Competitive Advantages of Small and Medium Enterprises in Northern Thailand

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This paper investigates the management to achieve competitive advantages (CA) and the success of business management of small and medium enterprises (SMEs) in Northern Thailand. Questionnaires are collected from 400 SMEs in nine provinces. In-depth interview with five successful SMEs leaders is also conducted. The results show that SMEs mostly run commercial business, invest approximately under 10 million Baht (333,333 USD), hire less than 20 staffs, and have experienced running business for more than 15 years. Most agree with management of CA and overall successful operation is at high level. The F-test analysis shows that the management of CA which is different in type of business, capital investment, total employees, and age of business, is not significantly different. The management of CA including differentiation, cost leadership, quick response, and market focus, is also significantly related to overall successful operation, in terms of financial perspective, customer perspective, internal process perspective, and learning and growth perspective. SMEs entrepreneurs further confirm that there is no differentiation in part of products/services. SMEs also lacked of knowledge of operating cost and managerial accounting. SMEs should create, develop, adapt, learn, train, and continuously improve their business skills, business practice, and business knowledge.

Keywords: competitive advantages (CA), success, management, Northern Thailand, small and medium enterprises (SMEs)

Small and medium enterprises (SMEs) are considered as the backbone of economic growth in all countries, because they account for 80% of global economic growth (Jutla, Bodorik, & Dhaliqal, 2002). SMEs also contribute to a substantial share of the manufactured exports of East Asia (56% in Taiwan, over 40% in China and the Republic of Korea). In 2011, Thai SMEs account for 36.6% of total Thai GDP (gross domestic product) (Office of Small and Medium Enterprises Promotion, 2011). In the newly developing market, SMEs generally employ the largest percentage of the workforce and are responsible for income generation opportunities. These enterprises can also be described as one of the main drivers for poverty alleviation. In manufacturing sector,
SMEs act as specialist suppliers of components, parts, and sub-assemblies to larger companies because these items can be produced at a cheaper price compared with the price large companies which must pay for in-house production of the same components. However, the input of poor quality products can adversely affect the competitiveness of these larger organisations (Singh, Garg, & Deshmukh, 2010). However, Thai SMEs still face many managerial problems arising from severe economic crisis. Managing competitive advantages (CA) for firm’s sustained success is compulsory. When there was the economic crisis in 2008, many Thai SMEs are forced to close their businesses due to lacking of CA management. This crisis affects many countries in ASEAN (Association of Southeast Asian Nations) region and has many causes and issues. The important issue to consider is why some countries that their businesses are affected but their domestic businesses are still able to survive. From many sources of information, it could find out various management adjustments. Fortunately, if there were crisis or any transition in the near future, other countries can use this paper as a case study and learn to avoid business disasters. As a result, the Thai economy becomes stable in both micro- and macro-economic. Major problems of Thai SMEs can be categorised into four issues: (1) no focus to create a trading strategy, which bases on CA; (2) lack of long-term strategy planning for the enterprises in order to enhance and increase the competitiveness of the firms; (3) lack of proper management, SWOT (Superiority Weakness Opportunity Threats) analysis, managerial skill, training and development, and real support from public sector about CA management; and (4) unaware of the important role, system, method, stage, and process to increase CA management level for their products/services. In fact, SMEs management and operations play an important role in today’s businesses due to the significant resources that create CA for organisations. If any enterprises have information and potential opportunity, they should create the opportunities for organisations to success in operations by having proper information and opportunity for management. In addition, SMEs can use their CA in efficient way and match with the nature of current situations that are changing all the time (Singh et al., 2010). Northern Thailand currently moves forward steadily for economic, social, culture, and financial potential. It also has significant growth rate of SMEs in tourism industry. Conversely, SMEs’ expansion rate in other sectors is limited and there is no additional CA in this region. As a result, it is interesting to investigate the management of SMEs to achieve CA in Northern Thailand.

**Research Methodology**

(1) The concept of SMEs means the business which is managed independently, the executives or director are self-employed, business investment funds are from private funds and operations are local operate. Number of employees, investment fund, and assets is determined according to the size and operations of SMEs which are divided into three main groups that are manufacturing, commercial, and service businesses (Office of Small and Medium Enterprises Promotion, 2011);

(2) The concept of Porter’s (1980; 1998; 2005; 2008) generic CA and Monohan and Rahman (2011) which include:

(a) Differentiation is the strategy to make a difference of the products/services to be unique and distinguishes from competitors in the same business. Porter (2008) and Monahan and Rahman (2011) assert that differentiation in form of goods image, brand image, and technology used for customer service or dealer network, etc. This differentiation may be a difference of one thing or various things. It will result in greater customer loyalty to the company and cause customers to less focus on the price factor. As a result, SMEs will be able to efficiently compete with other competitors;
(b) Cost leadership: Ishibashi (2009) finds that the profits of firms in the high-end market are larger when there are firms producing low-end products than when there are not. These low-end firms’ functions as a credible threat, which induces the high-end firms not to overproduce because price-sensitive consumers buy products from the low- and higher-end firms do not have to resolve to price cutting to move merchandise;

(c) Quick response: Gendron, Porter, and Habiby (2000) state that the rapid growth of the quick response manufacturing and service economy is colliding with an extraordinarily tight labour market. Quality service is often the first casualty. One hundred CEOs have been able to serve their customers faster and better, it will fuel their companies’ growth rapidly. For instance, Lone Star, which offers direct marketing and fulfilment services, has grown by more than 600% in five years while relying mostly on client referrals to bring in new accounts;

(d) Market focus: Porter (2008) states that CA nowadays are used in terms of business by connecting important marketing concepts to create general CA which are cost leadership, differentiation, and market focus.

CA are, therefore, the result of practice on value creating strategy. In this case, advertising can increase capability of products or superior distribution performance (Barney, 1991). Additionally, it finds that the management of CA and successful factors in management of SMEs are categorised under framework of balanced scorecard (BSC) which created by Kaplan and Norton (1993; 1996; 2000; 2001; 2004; 2006) as follows:

1. Financial perspective: Financial capital is an important factor to consider. There would be limited funding from outside because research and develop of SMEs are high risk. It should be publicly supported from the government to allow SMEs to research and develop their products/services;

2. Customer perspective: SMEs should concern with marketing management since SMEs should use marketing network processes to manage marketing strategy that consists of three dimensions which are: (a) the dimension of structure is to focus on network infrastructure which is size, pattern, variety, density, sustainability, and flexibility; (b) the dimension of relationship is to focus on the channel to link the strength, which consists of reliability, consistency, and collaboration; and (c) the dimension in term of use is to focus on marketing activities, including management of decision-making on product, management of promotional activities, marketing activities, price management, distribution management, acquisition of marketing resources, increasing knowledge of marketing, and marketing innovation;

3. Internal process perspective: The weakness of SMEs, which have small size and limited resources and do not gain advantages of economies of scale to produce as large enterprises. Therefore, they would need to reduce vulnerability by creating networking, which relevant factors are concerning company, partnership, and relationship between companies, which can cause the competition by organisation’s operators, the use of resources and networking, and affect company contribution directly;

4. Learning and growth perspective of employee and role of the leader which are important toward employees’ innovative behaviour. The prudent foresight of leaders will, however, stimulate employees on thought and usage on a daily basis. The study of skills development is, therefore, an important factor in developing human resources. Anyway, SMEs often face the obstacle on cultural attitudes such as awareness, financial, accession, and preparation of training and opportunity to develop their other skills. To minimise the effect of these obstacles, it would need to create strategies on new skills, new initiation, and new staffs, which give enterprises active and supporting continuous skills development;

5. The concept of successful operations which means the result of the business operations that achieve its goals more effectively in order to meet customer or service recipient’s requirement and satisfaction to people in
the organisation by applying the concept of BSC. From four perspectives according to the concept of BSC, there is cause and effect relationship by starting from learning and growth perspectives that result in the continuous improvement of internal processes perspective. Once internal process efficiency gains the maximum performance, it would create customer satisfaction, which leads to significant financial performance in the long term.

The instrument of this paper is questionnaire, which is divided into three parts. Part 1, which is an overview of Thai SMEs, is a checklist type for four questions, including type of business, capital investment, total employees, and age of the business. Part 2: Opinions on CA for 20 questions, consisting of six questions on differentiation, five questions on cost leadership, five questions on quick response, and four questions on market focus. Part 3: Opinions on the successful operations for 24 questions which are financial perspective on five questions, customers perspective on six questions, internal process perspective on eight questions, and learning and growth perspective on five questions. Parts 2 and 3 use rating scale scoring the questions. The scales measure from one to five scores level. In-depth interview is also utilised with key informants who have prominent successful SMEs and well recognised in SMEs, trade association, chamber of commerce, and the council of Northern Thailand industries. The interview is a divergent interview to avoid blocking any information and to obtain width, depth, and accuracy from various parties.

This paper limits the scope of study by using sampling and data collection from SMEs entrepreneurs in nine provinces of Northern Thailand, which are Chiang Rai, Chiang Mai, Nan, Phayao, Phrae, Mae Hong Son, Lampang, Lamphun, and Tak. Sample size is 400 of SMEs in nine provinces of Northern Thailand. This paper also uses a stratified sampling based on the proportion. For quantitative methodology, this paper uses in-depth interview with prominent representatives who are selected as successful SMEs from October 2010 to March 2011. Data analysis and statistics used are divided into two types, which are quantitative and qualitative approaches. For quantitative approach, descriptive statistics employed here is frequency and percentage, and means and standard deviation, multivariate analysis of variance (MANOVA), multiple correlations, and multiple regression analysis. For qualitative approach, it is done by in-depth interview, analysed by Delphi techniques and descriptive method.

Results

SMEs in Northern Thailand are mostly running commercial business (38.25%) and service business (30.75%). Majority of their capital investment is under 10 million Thai baht (79.50%) and the other rank is with capital investment range 20-30 million Thai baht (12.00%). Top rank of total employees is under 20 employees (59.75%) and the next is total employees range 20-30 employees (18.25%). For age of business, the group that runs business more than 15 years is at 35.68% and range 6-10 years at 24.31%. SMEs in Northern Thailand are agreed with management of CA at high level (Mean = 3.94) when considered each aspect. The average orders of three descending priority are differentiation (Mean = 4.06), quick response (Mean = 4.06), and cost leadership (Mean = 3.90). SMEs in Northern Thailand are agreed with overall successful operations at high level (Mean = 3.83) when considered each aspect which are all at high level. The average orders of three most to least are internal process perspective (Mean = 4.97), customer perspective (Mean = 3.90), and learning and growth perspective (Mean = 3.85).

Comparing the opinion toward the CA management of SMEs in Northern Thailand, which type of business, capital investment, total employees, and age of business is different. These differences do not make
much difference in terms of management of CA as the result is $F = 0.979, 0.355, 0.316,$ and $0.957$ in respectively order. As a result, the relationship of type of business, capital investment, total employees, and age of business that is different but makes no difference in terms of management of CA for SMEs in Northern Thailand. The multiple correlation analysis and multiple regressions are used to test the relationship between the impact of management of CA and the successful operations of SMEs in Northern Thailand as follows:

Overall successful operations (SOT): The management of CA in term of differentiation (CDP), cost leadership (CLC), quick response (CFF), and market focus (CMF) are statistically related to SOT. The coefficient of forecast improvement (Adj $R^2$) also equals to $0.518$, when use CA in terms of CDP, CLC, CFF, and CMF to create a model. The forecasting model coefficients as follows: $SOT = 0.439 + 0.196CDP + 0.236CLC + 0.354CFF + 0.007CMF$.

Financial perspective (SF): The CA in term of CLC and CFF is statistically associated with SF. For CA in term of CDP and CMF are not correlated to SOT in term of SF when take CA in term of CLC and CFF to create the forecasting equation of CA in SF which the coefficient of the forecasting improvement (Adj $R^2$) to $0.450$ as follows: $FP = 0.221 + 0.356 CLC + 0.509 CFF$.

Customer perspective (SC): The CA in term of CDP, CLC, CFF, and CMF have significant relationship with SOT in term of SC. Anyway, constants have no relationship with SOT in term of SC when use CA in term of CDP, CLC, CFF, and CMF to create the forecasting equation of CA in SC which the coefficient of forecasting improvement (Adj $R^2$) equals to $0.427$ as the equation is $SC = 0.393 + 0.185 CDP + 0.311 CLC + 0.300 CFF + 0.009 CMF$.

Internal process perspective (SI): CA in terms of CDP, CLC, and CFF have significant relationship with SOT in term of SI. For CA in term of CMF have no relationship with SOT in term of SI. SOT in term of SI creates the coefficient of forecasting improvement (Adj $R^2$) equal to $0.461$ as the equation is $SI = 0.629 + 0.290 CDP + 0.241 CLC + 0.307 CFF$.

Learning and growth perspective (SP): CA in terms of CDF and CFF have significant relationship with SOT in term of SP. For CA in term of CLC and CMF have no relationship with SOT in term of SP creates the coefficient of the forecast improvement (Adj $R^2$) to $0.361$ as the equation is $SP = 0.806 + 0.267 CDP + 0.494 CFF$.

For qualitative data, Delphi method is analysed from key opinion leaders, it shows that SMEs in Northern Thailand have the problem on issue relevant to the management of CA in term of successful operations because each business has no difference in term of marketing, especially on products/services. The differentiation is not value-added on products/services, distribution channels, marketing promotions, and innovations. As manufacturing process is mainly from the wisdom of community; as a result, there is no technology used in production. Majority of financing is the loan from financial institutions and no accounting management; thus, it cannot be able to verify the financial status, which cause high cost in management. The government is also continuing to support on giving knowledge, but there is no budget to support and follow-up project evaluation. As a result, the management of CA of SMEs in Northern Thailand cannot operate their business in current situation. Anyway, key opinion leaders have the solution to solve these problems that SMEs should manage the CA for successful operations of SMEs by creating the strength in creating sustainable economic growth and getting CA. Solving by creating and developing innovation of new products/services and focusing on modern management, which are general management, marketing management, financial management, and products/services management, by creating differentiation in products/services to be unique and different from
other competitors and focusing on the economics of scope. In other words, to create the ability to reduce costs by sharing business resources, including maintaining nature of products/services which customer is important. Operating successful business requires adaptation, learning, and continuously improving to meet the changing of economic environment especially to respond customers’ needs in different ways.

**Discussion**

SMEs entrepreneurs in Northern Thailand have opinion toward the management of CA and successful operations at high level, which is differentiation, cost leadership, quick response, market focus, financial perspective, customer perspective, internal process perspective, and learning and growth perspective. The management of CA is important and necessary for business operations in aggressive competition in present situation. This corresponds to four main pillars of modern management, which are general management, marketing management, financial management, and manufacturing management, which affect comparative advantage. Clear strategy planning and competition policy will then help to create capacity and CA of the business over competitors as clear strategy and future direction of operations can conduct business to reach their target and respond the needs of continuous market change. CA also use global competitive strategy, which is total cost leadership, differentiation, and focus on speed (Porter, 1980; Barney, 1991; Barney, 2001; Ruiz-Aliseda & Zemsky, 2006).

SMEs entrepreneurs in Northern Thailand, who have different type of business, capital investment, total employees, and age of business, agreed that overall CA and successful operations are not different. As majority of SMEs in Northern Thailand unable to create CA in their organisation because their businesses are managed independently. Most of funding is personal fund, which lacks of opportunity to get the funding and loans from financial institutions. They also lack of experience in management because most of products/services meet only local or domestic market which leads entrepreneurs lack of marketing skill, especially international market and this cause SMEs in Northern Thailand are inefficient management. Therefore, SMEs in Northern Thailand need to increase efficiency and effective management of CA for successful operations. This is related to Zabarat (2005) who states that efficient management requires target operations to achieve cost saving, efficiently use of existing resources to increase capability in competition of organisation. Porter (1980) mentions that businesses need to consider how to approach company industry, understand competitors and the location of competition. To create CA can be done by general competition strategies, which are overall costs leadership, differentiation, and market focus. It must be considered each factor to success of each strategy before apply these strategies.

Impact and relationship between CA and successful operations of SMEs in Northern Thailand are in positive impact and successful operations in all aspect which are:

1. **Market focus**: Company has to narrow down the area to focus on marketing or small market to supply goods or service to the target group for CA in market focus. The principle is that business be able to respond the need of specific target group, which better, more efficient and effectively than to gather all customers. Business, which succeeds from this strategy, is normally able to respond the need of specific target group by offering unique product or service which is different from competitors or being company with low cost in responding the need of the target group (Chouchinprakarn, 2003);

2. **Quick response, financial perspective, customer perspective, internal process perspective, and learning and growth perspective**: To operate business nowadays is more complicated and more aggressive in competition. Thus, to be successful business, the business needs adaptation and continues learning as well as
develops to suit the changing of economic environment, especially, to respond the needs of customers in different ways by focusing on customer needs and feedback to ensure customer satisfaction and impression. These factors will bring good image and successful organisation which correspond to concept of Kotler (2000) that quick response means to create flexibility to meet customer needs such as offer new product, improve product or even the decision of the executive. Nowadays, many executives know that cost leadership or offering unique product is not enough, anymore; they must be able to respond customer needs quickly;

(3) Cost leadership: To be low cost leadership is one way to create CA in operating business by aims to get most cost effective to achieve cost advantages. This strategy uses the cost when compares with competitors but may not the least cost. To achieve cost leadership, executives are required to maintain nature of products/services that customer need. This is consistent with the concept of Anansainon (2004) states that organisation can create CA by focusing on creating economics of scope which is ability to reduce cost by sharing business resources. This can be noticed that large plants tend to have lower production cost per unit due to big quantity of product made then they are able to share production resources with other unit which result in cost saving in production. Main concept of economics of scope is focusing on production in large quantity to keep cost per unit down;

(4) Differentiation is one basic to be successful but not including the price factor. Therefore, to be success in differentiation in desirable way of the products/services, create brand loyalty on customers, reduce amount of product that buyer selects and reduces feeling toward price, all these mentioned strategies will help the business to gain higher profit without lowering the cost down. This is corresponding to the concept of Chouchinprakarn (2003) which states that to create differentiation on product or service is to be unique from other competitors in the same industry. For example, making difference in term of form of products, brand image, and technology use to provide service to customer or dealer network, etc. To create differentiation, it can be one or many differences. From mentioned differentiation, it will prompt customers to have greater loyalty to the company and allow customers to consider less on the price factor. As a result, business will be able to compete with competitors more effectively. March and Gunasekaran (1999) have proposed a conceptual model of business operation, which is representing the idea that the territory of business is divided into three issues: Firstly, the acceptant of needs discovery or desires of customers, if lack of this, then business also lacks of demand from customers. Secondly, if there is no possibility study of production capacity, then business will lack of some important skills. Lastly is the lack of appropriate comparison on CA, which can lose in the competition.

The results of individual depth interviews with key opinion leaders find that SMEs in Northern Thailand should create strength in generating sustainable economic growth and CA by starting from developing innovation and new products/services to get CA. They should also be promoted by government as well as funding from both local and national organisations to help SMEs. This is corresponding to the concept of Porter (1980) that CA being used from businesses perspective by connecting CA with marketing concept. This important concept could create the CA in general which are cost leadership, differentiation, and market focusing (Porter, 1980; Barney, 1991; Barney, 2001; Ruiz-Aliseda & Zemsky, 2006; Gjerde, Knivsfla, & Saettem, 2010). Strategic management of SMEs is also very important to create CA in the competitive as an important key of business of developing countries to survive. Entrepreneurs of SMEs should notice the importance of business operation, which focuses on importance to business success based on four perspectives, which are financial perspective, customer perspective, internal process perspective, and learning and growth
perspective. This is corresponding with Asasongtham (2003) on concept of BSC which is an important tool of management strategies used in implementing the policy into practice based on business evaluation that allows organisation to be unite and balance its both short- and long-term.

**Conclusions**

The management of CA is important on successful operations of SMEs in Northern Thailand. Each business of SMEs in Northern Thailand has to try to develop its innovations based on customers’ needs and understand its competitors. The competitive position in CA by evaluating business performance is very important thing that can help SMEs in Northern Thailand to know their situation. Management of CA of SMEs in Northern Thailand should focus on three aspects, which are overall cost leadership, differentiation, and market focus.

**References**


