

A Causal Relationship Model of Factors Influencing the Performance of Small and Medium Enterprises in Thailand

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Abstract

The objectives of this research were to 1) study innovative organization, competitive advantage, entrepreneurship, and performance of small and medium enterprises (SMEs) in Thailand; 2) investigate the influence of entrepreneurship, innovative organization, and competitive advantage on the performance of small and medium enterprises (SMEs) in Thailand. The sample in this study was 384 SMEs in Thailand, which was determined according to Krejcie and Morgan's criteria at 95% confidence and 5% error and selected by stratified and purposive random sampling. The instrument for collecting data was a questionnaire with a reliability of .834. Data were analyzed using frequency, percentage, mean, standard deviation, Pearson's product-moment correlation, and structural equation modeling (SEM) to test hypotheses. The research result showed that 1) the average of entrepreneurship, innovative organization, competitive advantage, and performance of SMEs as a whole and each aspect is at a high level; 2) the proposed model adequately explained the empirical data with fit indices including $\chi^2 = 267.004$, $df = 92$, $p = .000$, $\chi^2/df = 2.902$, $GFI = .933$, and $RMSEA = 0.075$. The influence of the variables in the model was as follows:

1. Entrepreneurship had a direct, positive influence on an innovative organization and competitive advantage and an indirect, positive influence on competitive advantage and performance.
2. Innovation organization had a direct, positive influence on competitive advantage and performance and an indirect, positive influence on performance.
3. Competitive advantage had a direct, positive influence on performance.

It also showed that entrepreneurship, innovative organization, and competitive advantage could jointly predict 64% of SMEs' performance. The findings can be used as a guideline to create growth and competitiveness of SMEs.

Keywords: Entrepreneurship; Innovative Organization; Competitive Advantage; Performance, Small and Medium Enterprises

Introduction

Nowadays, the rapid changes in technology have resulted in a world without borders. The emergence of new business models in the digital economy has resulted in businesses adapting to intense competition. Therefore, businesses need to innovate to create new products and services in response to customer satisfaction and ever-changing lifestyles by creating value-added to organizations, products, including optimization of operations and production that help organizations reduce production costs, which is to create competitive advantages in both national and global markets (Soltani, 2012; Laundry, 2006). However, innovation is a new issue for SMEs in Thailand, and they still do not know much about turning their business into an innovative business. (Thienput, 2007). Therefore, creating a business organization as an innovative organization or an organization that uses technology is very important for developing SMEs. Because if a business cannot develop and transform itself with something new, it will be challenging to make it successful in the long run (Wang, 2015).

SMEs are a group of Thai business entrepreneurs that largest and play an essential role in the economy and have employment no less than large businesses. However, According to a survey of Thai S.M.E.s under the Global Entrepreneurship Monitor (G.E.M.) 2020 project, more than 80% of their sell products or provide services with old ways already in the market, only a minority offer unprecedented or innovative products and services. More than half of them use technology or processes older than five years. They are still unaware of the importance of innovation in helping businesses stay competitive in the long run, some that have some awareness and interest but lack investment capital and knowledge. Including a problem that the government is unable to create a mechanism that enables various research and development conducted by government research agencies, or educational institutions are used to support, or extend commercial development, or solve problems for SMEs as effectively as they should (Office of Small and Medium Enterprises Promotion, 2020).

Although in the past ten years, the government has placed great emphasis on promoting the development of SMEs in various fields, such as providing huge budgets and amending laws and regulations to facilitate SMEs' business operations, but at present, mainly of SMEs still face the following problems: 1) Funding problems—most of them low capital, banks do not accept credit due to the lack of collateral and no previous credible work, therefore, do not have enough capital to expand their production capacity and cannot purchase modern machinery and equipment to improve production efficiency and product quality; 2) Marketing problems – problems with manufactured products that are not in demand in the market and the quality are not up to standard, unattractive packaging, unrecognizable brand, lack of personnel who specializes in sales and marketing, as well as could not find a good store location; 3) Management problems – most of them do not have professional in terms of management and production, lack of knowledge and competence in modern business administration, lack of skills in dealing with business at the International level, and ignorance of the rapidly changing world situation makes business operations inefficient, unable to expand trading markets or investments. These reasons lead to the inability to compete in the end (Leelawattananan, 2021).

From the reasons mentioned above, in examining some factors that may correlate and affect SMEs' performance. The research aimed to study entrepreneurship, innovative organization, competitive advantage, and its influence on the performance of SMEs in Thailand. The findings will be used as a guideline to develop the potential of SMEs to grow and compete to strengthen the business, which will affect the growth of the country's overall economy.

Research Objectives

1. To study entrepreneurship, innovative organization, competitive advantage, and performance of small and medium enterprises (SMEs) in Thailand.
2. To investigate the influence of entrepreneurship, innovative organization, and competitive advantage on the performance of small and medium enterprises (SMEs) in Thailand.

Literature Review

The researcher conducted a literature review to study concepts, theories, and research related to variables in a conceptual research framework: entrepreneurship, innovation organization,

competitive advantage, and performance, to be considered to determine hypotheses consistent with research objectives; details are as follows:

1. Entrepreneurship – is the focus of doing business by recognizing risks and leveraging innovation to overcome competitors proactively. It is a strategy that is used to create value for businesses by using internal resources to help organizations survive and achieve the goals that lead to businesses' success (Abiodun, 2016; Ismail, 2016). A successful business operation requires entrepreneurs with entrepreneurship to develop the production processes of products and services that meet customer needs under risk situations (Frese, 2000; Panyindee, 2015). Therefore, an entrepreneurship focus is crucial for company growth and profitability (Zainol, 2011). Lumpkin and Dess (1996) determined that entrepreneurship components were 1) independence, 2) risk-taking, 3) proactive action, 4) competitive aggressiveness, and 5) passion for success. These features were assigned as indicators that are components of entrepreneurship in this study.

2. Innovative Organization – innovation is the application of new ideas in product development, production processes, services, marketing, and organizational management by using technology to develop products and services to be modern. (Soltani, 2012). Laundry (2006) states that organizational innovation is the act of doing something different from what exists or has been operating in order to develop and improve production processes and operations. The success factor in becoming an innovative organization is the vision of an entrepreneur who is open to change and focuses on evaluating their personnel's performance. To encourage SMEs to become more innovative, it should focus on developing innovative entrepreneurial characteristics and creating a suitable and conducive organizational atmosphere for new idea creation in building innovation to improve products, services, and processes to better and meet customer needs to create a competitive advantage and profitability (Chutiwong et al., 2011; Wang, 2015). Holder and Matter (2008) propose the elements of an innovative organization as follows: 1) human resource management, 2) organizational structure, 3) organizational strategy and vision, 4) organizational culture, 5) information and communication technology, and 6) research and development. These features were assigned as indicators that are components of an innovative organization in this study

3. Competitive Advantage – an organization's ability to run its own business better than others, makes profits higher than that industry's standards, and create value for its organization more than competitors by creating differentiation of products, focusing on a specific market segment, focusing on distribution channels (Chatriwisit et al., 2010; Fuller, 2004; Hamel and

Prahalad, 1993). Therefore, a successful business must find new strategies to implement in operations and improve work quality to create a competitive advantage to increase its ability to reach its target that is difficult or impossible to replicate by competitors (Robbins, 2005). Porter (2005) states that the competitive advantage would come from 3 main strategies: 1) Cost Leadership strategy—increasing sales prices and reducing sales cost. 2) Differentiation strategies—it is to create the value of products and services that brings differentiation from competitors to meet customers' needs. 3) Focus Strategy—a strategy that the organization chooses to suit the market's needs by differences in product form, color, quality, and expectations. Fehr & Falk (1999) state that organizations will find competitive advantages by using six strategies: 1) the advantage of being the first market entrant; 2) the advantage of offering a product or service that stands out from the competition; 3) the advantage of building a value chain or business system; 4) resource advantage. 5) partnership advantage; 6) production cost-saving advantage. Five features were assigned as indicators that are components of the competitive advantage in this study as follows: 1) having low costs, 2) differentiating customers' perceptions, 3) marketing management, 4) using technology, 5) promoting personnel development.

4. Performance – measuring performance is evaluating performance and operational progress resulting from organizational operations and management that lead to achieving its goals. Businesses incorporate performance metrics into their operations to determine how well they perform and how far from their goals, Are the service recipients or customers satisfied with their services and products? Are their processes still in control and still as efficient and effective as expected? What weaknesses or opportunities do they have to develop? Businesses with good performance must regularly measure all critical activities or processes, especially strategic ones. Traditional business performance measurement systems focus primarily on financial measurements that tell a story about past events, suit the industrial era where investment in production capacity and customer relationships is not the key to success in the technology era (Thienput, 2007). Currently, businesses apply a Balanced Scorecard (BSC) that is the concept of Kaplan & Norton (1996) in their performance measurement, focusing on things that make achieving a balance and reflects the actual performance through the preparation of the organization's strategic plan to create an understanding of the personnel in the organization on how to work towards success and achieve the goals as set (Decharin, 2005). BSC is a tool that allows businesses to recognize the strengths and weaknesses of an entity so that it is used as a timely warning signal to make an organization ready for change. Four perspectives are defined for measuring performance include

1) finance, 2) customer, 3) internal process, and 4) learning and growth. These were assigned as indicators that are components of performance in this study.

Conceptual Framework

The researcher defines the research conceptual framework and hypotheses based on the concepts, theories, and relevant literature. The details are as follows:

1. Entrepreneurship (ENT) is a latent variable that consists of five observed variables, namely, 1) independence (EN1), 2) risk-taking (EN2), 3) proactive action (EN3), 4) competitive aggressiveness (EN4), and 5) passion for success (EN5).

2. Innovative organization (IOR) is a latent variable that consists of six observed variables, namely, 1) human resource management (IO1), 2) organizational structure (IO2), 3) organizational strategy and vision (IO3), 4) organizational culture (IO4), 5) information and communication technology (IO5), and 6) research and development (IO6).

3. Competitive advantage (COM) is a latent variable that consists of five observed variables, namely, 1) having a low cost (CA1); 2) differentiating customers' perceptions (CA2); 3) marketing management (CA3); 4) using technology (CA4); 5) promoting personnel development (CA5).

4. Performance (PER) is a latent variable that consists of five observed variables, namely, 1) finance (PE1), 2) customer (PE2), 3) internal process (PE3), and 4) learning and growth (PE4).

The research conceptual framework and hypotheses as shown in Fig. 1

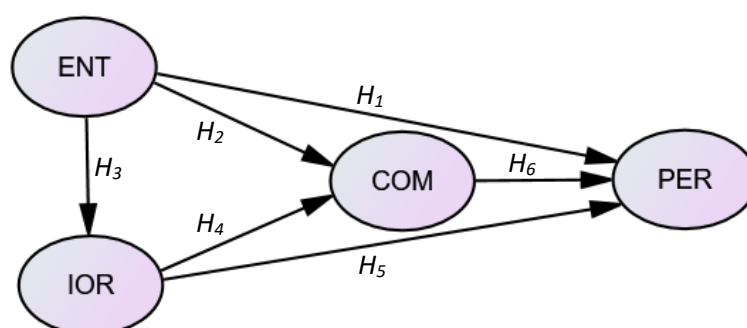


Fig 1 The Conceptual Research framework

H_1 : Entrepreneurship has a direct, positive influence on performance.

H_2 : Entrepreneurship has a direct, positive influence on competitive advantage.

H_3 : Entrepreneurship has a direct, positive influence on an innovative organization.

H_4 : Innovative organization has a direct, positive influence on competitive advantage.

H_5 : Innovative organization has a direct, positive influence on performance.

H_6 : Competitive advantage has a direct, positive influence on performance.

Research Methodology

Population and Sample Selection

This study was quantitative research using questionnaires as an instrument for collecting data. The population was 733,334 SMEs in Thailand registered by the Department of Business Development (Office of Small and Medium Enterprises Promotion, 2020). The sample size was determined using Krejcie and Morgan's (1970) criteria at 95% confidence and 5% error. 384 SMEs were selected by stratified random sampling classified by type of business, i.e., manufacturing, service, retail and wholesale, and agriculture. The samples in each business were determined by the population proportion of SMEs in each region of Thailand, then selected samples by purposive sampling. Three hundred thirty-six respondents gave information for this study.

Instrument and its Quality

The instrument used was a questionnaire created by reviewing the literature from articles, concepts, theories, and research related to variables in a conceptual framework and considering the formulation of questions covering the content according to the research objectives. The questionnaire is divided into five parts as follows: Part 1 questions about the respondents' general information includes gender, age, education level, type of business, business model, period of business operations, registered capital, and amount of employees, consisting of 8 items that are a checklist. Part 2–5 include closed-ended questions with a five-level rating scale about entrepreneurship, innovative organization, competitive advantage, and performance, consisting of 21, 24, 24, and 21 items.

The content validity of the questionnaire was verified by three experts using an index of item objective congruence (IOC) based on Hambleton (1984)'s criteria ($IOC > .60$). The IOC of all questions was higher than .60. Then, the questionnaire was tried out with 30 SMEs that were non-sample to verify the reliability by Cronbach's alpha coefficient (Cronbach, 1970). The reliability of the questionnaire was .834, and the reliability of the questionnaire that was used to

collect the data of entrepreneurship, innovative organization, competitive advantage, and performance was .878, .945, .719, and .889. It showed that all values of the questionnaire's reliability were higher than .70 ($\alpha > .70$), suitable for storing actual data.

Data Collection

The data were collected from a sample in June – July 2021. Their business entrepreneurs or managers were informants. There were 336 respondents whose data were accurate, complete, and can be used for analysis, with a response rate of 87.50. This is consistent with Aaker et al. (2001)'s recommendation that the survey response rate with follow-up processes is acceptable if a response rate is greater than 20%. The response rate of this study was 87.50%, so it was assumed that the sample was sufficient and qualified to represent the entire population.

Statistics and Data Analysis

The data were analyzed according to research objectives and hypotheses using SPSS and AMOS in statistical analysis: 1) frequency and percentage to analyze the general information. 2) mean and the standard deviation to analyze the average of entrepreneurship, innovative organization, competitive advantage, and performance 3) Pearson's product-moment correlation to analyze variables' relationships. 4) structural equation modeling (SEM) to analyze variables' influence and hypotheses testing.

Research Results

The results were summarized as follows:

1. General information of the respondents: Most of 366 respondents were male (188, 56.0%), aged between 31–40 years (112, 33.3%), graduated with bachelor's degree (186, 55.4%). Their businesses mainly were service sector (134, 39.9%) and a limited company (171, 50.9%), a business's period less than or equal to 5 years (128, 38.1%), registered capital less than 20 million baht (240, 71.4%), and employees less than 50 (244, 72.6%).

2. Objective 1: To study entrepreneurship, innovative organization, competitive advantage, and performance of SMEs in Thailand. The results showed that the average of entrepreneurship, innovative organization, competitive advantage, and performance of SMEs as a whole and each aspect is at a high level. The Details are shown in Table 1.

Table 1 Shows the Mean, Standard Deviation, and Result of Entrepreneurship, Innovative Organization, Competitive Advantage, and Performance of SMEs in Thailand.

Variables/Indicators	M	S.D.	Result
Entrepreneurship (ENT)	4.00	.41	high
1) Independence (EN1)	3.96	.57	high
2) Risk-Taking (EN2)	4.09	.43	high
3) Proactive Action (EN2)	3.94	.48	high
4) Competitive Aggressiveness (EN3)	4.06	.66	high
5) Passion for Success (EN4)	3.96	.45	high
Innovative Organization (IOR)	3.80	.66	high
1) Human Resource Management (IO1)	3.97	.45	high
2) Organizational Structure (IO2)	3.98	.63	high
3) Organizational Strategy and vision (IO3)	3.88	.77	high
4) Organizational Culture (IO4)	3.59	.85	high
5) Information and Communication Technology (IO5)	3.52	.90	high
6) Research and Development (IO6)	3.83	.92	high
Competitive Advantage (COM)	3.82	.67	high
1) Having a Low Cost (CA1)	3.97	.63	high
2) Differentiating Customers' Perceptions (CA2)	3.92	.70	high
3) Marketing Management (CA3)	3.70	.78	high
4) Using Technology (CA4)	3.68	.86	high
5) Promoting Personnel Development (CA5)	3.86	.82	high
Performance (PER)	3.72	.79	high
1) Finance (PE1)	3.88	.77	high
2) Customer (PE2)	3.84	.91	high
3) Internal Process (PE3)	3.60	.85	high
4) Learning and Growth (PE4)	3.55	.89	high

3. Objective 2: To investigate the influence of entrepreneurship, innovative organization, and competitive advantage on the performance of SMEs in Thailand. The results showed that the proposed hypothesis model was adequately consistent with the empirical data. The data-model fit indices after model adjusted were as follows: $\chi^2 = 267.004$, $df = 92$, $p\text{-value} = .000$, $\chi^2/df = 2.902$, $GFI = .933$, and $RMSEA = .075$. (Table 2) (Brown & Cudek, 1992; Byrne, 2001; Kline, 2005; Schumacker & Lomax, 2004)

Table 2 Shows the Statistical Values Obtained from the Coherence Analysis of the Proposed Model Compared to the Criteria.

Data-Model Fit Indices	Criteria	Results
1) Relative chi-square: χ^2/df	< 3	2.902
2) Goodness of fit Index: <i>GFI</i>	> .90	.933
3) Comparative Fit Index: <i>CFI</i>	> .90	.982
4) Root mean square error of approximation: <i>RMSEA</i>	.05 – .08	.075

The standardized factor loadings (β) of observed variables were components of the four latent variables: Entrepreneurship (ENT), Innovative organization (IOR), Competitive Advantage (COM), and Performance (PER), as shown in Figure 1 and Table 3.

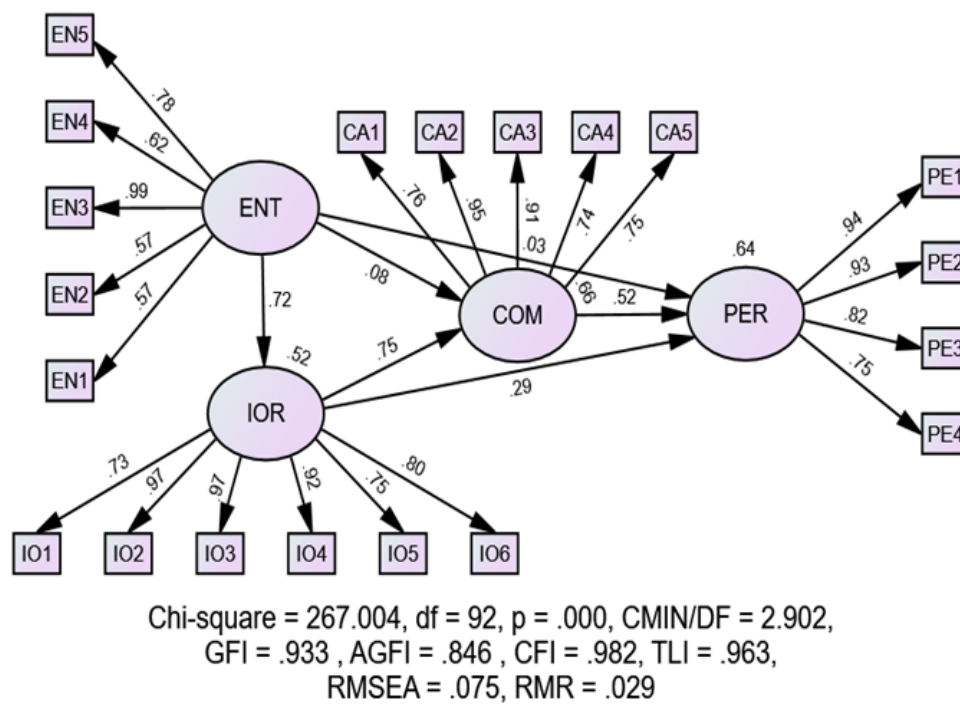


Fig 2 The coherence statistics of the proposed model and the empirical data

Table 3 The Standardized Factor Loadings of Observable Variables were Components of Latent Variables: Entrepreneurship (ENT), Organization of Innovation (IOR), Competitive Advantage (COM) and Performance (PER).

Variables	Std. loadings		<i>t</i>
	<i>b</i> (<i>SE.</i>)	<i>β</i>	
Entrepreneurship (ENT)			
1) Independence (EN1)	.866(.099)	.57**	8.758
2) Risk–Taking (EN2)	.655(.079)	.57**	8.255
3) Proactive Action (EN2)	1.286(.118)	.99**	10.897
4) Competitive Aggressiveness (EN3)	1.115(.121)	.62**	9.226
5) Passion for Success (EN4)	1.000	.78**	Scaling
Innovative Organization (IOR)			
1) Human Resource Management (IO1)	1.000	.73**	Scaling
2) Organizational Structure (IO2)	1.878(.119)	.97**	15.748
3) Organizational Strategy and vision (IO3)	2.222(.119)	.97**	18.681
4) Organizational Culture (IO4)	2.298(.127)	.92**	18.053
5) Information and Communication Technology (IO5)	1.920(.125)	.75**	15.389
6) Research and Development (IO6)	2.220(.137)	.80**	16.165
Competitive Advantage (COM)			
1) Having a Low Cost (CA1)	.766(.046)	.76**	16.727
2) Differentiating Customers’ Perceptions (CA2)	1.074(.045)	.95**	23.729
3) Marketing Management (CA3)	1.132(.043)	.91**	26.357
4) Using Technology (CA4)	.996(.050)	.74**	20.118
5) Promoting Personnel Development (CA5)	1.000	.75**	Scaling
Performance (PER)			
1) Finance (PE1)	1.000	.94**	Scaling
2) Customer (PE2)	1.066(.027)	.93**	39.148
3) Internal Process (PE3)	.988(.041)	.82**	24.015
4) Learning and Growth (PE4)	.927(.031)	.75**	29.446

The influence of variables in the hypothesis model can be summarized as follows:

1) ENT had a direct, positive influence on IOR and COM with path coefficients of .72 ($\beta = .72$, $p < .01$) and .08 ($\beta = .08$, $p < .05$), an indirect, positive influence on COM and PER with a path coefficient of .54 ($\beta = .54$, $p < .01$). 2) IOR had a direct, positive influence on COM and PER with path coefficients of .75 ($\beta = .75$, $p < .01$) and .29 ($\beta = .29$, $p < .01$), and an indirect, positive

influence on PER with a path coefficient of .39 ($\beta = .39$, $p < .01$). 3) COM had a direct, positive influence on PER with a path coefficient of .52 ($\beta = .52$, $p < .01$)

Besides, Data in Fig 2 also shows the ability to predict internal latent variables as follows: 1) R^2 of IOR was .52 ($R^2 = .52$), indicating that ENT could predict 52% of IOR, with a statistical significance of .01 ($p < .01$). 2) R^2 of competitive advantage (COM) was .66 ($R^2 = .66$), indicating that ENT and IOR could jointly predict 66% of COM, with a statistical significance of .01 ($p < .01$). 3) R^2 of business performance (PER) was .64 ($R^2 = .64$), indicating that ENT, IOR, and COM could jointly predict 64% of PER, with a statistical significance of .01 ($p < .01$).

Table 4 Hypothesis Testing Results

Hypotheses	(β)	t-value	S.E.	Summarized
H1: ENT \rightarrow PER	.03	.727	.083	Not supported
H2: ENT \rightarrow COM	.08*	2.046	.066	supported
H3: ENT \rightarrow IOR	.72**	14.020	.046	supported
H4: IOR \rightarrow COM	.75**	11.725	.119	supported
H5: IOR \rightarrow PER	.29**	4.314	.147	supported
H6: COM \rightarrow PER	.52**	8.299	.074	supported

* Statistical Significance of .05 ($p < .05$) ** Statistical Significance of .01 ($p < .01$)

Table 4 shows the results of the hypothesis testing, and it can be summarized as follows:

Hypothesis 1 (H1): ENT has a direct, positive influence on PER. The result showed that the direct influence of ENT on PER was not statistically significant; therefore, the hypothesis was not supported.

Hypothesis 2 (H2): ENT has a direct, positive influence on COM. The result showed that the direct influence of ENT on COM was statistically significant at .05 ($p < .05$), with a path coefficient of .08 ($\beta = .08$) and t -value of 2.046; therefore, the hypothesis was supported.

Hypothesis 3 (H3): ENT has a direct, positive influence on IOR. The result showed that the direct influence of ENT on IOR was statistically significant at .01 ($p < .01$), with a path coefficient of .72 ($\beta = .72$) and t -value of 14.020; therefore, the hypothesis was supported.

Hypothesis 4 (H4): IOR has a direct, positive influence on COM. The result showed that the direct influence of IOR on COM was statistically significant at .01 ($p < .01$), with a path coefficient of .75 ($\beta = .75$) and t-value of 11.725; therefore, the hypothesis was supported.

Hypothesis 5 (H5): IOR has a direct, positive influence on PER. The result showed that the direct influence of IOR on PER was statistically significant at .01 ($p < .01$), with a path coefficient of .29 ($\beta = .29$) and t-value of 4.314; therefore, the hypothesis was supported.

Hypothesis 6 (H6): COM has a direct, positive influence on PER. The result showed that the direct influence of COM on PER was statistically significant at .01 ($p < .01$), with a path coefficient of .52 ($\beta = .52$) and t-value of 8.299; therefore, the hypothesis was supported.

Discussions

The results were discussed as follows:

1. Entrepreneurship: Overall and in each aspect, both five aspects were at a high. It shows that entrepreneurs operate their businesses with entrepreneurship, including independence, risk-taking, proactive action, competitive aggressiveness, and passion for success. They are a person who is knowledgeable and aware of various events and works with determination under the circumstances of business risks. Entrepreneurship influenced innovation organization, competitive advantage, and performance. This is because SMEs' behavior, such as the commitment and attention to the organization's operations, to respond quickly to customers, will lead to superior performance competitors and meet the organization's goals, which leads the organization to survive and achieve the goals of success from operations. In line with the entrepreneurial concept, entrepreneurship focus is vital for company growth and profitability (Zainol, 2011). Companies should focus on entrepreneurship in order to achieve higher efficiency of operations (Ismail, 2016). Entrepreneurship includes giving employees a sense of individuality, aggressive operations, risk-taking, and competitive aggression that, when used effectively, increase business capacity and effectiveness (Asad, 2016). Frese (2000) also mentions the characteristics associated with entrepreneurial success; It consists of 1) individuality, which is the ability and desire to manage one's control of things concerning opportunities for action, decision-making, and action independently, 2) Risk-taking is concerned with avoiding uncertainty, 3) Aggressive competition creates difficulty for competitors to enter the same market. Proactive entrepreneurs will try to stand out to overcome competitors and result in business success (Abiodun, 2016; Kettien, 2013).

2. Innovation Organization: Overall and in each aspect, both five aspects were high and directly and indirectly influenced competitive advantage and performance. This is because implementing innovation (both tangible innovations, i.e., innovations that focus on product innovation, and intangible innovations, which is an innovation that focuses on process innovation) to develop a new management and processes system. Such as technology utilization to develop modern products and services by creating new ideas about products or services to increase the value of products and services and meet the needs and satisfaction of customers. These innovations have changed the working systems in the organization, which is not only a matter of technological change. An organization with the right innovations results in a good performance. This is consistent with Holder & Matter (2008)'s concept of being an innovative organization that proposes elements of innovation as follows: 1) Organizational vision–determining the future direction based on present reality, the organization's top executives must have a clear vision and good communication to demonstrate focus and support for innovation; 2) Organizational culture–innovation requires a guiding operational culture and beliefs that support teamwork, decentralization, and make employees feel safe, independent, and creative, and accept and learn from mistakes; 3) Information system–There should be continuous updates of information by connecting with stakeholders and the environment, and promote a network to exchange information; 4) Human resources development–emphasis on technology skill development, self-learning and development, human relations; and 5) Organizational style–must have an independent working style and diverse teamwork for the success of the work. These will increase the capacity for innovation development. Schermerhorn, Hunt, & Osborn (2003) state that good organizations are not static but must constantly innovate in their work, innovate ideas, and drive them into concrete work processes to improve customer service and productivity. Therefore, innovation is essential for SMEs to create competitive advantages and profits (Wang, 2015).

3. Competitive advantage: Overall and in each aspect, both five aspects were high and directly influenced performance. This is because the competitive advantage is significant to the organization's future performance, allowing it to generate short-term and long-term profits higher than competitors, including having low costs, differentiating customers' perceptions, marketing management, using technology, and promoting personnel development. This is in line with Porter (1990)'s view of the idea of reducing production costs as an alternative to increasing corporate profits. It is a concept that allows improvement and mitigation of business weaknesses. Increase cost management capability and formulate strategies to differentiate products and services from

competitors to meet the needs of different customers. Therefore, strategies to build long-term competitiveness must be appropriate to the business environment and the context of business operations in areas such as the business environment, organizational characteristics, and organizational capacity (Ulrich & Lake, 1991). In a highly competitive environment, defining a strategy to gain a competitive advantage is critical for business operations. Businesses need to develop new strategies to implement and improve the quality of work within the organization so that the organization and its business can survive and take profits (Hamel & Prahalad, 1993). This includes developing and finding organizational resources that competitors do not have or doing something that competitors cannot do. To become a core competency or is the outstanding ability of the organization, which will create competitive advantages that will be an essential ingredient to the long-term success and survival of an organization that other organizations do not have or cannot match (Robbins, 2005).

Knowledge from Research

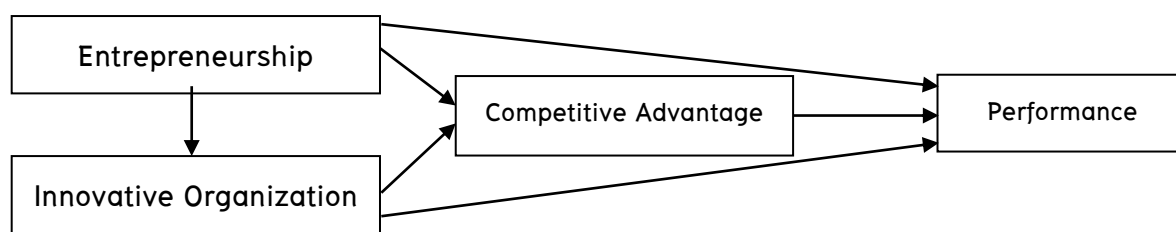


Fig 3 The Conceptual Framework of Knowledge from the Research Result

Entrepreneurship and innovative organization affect the competitive advantages and performance of SMEs. Therefore, SMEs that need to create competitive advantages and good performance to strengthen the business must develop entrepreneurship and innovative organization in all aspects consistent with the findings reported in this article.

Conclusion and Suggestions

The findings showed that entrepreneurship, innovative organization, and competitive advantage affect SMEs' performance. Therefore, entrepreneurs who want to improve the performance of their businesses have to develop the factors and elements influencing performance

that are consistent with the findings in this article by the researcher were suggestions that as guidelines for the use of benefits from the research results as follows:

1. Entrepreneurs should focus on developing entrepreneurship, especially risk-taking and aggressiveness in competition. They must dare to do new things, seek strategies, dare to risk investing in new technology, dare to take the risk of bringing new products to the market, and make decisions under uncertain environments to increase their chances of earning higher returns.

2. Entrepreneurs should develop an innovative organization, especially the organizational structure and human resource management. They need to develop an organization that can be innovative. It should be a flexible organization that does not stick to the same routine or too many rules. There is an adjustment or management according to the changing environment or economic conditions. There is decentralized management and decision-making power without attaching to the commander. Employees are involved in decision-making. There is communication at all levels between chains of command and does not require a standard form. What is important is collaboration in each department and making all employees feel important and valuable.

3. SMEs' entrepreneurs should focus on developing competitive advantages for good performance, creating growth and business success opportunities. Especially in terms of having a low cost and making a difference for customers to be perceived because increasing the business's profit can be made by managing the cost to be lower than competitors, but taking into account the quality of the products and services that are effective to the customer satisfaction.

4. Entrepreneurs should cooperate with government agencies and the private sector involved in business operations, such as developing personnel's knowledge, skills, abilities, and organizational competence. Especially the customer focus is an essential factor. Organizations must respond to customers in different dimensions to increase, such as bringing innovation to create added value of the products, differential products, reduce costs, research and develop products that are different from competitors, information and communication management by the changing situation and conditions occur at all times. These create a competitive advantage for SMEs, which will affect the performance in all dimensions

5. Entrepreneurs should regularly measure their performance to reflect on their past performance that how much come to emphasize or give importance to something. This is to develop business performance to achieve balanced success in all dimensions, including financial, customer, internal processes, and learning and growth.

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