Production Issues Analysis Team Research Report

Southeast Asian SMEs Are Evolving to Survive in the Age of Globalization[1]

- An interview-based analysis on management attitudes of SMEs in the 2000s -

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1. Concerns of Southeast Asian SMEs in the export market

The export market is essential to Southeast Asian SMEs. According to statistics, SMEs in Thailand account for more than 40% of the country's exports[i]. Generally, a lack of funding is said to be the biggest challenge for SMEs. However, for those in Southeast Asia, as long as demand exists for business, many can obtain funds from a range of sources, including informal ones (e.g., borrowing from relatives or friends). For these SMEs, creating demand is a more important issue than funding. Many Southeast Asian SMEs depend on exports, and during the Asian financial crisis 10 years ago, a rapid decrease in foreign demand as well as competition with peers from neighboring countries posed a more serious challenge than the direct impact of the crisis itself, namely the increase in imported material costs, and the difficulty in issuing export letters for credit and financing (Table 1).

Table 1: Southeast Asian SMEs' concerns about exports during the Asian financial crisis

Main reason for flagging exports	Thailand	Indonesia	Philippines	China
Low demand in export market	38	42	27	36
Severer competitiveness of foreign markets	33	17	36	31
Increase in imported material cost	15	19	12	7
Difficulty in L/C financing	6	14	12	5
Insufficient market information	1	1	1	15
Others	7	7	12	6
Total (%)	100	100	100	100

Note: n = 169 (Thailand), n = 248 (Indonesia), n = 198 (Philippines), n = 46 (China)
Source: Issues of Sustainable Economic Growth from the Perspective of the Four East Asian Countries (1999), Japan Bank for International Cooperation.

Therefore, the greatest concern of companies dealing with exports might be how to create demand (sales) not only during normal times but also during a currency or financial crisis. This indicates that satisfying the demands and needs of foreign market consumers and foreign client companies is required to maintain buyers, and ultimately this boils down to the issue of how to obtain additional know-how and technologies to strengthen product competitiveness.

Based mainly on my interviews with Southeast Asian companies, I will review Southeast Asian SMEs

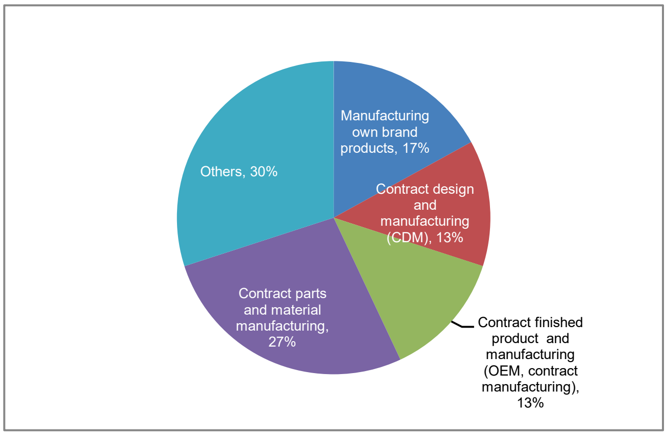
[1] The article is added, revised and translated from *"Globalization and Local SEMs in Southeast Asia – Current Situation and Challenges - "*, Annual Bulletin 2011, Asian Market Economy

in the manufacturing sector based on their approaches and efforts to improve product competitiveness.

2. Types of Southeast Asian SMEs in terms of access to foreign markets

To review the efforts of Southeast Asian SMEs, I would like to use the following typology. Figure 1 shows the contract types for the supply of goods to the export market. Direct exports of own brand products accounts for 17% of contract types. Both original design manufacturer (ODM) and original equipment manufacturer (OEM) contracts make up a combined 26% of contract types, while the supply of materials and parts to assembly exporters account for 27% in Thailand.

Figure 1: Contract types for the Thai SME supply of goods to foreign markets



Note: n = 96
Source: Institute for the Development of Social Intelligence, Center for SME Studies, Senshu University, "Industrial development and SMEs in Asian countries", report for public university high level research promotion project, Ministry of Education, Culture, Sports, Science and Technology, March 2009

I will review SMEs based on following types.

Type 1: Direct export to foreign markets.

Type 2: OEM export under which products are supplied in accordance with foreign buyers' demands, including exports based on contract manufacturing agreements, and others.

Type 3: Transactions under which parts and others are supplied to foreign export companies located within the country, which I will call "Indirect export."

Type 4: Transactions by companies that mainly manufacture products for domestic markets but, in planning to deal with future foreign demand, also produce export products as part of their business activities.

In addition, we should consider the management background of Southeast Asian SMEs. For example, there are traditional SMEs managed by immediate family or relatives, venture businesses based on new business models developed around specific engineering skills or know-how, SMEs established as subsidiaries of large companies or conglomerates and foreign SMEs wholly owned by foreign companies, as well as joint ventures established with any amount of foreign capital. This paper will cover SMEs with the first of these characteristics. The cases be discussed based on interviews are shown by type in the following chapters.

3. Type 1: Cases of SMEs manufacturing products for direct export

(1) Company A (Hanoi, Vietnam[ii])

Company A's major products are sweaters, mufflers and caps/hats, the majority of which are exported to Eastern Europe (Hungary, Czech Republic and Germany) via an agent. It has 130 employees, with annual sales of 1 to 2 million USD. Exports account for 80% of total sales, and according to the company, the remaining 20% is sold domestically. The products for the domestic market are manufactured based on original designs, in contrast to the export product development, in which the company basically follows the clients' orders obtained from the agent, excluding occasions when the company offers its own suggestions. A former designer, the president advises the employees in charge of product design. After seven years of sole proprietorship, the company was established in 2002. Largely through capital spending on machinery, its machine productivity has gradually improved over the past two years (with nine machines in total, which were manufactured in Germany, Taiwan and Switzerland). The company feels that even today, its employees' skills continue to be as important as in the pre-industrialization days, and that developing such skills requires more than in-house training.

Wool, one of the raw materials, is imported from China. The company imports this material only after an order is placed and maintains that wool from China is cheaper, even after import duties are applied. Another reason that Chinese wool is used is that Vietnamese wool is not sufficiently reliable in terms of quality and delivery time. Since Vietnam joined the WTO, the number of orders has been increasing. The company's products first became popular around northern Vietnam, and word of mouth led to exporting to Eastern Europe. Although there are several competitors, the company believes that it is the leader in terms of product design.

This company started its business as a family company with the capital of the president and his younger sister. The agent that mediates the foreign exports is a Vietnamese trading company. Since its reorganization as a company, bank loans have become accessible. However, the available capital is limited, and in order to establish the brand image, the company hopes to reach significantly more consumers and gain popularity as a middle-class brand without expanding its scale. It recognizes the need to improve its originality and management skills, to reinforce its organization and to bring out employees' strengths in the course of achieving this objective.

(2) Company B (Manila, Philippines[iii])

Company B was established in 1996 with 100% local capital. However, the company itself had existed prior to 1996. Around 1993 the original company had started to struggle to remain in business, and the president at that time abandoned his position. The current female president, having been involved in the original company as a Filipino broker for French buyers, took over the business.

The company manufactures handmade crafts made from wood, bamboo, rattan and other locally available materials. Its main export markets are Italy, France and Greece. In addition, it has recently begun exported some products to Eastern European countries such as Poland and Czech Republic, as well as to Turkey and the U.A.E. The company does not yet have contracts with Japanese companies, although it has received internet inquiries from a Japanese company to whom it has sent product samples.

Many of its employees are involved in making craft products, and their skills have improved over the past five years. The worker turnover rate is low. The company mainly hires persons who have completed elementary/secondary education, because the employees must have reading and writing skills. To develop the necessary skills for product development/manufacturing/export, the company relies on a technical cooperation scheme[iv] provided by developed countries as a part of official development assistance (ODA) to the Philippines. Competitiveness, employees' skills, technology and know-how have improved over the past five years, largely as a result of the company's self-reliant efforts.

(3) Company C (Surabaya, Indonesia[v])

Company C is an SME that was established in 1993. It produces handmade iron craft products and small furniture. Its workforce has increased from five to 20. The company has expanded its business activities through the formation of the "SME's Gallery" in May 2005, where the company's own products and those of other handcraft manufacturers and small apparel companies are displayed and sold (a shop that displays and sells its products as well as handmade products made by small manufacturers in neighboring communities). Additionally, in 2004, it received a business inquiry from a Japanese company about decorative metallic parts for doorknobs.

Current annual sales are 50 billion IDR (approx. 5 billion JPY). In 2000, it started exports by nominating an American trading company based in Yogyakarta as an agent. Sixty percent of its production is for foreign markets and the remaining 40% is for domestic markets. Its export markets are India (40%), the U.S. (20%), Canada (20%) and others (20%). It often participates in trainings organized by REPTC (Regional Export Training and Promotion Centre) in Surabaya, the local public organization for SME promotion. The company has participated in training on pricing, management and Internet use (information collection, website development) and fully recognizes the effectiveness of these sessions. Currently it is considering participating in training on accounting, stock control and design. In addition, the company participates in exhibitions and sale events in Jakarta organized by NAFED (National Agency for Export Development), the government organization for export promotion. Making effective use of government services, it has also participated in an international trade fair held in Makuhari, Japan. As is evident from the fact that the leaflet prepared for the establishment of its "SME's Gallery" contains the REPTC logo, the company has high trust in REPTC and appreciates its training; it has obtained export know-how from training conducted by government organizations and SME promotion agents.

(4) Company D (Jakarta, Indonesia[vi])

Company D was established in 1971. Initially, it manufactured and sold cassette tapes with only two employees, but then started to manufacture CD racks and office/home furniture. At its peak, the export of its own brand products reached $1.8 million; however this has decreased by 50% due to severe competition with products made in China and Malaysia.

However, in the Middle Eastern markets, Chinese and Malaysian products made with illegally logged timber have become subject to crackdowns, so the company's products are regaining strength. Major export markets are the U.S., the Middle East and the Western EU. The company depends on its agent for distribution. Buyers include companies, hotels and general consumers. Exports make up 70% of total sales. The company has 400 employees, but it is trying to gradually decrease the headcount as demand has been decreasing since the currency crisis. Aiming at exports to the Japanese market, it has received a patent from the Japanese Patent Office; however, no products are currently being exported to Japan. The company's main activity is manufacturing products based on the information provided by the agent, and it insufficiently utilizes opportunities for skill/know-how improvement through training conducted by governmental SME support organizations or export promotion organizations.

(5) Company E (Bangkok, Thailand[vii])

Company E is a typical family business company, producing air-conditioner parts and finished products. These products are sold in the domestic market as well as in foreign markets; 20% of its production is exported to foreign markets as complete knock-down (CKD), OEM and own brand products. The main export markets are India and in the Middle East, where import trading companies utilize their distribution channels. Eighty percent of total production is sold on the domestic market.

Its initial business was the manufacture of metal-processed parts (metal outer frames). The company procured a compressor from a domestic maker[viii], and then started to manufacture finished air-conditioner products with technology for manufacturing outer case parts in 2002. Affected by the Asian financial crisis, the company's production, sales and workforce have decreased. In 1999, it hired 200 employees, but as a result of restructuring through a plant shut-down and other means, it now has approximately 80 employees.

Company E has never used any government export promotion services. Regarding private services, it has obtained information from the Air Conditioning Manufacturer Association, an industry organization, and participated in its seminars.

(6) Company F (Kuala Lumpur, Malaysia[ix])

Company F was originally established in 1990. Until the Asian financial crisis, it had engaged in the domestic distribution of building materials. However, the crisis caused domestic demand to shrink, so the company was forced to halt its business. In 1999, it started a new business, the manufacture and distribution of fabric products.

The company manufactures and exports clothes such as t-shirts and men's underclothes. Almost 100% of its production is for exports. The company hopes to develop a domestic market, but the competition is difficult. In 1999, there were seven employees and in 2004, there were 10 (excluding employees at its separately established factory).

Product manufacturing has mainly been outsourced to a domestic factory, but recently the company established its own factories in China and Bangladesh. One reason for the transfer of its production base is that price competitiveness is weakening as a result of domestic increases in wages and utility charges. Another reason is that in Bangladesh, as one of the Least Developed Countries (LDC), labor cost is cheaper; it is not subject to volume limitation on fabric export to the U.S. and a preferential tariff is also available. These conditions are advantageous for the company, whose export products are almost exclusively for the U.S.

To obtain know-how, the company takes advantage of opportunities to participate in a wide range of training offered by MATRADE (Malaysia External Trade Development Corporation), a governmental export promotion organization of Malaysia, and participates in export trade fairs held domestically and overseas. It is appreciative of both private and public services, but it especially recognizes that public services are significantly cheaper and have great value.

(7) Company G (Kuala Lumpur, Malaysia[x])

Company G makes hardwood flooring and exports to various counties, including the U.S., Spain, Portugal, Germany, France, Italy, Australia, Japan, Hong Kong, the U.K., South America, the Middle East, Greece, New Zealand and China. To position its products, it conducts thorough market research with a focus on the quality of products being manufactured by major European companies. The company has agents, overseas subsidiaries and storage facilities near each market for export and hires local managers and staff.

The company emphasizes the strengthening of its own brand by employing branding consultants, establishing its own showrooms, creating promotional materials such as product catalogues to accompany product samples, holding previews and seminars, participating in international trade fairs and special exhibitions and implementing internet advertisements as well as promotion campaigns. As European markets consider the quality of many Asian products and brands to be low, the company tries to earn broader recognition of the quality of its products through comparisons with international standards as well as through sessions with invited buyers.

The company utilizes a subsidy from MATRADE, a Malaysian export support agency. However, because brand building is a long-term process, it wants to receive the subsidy several times.

4. Type 2: Cases of SMEs that export as OEM to foreign companies

(1) Company H (Bangkok, Thailand[xi])

Company H produces clothes (sweaters) and exports 100% of its products as OEM (under brands such as Adidas). Eighty percent are exported to North America, 15% to Europe and 5% to Asia, including Japan. In 1981, when the company was established, there were around 100 employees. Since the mid-1990s, it has grown rapidly, with around 1,200 workers in 1999, and it currently has around 2,000 employees. Its factories are located near the suburbs of Bangkok. As it is export-oriented and its customers are big corporations, the effect of the Asian financial crisis has been minimal. Financing during the crisis was conducted via a parent company. Exports were acquired through OEM customers and training services conducted by TJI, the Thai Productivity Institute (FTPI) and the Thai Garment Manufacturer Association. Now the company is trying to conduct new capital investment, hire human resources and acquire ISO 9001 to enhance its competitiveness.

(2) Company I (Suburb of Bangkok, Thailand[xii])

Company I produces and exports frozen seafood. It was developed from a tiny Chinese family business and at present 90% of its products are exported overseas. The company imports fish, which it processes and manufactures by hand, and then exports to a large Japanese food company. It established its own import and sales company in the U.S., to export its products.

In 1999, in the immediate wake of the Asian financial crisis, there were 4,500 employees, and today there are 6,000 employees. As the company is export-oriented, the effect of the Asian financial crisis was minimal. Due to the depreciation of the baht, exports have increased. In 2006, the company established a seafood manufacturing joint venture with a Japanese company. It acquired ISO 9000 and ISO 14001 certification, and its factory is located near Laem Chabang Port, which makes exporting convenient. The company itself provides employees with training (when a technology transfer was conducted through a Japanese company, the company received Japanese specialists). The company, which participated in an export seminar and acquired related information from the government, is generally content with the service. Although the company is ranked among the top five in Thailand, in the international market it faces severe competition from Chinese and Vietnamese companies.

(3) Company J (Kuala Lumpur, Malaysia [xiii])

Company J's products involve ladies' clothing, lifestyle goods, shoes and garments. It exports products to Japan, Australia, the U.S., South Africa, the Asia Pacific region and the EU. The company was established as a shoe design/manufacturing company in 1987. MATRADE, a Malaysian official agency, sponsored its exhibition at the CDS Shoes Fair in Dusseldorf in the 1990s, which was a good opportunity for overseas expansion.

The company has developed with OEM and original brand manufacturing (OBM). In 1997, it entered the domestic and international market with "LEWRE2 brand," which featured "Made in Malaysia." The brand is used in Australia, Brunei, Cyprus, Indonesia, New Zealand, Malaysia, the Philippines, Saudi Arabia, Singapore, Taiwan and Thailand. In addition, it is planning to enter new markets such as China, India and Vietnam. In 2003, it acquired ISO 9001 certification. It also received the "Creativity/Innovation Award 2005" from the Malaysia Design Technology Center.

(4) Company K (Hanoi, Vietnam [xiv])

Company K imports materials from Japan and packaging materials from China. It exports underwear and light clothes for children to Japan and the U.S. The underwear is a high-class product with high dryness and permeability, commissioned by a big fiber product company. In Japan, the product is sold under a Japanese brand in department stores and supermarkets. Manufacturing lines are divided according to the Government policy. In addition, the company sells a product for children (a t-shirt for running) in the domestic market, which is a hit.

Sixty percent of exports are to Japan, 15% to the U.S, and the rest is sold domestically. Packaging is imported from China. The 30% polyester for the popular underwear product is imported from Japan, where it is manufactured by a Japanese company (the original customer). The other 70% is domestic cotton. Specific chemical products are also imported from Japan and the dye is also imported.

5. Type 3: SMEs that supply materials and parts to foreign-funded export businesses operating in the country

(1) Company L (Manila, Philippines[xv])

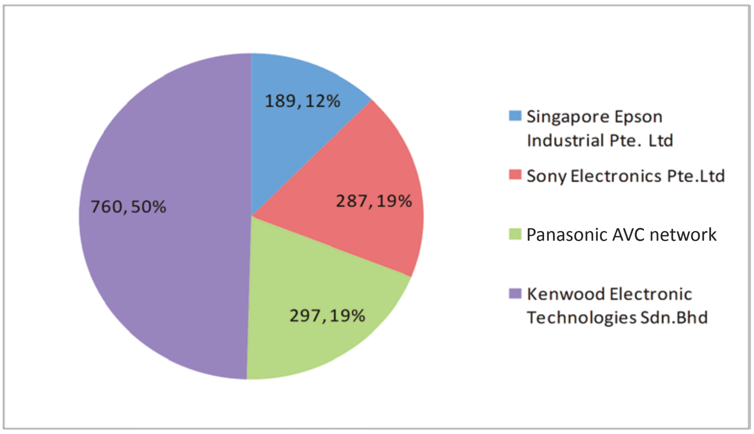
Company L was founded in 1981. It manufactures and exports metal and plastic products and is a 100% locally funded, SME. In 1999, the majority of its business was supplying foreign-funded export businesses located in the Export Processing Zone, recently direct exports have been is increasing, and the scale of exports has been expanding over the past five years. The company has gained ISO 9001 certification mainly at the request of clients, including Japanese companies operating in the Export Processing Zone. Custom-order products manufactured for these companies generate little profit, as the prices are constantly reduced. On the other hand, plastic products developed using its expertise in dye machining are sold directly and yield a larger profit margin.

The company largely relies on foreign aid agencies and self-help to obtain know-how for its business. It has participated in ODA programs by developed countries, such as by Japanese AOTS, Dutch CBI, German GTZ and Canadian CIDA. With the support of GTZ, it has exhibited its products at the trade show in Hanover on three occasions. Despite having no background in engineering, the manager of the company provides direct training to its employees in product development and design (3-D CAD and others). However, there is the risk of losing such experienced and skilled employees, who often change jobs and go to other companies. The manager visits trade shows to learn the market demands and the levels of skills and technologies of similar manufacturers worldwide, which he uses to improve the company's efficiency and product development.

(2) Company M (Jakarta, Indonesia[xvi])

While dealing with foreign-funded businesses offers incentives for improving one's product quality and production techniques through ISO certification and others, Company M also faces an unavoidable risk of price cut requests at the time of delivery. This issue affects large contractors as well as SMEs. Company M, a local major electric machinery parts manufacturer in Indonesia, experienced a drastic drop in orders from large Japanese electric/electronics manufacturers after the global recession in late 2008. Japanese manufacturers are its major clients, accounting for 70% of its business in 2008 (Figure 2) and are crucial to the company. Since that time, it has already closed a factory in Bandung and laid-off 1,500 workers. Today its situation remains risky.

Figure 2: Main customers for Company M



Note: The former figure indicates the amount of sales, while the latter indicates the percentage of sales to Japanese manufacturers.
Source: Globe Asia Vol.3 No.8, August, 2009, pp. 84-85

Company M went public in 2007, and has prepared mass production lines by purchasing local forging and molded-plastic product-makers to meet the quality and pricing demands of the Japanese makers. Although the resulting vertically integrated operation system enabled higher added-value products, it now considers such investment to be too costly for its current financial situation. In the meantime, it has cut management-level salaries by 20% to survive the crisis.

6. Type 4: SME-sized businesses that mainly sell domestically but accommodate overseas demands experimentally

(1) Company N (Selangor, Malaysia[xvii])

Company N was started in 2002 by its founder who had long worked for a confectionary company. The young company has a style that is similar to a family business. There are 35 full-time employees, mostly founding members, in addition to part-time workers. It circulating income is 6,000,000 MYR, of which export accounts for 1,730,000 MYR. Although it is a small company with a start-up cost of 100,000 MYR, it has grown rapidly during its first three years. Its main product is moon cakes, a Chinese confection, but it also produces Western style snacks such as cookies.

Aside from department stores and well-known supermarkets within the country, it sells its products to the U.K. and Singapore, with plans to tap into Taiwanese and Australian markets. It has been stocking products in the premium confectionary sections of upscale department stores/supermarkets in response to orders from these stores. Normally, the company does not tie up with local dealers in foreign markets. It specializes in creative twists on the traditional goods, such as moon cakes with a variety of ingredients and flavors and distinguished packaging. The manager has a strong interest in the package designs of high-end traditional confections in Japan and often takes research trips to Japan, as well as to trade shows—of which the most valued government-organized show is MATRADE[xviii], which showcases customers' preferences in each country and the different packaging designs of similar products.

The company considers it imperative to please customers with beautiful designs, in addition to the product itself, in order to establish a premium brand name that can guarantee added values[xix]. The company is trademarked in Japanese style. It realized the challenge of the Japanese market when the company's products were exhibited in the "Confections for 100-Yen Shops" section of the world trade show held in Japan in 2004. The company has obtained HACCP certification as safety and quality assurance.

(2) Company O (Bac Ninh Province, Vietnam[xx])

Company O manufactures and sells "heavy" apparel items such as suits. The founder originally worked in the farming industry and started a tailoring business at his house in Ho Chi Minh in 1985. While the company's main area is the manufacture and sale of ready-made clothes, custom-made orders increased during the winter. This meant the sales in the warm-weathered south would be limited, so the company soon relocated its headquarters and factory to Bac Ninh Province in 1986. In 1991, all of its factories in the south were unified into Bac Ninh Province. At the same time, an accompanying tailoring school was built, which lasted until 1996. Nowadays, ready-made clothes account for 70% of its business and custom-made clothes account for 30%. The staff grew from three employees with four sewing machines to 100. Throughout the country, 22 dealers take charge of the sales, which also sell other brands. Although its current market is limited to domestic sales, it aspires to export and plans to expand its manufacturing facilities in 2009-2010 in order to accommodate goods for the overseas market. Due to budgetary limitations, designers hand-draw the designs, instead of using computers. The fabric is imported from China, India, the U.K. and Italy.

The siblings support the business to take advantage of their elder brother's tailoring skills—the youngest brother manages the business. Four of the six board members are from the founder's family. The family collected its own resources to come up with the start-up capital, which has now increased more than ten-fold. The family continues to capitalize its own resources from within and does not receive loans from banks. The company carefully manages its accounts collectible and receivable and cash flows and has never experienced a case when resource shortages had to be covered by bank funds.

The company specializes in 49 ready-made size patterns, while rival companies normally carry only eight to 10 sizes. It arranges popular designs from abroad for the Vietnamese market to expand its variety. The company maintains roughly 60% inventory for merchandise in standard sizing and deliberately produces special sizes at a lower level than demand to moderate the risk of overstock.

(3) Company P (Hung Yen Province, Vietnam[xxi])

The manager of this company first worked for a factory after earning a degree in electrical machinery, and started his own factory with his family in 1997, which was established as a corporation in 2002. The founder's father funded the startup money of a few dozen dollars. The current factory was built in 2006. Now the company receives investments from the bank to increase its funds, which once consisted only of the family resources. It has 350 employees and manufactures DVD and VCD players, amplifiers and speakers. Its sales are made through about 1,000 distributers, along with the company's own stores. The company is No. 5 in the domestic share of DVD players, selling about 80,000 to 90,000 units annually. It offers the advantage of better customer service, such as after-care, warranties and consulting, in order to compete with the cheaper counterparts manufactured in China (the general price ratio for Vietnamese and Chinese products is 120 to 100).

The company plans to expand its business into refrigerators and air-conditioning. Although all of its parts were imported from China in the past, it feels the need to increase the use of its own parts now that the profit margins of DVD players are lower than in 2002. Expecting increased demand for "white goods," its strategy is to concentrate on middle-class products that do not compete with the several Japanese and Korean brands that currently dominate the market.

The core parts are imported from China, while more general parts are supplied by local vendors or manufactured independently by paying the licensing fees for the models from China. It has analyzed that the difference in pricing from other brands comes from the small scale of production and low investment in equipment, and is not an issue of productivity. In the case of DVD players, for example, it buys from about 10 local vendors and 20 Chinese vendors. As the company expands rapidly, it faces the challenges of maintaining quality control and developing new products.

(4) Company Q (Hai Duong, Vietnam[xxii])

This building supply company was founded in 1989 and manufactures exterior materials. The production line was constructed in 2003. Its 60 employees work at the headquarters, and about 1,000 employees, including the sales representatives, work at seven stores throughout the country. While it makes the most of its sales in Vietnam, the company has also exported small volumes to Japan since 1999. It advertises its products by pointing out that the quality meets Japanese standards.

The company sought technical training by an Italian manufacturer when the factory was founded in 2003. It also aimed to export products to Italy, although the attempt has not been as successful as hoped. It now aspires to expand its foreign sales to Africa and Europe. The executives consider managerial and structural maturity to be imperative in improving product quality to give the company a competitive edge abroad. It became ISO 9001 certified in August 2004 and strives to educate and foster employees with the goal of publically offering its stock in the near future.

7. Future of SMEs' challenge in the manufacturing business versus the export market

The preceding cases show that SMEs in Southeast Asia are mainly interested in meeting the increasingly sophisticated requests from customers and learning how to beat the competition with foreign-made products to stabilize demand. There are moves toward the active development of new products, beyond the fixed business with existing customers, in order to create new demand. Specifically, they concentrate on design, enhanced functionality and branding. This tendency is more apparent in companies that manufacture many processed products.

According to a joint study by Hiroshima University and Mitsubishi Research Institute (2006), in Indonesia and the Philippines, well-performing small- to mid-scale, companies that manufacture highly processed products were more likely to rate their own companies higher. This result shows that production improvement for highly processed products is considered to be more directly tied to performance, as opposed to that in less-processed products, whose performance is greatly affected by external factors such as exchange rates[xxiii]. It also suggests that in Thailand, where the export ratio of the SMEs is high, there is a positive correlation between the company's high self-evaluation and its export performance.

Table 2: "Elements for success" for SME business owners in Thailand (%)

Number of employees (number of companies)	1-19 (17)	20-49 (14)	50-99 (3)	100-299 (2)
Elements for Success				
Managerial capacity	35.3	71.4	33.3	50
Qualified employees	5.9	7.1	0	0
Stable clients	17.6	7.1	66.7	0
Financing	17.6	14.3	33.3	50
Advisors	17.6	0	0	0
Governmental support for business establishment	0	0	0	50
Appropriate business objectives	5.9	7.1	0	0
Favorable business climate	0	14.3	0	0
Own efforts	41.2	28.6	33.3	50
Others	5.9	0	0	0

Source: Institute for the Development of Social Intelligence, Center for SME Studies, Senshu University, "Industrial development and SMEs in Asian countries," report for public university high level research promotion project, Ministry of Education, Culture, Sports, Science and Technology, March 2009

Certainly, there have been numerous reports that a company's "ability" improves in such areas as production technique and quality control. However, it is worth noting that there have been interesting attempts by companies to market their own brands abroad by pioneering their own sales channels once their growth is strained by cost-cut demands by foreign customers and others.

Many managers of SMEs understand that their own personal efforts (own effort) and managerial capacity are critically important, as Table 2 suggests. MATRADE supports small- to mid-scale businesses by promoting and providing incentives for branding, as shown in Table 3.

Table 3: MATRADE's Support Strategies for Branding of Local Businesses

Incentives:	● Tax incentives toward the advertisement of local brands domestically ● Tax incentives toward the marketing of Malaysian products and services overseas ● No-interest loans for small- to mid-scale businesses toward marketing costs (brand promotion) in overseas markets.
Promotion & Support Programs:	● In-Store Promotion in overseas department stores to improve sales of Malaysian brands ● Periodic organization of trade shows at Malaysia Trade Center, Malaysia Export Exhibition Center and in Dubai ● Sending marketing missions overseas to advertise Malaysian brands ● Supporting participation in 60+ overseas trade fairs ● Sending missions overseas for business-matching ● Seminars and workshops to spread knowledge and know-how on branding ● MATRADE Directory to introduce "Made in Malaysia" products ● Q&A handbook for overseas branding activities

Source: Interviews with MATRADE officials, August 2005

There have been successful cases of improved branding in furniture and daily commodity sales in foreign markets. It is likely that Southeast Asian companies in these fields will become more competitive in terms of branding. Other Southeast Asian governments are developing similar back-up menus for SMEs. The level of awareness level regarding menus is gradually increasing among SMEs. These SMEs should improve various aspects of their competitive edge for the export market.

Reference

Notes

[i] *Cited from Hiroshima University & MRI, Special Theme Evaluation "Economic Cooperation": Formation of Social Ability and Ideal Support System in Trading Industry. JICA, March 2006, p. 37 & 175.*
[ii] *Based on an interview conducted by the authors in March 2008*
[iii] *Based on an interview conducted by the authors in August 2005*
[iv] *A scheme which aims at strengthening the function of middle institutions under Canadian International Development Agency*
[v] *Based on an interview conducted by the authors in August 2005*
[vi] *Based on an interview conducted by the authors in August 2005*
[vii] *Based on an interview conducted by the authors in August 2005*
[viii] *According to the interview, there are three Thai companies that have an ability to produce compressors. The company procures compressors from one of the three.*
[ix] *Based on an interview conducted by the authors in August 2005*
[x] *Based on an interview conducted by the authors in August 2005*
[xi] *Based on an interview conducted by the authors in August 2005*
[xii] *Based on an interview conducted by the authors in August 2005*
[xiii] *See Trade Mart, MATRADE, 2005*
[xiv] *Based on an interview conducted by the authors in March 2008*
[xv] *Based on an interview conducted by the authors in August 2005*
[xvi] *SK Zainuddin, Corporate Indonesia ready for take-off, Global ASIA Vol. 3, No. 8, August 2009, p. 50*
[xvii] *Based on an interview conducted by the authors in August 2005*
[xviii] *MATRADE's policy which aims at supporting brand management for local products*
[xix] *According to the interview, the company showed a keen interest in the cost structure for the packaging of high-class Japanese cakes.*
[xx] *Based on an interview conducted by the authors in August 2008*
[xxi] *Based on an interview conducted by the authors in August 2008*
[xxii] *Hiroshima University & MRI, Special Theme Evaluation "Economic Cooperation": Formation of Social Ability and Ideal Support System in Trading Industry. JICA, March 2006, p. 45*
[xxiii] *Ibid, p. 182*

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