

**INTERNATIONALIZATION PERFORMANCE  
OF THAI TEXTILE AND GARMENT SMES:  
THE ROLE OF ORGANIZATIONAL  
CAPABILITIES**

**RAPEEPAN PAOCHOO**

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**INTERNATIONALIZATION PERFORMANCE OF  
THAI TEXTILE AND GARMENT SMEs: THE ROLE  
OF ORGANIZATIONAL CAPABILITIES**

**by**

**RAPEEPAN PAOCHOO**

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## **TABLE OF CONTENTS**

	<b>Page</b>
ACKNOWLEDGEMENT	ii
TABLE OF CONTENTS	iii
LIST OF TABLES	ix
LIST OF FIGURES	xii
LIST OF APEENDICES	xiii
LIST OF ABBREVIATIONS	xiv
ABSTRAK	xv
ABSTRACT	xvi
<b>CHAPTER 1 INTRODUCTION</b>	
1.0 Introduction	1
1.1 Background of the Study	3
1.2 Problem Statement	9
1.3 Research Objectives	14
1.4 Research Questions	15
1.5 Significance of the Study	16
1.6 Scope of the Study	18
1.7 Definition of Key Terms	18
1.8 The Organization of the Research Thesis	21

## **CHAPTER 2 LITERATURE REVIEW**

2.0	Introduction	22
2.1	A Review of Textile and Garment Industry in Thailand	23
2.1.1	Thai SMEs and Internationalization	23
2.1.2	Textile and Garment Industry of Thai SMEs	29
2.2	Theoretical Background	34
2.2.1	Resource Based Theory (RBT)	37
2.2.2	Upper Echelon Theory (UET)	39
2.3	International Entrepreneurial Orientation	40
2.4	Sufficiency Economy Philosophy	46
2.5	Organizational Capabilities	53
2.5.1	Marketing Capability	58
2.5.2	Networking Capability	60
2.5.3	Innovation Capability	62
2.5.4	Management Capability	65
2.6	Internationalization Performance	67
2.7	Strategic Flexibility	78
2.8	Theoretical Framework	81
2.9	Hypotheses Development	82
2.9.1	International Entrepreneurial Orientation and Organizational Capabilities	83
2.9.2	Sufficiency Economy Philosophy and Organizational Capabilities	84
2.9.3	Marketing Capability and Internationalization Performance	86
2.9.4	Networking Capability and Internationalization Performance	87

2.9.5	Innovation Capability and Internationalization Performance	88
2.9.6	Management Capability and Internationalization Performance	89
2.9.7	Moderating Effects of Strategic Flexibility	90
2.10	Summary	93

## **CHAPTER 3 RESEARCH METHODOLOGY**

3.0	Introduction	94
3.1	Research Design	94
3.2	Population	94
3.3	Sampling	95
3.4	Sample Size	95
3.5	Research Instruments	97
3.5.1	International Entrepreneurial Orientation	97
3.5.1.1	Innovativeness	97
3.5.1.2	Proactiveness	98
3.5.1.3	Risk-taking	98
3.5.2	Sufficiency Economy Philosophy	98
3.5.3	Organizational Capabilities	98
3.5.3.1	Marketing Capability	99
3.5.3.2	Networking Capability	99
3.5.3.3	Innovation Capability	99
3.5.3.4	Management Capability	99
3.5.4	Internationalization Performance	100
3.5.5	Strategic Flexibility	101
3.6	Questionnaire Development Procedure	103

3.7	Pilot Test and Survey Refinement	104
3.8	Data Collection	107
3.9	Data Analyses	108
3.9.1	Partial Least Squares Approach	108
3.9.2	Measurement Model Analysis	111
3.9.3	Assessment of Structural Model	113
3.10	Summary	116

## **CHAPTER 4 DATA ANALYSIS AND FINDINGS**

4.0	Introduction	117
4.1	Response Rate	117
4.2	Profile of Respondents	118
4.3	Profile of Firms	119
4.4	Descriptive Statistics	120
4.5	Test	121
4.5.1	Independent Sample t-test	122
4.5.2	Chi Square Test	122
4.6	Common Method Variance (CMV)	123
4.7	Goodness of Measurement Model	124
4.7.1	Construct Reliability	124
4.7.2	Construct Validity	124
4.7.2.1	Convergent Validity	125
4.7.2.2	Discriminant Validity	128
4.8	Innovation Capability as a Second-Order Construct	131
4.9	Revised Research Framework and Hypotheses	137

4.10	Assessment of Structural Model	139
4.10.1	Direct Effect Model	139
4.10.1.1	The Relationship between International Entrepreneurial Orientation (IEO), Sufficiency Economy Philosophy (SEP) and Marketing Capability (MKC)	139
4.10.1.2	The Relationship between International Entrepreneurial Orientation (IEO), Sufficiency Economy Philosophy (SEP) and Networking Capability (NWC)	140
4.10.1.3	The Relationship between International Entrepreneurial Orientation (IEO), Sufficiency Economy Philosophy (SEP) and Innovation Capability (INC)	141
4.10.1.4	The Relationship between International Entrepreneurial Orientation (IEO), Sufficiency Economy Philosophy (SEP) and Management Capability (MNC)	142
4.10.1.5	The Relationship between Organizational Capabilities and Internationalization Performance	143
4.10.2	Moderating Effect Model	146
4.11	Coefficient of Determination ( $R^2$ )	148
4.12	Predictive Relevance ( $Q^2$ )	148
4.13	Effect Size ( $f^2$ )	149
4.14	Power Analysis for Moderator	150
4.15	Summary	150

## **CHAPTER 5 DISCUSSION AND CONCLUSION**

5.0	Introduction	152
5.1	Recapitulation and Summary of the Findings	152



5.2	Discussion of the Findings Regarding Direct Relationships	154
5.2.1	International Entrepreneurial Orientation (IEO) and Organizational Capabilities	154
5.2.2	Sufficiency Economy Philosophy (SEP) and Organizational Capabilities	160
5.2.3	Marketing Capability and Internationalization Performance	165
5.2.4	Networking Capability and Internationalization Performance	166
5.2.5	Innovation Capability and Internationalization Performance	167
5.2.6	Management Capability and Internationalization Performance	169
5.3	Discussion of the Findings Regarding Indirect Relationships	170
5.3.1	Moderating Role of Strategic Flexibility between Organizational capabilities and Internationalization Performance	170
5.4	The Implications of the Study	173
5.4.1	The Theoretical Implications of the Study	173
5.4.2	The Practical Implications of the Study	176
5.5	The Limitations of the Study	181
5.6	Recommendations for Future Studies	182
5.7	Conclusion	183
	<b>REFERENCES</b>	185
	<b>LIST OF PUBLICATION</b>	206
	<b>APENDICES</b>	207

## LIST OF TABLES

		<b>Page</b>
Table 1.1	Review Problems in Thailand T&G Industry	6
Table 1.2	Six Industrial Sectors Significant to Thailand's Economy as Concerns the Impact of AEC on Thai SMEs (High-Impact Sector)	10
Table 1.3	Export Value of Thai Textile and Garment Industry	10
Table 2.1	The Classification of Thai SMEs	23
Table 2.2	Number and Level of Employment of LEs and SMEs in Thailand	24
Table 2.3	Export Value Categorized by the Size of the Enterprises	25
Table 2.4	Ratio of SME Exports to International Trade of Thailand and GDP	25
Table 2.5	Proportion of Total Exports of Thailand	26
Table 2.6	Statistics of Establishments Operated Registration at Ministry of Industry	27
Table 2.7	SMEs' Top Fifteen Products Categorized by Export Value	28
Table 2.8	The Role of Textile and Garment Subsector in Thai Economy	31
Table 2.9	Summary Average Value of High-Impact Sectors in Thai SMEs	32
Table 2.10	Main concepts of Theories Concerning Internationalization Performance	36
Table 2.11	Empirical Researches Regarding Firm Level International Entrepreneurial Orientation	43
Table 2.12	Type of Organizational Capabilities from RBT Literature	56
Table 2.13	Measurement of Internationalization Performance in SMEs	69

		<b>Page</b>
Table 2.14	Determinants of Internationalization Performance Based on Firm's Internal Factors	75
Table 3.1	Sample Size by Green (1991)	96
Table 3.2	The Measurement of Key Constructs, Sources, and Cronbach's Alpha	102
Table 3.3	The Correction of Questionnaire after Pilot Test relating to Variables of the Study	106
Table 3.4	Summary of Key Constructs and the Number of Items after Pilot Test	107
Table 3.5	Comparison of CBSEM and PLS	109
Table 4.1	Response Rate	118
Table 4.2	Demographic Profile of Respondents	119
Table 4.3	Demographic Profile of Firms	120
Table 4.4	Descriptive Analysis	121
Table 4.5	Test for All Variables	122
Table 4.6	Result of Chi-Square Test for Demographic Profiles	123
Table 4.7	Summary of Construct Validity and Reliability after Adjustment	126
Table 4.8	Discriminant Validity of Construct	129
Table 4.9	Summary of Construct Validity and Reliability with Innovation Capability as a Second Order Construct	133
Table 4.10	Discriminant Validity of Construct (Innovation Capability as a Second Order Construct)	135
Table 4.11	The Restatements of Hypotheses Based on the Revised Research Framework	138
Table 4.12	Hypotheses Testing: Direct Effects of IEO and SEP on MKC	140
Table 4.13	Hypotheses Testing: Direct Effects of IEO and SEP on NWC	141

		<b>Page</b>
Table 4.14	Hypotheses Testing: Direct Effects of IEO and SEP on INC	142
Table 4.15	Hypotheses Testing: Direct Effects of IEO and SEP on MNC	143
Table 4.16	Hypotheses Testing: Direct Effects of Organizational Capabilities on Internationalization Performance (IP)	144
Table 4.17	Hypotheses Testing: Moderating Effect of Strategic Flexibility	146
Table 4.18	Summary of Coefficient of Determination ( $R^2$ ) and Predictive Relevance ( $Q^2$ )	149
Table 4.19	Summary of Hypotheses Results	151
Table 5.1	Summary of Research Questions and the Findings	153

## LIST OF FIGURES

		<b>Page</b>
Figure 2.1	The structure of Thailand's textile and garment industry	29
Figure 2.2	Number of establishments in 2011	30
Figure 2.3	Number of production workers in 2011	30
Figure 2.4	Upper echelons perspective of organizations model produced by Hambrick and Mason (1984)	39
Figure 2.5	Definition of sufficiency economy philosophy	47
Figure 2.6	Theoretical framework of internationalization performance	82
Figure 3.1	Determining sample size for a finite population	96
Figure 3.2	Questionnaire development procedure	104
Figure 4.1	Measurement model framework for first-order constructs	130
Figure 4.2	Second order formative constructs	131
Figure 4.3	Measurement model framework for second-order constructs	136
Figure 4.4	Revised research framework	137
Figure 4.5	Structural model estimation of direct effect with Innovation capability as second order construct	145
Figure 4.6	Structural model estimation of moderating effect with innovation capability as second order construct	147

## LIST OF APPENDICES

		<b>Page</b>
A	Cover Letter and Questionnaire	207
B	Summary of Comments of Pilot Study	213
C	Frequency Tables	215
D	Descriptive Statistics	218
E	Test - Independent Sample t-test	219
F	Test - Chi Square Test	222
G	Herman Single Factor Test	228
H	Measurement Model	230
I	Structural Model (Direct Effects)	240
J	Structural Model (Moderating Effects)	241
K	G*Power Analysis for Moderator	245
L	Predictive Relevance	246

## **LIST OF ABBREVIATIONS**

AEC	ASEAN Economic Community
DEP	Department of Export Promotion
GDP	Gross Domestic Product
IEO	International Entrepreneurial Orientation
LEs	Large Enterprises
OECD	Organization for Economic Cooperation and Development
OSMEP	Office of Small and Medium Enterprises Promotion
RBT	Resource Based Theory
RCA	Revealed Comparative Advantage
SEP	Sufficiency Economy Philosophy
SMEs	Small and Medium-Sized Enterprises
T&G	Textile and Garment
THB	Thai Baht
THTI	Thailand Textile Institute
UET	Upper Echelon Theory

**PRESTASI PENGANTARABANGSAAN PKS TEKSTIL DAN PAKAIAN**  
**THAI: PERANAN KEUPAYAAN ORGANISASI**

**ABSTRAK**

Perusahaan kecil dan sederhana (PKS) adalah merupakan teras pemacu kepada ekonomi sesebuah negara. Walaubagaimanapun, sebahagian perniagaan kecil tidak mampu mengekalkan pencapaian unggul di dalam pasaran asing. Keupayaan organisasi telah dianggap sebagai faktor yang kritikal untuk mencapai prestasi yang diinginkan berdasarkan teori berasaskan sumber. Kajian ini bertujuan untuk mengkaji pengaruh empat keupayaan organisasi (keupayaan pemasaran, rangkaian, inovasi dan pengurusan) ke atas prestasi pengantarabangsaan dalam industri tekstil dan pakaian bagi perusahaan kecil dan sederhana (PKS) di Thailand. Di samping itu, orientasi keusahawanan antarabangsa (IEO) dan falsafah sara ekonomi (SEP) juga dikaji. Fleksibiliti strategik telah digunakan sebagai pemboleh ubah penyederhana ke atas hubungan antara empat keupayaan organisasi dan prestasi pengantarabangsaan. Data dikumpul daripada 113 pemilik/pengurus syarikat pengeksport PKS dalam industri tekstil dan pakaian. Teknik PLS-SEM telah digunakan untuk menganalisis data. Hasil kajian menunjukkan bahawa IEO dan SEP nyata sekali mempunyai hubungan dengan keupayaan organisasi. Dua jenis keupayaan iaitu, keupayaan rangkaian dan pengurusan mempunyai kesan positif terhadap prestasi pengantarabangsaan. Selain itu, kesan moderasi fleksibiliti strategik ke atas hubungan antara empat kemampuan organisasi dan prestasi pengantarabangsaan telah didapati sebagai tidak signifikan. Justeru itu, disarankan agar pemilik/pengurus PKS perlu menyerapkan IEO dan SEP dalam syarikat-syarikat untuk memajukan keupayaan organisasi dan kejayaan perniagaan dalam pasaran antarabangsa.



# **INTERNATIONALIZATION PERFORMANCE OF THAI TEXTILE AND GARMENT SMEs: THE ROLE OF ORGANIZATIONAL CAPABILITIES**

## **ABSTRACT**

Small and Medium Enterprises (SMEs) is a core driver of a nation economy. However, some small businesses could not maintain superior performance in foreign marketplaces. Organizational capabilities are considered as a critical factor to achieve desired performance as propagated by resource-based theory. The study aims to investigate the effects of four organizational capabilities (i.e., marketing, networking, innovation, and management capabilities) on internationalization performance of textile and garment SMEs in Thailand. Moreover, the antecedents of organizational capabilities are examined namely international entrepreneurial orientation (IEO) and sufficiency economy philosophy (SEP). Strategic flexibility is treated as a moderating variable on the linkages between four organizational capabilities and internationalization performance. Data were collected from 113 owners/managers of exporting SMEs in textile and garment industry. PLS-SEM technique was utilized for data analysis. The findings of the study revealed that IEO and SEP are significantly related to organizational capabilities. Two kinds of capabilities, which are networking and management capabilities, have positive effects on internationalization performance. Besides that, the moderating role of strategic flexibility on the linkages between four organizational capabilities and internationalization performance was found to be non-significant. Hence, it is recommended that SME owners/managers need to instill IEO and SEP into the companies in order to develop their organizational capabilities of firms and then grasp business success in international markets.

# **CHAPTER 1**

## **INTRODUCTION**

### **1.0 Introduction**

The recent developments in entrepreneurship research have seen an increased attention given to small and medium-sized enterprises (SMEs), mostly due to the realization that SMEs play a vital role in a country's economy (Ahmad, 2007; Charoenrat & Harvie, 2014). SMEs are recognized as the main source of employment and economic growth. They play a significant role in maximizing resource efficiency in terms of allocation and distribution of human capital and material resources which include supplying goods and services to large organizations (Charoenrat & Harvie, 2014; Idar & Mahmood, 2011).

Unfortunately amid fierce competitive environments, SMEs faced a vast array of challenges that hamper their performance, especially the ones that venture into international business. Research findings published in the last 20 years has commonly pointed out that most SMEs have limited ability to manage international activities (Julien & Ramangalahy, 2003). There appears to be lack of consistency with regards to the essential factors that determine SMEs internationalization performance (Theingi, 2004; Zou & Stan, 1998).

According to Hassan and McCarthy (2011), there are several internal influences have direct impact on export success, one of which is firm competencies or capabilities. While SMEs are struggling with resources constraints, and experiencing hardship in mobilizing the limited resources efficiently; the possession of organizational capabilities is said to be one key solution to the problem (Garengo & Bernardi, 2007; Hassan & McCarthy, 2011; Manimala & Kumar, 2012).

It is assumed that organizational capabilities are essential for enhancing internationalization performance of SMEs. Having noted that, the concept of organizational capability is somewhat ambiguous and equivocal, especially when it is applied in the context of SMEs. There appears to be little agreement on the types of organizational capability that firms have to develop to maintain competitiveness and achieve superior performance (Schienstock, 2009). This is understandable given the various contexts of the industries and the diverse environment in which the capabilities are applied.

The fact that there is scarcity of research related to organizational capabilities on exporting SMEs in developing countries (Hassan & McCarthy, 2011), especially in the context of textile and garment (T&G) industry in Thailand served as a starting point for this enquiry. The lack of findings that can be directly mapped onto this context that may inhibit the development of T&G industry in Thailand is a worrying phenomenon given the promising future of this industry to the country's economic development (OSMEP, 2011; Thailand Textile Institute, 2012). Following that, Chantanaphant, Nabi, and Dornberger (2012) suggest that more research need to be undertaken to delve into the impact of capabilities on SMEs export performance in Thailand.

Based on this premise, the present study focuses on the internationalization performance of SME firms in T&G industry of Thailand by focusing on the influence of organizational capabilities and its antecedents.

## **1.1 Background of the Study**

With the growing trend of globalization, internationalization of business is becoming more meaningful and relevant to firms all over the world. It is evident that the economic development of a country is very much dependent on its international trade. Domestic market is relatively small; hence, the country's economic growth should not rely solely on the internal demands. The literature noted that operations beyond national boundaries enable firms to reap the benefits from international market engagements and increase profitability (Verdier, Prange, Atamer, & Monin, 2010). In order to obtain competitive advantages outside the countries, the eclectic paradigm, known as Dunning's OLI model explains that firms could possess ownership advantages, location advantages, and internationalization-advantages (Dunning, 2001). Hence, firms that are competitive advantages-oriented can benefit from internationalization agenda by knowledge exchange and enhancement of capabilities, which could strengthen the long-term competitiveness of the firms.

In view of SMEs' internationalization, a study commissioned by the Organization for Economic Cooperation and Development (OECD), 1997 provided evidence from 18 member countries that SMEs in the region are internationalizing more rapidly than in the past, and some have been involved in international business activities almost from inception (Chelliah, 2004). The most common forms of SMEs' internationalization are often concentrated on low levels of commitment and risk perspective which focuses on exporting (Merino, Monreal-Perez, & Sanchez-Marin, 2012). Consistent with the argument by Lu and Beamish (2006), SMEs have extensively employed the exporting mode as their internationalization strategy due to its advantages that include easy and fast ways of entering into foreign markets as

compared to other strategies. Therefore, it is very clear that the dominant strategy for internationalization of SMEs is exporting.

In a similar vein, it is reported that exporting activities among SMEs in Thailand are similar to that of other nations. For instance, the statistics provided by the Office of Small and Medium Enterprises Promotion (OSMEP), reported that Thai SMEs are increasingly contributing to the export value of the country's economy in terms of gross domestic product (GDP) during 2007-2011 that was equivalent to 47.78 percent in 2007 and increased to 53.60 percent in 2011. In addition, Theingi (2004) demonstrated that exporting SMEs have become critical players in national economies and world trade. All this evidence signifies the importance of internationalization performance of SMEs in bolstering the economic growth of the nations including Thailand.

As mentioned earlier, the focus of this study is directed towards T&G industry in Thailand. This is justifiable given the industry's significant contribution to the country's economic growth. The available statistics by Thailand Textile Institute (THTI) in 2011 reported that T&G subsector accounted for approximately 3.4 percent of the country's total GDP in 2009 (Textileworldasia, 2012). The industry is the second largest exporting industry after food and beverage (Nimlaor et al., 2015; OSMEP, 2011). It has been reported that firms within T&G industry are substantial contributors since they create a bulk of export value, number of businesses and job opportunities (OSMEP, 2012). With regards to the structure of T&G industry, there are three main streams: an upstream, a middle stream and a downstream. The literature stated that most of SMEs in T&G industry are in the midstream and downstream. In other words, they may operate on spinning industry,

weaving and knitting industry, dyeing and printing industry, and garment industry (Karaveg, Thawesaengskulthai, & Chandrachai, 2013; OSMEP, 2012).

It is therefore notable that T&G is one of the essential industrial sectors which received great attention by Thai government. Sadly, however, the latest evidence indicated that SMEs in general are losing competitiveness especially T&G industry (Nimlaor et al., 2014, 2015; OSMEP, 2011).

According to OSMEP report, during the past 10 years, it was uncovered that Thai SMEs in T&G industry was ranked at the lowest “Revealed Comparative Advantage Index” (RCA Index that is used to measure the export value) when compared to five other industrial sectors of SMEs which include Machine, Food, Rubber, Plastic, Gems. Similarly, based on Thailand Textile Institute’s (2016) report, the export value of T&G industry during 2011-2015 has shown inconsistent and significantly decreasing in value. Based on the online business news (Nimlaor et al., 2015; Thaiintelligentnews, 2013), it has been stated that some T&G firms have to cease their operations because they could not manage the various internal and external challenges as depicted in Table 1.1.

Table 1.1

*Review Problems in Thailand T&G Industry*

External Problem	Internal Problem	Source
<ul style="list-style-type: none"> <li>- Baht appreciation making textiles and clothing more expensive in Thailand.</li> <li>- Raw material prices increasing, including cotton and synthetic fibers. Increasing transportation also adds to higher production costs.</li> <li>- Labor shortages within the industry, contributing to manufacturers being unable to supply the demand.</li> <li>- Trade liberalization which increases cost and contributes to higher textile prices in both domestic and foreign markets, especially China.</li> <li>- The increase of the daily minimum wage to 300 baht day-1 which started on April 1, 2012. This also included a monthly starting salary guarantee of a minimum of 15,000 baht for an individual holding a university/college degree. This began shortly after the minimum wage increase in March 2012. This inevitability adds a significant cost to the labor intensive textile and garment market, increasing the production cost as well.</li> </ul>	-	Nimlaor et al. (2015)
Debt crisis in the United States and Europe, flood crisis, competitive intensity and the rise of the minimum wage to 300 baht per day as governmental policy will directly affect operating costs.	-	Thailand Textile Institute (2013)
-	Firstly, there is limited access to key market information that focuses on trends, trade and technology. Secondly, design limitations have resulted in a lack of product development and product differentiation and, thirdly, the lack of a sustainable supply of quality raw materials has affected quality consistency, variety and cost efficiency throughout the supply chain.	Chiangmai-Chiangrai (2012)
The fallout from the global economic problems such as the Euro zone debt crisis and the problem in Chinese economy, a drop in purchase orders from Europe brought on by higher Thai produce prices, and the new 300-baht daily minimum wage.	-	Pattaya Mail (2012)

Table 1.1 Continue		
External Problem	Internal Problem	Source
-	Lack of financial access, human resource constraints, limited capability, inability to adopt technology, high operating costs, improve product quality issue, the creation of Thailand brand into the international market and the lack of information on potential markets and customers and also global competition.	OSMEP (2011)
Strong currency of baht, high cost of raw materials and logistics	Lack of capitals, low productive efficiency relates to use old technology, lack of strategic control system, and lack of interlock between supply chain industries.	The Federation of Thai Industries (2011)
Competition with textile industries from other regions	Lack effective management skills namely limited knowledge, lack coordination and cooperation on the supply chains , lack the ability to secure loans from banks, lack marketing development, lack skilled employees, and lack manufacturing management and technology.	Na Sakolakorn, Aim-Im-Tham, and Khamanarong (2009)
-	In year 2005, the benchmarking survey depicts Thailand's On Time Performance index (OTP) that it lags behind Asian leaders such as Singapore and Indonesia. The study moreover found four main problems areas namely sales and marketing, production planning and control, shop floor production and information management.	Kritchanchai and Wasusri (2007)

Notably, firms cannot avoid the possible external challenges that may to some extent affect the bottom line of the industry. Nevertheless, firms could on the other hand, strive to minimize the impact of such pressures and increase the likelihood of success by strengthening the internal capabilities of the firms. This contention augurs well with Manimala and Kumar (2012) who found that the possession of internal capabilities will enhance the ability of those firms to sustain and survive in their businesses and subsequently increase their performance.

Given the present standing of T&G industry, the Thailand Textile Institute (2012) have proposed several possible solutions and strategies which could possibly help the T&G industry to expand and retain the competitiveness in the global market.



Specifically, those businesses are urged to adjust themselves to attain the following capabilities:

1) Flexibility in production shifts and creation of intangible assets. This focuses on enhancing competitiveness of the industry by leveraging on innovation so that a firm can compete with each other on new inventions instead of price or cost (innovation capability).

2) Enhancement of managerial and creative skills including management and marketing development (management capability and marketing capability).

3) Engagement in business partnership and networking (networking capability).

In addition to this, the extant literature on internationalization of business has highlighted the capabilities required to enhance the internationalization performance of manufacturing firms in the global arena which include, marketing capabilities (Hartsfield, Johansen, & Knight, 2008; Julian, 2011; Nazar & Saleem, 2009; Tooksoon, Sukitniyakorn, & Thammajit, 2012); networking capability (Babakus, Yavas, & Haahti, 2006; Kenny & Fahy, 2011; Lu & Beamish, 2006; Tooksoon & Mudor, 2012); innovation capability (Karaveg et al., 2013; Rosli, 2012; Tatfi, 2012; Ussahawanitchakit, 2007b) and management capability (Fuchs, 2009; Ussahawanitchakit, 2007a).

A notable study on Thai SMEs highlights that the capabilities of SMEs especially in T&G industry is understudied (Ussahawanitchakit, 2007b). Besides, evidence has shown that the industry has a low level of organizational capabilities in the world market today (Nimlaor et al., 2014, 2015). Hence, this study seeks to provide answers to these issues. Immediate attention is needed to be paid onto T&G

industry in Thailand given the evidence that indicates the remarkable potential of this industry to boost Thai economy.

## **1.2 Problem Statement**

Internationalization activities among SMEs are seen as an important strategic movement to transform the economy of a country. Like any other countries, the government of Thailand continually supports SMEs' internationalization activities to boost its economy (OSMEP, 2011). Despite the various efforts and initiative to push T&G SMEs into the global arena, it has been reported that the industry is still lagging behind and does not reach the level of competitiveness that is promising (OSMEP, 2011).

Based on OSMEP (2011) report, Thai SMEs in part of the industrial sector are losing competitiveness among exporters in Asian countries. Focusing on six main industries of SMEs as Table 1.2, the ranking by RCA Index of the T&G industry was ranked at the lowest. This signifies the lack of competitiveness of T&G industry in terms of export value when compared with others.

Table 1.2

*Six Industrial Sectors Significant to Thailand's Economy as Concerns the Impact of AEC on Thai SMEs (High-Impact sector)*

Orders	Industrial sectors	Proportion of export value in Asean per overall GDP (%)	Revealed Comparative Advantage (RCA Index)	Meaning of RCA Index
1	Gems and ornaments	4.39	1.915	Industries with weak comparative disadvantage
2	Machinery	4.24	1.219	Industries with weak comparative disadvantage
3	Food	2.34	2.260	Medium comparative advantage
4	Rubber	1.20	5.469	Strong comparative advantage
5	Plastic and plastic-made articles	1.17	1.365	Industries with weak comparative disadvantage
6	Textile and garment	0.73	1.155	Industries with weak comparative disadvantage

*Note.* Adapted from OSMEP white paper report (2011). RCA is an index used in international economics for calculating the relative advantage or disadvantage of a certain country in a certain class of goods or services as evidenced by trade flows (Hosein, 2008).

Moreover, statistic from Thailand Textile Institute (2016) indicates that T&G internationalization performance in terms of export value has decreased continuously since 2011 from USD 8,356.32 million to USD 6,955.90 million as shown in Table 1.3.

Table 1.3

*Export Value of Thai Textile and Garment Industry*

Year / Value	Exports USD (million)
2011	8,356.32
2012	7,317.17
2013	7,584.86
2014	7,570.90
2015	6,955.90

*Note.* Adapted from online report provided by Thailand Textile Institute (2016).

Against this backdrop, a review of the literature pertaining to the internationalization challenges among the SMEs has demonstrated a vast array of areas that requires closer scrutiny, especially in the context of developing countries. For instance, Garengo and Bernardi (2007) indicated that one of the main factors

impeding the development of SMEs is lack of organizational capabilities. Hassan and McCarthy (2011) pointed that organizational capabilities are significant for SMEs and contribute to enhance SMEs' international success. This is echoed by Manimala and Kumar (2012) who argues that strengthening the internal capabilities of SMEs is the alternative strategy for SME development to minimize the adverse impact of the environment as well as to take advantage of the external facilitation.

As evident in the extant literature, there are various factors that have been identified to influence SMEs' internationalization performance (Baimai & Mukherji, 2015; Man, Lau, & Chan, 2002; Sousa, 2004; Sousa et al., 2008; Theingi, 2004; Zou & Stan, 1998). Putting all those in the context of Thailand, it appears that studies on internationalization of SMEs in Thailand is rather limited, hence creating a huge void in the literature (Theingi, 2004; Zou & Stan, 1998). More evidence from the developing countries is necessary given that the experience of the developed countries may not be readily mapped onto the developing countries such as Thailand. This is further highlighted by Hassan and McCarthy (2011) who remark that despite the interest in the internationalization of SMEs is growing; there has been little research focus on developing countries, which requires urgent attention if internationalization of SMEs is to be adopted as a strategic repositioning tool for the economic sustainability.

A review of the literature suggests several factors that could improve internationalization performance which include among others; entrepreneurial orientation, global mindset, imitative capability and strategic flexibility (Tanvisuth, 2007); organizational resources and networking resource (Tooksoon, 2009); entrepreneurial strategic orientation (Pansuwong, 2009); technological capabilities

(Chantanaphant et al., 2012); international entrepreneurial culture (Baimai & Mukherji, 2015).

In addition, it has been found that having an international entrepreneurial orientation (IEO) as firm behavior enhances a firm's international success (Knight & Cavusgil, 2004). Similarly, Thoumrungroje and Tansuhaj (2005) suggested that firms need to develop entrepreneurial strategic posture as their competitive orientation by emphasizing innovation, risk-taking, and proactive activities in order to enable them to create and capture the opportunities in international markets. Having noted that, the extent to which this holds true among T&G entrepreneurs operating in SMEs are yet to be empirically tested, especially in the context of Thailand, as highlighted by (Pansuwong, 2009). Interestingly, Godwin and Ernest (2013) revealed that export entrepreneurial orientation's dimensions are significant predictors of export performance in Ugandan SMEs; however, export performance within a firm cannot be explained by export entrepreneurial orientation alone. Consequently, they also suggest that there is a need for further research to investigate other factors that could explain performance among exporting SMEs in developing countries.

According to Upper Echelon Theory (UET), the values and beliefs of the key decision maker in the organization is very crucial in determining the actions and strategies of the organization (Hambrick & Mason, 1984). Given that the value of the key players of the SMEs is crucial, this study seeks to focus on Sufficiency Economy Philosophy (SEP) which is Thailand's unique values (Thongpoon, 2013). The 3<sup>rd</sup> SME Promotion Master Plan (2012 - 2016) has indicated that Thai SMEs should apply this philosophy in doing business for achieving sustainable and competing in the changing global context (OSMEP, 2011). However, researchers (Kantabutra & Siebenhuner, 2011; Yipyintum, 2012) noted that while the SEP has been widely adopted and well

established in the agricultural sector, its application in the business sector is still limited. Thus, they recommend that the SEP to be adopted in every sector not only limited to an agricultural sector.

It is also noted that the T&G industry in Thailand are facing tough competition brought about by the globalization and liberalization. The one of the way to cope with these impediments is to be strategically flexible and adaptable to environmental changes and emergent circumstances (Najmaei & Sadeghinejad, 2009). Especially for Thailand T&G industry, OSMEP (2012) noted that the SMEs in the industry should consider and establish strategic flexibility in their operations especially in times of high environment turbulences. Likewise, Tanvisuth (2007) indicated that the dynamism, uncertainty, and unpredictability in the new competitive landscape has forced firms to recognize the significant role of strategic flexibility in helping them develop and maintain their competitive advantage. Interestingly, a previous study by Grewal and Tansuhaj (2001) revealed that strategic flexibility of Thailand firms have a positive influence on firm performance after a crisis; however, the limitation of their work suggest that there is a need to develop a better measure of strategic flexibility. Tungbunyasiri and Ussahawanitchakit (2013) uncovered that strategic marketing flexibility had a positive effect on marketing performance in beverages businesses in Thailand.

Putting all the above arguments into perspective, the present study attempts to answer the call for a more focused study on internationalization of SMEs especially in the context of T&G industry in Thailand by investigating the relationship between IEO, SEP, organizational capabilities (i.e., marketing, networking, innovation and management), strategic flexibility, and internationalization performance in an integrated framework. This initiative is without doubt important to identify the “silver

bullet” for SME competitiveness especially in regards to the export performance of SMEs in T&G industry in Thailand.

### **1.3 Research Objectives**

Based on the background of the study, the main research objective is ‘*to examine the internationalization performance of SMEs in T&G industry in Thailand*’. In this sense, the interest of the present study is to examine the significant factors that impact on their internationalization performance. The first initiative is to examine the antecedents and outcomes of organizational capabilities in the international context. Secondly, the study intends to investigate the moderating effect of strategic flexibility on the relationships between organizational capabilities and internationalization performance. Specifically, the objectives of the present study are;

1. to examine the level of SMEs internationalization performance in T&G industry in Thailand;
2. to examine the effect of international entrepreneurial orientation on organizational capabilities;
3. to examine the effect of sufficiency economy philosophy on organizational capabilities;
4. to examine the effect of marketing capability on internationalization performance (i.e., objective and subjective);
5. to examine the effect of networking capability on internationalization performance (i.e., objective and subjective);
6. to examine the effect of innovation capability on internationalization performance (i.e., objective and subjective);

7. to examine the effect of management capability on internationalization performance (i.e., objective and subjective);
8. to examine the effect of strategic flexibility on the relationship between organizational capabilities and internationalization performance;

#### **1.4 Research Questions**

With the aim to answer the core question of '*how to enhance the internationalization performance of SMEs in T&G industry in Thailand?*' this study attempts to provide answer to the following research questions:

1. What is the level of SMEs internationalization performance in T&G industry in Thailand?
2. Does international entrepreneurial orientation have an impact on organizational capabilities?
3. Does sufficiency economy philosophy have an impact on organizational capabilities?
4. Does marketing capability have an impact on internationalization performance (i.e., objective and subjective)?
5. Does networking capability have an impact on internationalization performance (i.e., objective and subjective)?
6. Does innovation capability have an impact on internationalization performance (i.e., objective and subjective)?
7. Does management capability have an impact on internationalization performance (i.e., objective and subjective)?
8. Does strategic flexibility play a moderating role on the relationship between organizational capabilities and internationalization performance?



## 1.5 Significance of the Study

There are two main contributions of this study which can be categorized as follows: the theoretical contribution and the practical contribution.

1) *Theoretical contribution*, this study intends to contribute to the existing literature in the following ways:

First, this study aims to extend the knowledge of international entrepreneurship literature at the firm level (Pansuwong, 2009), by examining the significant factors that impact on internationalization performance of SMEs. According to Lu, Zhou, Bruton, and Li (2010), the internationalization of entrepreneurial firms in emerging economies is a significant topic but till date has received little attention. Consistent with Hassan and McCarthy (2011), they indicated that, despite the growing interest in the internationalization of SMEs, there has been little research focusing on developing countries which has led to insufficient localized references on the “know-how” in internationalizing the business ventures. References of this kind are crucial given that the findings of the western context may not be readily transposed onto the non-western context such as Thailand.

Second, this study aims to extend the knowledge of organizational capabilities since this concept is rather ambiguous to some extent (Schienstock, 2009) by relating to entrepreneurial firm internationalization in developing countries (Hassan & McCarthy, 2011; Lu et al., 2010) and small firms (i.e., SMEs) (Frishammar & Andersson, 2009).

Third, this study aims to fill in the gap highlighted by the work of Zhang, Tansuhaj, and McCullough (2009) there is a need to identify influencing antecedents of the organizational capabilities. Hence, this proposed IEO and SEP to serve as the antecedents.

Fourth, this study answers the call to look into the potential moderating effect of strategic flexibility in the context of SMEs. This follows the suggestion of Sousa, Martinez-Lopez, and Coelho (2008). Often strategic flexibility has been viewed from the lens of large organizations. It is only recently that scholars have realized the crucial effect of strategic flexibility in the SMEs context; nevertheless, empirical evidence to support this proposition is still scant. Hence, the present study hopes to fill in this gap.

Fifth, this study endeavors to extend the knowledge of two dominant theories: the resources-based theory (RBT) and the upper echelon theory (UET) on a single research framework.

2) *Practical contribution*, this study seeks to address two issues. The findings would be of great value to owners/managers, policy makers, and the government who are keen in studying the fundamentals for SMEs' success in the international market in that;

Firstly, the owners/managers of Thai T&G firms will be cognizant of the importance of IEO and the SEP as values that could define the appropriate behaviors for the continuous performance of the business. Moreover, utilizing organizational capabilities is the alternative strategy for the development of the firms to minimize the adverse impact of the environment as well as to take advantage for expanding their operations to international markets.

Secondly, policy makers and the government could utilize the results of this study in their efforts to develop and promote internationalization performance among SMEs in developing countries especially the ASEAN nation. These countries would be able to learn and extend further knowledge from these findings.

## **1.6 Scope of the Study**

This study focuses only on Thailand's T&G industry with a special focus on internationalization performance of SMEs that are listed in the T&G Exporter Directory 2014, provided by Department of Export Promotion (DEP) of Thailand. As suggested by Kenny and Fahy (2011), focusing on a single industry in one country enables a researcher to control for industry- and country-specific factors affecting international performance. Data will be obtained from owners/managers who act as the key informants within the industry. The independent variable is organizational capabilities which consist of four dimensions namely marketing, networking, innovation and management capabilities whereas the dependent variable is internationalization performance. Furthermore, IEO and SEP are conceptualized as antecedents and strategic flexibility is involved as the moderator.

## **1.7 Definition of Key terms**

**International Entrepreneurial Orientation** refers to a combination of innovativeness, pro-activeness, and risk taking behavior that crosses national borders and is intended to create value in organizations (McDougall & Oviatt, 2000; Oviatt & McDougall, 2005).

**Innovativeness** refers to a firm's willingness to engage in and supports new ideas, novelty, experimentation, and creative process that may result in new products/services and technological processes in international markets.

**Proactiveness** refers to a firm's willingness to be the pioneer to initiate actions to competitors and to introduce new products/services, technologies, and techniques in international markets.

**Risk-taking** refers to a firm's willingness to make large and risky resource commitments in international markets.

**Sufficiency Economy Philosophy** refers to the behavior of firm which stresses on the middle path in order to achieve the internationalization performance. It consists of moderation, reasonableness, self-immunity, knowledge, and morality (Wibulswasdi, Piboolsravut, & Pootrakool, 2010; Thongpoon, Ahmad, & Yahya, 2012).

**Moderation** refers to business actions with moderate ways of a firm in international borders.

**Reasonableness** refers to business actions of a firm that needs a good reason's support for serving benefits to itself and outsiders in international borders.

**Self-immunity** refers to business actions of a firm that involves risk management policy to decrease the adverse impacts of dynamic environment in international borders.

**Knowledge** refers to general and specific knowledge that a firm need to incorporate with business processes in order to growth in the international market.

**Morality** refers to moral behaviors of a firm in terms of perseverance, sincerity, honesty, diligence, and responsibility in international borders.

**Organizational Capabilities** refer to the capabilities of a firm or what it can do as a result of teams of resources working together (Grant, 1991). It composes of four capabilities namely marketing, networking, innovation, and management.

**Marketing Capability** refers to firm's ability to develop and execute marketing strategies by employing competitive knowledge based on core marketing elements to

create superior value for foreign customers. (Cavusgil & Zou, 1994; Zhang, Tansuhaj, & McCullough, 2009).

**Networking Capability** refers to firm's ability to obtain resources from the environment through alliance creation and social embeddedness to utilize in its activities in international markets (Zhang et al., 2009).

**Innovation Capability** refers to firm's ability in terms of change products/services and processes for the benefit of the firm. Product innovation is that a firm can provide differentiated or new products/services in the market and obtain satisfaction from customers. On the other hand, process innovation is a process in which a firm can provide a better manufacture or service process than current operation in order to achieve better performance (Liao, Fei & Chen, 2007).

**Management Capability** refers to firm's ability to manage the firm's operation in view of managerial processes, knowledge and skills of employees, and an efficient organizational structure (Kuivalainen, Puumalainen, Sintonen, & Kylaheiko, 2010).

**Internationalization Performance** refers to the outcome of a firm's activity in the export market (Cavusgil & Zou, 1994). It is a composite of two measures: objective and subjective respectively. While a firm's objective measures focus on actual financial indicators, subjective measures focus on overall performance associated with owners/managers' perception.

**Strategic Flexibility** refers to a firm's characteristic which the firm can proactively or reactively respond to business opportunities and threats posed by changes in competitive environments (Grewal & Tansuhaj, 2001; Khin, 2013; Najmaei & Sadeghinejad, 2009).

## **1.8 The Organization of the Research Thesis**

This thesis comprises of five chapters. Chapter 1 summarizes the present study by outlining the background and the problem statement, the research objectives, and research questions respectively, as well as discusses significance of the research, the scope of the study, and the key terms used in this study. Chapter 2 discusses the underlying theory and identifies the theoretical framework. Then it provides literature review of IEO, SEP, four kinds of organizational capabilities, strategic flexibility, and internationalization performance. It also presents research hypotheses in last section of the chapter. Chapter 3 explains the methodology that is used in this study, which includes research design, sampling method, research instruments, questionnaire development, pilot test, data collection procedure, and the analytical method. Chapter 4 shows data analysis of the study, which consists of profiles of respondents and firms, common method variance, goodness of measurement model, revised research framework, and results of structural model analysis. Chapter 5 provides justifications for all findings of the study, implications in view of theory and practice, limitations, and recommendations for future studies.

## **CHAPTER 2**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

As stated at the outset, the aim of this study is to examine the internationalization performance of SMEs in Textile and Garment (T&G) industry in Thailand. This query is deemed timely given the available statistics that demonstrates the degradation of the performance of this industry in recent years, despite its promising future as reported in OSMEP (2011) and Thailand Textile Institute (2016) as shown in Tables 1.2 and 1.3. In obtaining answers on how to remedy the problem, this study has directed its focus on several covariates that include international entrepreneurial orientation (IEO), sufficiency economy philosophy (SEP), four types of organizational capabilities (i.e., marketing, networking, innovation and management), and strategic flexibility. The major proposition of this study is that enhancing organizational capabilities among the SMEs in T&G industry could increase the likelihood of the firms to perform well in its internationalization activities. The following sections offer an extensive literature review on the T&G industry in Thailand, the theories that underpin the research framework and justifications for the variables of focus. Specifically, it discusses on the two determinants of organizational capabilities, the four types of firm capabilities, the moderating variable, and internationalization performance. Finally, the theoretical framework and hypotheses advanced for this study are discussed.

## 2.1 A Review of Textile and Garment Industry in Thailand

### 2.1.1 Thai SMEs and Internationalization

Small and Medium Enterprise is generally defined by number of full time employees or net fix assets, whichever is fewer. The criteria for Thai SMEs are established by OSMEP (2016) and can be used to classify them into 3 groups as shown in Table 2.1. First, manufacturing and service classification refers to less than 200 employees or THB 200 million fix assets. Second, wholesale classification refers to less than 50 employees or THB 100 million assets. Third, retail classification refers to less than 30 employees or THB 60 million assets.

Table 2.1

*The Classification of Thai SMEs*

Type	Small Enterprise		Medium Enterprise	
	Number of Employees	Net Fixed Assets (Million Baht)	Number of Employees	Net Fixed Assets (Million Baht)
Manufacturing & Service	$\leq 50$	$\leq 50$	51-200	$> 50$ -200
Wholesale	$\leq 25$	$\leq 50$	26-50	$> 50$ -100
Retail	$\leq 15$	$\leq 30$	16-30	$> 30$ -60

*Note.* Adapted from OSMEP white paper report (2011)

During the 1997 global economic crisis, Thailand has witnessed the tremendous adverse impact of the crisis throughout the entire the country. Businesses were closed down and unemployment rate increased. The government quickly realized that SMEs could be the vanguard of the country's economy during the critical turbulence. It was noted that during the adverse economic situation, SMEs especially the small ones are seen as the crisis shock absorbers which support the country by providing employment and producing new entrepreneurs to run larger firms when the economy recovers (Thongpoon, Ahmad, & Yahya, 2011).



According to OSMEP (2011, 2016), Thai SMEs still held their ground as the engine of growth in the economic system of the country. For instance, SME's gross domestic product (GDP) was greater than the GDP that produced by large enterprises (LEs) in 2011. Table 2.2 demonstrates that SME sector had continually created higher employment in Thailand during 2009 – 2014. The employment growth of the area steadily increased from 9,701,354 workers in 2009 to 10,496,177 workers in 2014 which were equivalent to 80.6 percent of all overall employment. Moreover, Thai SMEs were operating 2,735,632 businesses, which were equivalent to 99.7 percent of business establishments in the country based on the year of 2014. Therefore, it can be concluded that performance of the SME sector closely associates with the performance of the country (Chittithaworn, Islam, Keawchana, & Yusuf, 2011).

Table 2.2

*Number and Level of Employment of LEs and SMEs in Thailand*

Year	2009	2010	2011	2013	2014
Number in operation					
LEs	4,653	9,140	6,253	6,913	7,009
SMEs	2,896,106	2,913,167	2,646,549	2,715,348	2,735,632
Others	N/A	2,605	52	0	0
Total	2,900,751	2,924,912	2,652,854	2,722,261	2,742,641
Percentage (%)					
LEs	0.2	0.3	0.2	0.3	0.3
SMEs	99.8	99.6	99.8	99.7	99.7
Others	0	0.1	0.0	0.0	0.0
Total	100	100	100	100	100
Level of employment					
LEs	2,704,243	2,988,581	2,111,229	2,490,105	2,521,642
SMEs	9,701,354	10,507,507	10,995,977	10,230,227	10,496,177
Others	N/A	85	57	0	0
Total	12,405,597	13,496,173	13,107,263	2,720,332	13,017,819

*Note.* Adapted from online report provided by OSMEP (2016).

Apart from the provided statistics in Table 2.2, Table 2.3 below depicts the total export value of Thai goods represented USD 217,583.72 million, and SME exports reached USD 59,004.27 million in 2015. The export value of the SMEs sector significantly grows from 2013 to 2015. The value has increased from USD 57,295.36 million in 2013 to USD 59,004.27 million in 2015.