

The Effects of Innovation Capabilities and Sufficiency Economy Philosophy on Internationalization Performance among Entrepreneurial SMEs in Thailand

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ABSTRACT

Going global is now recognized as one of the important strategies for firms to enhance their business performance. However, the dynamic environmental condition of international business poses a lot of challenges to entrepreneurial firms due to their limited resources and capabilities. Various efforts have been put to understand this international business phenomena, nonetheless, the way in which innovation capabilities could be aligned with sufficiency economy philosophy to secure superior performance in the international aspect remains unclear. In this study, these two variables are, therefore, examined in relation to the internationalization performance of SMEs in Thailand. The study proposed a model drawn from the Resource-Based Theory. The value of this study lies in its effort to link innovation capabilities and sufficiency economy philosophy to the internationalization performance of SMEs in a developing country from the lens of the Resource-Based Theory.

Keywords: Innovation capabilities, Sufficiency Economy Philosophy, Internationalization performance, Entrepreneurial SMEs

1. INTRODUCTION

SME sector is an integral accelerator for the economic growth and social development in developed and developing countries. It accounts for the majority of the business enterprises around the world, particularly among the ASEAN countries. Izma and Francis (2013) highlight the importance of SMEs in ASEAN by the three facts as follows. First, SMEs currently account for above 96% of all enterprises in ASEAN member states. Second, they generate around 50-59% of national employment and contribute to gross domestic product (GDP) about 30-53%. And finally, SME is represented between 19-31% of the total exports of the countries.

In the context of Thailand, the SMEs play a vital role in the country's economy as evident in the report by the Office of Small and Medium Enterprises Promotion (OSMEP). OSMEP (2011) uncovers that Thailand economy has continuously been growing due to the growth in SMEs. According to the report, SMEs provided a large number of significant contributions to the nation. For example, they accounted for 99.8% of business establishments in the country and employed around 84% of all overall employment. Moreover, they created export value almost reached 30% of the overall export. These matters have attracted scholars and researchers to delve into ways to enhance the likelihood of survival and success of SMEs.

During the severe global competitions, SMEs face heightened risks and challenges. The exporting strategy is the prominence of SMEs for expanding into new geographic markets. Internationalizing SMEs could able to seize more opportunities for growth (Hsu, Chen, & Cheng, 2013). Besides, firms can achieve the competitive advantages, and superior financial success stemmed from the exporting (Lin, Liu, & Cheng, 2011). Thus, there are numerous domestic enterprises endeavor entering into foreign markets based on the fruitful strategy. However, internationalizing SMEs in Thailand have been shown unsuccessful in foreign marketplaces while those have put a lot of efforts to struggle with challenges (OSMEP, 2011).

Furthermore, the fact is that SMEs are generally inadequate critical resources and capabilities to overwhelm their competitors not only in the domestic marketplace, but also foreign locations (Etemad, 2004; Iplik & Kilic, 2009). It implies that the restrictions could significantly negative affect to business performance of those. In an adverse circumstance, these obstacles could enforce those have to close own businesses to alleviate their liabilities. As highlighted by Lee, Kelley, Lee, and Lee (2012), small and medium businesses are at the disadvantages in view of liabilities of newness and small firms and hence reported to have a higher rate of failure. Undeniably, SMEs have to utilize the limited resources more effectively in order to compete with their counterparts.

Empirical literature suggests that organizational determinants have an important effect on exporting of SMEs such as firm's size, distinctive capabilities, experience in geographic market development, manager's age, educational level, foreign language proficiency, and management attitude (Suárez-Ortega & Álamo-Vera, 2005). It is also highlighted that there is a need to explore other internal factors influencing export of those firms. As, Lu and Beamish (2006) remark, the gap concerning with SME internationalization performance remains under-explored, especially in the context of developing nation.

In acknowledging these gaps in the literature, this paper aim is to propose a conceptual framework that links organizational determinants namely innovation capabilities and sufficiency

economy philosophy (SEP), and internationalization performance of Thai SMEs, an area which is relevant to Thai SMEs that is still at an infancy stage.

2. REVIEW OF LITERATURE AND HYPOTHESIS DEVELOPMENT

2.1 Resource-Based Theory (RBT)

The inquiry that how a firm's resources and capabilities can affect its performance is embedded in the resource-based theory (RBT) (Barney, 1996). According to Wernerfelt (1984), resources within firm reflects anything which could be thought of as a strength or weakness of given firm. It involves both intangible and tangible assets such as in-house knowledge of technology and employment of skilled personnel. Furthermore, Barney (1991) defined the firm resources as representing strategies of the firm that could enhance efficiency and effectiveness and finally achieve competitive advantage.

According to the theory, the unique characteristic of firm resources and capabilities embedded in leading companies are pointed at heterogeneity and immobility (Barney, 1991, 1996). Firms that need to achieve superior firm performance and maintain sustainable competitive advantage have to hold four essential attributes of firm resources namely valuable, rare, costly to imitate and non-substitutable (Barney, 1991). In the context of the internationalization performance in SMEs, the distinctive resources and capabilities of the SME firms that are considered the key drivers to achieve their superior performance in international markets viewpoints.

2.2 SME Internationalization and Internationalization Performance

Internationalization, which is a phenomenon studied intensively in previous decades, is referred to the geographical expansion of economic activities over a domestic border of a country (Lu & Beamish, 2001, 2006; Ruzzier, Hisrich, & Antoncic, 2006). Various SME internationalization literature illustrates that it offers various advantages to the SMEs. For instance, it becomes a significant growth strategy for businesses which have limited home country market (Hsu et al., 2013); it enables SMEs to flee the challenges of intense competing markets (Lee et al., 2012); it provides not only to expand into high-growth international markets but also to ensure a firm's very survival (Sousa, 2004). Thus, the present SMEs with high opportunity for growth and success have to embrace this strategy.

In the strategic point of view, Lu and Beamish (2006) highlighted that one of the most prominent internationalization strategies is the exporting mode due to easy and fast approaches as compared to other strategies. It requires minimal financial, human, and other resource commitments (Sousa, 2004). Consistent with the work of Merino, Monreal-Pérez, and Sánchez-Marín (2012), the exporting activity is a crucial internationalization strategy among SMEs for expanding broad markets due to low levels of commitment and risk. Consequently, internationalization performance in this paper is defined as the firm performance on international market view that employed exporting strategy by SMEs.

The organizational performance is typically a complex and multidimensional construct

(Wolff & Pett, 2006), including the internationalization performance (Sousa, 2004). However, it has been revealed that subjective or perpetual measures are very common and popular on previous researches due to objective or financial data is not available publically (Brouthers, Nakos, & Dimitratos, 2014). For example, the work of Brouthers et al. (2014) used return on investment (ROI), profitability, and overall performance to measure the performance of SME firms in the best-seller foreign market in comparison with their direct competitors over the last 3-year period as well as used 7-point Likert Scale in their questionnaire. To clearly understand of SMEs' measurements of subjective performance, the authors review from disclosed prior studies as shown in Table 1.

Table 1

e 1

Subjective Measurement of Internationalization Performance in SMEs

Author	Measurement	Type of Scale
(Brouthers et al., 2014)	<ul style="list-style-type: none"> • ROI • Profitability • Overall performance 	7-point Likert Scale
(Kuivalainen, Puumalainen, Sintonen, & Kyläheiko, 2010)	<ul style="list-style-type: none"> • Sales • Market share • Profitability • Satisfied with succession in international markets 	4-point Likert Scale
(O'Cass & Weerawardena, 2009)	<ul style="list-style-type: none"> • Entering new markets • Increased market share • Increased customer satisfaction 	5-point Likert Scale
(Tooksoon & Mudor, 2012)	<ul style="list-style-type: none"> • Perceived export success • Achievement of export objective • Export market penetration in current market • Export market penetration in new market 	5-point Likert Scale

Source: Compiled by Authors

2.3 Innovation Capabilities

Firm innovativeness is well acknowledged to be the factor that impacts firm performance (Keskin, 2006). It has been considered as a firm ability or a dynamic capability of organizations in order to create added value for the enterprise and its stakeholders (Keskin, 2006). Innovation capability has long been considered to be a substantial weapon for the success of entrepreneurial SMEs (Dadfar, Dahlgard, Brege, & Alamirhoor, 2013; Dibrell, Davis, & Craig, 2008). It is highlighted to be the only solution in order to survive and succeed in increasingly hypercompetitive markets (Rosenbusch, Brinckmann, & Bausch, 2011). If SMEs possess more innovation capability, the firms will have better business performance (Dadfar et al., 2013). Similarly Saunila, Ukko, and Rantanen (2014) noted that innovation capability represents an asset of SMEs' profitability. In practical view such as in the case of Cisco Systems, innovation capability represents substantial primary engine for

wealth creation instead of merely the possession of physical assets (Lawson & Samson, 2001).

It has been highlighted that innovation involves various features that is illustrated in the forms of new, change, opportunities, creative ideas, adoption of an organization, and value creation (Dadfar et al., 2013). Besides, innovation capability can be defined as the firms' ability to mobilize the knowledge and combine it to create new knowledge, by reflecting in forms of

product and process innovations (Çakar & Ertürk, 2010). As, Saunila et al. (2014) have reviewed some relevant works regarding its definitions and features as clearly shown in Table 2. For example, the innovation capability is defined as a potential or ability of a firm to produce innovations. It points to add value and concerns continuous improvement of a business.

Table

2

The features of innovation capability

Innovation Capability	Sources
It is a potential or ability to produce innovations.	Neely et al., 2001; Lawson and Samson, 2001; Laforet, 2011
It is internal capability.	Akman and Yilmaz, 2008; Ngo and O'Cass, 2009; Martinez-Roman et al., 2011
It requires continuous improvement.	Szeto, 2000; Lawson and Samson, 2001; Olsson et al., 2010
It aims to add value.	Szeto, 2000; Hogan et al., 2011

Sources: Saunila et al. (2014)

The literature points out that innovativeness has positively related to firm performance supported by numerous theoretical and empirical studies (Keskin, 2006), yet the results of the relationship between innovation and SMEs' performance is unequivocal (Rosenbusch et al., 2011). The reason of inconsistent results may be due to the different types of innovation capability of each SMEs such as product, process, market, organization, service, radical and incremental as presented in Table 3. Studies on the types of innovation are largely centered on large companies; it appears to be lacking from SMEs perspective (Oke, Burke, & Myers, 2007), particularly in developing countries (Keskin, 2006).

Table

3

Different types of innovation associated with performance of SMEs

Types of innovation	Sources
<ul style="list-style-type: none"> • Product and Process • Technical and administrative • Radical and incremental 	(Khin, Ahmad, & Ramayah, 2010)

<ul style="list-style-type: none"> • Product • Process • Service 	(Oke et al., 2007)
<ul style="list-style-type: none"> • Product • Process • Market • Organization 	(Varis & Littunen, 2010)

In addition, innovation capability can be measured by R&D expenditures and firm's new product development capability, using 5-point Likert Scales (Çakar & Ertürk, 2010). On the other hand, a set of its questions covers the definition in terms of openness to a new idea such as a willingness to try out new ideas, seek out new ways to do thing, be creative in a firm's operational methods, and rate of product introduction by employing 7 point Likert Scales (Keskin, 2006).

2.4 Innovation Capabilities and Internationalization Performance

Available evidence has shown that innovation capability is positively related to firm performance in SMEs. For instance, based on the finding of Keskin (2006), innovativeness has positive direct influence on firm performance (i.e., market share and growth rate) in Turkish SME firms. In another study by Oke et al. (2007), the results showed that UK SMEs tend to focus more on incremental than radical innovations; and it has a positive relationship with business performance (i.e., growth in sales turnover). Furthermore, Saunila et al. (2014) revealed that innovation capability had a statistically significant effect on firm profitability in Finnish SMEs. As above mentioned, there are a variety of innovation types in SMEs, but the most practiced by entrepreneurial SMEs are product and process innovations (e.g., Khin et al., 2010; Oke et al., 2007). According to above, it can be hypothesized as follows:

Proposition 1a: Product innovation capability of entrepreneurial SMEs is positively related to their internationalization performance.

Proposition 1b: Process innovation capability of entrepreneurial SMEs is positively related to their internationalization performance.

2.5 Sufficiency Economy Philosophy (SEP)

Sufficiency Economy Philosophy (SEP) is a unique value of Thais which is perceived by the entrepreneurs as the middle path of conducting their business in order to achieve sustainability in changing and unpredictable environments (Kantabutra & Siebenhuner, 2011; Wibulswasdi, Piboolsravut, & Pootrakool, 2010). The concept has long been known throughout Thailand because it has been bestowed by His Majesty King Bhumibol, who develops and conceptualizes the principle. This is a move taken after the economic crisis that hit Thailand in the year

1997-1998 (Thongpoon, Ahmad, & Yahya, 2012). The philosophy aims for a balanced and stable development, at every stage and all levels, that should be embraced by every individual especially business practitioners. Besides, the philosophy has been more recognized by the United Nations (UN) since May 2006 (Savetpanuvong, Tanlamai, & Lursinsap, 2011).

SEP generates a big contribution to many businesses of Thailand. The approach focuses on human development starting with the right mindset of individuals especially as entrepreneurial owners/managers since SEP becomes the basis for their way of thinking and their actions. Puntasen, Premchuen, and Keitdejpunya (2003) provide seven-business practices based on SEP that are as follows: (1) appropriate use of technology such as use of inexpensive, but technically sound technology); (2) appropriate manufacturing capacity consistent with business ability to manage; (3) no greed and/or focus on short term profits; (4) emphasis on honesty in entire business operation such as fair to consumers, workers, customers and suppliers; (5) emphasis on risk diversification such as various products and/or ability to adjust products; (6) focus on downside risk management such as do not create unmanageable debts; and (7) focus on responding to local, regional, domestic and international markets respectively.

The framework of SEP involves three core elements (i.e., moderation, reasonableness, and self-immunity), which are interconnected and interdependent, and two underlying conditions (i.e., knowledge and morality) as depicted Figure 1.

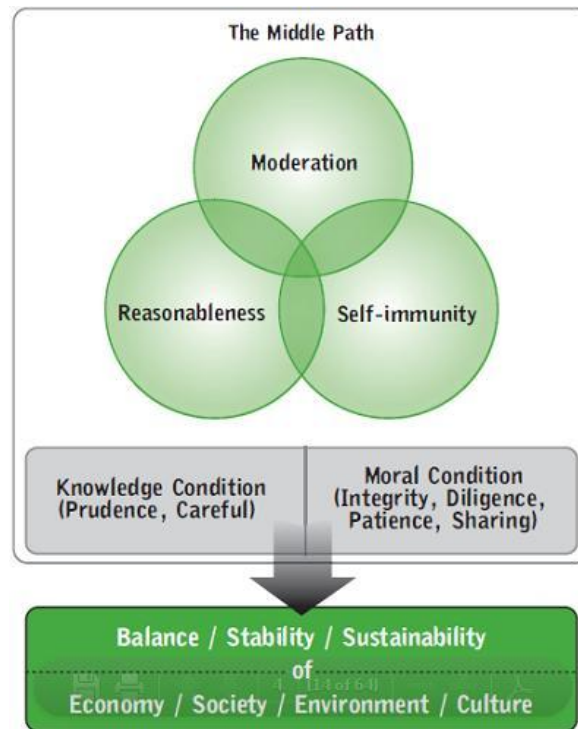


Figure 1 Sufficiency Economy Philosophy Framework
Source: Wibulswasdi et al. (2010)

Sufficiency means moderation and appropriate consideration in all modes of the business

conduct and lies on sufficient protection from internal and external shocks (Mongsawad, 2010). According to Savetpanuvong et al. (2011), the key elements of SEP are as follows:

- 1) Moderation covers the concept of being sufficient, without being extreme or insatiable in terms of specific expectations.
- 2) Reasonableness refers employ a punctilious review of the cause and effect of actions on all related stakeholders.
- 3) Self-immunity means the state of readiness in handling changes that possibly affect short- and long-term performance.

Furthermore, two underlying conditions, which are knowledge and morality, are necessarily required to achieve the three components of SEP. In other words, the concept of SEP needs to tie up with the two conditions all the time. Good knowledge management is the root of human capital improvement and the promotion of organizational learning (Rungwitoo, 2012). As, Kumar, Liu, Singh, and Khurmi (2011) explain that the knowledge condition helps a business made prudent decisions due to many information and experiences supported. At the same time, literature indicates that the morality can be covered the aspect of business ethics and corporate social responsibility (Rungwitoo, 2012). It is underlined on honesty, integrity, trustworthiness and the hard-work of individuals while conducting business (Kumar et al., 2011; Rungwitoo, 2012).

2.6 Sufficiency Economy Philosophy (SEP) and Internationalization Performance

Relevant evidences has proven that higher level of SEP has significantly associated with higher level of firms' performance (e.g., Kantabutra & Siebenhuner, 2011; Khunthongjan & Wiboonpongse, 2010; Ruenrom, 2009; Thongpoon & Ahmad, 2012). For instance, Kantabutra and Siebenhuner (2011) result that SEP is a predictor of firm's enhanced capacity to deliver competitive performance, capacity to endure economic and social crises, and capacity to maintain a market leadership. In addition, Khunthongjan and Wiboonpongse (2010) reveal that Thai SMEs running the business regarding the SEP is related to better firm performance in terms of cost and quality, innovation, and adapt to change. Similarly, Thongpoon and Ahmad (2012) indicate that SEP is positively associated with all four dimensions of sustainable performance namely financial performance, relative performance, business growth, and social performance. Based on the above argument, it is hypothesized that;

Proposition 2: Higher level of SEP in entrepreneurial SMEs is significantly associated with higher level of their internationalization performance.

Based on the preceding discussion and literature review, the proposed conceptual model for this study as portrayed in Figure 2. The gap pertaining to SME internationalization performance that remains under-explored particularly the effects of innovation capabilities and SEP, although previous studies have separately examined those variables. This is the gaps that this study would like to fill up.

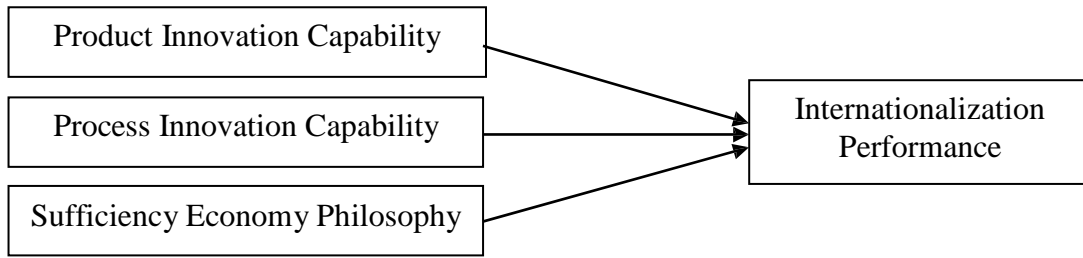


Figure 2. Proposed Conceptual Model

3. Conclusion

While the entrepreneurial SMEs are important to a nation economic growth, the factor that could enhance the likelihood of business succeeding in the global arena needs to be closely looked into. Internationalization performance can be measured in various forms of organizational outcome on exporting activities. The major contention of the study is that innovation capabilities and SEP would enhance the internationalization performance of SMEs in Thailand. A conceptual model presented herein is underpinned by the Resource-Based Theory (RBT). The contributions of this study are not only to extend the knowledge of RBT and organizational capabilities through innovation and SEP but also to offer greater insights into ways in which sustainable performance can be achieved.

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