

# The Development of Causal Model of the Competitive Advantage that Affects the Performance of SMEs in Three Province, Thailand

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## Abstract

This study aims to (1) study the causal relationship of competitive advantage, and (2) the relationship between the competitive advantage and performance. The population in this study were the small and medium enterprise in Buriram, Surin and Sisaket province. The representative sample for this research was a small and medium enterprise totaling 400 subjects which were selected by multi-stage sampling method. Data was collected by questionnaires distributed during April-June 2016 and 400 questionnaires were returned or being equal to the response rate 100%. Data was analyzed by Structural Equation Modeling: SEM. Findings from the research suggested that: (1) Factors directly influencing the competitive advantage consisted of intellectual capital, innovation, and dynamic capabilities, and (2) competitive advantage showed direct positive influence on performance.

**Keywords:** Competitive advantage, Performance

## Introduction

The competitive advantage was the unique characteristic that the competitors cannot imitate or it takes some periods of time to make a good understanding of our true performance such as, innovative imitation, the game or internal administration or what one organization can do better than others (Tuan & Yoshi, 2010). The basic factor to gain an advantage is knowledge which is gained from the company staff's experience and competency and then they developed into intellectual capital. The organization would find the way to draw the true ability from its staff to improve products or service to be outstanding and different or integrate all knowledge in the field to develop innovations for its own. This made the organization notable because of the new things they have created (Weerawardena & Mavondo, 2011). Besides, the innovation must have been continuously initiated because of the changeable situation (Hurley & Hult, 1998). The innovation is dynamics capabilities (Weerawardena & Mavondo, 2011). The advantage may have come from the asset or the resources the organization has (De Lara & Neves Guimaraes, 2014).

This study was conducted based on RBV (Resource-based View) to investigate the cause of competitive advantage and the overall operation. Resource-based View was the key to develop competitive advantage (Safarzadeh et al., 2015) from an organization's factors and verify academic theory of competitive advantage from many professionals in the field, and the implementation of organizational resources and abilities (Glavas & Mish, 2015) to understand the key factors of competitive advantage which consisted of (1) knowledge which was considered as the key factor of competitive advantage (Kamukama et al., 2011).

It was related to many studies indicating that knowledge was critical to develop competitive advantage such as the study from Khalique & Hassan (2014), Papula & Volna (2014), Khalique et al. (2013), Jardon & Martos (2012) and Martin-de-Castro et al. (2011) etc. The knowledge is how to apply wisdom to value products and service so it is critical to economy (Kattiya & Suvajittanon, 2012). It was also important to make good business benefits. The organization needed to apply knowledge to create innovation (Weerawardena & Mavondo, 2011). It was particularly important for SMSs to lead to them to success (Khalique & Hassan, 2014). The idea accorded with Jardon & Martos (2012) stating that the knowledge is crucial for SMEs and it made them able to survive under the competitive situation (Kattiya & Suvajittanon, 2012).

The knowledge was the most important for common business and SMEs and it enhanced the performance of the SMEs owners. (2) The innovation enhanced the organization's ability to survive under the rapid changeable situations (Martin-de-Castro et al., 2011., Klimas, 2014) and it was the major factor for success especially, SMEs (Raymond & St-Pierre, 2010., Aini et al., 2013). It influenced the operation. The organization needed to create innovation to deal with the inconstant situations (Klimas, 2014). The innovation was also the major factor for competitive advantage (Yasin et al., 2014). This accorded with De Lara & Guimaraes (2014) that the competitive advantage influence came from the innovation. Apart from that Kamboj Rahman (2014) stated that the innovation has a big impact on competitive advantage (3). Dynamic Capacities were critical to competitive advantage (Corte & Gaudio, 2012). They are related to many of the studies. They were presented as a new idea and the foundation of competitive advantage (Teece, 2009). It completed RBV that it only aimed to control the resource but not to find the new ones or to extend its further capabilities.

Dynamic capacities are the tool for purposely applying the resources (Corte & Gaudio, 2012) by connecting the organization capabilities, applying the capabilities between internal and external (Teece, 2014) to accompany with the change of the environment, seeking the chance and combining the resources and knowledge to exceed the limit of new capabilities (Corte & Gaudio, 2012). It would affect the value of the organization and can lead to competitive advantage and supply the product or service for the customer better than the competitor (Li & Liu, 2014). They make the organization survive and grow (Capron & Mitchell, 2009).

In terms of competitive advantage with performance, the literature review found that competitive advantage was correlated with business performance (Wang, 2014) because the competitive advantage was the basis of higher operating performance (Rose et al., 2010). If the business had a comparatively low competitive advantage, the performance will decline. That showed the relationship between the competitive advantage and the performance of a business. In addition, performance was also concerned with the quality of sustainable competition (Su et al., 2014). So this research focused on developing a causal relationship model of competitive advantage that affected the operation of a business. This would enable us to understand the factors that affected the competitive advantage by having good performance of SMEs in Thailand. This would lead to the creation of value for the enterprise allowing enterprises to compete and survive under current circumstances and it could be applied to other business groups.

### **Objectives**

1. A study of the causal relationship of competitive advantage.
2. The relationship between the competitive advantage and performance.

### **Methodology**

#### **The subject of the study**

This study was quantitative research that provides broad, empirical data that can be applied to all areas to check with the theoretical framework set forth by the researcher based on the principles, concepts and theories to get the findings on key issues. The researcher collected data using a questionnaire with business owners, managers, supervisors or related employees of SMEs in Buriram, Surin and Sisaket, Thailand, in 2014 from 128,516 sites (Office of Small and Medium Enterprises Promotion, 2016). We determined sample sizes that are suitable for data analysis with the LISREL program by using the Structural Equation Modeling (SEM) statistical technique. The sample size must have been 20-10 for each variable in the research (Angsuchote et al., 2015).

In this research, the researcher had variable observations in 16 models. So the sample size was appropriate and sufficient and it should have 320 (20 x 16). In addition, collecting data by mailing and meeting questionnaire at the establishment. In order to get the proportion of questionnaires responded to, the researcher collected 400 samples. Therefore, the sample size used in this study was 400. The researcher used multistage random sampling method because the population in the study was large. It was important to select the sample of the largest size. Then we selected sub-sample to the minor level and did this to the desired level (Kattiya & Suvajittanon, 2012). The population was divided into sub-groups in sequence.

### **The tools of research**

The questionnaire can be divided into 6 parts: 1) general information of respondents 2) intellectual capital 3) innovation 4) dynamic capabilities 5) the competitive advantage and 6) the performance. The creation of research tools; The researcher studied the related theoretical and literary concepts to define the operational definition and structure of the variables the researcher wanted to study. The researcher then created a questionnaire based on the operational definition that the development of the instrumentation and the questionnaire has been created to fit the research. And the researcher brought the questions that were developed to the experts to examine the content validity of the questions from the study of related theoretical and literary concepts, both domestic and foreign literature.

When the expert examined the content of the questionnaire. The researcher modified the questionnaire to produce a draft questionnaire. After that, the researcher took the questionnaire to test validity by using the questionnaire developed by the researcher for 5 experts to find the index of correspondence between the question and the objective (Index of Item Objective Congruence: IOC). The content validity of the questionnaire was 98.0, which was considered in the criteria ( $IOC > 0.50$ ) (Kanjawasee, 2012).

This shows that all questions in the questionnaire matched the questionnaire with the characteristics of the research objectives to be measured, content validity and suitability and cover the content that the researcher wanted to study. It could be used to collect data. The reliability of the questionnaire was tested by 30 participants. This is not a research sample. The reliability of the questionnaire was 0.973. The reliability of the questionnaire and questionnaire with the  $\alpha$  value of 0.70 and above was considered to be the confidence question (Kattiya & Suvajittanon, 2012).

### **Statistics used in data analysis.**

The researcher has conducted statistical analysis that is appropriate and consistent with statistical data to meet the purpose of the research set. The statistics used to analyze the data are four parts.

**Part 1** Descriptive statistics used to describe the attributes or properties of the distribution of variables. According to the characteristics of the group, percentage, mean, and standard deviation were used to determine the basic statistics of the observed variables.

**Part 2** Statistical analysis of Relationship between variables for the analysis of relationships between variables: Pearson's Product Moment Correlation Coefficient (Pearson's Product Moment Correlation Coefficient was linear. We can identify the direction of the relationship. (positive or negative) and the size of the relationship is at what level to serve as a basis for analyzing causal factors and effects of dynamic capabilities of small and medium enterprises (Kattiya & Suvajittanon, 2012).

**Part 3** Statistical analysis of latent variables and mean values of variance were extracted. The researcher considered the reliability of the Construct Reliability ( $\rho_c$ ) and the Average Variance Extracted ( $\rho_v$ ) by using the formula (Diamantopoulos & Siguaw, 2000).

**Part 4** Statistical analysis of structural equation models: The researchers used the analysis of structural equation modeling (SEM) to examine the harmony of the model with the empirical data (Model Fit). Appearance (Model of Fit). The index was used to check the fit of the model (Measurement Model) with the empirical data (Angsuchote et al., 2015).

## Result

The findings indicated that researchers divided the topic into five parts, with the details as follows.

1. General information of the respondents; Most respondents were male. 52.80% of them were 61 or over, 40% of them had experience of working 16 years or over, representing 37%. 34% of businesses had registered capital of not more than 1,000,000 baht. It was 40.30%. It had been in operation since the establishment of the business for 5 - 9 years, accounting for 22.80%. The number of employees was between 21-40 persons or 28.20%.
2. Average Data of Variables; intellectual Capital, innovation, dynamic capabilities, competitive advantage and performance.

2.1 Intellectual Capabilities; The respondents' level of opinion on intellectual capital was at a high level. When considering each aspect, it was found that the relationship capital. The highest level of opinion was the human capital. And structural capital, respectively.

2.2 Innovation; The respondents' level of opinion about innovation was moderate. When considering each aspect, it was found that corporate innovation was at the highest level of opinion followed by marketing innovation. Product innovation and the innovation side of the process, respectively.

2.3 Dynamic Capabilities; The respondents had a high level of feedback on overall dynamic performance. When considering each side, it found that the ability to find opportunities. The highest level of feedback was the ability to modify resources. And the ability to seize the opportunity, respectively.

2.4 Competitive Advantage; The respondents had a high level of opinions on overall competitive advantage. When considering each aspect, it was found that the cost side had the highest opinion level, followed by the flexibility. And quality aspects respectively.

2.5 Performance; The respondents had a very high level of feedback on overall performance. When considering each aspect, it was found that the strategy had the highest level of opinion, followed by finance and marketing, respectively.

3. From the results of the research model consistency check with empirical data, the first model analysis showed that the harmonic index was not consistent with the empirical data. or did not meet the criteria set. Some important stats didn't meet the criteria set. The researcher then proceeded to modify the model by adjusting the parameters by agreeing to relax the initial agreement for the relative error.

For Analytical results, after the model was modified, the model was found to be in harmony with the empirical data, with the six harmony indexes that met the acceptance criteria. The index values  $\chi^2 / df = 0.276$ , CFI = 0.999, GFI = 0.99, AGFI = 0.97, RMSEA = 0.000 and SRMR = 0.000. In harmony with the empirical data.

#### 4. Route Analysis Results

4.1 Intellectual Capital (INT) had a direct positive influence on the competitive advantage of the business (COM) with a direct magnitude of 0.46 which was statistically significant at .05 level.

4.2 Innovation (INN) had a direct positive influence on the competitive advantage of the business (COM), with a direct magnitude of 0.4 which was statistically significant at .05 level.

4.3 Dynamic Capabilities (DYN) had a direct positive influence on the competitive advantage of the business (COM), with a direct magnitude of 0.65 which was statistically significant at .01 level.

4.4 The competitive advantage of the business (COM) has a direct positive influence on the performance (PER) with a direct magnitude of 0.67, which was statistically significant at .01 level.

4.5 INT (INN) and dynamic capabilities (DYN) had a positive indirect influence on performance (PER) through competitive advantage (COM). The mean was 0.38, 0.60 and 0.57, respectively, which was statistically significant at .05 level.

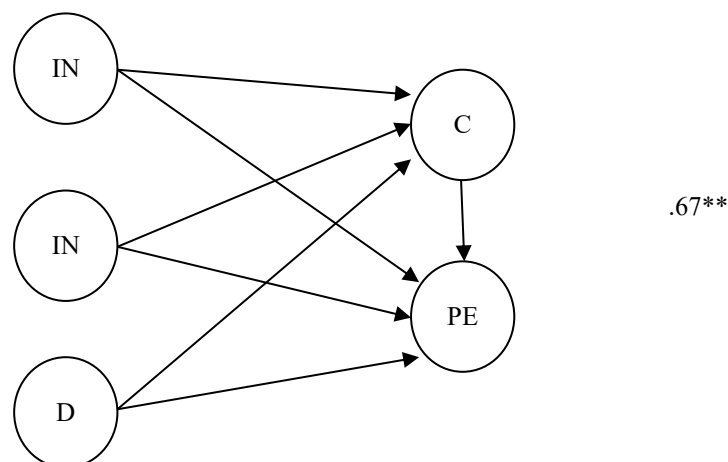


Figure. 1 Hypothesis Results

## Conclusion

The results showed that intellectual capital, innovation and dynamic capabilities influenced on competitive advantage and the competitive advantage influences the performance. At the .01 level, the results of the research were in line with the two objectives. The results were as follows.

1) Intellectual capital had a direct influence on the competitive advantage. This was because the organization had created intellectual capital for employees by having staff solve the problem of systematic work. This allowed employees to experiment with new ways used in the operation of the organization. By learning from past experiences of the best, the best way was to learn from what went wrong. The researcher could distinguish what was wrong and make no mistake.

Then the staff identified the best way, both from their own and learning from others. When employees can think of new ways to do so, they needed to transfer that knowledge to people in the organization and adhere to the same guideline for effective implementation (Guthrie, 2001). Creating a successful intellectual capital must have been systematic. And it can transfer that knowledge to other people effectively. It would add value to the organization. In addition, the creation of intellectual capital also required the knowledge of the individual by using of tools to build intellectual capital to individuals and organizations and motivated employees to curiosity. It helped to motivate employees to work well.

2) Innovation had direct influence on competitive advantage. This innovation was a result of the creativity of the employees in the organization and must have been always targeted at the customer and value was added to the organization. Innovation was based on the knowledge, skills and experience of the individual. So it can be said. Human beings are an irreplaceable element in the innovation process (Molina-Morales et al., 2011). People who innovated could help organizations benefit from competition that was different from their competitors. This could be a competitive advantage over a short period of time. But it would be a long-term basis to create a competitive advantage. These capabilities could be person-level or enterprise-level capabilities.

3) Dynamic capabilities had direct influence on competitive advantage. This may be due to the fact that the organization is faced with situations such as competitive equality. It results from the utilization of resources and capabilities that were cost-effective. This created a temporary competitive advantage. The sustainable advantage depended on the resources or capabilities whether an organization had in place and competitors easily mimic our capabilities. However, sustainable competitive advantage may have not lasted forever.



Due to unexpected economic changes in the industrial structure (such as the arrival of a new competitor), the value of resources and / or capabilities may have been reduced and reduced the ability as a source of competitive advantage (Leonidou et al., 2013).

It was an organization that could improve performance in ways that competitors couldn't compete (Newbert, 2008). It reflected the economic value generated by the resources and capabilities of the organization. The rapid development of the current market made the organization more effective (Prunea, 2014). As new traders continue to enter the market. The competition in the market has increased (Prunea, 2014). Due to increased competition, the organization had to increase its efforts to cope with market competition (Grant, 2010). The key factor in creating a competitive advantage was the knowledge that the organization generated through the learning experience of the people in the organization.

To develop an organization's products or services to be unique or to bring knowledge. Innovation for the organization. This would make what the organization did was different from the competition (Weerawardena & Mavondo, 2011). The advantage may have been due to some asset or resource that an organization has. There is no other organization (De Lara & Neves Guimaraes, 2014), which is consistent with Schilke (2014) research that explores the value of dynamic capabilities for competitive advantage. The study indicated that dynamic capabilities could help a company's competitive advantage. The correlation between dynamic competency and competitive advantage was moderately correlated in line with Li & Liu's research on dynamic capabilities.

According to environmental dynamics and competitive advantage case study from China, the study indicated that dynamic capabilities were one of the keys to finding competitive advantage in strategic management. This was consistent with Cui & Jiao (2011)'s research on dynamic capabilities. Stakeholder alliance strategy and a sustainable competitive advantage. The results showed that dynamic capabilities were in opportunity search. The ability to restructure and adaptability to technology had a significant impact on the competitive advantage which was similar to Wu (2010).

According to application of resource base and fluency in the market fluctuations, the study indicated that dynamic capabilities had a positive relationship to the company's competitive advantage.

4) Competitive advantage had direct influence on performance. This may have been due to the fact that when the organization has a competitive advantage, it will lead to higher performance (Rose et al., 2010). The same work down (Camona-Moreno et al., 2004). The higher performance is driven by the competitive advantage of the company, which is of value. Kam et al. (2010), Kamukama et al. (2011) investigated the mediating competency between intellectual capital and performance.



The purpose of the study was to examine the impact of intermediaries on the competitive advantage of intellectual capital and the performance of small financial institutions in Uganda. In addition, the results confirmed the relationship between intermediaries between intellectual capital and competitive advantage and financial performance.

The research found that Competitive advantage was an important mediator of the relationship between intellectual capital and financial operations and they helped promote the relationship between the two variables, accounted for 22.4 percent of the small financial institutions in Uganda. In addition, the results confirmed the relationship between intermediaries between intellectual capital and competitive advantage and financial performance.

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