

Influential Driving Factors for Corporate Performance: A Case of Small and Medium Enterprises in Thailand

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Abstract

Refined SME cultural agency, analysed and synthesised qualitatively using cultural agency theory. The findings achieve objective 1: (1) market orientation has a positive and direct influence on innovation; (2) market capability has a positive and direct influence on innovation; and (3) corporate sustainability has a positive and direct influence on innovation; objective 2: (1) market orientation has a positive and direct influence on competitiveness; (2) market capability has a positive and direct influence on competitiveness; (3) corporate sustainability has a positive and direct influence on competitiveness; and (4) innovation has a positive and direct influence on competitiveness; objective 3: (1) innovation has a positive and direct influence on corporate performance; and (2) competitiveness has a positive and direct influence on corporate performance; and objective 4: the causal relationship model had goodness of fit measures coherence with empirical data, are a chi-square (χ^2) value = 94.782, degrees of freedom (df) = 125, relative chi-square (χ^2/df) = 0.758, p -value = 0.980, goodness of fit index (GFI) = 0.970, adjusted goodness of fit index ($AGFI$) = 0.949, and root mean square error of approximation ($RMSEA$) = 0.00.

Keywords: Market orientation, market capability, corporate sustainability, innovation, competitiveness, corporate performance, small and medium enterprises, and cultural agency theory

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Introduction

In the digitalized global environment, digital process change, and its impacts on such attributes e.g. markets and technologies; financing growth and infrastructure; employment and education; responsible business conduct and anticorruption; and energy, climate and resource efficiency have dramatically affected global cultural SMEs that are the most concentrated, booming and innovative engine (WSF, 2016); supported by government, market, finance, and community agencies for driving to support the Sustainable Development Goals (SDGs). ASEAN Strategic Action Plan for SME Development (SAPSMED, 2016-2025) stated SME as the key importance to achieve long run and sustainable economic growth (ASEAN, 2015). Durable SMEs in digitized global challenges as powerful engines, main drivers for SDGs, need adjustment through cultural agency theory or CAT (Yolles, 1999; 2006; 2018) called "SME cultural agency." Durable SMEs can be modelled as complex adaptive cultural agencies, analysed using complex adaptive systems theory. Addressing the needs of complexity facilitates a better understanding of the nature of the SME organisation and behaviour to strengthen its desires, making of plans, carrying out

actions, and employing power by communicating and controlling within organizations and with other agencies, and to be innovatively adapted in changing environments through its efficacy (Dominici & Yolles, 2016; Guo, Yolles, Fink, & Iles, 2016; Yolles, 1999; 2006; 2018).

Significant contributions of SMEs are huge performances still have been facing numerous challenges like the global prolonged economic crisis started from the 1997 Asian, and digital globalization changing market environment. Influential driving factors promote performance of SMEs e.g. market orientation, still suffer from some gaps within agencies back SMEs and its marketing management capability is still weak (Rungfapaisarn & Thiraporn, 2016). Corporate sustainability influencing strategic management has failed (Engert, Rauter, Baumgartner, 2016). Innovation is a key role between strategic orientation and performance (Jernström, Karvonen, Kässi, Kraslawski, & Hallikas, 2017) that need life-cycle improvements on systems and business models for solutions (Hansen, & Schaltegger, 2017). To sustain competitive advantage and viability, SME's performance as balanced scorecard measures, a fair strategic gauge covers: (1) financial performance, (2)

customer performance, (3) internal process and innovation performance, and (4) learning and growth performance, when compared with key competitors (Sohn, You, Lee, & Lee, 2003) for an organisation's sustainability orientation assessment (Hansen & Schaltegger, 2017), aware on SDGs. As a result, these six strategic attributes arisen from cultural agency theory will identify for a creation a new conceptual framework to be empirically study to adjust development cycle of a durable SME or "SME cultural agency." Following the introduction, there are six parts: objectives, literature review and hypotheses formulation, methodology, research instrument assessment and data analysis, study results, and discussion / conclusion to empower this empirical research to be applied in the future.

Objectives

This research's objectives are to: 1) study the influence of market orientation, market capability, and corporate sustainability on innovation of Thai small and medium enterprises; 2) study the influence of market orientation, market capability, corporate sustainability and innovation on competitiveness of Thai small and medium enterprises; 3) study the

influence of innovation and competitiveness on corporate performance of Thai small and medium enterprises; and 4) validate a causal relationship model of the influence of market orientation, market capability and corporate sustainability on innovation, competitiveness and corporate performance of Thai small and medium enterprises with empirical data

Literature review and hypothesis

Cultural agency theory (Yolles, 1999; 2006; 2018) is a cybernetic living systems paradigm that models complex adaptive systems focusing also on the social and cultural dimensions. It is principally used to model organisational contexts that have at least potentially stable cultures, explore predefined contexts and also be applicable to reflect those contexts. It tends to be more stable in terms of personality testing and retesting, permanently founded on the formation of beliefs in an unbiased manner supported by "sufficient" evidences, placing on values. It arises through an axiomatic substructure, and a propositional superstructure that involves six strategic marketing SME attributes. The qualitative finding is applicable to a larger quantitative sample in order to generalize qualitative results on a wider

population; an empirical research design is used to test the validity of qualitative findings (Hesse-Biber, 2010). A reliable linkage analysis, an empirical approach, would be looked into the current research to determine which variables are most reliable in establishing linkage decisions in nine hypotheses within the derived conceptual framework. Thus, illustrative six strategic marketing attributes and their linkages as set in agency theory provide a set of hypotheses, which can be defined as follow:

- *Market orientation (MKO)*, difficult to imitate, is located in “Cultural system” of SME cultural

agency. The cultural conceptualization model based marketing orientation; it refers to an organizational culture focusing on norms and values that encourage behaviours consistent with market orientation, covering three dimensions: (1) customer orientation, (2) competitor orientation, and (3) inter-functional coordination (Narver & Slater, 1990).

- *Market capability (MKC)*, located in the “operative system” of SME cultural agency for

empowering a goal to be manifested operatively, it refers to the processes

planned on value propositions involving resources to deliver these value offerings in pursuit of ultimate goals: a better position, serving new products met customers’ high expectation, pricing and responding quickly to any changes, high-quality after-sales service, and working closely with distributors and retailers (Vorhies & Morgan, 2005), categorized as three dimensions: (1) pricing capability, (2) product development capability, and (3) marketing communication capability (Zou, Fang, & Zhao, 2003).

- *Corporate sustainability (CPS)*, located in “operative system,” of SME cultural agency, a

new sustainable productive paradigm to take responsibility of initiations, processes and products, which can allow a society enjoy a better quality of all lives by sustaining moral, ethics, and environmentally natural resources. It is defined as a proper management to maintain robust growth and the fundamental of economic, social, and environmental capitals, covering three dimensions: (1) economic sustainability management, (2) social sustainability management, and (3) environmental sustainability management (Akhtar, Ismail, Ndaliman, Hussain, & Haider, 2015), which is in line with the 1987 Brundtland Report’ sustainability (Brundtland, 1987).

- *Innovation (INV)*, located in “Strategic System,” of SME cultural agency, as a harbour for knowledge is the result of learning (Yolles, 2006), directly linked from effective knowledge in “Cultural System.” It is defined as innovative products, processes, marketing and organizations, as the application to new developed products both good and services, processes, new methods, or new organisational business methods, and internal and external organisations’ relations, covering a wide range of possible innovations. It covers four dimensions: (1) product innovation, (2) process innovation, (3) organizational innovation, and (4) marketing innovation (Mortensen & Bloch, 2005).

- *Competitiveness (CPT)*, located in the “Operative system” of the SME cultural agency, the set of institutions, policies, and factors for continuous presence in the markets goes beyond the capacity of firms to penetrate international markets (Díaz-Chao, Sainz-González, & Torrent-Sellens, 2016) that can upgrade SME cultural agency a better or stable position. Competitiveness refers attracting customers, as potential points of differentiation between an organization and its competitors (Cooper, Innis, Dickson, 1992); that covers four

dimensions: (1) price offered; (2) quality of product; (3) product line breadth; and (4) delivery capacity (Tracey, Vonderembse, & Lim, 1999).

- *Corporate performance (CPP)*, located in the “Operative system” of the SME agency, is important for corporate sustainability to measure fairly results of its actions. It refers to Balanced Scorecard (BSC) measures, a comprehensive measurement system, balance between financial and non-financial measures covering all interests of the key stakeholders including four areas: financial, customer, internal process and innovation, and learning and growth measures (Sohn, You, Lee, & Lee, 2003), aware on SDGs.

- Market orientation, market capability, corporate sustainability and innovation linkages

Studies found globally, there is a positive relationship between MKO and innovation (Mashahadi, Ahmad, & Mohamad, 2016); MKC is positively associated with environmental innovation in UK corporations (Yu, Ramanathan, & Nath, 2017); and CPS has a positive link to innovation (Martinez-Conesa, Soto-Acosta and Palacios-Manzano, 2017). Hypotheses set are: H1 (MKO has a positive and direct influence on INV); H2 (MKC has a positive and

direct influence on INV); H3 (CPS has a positive and direct influence on INV).

- Market orientation, market capability, corporate sustainability and competitiveness linkages

To strengthen SME's performance, the role of MKO has a positive impact on competitiveness (Takata, 2016), confirmed across different sectors. Market capabilities achieve sustainable competitiveness, growth and development in the marketing strategy (Ejrami, Salehi, & Ahmadian, 2016). CPS has a positive link to competitiveness (Castro, Guzman, & Serna, 2015). Hypotheses set are: H4 (MKO has a positive and direct influence on CPT); H5 (MKC has a positive and direct influence on CPT); H6 (CPS has a positive and direct influence on CPT).

- Innovation, competitiveness and corporate performance linkages

Innovation enhances performance in several aspects (Narver & Slater, 1990) and it plays a key role between strategic orientation and performance (Jernström et al., 2017), in view of price, quality, design, marketing, and management (O'Farrell, Hitchens, & Moffat, 1992), CPT has a positive effect on performance (Lii & Kuo, 2016). Hypotheses set are: H7 (INV has a positive and direct influence on CPT); H8 (INV has a positive and direct

influence on CPP); and H9 (CPT has a positive and direct influence on CPP).

Methodology

A quantitative research, using a questionnaire for collecting data, analysed by the structural equation modelling (SEM): Lisrel program, to validate a causal relationship model of the influence of market orientation, market capability and corporate sustainability on innovation, competitiveness and corporate performance of Thai small and medium enterprises with empirical data, was conducted during the year 2017-2018. Population and sample: a target population is 3,000 Thai exporting SME, the sample size derived is ≈ 300 (15 times \times 20 observed variables), calculated by SEM estimation method (Golob, 2003). Research instrument, a questionnaire, is organized into seven parts: demographic data; market orientation (15 items) adapted from Narver & Slater (1990); market capability (11 items) adapted from Vorhies and Morgan (2005), and Zou, et al. (2003); corporate sustainability (24 items) adapted from Akhtar, et al. (2015); innovation (24 items) adapted from Mortensen and Bloch (2005); competitiveness (18 items) adapted from Cooper, Innis, Dickson, (1992); and

corporate performance (20 items) adapted from Sohn, et al. (2003). Five-point Likert type scale, anchored from strongly disagree (1) to strongly agree (5), was used to measure all items.

Research instrument and data analysis

Research instrument assessment shows the degree of passing values (Hair, Black, Babin, & Anderson, 2014): (1) Validity and Reliability analysis' results of MKO, MKC, CPS, INV, CPT, CPP constructs / dimensions/ items with the pilot group (n = 40) and samples (n = 306). Validity of content's Item-Objective Congruence Index (IOC) is between 0.50 and 1.00, measured by five experts' judge. Reliability of questionnaire, Cronbach's alpha of each item category of variables is above 0.7; their corrected-item total correlations

(CITC) are above 0.3. (2) Assumption test's result of structural equation modelling validity: (2.1) Normal distribution assessment is normally distributed; (2.2) Homoscedasticity has non pattern to the residuals plotted; and (2.3) Linearity has a simple scatter plot of the relationship between the independent and dependent variable linear. (3) A construct validity in its measurement model using Confirmatory Factor Analysis: Convergent Validity – AVE is greater than 0.5; CR is greater than 0.7; Standardize factor loading of all dimensions is greater than 0.5, as presented in table 1. And (4) Model fit index: $\chi^2 = 94.782$, $df = 125$, $\chi^2/df = 0.758$, $p\text{-value} = 0.980$, $GFI = 0.970$, $AGFI = 0.949$, $RMSEA = 0.00$.

Table 1: Results of a construct validity and confirmatory factor analysis (n = 306)

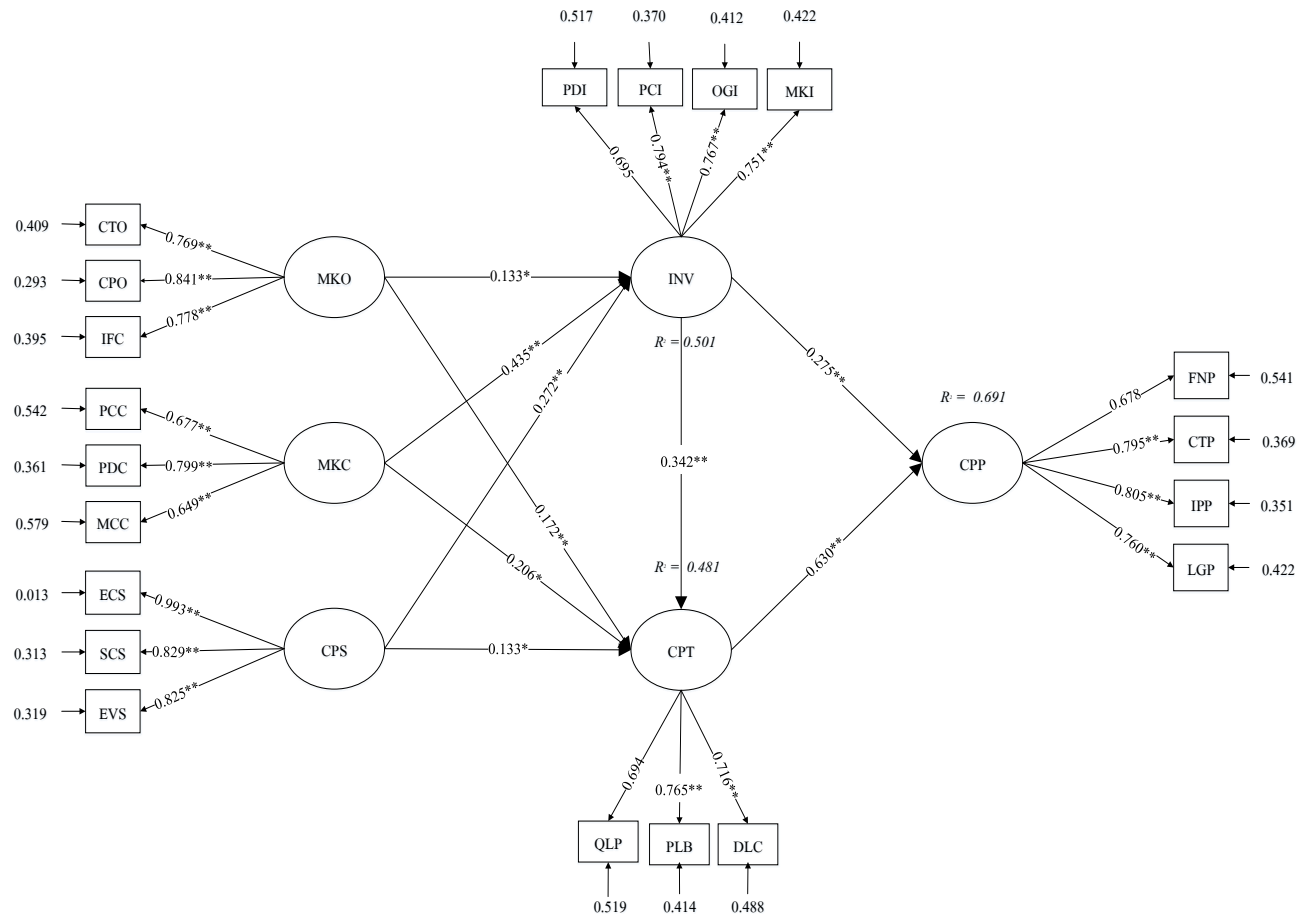
Constructs	Cronbach's Alpha	Average Variance Extracted (AVE)	Construct Reliability (CR)
Market orientation (MKO)	.858	0.644	0.845
Market capability (MKC)	.748	0.508	0.754
Corporate sustainability (CPS)	.787	0.786	0.916
Innovation (INV)	.840	0.560	0.821
Competitiveness (CPT)	.737	0.530	0.773
Corporate performance (CPP)	.841	0.580	0.845

Study results

Its demographics and attitudes of the most of the respondents are female (61.44%), aged between 50-59 years (34.6%), earning bachelor degree (63.4%), between 50-59 employees (46.7%), having revenues of more than ฿ 50-100 million (32.7%), 15.3-year average of company age, and computer

& apparatus companies (14.71%). Their perceived market orientation (MKO), market capability (MKC), corporate sustainability (CPS), innovation (INV), competitiveness, and corporate performance are generally at high average mean.

Figure 1: Analysis result of the structural equation modelling of influential driving factors for corporate performance: the case of small and medium enterprises in Thailand



Model fit: $\chi^2 = 94.782$, $df = 125$, $\chi^2/df = 0.758$, $p\text{-value} = 0.980$, $RMSEA = 0.000$, $GFI = 0.970$, $AGFI =$

Table 2: Direct effect (DE), indirect effect (IE) and total effect (TE) of market orientation (MKO), market capability (MKC), corporate sustainability (CPS), innovation (INV), competitiveness (CPT) and corporate performance (CPP)

Latent V. Results	INV			CPT			CPP		
	DE	IE	TE	DE	IE	TE	DE	IE	TE
MKO	0.133*	–	0.133*	0.172*	0.045	0.217**		0.173**	0.173**
	(0.066)		(0.066)	(0.069)	(0.025)	(0.070)		(0.053)	(0.053)
MKC	0.435**	–	0.435**	0.206*	0.149**	0.355**		0.343**	0.343**
	(0.088)		(0.088)	(0.100)	(0.049)	(0.094)		(0.075)	(0.075)
CPS	0.272**		0.272**	0.133*	0.093**	0.226**		0.218**	0.218**
	(0.071)		(0.071)	(0.065)	(0.034)	(0.072)		(0.034)	(0.058)
INV				0.342**		0.342**	0.275**	0.216**	0.491**
				(0.095)		(0.095)	(0.074)	(0.065)	(0.084)
CPT							0.630**		0.630**
							(0.092)		(0.092)
Observable V.	CTO	CPO	IFC	PCC	PDC	MCC	ECS	SCS	EVS
Squared Multiple Correlations for X - Variables	0.591	0.707	0.605	0.458	0.639	0.421	0.987	0.687	0.681
Observable V.	PDI	PCI	OGI	MKI	QLP	PLB	DLC	FNP	CTP
Squared Multiple Correlations for Y - Variables	0.483	0.630	0.588	0.563	0.481	0.586	0.512	0.459	0.631
Observable V.	IPP	LGP							
Squared Multiple Correlations for Y - Variables	0.649	0.578							
Latent V.	INV			CPT			CPP		
R ²	0.501			0.481			0.691		

Notice:

* At p -value .05 level ($1.960 \leq t\text{-value} < \chi^2 = 94.782, df = 125, \chi^2/df = 0.758, p\text{-value} = 0.980,$

** At p -value .01 level ($t\text{-value} \geq 2.576$) $RMSEA = 0.000, GFI = 0.970, AGFI = 0.949$

Results by Research Objectives

Objective 1: (1) market orientation (MKO) has a positive and direct influence on innovation (INV) (path coefficients = 0.133); (2) market capability (MKC) has a positive and direct influence on innovation (INV) (path coefficients = 0.435); and (3) corporate sustainability (CPS) has a positive and direct influence on innovation (INV) (path coefficients = 0.272).

Objective 2: (1) market orientation (MKO) has a positive and direct influence on competitiveness (CPT) (path coefficients = 0.172); (2) market capability (MKC) has a positive and direct influence on competitiveness (CPT) (path coefficients = 0.206); (3) corporate sustainability (CPS) has a positive and direct influence on competitiveness (CPT) (path coefficients = 0.133); and (4) innovation (INV) has a positive and direct influence on competitiveness (CPT) (path coefficients = 0.342).

Objective 3: (1) innovation (INV) has a positive and direct influence on corporate performance (CPP) (path coefficients = 0.275); and (2) competitiveness (CPT) has a positive and direct influence on corporate performance (CPP) (path coefficients = 0.630).

Objective 4: the causal relationship model of influential driving factors for

corporation performance: the case of small and medium enterprises in Thailand is consistent with empirical data, model fit: a chi-square (χ^2) value = 94.782, degrees of freedom (df) = 125, relative chi-square (χ^2/df) = 0.758, p -value = 0.980, goodness of fit index (GFI) = 0.970, adjusted goodness of fit index ($AGFI$) = 0.949, and root mean square error of approximation ($RMSEA$) = 0.00. R^2 value measures the construct variance as percentage: (1) innovation is variance explained by market orientation, market capability, and corporate sustainability of 50.1%; (2) competitiveness is variance explained by market orientation, market capability, corporate sustainability and innovation of 48.1%; and (3) corporate performance is variance explained by market orientation, market capability, corporate sustainability, innovation, and competitiveness of 69.1%.

Discussion and Conclusion

Modelling SME strategic attributes within Cultural Agency Theory provides new resource-based opportunities for digital globalisation, able to resolve issues relating influential driving factors in response to the research's four objectives.

From the quantitative analysis it was found that:

(1) Market orientation has a positive and direct influence on innovation of SMEs in Thailand. The statistically significance at level of 0.05 has path coefficients = 0.133, in line with study of Mashahadi, et al. (2016).

(2) Market capability has a positive and direct influence on innovation of SMEs in Thailand. The statistically significance at level of .01 has path coefficients = 0.435, in line with study of Yu, Ramanathan and Nath (2017).

(3) Corporate sustainability has a positive and direct influence on innovation of SMEs in Thailand. The statistically significance at level of .01 has path coefficients = 0.272, in line with study of Martinez-Conesa, et al. (2017).

(4) Market orientation has a positive and direct influence on competitiveness of SMEs in Thailand. The statistically significance at level of .01 has path coefficients = 0.172, in line with study of Takata (2016).

(5) Market capability has a positive and direct influence on competitiveness of SMEs in Thailand. The statistically significance at level of .01 has path coefficients = 0.206, in line with study of Ejrami, et al. (2016).

(6) Corporate sustainability has a positive and direct influence on competitiveness of SMEs in Thailand.

The statistically significance at level of .01 has path coefficients = 0.133, in line with studies of Castro, Guzman and Serna (2015).

(7) Innovation has a positive and direct influence on competitiveness of SMEs in Thailand. The statistically significance at level of .01 has path coefficients = 0.342, in line with studies of Aziz and Samad (2016).

(8) Innovation has a positive and direct influence on corporate performance of SMEs in Thailand. The statistically significance at level of .01, path coefficients = 0.275, in line with study of Martinez-Conesa, et al. (2017).

(9) Competitiveness has a positive and direct influence on corporate performance of SMEs in Thailand. The statistically significance at level of .01 has path coefficients = 0.630, in line with study of Lii and Kuo (2016).

The research has also produced new knowledge:

- Deep (i.e., cultural/cognitive) and specific qualitative explanations are provided (using CAT) for the selected important attributes (MKO, MKC, CPS, INV, CPT & CPP) in the new conceptual framework created. CAT models SMEs in a changing uncertain and perhaps crisis environment using principles of complex adaptive systems.

- The qualitative explanations are (a) empirically supported and (b) provide specific influences and relationships for the strategic attributes for Thai SMEs that can further contribute to the qualitative model (the new theoretical framework).

- The attributes and their relationships built into the CAT model are validated through this research, which could be used to help develop government policy and to be aware on involving agencies linked to policies related to SDGs.

Recommendation

- Practical implications for Thai SME cultural agencies include: global SMEs need to develop their top-three strategic attributes of: (1) Market capability, (2) Corporate sustainability, and (3) Market orientation respectively--market capability in their operative system, their product development, pricing, and marketing communication capabilities; corporate sustainability in

their operative system, their economic, social, and environmental sustainability's; and market orientation in its cultural system, their competitor orientation, inter-functional coordination and customer orientation.

- Contributions for SMEs cultural agencies: (1) the new conceptual framework derived in a changing environment through qualitative theory using principles of complex adaptive systems through CAT should be further studied with SME cultural agencies in similar nations; (2) examining other attributes (independent & dependent variables) quantitatively and their relationship empirically to determine the specific influence and relationship of these attributes contributed to the qualitative analysis for cultural agencies, government policy, and involving agencies' awareness in order to promote SDGs.

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