

The small and medium enterprises in thailand management essay

[Business](#), [Management](#)



CHAPTER 2

LITERATURE REVIEW

2. 1 Introduction

The purpose of this study is to measure the relations among the learning organization, organizational innovativeness, and their impacts on the organizational performance in the small and medium enterprises of Thailand. In order to understand each of the research components, the following relevant literatures have been reviewed. This chapter is divided into seven main sections: (1) overview of small and medium enterprises in Thailand; (2) conceptualization of learning organization; (3) conceptualization of organizational innovativeness; (4) conceptualization of organizational performance; (5) review of the learning organization literature; (6) Relationship between learning, innovativeness and performance literature; and (7) Underpinning Theory.

2. 2 Overview of Small and Medium Enterprises in Thailand

Small and medium enterprises (SMEs) are considered the backbone of economic growth in all countries (Rahman, 2001). They contribute in providing job opportunities, act as suppliers of goods and services to large organizations. SMEs are defined by a number of employees, sales volume, worth of assets, ownership through innovation and technology. SMEs in Thailand plays an important role in the nation's economy. In the past two decades, the world has gone through the process of globalization that causes increasing socio-cultural, political, financial, economic, market and environmental independence among nations. Globalization is defined as the

continuous integration of financial, product, resources, technology, thoughts, and people move unlimitedly across national boundaries (Jones, 2002; Turri, Maniam, & Leavell, 2006). It is accepted as the set of activities related to the international/direct foreign investing firms which integrates its activities across national borders to maximize the profits (Graham, 1999). Successful SMEs enhances small community and rural development through activities such as manufacturing, transportation, construction, finance, and as well as the supply of agricultural and consumer related products and services. SMEs contribute to the economic development at the national, regional and community levels. Governments around the globe focus on the SME sector as a means to promote economic growth (Chenungsuvadee, 2006). In Thailand, SMEs is classified into three sectors including manufacturing, service, wholesale and retail. They divided into two enterprises: small and medium based on number of employees and fixed assets (Office of Small and Medium Enterprises Promotion, 2002) as tabulated in Table 2. 1.

Table 2. 1

Definition of SMEs in Thailand

| Number of Employees | Fixed Assets | Small Enterprises | Medium Enterprises |
|----------------------|----------------------------|----------------------|------------------------|
| Less than 51 persons | Less than Baht 50 million. | Less than 51 persons | Baht 50 - 200 million. |

The total number of enterprises in Thailand in 2011 was 2, 652, 854, of which SMEs accounted for 2, 646, 549 enterprises including 2, 634, 840 small enterprises and 11, 709 medium enterprises. There were 6, 253 large enterprises. SMEs accounted for 99. 76 percent of all enterprises. When classifying by economic activities, there were 997, 664 SMEs in the

service sector or 99.81 percent of the 195 enterprises or 99.52 percent of the overall enterprises in the manufacturing sector. Concerning the employment of SMEs in 2011, the number of employees by enterprises of all sizes was 13,107,263, of which large enterprises employed 2,111,229 people and SMEs employed 10,995,977 people or 83.89 percent of all employment. Small enterprises had the highest proportion of all enterprises at 75.42 percent, and also had the highest proportion of SMEs at 89.90 percent. When considering employment by key economic activities in 2011, the service sector accounted for the most employments at 3,920,118 employments or 95.40 percent, manufacturing sector employed 3,251,834 employees or 69.95 percent (Office of Small and Medium Enterprises Promotion, 2012). The Thai government has promoted SMEs promotion under the SMEs Promotion Plan, focused on resolving effects of the economic crisis and supporting the revival of SMEs with the objective to gain superior performance. Unlike the large enterprises, SMEs with limited financial resources and insufficient managerial infrastructure tend to rely less on costly research and development (R&D) investment for innovation activities (Jones & Craven, 2000; Lim & Klobas, 2000; Nootboom, 1993). Innovation and the introduction of new products or services are effective ways for SMEs to gain advantage in the marketplace (Rudder, Ainsworth, & Holgate, 2001). Today's leaders of small business enterprises just like those in medium and large business enterprises face numerous challenges. For instance, they may be required to accomplish more, with limited financial resources, and are constantly adapting to the unrelenting pressures of changing technology and consumer demands. There is significant pressure to manage quality,

innovate, and survive in a very competitive business environment. This pressure often serves to elevate leadership's respect for organizational learning and the learning organization as a strategy to manage change (Marquardt, 2002). Learning could take place in individuals, teams, the organization and even the communities with which the organization interacts (Watkins & Golembiewski, 1995). Argyris (1999) summed up learning within an organization as stemming from two conditions. First, learning is said to take place when a planned action was accomplished, and second, if the plan was not accomplished, the reasons why are found and corrected. A learning organization has been defined as a place where employees excel at creating, acquiring, and transferring new knowledge (Garvin, Edmondson, & Gino, 2008). As cognitive entities, organizations are capable of observing their own actions, experimenting to discover the effects of alternative actions, and modifying their actions to fulfill organizational goals (Fiol & Lyles, 1985). Marsick and Watkins (2003) concluded that learning organizations are particularly significant in today's workplace where employees may frequently change jobs or hoard what they know because they believe that sharing knowledge could be detrimental to their own success.

2.3 Conceptualization of Learning Organization

The concept of the learning organization was popularized in 1990s. A learning organization is a philosophy and methods in a contemporary organization that deliberately discovers the possibilities to utilize the full potential of all its members for innovation and renewal, in order to survive and being successful in fast-changing environment and become a

sustainable advantage (Baker & Sinkula, 1999a; Buhler, 2002; Davis & Daley, 2008; Korth, 2007; Pedler, Burgoyne, & Boydell, 1991). The learning organization concept integrates very different aspects of organizational sciences and human behavior. It has roots in such studies as: organizational learning, organizational theory, strategic planning, strategic management, change management, quality management, and system theory.

2. 3. 1 Learning Prescriptions by the Organizational Scholars

This section discusses the basic ideas and concepts of learning organization developed by the leading organizational experts. The understanding of their thoughts is important for readers and practitioners to better understand current being a learning organization. These scholars included Senge (1990), Pedler, Burgoyne, and Boydell (1991), Garvin (1993, 2000), Watkins and Marsick (1993, 1996); and DiBella and Narvis (1998). All of them have contributed a significant knowledge on the development of a learning organization as an academic discipline.

2. 3. 1. 1 Senge's Prescription

Senge is widely popularized in the literature as an important modern organization expert in the learning organization model. In his book, *The Fifth Discipline: The Art and Practice of the Learning Organization*, these captures the early excitement of the companies which were experimenting with the competitive advantage of organizational learning. His major ideas inherent in his model were not new but rather an integration of organizational learning and management practices. Senge suggested that organizations might get

rid of certain 'learning disabilities' and become capable of learning if they master the five disciplines. Systems thinking is the 'fifth discipline', which provides a conceptual framework, and underpins and combines all the others. Organizational learning can only occur through systems thinking. These disciplines take place at four organizational levels; individual, group, organizational, and inter-organizational. Senge's concept of the learning organization consists of the fifth disciplines: Personal Mastery - Learning to expand a personal capacity to create the results most desired, and to create an organizational environment which encourages all its members to develop themselves toward the goals and purposes they choose. Mental Models - Reflecting upon, continually clarifying, and improving internal pictures of the world and seeing how they shape actions and decisions. Team Learning - Transforming conversational and collective thinking skills so that groups of people can reliably develop intelligence and ability greater than the sum of individual members' talents. Shared Vision - Building a sense of commitment in a group, by developing shared images of the future, and developing principles and guiding practices to realize that future. Systems Thinking - A way of thinking about, and a language for describing and understanding the forces and interrelationships that shape the behavior of systems. This discipline shows how to change systems more effectively and to act more in tune with the larger processes of the natural and economic world. The research base of Senge's concept consisted of a comprehensive literature review and eleven years of developing and conducting leadership workshops for 4,000 managers which focused on building shared vision and personal mastery.

2. 3. 1. 2 Pedler, Burgoyne, and Boydell's Prescription

Pedler et al. (1991) develop the notion of the "learning company" to "learning organization". They stressed the integration of organizational designs and human resource management functions to improve the quality of work life and yield higher levels of organizational performance. Pedler et al.'s concept of the learning organization consists of the following eleven elements: Learning Approach to Strategy - Company's policy and strategy formation, together with implementation, evaluation, and improvement, are consciously structured as a learning process. Deliberate small-scale experiments and feedback loops are built into the planning process to enable continuous improvement in the light of experience. Participative Policy Making - The company members have a chance to take part, discuss, and contribute to major policy decisions. Informating - Information technology is used to inform and empower people through wide dissemination of information and formats that aid in understanding data. Databases empower others who can "interrogate" or "dialogue" with them in ways that are interesting, fun to use, and lead to learning. Formative Accounting and Control - Ensures that systems of accounting, budgeting, and reporting are structured to assist learning, and hence delight internal customers. Internal Exchange - All internal units and departments see themselves as customers and suppliers when contracting with one another in a partly regulated market economy, and interacting in a spirit of collaboration rather than competition. Reward Flexibility - Alternative reward systems will be introduced, shared, and examined to determine if participants are in agreement with the underlying principles. Enabling Structures - Roles are

loosely structured, in line with the needs of internal customers, suppliers, allow for personal growth and experimentation. Departmental boundaries are seen as temporary structures that can response to future changes.

Environmental Scanning – Scanning is carried out by all members who have contact with external customers, clients, suppliers, neighbors, etc. Boundary workers systematically collect and carry back information that is collated and disseminated. Inter-Company Learning – Engaging in mutually advantageous learning activities like joint training, investment sharing, research and development, and job exchanges; learning from competitors and companies in other industries through benchmarking practices. Learning Climate – Managers involve the primary task as facilitating members’ experimentation and learning from experience, supporting time out to seek feedback, and to obtain data to aid understanding. Self-Development Opportunities for All Members – Resources and facilities are made available to the company members including employees at all levels and external stakeholders. With appropriate guidance, people are encouraged to take responsibility for learning and development. The research base of Pedler et al.’s concept consists of fifteen years of collaborative interviewing managers and facilitating work groups in the British-based organizations such as Procter & Gamble, British Steel, the Workers’ Educational Association, the Iron & Steel Industry Training Board, and Sheffield Polytechnic.

2. 3. 1. 3 Garvin’s Prescription

Garvin (1993, 2000) seeks to address pressing business needs by translating learning theory into concrete discussion on policies, programs, and

procedures that are required for successful implementation of a learning organization. The Garvin's concept of the learning organization consists of the following five dimensions and their associated definitions: Establish a Learning Environment - The following conditions are essential to creating a supportive learning environment: the recognition and acceptance of divergent opinions; the provision of timely and unvarnished feedback; the pursuit of new ways of thinking and untapped sources of information; and the acceptance of errors, mistakes, and occasional failures as the price of improvement. Gather Intelligence - Gathering data through search, inquiry, and observation. The search involves analyzing and researching public sources or documents. Inquiry involves framing and asking insightful questions within interviews and surveys. Observation relies on direct contact with users; the primary skills are attentive looking and listening. Learn from Experience - Learning from repetition and exposure. Repetition ensures that the same tasks are performed more efficiently over time. Exposure ensures that a new set of talents is developed through the exploration of unfamiliar environments or the assumption of new responsibilities. Provide Experimentation Opportunities - Experimenting through exploration and hypothesis testing. Exploration seeks to create a clearer map of an unknown territory usually through determined but the open-ended search. Hypothesis testing seeks to discriminate among alternative explanations in order to confirm or discount prevailing views. Develop Learning Leaders - Leaders within an organization are responsible for three primary tasks. First, they create opportunities for learning by designing settings and events that prompt the necessary activities. Second, they cultivate the proper tone by

fostering desirable norms, behaviors, and rules of engagement. Third, they must personally lead the process of discussion, framing the debate, posing questions, listening attentively, and providing feedback and closure. The research base of Garvin's concept is derived from extensive case studies involving interviews, observations, and internal document reviews that were conducted at the following six organizations: Xerox Corporation, L. L. Bean, United States Army, General Electric, Timken, and Allegheny-Ludlum Steel.

2. 3. 1. 4 Watkins and Marsick's Prescription

Watkins and Marsick (1993, 1996) introduced six action imperatives. They help individuals and teams within organizations to view the organization through a learning lens in order to identify practices that enhance the learning process and make plans to change the obstacles that prevent or impede organizational learning. They later revised their model and added a seventh imperative based on leadership in the learning process (Marsick & Watkins, 2003). Watkins and Marsick (1993, 1996) and Marsick and Watkins's (2003) concept of the learning organization consists of the following seven action imperatives: Create Continuous Learning Opportunities - Fostering continuous learning through more effective planning for informal learning, learning how to learn, and just-in-time learning. Continuous learning is opportunistic and it is supported by experiments in teaching managers to be facilitators and coaches. Promote Inquiry and Dialogue - Effective dialogue calls for open minds and open communication. Inquiry involves questioning that simultaneously challenges assumptions and yet does not attack the individual. Encourage Collaboration

and Team Learning - Team learning is enhanced when teams learn the skills of framing, reframing, experimenting, crossing boundaries, and creating an integrative perspective. Through teams, people learn how to work collaboratively, extending the organization's capacity to achieve a unified action on common goals. Establish Systems to Capture and Share Learning - Building organizational capacity for new thinking that is then embedded and shared with others. Finding ways to preserve what is learned so that it will endure even with a highly mobile, temporary workforce. Empower People Toward a Collective Vision - Everyone in the organization has an idea of what the whole picture looks like, knows how to get something done, has a budget with which to take action, and has knowledge of how to influence others. Everyone has access to information about how to plan learning and how to assess their needs in relation to the needs of the organization. Connect the Organization to its Community and Environment - Interdependencies between the organization and its internal and external environment are acknowledged and worked through. Being connected to the internal environment is being responsive to members of the organization and their work-life needs. External customers in the broadest sense include the earth, our society, and the communities in which the organization resides. Provide Strategic Leadership for Learning - Leaders model, champion, and support learning; leadership uses learning strategically for business results. To become a learning organization, an organization will require a leadership that could direct, facilitate and create dynamism. Leaders on learning organization are hoped to be able to think strategically in using the learning process effectively, to change or move the organization into a new direction

or market. The research base of Watkins and Marsick's concept consists of in-depth case studies conducted at the companies such as Tel-Labs Inc., General Electric, Air Products and Chemicals, International Business Machines (IBM), Whirlpool, Coopers & Lybrand, and Johnsonville Foods. Their literature review included twelve previous research studies addressing related topics like collective learning, team learning, action-reflection learning, staff development, informal and incidental learning, and the facilitation of learning in the workplace.

2.3.1.5 DiBella and Nevis's Prescription

DiBella and Nevis (1998) proposed the learning organization from three perspectives: normative, development, and capability. DiBella and Nevis's concept of the learning organization consists of the ten elements: Scanning Imperative - people gather information about the contribution and practices outside their unit; they seek out information about the external environment. Performance Gap - shared perception of a gap between current and desired performance conditions. Concern for Measurement - considerable effort is spent defining and measuring key factors. Discourse over metrics is regarded as a learning activity. Organizational Curiosity - curiosity about conditions and practices, interest in creative ideas and new technologies, and support for experimentation. The climate of Openness - organizational members communicate openly; problems, errors, and lessons are shared. Continuous Education - the organization is committed to providing high-quality resources for learning. Operational Variety - members value different methods, procedures, and appreciate diversity. Multiple Advocates - new

ideas and methods can be advanced by employees at all organizational levels; multiple advocates or champions exist. Involved Leadership – leaders are personally and actively involved in learning initiatives and in ensuring that a learning environment is maintained. Systems Perspective – recognition of interdependence among organizational units and groups; awareness of time delay between actions and their outcomes. The research base of Dibella and Nevis's concept consists of in-depth research in seven American and European companies and field experience with twenty-five Fortune 500 companies. Researchers stated that the key objective in building organizational learning capability is to maintain or improve the team and/or organizational performance.

2. 3. 1. 6 Comparison of Learning Organization Experts' Prescriptions

This subsection discusses a brief comparison between each organizational learning scholar's prescription. The similarities and the differences between them are highlighted. Despite the fact that learning approaches vary from one scholar to another scholar, several of universal grounds of organizational learning can be derived. However, every approach has its own strengths and limitations. For example, Senge's (1990) approach includes the notion of organizational culture influencing learning structures, a systems approach to decision making, and directing organizational change through collaborative leadership. Pedler et al.'s (1991) approach emphasizes personal relationships, less hierarchical structures, and greater accessibility. Garvin's (1993, 2000) approach provides a comprehensive explanation of three types of organizational learning using a cognitive perspective: gathering

intelligence, learning from past experiences, and providing opportunities for experimentation. Watkins and Marsick's (1993, 1996) and Marsick and Watkins's (2003) approach are integrated because organizational level learning incorporates individual and group learning into the organization's mission and performance outcomes. DiBella and Nevis's (1998) approach state primary organizational learning objectives as improving team or organizational performance and recognizing the potential contribution and worth of each and every individual within an organization's structure. The previous learning organization concepts were presented in a chronological manner to illustrate how some critical factors were sustained and adapted from one to other concepts. For instance, Senge's (1990) concept of "personal mastery" appears in other scholars is referred to as "an individual's commitment to learning (DiBella & Nevis, 1998), self development opportunities for all people (Pedler et al., 1991), and continuous learning (Watkin & Marsick, 1993, 1996). Similarly "system thinking" of Senge's concept was primarily referred to as the functional interdependencies operating within an organizational system and later referred to the complex connections between an organization and its environment (DiBella & Nevis, 1998; Watkins & Marsick, 1993, 1996). Watkins and Marsick (1993, 1996) take a relatively conscious approach by presenting seven action imperatives (Marsick & Watkins, 2003). It is important to note that their approach select the "best of the best" by choosing elements that are aligned with Senge (1990) and Pedler et al. (1991).

2. 4. Defining Learning Organization Process

In general, many researchers have categorized process in learning organization into two stages (Argyris & Schon, 1978; Duncan & Weiss, 1979; Fiol & Lyles, 1985; Hedberg, 1981; Kim, 1993; March, 1991; Senge, 1990; Slater & Narver, 1995) Argyris and Schon (1978) defined learning process as " Single-Loop Learning" and " Double-Loop Learning". Single-loop learning occurs when errors are detected and corrected without changing the underlying governing policies or values of the organization. Double-loop learning occurs when, in addition to the detection and correction of errors, the organization questions and modifies its existing norms, procedures, policies, and objectives. Duncan and Weiss (1979) defined learning process as " Behavioral-Level Learning" and " Strategy-Level Learning". Behavioral-level learning is control organization when it adjusts to the environment, and makes decisions for routine work. Strategy-level learning focuses on cognitive development and adjusting overall rules and norms. Hedberg (1981) defined learning process as " Primary-Level Learning" and " Meta-Level Learning". Primary-level learning occurs merely to adjust parameters in a fixed structure to varying demands. Meta-level learning occurs to change norms, values, and world views. Fiol and Lyles (1985) defined learning process as " Lower-Level Learning" and " Higher-Level Learning". Lower-level learning focuses on short-term, surface, temporary learning and more repetition of part behavior. Higher-level learning focuses on developing complex rules and associations regarding new actions that affect the whole organization. Senge (1990) and Slater and Narver (1995) defined learning process as " Adaptive Learning" and " Generative Learning". Adaptive

learning focuses on learning within existing routines or the traditional scope of the organization's activities. Generative learning requires new ways to look at the world, question long-held assumption and existing routines. March (1991) defined learning process as " Exploitation" and " Exploration". Exploitation focuses on learning by using, developing, or refining the existing competencies. Exploration focuses on learning by pursuing new knowledge, experiment with new alternatives. Kim (1993) defined learning process as " Operational Learning" and " Conceptual Learning". Operational learning acquires skills or know-how, which implies the physical ability to produce some action. Conceptual learning acquires knowledge or knows why, which implies the ability to articulate a conceptual understanding of an experience. Generally, within organizations adopt both forms of the learning process are important - lower-level/adaptive/single-loop learning in routines, repetitive situations, and higher-level/generative/double-loop learning in complex situations (Argyris, 1993). Adaptive learning and other types can be considered doing things better, as a result of incremental changes in knowledge structures. This refers to a form of learning that reflects improvement or increases within the current system of rules, procedures, mental models, and paradigms. Levitt and March (1988) construed that adaptive learning occurs in two ways: the first is the trial-and-error process in which successful routines are identified and used; the second is organizational search in which organizations adopt from a wider array of routines those that are congruous with their present way of behaving and integrate those that appear to work. Generative learning and other learning involve doing things differently as a result of radical shifts in knowledge

structures. This form of learning tends to question, alter, or break away completely from the current system. Dodgson (1993) indicated that dissatisfaction emanated from "uncertain technology and market circumstances" (p. 378), and concerns about the ability to respond effectively to the competitive challenges generally compel an organization toward generative learning.