

Growth of Small and Medium Enterprises in the Lao People's Democratic Republic: A Structural Equation Modeling Study

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Abstract

This article is a documentary research by using secondary data. The objective of this research is to study the structural causal relation model of factors affecting toward growth of small and medium enterprises in the Lao People's Democratic Republic. The conceptual framework of this research based on theory of Entrepreneurs, theory of the Growth of Firm, Resource-Based theory and theory of Entrepreneurial Competencies in order to describe the relation between the factors affecting toward growth of the firm. The research findings showed that the Key elements of direct and indirect affecting on the growth of small and medium enterprises, including factors of competitive advantage, characteristic of Entrepreneurs, Entrepreneurial Competencies and Business Alliance.

Key Word: Growth of the Small and Medium Enterprises, Lao People's Democratic Republic.

Introduction

Small and medium enterprises are important elements for economic development and Firm growth of Lao People's Democratic Republic. They are the momentum and strength of economic development of the country, which create goods production, trade, investment and services. In addition, small and medium-sized enterprises provide employment opportunities; create income and improve the quality of life for people. Moreover, Small and medium enterprises lay the foundation for the development of modern industry. The development of small and medium-sized enterprises not only has the low cost of production but becomes the source of increasing value added to natural resources in the country, (Small and Medium Enterprises Promotion and Development Office, 2009: 1), which leads to the development of new products and services and creates new innovations for exporting to international market (Deresky, 2000: 15).

The development of the country is still faced with the challenges of the changing economic environment both inside and outside the country, for example: the transition from the centrally controlled economy to market-based economy, economic links with the regional and global economy (Hara, 2010: 2-3). Therefore, the government needs to restructure its economy and pay more attention to social-economic development and other related issues to lift the country out of poverty in 2020. The development of the country must be in a sustainable manner. The social and cultural development must be undertaken in conjunction with economic and environmental protection development, which is a basic factor for the construction of the country to become a modern industrialized country. (The 9th session of the Lao People's Revolution Party Congress, 2011: 71).

The findings of the research showed the performance of small and medium enterprises in the Lao People's Democratic Republic still faces challenging problems, and barriers in the competition both in domestic and foreign markets. Most entrepreneurs lack experience, management skills, marketing to satisfy their customers, leadership skills in business, and practical strategic planning especially in a highly competitive market economy (Walsh & Southiseng, 2011: 16; Quang & Thavisay, 1999: 6). Furthermore, there are restrictions on the rules and laws that are beneficial to business operation. Skills and abilities to create new innovations and networking of cooperation between enterprises and government organizations are limited. Furthermore, there are limitations in becoming a member of WTO and ASEAN Economic Community, the development of products and services qualities, access to sources of fund, and information technology (Walsh & Southiseng, 2010: 57; Kyophilavong, 2008: 191).

From these limitations and changes in business environment lead to the challenges in business operations of entrepreneurs of small and medium enterprises, especially, the issue of how to make economic grow and what factors are involved. These have drawn the interest to study the factors influencing the growth of small and medium-sized enterprises that will lead to a pattern of growth that is appropriate to the context of the development and promotion of small and medium-sized enterprises in the Lao People's Democratic Republic in the future.

Objectives

Objectives of the study is to study the concepts, theories and factors associated with the growth of business to define the conceptual framework of the study, which will be used to establish a structural causal relation model of factors affecting toward growth of small and medium enterprises in the Lao People's Democratic Republic.

Literature Review

This study applies the concepts of entrepreneurial theory, theory of the growth of firm, resource-based theory, and entrepreneurial Competency theory to define the concept of theoretical framework to understand the concepts and business growth theory and other factors influencing business growth and lead to the development of the conceptual framework of the study as follows:

According to Inmyxai and Takahashi (2012) conducted a study on factors mediating between gender of entrepreneurs and Firm performance of Micro, Small and Medium Enterprises in Laos. The study found median factors included business resources, business network, and the operations within the companies. The Sample consisted of 1,534 companies. The study found that business resources and business network have relationships with gender and Firm performance. Meanwhile, Bulut and Sayin (2010), the factors that determine the entrepreneurs included personal factors, psychological factors, demographic factors, fundamental factors, environmental factors, social-political factors, technological factors, cultural factors, business factors, the focus on the success and business growth, and management skills. Thus, the characteristics of entrepreneurs are focusing on business successes, solving problems, seeking business opportunities, tolerating to the uncertainty of business environment, risk taking, possessing creative ideas, and business leadership. Based on Bakotic and Kruzic (2011: 209) noted entrepreneurs have important roles to increase knowledge for their organizations, especially make their organizations grow and be able to innovate and increase employment. Entrepreneurs are people who are self-employed and have initiatives of doing business. Moreover, entrepreneurs are able to organize and manage their organizations. They have high responsibilities towards their businesses which are in operation. Also Entrepreneurs are courageous in taking risk and have constructive ideas and tolerate to pressure from changing environment.

The concept of the growth of the firm based on Weinzimmer et al (1998) conducted a study on the method of measurement of business growth in various dimensions. Business growth depends on time changes. Weinzimmer was interested in studying environmental factors in businesses, strategic patterns, attitude to deal with the growth in sales, employment and assets of enterprises, and the changes in business sizes. Additionally, according to Garnsey (1998: 548) has studied the concept of the growth of new businesses in the micro level. He stressed the importance of a combination of resources and business opportunities to create value to the organizations and the abilities of new businesses to access resources, to explore, and to improve resources relevant to each period in the cycle of business growth and relevant to the creation of necessary potential to respond to the modification opportunities of industry.

Based on Robson and Bennett (2000) have noted the growth of businesses depends on the relationship between business advice and external collaboration, which refers to government policies, and in collaboration with those who have the power to decide on policies including business consulting agencies, promotion agencies, and business development agencies, and Nguyen et al (2009), the growth of small and medium-sized enterprises depends on entrepreneurial role of the state to promote and support various policies, which provide benefits for the development of small and medium-sized enterprises e.g. land reform policies, law amendment, training, tax policy, lending, trade policy, and export promotion. Moreover, the allocation of marketing resources, facilities construction, support access to data and information sources and business networking should be provided to support business growth.

The competitive Advantage based on Barney (1991: 101) noted an important factor in establishing advantages in a competition is a resource that can create value for the organization. It is the rare resource. Competitors can not easily duplicate or it is very high cost of duplicating, and cannot find substitute resources. Those resources include physical resources, human resources, and organizational resources. The characteristics of entrepreneurs according to Bird (1995: 51-52) refers to the ability of an entrepreneur which means personal characteristics that were born in herself or himself including general knowledge, specialized knowledge, motivation, personality, good image, social status, skills and abilities that contribute to the start, the survival, and the growth of businesses. Meanwhile, Ahmad et al (2010) have noted abilities of being entrepreneur factor have the influence on business successes, and the performance of small and medium-sized enterprises. The abilities of being operators include defining strategy abilities, concept setting abilities, abilities of taking opportunities, setting relationship abilities, learning abilities, individual abilities, ethical abilities, and family abilities.

The Business alliance, an important form of marketing relationship, which means collaboration between two or more companies to share resources with each other to achieve their business goals (Hunt et al., 2002). In summary, the review of theories concerned which include the theory of entrepreneurs, theory of the growth of firm, resource-based theory and the theory of entrepreneurial competency can describe the relationships and influence between four main factors e.g. Competitive advantage, characteristics of entrepreneurs, entrepreneurial competency, business alliance, and abilities of describing each factor in detail that influence the growth of small and medium-sized enterprises are as follows.

Competitive Advantage

Research study found that most results support the concept of competitive advantage is the factor that affects business growth as of the following.

According to Man et al (2002) studied the competencies of being entrepreneurs which resulted in producing competitive capacity for small and medium-sized business. The research found that business opportunity competency, relationship competency and concept have positive relationship to foster the creation of business competitive advantage, but organizational management competency, relationship and concept have positive relationship to the abilities of organization and strategic competency. Similarly, the organizational tie has a positive relationship to the result of business performance of small and medium-sized enterprises. Based on Poisson et al (2002) studied the factors affecting the successful entrepreneurs in Canada to perform businesses in emerging markets in Asia. The purpose of this study was to investigate the factors that influence the competitive advantage for entrepreneurs in Canada. The results showed that Factors of business characteristics, leadership factor, strategic factor, decision-making factor associated with competitive advantage in new ASEAN market have statistically significant level. Additionally, according to Kaleka (2002) conducted a study on resources factor and capabilities associated with competitive advantage. The results showed the resources and capabilities of the organization in general have a positive relationship with competitive advantage are statistically significant at $p < 0.01$.

Characteristics of Entrepreneurs

This study has examined the characteristics of entrepreneurs, the factors related to psychological factors e.g. Personal characteristics, values, attitudes, motivation, human relations, leadership, innovativeness, proactiveness, risk taking, autonomy and competitive aggressiveness (Lumpkin & Dess, 1996) that influence entrepreneurial activities of being entrepreneurs and business successes.

The research found that there were some studies supported the idea of characteristics of entrepreneurs is the factor affecting the competitive advantage and business growth e.g.

According to Baum et al (2001) studied the pattern of growth in various dimensions. In the study they aimed to investigate the reason for business growth under changing environment. The research found that the fit model was (Fit Model) $\chi^2_{102} = 168$, $p < 0.00$; $FI = 0.92$, $AGFI = 0.89$, $PNFI = 0.63$, $RMSR = 0.06$, $RMSEA = 0.08$, the direct influence factor on business growth was specific competencies, motivation, business competitive strategy, which had at a statistically significant level ($t > 2.0$, $p < 0.05$). The business competitive strategy factor is the factor that had positive impact on the growth in a statistically significant level of $p < 0.001$. In addition, the factor of innovation and the quality of goods and services also influence the growth of businesses. Similarly, based on Islam et al (2011) studied the characteristics of entrepreneurs and business features that influence the successes of small and medium-sized enterprises in Bangladesh. The results showed that Characteristics of entrepreneurs have positive relationships with the performance of small and medium-sized enterprises statistically significant level at (sig. $F = 0.000$) and fit model, which the characteristics of entrepreneurs can describe business successes accounted for. 21.3 per cent.

Entrepreneurial Competencies

Based on Man and Lau (2005) studied the model of competencies of being entrepreneurs in industrial environments in Hong Kong. The results showed that both wholesale and IT services industries are different in competencies of being entrepreneurs are innovative competencies, defining business strategy competencies statistically significant level at $p < 0.05$, and learning competencies of organizations statistically significant level at $p < 0.1$. Meanwhile, Gulrbuz and Aykol (2009) studied the managements of being entrepreneurs and characteristics of being entrepreneurs affected the growth of small businesses in Turkey. The results showed that ages of businesses and proactive ideas are positively related to sales growth ($\beta = 0.143$); ($\beta = 0.554$) statistically significant level at $p < 0.05$. Risk taking, stressing the return, and the organizational structure are negatively related to sales growth ($\beta = -0.141$; $\beta = -0.171$; $\beta = -0.168$) statistically significant level at $p < 0.05$. However, the proactive ideas and organizational structure have positive relationship with the growth of employment ($\beta = 0.335$; $\beta = 0.185$) statistically significant level at $p < 0.05$.

Business Alliance

Business Alliance, according to Ziggers and Tjemkes (2010) studied capabilities on the performance of business alliance. The results showed that the ability of a business alliance is not related to the performance of the organization ($\beta = 0.1$, $p > 0.05$), but the alliance management and relational quality have positive relation statistically significant level at ($\beta = 0.219$, $p < 0.05$; $\beta = 0.501$, $p < 0.05$) with the performance of the alliance. Besides, the ability of being business alliance has a positive relationship with the business alliance management. Furthermore, based on Feng et al (2010) have studied the relationship between customers, sellers and competitive advantage. The results showed that Customers have a positive relationship with competitive advantage in terms of quality of products, confidence in delivery of products, the adaptation to market needs, customer service statistically significant level at ($p < 0.01$; $p < 0.001$; $p < 0.001$; $p < 0.05$), but the seller has a positive relationship with competitive advantage, leaders, and costs at statistically significant level $p < 0.01$.

As described within the framework of the theories mentioned earlier in this report it can be determined the relationship between various factors, which have relationship and influence on the growth of small and medium-sized enterprises are as follows.

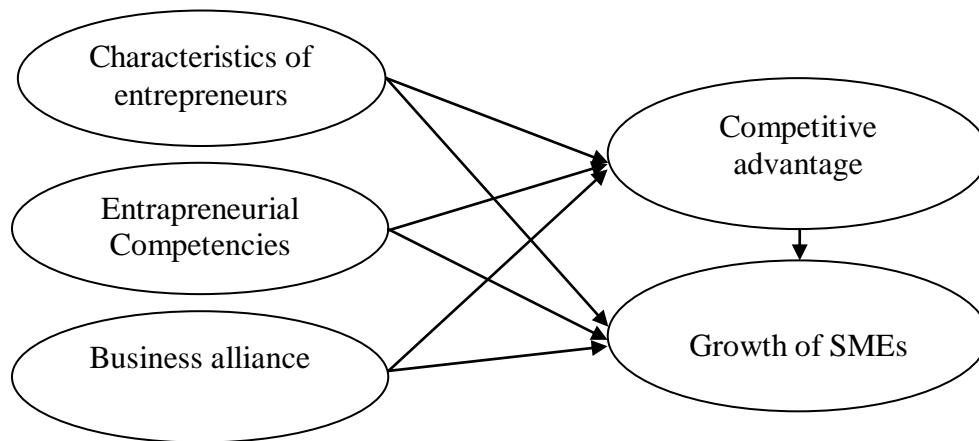


Figure 1: Research Model

Research result

The result of this study is the research framework to study the causal relationship of the factors that influence the growth of the small and medium enterprises in Lao People's Democratic Republic by applying the theoretical framework of the Characteristics of entrepreneurs, growth of firm, resources-based theory, and entrepreneurial competencies. The factors influencing the growth of the small and medium enterprises included competitive advantage, characteristics of entrepreneurs, entrepreneurial competencies, and business alliance. The results under the framework of the study are expected to be useful to scholars and researchers to understand the concepts and factors associated with the growth of small and medium enterprises.

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