The Application of Human Resource Management in Thai SMEs: A Case Study of Albatross Company Limited

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Abstract

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            A Case Study of Albatross Company Limited
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Problems  How can the entrepreneur of SMEs manage their human resources?
          Can previous research and studies about HRM in SMEs be applied in
          the Thai entrepreneurial SME?
          Does the HRM in the company change and transform over time?

Purposes  The purposes of this study are to review the relevant studies and
          research about HRM in SMEs in order to investigate how human
          resources are managed in SMEs and to determine if the previous
          studies are applicable to Thai entrepreneurial SMEs.

Methodology  This master’s thesis is based on a qualitative approach in order to
             investigate HRM in SMEs and easier to understand the behavior in a
             certain case. The main secondary data is also collected from website
             which is the utilizing material for this thesis.

Conclusion  In this study, it was concluded that this Thai SME manages its human
           resource in a mixture between informal and formal way. HRM is used
           and practiced more as the company grows which the entrepreneur
           plays a central role in the Human Resource Management in SMEs.

Keywords   Human Resource Management, Entrepreneur, Small and Medium
            Enterprises
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Pornratchanee Sethakaset
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Table of Contents

1. Introduction .............................................................................................................. 1
   1.1 Problem Background ......................................................................................... 1
   1.2 Problem Statement .......................................................................................... 2
   1.3 Purpose ............................................................................................................. 2
   1.4 Target Group .................................................................................................. 3
   1.5 Research Limitations ..................................................................................... 3
   1.6 Disposition ....................................................................................................... 3

2. General Information .............................................................................................. 4
   2.1 Company Background ..................................................................................... 4
   2.2 SMEs’ Role in Thai Economy .......................................................................... 4

3. Methodology ........................................................................................................... 8
   3.1 Methodological approach ............................................................................... 8
   3.2 The Choice of Topic ....................................................................................... 9
   3.3 Method for Data Collection .......................................................................... 10
       3.3.1. Literature Review ................................................................................. 10
       3.3.2. Empirical Research .............................................................................. 10
   3.4 Methodology Criticism ................................................................................. 12

4. Literature Review .................................................................................................. 12
   4.1 Definition of SMEs ....................................................................................... 13
   4.2 Entrepreneurship Theory ............................................................................. 14
       4.2.1 Definitions of Entrepreneur ................................................................ 15
       4.2.2 Innovation in the Entrepreneur .............................................................. 16
       4.2.3 Entrepreneurship Faced with Human Resources .................................... 17
   4.3 Human Resource Management (HRM) ......................................................... 19
       4.3.1 HRM Practice in SMEs ....................................................................... 21
       4.3.2 Informal HRM ..................................................................................... 22
       4.3.3 Formal HRM ....................................................................................... 27

5. Conceptual Framework ......................................................................................... 29

6. Case Study Findings ............................................................................................ 32

7. Analysis ................................................................................................................. 37

8. Conclusion ............................................................................................................ 42

9. Implication ............................................................................................................ 45

10. Further Studies .................................................................................................... 46

References ................................................................................................................ 47

Appendix .................................................................................................................... 51
LIST OF FIGURES

Figure 1 - Amount of Enterprises in Thailand in 2004 – 2006
Figure 2 - Employment Classified by Enterprise Size, 2004 – 2006
Figure 3 - Theoretical HRM Process of SME (Mazzarol, 2003)
Figure 4 – Conceptual Framework Model
Figure 5 – HRM Process in SME Growth

LIST OF TABLES

Table 1 - Employment by Enterprise Size, 2004 - 2006
Table 2 - The Difference in Emphasis in Qualitative versus Quantitative Methods
Table 3 - The Definition of SME Provided by the European Commission
Table 4 – The Explanation of Thai Small and Medium Enterprises (SMEs)
Table 5 - General Differences in HRM Practices between Smaller and Larger Firms
# LIST OF ABBREVIATIONS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASEAN</td>
<td>Association of Southeast Asian Nations</td>
</tr>
<tr>
<td>CBT</td>
<td>Computer-based training</td>
</tr>
<tr>
<td>EC</td>
<td>European Commission</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>HRM</td>
<td>Human Resource Management</td>
</tr>
<tr>
<td>IMD</td>
<td>International Institute for Management Development</td>
</tr>
<tr>
<td>OSMEP</td>
<td>Office of Small and Medium Enterprises Promotion</td>
</tr>
<tr>
<td>SBA</td>
<td>Small Business Administration</td>
</tr>
<tr>
<td>SMEs</td>
<td>Small and Medium Enterprises</td>
</tr>
<tr>
<td>TFP</td>
<td>Total Factor Productivity</td>
</tr>
</tbody>
</table>
1. Introduction

1.1 Problem Background

The center of attention for empirical studies, literatures and research of Human Resource Management (HRM) are mostly in large companies. As Tansky and Heneman (2003) stated, “Small and Medium sized Enterprises (SMEs) have been treated as second-class citizens by authors in the human resource management literature for too long” (cited in Barrett and Mayson 2006, p.443). That is, SMEs are neglected in this field. However, owing to the flow and increased number of SMEs, SMEs are being considered and expressed with more concern. The number of studies in relation to HRM and SMEs is rising (Deshpande and Golhar 1994; Heneman et al., 2000; Hornsby and Kuratko 2003; Rutherford et al. 2003, cited in Barret and Mayson 2007, p.2). Recently, the primary policy of the Thai government tends to support and promote SMEs because of their potential for creating jobs and wealth, adding value and devising revenue in the roles of producer, distributor, and facilitator.

When a new company is established, it becomes an organization and hires its first group of employees; human resource issues play a major role in (and influence the success of) all organizations. Indeed, there is rising evidence suggesting that some founders or entrepreneurs of new companies, who are unable to manage HRM issues, are expected to face failure since HRM is an important aspect but they are neglected. Mintzberg (1989), is one of the scholars who has connected entrepreneurship to small businesses as it has recently been created and are characterized by a simple structure, allowing their managers to express their leadership (cited in Messeghem 2003, p.198). Not only is the connection between entrepreneur and small business essential, but the changing of environment that needs the flexible innovation in order to reduce the uncertainty also forces SMEs to be lean, flexible, and small in size. Then SMEs are the crucial role in the Thai economy.

Additionally if the companies are established by entrepreneurs who are unable to deal with HRM-related issues, it will be difficult to attract and maintain their employees (Baron 2003). In SMEs, the founders or entrepreneurs are the key people to develop and determine the success of the company, but the company cannot succeed with the founders or entrepreneurs working alone since Human Resources are important. As Jack, Hyman and Osborne (2006, p.456) said, “an entrepreneur only rarely works alone: sooner or later small entrepreneurial ventures require other human inputs”. Therefore, the entrepreneurs have to manage their human resources properly as it is a significant factor. Thus, the management of human resources becomes even more critical.

Entrepreneurial behavior creates the underpinning of economic growth, by shaping the ways people think innovatively to create new ideas, new products and services, either within an established organization or through the development of a new venture (Drucker 1985; Schumpeter 1934 cited in Barrett and Mayson 2006, p.1). Though many entrepreneurship scholars considered that entrepreneurs are the outside corporate management, the management within organization should not be
overlooked. Then, we decided to focus on the fundamentally important posture of entrepreneurship in the SME within the organization, especially Human Resource Management. Small businesses play an important part in developing the social economy. In a recent special issue of HRM review, Baron (2003) argued that the field of HRM can learn and study by looking more closely at HR processes within new and small firms. Herein lays the main reason why we want to answer the question How can entrepreneurs of SMEs manage their human resources, Can previous research and studies about HRM in SMEs be applied in the Thai entrepreneurial SME, and Does the HRM in the company change and transform over time are proposed.

By using the theoretical elements, the conclusion are proved to answer for the questions above that could be used in enterprises wanting to develop their competencies. To investigate, two theoretical elements are established in this thesis by using Thai SME, Albatross Company Limited, as a case study.

### 1.2 Problem Statement

This research emphasized the management of human resources in entrepreneurial SMEs. The size of the company has an effect on the structure of the company. Hence, the main research problems are “How can entrepreneurs of SMEs manage their human resources, Can previous research and studies about HRM in SMEs be applied in the Thai entrepreneurial SME, and Does the HRM in the company change and transform over time. These problem statements lead to the question of whether HRM can be applied and described appropriately through the pattern of the studies in developed countries. Therefore, Albatross Company was chosen as a Thai SME in a developing country to prove the case and answer the questions.

### 1.3 Purpose

The purpose of this study is to review the relevant studies and research about HRM in SMEs. One of the goals is to find out more about how human resources are managed in SMEs. Because the size of the company makes it difficult to manage and handle it in a formal way, small companies usually use informal and flexible forms to deal with their people. Since there is no clear model formulated yet for HRM in SMES, previous studies conducted about flexibility and informality are usually adopted in small companies. The second goal is to find out if the previous studies are still applicable for Thai entrepreneurial SMEs. Moreover, the authors want to explore and examine if Human Resource Management is used and applied in the Thai Case Entrepreneur like in other countries or not. The previous studies illustrated that as the company grows, HRM will become formal. Williamson (2000) stated that as small firms grow, managers exhaust their informal staffing contacts (for example: family members, referrals and walk-ins) and need to develop more formal methods to recruit employees to sustain growth. Finally, our last purpose is to investigate the HRM path (pattern) in SMEs to see how HRM has changed and transformed over the period of time when the firm grows and has more employee working inside the company.
1.4 Target Group

The main target group of this thesis is entrepreneurs and small and medium enterprises owners in Thailand who are interested in developing their management in Human Resources and want to apply HRM in their companies to become successful SMEs. This thesis can also bring useful information to business scholars, researchers and academies which study the field of HRM in SMEs and are interested in applying HRM in small businesses.

1.5 Research Limitations

Most literature has established models for larger organizations which is not directly applicable to small and medium firms. Therefore, the literature reviews included are the ones that emphasize small or medium enterprises. This study cannot be generalized because, at this point, it is only a single case study, which cannot be used for developing a human resource model for SMEs. In this research, we focused only on the entrepreneurial characteristics and the structure of the company due to time limitation. In reality, there are other factors that impact the change of HRM in companies, such as politics, economics, market growth or decline, technological forces and so on.

1.6 Disposition

Our paper takes the following structure. Following the introduction, we have the main section with general information about the case study and the role of SMEs in Thailand, which is presented in the next section. Then the authors describe how the research and methodology are conducted in Part 3, and a relevant literature review is presented in Part 4. In part 5, we present the conceptual framework, which we use as the outline of our analysis. Following that, empirical data is gathered in Part 6. Part 7 presents the analyzed data of case studies. Finally, conclusions and further study are discussed in Part 8 and Part 9 respectively.
2. General Information

There are two contents about company background and SMEs’ role in Thai economy that aim to give the general information about the company and show that SMEs have a crucial part in Thai economy.

2.1 Company Background

Rice is known all over the world, but READY-TO-EAT rice was first proclaimed in 1998 by the name of “KHUN PERM”. It was the world’s first manufacture of READY-TO-EAT rice. Subsequently, Albatross Company Limited was established by Permphan Neowakul in 1999.

The products of the company are not only READY-TO-EAT rice, but also Thai curries and easy to cook DO-IT-YOURSELF Thai sauces. All products are free from food additives, Genetically Modified Organisms (G.M.O.) and use neither preservatives nor chemicals. Eighty percent of the products are exported abroad. The intention of the company in producing these products is to provide for people who like to eat rice, but do not want to go through the complications and difficulties in cooking. The READY-TO-EAT rice eases the need for hygienic conditions for relief agencies such as the United Nations, Red Cross, Care and other NGOs in providing food to people who are suffering. It is also convenient for the military to supply to their troops with ready-to-eat food including rice. The READY-TO-EAT rice is popular because you do not need fire to cook it. The DO-IT-YOURSELF Thai sauces also make Thai cooking easy, fast and more convenient, even if you are not a great chef. You can prepare them by just following the instructions with the menu provided. These products are suitable for people who like Asian food and enjoy a quick meal at home. (Albatross Company Limited sites n.d.)

2.2 SMEs’ Role in Thai Economy

SMEs are enterprises that use flexibility and elasticity in order to adapt to the country’s changing situation, such as an economic crisis in Thailand, which includes both internal and external factors which affect investment. Examples of these factors include an unstable political situation, depreciation of the Thai Baht, and the increase in oil prices, which have been continuing since 1995, as well as the slow growth of the world’s economy.

According to statistics from Office of Small and Medium Enterprises Promotion (OSMEP) in 2006, there are 2,287,057 enterprises, which are comprised of 4,292 large-sized enterprises, 9,791 medium-sized enterprises, 2,264,734 small-sized enterprises and 8,240 unverified enterprises. Therefore, 99.4 percent of all enterprises are categorized as SMEs in Thailand. The country’s Gross Domestic Product (GDP) is comprised of 38.9 percent from SMEs, and the expansion rate of SMEs is 4.8 percent. Thus, the Thai government sees SMEs as playing an important role in helping Thailand to regain economic growth for the future. As a result, the Thai government
plans to support and develop the potential of SMEs. From the statistics, the amount of enterprises in Thailand is shown in Figure 1. (White paper 2006)

![Figure 1 - Amount of Enterprises in Thailand in 2004 – 2006](image)


In 2006, there were 11,551,272 employees hired by all enterprises, which can be classified by size: 2,687,938 in large-sized enterprises or 23.3% of overall employment, 1,338,398 in medium-sized enterprises or 11.6% and 7,524,936 in small-sized enterprises or 65.1%. From 2004 to 2006, the number of employees in SMEs was greater than the number of employees in Large Enterprises. The ratio of employment in 2006 increased 6.3% from 2005. Accordingly, the job creation by the SMEs was 8,863,334 or 76.7% of all positions. The overview of employments in Thailand can be seen in Table 1 and this table is modified into chart in order to seeing comparison among years in Figure 2. (Ibid.)
### Table 1 - Employments by Enterprise Size, 2004 – 2006


<table>
<thead>
<tr>
<th>Enterprise Size</th>
<th>Employment (Persons)</th>
<th>Change (Percentage)</th>
<th>Percentage of Total Employment (Percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large-sized Enterprise</td>
<td>2,614,663</td>
<td>2,662,543</td>
<td>2,687,938</td>
</tr>
<tr>
<td>Small- and Medium-sized</td>
<td>8,352,804</td>
<td>8,453,170</td>
<td>8,863,334</td>
</tr>
<tr>
<td>Enterprises</td>
<td>1,357,852</td>
<td>1,378,547</td>
<td>1,338,398</td>
</tr>
<tr>
<td>Medium-sized Enterprise</td>
<td>6,999,641</td>
<td>7,079,613</td>
<td>7,524,936</td>
</tr>
<tr>
<td>Total</td>
<td>10,972,156</td>
<td>11,120,703</td>
<td>11,551,272</td>
</tr>
</tbody>
</table>

**Figure 2 - Employments Classified by Enterprise Size, 2004 – 2006**


Human Resources are a critical factor in building a country’s capability. A particular country, which has high Human Resources efficiency tends to be able to produce high quality goods and services at relatively lower costs when compared to other countries. Moreover, the country with strong Human Resources has certainly a better chance to compete with other countries. In economics terms, the Human Resource capability of a country is measured by labour productivity or, in other words, the output per head. According to Thailand’s data on source of growth recorded by the Office of National Economic and Social Development Board in the past two decades, economic growth in Thailand has been a quantitative expansion rather than a qualitative expansion and it has been based mainly on the improvement of capital together with labour. During 1982-2005, Thailand’s economy expanded annually at an average rate of 6.0%, the
results are shown as labour factor by 0.6%, capital factor by 4.7%, and Total Factor Productivity (TFP) which is a physical output that uses to measure the expansion of economy (IBNET, n.d.) by 0.7%. (Ibid.)

In comparing labour factor productivity of Thailand to other developed countries such as South Korea, Japan, the United States, and the United Kingdom, Japan was the country with the highest labour factor productivity. Meanwhile, Singapore had the highest labour factor productivity among ASEAN (Association of Southeast Asian Nations) countries followed by Malaysia, Thailand, the Philippines and Indonesia, respectively. International Institute for Management Development (IMD)’s report on competitiveness of nations ranked Thailand’s labour factor productivity at 43rd in 1998, then 47th in 2001 and 56th in 2006. (Ibid.)
3. Methodology

This part presents the tool that authors used to investigate the result by explaining methodological approach, the choice of topic, the choice of collecting we choose, and methodology criticism which might affect our reliability.

3.1 Methodological approach

There are two kinds of methods that can be used in a thesis; qualitative research and quantitative research. In general, quantitative research and qualitative research are defined such that quantitative research employs measurement and qualitative research does not (Bryman 2004). The qualitative research usually emphasizes words, rather than quantification in the collection and analysis of data, while quantitative research usually emphasizes quantification in the collection and analysis of data (Ibid.). The methods or techniques selected depend on the research problem and its purpose. The differences in quantitative research and qualitative research are shown in the following table:

<table>
<thead>
<tr>
<th>Qualitative Methods</th>
<th>Quantitative Methods</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emphasis on understanding</td>
<td>Emphasis on testing and verification</td>
</tr>
<tr>
<td>Focus on understanding from respondent's/ informant's point of view</td>
<td>Focus on facts and/or reasons for social events</td>
</tr>
<tr>
<td>Interpretation and rationalized approach</td>
<td>Logical and critical approach</td>
</tr>
<tr>
<td>Observations and measurements in natural settings</td>
<td>Controlled measurement</td>
</tr>
<tr>
<td>Subjective 'insider view' and closeness to data</td>
<td>Objective 'outside view' distant from data</td>
</tr>
<tr>
<td>Explorative orientation</td>
<td>Hypothetical-deductive; focus on hypothesis testing</td>
</tr>
<tr>
<td>Process oriented</td>
<td>Result oriented</td>
</tr>
<tr>
<td>Holistic perspective</td>
<td>Particular and analytical perspective</td>
</tr>
<tr>
<td>Generalization by comparison of properties and contexts of individual organism</td>
<td>Generalization by population membership</td>
</tr>
</tbody>
</table>

Table 2 - The Difference in Emphasis of Qualitative versus Quantitative Methods

Source: Based on Reichardt and Cook (1979) cited in Ghauri and Gronhaug (2005), p. 110

The method for this thesis is a qualitative approach, in which a qualitative method is used to study the background, previous experience and behavior of our case study, Albatross. This work also uses a qualitative case study approach focusing on only one company. The qualitative research is used to view social life in terms of process (Bryman 2004). Because quantitative methods are not suitable to study a process,
qualitative methods are more suitable and can provide details and understanding of the case study (Ghauri and Gronhaug 2005).

The authors decided to use the narrative account of the subject by using a case study to explore and analyze. The general term for this process is pattern matching, and it means proposing a set of propositions that could be true and compares them with the patterns of relations, which are found in the case study. There are different reasons why the authors use case method. First of all, the case study is a better way to describe a management situation. Second, the case study is helpful for theory development and testing (Ghauri and Gronhaug 2005). Third, the qualitative case studies provide a wider and deeper understanding of process (Fisher 2007).

The qualitative approach has both strengths and weaknesses. The strength is the focus that allows the researchers to investigate the problem at a deeper level than the quantitative approach. The weakness is that the information collected is not suitable for generalization since it only concerns one or a few cases. Another weakness that often rises from qualitative research is the fact that the material collected is interpreted through the researcher’s mind. Because of this, it could be difficult to replicate the study. (Bryman 2004) This problem does not affect this work since we stick to the information and analyze based on the primary data from an interview with the owner of the company.

3.2 The Choice of Topic

After the authors finished all courses in International Business and Entrepreneurship, we are interested in entrepreneurship, which is the main topic of the courses. We understand that management capability only is not enough in order to achieve success. The owner should have both management and entrepreneurship capabilities. We started to think about management and entrepreneurship and how these two relate together. Then, we came up with Human Resources, which is an important resource for any company.

Our first attempt, we wanted to study about the efficiency of HRM, thus we focused on the large and well-structured company. According to suggestion of the advisors, we contacted with TeliaSonera, which is a Swedish company. Unfortunately, we did not get any response from the company. For this reason we had changed our direction to find companies in Thailand. Since we read through “Strategic Entrepreneurship and Managerial Activities in SMEs,” which is written by Karim Messeghem, and SMEs have played important role in Thai economic system, we decided to use SMEs as a part of our study. Thus, we thought about the importance of SMEs in Thailand and try to relate SMEs, HRM, and entrepreneurship. Finally, we decided to study how Human Resources are managed in SMEs in Thailand.

We went through websites about the web site of SMEs in Thailand and searched for a company that we can use as a case study. We contacted some companies, which were suitable with our theme, but only one replied and allowed us access to its information. Albatross Company Limited was used as our case study because it started from small
company and has grown to be a medium company. Albatross is the first company to produce canned rice in Thailand. Even though Thailand has a reputation of being one of the best rice producers, nobody thinks that canned rice can be something that is possible. Permphan, who is a founder of the company, noticed this situation and took this opportunity.

3.3 Method for Data Collection

3.3.1. Literature Review

The authors have searched secondarily data the available on-line databases of Mälardalen University, such as ABI/Inform, Blackwell Synergy, Emerald, Google Scholar, and JSTOR by using three keywords. The main keywords are “entrepreneur”, “Human Resource Management” and “SMEs or small business”. The relevant literature were studied and collected in Part 4, Literature Review.

First of all, the authors provided the explanations and definitions of three keywords in order to give the reader a clear picture about what these keywords mean. We have compared different ideas from many scholars and researchers for each word. From these three main keywords we found three concepts that relate to this thesis. SMEs, Entrepreneurship and HRM are crucial concepts. Then we presented the connection among these factors. We thought that characteristics of entrepreneurs have an effect to how they manage their company. From the literature review, we found that entrepreneur is a person who manage and control Human Resources in SMEs. As the firms grow, the HRM patterns change from informal to formal HRM. Therefore, we formulated our model to analyze the case study based on the theoretical background. Finally, we already wrote about how we built conceptual framework in Section 5, so we think it will be duplicate if we write it here one more time.

3.3.2. Empirical Research

The research was based on both primary and secondary data to manage the research. The interview is a generally used method in a Master’s thesis examining an organization or business. This method is a better way to find out about past strategic decisions. Due to the location condition, the authors used telephone interviews with the respondent. The advantage of a telephone interview is easy to access to people who would never find free time to give an interview. This is a quick and convenient way to get information. (Fisher 2007)

The qualitative interview has two major types; unstructured interviews where the questions and answers are unstructured and not systematically coded beforehand, and structured interviews where a standard formal interview is used. There is another type of interview, semi-structured interviews, which is in between these two major types. These cases are a flexible process which emphasizes the interviewee’s framing and
understanding of events, patterns and forms of behavior (Bryman 2004). The semi-structured interview has been used to conduct the interviews in this thesis.

**Primary Data – Interviews**

Our research was also carried out by collecting data by interviewing key personnel from the selected company, such as Mr. Permphan Neowakul, who is the founder of the Albatross Company Limited. The focal company is Albatross Company Limited, which is well-known as the KHUN PERM brand. By focusing on one company, we hope to interpret how they have structured their Human Resources.

Data was collected by in-depth interviews with the founder, Permphan, through semi-structured open-ended questioning. This kind of interview was planned and scheduled to follow the question outline (See Interview Questions). The interview focused on Human Resources, entrepreneurial activities, and their innovation. To analyze the case study, we conducted semi-structured interviews with Permphan by telephone. The primary data was collected from the telephone interview. As a consequence of a limitation of distance, the authors could not use face-to-face interviews with the interviewee. So, the telephone interviews were a suitable way. The first time, we interviewed Permphan was on 24 April 2008. We called to interview again on 30 April 2008 to get all the information we needed (Permphan Neowakul, Telephone Interview, 24 April 2008, and 30 April 2008).

We chose to interview the leader of the business, who is the founder and involved in the related field of the thesis’s purpose, in order to assure that the data was adequate for analysis. The entrepreneur was asked to recall the Human Resource practices he used over time.

We used the theoretical perspective to formulate interview questions. The data that was collected from the interviews was analyzed by the theories in the literature review part.

**Secondary Data**

In addition to the interviews, data for the case study was also collected from material, such as company material and web pages in which the company had been interviewed to complement the results from the primary data. Then, we collected the related information from the website in order to emphasize the reliability and credibility.

The authors retrieved the information about the SMEs in Thailand from the webpage of the Office of Small and Medium Enterprises Promotion (OSMEP). We have collected some the definitions of the technical terms from the homepage. The website is under the control of the Deputy Prime Minister and other related authorities.
3.4 Methodology Criticism

In most SMEs, there is no Human Resources manager or department, so the owner of the company is the one who performs and manages Human Resources. In Albatross, there is no Human Resources manager, so Permphan, who is the owner of the company, has to manage Human Resources by himself. To learn and study more closely about HRM, it would have been better to conduct in-depth interviews with the owner. Thus, this could be a criticism of the methods used in our thesis.
4. Literature Review

This part is based on three themes of theories, which are relevant to our research problems. First, we give the definition of SMEs, which differs in different part of the world. Second, we discuss about the entrepreneurship theory, which is separated in to three subsections. Then, we explain about Human Resource Management.

4.1 Definition of SMEs

SME stands for Small and Medium Enterprise. The definition of SME differs in different parts of the world. Definitions of what constitutes an SME do vary within the literatures. The traditional American Small Business Administration once defined a manufacturing firm as small if it employed fewer than 1,500 people (Storey 1994). In today’s definition, the United States defines a small business by the number of employees; it refers to those with less than 100 employees, while medium-sized business refers to those with less than 500 employees by Small Business Administration (SBA) Size Standards Office.

The European Commission (EC) defined the definition of small and medium enterprise (SME) in April 1996. SMEs are classified into three groups, which include medium, small, and micro enterprises. Its definition is based on the number of paid employees, turnover, balance sheet total, and independence. Independence is the ultimate criterion to justify enterprises to be a SME. Independence means less than 25% owned by one of several companies. The EC defines SMEs based on the following criteria in Table 3:

<table>
<thead>
<tr>
<th>Enterprise category</th>
<th>Headcount</th>
<th>Turnover or Balance sheet total</th>
</tr>
</thead>
<tbody>
<tr>
<td>medium-sized</td>
<td>&lt; 250</td>
<td>≤ € 50 million / ≤ € 43 million</td>
</tr>
<tr>
<td>Small</td>
<td>&lt; 50</td>
<td>≤ € 10 million / ≤ € 10 million</td>
</tr>
<tr>
<td>micro</td>
<td>&lt; 10</td>
<td>≤ € 2 million / ≤ € 2 million</td>
</tr>
</tbody>
</table>

Table 3 - The Definition of SME Provided by the European Commission

In this thesis, the authors used the Thai SME definition as the case study’s company is operating in Thailand. SMEs are defined by the Thai organization which is applied as the legal matter that covers three kinds of businesses, which are production sector, trading sector and service sector. The companies are organized into groups by using the amount of employees and fixed assets, excluding land value. The size of the enterprise is defined by the Office of Small and Medium Enterprises Promotion (OSMEP) as shown below in Table 4:

<table>
<thead>
<tr>
<th>Enterprise category</th>
<th>Headcount</th>
<th>Turnover or Balance sheet total</th>
</tr>
</thead>
<tbody>
<tr>
<td>production sector</td>
<td>&lt; 50</td>
<td>≤ € 50 million / ≤ € 43 million</td>
</tr>
<tr>
<td>trading sector</td>
<td>&lt; 50</td>
<td>≤ € 10 million / ≤ € 10 million</td>
</tr>
<tr>
<td>service sector</td>
<td>&lt; 10</td>
<td>≤ € 2 million / ≤ € 2 million</td>
</tr>
</tbody>
</table>

Table 4 - The Definition of SME Provided by the Office of Small and Medium Enterprises Promotion (OSMEP)
<table>
<thead>
<tr>
<th></th>
<th>Small Enterprise</th>
<th>Medium Enterprise</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Employees</td>
<td>Fixed Assets (Million Baht)</td>
</tr>
<tr>
<td>Production sector</td>
<td>&lt; 50</td>
<td>&lt; 50</td>
</tr>
<tr>
<td>Trading sector</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Wholesale</td>
<td>&lt; 25</td>
<td>&lt; 50</td>
</tr>
<tr>
<td>- Retail</td>
<td>&lt; 15</td>
<td>&lt; 30</td>
</tr>
<tr>
<td>Service sector</td>
<td>&lt; 50</td>
<td>&lt; 50</td>
</tr>
</tbody>
</table>

Table 4 – The Explanation of Thai Small and Medium Enterprises (SMEs)

In business practices, the classification of SMEs can also include the number of share holdings by parent companies, enterprise structures, and independence. The principle measure for SME is an enterprise’s independence. This characteristic indicates that not more than 25% of SME capital should be owned by one or more large companies (OSMEP).

The case study in this thesis is about a SME in Thailand, so the last definition of SMEs is suitable with the case. In general, owners in small business manage and control everything in their companies by themselves. Thus, entrepreneurship is spotlighted as the main key for reaching success of the company and has an important role in the organization.

4.2 Entrepreneurship Theory

Entrepreneurship is a topic that attracts the interest of business people, academics, and government. Entrepreneurship is an element for stimulating employment opportunities and economic growth (Holden 2008). The state of being an entrepreneur is called entrepreneurship. Thereby, entrepreneur is someone who sets up, owns, manages and organizes a business and willing to take risks of making or losing a profit in order to survive. (Berns and Hairston 1999)

First, we would like to explain the definitions and the characteristics of the entrepreneur as a result of our case study, in which we classified Permphan, who is the owner of our case study company, as an entrepreneur. Due to the fact that SMEs and entrepreneurs have been noted as an important part of the economic world, many academics have recently given attention to SMEs. The SMEs and entrepreneurs are involved in the innovation and development of the economy. Many academics turn to observe the relationship between Human Resource and the entrepreneur. Owing to technology, communication and transportation that are developed over time facilitate access to market niches for any company. The HRM is not limited to only large and established firms but also provides for small and new firms. Entrepreneurial strategy
turns out to be a necessary condition to warrant their survival in an extremely competitive context (Messeghem 2003).

### 4.2.1 Definitions of Entrepreneur

There are difficulties in defining exactly the meaning of entrepreneur. There are many concepts about the entrepreneur. The meaning of entrepreneur changes in order to keep up with the situation and surrounding environment. Therefore, many perspectives about the entrepreneur are formulated as described below.

According to Burns (2005), an entrepreneur is someone who uses innovation to create or exploit change and opportunity for the purpose of making profit by shifting economic resources from one area of lower productivity into another area of higher productivity and greater yield, accepting a light degree of risk and uncertainty in doing so. Entrepreneurs can be defined by their actions and described in terms of their characteristics. Burn believes that entrepreneurs can be both born and made due to each entrepreneur’s specific character, his/her background and social surrounding. He describes the entrepreneurial characteristics similar to a superhero. It does not mean that all owners are entrepreneurs because owners and entrepreneurs have some different views. Entrepreneurs have a high need for accomplishment as a driving force and believe in the internal locus of control. They can see the opportunity and see the innovation through change, risk, and uncertainty. Furthermore, entrepreneurs are self-confident because of the future uncertainty they are facing. A successful company can be achieved by an individual or group of people, who have the entrepreneurial character. Burn believes that not only a person can be an entrepreneur, but an organization can also be an entrepreneur. Networking is used as a vital tool to gain access to the information or resources that are necessary for the company, especially in the start-up stage. Developing strong relationships is an important skill of entrepreneurs.

Schumpeter (1934) is the first to define entrepreneurs in economic theory. Schumpeter defines entrepreneurs as people who are making new combinations of existing materials and forces, which produce something innovative. Thus, no one can be an entrepreneur forever. He/she is an entrepreneur only at that time, and after the idea is brought to reality, the entrepreneur is diminished. Schumpeter presents three patterns of the entrepreneur; entrepreneurial behavior, motivation of the entrepreneur, and the institutional structure of society. “The first of these three patterns is the entrepreneurial behavior, which includes the following five; 1) the introduction of a new good, 2) the introduction of a new method of production, 3) the opening of a new market, 4) the conquest of a new source of supply of raw materials and 5) the carrying out of a new organization of any industry” (cited in Swedberg 2000, p15). These five behaviors involve with the concept of new combinations as described above. “The second pattern is the motivations of the entrepreneur, which includes the followings; 1) the dream and the will to found a private kingdom, 2) the will to conquer and 3) the joy of creating” (Schumpeter 1946 cited in Swedberg 2000, p16).
Lastly, Schumpeter focuses on shifting from economic theory to sociology, which is the institutional structure. Entrepreneurs are the crucial forces that indicate the change, which is caused by the introduction of innovations in the economic system. Circular Flow, which is a circle of money flowing, shows the relationship between monetary income and spending for the economy as a whole. Schumpeter views the entrepreneur as a leader who uses intuition to accomplish a goal. (Schumpeter cited in Swedberg 2000, p.67) Schumpeter distinguished between managers and entrepreneurs in that they are different. Schumpeter’s ideas emphasize innovation and economic development so that an entrepreneur can break up the circular flow, which are affected inside and outside the economy.

Entrepreneurship is the mindset and process to create and develop economic activity by blending risk-taking, creativity, and/or innovation with sound management, within a new or existing organization (European Commission 2003).

In contra from Schumpeter (1934), Jarillo and Stevenson (1990) argue that the entrepreneur is an individual who pursues opportunities without consideration to their resources in their control, either on their own or inside organizations. The seeking of opportunities is important for the organizations. Therefore, the entrepreneur should train his/her people in the organization to detect opportunities by rewarding those who pursue opportunities and lessen the consequences of failing (Jarillo and Stevenson 1990 cited in Swedberg 2000, p.9).

Mises (1978) views the entrepreneur as always geared to the uncertainty of future demand and supply to opportunity. The entrepreneur is looking for an opportunity to create money by looking for what the customer wants. Mises (cited in Swedberg 2000, p.20) explores the role of entrepreneurial error, which explains that the entrepreneur can both gain and lose money. Thus, one entrepreneur’s error creates another’s opportunity. Entrepreneurs can learn from their mistakes (Blaug cited in Swedberg 2000).

There are many scholars such as Schumpeter, Burns and Mises etc. who gave varying definitions of an entrepreneur. From all above, we concluded that an entrepreneur is a person who pursues opportunities, risk-taking, leadership, motivation and innovation, which plays a central role. We described innovation in the next section.

4.2.2 Innovation in the Entrepreneur

Kanter (cited in Swedberg 2000) compares innovation with flowers. He said that innovations are like flowers that start from small seeds, are nurtured until blossoming and then are spread out to another place. The employees of a company are an important role in the innovation process. Innovation is creation and exploitation of new ideas by individual or a group of individuals’ tasks at the micro-level, which in turn is enhanced, facilitated and stimulated by the macro-level condition. There are four main innovation tasks as follows: - (Kanter cited in Swedberg 2000)
1. Idea generation and Innovation action – look for new opportunity
2. Coalition building – supporters, sponsors, backers and friends are important to the innovation process
3. Idea realization and Innovation production - bring idea to reality by settling down working team
4. Transfer or Diffusion

Innovation is doing things differently in some way by breaking from established patterns (Mintzberg cited in Burn 2005, p.244). The entrepreneur is the central role player of innovation. According to Burn (2005), innovation is mould breaking that develops new products or services, new processes, ways to use material and deliver which are related to an opportunity. (Burn 2005)

As Schumpeter says “the entrepreneur initiates changes and generates new opportunities. Until imitators force prices and costs into conformity, the innovator is able to reap profits and disturb equilibrium” (Burns 2005, p.246). Schumpeter (1996) divided the way of innovation into five types: - (Cited in Burn 2005, p.243)

1. The introduction of new or improved goods or services
2. The introduction of a new processes
3. The opening of a new markets
4. The conquest of new sources of supply of raw materials
5. The creation of new types of industrial organization

The entrepreneurial firms have not depended on the size of the firms, but there is some relation between size and innovation. In general, a small firm seems to provide more innovative things to the market. It is easier for the small firm to find a market niche that a large firm disregards. Small firms find ways of networking with customers and suppliers, in order to reduce costs and time. Nevertheless, they have limitations about capital, R&D, advertising, etc. Small firms have the ability to adapt themselves to a changed environment with more flexibility. (Burn 2005)

Innovation in the entrepreneur gave us the idea about the way entrepreneurs use the ideas and methods to create new products and services. We will discuss in the next section about entrepreneurship faced with human resources or how entrepreneurs deal with human resources in their organization.

4.2.3 Entrepreneurship Faced with Human Resources

The study of entrepreneurship tends to spotlight on small companies as far as business venturing is concerned – or on large organizations when it comes to intrapreneurship or corporate entrepreneurship. However, small companies may manage their resources depending on an entrepreneur’s capacity. Vecchio examined the ability of the entrepreneur as to leadership. From his study, he concluded that entrepreneurship is a type of leadership that occurs in a specific kind of background. Vecchio reviews the terms “Entrepreneurship’s ‘Big Five’” - basic individual difference factors long viewed as important to entrepreneurship, which are comprised of 1) risk-taking
propensity, 2) need for achievement, 3) need for autonomy, 4) self efficacy and 5) locus of control (cited in Baron 2003, p.4). Thus, companies founded by entrepreneurs, who neglect to create effectively with HRM might find it difficult to attract and retain top employees, which, in turn, affect their survival (Baron 2003).

As a result of the lack of resources, the small businesses have to pay attention to their Human Resources. Entrepreneurs cannot work alone; sooner or later, they require other Human Resources. There are studies that reveal Human Resources are significant for an entrepreneurial firm’s survival and growth (Aldrich & Langton 1997; Heneman, Tansky & Camp 2002; Katz, Aldrich, Welbourge & Williams 2000 cited in Leung 2003, p.303). Mintzberg (1989) has linked entrepreneurship to small businesses which are characterized as a simple structure that allow their managers to express their leadership (cited in Messeghem 2003, p.198).

During the start-up phase of the firm, the entrepreneur is one and the same as person in the organization, making all the decisions in the company (Leung 2003). The main goal of the firm at this stage is survival. During the growth phase, the entrepreneur cannot cover all the functions in the organization, due to the fast rate of growth and expansion. At this stage, professional managers have to be brought into the firm (Ibid.). In rapid growth firms, Human Resources Management becomes even more important (Barrett, and Mayson 2006).

An entrepreneur is a person or organization, who is willing to take risk to start a new business. Most of the time, the entrepreneur is viewed as the founder, who should have initiative and be innovative and creative. The entrepreneur can see an opportunity that other people cannot see. It is not necessary that the idea be a new idea for a new thing, but it could also be the development of an existing thing, which is already in the company. Innovation seems to be necessary in the character of the entrepreneur in order to succeed. The potential to become a successful business is not just in new ideas, but in turning their ideas to reality. In order to achieve the goal and succeed, entrepreneurs require other Human Resources to be brought into the company. Entrepreneurs cannot work alone, thus, employees are a crucial resource in the company. The entrepreneur should pay attention and focus on his/her Human Resources.

The general idea of how entrepreneurs use their ability to manage the human resources is by using a creative and innovative idea. We discovered that entrepreneurs in SMEs play an important role to manage and are also involved in HRM that have been used and practiced in the companies. After having reviewed entrepreneurship theory, we found significant information that fit our case and then we discuss about Human Resource Management.
4.3 Human Resource Management (HRM)

Human Resource Management (HRM) has been defined in a variety of ways. Critical to any definition is the understanding that effective organizations must be able to find, use, keep, and develop human beings in order to achieve results. HRM is the process of helping organizations does just that (Dubois and Rothwell 2004).

The style in which companies manage their Human Resources is a potential source of sustained competitive advantage. As Sherman, Bohlander and Snell (1998) noted, "the term ‘Human Resources’ implies that people have capabilities that drive organizational performance along with other resources such as money, materials, information, and the like”. Other terms, such as ‘human capital’ and ‘intellectual assets’, all have in common the idea that people make the difference in how an organization performs (cited in Dubois and Rothwell 2004).

There are a lot of scholars and researchers, who give a definition of Human Resource Management. The definition of HRM, in general, is how to deal with the employees in the organization. Whywanon (1994) viewed HRM as a function of management, which is concerned about the people working in the organization. It is about how to specify and carry out policy in aspects of manpower, recruitment and selection, training and development, incentives and the relations between employees. (Whywanon 1994)

The purpose is to make employees feel comfortable working within the organization, which is important to an organization’s success (Ibid.). Mondy and Noe see HRM as the way to manage people in the organization to achieve the goal and purpose of the organization (Mondy and Noe 1996 cited in Whywanon 1994, p.30). Clark explains HRM as a process of managing the relationships between workers and the managers, which have a purpose in achieving the organizational goals. There are three important relationships as follows; - (Clark 1992 cited in Whywanon 1994, p.30)

1. HRM focuses on how to manage the relationships between the people, not how to manage the people
2. HRM emphasizes the objectives of the organization, so if the objectives or aims of the organization change, the way to manage the human resource has to change too
3. The main purpose of HRM should focus on the organization, the members of the organization are an alternative goal

While the Encyclopedia of Business by Cherrington (1995) stated "Human Resource Management is responsible for how people are treated in organizations. It is responsible for bringing people into the organization, helping them perform their work, compensating them for their labors, and solving problems that arise (cited in Jahn 1999, p.1)." Human Resources Management has seven functions that concentrate on: staffing/recruitment, performance appraisals, compensation and benefits, training and development, employee and labor relations, safety and health, and human resource research. (Jahn 1999)
1. Staffing and Recruiting – Staffing is the management process of the flow of personnel into, within (through transfers and promotions), and out of an organization. Once the recruiting has been completed, selection is accomplished through job postings, testing, reference checks, interviews, and other tools. Important tools for the staffing process are job description and the job specification. Someone within the organization determines a need and qualifications to hire a new employee (Mondy and Noe 1996 and Gowan 2005 cited in Jahn 1999, p.1).

2. Performance Appraisals - Performance appraisal is the practice of assessing and providing feedback to employees about both positive and negative aspects of their performance. Line managers are in daily contact with the employees and are suitable person to measure performance. The employees’ performance can be evaluated by subordinates, peers, group, and self, or a combination of one or more (Whywanon 1994).

3. Compensation and Benefits – “Compensation is payment in the form of hourly wages or annual salaries and benefits are insurance, pensions, vacation, modified workweek, sick days, stock options, and etc. Compensation should be legal and motivating, cost-effective, fair and ethical, adequate and equitable, and able to provide employment security” (Cherrington 1995 cited in Jahn 1999, p.2).

4. Training and Development - Training focuses on the current job, while development keeps on providing activities that help employees expand their knowledge/skills and allow for growth. The type of training depends on the length of time learners have, the material to be learned, and the financial resources available. One type is instructor-led training, which is the demonstration. On-the-job training and apprenticeships let participants gain new skills as they perform various aspects of the job. Computer-based training (CBT) provides learners at various geographic locations to gain access to material to be learned at convenient times and locations. (Jahn 1999)

5. Employee and Labor Relations – “There are unions or group of employees which employees gather together in order to resolve issues about employment-related such as increase wages, better medical plans, eliminate unfair conditions, and extended vacation time. HR managers not only deal with union organizations but also accountable for resolving collective bargaining issues namely, the contract. On the other hand, the contract is used for defining other employment-related issues such as working conditions, compensation and benefits, discipline procedures, individuals or management’s rights, and length of contract.” (Cherrington 1995 cited in Jahn 1999, p.3)

6. Safety and Health Issues - Safety and health usually entail fulfillment of federal laws that protect employees from peril in the workplace, including a safe and healthy working environment (Jahn 1999).
7. Human Resource Research - The Human Resources department seems to be the storehouse for keeping the history of the organization such as turnover, number of people presently employed and so on in order to generate statistics on the percentages of women, minorities, and other demographic characteristics. This research better enables organizations to predict cyclical trends and to properly recruit and select employees. (Ibid.)

“Generally, in small organizations with fewer than a hundred employees, there may not be an HR department. So, an owner or entrepreneur will be responsible for the functions of HRM. In large organizations with a hundred employees or more, a Human Resources manager will coordinate the HRM duties and report directly to the chief executive officer (CEO).” (Jahn 1999, p.1) Therefore, it is important for Human Resource professionals to be up-to-date on the latest trends in staffing/recruiting, performance appraisals, compensation and benefits, training and development, employee and labor relations, and safety and health issues (Jahn 1999).

HRM is a process whereby all activities help to manage people and resources in order to make them work successfully, accomplish the organization goals, and make sure that they go in the same direction as the organization. It is about division of labor and coordination. HRM is an on-going process, which starts from the organization plan about their Human Resources, recruiting, maintaining, etc. until the people sign out of the job. HRM is seen to be crucial for innovation and entrepreneurship all over the world (Wang and Zang 2005). Thus, we are exploring the relationship between HRM and the performance of the company based on the entrepreneur’s ability. The Human Resources should be managed in order to create strength in the company.

4.3.1 HRM Practice in SMEs

HRM is one of the most important functions in an enterprise. Most theories and literature about HRM give their attention to HRM in large organizations. Most of the concepts and literature of the relationship of HRM and firms are focused on large enterprises and overlooked small enterprises (Wilkinson 1999). The management system in SMEs has been ignored in both entrepreneurship and HRM literature (Arthur and Hendry 1992; Wager 1998; Barber, et al. 1999; Heneman and Berkley 1999; Wilkinson 1999; Chandler and McEvoy 2000; Heneman, et al. 2000; Katz, et al. 2000 cited in Urbano and Yordanova 2007, p.2).

The increasing attention to HRM in SMEs is a comparatively new phenomenon. Most researchers ignored HRM in SMEs, which actually could be useful sources for them to investigate, because of their growth rate, the increasing number of SMEs and the diversity in it.

SMEs also need HRM in their organization in order to create more innovation, develop their organization, and support their organization’s growth to achieve their goal. HRM is a strategic approach to managing employees, which is crucial for the achievement of all firms. (Dyer 1993; Pfeffer 1994; cited from Barrett and Mayson 2007, p.309)
HRM can contribute to understanding the issues that the entrepreneur of a small business has to face, for example the contribution of HRM practices to the survival of a small new business, human resource acquisition and deployment during start up, and the role of resource allocation, acquirement and development, and the direction and speed of growth in high growth firms (Baron 2003). However, most commonly found that HRM in small firms reflect operational needs and pragmatic concerns: record keeping; staffing activities, such as recruiting and selecting staff; and retention and motivation activities such as compensation and reward practices (Hornsby and Kuratko 2003; Kotey and Sheridan 2001; McEvoy 1984 cited in Barrett and Mayson 2007, p.308).

Since HRM is a significant function in a firm, we tried to explore how HRM can be used in SMEs. However, scholars and researchers usually gave their attention to how HRM is used in large organizations. In reality, SMEs also need HRM in their firm in order to achieve their goal and create innovation too.
We focused on informal HRM and formal HRM practices in the small and medium organization which we discuss below.

4.3.2 Informal HRM

Julien (1998) studied and presented a widespread overview of 104 cases on a variety of HRM related topics in SMEs. Table 5 illustrates the main findings of Julien, who discovered that HRM practices do exist and are adapted in small business. They are generally not formalized and tremendously diverse and thus resist generalization. (Julien 1998 cited in Brand and Bax 2002, p.453)
### Table 5 - General Differences in HRM Practices between Smaller and Larger Firms


<table>
<thead>
<tr>
<th></th>
<th>Lower in small firms</th>
<th>Higher in small firms</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Formality</strong></td>
<td>Manpower need planning</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Introduction new staff</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Appraisal and evaluation</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Training</td>
<td></td>
</tr>
<tr>
<td><strong>Frequency of use</strong></td>
<td>Tests</td>
<td>Evaluation</td>
</tr>
<tr>
<td></td>
<td>Training and development</td>
<td>Internal referrals</td>
</tr>
<tr>
<td></td>
<td>HRM training</td>
<td>References</td>
</tr>
<tr>
<td></td>
<td>External recruitment assistance</td>
<td>Use of job try-outs</td>
</tr>
<tr>
<td><strong>Employee benefits</strong></td>
<td>Wages and fringe benefits</td>
<td>Satisfaction</td>
</tr>
<tr>
<td><strong>Work environment</strong></td>
<td>Participatory management</td>
<td>Informal, personal atmosphere</td>
</tr>
<tr>
<td></td>
<td>Open communication</td>
<td></td>
</tr>
</tbody>
</table>

Generally, HRM that is used and practiced in SMEs can be described in an informal way of management (Wilkinson 1999). In 1997, Greiner developed a five-stage model of organizational growth that describes a firm’s growth via a series of revolutionary and evolutionary stages. The five-stage model of organizational growth consists of Creativity, Direction, Delegation, Coordination and Collaboration. Revolution or crisis usually precedes a change to a new phase, where more evolutionary growth can happen (Greiner 1997).

The first three stages, which include Creativity, Direction and Delegation, are of particular significance to small and medium firms. The authors do not touch the last two stages which are Coordination and Collaboration because these two stages are not relevant to SMEs. The first stage, Creativity, is the characteristic of most small firm management. In managerial leadership the best characteristics have to do with the informal conversation and communication and also involved with the control structures. The entrepreneur (founder) is usually the one who create the vision and inspiration in the organization, and this makes management within the organization stretchy and unstructured. When the firm grows to a scale and complexity, it cannot be easily to handle by the founder of the firm. Therefore, the firm needs to set up the professional managers to deal with the leadership crisis. This next stage, Direction, features the introduction of systems to ensure coordination and control. Then, once the scale and scope grow too large, the firm experiences a crisis of independence, whereby sub-units within the firm search for greater freedom from central control.
This forces the firm to enter the next stage, Delegation. Here, the firm is restructured into divisions with decentralization of managerial control pushed down to the sub-unit level. (Ibid.)

There are a range of studies pointing out that small firms practiced HRM in an informal way, such as Benmore and Palmer 1996; Heneman and Berkely 1999; Hornsby and Kuratko 1990; Kotey and Slade 2005; Marlow 2000; Marlow and Patton 1993; Nguyen and Bryant 2004; McEvoy 1984; Ram, 1999 etc. (cited in Barrett and Mayson 2007, p.309). They argue that reward practices and staffing remain essential in HRM issues for small firms, but more research is still needed, as is “a greater application of HRM practices in smaller firms” (Hornsby and Kuratko 2003 cited in Barrett and Mayson 2007, p.308). HRM gives firms with the internal ability to adjust and adapt to their competitive environments by aligning HRM policies and practices, such as training and development, recruitment and selection, and reward systems, with business strategies (Delery and Doty 1996; Lengnick-Hall and Lengnick-Hall 1988; Wright et al. 2001; Wright and Snell 1998 cited in Barrett and Mayson 2007, p.309). Others found that selection process tools, such as reference checks, job tryouts, face-to-face interviews, and application forms, were chosen for simplicity of use and convenience (Deshpande and Golhar 1994; Gilbert and Jones 2000; Kotey and Sheridan 2001; McEvoy 1984 cited in Barrett and Mayson 2007, p.310).

Usually in SMEs, the entrepreneur or the owner of the firm will be the one who overcomes the managerial capacity problem and makes decisions about the important factors of HRM performances in their firm to bring about the best outcome for the firm’s performance (Cassell et al. 2002).

It is difficult for SMEs to have a Human Resource department in their organization because HRM is considered to be too costly in a small firm (Mazzarol 2003). A company that has less than 100 employees can probably operate successfully without a full-time Personnel or Human Resource manager. However, once the employee base exceeds 150, a professional Human Resource manager might be required. With over 200 employees, a Human Resource department may become necessary in the company (Oliver 1997; Caudron 1993 cited in Mazzarol 2003, p.28)

The small and medium sized companies are usually not making expenditures on employee training and development (Matlay 1999), and there is often a concern by the owner-manager over delegating significant tasks, which may result in serious consequences to small firms, if not handled appropriately (Mazzarol 2003). Although training is recognized as an important HRM issue for many small firms, research shows that most small and medium firms do not provide much formal training (Storey 2004 cited in Barrett and Mayson 2007, p. 310). Storey and Westhead (1997) present two explanations for this. First is the “market” explanation, where the cost of training is too high for small firms. Second is the “ignorance” explanation, where training is not provided because the advantage of training is misjudged by the small firm employer/manager. (Storey 2004; Storey and Westhead 1997 cited in Barrett and Mayson 2007, p. 310)
Retaining and recruiting high quality staff is also a most important challenge for a small and medium business entrepreneur (Atkinson and Storey 1994; Hornsby and Kuratko 1990 cited in Mazzarol 2003, p.31). The external advisors are used in order to help small businesses with HRM issues such as the guidance from accountant or lawyer (Harris 2000; Jay and Schaper 2003 cited in Barrett and Mayson 2007, p.311). Heneman et al. (2000) suggests that the external advisors might be expensive. He said that the small businesses have to invest in HRM recruitment and selection “mistakes”. While Harris (2000) argues that the small businesses have to be aware to use an accountant for HRM assistance because the main responsibility of accountants is not to provide HRM advice. (Cited in Barrett and Mayson 2007, p.311)

SMEs must gradually adjust and adapt their human resource management according to the experiences and situations they must cope with. The HRM in SMEs slowly forms its shape by the surrounding environment. Then, the policies may exist to meet the customers’ needs and changing conditions and environment around them (Kinnie and Purcell 1999 cited in Mazzarol 2003, p.29).

Mazzarol (2003, p.45) illustrates from his study that the Human Resource practices and policies in SMEs are impacted by four key elements:

1. “The owner-manager’s personal characteristics (e.g. management style, experience and personality style and level of managerial education)”

2. “The external market conditions facing SMEs (e.g. political, economic, market growth or decline and technological forces, as well as the behavior of competitors, customers and suppliers)”

3. “The nature of the work environment operating within the company (e.g. whether worker specialization, autonomy or skill is high or low and the routine or unique nature of the work process)”

4. “The company structure (e.g. ownership – partnership, single owner or family business – low or high levels of organizational complexity and change and whether it is a single or multi-site operation)”

“These factors have and impact on the nature of Human Resource policy and practice within the business and determine the nature of HRM outcomes as the firm grows.” (Ibid.)
Since SMEs are increasing in their growth rate, they must put HRM in their system of organization or adjust their HRM system to make their company more efficient and more organized. Growth in small firms typically involves increasing the number of employees engaged with the business, as well as, the overall density of the enterprise. (Ibid.)

The study of Rowden (1995) observes three successful manufactures which have employees less than 200 people and discovered that informal HRM used in the companies had an impact on the overall success of the companies. (Rowden 1995 cited in Mazzarol 2003, p.28)
As the enterprise grows, the owner or the manager of the company will experience pressures to hand over responsibility within the firm and build an effective team (Heneman et al. 2000 cited in Mazzarol 2003, p.29). Enterprises founded by one or two owners are mainly dependent on these owners for their survival in the first one to three years since their establishment. Nevertheless, as the business grows, it is necessary for the owners to build a team and learn how to delegate tasks. The most important factor for the small and medium enterprises is the entrepreneur’s personal thoughts about the way to manage HRM in their company. (Mazzarol 2003)

In this section, we describe informal HRM as practiced in a small firm. A pattern of HRM can be found in small businesses but in an unstructured way of management. Usually in the small firm, an HR department and HR manager are considered to be costly to have. One person who delegates HRM tasks will be the owner or the manager of the firm. In the next section, we discuss formal HRM to give a better picture of how HRM can be practiced.

4.3.3 Formal HRM

As the increase of staff employed with in the firm, the need for a formal HRM becomes more pressing (Little 1986 cited in Mazzarol 2003, p.28). Nonetheless, as small firms grow, managers use their informal staffing contacts and need to build up more formal methods to recruit employees to sustain growth (Williamson 2000 cited from Barrett and Mayson 2007, p.310). Small firms’ capabilities to motivate, retain, and attract employees by offering appropriate rewards and competitive salaries are linked to the firm’s performance and growth. Small firms tend to prefer informal HRM in the start-up stage. (Barrett and Mayson 2007) So, while the formalization of HRM becomes inevitable as firms grow, the capability for this to happen in small companies depends on the recognition of the owner or manager of the need for assignment and then the possibility of delegating that task. Furthermore, the formalization of HRM is dependent on the awareness of legislation and legal requirements on HRM and employment matters such as inequitable dismissal, official health and safety, etc. (Ibid.).

The literature suggests that it is necessary for growing small firms to carefully select, motivate, retain and recruit employees, if the small firms’ growth rate is to be sustained. Barrett and Mayson said that growing small firms are more likely than non-growing small firms to use a choice of rewards for performance to engender employee commitment, including: bonuses and incentives, additional time-off, training and promotions. They advise that growing small firms should have more formalized planning practices than non-growing small firms. (Ibid.)

The entrepreneur of a small firm is confronted with the burdens of being small business, which are comprised of age and size of the firm. The young firms’ difficulty is the lack of experience, which makes it less formalized in recruiting and reduces formalized training and more informal employee management systems. In small firms, there are no abundance of resources and a small number of human resources, which leads to difficulty in recruiting and sustaining employees (Cardon and Stevens
When these firms are growing, the number of employees and operations are increasing. Thus, these firms develop and improve their Human Resource system in order to maintain growth, effectiveness, and survival. SMEs and entrepreneurs must confront many unique Human Resource disputes.

Kotey and Slade (2005) examine the implementation of formal HRM practices with increasing firm size. They found that the increase of employees leads to formalization of Human Resource systems such as division of labor, documentation, hierarchical structure and more administration. In general, HRM in SMEs is adopted as an informal system. They argue that SMEs practice HRM more formally as the firm grows. The HRM practices are as follows: (Kotey and Slade 2005)

1. Recruitment and Selection - used in a formal way, such as newspaper advertising, agencies, employee referrals
2. Training – shifting the role of owner-managers to managing managers

The results illustrate a move from an informal system and simple structure to a formalized and functional structure, which are the consequences of increasing employees and managers (Ibid.). Kok and Uhlaner (2001) said that the firms are more sophisticated in the growing firms.

As firms grow and number of employees increase, they need formal HRM for use and practice in their firms. More functional and structured HRM will be applied and performed in order to satisfy the employees, sustain growth and maintain a competitive advantage for the firm.

In this literature review part, we study previous research which focuses on entrepreneurship theory and human resource management. In this literature review part, we have studied the previous research which focused on entrepreneurship theory and HRM. We found that entrepreneurs in SMEs have connections to HRM. Due to the limitation of small businesses, they cannot afford to have a Human Resource Department or a Human Resource Manager, so owners or entrepreneurs play an important part for HRM in companies. Therefore, we start by explaining about SMEs and entrepreneurship. As our case study is a Thai SME, we chose the definition of an SME by OSMEP. From the entrepreneurship theory, there are common characteristics of entrepreneurs which is comprised of opportunity-seeker, risk-taking, motivation, leadership, decision-making and innovation. Then we moved on to HRM part, it shows that HRM in SMEs changes as companies grow. HRM changes from an informal to a formal HRM, which is more structured and documented. From this theoretical background, we formulated the conceptual framework, which we explain in the next section.
5. Conceptual Framework

In conceptual framework, we have applied above theories to formulate the conceptual framework.

From the review of the literature, the authors’ summary illustrate that HRM in SMEs can be applied in developed countries such as Great Britain, Australia, America or Canada. However, little literature relates to HRM in SMEs in developing countries. Therefore, the authors started to study Albatross Company, which is an SME in a developing country. Is there evidence to suggest that SMEs in Thailand are adopting HRM, or are the firms catching the wave of organizational transformation like it showed in literature? Against the background of this discussion, three general research questions have been formulated:

1. How can entrepreneurs of SMEs manage their Human Resources?
2. Can previous research and studies about HRM in SMEs be applied in the Thai entrepreneurial SME?
3. Does the HRM in the company change and transform over time?

In this paper, the management of Human Resources by entrepreneurs is studied. The authors want to explore and examine if Human Resource Management is used and developed in the Thai Case Entrepreneur like in other countries. Therefore, a theoretical framework is provided to give a clear picture of what we are going to study and compare. The main theory used in this thesis was collected from a well-tested empirical theory about the HRM in SMEs. In order to better understand HRM in small entrepreneurial businesses, the characteristics of the entrepreneur have been mentioned as a basic explanation about the actor called Entrepreneur and his firm.

First of all, we defined the characteristics of the entrepreneur because in small businesses the owner is the key person in the company. Burns and Schumpeter are two main scholars who present and study entrepreneurship. The definition of entrepreneur is presented, but it also includes the characteristics of an entrepreneur. Burns study is aroused by the combination of definitions and elements of entrepreneurial character from other scholars, including Schumpeter’s work. The literature review shows the common characteristics of an entrepreneur. These character traits are opportunity-seeker, risk-taking, motivation, leadership, decision making and innovation. Thus, the entrepreneur plays a central role to manage and control the organization, which includes HRM in a small business.

Next, HRM is discussed along with HRM practice in SMEs and Formal HRM. We have read and reviewed articles and literatures from many scholars and researchers. Mazzarol (2003) formulates a model of small business HR growth management called “Theoretical HRM Process of SMEs” (See Figure 3), which is one of the main ideas. There are four key elements in the model 1) the owner-manager’s personal characteristics, 2) the external market conditions facing them, 3) the nature of the work environment operating within the company and 4) the company structure, impact on the human resource practices and policies in the SMEs.
Due to time limitations, we emphasized only two elements; 1) owner-manager’s personal characteristics and 2) the company HRM structure. As the company grows, the organizational structure becomes more complex and changes over time. Barrett and Mayson (2006-2007) have studied HRM in small growing firms. Thus, HRM is affected as well. As a result, the previous studies and research show that during the start-up phase SMEs manage HRM in an informal way, but as they grow, their HRM changes and transforms to formal HRM. Thus, the authors investigated the changes and transformations of HRM in the company.

We have attempted to present entrepreneurship theories which explain the definition and characteristics of entrepreneur, HRM and SMEs to make the analysis section more clear-cut. We apply these main theories to the empirical data i.e. Barrett and Mayson 2006, Mazzarol 2003. A case study of the company Albatross has been conducted to find out if and how this company apply HRM. Therefore, the theory provides a tool for observing and collecting information. The analysis determines if the growing Thai SME Case Company manages and transforms HRM in the company in the same direction as the previous research shows that HRM in SMEs will be change from informal to formal HRM when the company grows, or if they have a different direction of Human Resource Management as shown in Figure 4.
Figure 4 – Conceptual Framework Model
6. Case Study Findings

The aim of this part is to present the information collected from our interview with Permphan who is the owner of the company. First, we present the background and history about the company. Second, Human Resource Management of the company is presented.

The experience of the owner is examined in the section below. The company finds their business expanding in terms of activities and staffs. Permphan has found that finding, motivating and retaining good staff is a critical bottleneck to the growth of his company.

Albatross Company Limited

Albatross Company Limited was established in 1999 by Permphan Neowakul who graduated with Master Degree from Kungliga Tekniska Hogskola Stockholm in Sweden in the Faculty of Mechanical Engineering. Before Albatross was founded, Permphan used to produce and sell chemicals to large industries as a supplier. When the economic crisis occurred in Thailand in 1997, most industries were affected. Permphan, the founder of Albatross Company Limited, thought that he needed to switch to another industry because at that time his business depended on the large industries, and due to the economic crisis, the chemical field was the first industry that had been impacted. When the large industries were impacted, they tried to reduce costs by reducing the purchase of supporting products such as chemicals.

Permphan decided to change industries in order to help his company and his employees survive. After gathering all the information from his knowledge and his background experiences, he came up with the idea that the next business he is going to do must be included in one of four requisites, which consist of habitat, food, medicine, and clothing. He chose the food business because he thought that as long as people have to eat, there is lots of food to sell. He focused on two themes. His first theme was that his business should be an exporting company. He would not try to sell his product in Thailand because he thought that the exporting market would grow and flourish in the future. His second theme is that his product should be in the food industry. After he got these two themes in his mind, he thought about what part of the food industry could be possible. Then, he ended up with exporting Thai jasmine rice, following the project of His Majesty the King of Thailand.

He thought back to when he studied abroad. Every food can be found contained in the can, such as tinned fish, canned fruit and so on, but not rice. Thai people living abroad must bring a rice cooker with them when they go to live abroad. After brainstorming, many ideas came to him. He thought about doing READY-TO-EAT rice. When he started to produce READY-TO-EAT rice, the crisis had calmed down. He and his team started to research and experiment in the office. He read through every book about preserving, but none of these books told how to preserve rice. Thereby, he went to his friend who is a teacher in the Faculty of Agro-Industry at Kasetsart University and asked him for help to find the right way to preserve rice. He tried every possible way until he got the right recipe.
Because of the economic crisis, the banks refused to make a loan. So, he decided to borrow money from some friends and family to buy an old fruit-canning factory that had gone bankrupt. The machine and equipment in that factory could not be used in making his product. So, he had to sell them all and started to invent and build his own machines. It took him six months until he could open this factory.

He knew that his product was a brand new product in Thailand and he may not receive positive feedback about it because rice is a Thai national food and it is easy to find rice to eat in Thailand. Canned rice seemed to be unnecessary in Thailand, where rice is easily found everywhere. However, he took a chance and followed his concept’s direction to export it to other countries in the world. He took advantage of an opportunity to go with the Department of Export Promotion to debut and introduce his product in other countries. He searched for opportunities and markets by presenting his product abroad a couple of times a year in different countries. Now, his product is selling all over Europe, USA, Australia, and Asia.

He joined together with other small SMEs to promote Thai food to be the number one in the market. When he introduced his product abroad, he always brought other food companies’ products with him. He thought that the food industry is a big market, and they do not have to compete with each other. Instead of competing, they can help each other to be in the top of the food industry of the world.

Human Resources in Albatross Company

Albatross Company started as a small company and then grew and became a medium company in the business field of exporting READY-TO-EAT rice and other ready-to-eat product.

At first, Albatross did not see the importance of having a Human Resource Management system, though they admitted that people are the key to the company’s success. Since it is not a large company, the structure of the company is not complicated, and it is managed and controlled in a casual way. According to the owner of the company, when Albatross was a small firm, he took care of his employees like members of his family, and there was no need for an HR manager to handle the relationship between the company and staff. The cost of hiring an HR manager was also too expensive for the company. As the business started to grow, Albatross had to adjust and adapt itself in order to survive and carry on their business. This is the period when the founder saw the importance of having a serious HRM system. He realized that even if he had good machines and equipment, another company could copy and produce the product as well as they could or maybe better. The one thing that his competitor could not copy from him was “human”. Therefore, he needed to focus more on Human Resources in the organization.

At the time we interviewed the Albatross Company, they had approximately 100 employees. When we looked back nine years ago, they had only 40-50 employees. At that time, Permphan, the founder of the Albatross Company, focused on how to make their product successful in the market. Therefore, he put his money and effort towards marketing and production, more than looking at Human Resources. He had to make
sure that his products were high quality enough to sell in department stores. He did research and surveyed people in the mall about their lifestyle and their general ideas. He spent a lot of time on the computer to design the package of the product to be attractive and noticeable to the target group and gave out sample products to potential customers.

The first group of employees came from Permphan’s old chemical company that had closed down and had followed Permphan to work at Albatross Company. The early control process within the firm was an informal form. Hence, when Permphan recruited the employees, his employees only gave him a copy of identification card because the company did not keep employees’ profiles. Sometimes, employees left the job without giving notification in advance. The company faced the problem that the production line was derailed. The consequence was an effect on other employees because sometimes they had to work overtime to make up for the missing people. The rest of the employees had to work harder in order to finish the product that had to be exported on time. The people who worked overtime to make up for the one who resigned were mostly acquaintances of present employees or were walk-in candidates. The company had to confront the problem of high employee turnover as the company did not have a clearly written policy of obligations and regulations with the employees. So, the employees could do whatever they wanted. The fringe benefits for the employees were not formed into a system or written down as policy. It was carried out loosely. For example, employees can come to see Permphan and asked for what they wanted, and he considered each request one at a time.

Permphan saw that the high turnover of his employees was an obviously vital problem at that time. He wasted time training new employees all over again, which gridlocked all the work process in firm. The best way to solve this problem was to bring in Human Resource Management in to the company. This was the starting point of Permphan becoming interested in how to manage Human Resources within firm. He studied the general ideas about Human Resources and used all of his work experiences to come up with Human Resource Management on his own. In 2002, Permphan started with collecting the profile data of all the employees including their education backgrounds, copies of census registration, copies of identification cards, references, etc. But there were still some problems remaining. Sometimes, the workers worked for the company for only 1-2 months. Then, after getting their salary they disappeared or left the company. This was the reason why Permphan started probation before putting the workers into their job positions. He did this in order to reduce turnover and to gauge the determination and potential of the workers. From then to now, Human Resource Management in Albatross Company became more formal and structured. Nine years ago the process to interview with the candidates was in an informal way, but now they must complete a job application with references. Since the factory and the company are located in different places, the responsibility to recruit the workers is the duty of the foreman at the factory and Permphan at the head office. The interviews with the employees are formally focused on their work attitude, their intention to work for the company and their personality. If the interview goes well and they see the potential of the workers, they put them on probation for three months.
Most of the workers in the Albatross Company are local. The company puts an announcement about accepting applications in front of the factory. Provincials have the opportunity to apply for the job and work for the company because they do not have to leave their hometown, which is a good thing.

The Human Resource policy of the company follows the instructions of the Labor Law such as minimum wage, days off, medical care, etc. Even though they have a policy, sometimes they have to make decisions according to the employee’s condition. As Albatross is medium company, some of the issues can be negotiated. The relationship between Permphan and his employees is like family. If a family member of an employee is sick, the employee can have a day off to take care of it or if an employee or a member of the family has died, the company gives money to support them, etc.

Retaining and keeping employees in the company is one of the problems that the company has faced since the company was founded. Because Albatross is a medium-sized company, the company is unable to offer a higher salary or better offer than a large company and must allow employees to leave. At first, Permphan used bonuses as motivation to influence his employees to stay and work for the company. Unfortunately, the problem was not solved. Employees were still leaving to work for bigger companies. Some employees admitted that they worked for Albatross because they wanted the experience so that they could use it as a reference to apply to the large company. Thus, Permphan changed from money motivation to heart-to-heart motivation to win the employees’ loyalty. He tried very hard to make his employees feel like the company’s future is their future. He wants his employees to make progress and develop themselves at the same time that the company grows and expands.

Permphan says that communication is the most important factor in managing his company. In small and medium-sized companies, there is usually no strict rules and regulations compared to large companies. The employer and employees have to understand and go towards the same directions and goals. Permphan needs to know everything about the company and the process of production. He spends time going to the factory as much as he can. He wants to be close and know what is going on in and around his company. In this way, he can communicate and get interaction from his employees directly. In this way, he can recognize the real problem and find a solution as soon as possible. This is one advantage of small companies, as there are fewer barriers between employer and employees and problems can be solved faster than in large companies.

The company is growing and the number of employees is increasing. The company is not as simple as before. Rather, it is more complicated and difficult. Human Resources cannot be managed easily and informally like in the past. Permphan said that the expansion of the company has made him think that the company should change and develop to a better management system. He places importance on recruitment and selection. He thinks that recruitment and selection are the first and most serious step because if this step fails, it seems like you bring an enemy into your house. He started to develop Human Resource Management in order to avoid this.
Human Resources are the core competency of the company in order to be successful and effective. Permphan has scheduled activities for the employees, such as sport day, New Year party, outings, etc. He hopes that these activities build unity and harmony in the company.

Training at Albatross is actually teaching and transmitting knowledge from one person, who has knowledge and experience, to another person, who is new and inexperienced. It is more than setting courses or classes because it costs a lot of money. Permphan said that he realizes that training is important, but his company cannot afford a trainer or training courses. So, this is the best that he can do for his employees, that is via transmitting knowledge. His employees can learn and get experience directly from their real job. On-the-job training seems to fit with his company. Sometimes, he sends some employees to attend seminars arranged by the Ministry of Labor and Social Welfare.
7. Analysis

In this part, we start to analyze the entrepreneurial characteristics of Permphan who is a founder of the company. Then, follow with Human Resource Management that is applied in our case study.

Entrepreneurship

Permphan is an example of a good Thai entrepreneur according to Burns (2005). “An entrepreneur is someone who uses innovation to create or exploit change and opportunity for the purpose of making profit by shifting economic resources from one area of lower productivity into another area of higher productivity and greater yield, accepting a light degree of risk and uncertainty in doing so”. Due to the financial crisis in 1997, the Thai economy slowed down, having an effect on Permphan’s chemical company and caused it to shut down (Permphan 2008). Permphan did not give up. He sought an opportunity that would bring success and profit to him. Thus, he is an opportunity-seeker; he saw the opportunity that other cannot see by innovating rice-canned. The entrepreneur can be both born and made due to the specific character, background and social environment of the entrepreneur (Burn 2005). Permphan got the idea of READY-TO-EAT rice from his experience abroad (Permphan 2008). He mentioned that during his studies in Sweden it was inconvenient to cook rice because cooked rice is delicate and difficult to cook (Ibid.). He started his new business, READY-TO-EAT rice, even though nobody had ever thought before that it would be possible or even successful.

Permphan has the characteristics of an entrepreneur. The entrepreneur has the ability to see an opportunity and see the innovation through change, risk and uncertainty (Burn, 2005). When Permphan started to do research and experiment about the product, he was not afraid of taking risks when starting his business. He grabbed the opportunity through the willingness to take risk and face the uncertainty of the future.

Entrepreneurs have a high need for achievement and there are different forces depending on the type of person (Burn 2005). When Permphan started the business, he had a need to achieve something, which was survival for himself and his employees. Schumpeter presents three motivations of the entrepreneur, which are the dream and the will to found a private kingdom, the will to conquer and the joy of creating (Swedberg 2002). In Permphan case, he has the will to achieve the joy of creating.

Schumpeter defined the entrepreneur as a person who makes new combinations of already existing materials and forces which produce something innovative (cited in Swedberg 2002). Thailand has some geographic advantages in that the country is reasonably rich in terms of food resources, especially concerning its reputation in rice. Hence, Permphan combined his ideas with an abundant resource and created READY-TO-EAT rice in a can. His machines and his raw materials are made in Thailand. He graduated in the Faculty of Engineering, so he created and modified the machines and equipment that he could find in Thailand to produce his product. The
jasmine rice came from the southern part of north-east Thailand, which he claimed has good quality and good tasting rice (Permphan 2008). He bought jasmine rice directly from the farmers or the co-op that was approved by the government, not the rice mills (Ibid.). He has built a small community with the farmers and makes them proud of their product. When he receives his profit, he also gives back to the community.

Entrepreneurs see market opportunities and are innovative in order to create or exploit an opportunity. Furthermore, entrepreneurs are self-confident because the future they are facing is uncertain. They must be confident to be able to start their own business and to enable business growth (Burns 2005). Permphan’s background might have given him the courage and confidence to commercialize his idea. Additionally, while he was without resources he was forced to be more creative and find other ways to commercialize his ideas. Permphan introduced a new product to a market with the help from his friends. His personal network was used as a vital tool to access to the information or resources necessary for the company, especially in the start-up stage (Ibid.). Permphan went to his friend, who was a teacher in the Faculty of Agro-Industry at Kasetsart University, and asked him for help in finding a way to preserve rice (Permphan 2008). When faced with financial problems, his friends and family helped him to overcome the problems.

As Schumpeter says “the entrepreneur initiates changes and generates new opportunities. Until imitators force prices and costs into conformity, the innovator is able to reap profits and disturb equilibrium” (Burns 2005, p.246). This is something that Permphan has done in his entrepreneurial life. He saw something that was missing in the market and wanted to fill the void. He not only initiated change and generated new opportunities both for him and his company but also for customers and competitors. An example of this is the fact that, after the company introduced the product to the market, Permphan emphasizes on the quality of the product because he wants to keep market share (Permphan 2008).

Entrepreneurship is one type of leadership that occurs in a specific kind of background. The company that neglects to manage its Human Resource faces difficulties in attracting and retaining employees, which will affect its survival (Baron 2003). Permphan, as an entrepreneur who founded the Albatross Company is a key person in the company, so goals and visions of the company are set by him. He sees that Human Resources are an important resource that will help his company’s survival and success. Therefore he has to lead his employees in the same direction with the company. The structure of the company is not complicated, since the company started small and has grown to a medium-sized enterprise. This confirms Mintzberg (1989), who has linked entrepreneurship to small businesses which are characterized as a simple structure. At the start-up phase of the company, the entrepreneur is the one who makes the decisions and the main goal at this stage is survival. Furthermore, during the growth phase, the entrepreneur cannot cover all functions in the company. So, Human Resource Management becomes more important (Leung 2003 and Barrett and Mayson, 2006). As a consequence, Permphan gives more attention and priority to Human Resources.
To sum up, Permphan exemplifies the entrepreneurial characteristics of 1) risk-taking propensity, 2) need for achievement/motivation, 3) innovation, 4) opportunity-seeker and 5) leadership. Entrepreneurs alone cannot be successful. Thus, entrepreneurs need other Human Resources to help him/her achieve their goals. Entrepreneurs cannot overlook his/her Human Resources. He/she must pay attention to how to manage Human Resources which we discuss below.

**Human Resource Management**

According to Jahn, generally, in small organizations with fewer than a hundred employees, there may not be an HR department. So, an owner or entrepreneur will be responsible for the functions of HRM (Jahn 1999). Even though Permphan admitted that people are the key to an organization’s success, he did not pay attention to Human Resource Management at first. He thought that since his company was not so large. It was possible for him to handle the employees in the company by himself. He did not need to have an HR department in the company because it was too costly to have one (Permphan 2008). HRM is a strategic approach to managing employees which is crucial for the achievement of all firms and comprise of the small one (Dyer 1993; Pfeffer 1994; 1998 cited from Barrett and Mayson 2007, p.309). As the business started to grow, Permphan realized that his small firm needed HRM to practice and perform in the firm in order to achieve all of the business goals and purposes. Even if he had good machinery or production, another company could copy and maybe do it better than him. However, one thing that another company could not imitate was his company’s “humans” (Permphan 2008).

In Albatross Company, HRM is most commonly concerned about the record keeping; staffing activities, such as recruiting and selecting staff; and retention and motivation activities such as compensation and reward practices which reflect the operational needs of the small firm (Hornsby and Kuratko 2003; Kotey and Sheridan 2001; McEvoy 1984 cited in Barrett and Mayson 2007, p.308). Permphan tried to make HRM in his company more organized and structured to reduce the high turnover of employees. He kept profiles of his employees, and he scheduled activities for his staff such as sport days, occasion parties, etc. He also motivated his employees to make them feel like they belonged in the company with the same goals and directions as the company (Permphan 2008).

All the HRM activities that are used and practiced in SMEs can be described as informal management (Wilkinson 1999). Even though, Permphan tried to arrange and develop an HRM system for use in his firm, the pattern of HRM practiced in Albatross Company is still informal. According to the five-stage model of organization growth by Greiner (1997), Permphan has performed the first stage, “Creativity”, which is significant to the small firm. “Creativity” is a characteristic of most small firm’s management. This characteristic is involved with control structures, informal communication and a premium on managerial leadership. The creativity usually comes from the founders (entrepreneurs) of the organization (Greiner 1997). Permphan, as the founder of the firm, created the HRM system to use in his firm by himself from his previous work experiences and his informal studies of the general ideas of the HRM. He treats his employees like members of his family (Permphan
2008). He goes to the factory as much as he can to talk with the employees about problems at work and wants to give them what they need (Ibid.). He takes care of every single task about HRM in his firm.

Permphan is a good example of an entrepreneur who manages HRM in SMEs according to Cassell. The entrepreneur or the owner of the firm will be the one who overcomes the managerial capacity problem and makes decisions about the important factors of HRM performances in their firm to bring the best outcome for the firm’s performance (Cassell et al. 2002). When he realized that there was a problem of high turnover of employees in his company because the company did not have the clear obligations and regulations. He introduced probation for employees to see how they performed first before becoming a full member of the company (Permphan 2008). He keeps more complete records of his employees than just copies of identification cards. He also recruits employees by himself with the help of the foreman at the factory. He laid down the policy according to Thai labor law and makes appropriate decisions when it comes to additional money to pay to employees such as support money or whatever his employees ask for. He tries to be active in every part of his firm to bring the best performance out of his employees (Ibid.).

The Albatross Company now consists of approximately 100 employees, which is considered to be a medium-sized firm. It is difficult for SMEs to have a human resource department in their organization because HRM is considered as being costly to practice in a small firm (Mazzarol 2003). Permphan recognizes that HRM is necessary for the company, but he cannot afford to have a Human Resource department in the company because it is too expensive. He would have to spend a lot of money in building an HR team and pay for an HR manager to reorganize the HRM system. As an entrepreneur who is familiar with his company, he said that he has the ability to mange his company by himself (Permphan 2008).

The HRM functions performed in Albatross Company are still informal. Storey says that although training is known as an important HRM issue for many small firms, research shows that most small and medium firms do not provide much formal training (Storey 2004 cited in Barrett and Mayson 2007, p. 310). Training and development in Albatross Company is more like teaching and transmitting knowledge from the person who has work experience to the new and inexperienced person. To have training classes or courses will cost him a lot of money. According to Matlay (1999) the small and medium business companies do not usually spend on employee training and development (Matlay 1999). Training and recruiting high quality staff is also an important challenge for small and medium business entrepreneur (Atkinson and Storey 1994; Hornsby and Kuratko 1990 cited in Mazzarol 2003, p.31). The method that Albatross Company uses to recruit is more like talking than interviewing. If Permphan sees the potential of the candidate or is attracted to his personality, he will accept them to work with the company (Permphan 2008). There is no need to test the recruit’s ability. Therefore, it is difficult to get good high-quality staff. However, a job in a factory does not require much skill. So, the most challenging aspect here is how to train the staff so that they become a high-quality employee. The type of training depends on the length of time learners have, the material to be learned, and the financial resources available such as instructor-led training, on-the-job training and apprenticeships, and computer-based training (CBT) (Jahn 1999).
Permphan uses instructor-led training, which is by demonstration and the on-the-job training in his company.

HRM in SMEs slowly form their shape by the surrounding environment. Then the policies may exist to meet the customer needs and through the changing condition and environment around them (Kinnie and Purcell 1999 cited in Mazzarol 2003, p.29). Since the SMEs are increasing in their growth rate, they have to put HRM in their system of organization or adjust the HRM system that they have to make their company become more efficient and more organized (Mazzarol 2003). When the business started to grow, Permphan realized that he had to adapt and improve his company in order to survive.

The HRM in the company is slowly forming from informal to more formal, such as announcing obligations and regulations to be used in the company, keeping the employees profile, etc. The situation of the firm’s expansion caused Permphan to develop an HRM system in the organization to become more efficient and suitable for his company. Due to the high competition in the market, he must keep his product high in quality and Human Resources seem to be a key in his SME.
8. Conclusion

In this section, the conclusions of findings are highlighted.

This study and thesis were conducted because Human Resources have become more important in any company, not only in large businesses, but also in small and medium-sized businesses. This raises questions such as “How can entrepreneurs of SMEs manage their Human Resources?”, “How can previous research and studies about HRM in SMEs be applied to Thai entrepreneurial SMEs?” and “Does the HRM in the company change and transform over time?”.

From our analysis we found that the Albatross Company, which now consists of approximately 100 employees, has to deal with a changed situation and environment. As the firm has grown and more employees have been recruited, the informal HRM has become more structured and organized in order to handle the Human Resource issues and has prepared the organization to the expand in the future. Little (1986) said, the number of staff employed within the firm increases, so does the need for a formal HRM and the process also becomes more pressing (cited in Mazzarol 2003 p.28). Permphan, as the entrepreneur, has to come up with ideas and a style of management to enable HRM in his firm to become more formal. He knows that he cannot implement every HRM function, but he can adapt and apply some of them to use within his firm, such as laying down policy which follows Thai labor law and organizing the recruitment system. Williamson says that as firms grow, SMEs must build up more formal methods to recruit employees to sustain growth (Williamson 2000 cited from Barrett and Mayson 2007, p.310). The old way that Permphan used to recruit produced a high turnover of employees. However, now with probation and improved record-keeping, the turnover has been reduced.

According to Kotey and Slade, an increase of employees leads to formalization of the Human Resource system, such as division of labor, documentation, hierarchical structure and more administration (Kotey and Slade 2005). The company is growing and employment is increasing, making the structure of the company more complexity. Permphan realizes that HRM to manage the company should not be easy and informal. The expansion of the company makes him think that the company should develop HRM to use and practice for better management.

From this case study we can see that Permphan uses and practices HRM within his firm. At first, HRM was performed in a very informal way, which was not organized nor structured. As the company expands and number of employees increases, more formal HRM is being used within his firm.

Throughout this study and thesis, it is obvious to us that the case of this Thai SME seems to apply both informal and formal HRM in the company. As it has been growing, its HRM has become more formalized and documented. The way the company manages its Human Resources can be explained by the characteristics of the entrepreneur of the company. Since the company has grown from a small to medium-sized company, the owner, who is defined as an entrepreneur, is the one who makes the decisions and implements HRM in the company. As a consequence, most of the
SMEs that use the ability of the entrepreneur to manage and control their resources, including Human Resources, will lead the companies to success and further growth.

From the case study, as the number of employees has increased, HRM in Albatross has changed over time. HRM did not apply all functions of HRM like in a large company, such as performance appraisal, training and development, human research, etc. and Albatross has neither Human Resources development, nor a Human Resources manager. Throughout this study and thesis, we observed that as the company grew and had more employees, the company applied more formal HRM. Nevertheless, there is still the informal HRM pattern in the company. In contrast, the Conceptual Framework Model in Figure 4 shows that the growth of the company has an impact on HRM, which is a move from informal and simple structure to formal and functional structure. Therefore, we developed and contributed the conceptual framework in order to explain the HRM process in our case study which has been a changing pattern of HRM from informal structure to a mixture between informal and formal, instead of formalization of HRM as shown in Figure 5.

![Figure 5](image_url)
Due to limited resources, such as money and human resources, etc., Albatross Company could not change its HRM from informal to a fully formal HRM. HRM in Albatross has been gradually changing as the firm grows. Both informal and formal HRM is applied for use in the organization. It is difficult for the company to change the pattern of HRM. From our point of view, change of any system, which includes HRM, needs time and great effort. Informal HRM gradually changes to formal HRM as the firm grows. However, there will be situations in which Albatross will apply formal HRM in the future when it has enough resources, experiences and enough growth to fully support formalization of HRM. Therefore, we concluded that SMEs proceed gradually to change and transform HRM step by step during the firm growth.

We can answer our first two research questions from analyzing the case study in accordance with the conceptual framework. First it has shown that Perham as an entrepreneur of SMEs manages Human Resources through a mixture of informal and formal ways. Second, the previous studies can be applied to Thai SMEs even though Albatross Company is still an ongoing process since both informal and formal HRM are applied in the company. On the other hand, it means that Albatross needs time to change. According to our investigation, we could say that the answer for the third question is YES. HRM in the company has changed and transformed over time. At the beginning, Permphan used informal HRM in the firm but the firm grows and has more employees he applied more formal HRM in order to sustain growth. In our point of view, functions in the organization are always changing and developing and that includes HRM function, which is the most important function in the organization because people are the core of management in the organization.
9. Implication

One of this thesis' purposes is to find out how Human Resources are managed in SMEs. Therefore, the entrepreneurs and owners of SMEs can learn from our case study and adapt how to manage Human Resources in their companies. They also can learn from Permphan's experience and mistakes that he faced with trial and error. For example, entrepreneurs and owners should have a written policy for Human Resources in order to protect or reduce employee turnover.

Previous studies have shown that HRM in SMEs will change from informal HRM to formal HRM as companies grow. The results of our study show that Albatross Company uses both formal and informal ways to manage Human Resources, which differs from previous studies. Due to time limitations, this thesis focuses on only one company and two major factors which are the entrepreneur's characteristics and the company structure. Future researchers and scholars who are interested in HRM in SMEs can use this thesis and conceptual framework as a foundation to expand the scope of the study which is mentioned in the next section, Further Study. It might be possible that they get the same result or perhaps a different outcome that would support or contrast to our finding, since this study examines only one company.
10. Further Studies

The research of this paper has the limitation since it was focused on only one company in the food industry business. The outcome is maybe specific because we used only one kind of business field. Therefore, further research should investigate more companies in order to obtain a clearer and better picture of the way to manage Human Resources in Thai SMEs. Other companies might employ different patterns to manage Human Resources in their company. In this research, we focused only on two factors that had an impacted on HRM in the company which i.e. entrepreneurial characteristics and the structure of the company. In reality, there are other factors that impact the change of HRM in companies, such as politics, economics, market growth or decline, technological forces and so on. We hope that our research will be a guideline and useful primary information for further studies and encourage the further studies to pay more attention in HRM in SMEs. Furthermore, the further studies should expand the scope of study to other factors and surrounding environment that have an affect on HRM in the company.
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Appendix

Interview Questions

**Company Part**

1. Please tell us about your company. (Organization, Products, Marketing, Market Share, etc.)

2. What is your inspiration to set up this company?

3. Why canned rice? What was your inspiration or motivation to come up with this idea?

4. When you got the idea of producing ready-to-eat rice in a can, did you think it was possible to make this product become a reality?

5. What are your company goals and vision?

6. Why do you export only and not sell your product in Thailand?

7. Are there any business problems in terms of business activities?

8. Which ways do you use to make your product well-known and accepted to sell in foreign countries?

9. How do you find the markets to support your production?

**HRM Part**

1. What do you think about Human Resource Management?

2. How do you manage people or employees in your organization?

3. When did you realize that you need a Human Resource Management system in the company?

4. How many employees work in the company?

5. What was your method in recruiting people in the beginning?

6. What are your problems that are related to HRM?

7. Did you have obligations and regulations written down as a policy?

8. Do you think you need an HR manager to help you?
9. Do you think your company should have an HR department?

10. As an entrepreneur of an SME, do you think it difficult to manage Human Resources in your company? Why or why not?

11. Do you think it is necessary to perform HRM in your company?

12. Which methods do you use to perform HRM training in your company?