



THE MANAGEMENT OF SMALL AND MEDIUM ENTERPRISES TO ACHIEVE COMPETITIVE ADVANTAGES IN NORTHERN THAILAND

Uthit Siriwan

William Howard Taft University, USA

Chotika Ramabut

International American University, USA

Nutchuda Thitikalaya

Nobel University, USA

Ratthanan Pongwiritthon

Rajamangala University of Technology Lanna, Thailand

This research aims to study the management to achieve competitive advantage and the success of business management of Small and Medium Enterprises (SMEs) in northern Thailand. Questionnaires were collected from 400 SMEs in 9 provinces of northern Thailand. In-depth interview with five successful SMEs leaders is also conducted. Data analysis consisted of both quantitative and qualitative analysis. For quantitative analysis, descriptive statistics such as percentage, Means and Standard Deviation, Multiple Correlation Analysis and Multiple Regression Analysis is employed. For qualitative analysis, key informants' answers were analyzed by Delphi technique and descriptive analysis. It was found that SMEs in northern Thailand are mostly run commercial business, initial invested approximately under 10 Million Baht (333,333 USD), hired less than 20 staffs and have experienced running business for more than 15 years. Most of them agree with management of competitive advantages and overall success of operation in high level. For F-test analysis, it was found that $F=0.979$, 0.355 , 0.316 and 0.957 means the management of competitive advantages which there are differences in type of business, capital investment, total employees and age of business are not different significantly at .05 level. The Multiple Correlation Analysis and Multiple Regression Analysis are used to test the relationship and impact of management of competitive advantages and the success of operation. It was found that the management of competitive advantages such as differentiation, cost leadership, quick response and market focus is related to overall success of operation significantly at .05 level which accepted all hypothesis testing in terms of financial perspective, customer perspective, internal process perspective and learning and growth perspective. For qualitative analysis, SMEs experts also confirmed that there is no differentiation in part of product and service. For finance and accounting concept, it was found that SMEs in the northern part of Thailand lacked of body of knowledge in operating cost and managerial accounting. SMEs should create, develop, adapt, learn, train and continuously improve their business skill, business practice and business knowledge such as innovation of product and service, new management included general management, marketing management, financial management and product

and service management. It should be unique and differentiate from other competitors in the same business. SMEs should pay attention to new management idea such as the economy of scale, the economy of scope and the economy of speed.

Keywords: Competitive advantages, Success, Management, Northern Thailand, SMEs.

Introduction

Statements and Significance of the Problems

Small and medium enterprises (SMEs) are considered as the backbone of economic growth in all countries because they account for 80 percent of global economic growth (Jutla et al., 2002). SMEs also contribute a substantial share of the manufactured exports of East Asia (56 percent in Taiwan, over 40 percent in China and the Republic of Korea). Official Statistics for the year 2011 record revealed that Thai SMEs account for 36.6 percent of total Thai GDP (The Office of Small and Medium Enterprises Promotion, 2011). In the newly developing or newly industrialized countries (NICs), 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 to the price large companies 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 organizations (Singh et. al, 2010). However, SMEs in Thailand still faced many managerial problems arising from severe economic crisis. Managing competitive advantages for firm's sustained success is compulsory. When there was the economic crisis in year 2008, many small and medium enterprises in Thailand are forced to close their businesses due to lacking of competitive advantages management. This crisis affected many countries in ASEAN region and also has many causes and issues. Anyway, the important issue to consider is why some countries that their businesses were affected but their domestic businesses were still able to survive? From many sources of information, it could be find out various management adjustments. Fortunately, if there were crisis or any transition in the near future, other countries can use this research as case study and how to avoid business disasters. As a result, nowadays Thai economy becomes stable in both micro-economic and macro-economic. Major problems of small businesses in Thailand can be categorized into the following 4 issues: 1) no focus to create a trading strategy which base on competitive advantages, 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, Strength-weakness-opportunity-threat analysis, managerial skill, training and development and real support from public sector about competitive advantages management, and 4) unaware of the important role, system, method, stage and process to increase competitive advantages management level for their products and services. In fact, small business management and operation play an important role in today's businesses due to the significant resources that create competitive advantages for organizations. If any enterprises have information and potential opportunity, they should create the opportunities for organizations to success in operations by having proper information and opportunity for management. Also, SMEs can use their competitive advantages in efficient way and match with the nature of today's situations that are changing all the time (Singh et al, 2010). Currently, northern Thailand moves forward steadily for economic, social, culture, financial potential and also has significant growth rate of SMEs in tourism industry. Conversely, SMEs' expansion rate in other sectors is limited and there are no additional competitive advantages in this region. As a result, the researchers interested to investigate the management of small and medium enterprises to achieve competitive advantages in Northern Thailand.

Objectives

- 1) To study the management of competitive advantages of SMEs in Northern Thailand.
- 2) To study successful operation of SMEs in Northern Thailand.
- 3) To study the relationship between management of competitive advantages and successful operation of SMEs in Northern Thailand.
- 4) To study the impact of management of competitive advantages towards the success operation of SMEs in Northern Thailand.

Scope of Study

We limit scope of study by using sampling and data collection from SMEs entrepreneurs in northern part of Thailand only.

Hypotheses

- 1) The management of competitive advantages is related to the successful operation of SMEs in Northern Thailand.
- 2) The management of competitive advantages have an impact on successful operation of SMEs in Northern Thailand.
- 3) SMEs in Northern Thailand are various different in term of type of business, capital investments, total employees and age of business which distinct competitive advantages.
- 4) SMEs in Northern Thailand are various different in term of type of business, capital investments, total employees and age of business which distinct success in operation.

Contribution to Knowledge

- 1) As a guideline to improve and enhance the potential competitiveness of SMEs in Northern Thailand and other countries.
- 2) As an information of direction of SMEs' operation in Northern Thailand and other countries to meet the changing of competition.
- 3) As a case study to create management which is suitable for business management of SMEs in other countries base on the concept of management of competitive advantages and success in operation of SMEs in Northern Thailand.

Materials and Methods**1. Literature Reviews**

- 1.1) The concept of "Small and Medium Enterprises" 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 are determine according to the size and operation of small and medium enterprises which divided into 3 main groups that are manufacturing, commercial and service businesses. (The Office of Small and Medium Enterprises Promotion, 2011)
- 1.2) The concept of Porter's generic competitive advantages (1980, 1998, 2005, 2008) and Monohan and Raman (2011) which include:

- 1.2.1) Differentiation is the strategy to make a difference of the products or services to be unique and distinguishes from competitors in the same business. Porter (2008) and Monahan and Raman (2011) asserted that differentiation in form of goods image, brand image, technology used for customer service or dealer network and etc. This differentiation may be a difference of one thing or various things. It will result greater customers loyalty to the company and cause customers to less focus on the price factor. As a result, SMEs will be able to efficiency compete with other competitors.
- 1.2.2) Cost Leadership. Ishibashi (2009) found 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-end firms and higher end firms do not have to resolve to price cutting to move merchandise.
- 1.2.3) Quick Response. Gendron et al. (2000) stated that the rapid growth of the quick response manufacturing and service economy is colliding with an extraordinarily tight labor market. Quality service is often the first casualty. 100 CEOs have been able to serve their customers faster and better will fuel their companies' growth rapidly. For instant, Lone Star, which offers direct-marketing and fulfillment services, has grown by more than 600% in five years while relying mostly on client referrals to bring in new accounts.
- 1.2.4) Market Focus. Porter (2008) stated that competitive advantages nowadays are used in term of business by connect important marketing concepts to crate general competitive advantages which are Cost leadership, Differentiation and Market Focus.

Therefore, Competitive Advantages is 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 was found that the management of competitive advantages and success factors in management of small and medium enterprises are categorized 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 one important factor to consider. There would be limited of funding from outside because to research and develop of small and medium enterprises are high risk and lack of loan security to get the fund for research and development. There must be publicly supported from the government to allow small and medium enterprises to research and develop themselves.
- 2) Customer perspective. Small and medium enterprises should concerned with marketing management since SMEs should use marketing network processes to manage marketing strategy that consists of 3 dimensions which are 1) The dimension of structure is to focus on network infrastructure which are size, pattern, variety, density, sustainability and flexibility. 2) The dimension of relationship is to focus on the channel to link the strength which consists of reliability, consistency and collaboration. And 3) The dimension in term of use is to focus on marketing activities which including management of decision making on product, management of promotional activities, planning of marketing activities, price management, management of distribution, acquisition of marketing resources, increasing knowledge on marketing and marketing innovation.
- 3) Internal Process perspective. The weakness of small and medium enterprises which have small size and have limited resources and do not gain advantages of economies of scale to produce as large enterprises. Therefore, there would need to reduce vulnerability by creating networking which relevant factors are concerning company, partnership, relationship between companies which can cause the competition by organization'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 important towards employees' innovative behaviour. However, the prudent foresight of leaders will stimulate employees on thought and usage on a daily basis. Therefore, the study of skills development is also one important factor in developing human resources. Anyway, small and medium enterprises

often face the obstacle on cultural attitudes of small and medium enterprises such as awareness, financial, accession, and preparation of training and opportunity to develop their other skills. To minimize the effect of these obstacles, it would need to create strategies on new skills, new initiation, and new staffs which gives enterprises active in supporting continuous development of skills.

- 5) The concept of success of the operation which means the result of the business operation that achieve its goals more effectively in order to meet customer or service recipient's requirement and satisfaction to people in the organization by applying the concept of Balance Scorecard.

From four perspectives according to the concept of Balanced Scorecards, there is cause and effect relationship by starting from Learning and Growth Perspective that result the continuous improvement of Internal Processes Perspective. Once Internal process efficiency and gain the maximum performance, then it would create customer satisfaction in the business which lead to significant financial performance in long term.

6) Conceptual Framework

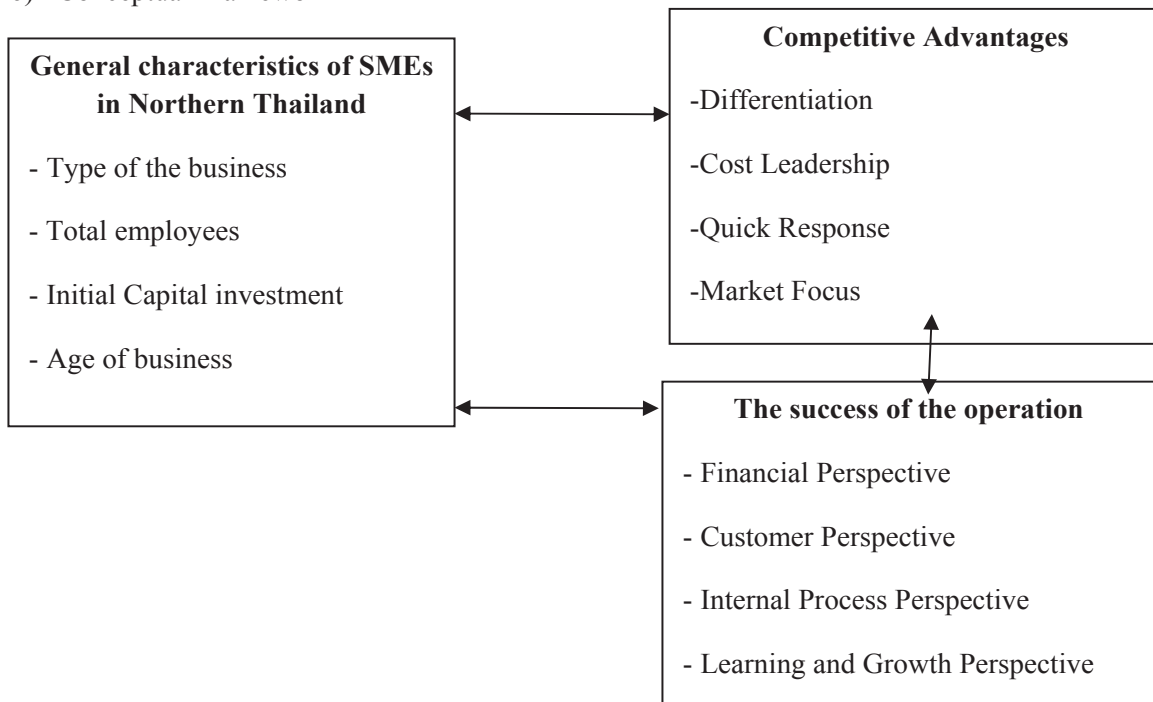


Figure 1. Conceptual Framework.

Research Methodology

1 Research instruments

- 1.1) Questionnaires are divided into 3 parts. Part 1: Overview of SMEs of Thailand. Questionnaire is a checklist type for 4 questions including type of business, capital investment, total employees and age of the business. Part 2: Opinions on competitive advantages for 20 questions consists of 6 questions on differentiation, 5 questions on cost leadership, 5 questions on quick response and 4 questions on market focus. Part 3: Opinions on the success of the operation for 24 questions which are financial perspective on 5 questions, customers perspective on 6 questions, internal process perspective on 8 questions and learning and growth perspective on 5 questions. Part 2 and part 3 used rating scale scoring the questions. The scales measure from 1 to 5 scores level.

- 1.2) In-depth Interview with key informants who have prominent successful small and medium enterprises and well recognized in small and medium enterprises, trade association, chamber of commerce and the council of northern Thailand industries. The interview is a divergent interviewing to avoid blocking any information and to obtain width, depth and accuracy information from various parties.

Data Collection Duration

From 1st October 2010 until 31st March 2011.

Sampling Area

We conducted this research project in 9 provinces of Northern Thailand which are Chiang Rai, Chiang Mai, Nan, Phayao, Phrae, Mae Hong Son, Lampang, Lamphun and Tak.

Sampling and Data Collection

400 people are sample size of SMEs in 9 provinces of Northern Thailand. We also used a stratified sampling based on the proportion. Data collection made by our local staffs. For quantitative methodology, we used in-depth interview with prominent representatives who were selected as successful SMEs. For data collection, we used tape record, listened to key points and wrote key points manually.

Data Analysis

Data analysis and statistics used in this analysis are divided into 2 types which are quantitative approach and qualitative approach. For quantitative approach, descriptive statistics employed here is frequency and percentage, Means and Standard Deviation, Multivariate Analysis of Variance: MANOVA, Multiple Correlation Analysis and Multiple Regression Analysis.

For qualitative approach, it was done by in-depth interview, analyzed by Delphi techniques and descriptive method.

Results

SMEs in Northern Thailand are mostly run commercial business (38.25 percent) and service business (30.75 percent). Majority of their capital investment is under 10 million Thai baht (79.50 percent) and the other rank is with capital investment range 20-30 million Thai baht (12.00 percent). Top rank of total employees is under 20 employees (59.75 percent) and next is total employees range 20-30 employees (18.25 percent). For age of business, the group that running business more than 15 years is at 35.68 percent and range 6-10 years at 24.31 percent.

SMEs in Northern Thailand are agreed with management of competitive advantages in high level (\bar{x} = 3.94) when considered each aspect. The average order of 3 descending priority are differentiation (\bar{x} = 4.06), quick response (\bar{x} = 4.06) and cost leadership (\bar{x} = 3.90).

SMEs in Northern Thailand are agreed with overall success of operation at high level (\bar{x} = 3.83) when considered each aspect which are all in high level. The average orders of 3 most to least are internal process perspective (\bar{x} = 4.97), customer perspective (\bar{x} = 3.90) and learning and growth perspective (\bar{x} = 3.85).

To compare the opinion towards the management of competitive advantages of SMEs in Northern Thailand which type of business, capital investment, total employees and age of business are different. These differences don't make much different in term of management of competitive advantages as the result are $F = 0.979, 0.355, 0.316$ 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 make no different in term of management of competitive advantages for SMEs in Northern Thailand.

The Multiple Correlation Analysis and Multiple Regressions are used to test the relationship and the impact of management of competitive advantages and the success of operation of SMEs in Northern Thailand. We used the multiple correlation analysis, multiple regressions and also statistical forecasting methods as follow:

1) Overall success of operation. (SOT)

The management of competitive advantages in term of differentiation (CDP), cost leadership (CLC), quick response (CFF) and market focus (CMF) are related to overall success of operation (SOT) significantly in statistic at 0.05 and the coefficient of forecast improvement (Adj R^2) equal to 0.518 which accepted hypothesis number 1, 2, 3 and 4 when use competitive advantages in term of differentiation (CDP), cost leadership (CLC), quick response (CFF) and market focus (CMF) to create a model of the coefficients forecasting equation as follow:

$$SOT = 0.439 + 0.196CDP + 0.236CLC + 0.354CFF + 0.007CMF$$

2) Financial perspective

The competitive advantages in term of cost leadership (CLC), and quick response (CFF) is associated with financial perspective (SF) of success of operation with statistically significant at 0.05, which accepted hypothesis number 2 and 3. For competitive advantages in term of differentiation (CDP) and market focus (CMF) are not correlated to success of operation in term of financial perspective (SF) when take competitive advantages in term of cost leadership (CLC) and quick response (CFF) to create the forecasting equation of competitive advantages in financial perspective (SF) which the coefficient of the forecast improvement (Adj R^2) equal to 0.450 as the equations as follow:

$$FP = 0.221 + 0.356CLC + 0.509CFF$$

3) Customer perspective

The competitive advantages in term of differentiation (CDP), cost leadership (CLC), quick response (CFF) and market focus (CMF) have relationship with success of operation in term of customer perspective (SC) significantly in statistic at 0.05 which accepted hypothesis number 1, 2, 3 and 4. Anyway, constants have no relationship with success of operation in term of customer perspective (SC) when use competitive advantages in term of differentiation (CDP), cost leadership (CLC), quick response (CFF) and market focus (CMF)) to create the forecasting equation of competitive advantages in customer perspective (SC) which the coefficient of the forecast improvement (Adj R^2) equal to 0.427 as the equations as follow:

$$SC = 0.393 + 0.185CDP + 0.311CLC + 0.300CFF + 0.009CMF$$

4) Internal Process Perspective

Competitive advantages in terms of differentiation (CDP), cost leadership (CLC), quick response (CFF) have relationship with success in operation in term of internal process perspective (SI) significantly in statistic at 0.05 which accepted hypothesis number 1, 2 and 3. For competitive advantages in term of market focus (CMF) has no relationship with success of operation in term of internal process perspective (SI). Success of operation in term of internal process perspective (SI) creates the coefficient of the forecast improvement (Adj R^2) equal to 0.461 as the equations as follow:

$$SI = 0.629 + 0.290CDP + 0.241CLC + 0.307CFF$$

5) Learning and Growth Perspective

Competitive advantages in terms of differentiation (CDF) and quick response (CFF) have relationship with success of operation in term of learning and growth perspective (SP) significantly in statistic at 0.05 which accepted hypothesis number 1 and 3. For competitive advantages in term of cost leadership (CLC) and market focus (CMF) have no relationship with success of operation in term of learning and growth perspective (SP) creates the coefficient of the forecast improvement (Adj R²) equal to 0.361 as the equations as follow:

$$SP = 0.806 + 0.267CDP + 0.494CFF$$

For qualitative analysis, we found that SMEs in Northern Thailand have the problem on differentiation perspective since they have no differentiation in term of marketing especially on products and services. It also found that there is no technology used in production. SMEs also faced loan problem from financial institutions since they operated firms without standardized accounting and financial management. As a result, financial institutions couldn't verify their financial status which lead to high operating cost. In order to solve this problem, Thai government attempts several ways to support training and other activities program. However, there is no budget to support and follow up project evaluation. As a result, SMEs in Northern Thailand cannot operate their business smoothly in current situation. Nevertheless, at the beginning, key informants suggested that SMEs should solve problems by creating, developing innovation of new products and services. Also, they should focus on modern management which are general management, marketing management, financial management and service and product management. It should be unique and differentiate from other competitors in the same business. SMEs should pay attention to new management idea such as the economy of scale, the economy of scope and the Economic of speed. By doing so, customers are important since they are major sources of revenue. In order to operate business to success, it also requires adaptation, learning, and improving continuously to meet the changing of economic environment especially to respond the needs of customers in different and various ways.

Discussion

SMEs in Northern Thailand have opinion towards the management of competitive advantages and success of operation in high level. The management of competitive advantages is important and necessary for business operation 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 that affecting comparative advantage. Then, clear strategy planning and competition policy are major recommended. Nowadays, competitive advantages also used global competitive strategy which is total cost leadership, differentiation and focus on speed as stated by Porter (1980), Barney (1991, 2001) and Ruiz-aliseda and Zemsky (2006) consecutively.

SMEs in Northern Thailand, who have different type of business, capital investment, total employees and age of business, agreed that overall competitive advantages and success in operation are not different. As many SMEs in Northern Thailand are unable to create competitive advantages in their organization because their businesses are managed independently. Most of SMEs' funding is personal cash since there is no way to get funding and loans from financial institutions. They also lack of experience in management because most of products and services meet only local or domestic market which lead entrepreneurs toward lack of skill in marketing, especially international market and this cause small enterprises in Northern Thailand face inefficiency to manage. Therefore, SMEs in Northern Thailand need to increase efficiency and effectiveness in term of management of competitive advantages for operation's success. This finding is related and supported previous finding as proposed by Bureetho (2005) who stated that efficient management requires operation target to achieve cost saving, efficiently use of existing resources to increase capability in competition of the organization. Additionally, it is agreed with concept of Gendron et al. (2000) who mentioned that business needs to consider how to

approach company industry, understand the competitors and location of the competition. To create competitive advantages, it can be done by general competition strategy which is overall costs leadership, differentiation and focus. It must be considered each factor to success of each strategy before applying these strategies.

Impact and relationship between competitive advantages and success in operation of SMEs in Northern Thailand are in positive impact and success in operation 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 competitive advantages in market focus. The principle is that SMEs should respond the need of specific target group rather than all customers as proposed by Chouchinprakarn (2003). 2) Quick response, financial perspective, customer perspective, internal process perspective and learning and growth perspective. To operate business nowadays it is more complicated and more aggressive in competition. Thus, to be success in business operation, the business needs adaptation and continues learning and develops to match the changing of economic environment, especially, to respond the needs of customers in different ways by focus on customer needs and feedback to ensure customer satisfaction and impression. These factors will bring good image and success of organization which corresponding to concept of Porter (2008) who strongly suggested 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 competitive advantages in operating business by aims to get most cost effective to achieve cost advantages. This strategy uses the cost when compare with competitors but may not the least cost. To achieve cost leadership, executives are required to maintain nature of products and services that customer need as Anansainon (2004) asserted that organization can create competitive advantages by focus on creating Economic 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 cost saving in production. Main concept of Economic of Scope is focusing on production in large quantity to keep cost per unit down. And 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 or services, create brand loyalty on customers, reduce amount of product that buyer selected and reduce feeling towards price, all these mention strategies will help the business to gain higher profit without lower the cost down. This is corresponding to the concept of Chouchinprakarn (2003) which stated that to create differentiation on product or service is to be unique from other competitors in the same industry. For example, make different in term of form of products, brand image, technology use to provide service to customer or dealer network and etc. To create differentiation, it can be one or many different. From mentioned differentiation, it will result 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 Gunasegaram (1999) have proposed a conceptual model of business operation as the territory of business is divided into 3 issues, Firstly, the acceptant of the discovery of the needs or desires of customers, if lack of this, then business also lack of demand from customers. Secondly, if there is no possibility study of production capacity, then business with lack of some important skills. And lastly it is the lack of appropriate comparison on competitive advantage which can lose in the competition.

The results of in-depth interviews with key opinion leaders found that small and medium enterprises in Northern Thailand should create strength in generate sustainable economic growth and competitive advantages by starting from developing innovation and new products to get competitive advantages in business and should be promoted by government organizations and other funding groups both local and national to help SMEs. This is corresponding to the concept of Porter (1980, 1998, 2005, 2008) who asserted that competitive advantages being used in businesses perspective nowadays by connecting competitive advantages with marketing concept. The important marketing concept is to create the competitive advantages in general which are cost leadership, differentiation, and focusing which come from modern management which are general management, marketing management, financial

management and manufacturing or service management (Øystein, et al., 2007). Strategic management of small and medium enterprises is very important to create competitive advantages in the competitive as an important key of business of developing countries to survive in this globalization. Entrepreneurs and owners of small and medium enterprises should notice the importance of business operation which focuses on important to business success base on 4 perspectives which are financial perspective, customer perspective, internal process perspective and learning and growth perspective. This finding supported BSC concept of Kaplan and Norton (1993, 1996, 2000, 2001, 2004, 2006) who Stated that BSC is an important tool for SMEs management to competitive advantages and critical success factors of SMEs in terms of operations both inside and outside of firms.

Conclusion

The management of competitive advantages is important on success of operation of small and medium enterprises in Northern Thailand. Each business of small and medium enterprises in Northern Thailand has to try to develop the innovation and new products base on customer needs and also understands the competitors. The competitive position in competitive advantages by evaluating business performance is very important thing that can help SMEs in Northern Thailand to know their situation and know their problem and solution. Management of competitive advantages of SMEs in Northern Thailand should focus on 3 aspects which are overall cost leadership, differentiation, and market focus.

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