

Sustainable Competitive Advantage in Creative Industry Small and Medium Enterprises: The Context of Thailand

Natenapang Thongsri¹ and Alex Kung-Hsiung Chang^{2*}

¹Department of Tropical Agriculture and International Cooperation, National Pingtung University of Science and Technology, Pingtung 91201, Taiwan

²Department of Business Administration, National Pingtung University of Science and Technology, Pingtung 91201, Taiwan

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Abstract

Intense competition in today's business world has made it increasingly difficult for firms to exist, and survival has become a primary business goal. Some entrepreneurs have struggled to compete, and some have eventually failed; therefore, how firms create and sustain their competitive advantage provides a sound basis for the firms' existence. This study's objective is to explore the resources that enhance a sustainable competitive advantage within the context of small and medium enterprises (SMEs) in creative industries. The state of competition within industries is presented using the resource-based view (RBV) and social capital, and we specify three essential competitive determinants: market orientation, collaborative external network, and managerial ties. This study used a questionnaire survey and structural equation modelling to evaluate the conceptual model. We found that market orientation and collaboration external networks can lead to sustainable competitive advantage. In addition, managerial ties as a mediator between market orientation and collaborative external network lead to sustainable competitive advantage.

Keywords: sustainable competitive advantage, market orientation, collaboration external networks, managerial ties, small and medium enterprises, creative industries.

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INTRODUCTION

The rapidly changing worldwide economics have forced many industries to adapt to new ways [1]. The creative industry is a new weapon to drive commerce of each country and maintain industries' competitiveness. The creative economy has been important in the development of rapid economic growth in many Asian countries, such as Japan, the Republic of Korea, and Singapore, as well as in the territory of Hong Kong [2-6]. This movement also includes European regions, as creative industries provide a basis for national competitiveness and the preparation of policy frameworks to support creative industries. Such regions include various Nordic countries, the Netherlands, and the United Kingdom [7-11]. As one of these countries, Thailand has evolved from its growth through production factors and natural resources to become motivated by both knowledge and creativity [12, 13]. Since 2001, Thailand's government has used its policies to initiate a Thai style of One Tambon ("sub-district") One Product (OTOP) to incentivize local development. The primary aim of the Thai OTOP is to encourage creativity, culture, and knowledge in the local village with that characteristic is similar to aspects of small and medium-sized enterprises (SMEs) [14]. The government has begun to encourage creative

industries as a part of its National Economic and Social Development Plan. Special support is given to local creative firms in each region of the country for representing the identity and capability of each locality. However more intense market competition, changing customer behavior, and more sophisticated customer needs in today's business world caused some firms to fail; therefore, the ways in which firms create and sustain their competitive advantage in industries provide a sound basis for firms' existence [15-17]. Thus, firms should create and sustain long-term competitive advantage to effectively confront the dual challenges of globalization and severe competition. Firms should identify a factor's effect on sustainable competitive advantage in their business to market position advantage and sustainable firm's existence [16]. Consequently, the aim of study seeks to explore the determinants that can enhance the sustainable competitive advantage of firms within the context of creative industries.

The previous study explored internal firm resources and capabilities as tools to enhance competitive advantage [18-22]. Most studies use the resource-based view (RBV), as this can explain different dynamic capabilities at the firm level [18].

However, there is still a lack of empirical research on the creative industries (especially in Thailand) in terms of sources of sustainable competitive advantage. Consequently, we use RBV to build a conceptual framework. We determine three factors as resources of sustainable competitive advantage: market orientation, collaboration external networks, and managerial ties, which effectively increase a firm's competitive advantage. Additionally, we focus on social capital, as this theory suggests that firms should consider this relative among entrepreneurs, other stakeholders and their networks of relationships. The relationship can help firms easily access more market information [23]. Previous studies have no clear empirical evidence regarding managerial ties as a mediator, which could contribute to increased sustainable competitive advantage. To fill the research gaps, the concept model simultaneously investigates the relationships of all factors. Our conceptual framework (Fig-1) indicates that firms could establish and sustain a competitive advantage in creative industries through the three above-mentioned factors. We endeavor to integrate the concepts to develop a theoretical background and related hypotheses. Our study attempts to indicate the link between these factors to affect sustainable competitive advantage of creative industries. The next sections of the study include the following: a literature review of each component and a conceptual framework, next is the research method, and then we illustration of the research results. Next past shows discusses and describes the study's limitations, and scope for further research. The final part shows the conclusion of this study.

Literature Review and Hypothesis Development

In the current business world, competitive advantage is a prevailing condition in many industries and has become the main strategy of firms to sustain market position [24]. Competitive advantage is defined as a business' strategic advantage over its rivals to gain the lead in that industry [25]. A firm's resources and capability can potentially generate sustained competitive advantage, but they must be rare, valuable, difficult or impossible to imitate or duplicate, and difficult to substitute [26]. In order to create differentiation that can originate from factor-specific resources, a firm can develop superior benefits design, continuously invest in generating new capabilities, or become difficult to duplicate [27]. The resources and capabilities of the firm might were being presented with tangible assets, intangible assets, and abilities [28]. Previous studies have mentioned factors in firms' strategic planning and attaining competitive advantage based on the resource-based view (RBV) [29-31]. The resource-based perspective can be used to determine how firms can gain a competitive advantage over competitors [19]. Firms have different types of resources that are unique and difficult to imitate. These resources can drive strategic action, giving rise to new ideas about how to improve firm performance [32, 33].

Further, Shen *et al.*, [34] suggested that intellectual capital is the core factor in achieving successful firm performance in the creative industry. Intellectual capital is most commonly categorized as human, social and structural capital [26, 35].

Market Orientation

Market orientation commits the organization to the creation of superior consumer value and leads to continuous improvement in performance [36]. The components of market orientation are often referred to as follows: customer orientation, competitor orientation, and interfunctional coordination [37]. Market orientation refers to how a firm must understand new customers, old customers, and potential competitors, as well as the interfunctional coordination of the firm though distribution of market information [38]. The capability to recognize market information, and quickly and accurately respond can create and sustain a competitive advantage, and provide excellent benefits to customers [39]. Customer needs are vital in understanding market drivers, which might impact the organization's long-term competitive sustainability [40]. Sophisticated buyers can pressure firms to meet high standards in terms of product quality, features, and related services [16]. Competitor information, such as work processes, relationships with external organizations, or access to rare resources can be used to enhance a firm's advantage [41]. Customer and competitor orientations enable the firm to timely and efficiently respond to market intelligence and deliver superior value to meet the market's unique needs [42]. Interfunctional coordination, or sharing market information between departments in a firm, is an essential activity. Employees should analyze this information and discuss how the company will respond to create value for customers [43]. Thus, a firms' market orientation is an important resources to enhance sustainable competitive advantage of firms. Consequently, the following hypothesis is that:

H1: Market orientation positively enhances sustainable competitive advantage

Collaborative External Network

Creative industries are those that leverage employee creativity, including ideas, skill, intellectual property, knowledge, innovation, and culture, to increase the value and uniqueness of a product or service [44, 45]. This creativity can only be gained by continually updating knowledge and skills [46] and through collaboration with, suppliers, research and development institutions, and academia, to promote firms' sustainable competitiveness [24, 47-50]. Working with buyers, suppliers, and other business channels will help extend their competitive advantage [16]. Universities and government research institutes have more advanced innovation and technical knowledge, therefore, firms cooperate with them to access knowledge, professional teams, or new technological

options to develop new skills [51]. Because the customer characteristic is changing, customers are highly creative themselves and more enthusiastic in choosing goods and service. This may cause a shift in customer status from a common customer to partner, who can participate in product creation, sharing knowledge, and other collaboration with firms [52, 17]. Thus, customer desires provide valuable information that firms can use to adopt new practices [53, 51]. Sometimes competitors can become a firms' knowledge partner when the group faces a common problem. Therefore firms cooperate with the same goal of developing ideas or resolving issues. In addition, collaboration with competitors provides an opportunity to explore and establish the organizational structure that leads to competitors' success [51]. Supplier collaboration enables unique products by obtaining information and expertise concerning new ideas and innovation [54]. Customers and suppliers can help firms improve and develop variations of their products [55]. In summary, the collaboration between a firm and external organizations promote a firms' superiority in terms of gaining sustainable competitive advantage. Therefore, we hypothesize the following:

H2: collaborative external network can enhance sustainable competitive advantage.

Managerial Ties

This study divided the managerial ties into two kinds: business ties, such as relationships with suppliers, buyers and competitors; and relationship with officials of state [56]. The social capital proposes a relationship that is beneficial to the firm, the customers, competitors, suppliers, and collaborative external network [57, 58]. The network of relationships between a firm and external organizations is critical for a firm's strategic resources [59]. Business and political ties are the foundation of the knowledge-sharing process by eliminating the issues with information exchange [60]. When the time goes on, the vital of political relations will decrease., but firms must still cultivate strong and direct relationships with government officials. In the long-term, they should attain good relationships with

suppliers, buyers, and competitors [61]. Cultivating both relationships could help firms to manage with the instability in formal institutional systems and easily access information about rare external resources. Customers, suppliers, and competitors act as firm's partner to help create different strategies and provide vital information to improve products and services [62, 63]. Formal education and informal education and training can improve capabilities by the increasing knowledge or information and the improvement in the skill base [64]. In addition, the R&D capability of SMEs is low compared to that of large enterprises [65]. SMEs should develop a relationship with external R&D institution to quickly gain helpful knowledge and accurate information to better the firms' competitive advantage. Therefore, a strong relationship with external organizations can enhance the sustainable competitive advantage of firms; we posit that:

H3: Managerial ties as a mediator between external collaboration groups can effect sustainable competitive advantage.

The first stage of every SMEs business life cycle is offering new ideas, development of goods and service to attract customers, and accurately responding to customer needs due to their new entry in the markets [66]. Thus, market orientation provides preparedness of behavioral firms for collecting, sharing and responding to market information [67]. Relational networks are closely accessed with knowledge flow and critical determinants in gaining sufficient and trustworthy information [23]. Firms can easily access critical external resources, accurate information (i.e. innovation, technology, knowledge, and requirement), and improve processed. These activities efficiently operate if a firm has a good relationship with external networks [68, 69, 60] and then promptly responds to market demand. Therefore, the hypothesis proposed as follows:

H4: Managerial ties can be a mediator between market orientations that effects sustainable competitive advantage.

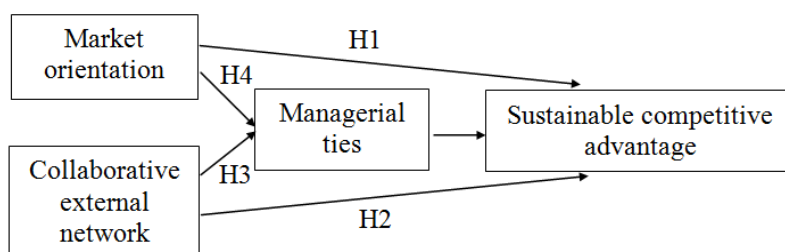


Fig-1: The conceptual model

METHODOLOGY

Sampling and Data Collection

The objective in this study involves measuring sustainable competitive advantage, which influences

firm performance in a Thai business context. To test our hypotheses, we investigated small and medium-sized enterprises (SMEs) in creative sectors from six regions in Thailand (northern, western, eastern, northeast, southern and central).

The questionnaire was divided into two parts. The first part was created to collect information about firm characteristics, including the type of business and number of employees. The second part includes the items involved in measuring sustainable competitive advantage. We first composed an English-language version of the questionnaire, and discussed each question with a bilingual specialist. We ensured the survey's equivalent meaning as well as validity and reliability of content by translating it into Thai, then back into English. We executed five interviews with administrators from related and supporting creative industries as well as five owners of creative firms; they were asked to evaluate the items' sufficiency and completeness. Their responses prompted us to adjust the questionnaire to enhance the entrepreneurial clarity. Then, we used a sample of 30 entrepreneurs from small and medium-sized creative enterprises. We asked them to complete the questionnaire and provide recommendations about its style and any weaknesses. An analysis of this pre-test survey indicated that the respondents clearly understood all questions. The Cronbach's alpha values for all items were well above the commonly acceptable value of 0.7 [70]; therefore, the elementary data was considered internally stable and consistent.

We then selected a random sample of 1,070 small and medium-sized creative firms from a list of creative firms that had enrolled with the Office of SME Promotion. A package was mailed to each creative firm's owner that included a cover letter, a copy of the questionnaire and a return envelope with postage. In addition to sending the initial questionnaire, a follow-up phone call was made to encourage a response if no reply was received from the entrepreneur. We increased the sample size by 30% to compensate for non-responses, so the number of mailed surveys could be substantially larger than the number required for a desired level of confidence and precision [71, 72]. Of the questionnaires sent, 1,021 complete and usable responses were received, or a response rate of 95.42%.

Measures

Four item scales were used to measure our hypotheses. Multiple items were developed to measure firms' sustainable competitive advantage, and to specify the contexts of sustainable competitive advantage and resulting firm performance. We used a five-point Likert scale for all measures. We developed an 18-item scale from Zhou *et al.*, [38], Tomášková [37], and Li & Zhou [42] to measure market orientation, divided into three categories: customer orientation, competitor orientation, and interfunctional coordination. We measured collaborative external networks by developing five categories from studies by Simao *et al.*, [51], Najafi-Tavani *et al.*, [73], as follows: customers, competitors, suppliers, universities, and research and development institutions. This study measured the sustainable

competitive advantage by obtaining an understanding of the importance of a factors' advantage in creative firms. Seven items were developed from the works of, Li and Zhou [21]. Regarding the managerial ties, we developed a six item measure based on works by Peng & Luo [56] and Fan *et al.*, [61]. We categorized firms' relationship ties as business ties or political ties. Finally, SPSS and AMOS software suites were used in the data analysis, which was conducted to test this study's hypotheses and achieve its ultimate objectives.

RESULTS

Respondents' characteristics

This study distributed 1,400 copies of the questionnaire, and 1,021 complete samples were collected. The highest respondent subsector was crafts, followed by design and Thai cuisine, with frequencies of 42.1%, 19.5% and 9.7%, respectively. Investment in the crafts sector has been identified as a key strategy for sustainable development that could not only provide employment opportunities, especially in rural communities, but also contribute to economic growth [74]. The craft sector includes basketry, ceramics, molding, jewelry, carving, furniture, instruments, leather, silverware, gold ornaments, and textiles. The respondents' most popular business type was the community enterprise, followed by sole proprietorships and corporations, with frequencies of 32.8%, 29.8% and 28%, respectively.

Construct Validity and Structural Equation Models

We conducted a confirmatory factor analysis to estimate validity; each variable's item-total correlation was higher than 0.50, exceeding the recommended standard. The model provides a desirable fit for the data with $\text{cmin/df} = 2.36$; comparative fit index (CFI) = 0.98; tucker-lewis index (TLI) = 0.97; normed fit index (NFI) = 0.96; goodness-of-fit index (GFI) = 0.93; adjusted goodness-of-fit index (AGFI) = 0.92; and root mean square error of approximation (RMSEA) = 0.04. All measurement items had standardized factor loadings that ranged from 0.65 to 0.98 and were significant at the alpha level of 0.001; the values should be higher than 0.50 that represent good convergent validity. Moreover, the results of the constructs' composite reliability (CR) ranged from 0.70 to 0.96, which are higher than the acceptable 0.70 levels, and the average variance extracted (AVE) ranged from 0.50 to 0.80, which is higher than the adequate level of 0.50. Overall, these results indicate satisfactory reliability and validity. Structural equation modeling was used to ensure the validity of the proposed conceptual model and is presented in Fig-1. The hypotheses are examined by using a structural model with a maximum likelihood estimation. This study focuses on resource base view, specifically, market orientation and collaborative external network. We also test the mediating roles of managerial ties to enhance sustainable competitive advantage. Figure 2 illustrates the goodness-of-fit statistics for the proposed

model, and indicates that the model reasonably fits the data (Cmin/df = 1.43, $p < 0.05$; CFI = 0.98; NFI = 0.98; GFI = 0.99; AGFI = 0.99; RSEMA = 0.04). This result indicates that the market orientation significant effect to sustainable competitive advantage ($\beta = 0.10$, $p < 0.05$). Thus, H1 was supported. Further, external collaboration has a significant effect on sustainable competitive advantage ($\beta = 0.10$, $p < 0.05$). This supports H2. The results in Table 1 indicate that when the managerial ties are added into the model, a not significant effect occurs between market orientation and sustainable competitive advantage. Similarly, market orientation and managerial ties have a positive effect ($\beta = 0.18$, $p < 0.05$). In

addition, managerial ties have a positive effect on sustainable competitive advantage ($\beta = 0.10$, $p < 0.050.001$). So H3 is fully supported. Further, Hypothesis H4 involves managerial ties as mediator between external collaboration and sustainable competitive advantage. External collaboration has a positive effect on managerial ties ($\beta = 0.17$, $p < 0.05$), and managerial ties has a positive effect on sustainable competitive advantage ($\beta = 0.10$, $p < 0.01$). External collaboration did not have a significant effect on sustainable competitive advantage when managerial ties are included in the model. Therefore, fully supporting H4.

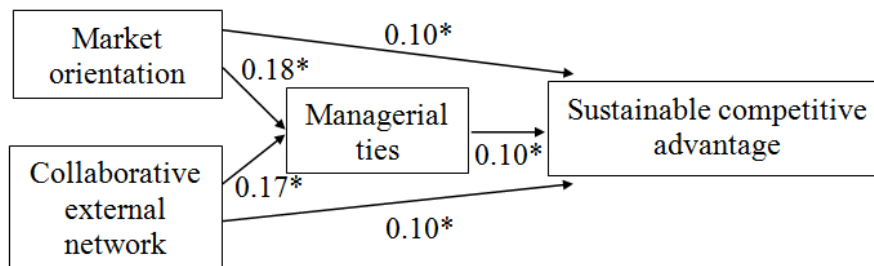


Fig-2: Hypothesized model results

Table-1: Structural parameter estimates

| Hypothesized association | | Effect | Mediation type observed |
|--------------------------|--|--------------------|-------------------------|
| H1 | Market orientation → Sustainable competitive advantage | 0.10* | |
| H2 | Collaborative external network → Sustainable competitive advantage | 0.10* | |
| H3 | Market orientation → Sustainable competitive advantage - Direct effect with mediator (Managerial ties) - Indirect effect | 0.06(ns) 0.02** | Full |
| H4 | Collaborative external network → Sustainable competitive advantage - Direct effect with mediator (Managerial ties) - Indirect effect | 0.07(ns) 0.02* | Full |

Note: ** $p < 0.01$, * $p < 0.05$ and ns = not significant

DISCUSSION

Our study contributes to current literature in the following ways: first, the findings revealed that managerial ties are important mediator variables; this nature of relationships could be described through social capital theory. The result indicates that market orientation and collaborative external network affect sustainable competitive advantage when firms make closer managerial ties. Therefore, to build a relationship with an external network is an essential mission of firms since the direct connection with buyers, competitors, suppliers, universities, and research and development institutions could enhance the benefits toward the activities of the firm [57, 51]. Small and medium firms rely more value on relational capital than do larger firms because they often face barriers to access to rare resources and lack the necessary business information [75, 76]. Second, we identify sustainable competitive advantage creation processes through resource and capability of the firm, thus extending the developmental resource-based literature [20, 24]. The results of this study represent a resource and capability perspective, with a particular focus on market

orientation and external collaboration. The result indicates that market orientation and collaborative external network can enhance sustainable competitive advantage.

This analysis has major strategic implications for strategic planners and entrepreneurs. First, the results suggest that market orientation has a positive effect on sustainable competitive advantage. Managers or owners should pay attention to the market orientation processes of firms. Market orientation is a tool for sharing and answering to market information [67]. Customer orientation is considered one of the competitive weapons where creative firms can maintain a closer understanding of customer needs, complaints, suggestion, and satisfaction to offer goods and services according to customer demand [77]. Actively responding to customers, firms can gain a competitive advantage over the competitors. Firms should use suitable competitors' information in improving and learning their working process to enhance firms' advantage [41]. The firm should distribute market information throughout a firm, fostering common

efforts by all departments and employees through activities such as interdepartmental lunches, sports leagues that require mixed-department teams, and newsletters [78].

Second, the results indicated that a collaborative external network has a positive effect on sustainable competitive advantage. Collaboration with an external organization can enhance the quantity and quality of owner or personal knowledge and ideas, create skill and education for employees, and significantly contribute to organizations' long-term growth [79, 80]. Customers and competitors have gainful information on sound practices and processes forms of the firm [81]. Supplier collaboration enables unique products by obtaining information and expertise concerning new ideas and innovation [54]. Universities can be a resource in transferring and exchanging knowledge, experiences, and skills, and continually developing these among firms to create opportunities for employee education [82,40]. Research and development (R&D) can help a firm create more value from current product lines or capabilities, to produce new, notable products in the market [83].

Third, we find that managerial ties play a mediating role to gain a sustainable competitive advantage for the firm. Therefore, the manager or owner should clearly understand the relationships with market orientation, collaboration external networks, and managerial ties to gain a sustainable competitive advantage. The firm should place more value on relational capital because a relationship could help them more easily access resources and closer customers, competitors, and suppliers when they lack their own resources [84]. The value of such relations will provide long-term benefits [61]. Including ties with universities and research and development institutions also represent a vital source of knowledge to SMEs [85].

A few limitations can be noted in this study. First, our research focused on firms' products and capabilities in gaining factor-specific advantages and did not study cost leadership as another source of advantage. Therefore, the future study should focus on cost advantage because Barney [86] suggested that sources of cost leadership include the firm's size, experience and low-cost access to production factors. Second, this study did not explore collaboration with appropriate external financial resources, which can be essential for SMEs in starting their business [87], as most owners of SMEs must use their savings or borrow from family and friends to finance their investments [88] so the next study should add external financial resources as a resource of sustainable competitive advantage.

CONCLUSION

A conceptual study framework has been presented with an emphasis on the resources and

capabilities of firms that can enhance sustainable competitive advantage. We focus on how small and medium-sized firms can reinforce a sustainable competitive advantage. Our sample is 1021 SMEs. This study investigated the market orientation, collaborative external network, and managerial ties as tools that firms can use to recognize customers' needs, gather competitor information, gain knowledge, and find opportunities to access rare resources that can lead to positive organizational results and the formulation of the organization's role in creating sustainable competitive advantage. The study results indicate that market orientation and collaborative external network have a significantly positive effect on sustainable competitive advantage. Furthermore, the results show that managerial ties play a vital mediator role between market orientation and sustainable competitive advantage, and collaborative external network and sustainable competitive advantage.

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