent wanted to create something new. Neither Afrustration with the previous job@ nor Athe failure of previous business@ was reported by Thai respondents.

These findings are not consistent with personality theories developed by Kuratko (1989), Kent (1982), and Gartner (1988) which cited resentment of authority as a key factor in the desire for independence and possession of power motivating firm founders.

Of the product-oriented firms studied, almost 15 percent had built their enterprise on a self-developed prototype. The time spent in developing the prototype was usually less than a year, and the first product was delivered immediately thereafter.

Approximately 20 percent of the Thai entrepreneurial firms were incorporated; and about 68 percent of the firms surveyed were classified as being singly owned. Approximately 80 percent of the firms had requested funds to supplement the owners= personal savings. Friends and relatives were most often approached for early financing, next were banks, insurance companies, and private venture firms. Even among those who did not obtain funding from personal savings, friends, and relatives, equity investment was the most popular form of initial financing. About 20 percent of the Thai entrepreneurs who sought outside funding stated they had used short-term notes followed by combined uses of equity and long term loans. The second most frequently used source was stocks and/or warrants as a source of external capital.

According to Thai respondents, 18.9 percent of firms were operating in the start-up stage (stage one), 35.5 percent in the stage of commercialization (stage two), 28.9 percent in the stage of growth (stage three), and 16.7% in the stage of stability (stage four).

**Results and discussion**

Information about the functional areas that presented the most important business problems was solicited not only in order to understand operating difficulties of entrepreneurial activity but also to compare the entrepreneur=s classification of current problems at different stages of development of their businesses. Therefore, each respondent was asked to describe the most important business problems recently faced by his/her firm and to identify the most important economic concerns, and, the areas of business in which those biggest problems and economic concerns were present at different stages of firms= development.

Table 2 shows problems that are generally encountered by the Thai firms at the four different stages. The answers revealed that liquidity, decline in customers/sales, labor quality and quantity, supplies and making a loss, were selected as the largest business problems present in all stages of development. Considerable attention was also channeled into cost problems, competition, and debt (Table3).

The most frequently mentioned areas in which those biggest problems were presented are (Table 4): finance, marketing, personnel or labor relations, production, general problems related to expanding, engineering and R&D.

The current findings support the existing literature regarding organizational life-cycle and stages of development. For example, Kuratko et al (1989) suggested that marketing and financial problems characterize the start-up stage while administrative, managerial and strategic problems characterize the growth stage. Similarly, Olson (1987) argues that the growth stage is associated with problems related to management and organizational design.

Table 5. shows economic concerns faced by the Thai entrepreneurs. The dominant economic concerns include the following: recession,

inflation, wage and raw material costs, lack of demand, growth of the economy, high interest rates, cash flow, bank system, availability of long-term capital, quality of labor, and lack of liquidity. According to table 5, dramatic changes are present between stages. For example, a lack of demand decreased from 42 percent in the start-up stage to 18 percent in the stability stage. The percentage of firms citing Awage and other costs@ decreased from 42 percent in the start-up to 29 percent in the later growth stage. The percentage of firms mentioning Ainflation@ as the most significant problem increased from 48 percent in the start-up stage to 59 percent in the later stability stage.

The classification schemes for the most important economic concern by stage of development are presented in Table 6. In general, the classes that emerged at different levels of development are in general identical with the exception of their frequency of occurrence. Moreover, cash flow and lack of liquidity, state of local taxes, energy costs, recession, economy, inflation, unemployment were not cited in stage one.

A comparison of the classes of problems that emerged from our survey and those identified in previous research suggests that the current study yields a more comprehensive classification scheme for the types of problems and economic concerns relative to different stages of firm=s development. The current study identified up to twenty distinctly different classes of economic concerns and up to seventeen different business problems. The problem classes identified in earlier studies of business failure (Bruno et al 1987, Dun et al 1987) and studies of rapidly growing firms (Anderson et al 1987, Terpestra et al 1993) seem limited in comparison to the classes presented in this study.

The findings also suggest that entrepreneurial activity have been strongly affected by the most recent Asian crisis. According to Table 5, above sixty percent of entrepreneurs indicated that *recession/economy/inflation/unemployment* were extremely important economic concerns.

## Conclusions

Our results suggest many of the Thai entrepreneurs came from families who owned a business and, in general, had a higher level of education than the general public. Diversity seems to be a central characteristic of the entrepreneurial activity and of the new firms that were established. Entrepreneurs and the process they use in starting their firms vary by industry and service, by time period and by the background and goals of the entrepreneurs. In general, Thai entrepreneurs enjoyed growth in areas like services, manufacturing, retail stores and farms, that are typical for the small businesses. The classification schemes pres which those problems may occur at different stages of development.

In our opinion, the Thai government has done well in the macroeconomic management area that has been essential for the growth. The stable monetary environment, that existed before the recent economic crisis took place, has made it possible for the small private sector to grow and concentrate on productive rather then speculative investments. The growth of the private sector has, in turn, been fed by relatively strong family support, and to some degree banks, which in Thailand performed some of the functions of investment coordination.

We believe that the recent Asian economic crisis would not have had negative effects on the Thai economy and hence on the small and medium entrepreneurial firms if the Thai government had implemented sound financial policies and an institutional structure which encouraged private enterprise growth and development.

In drawing lessons from both Thailand=s development, we think that a developing country must provide a healthy and competitive environment for the development of small business by sticking to the fundamentals: macroeconomic stability, outward orientation, and sustained investment in physical infrastructure and primary education. The small business grows better under a presence of stronger promotion of small business firms, greater availability of finance through the formal financial system, and the existence of bankruptcy legislation that facilitates greater lending to small firms, and improves access of small firms to modern technology.

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## Appendix

Table 1.
The motivation for an involvement in the current business venture.

| | |
|---|---|
| Desire for independence | 50.1% |
| Family background | 47.2% |
| Job security | 40.7% |
| The opportunity was there | 37.2% |
| Wealth and income | 36.6% |
| Family expectations | 20.1% |
| The challenge | 19.5% |
| Creation of something new | 10% |
| Desire for control and power | 7.1% |
| The status | 4.7% |
| Frustration with previous employment | 3.5% |
| Interest in this area | 2.4% |
| Failure of previous business | 1.8% |
| Government incentives (e.g., subsidies) | 0.6 |

Table 2.
The most important business problems generally faced at different stages of their development.

| Business problem | Stage 1 | Stage 2 | Stage 3 | Stage 4 |
|---|---|---|---|---|
| Liquidity | 13 | 3 | 10 | 4 |
| Decline in customers/sales | 19 | 17 | 20 | 23 |
| LaborCquality and quantity | 16 | 36 | 34 | 12 |
| Suppliers | 10 | 2 | 8 | 2 |
| Making a loss/debt | 10 | 3 | 8 | 2 |
| Costs | 6 | 14 | 10 | - |
| Competition from competitors | 6 | 22 | 2 | 4 |
| Debtors (bad debts) | 6 | 8.5 | 23 | 12 |
| High interest rates, cost of capital | 5 | 3 | 2 | 4 |
| Potential customers do not know about the business | 3 | 2 | - | - |
| Personal relationship | 3 | - | - | - |
| Copyright | 3 | 2 | - | - |
| Produce in time | 3 | - | - | 4 |
| Stock control | 1 | - | 0 | 0 |
| General Management | 2 | 4 | - | - |
| High risk of importing new products | 2 | - | 4 | - |

Table 3.
The Most Important Business Problems by Stage of Development.
(Presented in the order of importance.)

| **I.** | **II.** | **III.** | **IV.** |
|---|---|---|---|
| ty<br>e in customers/<br>sales<br>B quality and quantity<br>ers / supplies<br>g a loss / debt | B quality and quantity<br>etition from competitors<br>rs (bad debts)<br>e in customers / sales | B quality and quantity<br>rs (bad debts)<br>e in customers / sales<br>ty<br><br>g a loss / debt<br>l management | e in customers / sales<br>rs (bad debts)<br>B quality and quantity<br>oducts with cash but sell<br>on credit<br>nment<br>etition from competitors |

Table 4.
Areas of business in which those biggest problems where present.
(Presented in Percentages)

| | Stage 1 | Stage 2 | Stage 3 | Stage 4 |
|---|---|---|---|---|
| Finance 26 | 24 | 40 | 33 | |
| Marketing | 26 | 15 | 10 | 18 |
| Personnel or labor relations | 22 | 34 | 31 | 15 |
| General problems related to expanding | 10 | 3 | 4 | 4 |
| Engineering, R&D | 6 | 0 | 2 | 7 |
| Production | 6 | 14 | 10 | 15 |
| Accounting | 3 | 2 | 6 | 7 |

Table 5.
The frequently mentioned economic concerns
at different stages of development.

| | **Stage I.** | **Stage 2** | **Stage 3** | **Stage 4** |
|---|---|---|---|---|
| Prices9 | 48 | 43 | 50 | 59 |
| Wage & other cost | 42 | 19 | 29 | 37 |
| Lack of demand | 42 | 41 | 55 | 18 |
| Raw material costs | 42 | 24 | 36 | 33 |
| Availability of labor / untrained labor | 42 | 29 | 42 | 33 |
| Growth of economy | 35 | 25 | 23 | 44 |
| High interest rates | 32 | 34 | 23 | 33 |
| Cash flow/bank system | 29 | 8 | 19 | 11 |
| Availability of long-term capital | 29 | 15 | 23 | 48 |
| Quality of labor/untrained labor | 22 | 19 | 23 | 18 |
| Personnel problems | 13 | 15 | 17 | 32 |
| Aid for small businesses | 10 | 2 | - | 7 |
| Lack of quality control | 10 | 3 | 4 | - |
| State or local taxes | 10 | 17 | 20 | 33 |
| Lack of experience in financial planning | 6 | 2 | - | - |
| Energy costs | 6 | 22 | 20 | 15 |
| Domestic competition | 6 | - | 8 | 4 |
| Foreign competition | 6 | - | 2 | 4 |
| Regulatory environment | 6 | 5 | 6 | 7 |
| Lack of advertisement | 6 | - | - | - |
| Lack of guidance and counseling | 6 | - | - | - |
| Lack of liquidity | 6 | 31 | 34 | 33 |
| Ownership structure | 6 | - | 6 | - |
| No problems | 6 | 2 | - | - |
| Availability of short-term capital | 3 | 8 | 6 | 4 |
| Lack of management expertise | 3 | 2 | 4 | 4 |
| Recession/economy/inflation/unemployment | 3 | 61 | 65 | 63 |
| Lack of information about market | 2 | 8 | 6 | 4 |

Table 6.
The most important economic concerns while running the business by the stage of development.
(Presented in the order of frequency they were mentioned.)

| **Stage I.** | **Stage II.** | **Stage III.** | **Stage IV.** |
|---|---|---|---|
| Prices 9 | Prices 9 | Recession/economy/inflation/ /Unemployment | Recession/economy/Inflation /unemployment |
| Wage & other costs | Recession/economy/inflation/ Unemployment | Lack of demand | Prices 9 |
| Lack of demand | Lack of demand | Prices 9 | Availability of long-term capital |
| Raw material costs | High interest rates | Availability of labor / untrained labor | Growth of economy |
| Availability of labor / untrained labor | Lack of liquidity | Raw material costs | Wage & other costs |
| Growth of economy | Availability of labor / Untrained labor | Lack of liquidity | Raw material costs |
| High interest rates | Growth of economy | Wage & other costs | Availability of labor / untrained labor |
| Cash flow/bank system | Raw material costs | Availability of long-term capital | Lack of liquidity |
| Availability of long-term capital | Energy costs | High interest rates | Personnel problems |
| Quality of labor/ untrained labor | Wage & other costs | Quality of labor/untrained labor | State or local taxes |
| Personnel problems | Quality of labor/untrained Labor | Growth of economy | High interest rates |
| Aid for small businesses | State or local taxes | State or local taxes | Lack of demand |
| Lack of quality control | Availability of long-term Capital | Energy costs | Quality of labor/ untrained labor |
| State or local taxes | Personnel problems | Cash flow/bank system | Energy costs |
| | | Personnel problems | Cash flow/bank system |