

The small and medium enterprises of thailand management essay

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



CHAPTER 1

INTRODUCTION

This chapter presents the background of the study, in relation to small and medium enterprises of Thailand. It states the problem statement, research questions, research objectives, and significance of the study. Finally, it describes the organization of the study in the following chapter.

Background of the Study

Small and medium enterprises (SMEs) are a very important element of the Thai economy as they account for 99 percent of the overall enterprise number causing them to be an essential foundation for the sustainable development and a key mechanism to promote economic revitalizing, to reinforce economic progress, and to eradicate poverty (Office of Small and Medium Enterprises Promotion, 2012). Majority of SMEs has simple systems and procedures, which allows flexibility, immediate feedback, short decision-making chain, better understanding and quicker response to customer needs than larger organizations. In spite of these supporting characteristics of SMEs, they are under tremendous pressure to sustain their competitiveness in domestic as well as global markets. Leveraging competitive advantages when competing within existing markets or penetrating new markets is essential for SMEs to compete globally with large multinational companies (Porter, 1985). In the 1990s, the Thai government realized that SMEs have a crucial role in the economy of the country because of their potential contribution to improvement of income distribution, employment creation, poverty reduction, export growth and the development of entrepreneurship,

industry and the rural economy. However, after the economic crisis in 1997 when SMEs proved to be more flexible than large enterprises the Thai government embark upon serious review of that developed new a policy for SME. In 1999, the Institute for Small and Medium Enterprises Development (ISMED) when was established to promote the development of SMEs in Thailand. Several key initiatives were started to develop infrastructure, increase capacity and capabilities, and assist with distribution of financing for SMEs. This has provided an opportunity to the SMEs to be creative and innovative in producing quality products and services to compete globally. SMEs contribute 36.6 percent of the gross domestic product (GDP), the GDP structure of SMEs in 2011 was still greatly related to the service, manufacturing, trade and maintenance sectors. The service sector was the most important economic activity with 33 percent of GDP, while the second was the manufacturing sector with 31.2 percent. The third was trade and maintenance sector with 28 percent. Concerning the country's GDP the service and manufacturing sector have the most significant economic activity in Thailand. Regarding the proportion of export and import value to the GDP of SMEs, SMEs export value accounted for 53.6 percent of the country's GDP, while the SMEs import value accounted for 80.97 percent of the country's GDP (Office of Small and Medium Enterprises Promotion, 2012). According to Levy, Berry, and Nugent (1999) "there is no doubt that the performance of SMEs is extremely important for the economic development of most less-developed countries" (p. 1). For this reason, the government has been supporting SMEs extensively through many programs, with subsidized credit schemes as the most important component. The learning organization

concept has been described as an important strategy for making improvements in organizational performance and maintaining a competitive advantage (Buhler, 2002; Davis & Daley, 2008; Korth, 2007; Weldy, 2009). The various definitions of the learning organization are continuous learning (Senge, 1990) and improvement (Gephart, Marsick, Van Buren, & Spiro, 1996; Griego, Geroy, & Wright, 2000; Rowden, 2001), creation, acquisition and transfer of knowledge (Garvin, 1994; Lewis, 2002), individual, team and organizational learning anchored in concrete values, visions and goals (Senge, 1990; Moilanen, 2005), as well as change (Nevis, DiBella, & Gould, 1995) and transformation (Pedler, Burgoyne, & Boydell, 1997). Such a learning organization represents a complex interrelationship of systems composed of people, technology, practices, and tools designed so that new information is embraced (Simon, 1999). According to Higgins (1995) "Organizations face several strategic challenges, mostly related to increasing levels of turbulence in their environments: more intense competition, an increasingly global marketplace, rapidly changing technology, a more diverse workforce, and the transition from an industrial to a knowledge-based economy, more demanding customers, and a more demanding group of other constituents" (p. 27). Therefore, greater attention needs to be given by organizations towards building a learning organization. Learning is connected with a firm's ability to adapt to a rapidly changing environment. Essential to learning is the gaining of germane knowledge and the increasing of the existing extant knowledge base (Ellerman, 1999; Ellinger, Watkins & Bostrom, 1999; Wickramasinghe & Schaffer, 2005). Through learning, organizations are better equipped to react faster and to fully exploit

opportunities thereby placing themselves in a position of competitive superiority. Interest in the learning organization continues to foster a growing body of literature suggesting that organizations hoping to achieve maximum performance outcomes must develop the capability to learn (Marquardt, 2002), through the acquisition of new or improved skills as well as solving deeper organizational issues relating to the values, beliefs, and assumptions within the organization (Argyris & Schon, 1996). According to the failure of organizations, Senge (1990) suggested that the inability of organizations to learn is a primary reason organizations fail. More explicitly, Marquardt (2002) " unless an organization continuously adapts to the environment via speedy, effective learning, it will die" (p. 1). Therefore, it seems imperative that organizations engage in learning activities to assure present and future success. In the management literature, it is widely accepted that a firm's performance is enhanced by developing a learning-oriented organization. A key aspect of the learning organization is that all members of the organization need to practice continuous learning to improve performance (Gephart et al., 1996; Nadler & Nadler, 1994). Senge (1990) clearly argued that a learning organization is aimed at improving the performance of the organizational system through continually generating, retaining and leveraging both individual and collective learning. Researchers tend to agree that individual learning is necessary for organizational learning to occur, and that learning by members from all levels is essential to ensure the success of the organization and avoid extinction (Iles, 1994; McManus, 1996; Robinson, Clemson, & Keating, 1997). Learning organizations are also adaptive entities (March, 1991) in that they are able to adapt themselves to

changes in the external environment. Particularly, they are better prepared to face the challenges that rapid market changes pose to firms in hyper-competitive business environments (D'Aveni, 1995). This is due to their ability to continuously transform themselves as a result of the learning of all their members (Pedler, Burgoyne, & Boydell, 1991). Furthermore, a learning organization is " an organization skilled at creating, acquiring and transferring knowledge and at modifying its behavior to reflect new knowledge and insights" (Garvin, 1993, p. 80). The learning organization instills learning within the individual, team, and organizational levels as a foundation for improvement, change, and performance (Marquardt, 2002; Pedler et al., 1991; Senge, 1990; Watkins & Marsick, 1993). Many previous studies also show that learning organization consists of certain behaviors and activities to achieve a positive result in organizational performance (Davis, 2005; Kumer & Idris, 2006; Chajnacki, 2007; Herrera, 2007; Lien, Hung, Yang, & Li, 2008; Song, 2008; Demers, 2009; Tseng, 2010; Weldy & Gillis, 2010). According to Yang, Watkins, and Marsick (2004) there are seven dimensions of the learning organization; continuous learning, inquiry and dialogue, team learning, embedded system, empowerment, system connection and strategic leadership. Continuous learning represents an organization's effort to create continuous learning opportunities for all of its members. Inquiry and dialogue refer to an organization's effort in creating a culture of questioning, feedback and experimentation. Team learning refers to collaboration and it is the collaborative skills of the individual that makes for an effective team. Embedded system indicates efforts to establish systems to capture and share learning. Empowerment refers to an

organization's process to create and share a collective vision and gain feedback from its members about the gap between the current status and the new vision. System connection refers to global thinking and actions to connect the organization to its internal and external environment. Strategic leadership refers to the extent to which leaders think strategically about how to use learning to create change and to move the organization in new directions or new markets. The implementation of all the seven dimensions of the learning organization provides the supportive organizational system and strategic management roles. The relationship between learning and innovativeness or innovation are described that learning is observed as a stimulus that can increase the capacity of a firm's innovation (Calantone, Cavusgil, & Zhao, 2002; Hult, Hurley, & Knight, 2004). In other words, it is the process of learning through which innovation is directly promoted (Hunt & Morgan, 1996). Through the extension of learning or the spreading of a new vision in an organization, and in addition to increasing the ability to perform new ideas, processes or products, and also apart from creating the capacity for innovation in organizations, the learning process causes the increase of efficiency in developing new product, marketing and the technological synergy between new product and the existing advantages of the firm (Brockman, Beverly, Morgan, & Robert, 2003; Hult et al., 2004; Hurley & Hult, 1998). In general, the process of innovation entails the acquisition, expansion and application of new knowledge (Damanpour, 1991; Verona, 1999). Many researchers also agree that the new knowledge and skills obtained through learning enhances a firm innovative capability thus improving the level of competitiveness and performance (Baker & Sinkula,

1999a; Huber, 1991; Keiser & Koch, 2008; Nonaka, 1994). Innovation is increasingly considered to be one of the key drivers of the long-term success of a firm in today's competitive markets (Baker & Sinkula, 2002; Balkin, Markaman, & Gomez-Mejia, 2000; Darroch & McNaughton, 2002; Lyon & Ferrier, 2002; Utterback, 2001; Vrakking, 1990; Wolfe, 1994). Given the importance of innovation in relation to the competitive position of the firm, a number of studies have tried to identify the main determinants of a firm's innovativeness (Calantone et al., 2002; Hurley & Hult, 1998; Wang & Ahmed, 2004). Hult, Hurley, and Knight (2004) highlight that innovativeness is openness to newness and relates to the firm's capacity to engage in innovation. This perspective indicates that innovation is associated with the notions of generation, acceptance, and implementation of new ideas, processes, products, and services (Damanpour, 1991; Drucker, 2002; Tidd, Bessant, & Pavitt, 2001), and is largely shaped by the firm's learning orientation (Baker & Sinkula, 1999a, 1999b, Calantone et al., 2002; Chirico, 2008; Garcia-Morales, Ruiz Moreno, & Liorens-Montes, 2006). The basic assumption is that companies which are able to learn are better prepared than their competitors to respond faster and make effective when exposed to critical changes brought on by new information and events (Day, 1994; Sinkula, 1994; Slater & Narver, 1995; Tippins & Sohi, 2003). Furthermore, previous studies found that the direct relationship between learning and innovativeness has a positive impact, and the direct relationship between innovativeness and performance also has a positive impact (Calantone et al., 2002; Hult et al., 2004; Keskin, 2006; Lin, 2006; Jimenez-Jimenez, Valle & Hernandez-Espallardo, 2008; Lin, Peng, & Kao, 2008; Ussahawanitchakit,

2008; Rhee, Park, & Lee, 2010; Eshlaghy & Maatofi, 2011; Salim & Sulaiman, 2011; Suliyanto & Rahab, 2012). However, their research does not include the intervening position of innovativeness. Only one study measured the mediating effect of innovation between the different dimensions of the learning and performance in SMEs (Dhamadasa, 2009). Due to the lack of mediating tests, the present study needs more empirical evidence to investigate innovativeness for the results in SMEs. Although the construct of this study is based on the writings of Yang, Watkins, and Marsick (2004), many learning environment-related aspects have emerged and have been considered in order to define the appropriate learning organization through the integrations of (a) the system perspective of Senge (1990) coordinated the various constructs of the learning organization into at a system of strategies for organizational improvement as an overall systemic concept from which research continues to develop; (b) the organizational learning perspective of Pedler, Burgoyne, & Boydell (1991); (c) the organizational structure perspective of Garvin (1993) and Goh (1998); and (d) the integrative perspective of Watkins and Marsick (1993, 1996). However, the literature on the relationship between seven dimensions of the learning organization and organizational innovativeness are still lacking. This is an under-researched area, therefore, it needs more empirical evidence in examining these relationships. Understanding sources of sustained competitive advantage have become a major area of study in the strategic management (Porter, 1985, 1991; Barney, 1991; Peteraf, 1993; Ma, 1999a, 1999b, 2004; Flint & Van Fleet, 2005; King, 2007b). In line with the Resource-based view (RBV), the fundamental sources and drivers to firms' competitive

advantage and superior performance are mainly associated with the attributes of their resources and capabilities which are valuable and costly-to-copy (Barney, 1986, 1991, 2001; Conner, 1991; Mills, Platts, & Bourne, 2003; Peteraf & Bergen, 2003). Several researchers have listed examples of resources a firm could possess (Hall, 1992; Penrose, 1959; Wernerfelt, 1984). Wernerfelt (1984) listed brand names, in-house knowledge of technology, and employment of skilled personnel, trade contracts, machinery, efficient procedures, and capital. Whereas, Hall (1992), considers intangible resources as a firm's competencies, listed the culture of the organization and the know-how of employees, suppliers, and distributors as such. A learning organization provides the basis for the firm to recognize and develop needed resources and capabilities. Resources in the form of managers and other employees, knowledge, firm capabilities and firm-specific assets provide the basis for firm performance and sustainability (Eisenhardt & Martin, 2000). In the strategic management literature, it is argued that firms can achieve competitive advantage by leveraging existing core competencies and building on the firm's future capabilities (Prahalad & Hamel, 1990) and by acquiring and developing critical resources that are valuable, rare and inimitable, and lack substitutes (Barney, 1991). In addition to these approaches, innovation has created an increase in competition, a ceaseless turbulence and change. Uncertainty has forced organizations to embrace innovation as an integral part of their corporate strategy. Innovation also involves the transformation and exploitation of existing knowledge; this requires employees to share information and knowledge. Nonaka (1994) suggests, innovation occurs when employees share their knowledge within

the organization and this shared knowledge generates new and common insights, in a process of divergence and convergence (Leonard-Barton & Sensiper, 1998), and new key capabilities (Kogut & Zander, 1992; Leonard-Barton, 1995) which enhance innovation in the firm. The main objective of this study is to empirically examine the relationship between seven dimensions of the learning organization, organizational innovativeness and organizational performance using data from Thai SMEs. This study is intended to provide a significant contribution to the academics and practitioners. Academics and practitioners promote learning and have the ability to create an innovative culture within a firm to maintain a competitive position and enhance performance. In this sense, the direct effect of the seven dimensions of the learning organization on organizational performance is likely to be both direct and indirect via organizational innovativeness. These provide evidence to support that the proposition that the structural relationship between seven dimensions of the learning organization, organization innovativeness and organizational performance is significant.

Problem Statement

Learning and innovation are important to the survival and expansion in the face of growing competition and environmental uncertainty (Gronhaug & Kaufman, 1988, Schein, 1993), and is a significant source of competitive advantage (DeGeus, 1988). Hurley, Hult, and Knight (2003) also proposed that learning is one of the most important antecedents of innovativeness and innovativeness is an important determinant of performance. Therefore, this study investigates the problems from the empirical research on learning

organization and organizational performance. Organizational innovativeness is needed by SMEs throughout Thailand. To see the gaps in the literature, this study could be reviewed in the following areas: First, inconsistent findings have been observed in the relationship of learning organization dimensions (continuous learning, inquiry and dialogue, team learning, embedded system, empowerment, system connection, and strategic leadership) to organizational performance. Their linkages in nonprofit organization have been found to be positive and significant (McHargue, 1999). In higher education institutions, they have been found to be positive and negative insignificant (Akhtar, Arif, Rubi, & Naveed, 2011). However, there has been no investigation of learning organization dimensions in the SMEs of Thailand which is the gap that requires study. Second, many studies had investigated the relationship of the overall learning variables and organizational innovativeness which they found to be positive and significant (Calantone et al., 2002; Hult et al., 2004; Lee & Tsai, 2005; Keskin, 2006; Lin, 2006; Jimenez-Jimenez et al., 2008; Lin et al., 2008; Rhee et al., 2010; Salim & Sulaiman, 2011; Eris & Ozmen, 2012; Suliyanto & Rahab, 2012). There is no empirical study to the knowledge of the researchers regarding the relationship of learning organization dimensions (continuous learning, inquiry and dialogue, team learning, embedded system, empowerment, system connection, and strategic leadership) to organizational innovativeness in SMEs of Thailand. Therefore, there is a need to study further in this area. Third, previous studies only suggested the mediating position of organizational innovativeness in their research framework, but no mediating empirical test conducted (Calantone et al., 2002; Hult et al., 2004; Keskin,

2006; Lin, 2006; Jimenez-Jimenez et al., 2008; Lin et al., 2008; Ussahawanitchakit, 2008; Rhee et al., 2010; Eshlaghy & Maatofi, 2011; Salim & Sulaiman, 2011; Suliyanto & Rahab, 2012). Only one study used the organizational innovativeness as the mediating effects between learning organization variables; commitment to learning, shared vision, and networking and organizational performance as suggested by Dhamadasa (2009). However, there is no empirical study that test for the mediating effects of organizational innovativeness between learning organization dimensions (continuous learning, inquiry and dialogue, team learning, embedded system, empowerment, system connection, and strategic leadership) and organizational performance in SMEs of Thailand. Therefore, there is still a gap in the empirical perspective. Based on the gap above, there is no empirical study evidence on learning organization dimensions (continuous learning, inquiry and dialogue, team learning, embedded system, empowerment, system connection, and strategic leadership) as suggested by Yang, Watkins, and Marsick (2004) and organizational performance mediated by organizational innovativeness. There has been limited effort when investigating Small and Medium Enterprises (SMEs) of Thailand, therefore providing a significant gap that is addressed in this study.

Research Questions

In the line with the background of the study as well as the research problem discussed in the preceding section, the following research questions are empirically investigated: What are the significant impacts between

dimensions of the learning organization and organizational innovativeness? What are the significant impacts between dimensions of the learning organization and organizational performance? What is the significant impact between organizational innovativeness and organizational performance? What are the mediating effects of organizational innovativeness on the relationships between learning organization dimensions and organizational performance?

Research Objectives

The objective of this study is to investigate the relationships between learning organization dimensions and organizational innovativeness of the SMEs. To investigate the relationships between learning organization dimensions and organizational performance of the SMEs. To determine the direct relationship between organizational innovativeness and organizational performance. To investigate the mediating effects of organizational innovativeness on the relationships of learning organization dimensions and organizational performance of the SMEs.

Significance of the Study

The significance of the study will be useful for both the practitioners and academics in a number of reasons: First, this study proposes to investigate the relationship between learning organization dimension, organizational innovativeness, and organizational performance of the SMEs in Thailand. Organizational innovativeness will act as the mediator effects on the relationship between learning organization dimensions, including continuous learning, inquiry and dialogue, team learning, embedded system,

empowerment, system connection, strategic leadership, and organizational performance of the SMEs. Meanwhile, learning organization dimensions are also used for the first time as the factors affecting the organizational innovativeness. The new methods in this study will have a significantly positive impact on the existing performance of Thailand's SMEs. Second, the theoretical part of this study utilizes the dimensions of learning organization questionnaire (DLOQ) to examine organizational innovativeness and organizational performance where has not been applied in SMEs before. Third, the result of this study will be integral in determining the best strategies to enhance the SMEs of Thailand. Especially where the Thai government and policy-makers consider infrastructure, regulations, and determine funds and grants for the development of Thai SMEs as well as to assist owners to compete and survive in today's dynamic market.

Organization of the Study

This study contains five chapters and is structured as follows. Chapter 1 provides an introduction including the background of the study, problem statement, research objectives, research questions, significance of the study, and organization of the study. Chapter 2 incorporates the following topics: overview of small and medium enterprises in Thailand, conceptualization of learning organization, conceptualization of organizational innovativeness, conceptualization of organizational performance, review of the learning organization and organizational performance, and relationships between learning organization, organizational innovativeness and organizational performance. This chapter also reveals the gap in the literature and provides

suggestions for this study. Chapter 3 provides a detailed discussion on the research framework, underpinning theory, hypotheses development, research design, operational definitions of variables, measurement of variables, data collection, pilot study, and technique of data analysis. Chapter 4 presents the analysis and findings of the study. This chapter discusses non-response bias test, data screening and outliers. The later part of this chapter discusses goodness of fit measures, confirmatory factor analysis, goodness of fit analysis of hypothesized model, goodness of fit analysis of modified model, and mediating variable results for the structural equation modeling (SEM). Chapter 5 summarizes the conclusions of learning organization dimensions and organizational innovativeness, learning organization dimensions and organizational performance, organizational innovativeness and performance, and the mediating effects of organizational innovativeness between learning organization dimensions and organizational performance relationships. Finally, this chapter presents the limitations of this study and recommendations for future research.