

Chapter 1

Introduction

Nowadays small and medium enterprises (SMEs) are recognized and heralded as economic engine of growth in most countries. But despite their significance to the country's economic viability, in reality SMEs are constantly facing a stream of challenging problems on how to keep their businesses competitive and sustainable. They are unwillingly caught in the battle that only the strong ones will survive. Such challenges happen in every country around the world, not just in Thailand. Everywhere, SMEs all faced similar problems: handicapped – lacking opportunity, access to appropriate funding, good managerial understanding and skills. They have to strive to have modern technology or to gain market access. Although substantial resources continually are being provided to support the existence of business enterprises, the survival rate of SMEs has shown to be on the low side. Though, when compared to previous days, new enterprise number has, to date, increased substantially, however its failure rate is still alarmingly high because of intense business competition, causing an unending threat to SMEs' sustainability.

The situation of enterprises in Thailand can be recognized from Figure 1, in which the number of new and dissolved enterprises is shown.

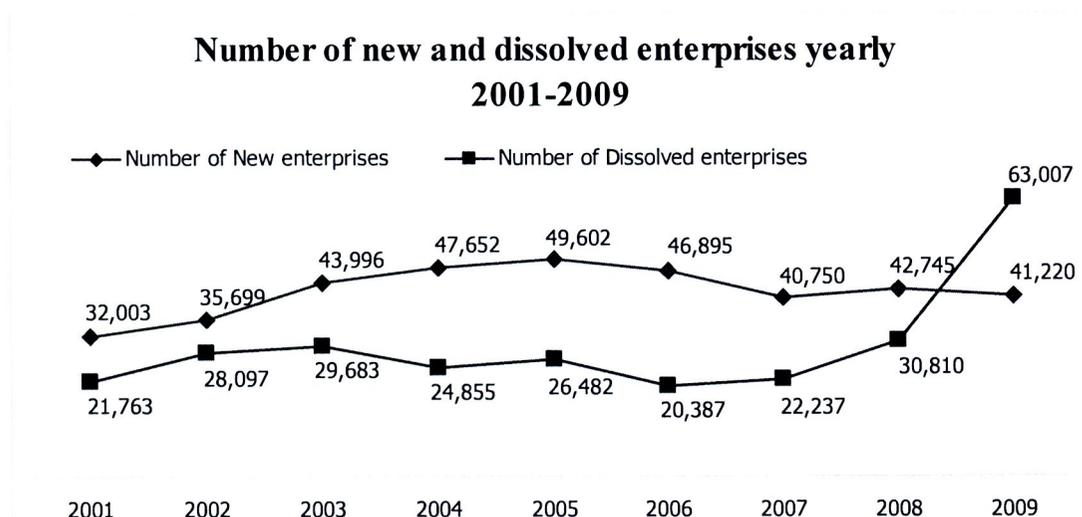


Figure 1.1: No. of new and dissolved enterprises in Thailand from 2001 to 2009

According to the white paper (Office of SMEs Promotion, 2010), the number of new enterprises registered with Ministry of Commerce, Thailand declined to 41,220 or 3.6 % down from those in previous year. The mentioned figure comprises the sectors as follows: the largest sectors are wholesale and retails, automobile maintenance, motorcycle, personal and household sector (35.2 %); the second largest are property services and business services (21.8 %). The dissolved enterprises increased to 63,007 or 104.5% increase when compared with previous year. The dissolved figure comprises the sectors as follows: the largest sectors are wholesale and retails, motorcycle, personal and household sector (31.7%); the second largest are property and business services (15.6 %). It is noted that 99.8% of all enterprises in Thailand are SMEs.

About 93 percent of business in Thailand offer products or services already known by customers. This profile is not unusual (Hunt & Virasa, 2008). The GEM 2007 Thailand Report conducted by Mahidol University, shows that the majority both early stage entrepreneurs and established business owners consider fewer than 20 percent their products or services to be new or unfamiliar to their customers. A corollary of this is that vast majority of enterprises (both new and established) offer products or services that their customers already know. A constraining factor is that the prevalence of Thai SME entrepreneurs to enter markets already well-populated

with competitors. Approximately 90 percent of Thai SME entrepreneurs choose to operate their businesses in markets with many competitors (Hunt & Virasa, 2008). Such a fact indicates that the market shares of the existing and new coming SMEs are threatened.

The latest development of the industrial and organizational theory by Porter, (Porter, 1979) explains how the profit potential of companies within a particular industry depends on the five market forces: bargaining power of buyers, bargaining power of suppliers, threat of new entrants, threat of substitute products, and rivalry among competitors. Based on Porter's five forces model, a firm requires competitive strategy which focuses on the way the company can achieve the most advantageous position that it possibly can in its industry. Firms that identify potentially valuable opportunities but are unable to exploit them to develop competitive advantage will not create value for their customers or wealth for their owners. Firms that build competitive advantages but lose their ability to identify valuable entrepreneurial opportunities are unlikely to sustain those advantages over time. Therefore, all firms, new and established, must engage in both opportunity-seeking and advantage-seeking behaviors (Duane et al., 2003). To effectively manage both opportunity-seeking and advantage-seeking behaviors, firms require differentiation strategy to offer new products or services in order to survive in the long-run. Companies can earn above average returns by offering differentiated products or services at a premium price known as a differentiation strategy.

The Porter's competitive advantage on "Differentiation Strategy" can be described as follows: Achieving of differentiation means that a firm seeks to be unique in its industry along some dimensions that are widely appreciated by buyers. Areas of differentiation can be product, distribution, sales, marketing, services, image etc. Differentiation is a strategy that a firm can use to gain competitive edge. Firms that employ a differentiation strategy differentiate themselves from the competitors by doing things differently or by portraying themselves as being different from competition. Differentiation can be achieved by providing products and services that customer perceive to be of high quality or by adding features that add value to

customers that the customers are willing to pay a premium price for. Differentiators earn or charge premium prices because they leverage their differences with competitors.

According to Porter, the differentiation strategy is very unique in gaining competitive advantage. This is largely due to the fact that in the long term for an organization to be successful in its business. It does not need to be just better than its competitors but it should be different from its competition. In the long run a company needs to create its position in the customers' minds and hearts. The company can select differentiation focus or integrated cost and differentiation to manipulate these five forces in their favor (Porter, 1979). The terms differentiation and cost thus imply the notion of creativity and commercialization, which is known nowadays as innovation. .

It is interesting that the innovation notion which is implied by Porter as a key to the competitive advantage is not restricted by firm size. This postulation implies that the innovation is a viable means for SMEs as well. The idea of innovation, SMEs, and knowledge management has drawn attentions to academia for some time (Khuprasert, et al., 2008). However, there is no single work that explains the practice of generating innovation, especially, in SME. Under numerous constraint conditions upon SMEs, the innovation generation in terms of best practices is thus more crucial than the theorem or principles that are intangible. Since the intangible innovation generation have been carried out by entrepreneurs without explicit or written principles, it is beneficial to elicit such abstract knowledge from those successful entrepreneurs so that the elicited knowledge can be used by the others.

This dissertation applies a knowledge engineering methodology, namely Common Knowledge Acquisition and Documentation Structuring (CommonKADS) (G.Schrieber et al, 2000) from which the intangible innovation generation can be concretely obtained in terms of model, more specifically knowledge map. The innovation generation model thus forms practical guidelines for the interesting SMEs who want to bring about the innovation under numerous constraints. The present

work thus makes the generation of innovation readily. The innovation generation model in terms of knowledge map shows high potential in terms of applicability and realization.

The dissertation is structured as follows: Chapter 2 reviews on SME background. The proposed methodology is explained in Chapter 3. The procedure of acquiring the innovation generation model is described in Chapter 4. Finally, the discussion, conclusion, future works are addressed in Chapter 5.