CHAPTER 2

LITERATURE REVIEW

The literature review of this study is divided into three groups: The first group is literature review for understanding research problem which consists of the information about community business and SMEs. The second group is literature for supporting research methodology and tools which are Knowledge Management (KM) organization framework of European Knowledge Management Forum (EKMF) and the concept of best practices and high performance organization. The last group of literature review is theory for analyzing and using as solutions which are resource-based theory and clusters.

The organization of this chapter is divided into five sections: community business, small and medium enterprises, Knowledge Management organization, best practices and high performance organization, and resource-based theory.

The first section provides a general overview of the community business historical background and situation, by proposing concept and roles of community business toward community and social economics. The background and situation of major community business countries will be discussed later and in more detail. Information achieved from each major country provides an idea about the initiation of community business. Community business objectives and environment in United Kingdom, China, Spain, and Japan are also explained. Finally, the background and situation of Thai community business is illustrated.

The second section is further discussion on Small and Medium Enterprises (SMEs), by explaining their characteristics, SMEs management, the advantage and disadvantage of SMEs, and SMEs and organizational aspects.

The third section focuses on the study of Knowledge Management organization (KM organization) topic from European Knowledge Management Forum (2000), from general organization theory to basic understanding of the theories in organization studies. This theory is useful in understanding reasons of organizations,

elements of organizations, viability of organization, mechanic of organizations and organizational environment, followed by explaining the results of EKMF (2000) study, each dimension and sub-dimension related theory.

The forth section emphasizes on best practices and high performance organization, by demonstrating their concepts, along with benefits from applying both concepts to other organizations.

The fifth section explains the competitive strategy of small and medium enterprises, particularly from a resource-based view, which is an essential concept in developing strategies for community business management. In addition, the concept of business clusters, why clusters are critical to competition, the role of clusters, and the comparison of resource-based theory and clusters.

2.1 Community Business

2.1.1 Overview of Community Business

In the world, the terms "community business", "social enterprise" and "community enterprise" are being used variously by key institutions, leading researchers, and well-known practitioners to describe a range of organization types and activities (Darby & Jenkins, 2006)

Community Business is viewed as key contributors to economic development, especially in rural areas, helping to create a vigorous local economy. The Yearbook of Cooperative Enterprise, published by the Plunkett Foundation (1992) explains the key characteristics of a community enterprise as follows:

1) A community enterprise is a business which aims to create sustainable jobs and related training opportunities for local people and/or to provide commercial services.

2) A community enterprise aims to make profits and to become financially self-supporting; to use profits only for investment in its enterprises, for limited bonus payments to workers, and for community benefit.

3) Membership or share-holding in the community enterprise is organized on democratic one-person-one-vote principles.

4) A community enterprise must register either as a company or as a cooperative society using a model or other legal structure which is recognized as acceptable.

5) The assets of the community enterprise are owned on behalf of the community and are held in trust by the directors such that the assets may not be disposed of to benefit financially individual members or directors.

6) The membership of the community enterprise must be open to all persons within its agreed area of benefit. In some circumstances a community of interest or a community of need can be established.

7) The community enterprise commits to being a good employer regarding wage levels, terms and conditions, equal opportunities and employee participation.

8) The community enterprise commits to evaluating and reporting annually on the effectiveness of its impact on the local community.

The community business can be found in many countries in the world. Each country has there own historical background as follows:

2.1.2 Community Business in the United Kingdom

The UK has distinct historical tradition of social enterprise. In the 1980's worker cooperatives and other forms of community enterprise were initiated, sometimes with the support of local government as a response to local employment creation (Pearce, 2003). There are also a growing number of social enterprises emerging with government support. In 2002, social enterprise was explicitly linked to the UK public policy agenda by the Department of Trade and Industry (Pharoach & Scott, 2002). The key objectives are

- Creation of an enabling environment for social enterprise
- Making social enterprises better businesses; and
- Establishing the value of social enterprise

In the UK, social enterprises (SEs) are gaining recognition and support for the contribution they make to society and sustainability (Strategy Unit, 2002). The term "social enterprise" encompasses a diverse array of projects and types of organization, as defined by the UK Government:

A social enterprise is a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximize profit for shareholders and owners…Social enterprises tackle a wide range of social and environmental issue and operate in all parts of the economy (DTI, 2002).

A leading UK social enterprise organization, Social Enterprise London (SEL) , describes social enterprises as:

Organizations that use trading activities to achieve their goals and financial self-sufficiency. They are businesses that combine the entrepreneurial skills of the private sector with a strong social mission that is characteristics of the social economy as a whole (SEL, 2004).

Three common characteristics of social enterprises as defined by Social Enterprise London are:

- Enterprise orientation: They are directly involved in producing goods or providing services to a market. They seek to be viable trading organizations, with an operating surplus.

- Social aims: They have explicit social aims such as job creation, training or the provision of local services. They have ethical values including a commitment to local capacity building, and they are accountable to their members and the wider community for their social environmental and economic impact.

- Social ownership: They are autonomous organizations with governance and ownership structures based on participation by stakeholder groups (users or clients, local community groups etc.) or by trustees. Profits are distributed as profit sharing to stakeholders or used for the benefit of the community.

The study of Renewal (2002) concludes that in the UK the number of Social Enterprises and policies to support them is increasing, this reflect that there is a growing range of service areas not addressed by the public sector, but where conditions are not attractive enough to attract the private sector. By using business solutions to achieve public good, the Government believes that social enterprises have a distinct and valuable role to play in helping create a strong, sustainable and socially inclusive economy and the UK government expects Social Enterprises to be sustainable and to achieve both financial and social goals (DTI, 2002).

A development organization called Community Business Scotland has settled on the following as a definition:

> A community business is a trading organization which is owned and controlled by the local community and which aims to create ultimately self-supporting and viable jobs for local people in its area of benefit, and to use profits made from its business activities either to create more employment or to provide local services, or to support local charitable works. A community business is likely to have a multi-purpose enterprise and it may be based on a geographical community or on a community of interest (Calouste Gulbenkian Foundation, 1982, p. 4).

2.1.3 Community Business in China

In China, the community business called township and village enterprises (TVEs). TVEs have played a significant role in promoting rural employment and economic growth and reducing disparity of urban and rural economy (Liang, 2006). In the 25 years from 1978 to 2003, the number of TVEs grew 20 percent annually. By the end of 2003, there were 21.85 million TVEs, with an employment of 135.73 million and added value of 3.6686 trillion. TVEs made up over 30 percent of the national GDP.

Since the reform and opening up policy that was adopted in China during the 1980s, TVEs have thrived in rural areas. From the ownership point of view, they are set up by townships, village, several households (or partnerships), individual household (or private), or jointly by Chinese and foreign partners through shareholding mechanisms or shareholding cooperative systems. In terms of forms of organizations, some are established as a company or partnership entities, but mostly are now privately owned. Regarding the scale of operation, some are big, but the majorities are small and medium-sized enterprises. Geographically, they are located in rural areas.

Liang (2006) states that now the market is much more open to both domestic and oversea players, and competition has become much fiercer. Pressure is now mounting on enterprises for their products, technologies and management. Therefore, China is facing many obstacles as follows:

- Out dated management: Most of TVEs are small and are dominated (85.5 percent) by outdated modes of family enterprise. Only 0.8 percent TVEs have adopted

modern enterprise systems. Moreover, the majority of TVEs has limited managerial skills, substandard production and poor quality.

- Slow industrial restructuring and limited technical application: Technology-intensive industries such as machinery, electronics or pharmaceuticals made up only 20% of added value of large TVEs while traditional labour intensive sector such as textile, clothes, light industry, and building materials remain the pillars of TVEs. There are a limited number of agri-food processing businesses, and their production skills are low.

- Regional disparity between the eastern and western regions

- Tightened pressure and difficulties in supportive environments, therefore the Chinese government needed to develop a strategy to build competitive advantage for TVEs as follows:

- Strategies should be mapped out to prioritize on quality and branding

- TVEs should be mobilized to towns or industrial estates

- Regional economic and technical collaborations should be encouraged

2.1.4 Community Business in Spain

The most well-known case of a successful community business is that of Mondragon in Northern Spain. Although this billion dollar social economic initiative is employee-owned, it is not a traditional worker-owned co-operative but is called "The Mondragon Co-operative Corporation".

The complex employs over 25,000 workers and is made up of four main divisions:

1. Financial, which includes a community bank.

2. Industrial, which includes 83 factories producing a wide range of goods from refrigerators to machine tools.

3. Distribution which includes Eroski, one of the largest retail chains in Spain.

4. Corporate, which includes a polytechnic college with specialized research institutes.

This complex has never had a failure in its 40-year history which is due in large part to the tightly orchestrated collaboration between all of the divisions. Although it is developed independently of the Franco-dominated government in

Madrid, the other two pillars of university and industry in collaboration were of key importance; the third pillar of the triple helix, government, eventually became involved during the last ten years.

The Mondragon example shows that it is possible to develop a community-oriented production complex in a marginal area. Although it is dependent on outside markets, the Mondragon complex has succeeded in buffering the community. It has done this by building the linkages between innovation system actors that characterize the innovation clusters, chains and complexes that are the goals of many local initiatives (Whyte, 1988).

The business concept assumes that the motivator of business enterprise is private profit for the shareholders. Friedman (1980) states that "The only obligation which business has in and to society is to get on with the job of producing profit for its shareholders and that the managers are the agents appointed to carry out the purpose of the shareholders". The organizers of community business corporations are in disagreement with this claim and propose that business corporations can be efficient and entrepreneurial when community improvement is the principal motive. Profit is a means, not an end.

Some researchers have concluded that the Mondragon practice as being non-transferable because of the deep commitment to the local community. However, it is still being the inspiration for other community businesses organized around the Caixa Popular in Valencia, Spain which has now achieved by community leaders who were inspired by Mondragon and who consciously copied some of the basic methods used by the Mondragon leaders. Moreover, Community businesses of Canadian and Mexican business experiments were inspired by Mondragon. It is not so much the detail that is important, but rather it concerns a basic understanding of the concept of the business corporation.

2.1.5 Community Business in Japan

Community Business in Japan is known in the name of One Village One Product (OVOP). OVOP is a strategic movement designed for Japan regional development. It requires people to launch a product or industry distinctive to their region and cultivate it into a nationally or possible for global consumption. The

OVOP was initiated in 1979 by former governor of Oita Prefecture, Morihiko Hiramatsu. This idea advocated because in 1973 people became aware of the effects from rapid economic growth such as pollution, high disparities, depopulation of rural area and society problems. Mr. Hiramatsu proposed this movement to Oita's regional leaders. By the following year, OVOP was introduced in all of Oita's 58 cities, towns and villages. Ever since, this ever-growing, highly successful movement not only brought prosperity and countless specialties to the regions of Oita, but also gave birth to a number of new events and cultural experiences in these regions.

The regional development can be classified into two types; exogenous development and endogenous development.

1. Exogenous development is the development from external factors. The aims of this development are to revitalize local economies and increase the income of local people by promoting the business to invest and operate in the region.

2. Endogenous development is the development from internal capital. The aim of this development is fostering their communities based on the concept of utilizing local resources, local culture and history. The OVOP development in Oita, Japan is the endogenous development and the key success factors of this development are local people that participate in the process of community development

- The OVOP developing process

Mr. Hiramatsu proposed the concept of OVOP to regional leaders

Mr. Hiramatsu gave lectures on the movement to people of all sectors in all the regions of Oita.

The movement was further publicized through mass media.

Prefectural research and guidance facilities were established for technical support for OVOP movement.

Training and education were offered to regional and industrial leaders.

Product introduction efforts were made to expand sales channel of distribution.

Awards were given to Achievers of OVOP.

The success of OVOP is based on three principles as follow:

1) Think Globally, Act Locally

The OVOP concept was introduced in Oita Prefecture over 20 years ago. Now OVOP products amounting to 810 products in total include both tangible products (such as local specialties/produce) and intangible products (such as places and events).

About the tangible products, Oita produces the best Shiitake mushrooms in Japan and its production (1,425t in 2001), which accounts for 29% of domestic market share, is by far the highest in Japan. Kabosu limes are only produced in Oita in the whole of Japan, and its annual production in 2001 was 6,050 ton. Also there are a number of processed products that are made from these limes. 5,630 ton of greenhouse mandarins are produced every year, making up 9.2% of domestic market, and ranking Oita 4th in production. Bungo beef, which topped the Japanese Beef Grand Championship in 2002, is known for its quality throughout Japan, while Oita distilled barley spirits, consumed with Kabosu lime juice, is famous for its smooth taste. The success of these products is the result of constant effort to improve quality of production. OVOP has continuously made a great effort to produce value-added products that could bring prosperity to the regions.

About the intangible products, Yufuin town and Kuju town have both successfully achieved regional development by coexistence of nature and agriculture. Naoiri town has promoted carbonated hot-springs and cultural exchanges with foreign countries as its traits. Oyama town set up a unique farming method together with human development activities. All of these towns have populations of less than 10,000 and attract much attention for their exceptional success.

2) Self-reliance and Creativity

OVOP was initiated autonomously in 58 cities, towns and villages of Oita Prefecture. In the year of its introduction, the number of OVOP products throughout the prefecture was 143, but 20 years later the figure had increased more than double to 336.

Adoption of the OVOP concept was not always successful, and there were many trials and errors along the way. The government assisted in product development and distribution through the establishment of institutions such as Agricultural Technology Center, Mushrooms Research and Guidance Center,

Livestock Experimental Station, and Institute of Marine & Fisheries Science, the government offered guidance in production and processing technology. Distribution routes were opened and expanded by the efforts of the prefectural government and the then governor Mr. Hiramatsu himself, who organized numerous fairs in major Japanese cities and abroad, where he personally advertised Oita's prospective products. Also, regional markets were set up throughout Oita to encourage local consumption of OVOP products. Moreover, groups and individuals with outstanding achievement in OVOP were honored with rewards.

3) Human Resource Development

OVOP's ultimate goal is fostering global-minded, challenging leaders, who could drive OVOP into further success. Regions that have successfully adopted OVOP in the past all had such leaders at the frontier. A number of regional training schools have been founded to educate potential leaders, and students of these schools usually work at day-time and study at night-time. By 2002, 10 years after the schools first opened, there were 1,991 graduates, and they were all actively involved in OVOP in their respective regions and sectors. Training schools that were exclusively designed for each industry, such as Agricultural Training School, Commerce School, International College, Environment School, IT Academy and OVOP Women's 100 Member Group, were also established to nurture leaders in a wider range of fields.

2.1.6 Community Business in Thailand

The former studies about community business in Thailand have defined the meaning of community business as follows:

Phongpit (1995) defines that the community business development is a development of a performance aspect of an occupation and people income in a social or a community. Having community's agreements about processes and objectives, each member of a community has evolved in participatory management of his/her own community in order to develop strong relationship among members in such specific community environments. This development leads to an independent community and freedom of selecting of occupations regardless of external environments.

Walaisatein (1997) defines that community business as activities that

community members or organizations in a community are the owners of those activities. They play important roles in operating activities partially or holistically. Activities may comprise of coordinating with external organizations, learning and managing together in different areas i.e. productions, transformation, trading, and providing services in order to sustainably develop their community economics and welfare to suit social/community environments, cultures, natural resources. The main objectives are to have a better standard of living and a sustainable community development.

Sotornjit (2002) concludes the definition of community business as community business is a co-operate of two or more community members to run economic activities including production, operation, transformation, marketing, management, and product buying or selling. Those activities are targeting at making profit which leads to better quality of life and sustainable development.

Phunlarp (2005) explains that community economy is how to manage resource and capital efficiently varies from production, consumption, marketing, investment, saving, and fringe benefit management.

Nartsupa (2004) concludes that community business is the gathering of local people or villagers. The main objective of community business is to have members participate in each decision making process, from production to distribution. Community business should match member's needs and at the end they can be self-reliance.

Despite the integration of villagers, community business has various relevant authorities involved such as private and government sectors, non-profit organization, and education units. These authorities, as consultants, transfer knowledge and technology to a community. A community business model is very flexible, depends on changing business environment. Not only focuses on making profit, community business also aims at profit sharing among community members and should be self-reliance in both production and marketing.

2.1.6.1 Characteristics of Thai Community Business

The assumptions of Thai community business are: local people are poor, mostly are farmers and gardeners. Beside the role of farmer and gardener, they can

utilize their labour to provide the secondary income by joining the community business.

The main difference between a normal business and community business is that community business helps to create job positions in a community. High revenue is not expected during the start of a business, but to earn enough for everyone is much more important. Sarawadee (1996) explains about characteristics of Thai community business as follows:

- Community business should be initiated from community demand and also correspond with resources and cultures in a community. Environmental concern should be well considered in order to prevent any harmful effects that might happen to community surroundings or people's health.

- Joint venture and investment funds should be from community members itself.

- Community members have authorities to be a part of decision making process, management process, and profit sharing.
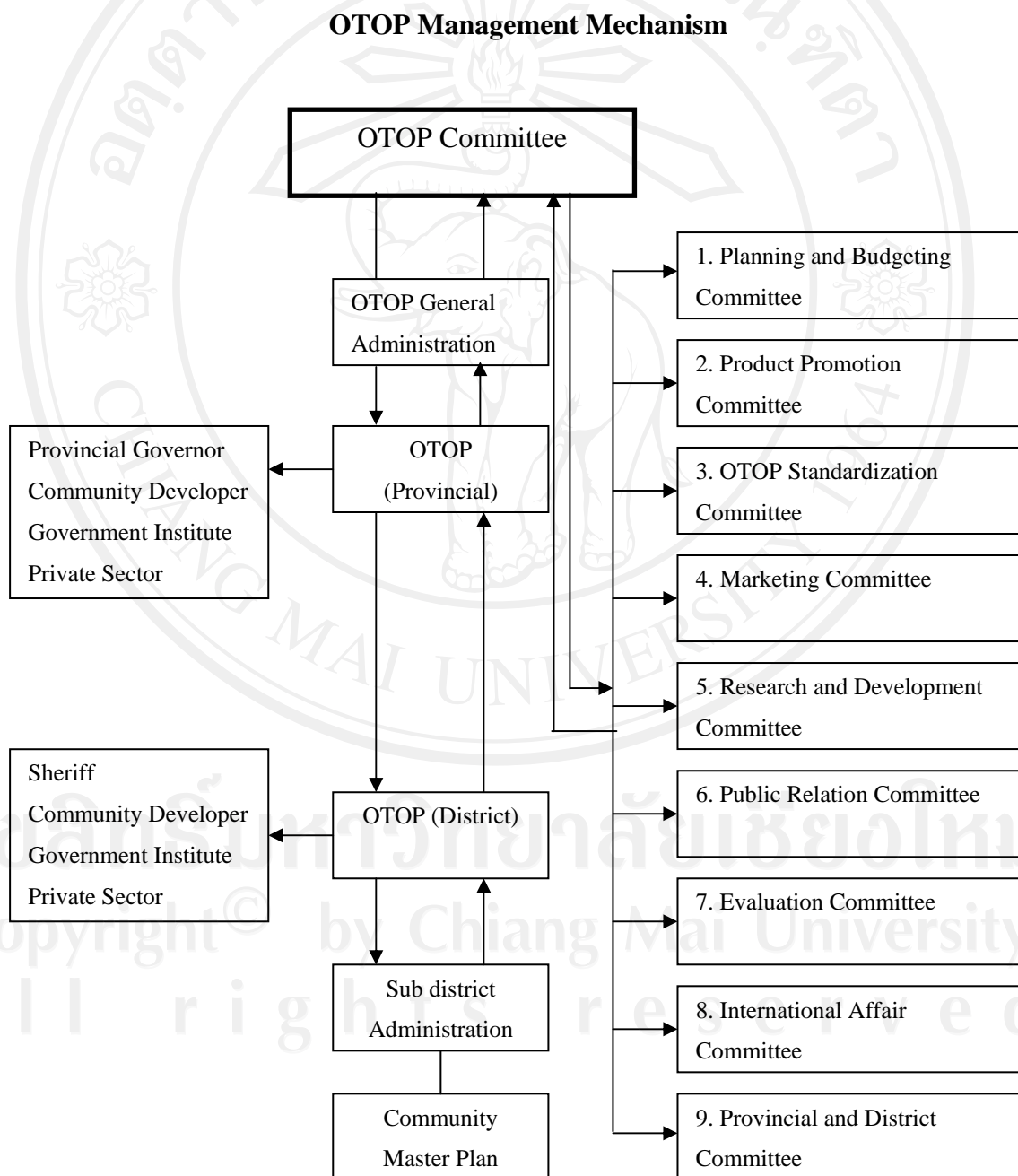
The definition and characteristics of community business have shown that community business has several unique characteristics such as: there are external environment factors which are uncontrollable i.e. market demand, pricing, external information, and profit is not only the main objective of community business, but the human development and business ethics are also important (Techaatik, 1997).

2.1.6.2 Thai Community Business Management

Community business management emphasizes on management system of a group or an organization in harmony with community. Community business is based on community self-reliance and cooperation. It also gives an opportunity to members to learn a community management system. The characteristics of a community business and a normal business have something in common from management perspective. These similarities are production, transformation, marketing, accounting, human resource management through manage process i.e. planning, organizing, staffing, directing, and controlling. From all of the concepts mentioned above, a normal business and a community business have some similarities i.e. organizing, job and responsibility delegation. This depends on business size.

According to the importance of community business, Thailand has paid an attention to community business since 2001. As a result, the OTOP campaign, which was derived from the Japanese OVOP concept, was initiated as a part of rural area economic development under the control of Thai Rak Thai party.

- OTOP Implementation in Thailand

OTOP Management Mechanism

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                              ┌──────────────────────┐
                              │   OTOP Committee     │
                              └──────────────────────┘

                              ┌──────────────────┐        1. Planning and Budgeting
                              │ OTOP General     │           Committee
                              │ Administration   │
                              └──────────────────┘        2. Product Promotion
                                                             Committee
  ┌─────────────────────┐     ┌──────────────┐
  │ Provincial Governor │ ←── │ OTOP         │           3. OTOP Standardization
  │ Community Developer │     │ (Provincial) │              Committee
  │ Government Institute│     └──────────────┘
  │ Private Sector      │                                 4. Marketing Committee
  └─────────────────────┘
                                                          5. Research and Development
                                                             Committee
  ┌─────────────────────┐     ┌──────────────┐
  │ Sheriff             │ ←── │ OTOP         │           6. Public Relation Committee
  │ Community Developer │     │ (District)   │
  │ Government Institute│     └──────────────┘           7. Evaluation Committee
  │ Private Sector      │
  └─────────────────────┘     ┌──────────────┐           8. International Affair
                              │ Sub district │              Committee
                              │ Administration│
                              └──────────────┘           9. Provincial and District
                                                             Committee
                              ┌──────────────┐
                              │ Community    │
                              │ Master Plan  │
                              └──────────────┘
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Figure 2.1 OTOP Management Mechanism

The OTOP implementation process had shown its success by a dramatically increase of total OTOP sales volume from 16,714 million baht from 2002 to 65,000 million baht in 2006 or 289% growth (Department of Community Development, 2006)
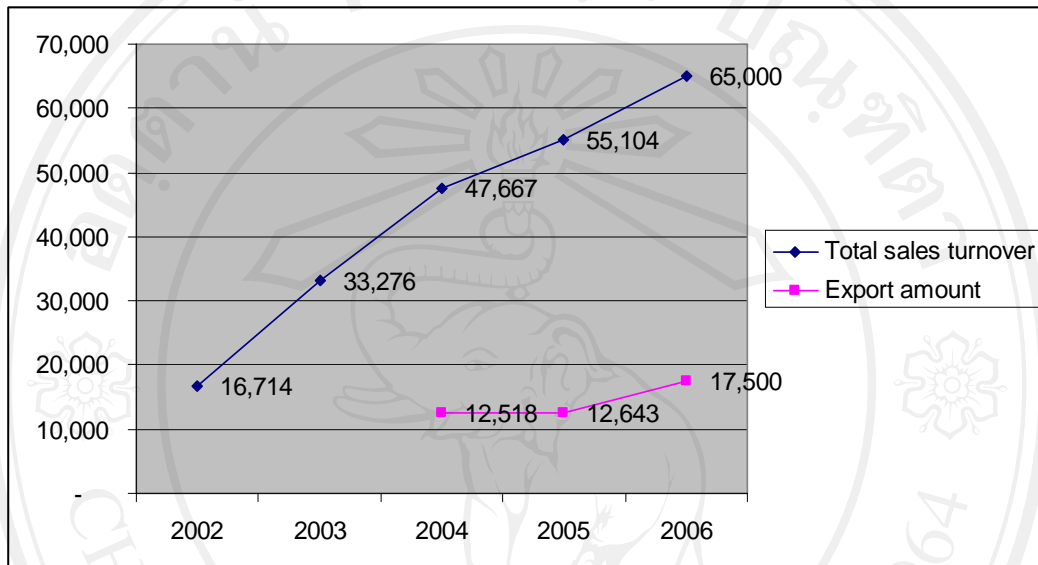
Figure 2.2 Total Sales Turnovers and Export Amount of Thai Community Business

Moreover, the numbers of Thai community business increased rapidly during that time. Currently, the number of registered OTOP business in 2006 is 37,840. 11,232 out of 37,840 were well chosen by Thai government which can be grouped into 5 categories as follows: 1. Home and decorations 3,574 businesses (31%), food 3,234 businesses (29%), garment and cloth ware 2,819 businesses (25%), beverage 873 businesses (8%), and herbs 731 business (7%).

Grouping by type of entrepreneurship, OTOP business can be grouped into 3 categories as follows: 1. Community business 25,404 groups (67%), sole entrepreneur 10,193 businesses (27%), and SMEs 2,243 businesses (6%). Most OTOPs have 11-20 employees and are tied closely to community:

Relative to Community	Number	Percentage
local employment	34,489	91.1
Local materials	23,710	62.7
Participatory manage with community	18,426	48.7
Profit sharing with community	22,325	59.0
Etc.	1,068	2.8

Table 2.1 Relative of OTOP to community (percentage of OTOP in 2006)

2.1.6.3 Thai Community Business Standards

Thai community business is standardized by Thailand OTOP Committee by giving a star rating from 5 stars to 1 star. There are 2 criteria being used to classify the OTOP: 1. Product which focuses on local material and local knowledge is given (10 points), product development (15 points) marketing channel and packaging (25 points) 2. Community strength which focuses on organization (10 points), market reach (5 points), financial and accounting management (15 points), and organization structure and network (10 points).

Classification Details

5 stars 90 – 100 points International standard products, potential export products

4 stars 80 – 89 points Potential to be accepted nationally, ability to develop to comply to international standards

3 stars 70 – 79 points Middle level products, ability to develop into 4 stars classification

2 stars 50 – 69 points Ability to develop into 3 stars classification, with a need to be evaluate periodically

In year 2006, the upper north of Thailand, which includes Chiang Mai, Chiang Rai, Mae Hong Son, Phayao, Lamphun, Lampang, Nan, Phrae, was a leader in

handicraft industry had 5,263 businesses (13.9 %). In Chiang Mai province, there were 1,308 community businesses and local businesses that can be categorized into sole entrepreneur 678 businesses, group producer 562 businesses, and SMEs 68 businesses. However, there were 404 businesses elected as candidates for OTOP award in 2006, 48 businesses were in suburban area, while 356 businesses were in rural areas.

Grouping by business type as follows: Food 55 businesses (13.6%), herb 26 businesses (6.4%), beverage 23 businesses (5.6%), garment and clothing 88 businesses (21.8%), and home decorations 212 businesses (52.5%)

Grouping by star rating as follows: 5 stars 15 businesses (3.7%), 4 stars 79 businesses (19.6%), 3 stars 128 businesses (31.7%), 2 stars 146 businesses (36.1%), and 1 star 36 businesses (8.9%)

It can be noticed that the majority of community business in Chiang Mai are handicraft, which consists of home decorations, garment and clothing, and accounts for 74.3%. However, there are only 23.3% that are categorized into 5 stars and 4 stars classifications.

The study of Wiboonpongse & Sriboonchitta (2005) reveal that the major problems for those OTOP businesses rated below 3 stars classes are low quality of products, non-standardized manufacturing process, lacks of environment concern, no accounting system, and lacks of business network.

2.1.6.4 Thailand OTOP Development Weak Points

While OTOP in Thailand is exogenous, OVOP in Japan is endogenous. The OTOP concept in Thailand was originally initiated from government policy instead of local community desires. Therefore, a development process tends to rely on government support instead of community reliance.

An OTOP operation is not consistent with 3 OVOP philosophies which are:

2.1 Insufficiency of "Think globally, Act locally" concept which caused from:

- No product differentiation and uniqueness, no creativity, minimal use of local material

- Insufficient product information that can add value to product itself

- Misunderstanding of local wisdom

- Lack of product development, i.e. production technology development, product quality development (Sriboonchitta , 2001; 2004)

2.2 Inadequate level of self-reliance and creativity. Thai community businesses mostly rely on government support as these can be noticed from:

- 60% of Thai community business started from community needs while 40% are created according to government initiates or advises.

2.3 Lack of Human Resource Development. OTOP is focused on production and marketing development.

Veerakul (2005) proposes OTOP development methods as follows:

- Community business production process needs to meet national or international standards in utilizing local resources.

- Relevant authorities should really understand the meaning of "product", knowing that a product refers to merchandise which is created from a human resource ability or a result of human resource development in the community, not only is it an outcome created from the community.

- A product must have its uniqueness and reflect local culture and identity. Therefore, members of a community must understand what their identity and cultures are. Furthermore, they must know how to differentiate products from the others in order to add more value into their products.

- The government supports should focus on technology and marketing more than financial aspect. However, if there are any needs regarding financial issues, a community should rely on itself by seeking a joint venture or financial sources. These help to create a sense of ownership and to be less dependent on the government.

- Stimulating community business to be able to realize their potential, self confidence, creativity, and self-reliance.

- Emphasizing on human resource development as it is a critical factor for community business sustainability. The offering of training activities are not sufficient for developing human resource, community learning process development and knowledge transferred from generation to generation are significantly important in order to achieve the sustainability.

Even though Thailand has adopted the OVOP concept from Japan, there are several weak points still being realized. The comparison of OVOP and OTOP

implementation are as follows: (Department of Community Development, 2006; Yoshimura, 2004)

2.1.6.5 The comparison of OVOP (Oita, Japan) and OTOP (Thailand)

Table 2.2 The comparison of OVOP (Oita, Japan) and OTOP (Thailand)

Items	Japan	Thailand
Development	Endogenous development (Initiated by local community)	Exogenous development (Driven by external factors and government)
Purpose	1) Preventing depopulation and loss of energy in Oita Prefecture 2) Creating new businesses for the revitalization of rural areas by taking advantage from local features 3) Eradicating heavy dependency upon government, and promoting autonomy and willingness amongst regional people	1) To create job and increase income for community 2) To reinforce community strength 3) To promote the use of local wisdom 4) To promote human resource development 5) To reinforce creativity of community
Principle 1. Think globally, act locally	Implemented this principle successfully - Constant effort to improve quality of production. - Continuously made a great effort to produce value-added products.	Improper implementation of this principle - Products lack local identity. - Lack of value-added products - Lack of product design development - Inconsistence of quality - Products can not meet quality standard.

Table 2.2 (Cont.) The comparison of OVOP (Oita, Japan) and OTOP (Thailand)

Items	Japan	Thailand
2. Self-reliance and Creativity	Implemented this principle successfully	Improper implementation of this principle - OTOP can not self-reliance and lack of creativity.
3. Human Resource Development	Implemented this principle successfully - OVOP leaders are knowledge persons. - Training schools subsidized knowledge worker to OVOP.	Improper implementation of this principle - The policy focuses on only production and marketing.

In distressed communities or rural regions, infrastructure for innovation is deficient. Isolated firms are unlikely to be technologically and organizationally innovative; hence, they are less likely to be competitive (Davis, 1993). In many countries, government sectors or education institute are highly involved to support weak community business, such as The National Association of State Universities and Land Grant Colleges in the USA. They have put forward an agenda to improve economic competitiveness and diversification, support management and strategic planning, promote community leadership capacity, and assist families and communities to adjust to stress and change (NASULGC, 1990).

The government sector and education institute in Thailand are still not highly involved in terms of knowledge support about doing community business. Moreover, the leader of the OTOP project is Thai government which lacks business experience especially in micro enterprise like community business.

According to this problem, Thai government tries to help community business by initiate marketing events and exhibitions. In 2002, many exhibition centers were built all around Bangkok metropolitan area, while numerous of exhibition fairs were

held in major cities throughout Thailand. In 2003, Thai government focused on brand building and E-commerce implementation to increase marketing channels. There had been "OTOP Production Champion" campaign each year to stimulate more rapid product quality improvement and competitive advantages, both domestically and internationally, from 2003 to 2005 (Department of Community Development, 2006).

In 2005, Thai government launched a marketing campaign called "The year of OTOP". In order to achieve this goal successfully, different schemes were established, for example three times of "OTOP CITY" trade fairs, OTOP product exhibitions, local OTOP committee empowerment, OTOP product development in order to reflect local identity, OTOP brand building up, and implementing product differentiation or niche product scheme. There were number of entrepreneur attending OTOP CITY trade fairs. Some were very successful in terms of revenue while others were not.

In addition, community business needs local skills, local material, technology, and management. To manage local people it is crucial, especially their knowledge and skills. Therefore, it is necessary for better understanding community business KM by investigating the successful community business and developing KM organization model. This model should be an alternative model for Thai government and education institute in order to support community business.

2.2 Small and Medium Enterprises (SMEs)

Due to the limited amount of community business researches there is no specific theory of community business management. Therefore, this study attempts to use the theory of small and medium enterprises (SMEs) management in application. The prior business research in SMEs domain has studied specific SMEs characteristics including organization culture, human resources, systems processes and procedures, and organizational structure (Beijerse, 2000) as follows:

1. Ownership and management structure. Most SME owners, who act as owner-managers, also play the part of the company's strategic initiator. A flatter organizational hierarchy in SMEs leads to greater flexibility in work but with a limited or less clear vision of responsibilities. Lower degree of job specialization is needed if there are more generalists. Communication lines are shorter, which allows for easier and more thorough information flow. This structure leads to higher levels of

coordination and cooperation.

 2. Systems, process and procedure. SMEs have simple planning and control systems, informal rules and procedures. There is less standardization of work processes. The operations are less complex. Processes are more fluid and are adaptable to various situations. SMEs also have a narrow scope and mostly focus on operational rather than strategic processes. Rather than creating knowledge repositories, they are more adept at sharing tacit knowledge (Nonaka & Takeuchi, 1995; Desouza & Awazu, 2006).

 3. Human capital management. Since SMEs have less clear employees responsibilities, a lower degree of job specification occur, leading to greater employees versatility. Human capital development is done according to specific needs in an ad hoc manner. Employee performance evaluation is not standardized (Huin, 2004).

 4. Culture and behavior. SMEs usually have an informal, organic, and unified culture. The small size of the organization fosters recognizing the company as a whole instead of looking at single departments or functions. The behavior of employees is more easily influenced by owner-manager's philosophy and belief. An open culture that allows employee to work independently not only enables the knowledge creation process, but also allows knowledge to flow easily among participants (Islam & Kulkarni, 2009).

 In order to gain competitive advantage for SMEs, Daft (2002) and Jones (2001) explain about concept of mechanistic structure and organic structure which is the advantage structure for SMEs as follows:

Characteristics	Mechanic structure	Organic structure
Decision rights	Centralized	Decentralized
Coordination mechanism	Standardized	Mutual Adjustment
Hierarchical	Flat organization	Tall organization
Staff behavior	People have relatively little personal autonomy, and desirable behaviors include being cautious, obeying superior authority, and respecting tradition, predictable, accountable ways.	More freedom to choose and control their own activities, and desirable behaviors include being creative or courageous and taking risks.
Knowledge Worker's role	Role is clearly defined. There is usually a one-to-one correspondence between a person and a task. Each person is individually specialized and knows exactly what he or she is responsible for.	Promotes flexibility, so roles are loosely defined- people perform various tasks and continually develop skills in new-activities.
Business situation	Predictable, Stable	Uncertain, changing environment

Table 2.3 Characteristics of Mechanic and Organic Organization Structure

2.2.1 SMEs Management

Firm size is important factors for generating sales from new products by smaller firms generate less sales from new products than larger firms and medium-sized (Ha-Brookshire, 2009). This finding is consistent with the literature, which explains that size is an important factor for the acquisition of new technologies, training (Prater & Ghosh, 2005), and product innovations (Mosey, 2005; Laforet & Tann, 2006; Therrien & Chang, 2003). As is well known, SMEs are often constrained by limited financial and technical resources and therefore it is possible that the firm is not always able to exploit the business opportunities (Verhees & Meulenberg, 2004). Other issues, like management deficiencies of the entrepreneur, within small firms can lead to poor planning, financial evaluation, and discontinuity of management staff (Freel, 2005, Nooteboom, 1994). A lack of functional expertise in small firms often leads to perform activities with less expertise than large firms, because they are not able to hire functional specialists (Freel, 2000).

There are many studies that focus on why SMEs fail. In UK every year many small businesses fail with the reasons of the lack of investment, cash flow problems, disappointing sales, poor planning or lack of business experience (Analoui & Karami, 2003). As Hodgetts & Kuratko (2001) find that the primary common reason for the SMEs failure is that of the management. Especially, SMEs do not have a long term plan for business and do not think strategically. Analoui (1993, 2000) states that the unbalanced managerial skills of the SMEs manager is the other reason of failure.

In addition, Analoui & Karami (2003) reveal that the successful entrepreneurs are characterized as highly motivated, innovative and flexible, risk takers, proactive leaders, good planers and organizers, benefiting from previous experiences, having technical knowledge, hard workers, self starters, and having personal financial resources. The advantage and disadvantage of SMEs are shown in the following table:

Advantage	Disadvantage
High flexibility and fast responsiveness (Chisnall, 1987)	Limitation of career paths or reward packages (Analoui & Karami, 2003)
Innovation advantage is derived from the flexible managerial structures which are more responsive to changes in the market place (Vossen, 1998).	Ability to attract reasonable cost finance to underpin sustainable development (Analoui & Karami, 2003)
	Inevitably cantered on the owner-manager (Smallbone & Wyer, 1994)
	Many small firms lack of time, resources, technology or expertise to research and develop new business idea and innovation (Jone & Craven, 2001).
	Owner-managers lack of formal management training (Marshall, Alderman, Wong, & Thwaites, 1995).
	SMEs have struggled to obtain adequate and appropriate finance (Jones & Tilley, 2003).
	Information constrained which makes SMEs highly dependent on external sources (Analoui & Karami, 2003).
	SMEs may not always operate at the optimal technological level (Bell, Scott, & Kingham, 1994).

Table 2.4 Advantage and disadvantage of SMEs

2.2.2 SMEs and Structure

According to Mintzberg (1979), the organizational structure can be defined as the result of the combination of all the ways in which work can be divided into different tasks, the coordination of which must subsequently be ensured. Furthermore, Von Krogh, Ichijo, & Nonaka (2000); Symon (2000) summarize that organization structure is the physical and social environment within which an organization operates. This includes elements such as physical office space, departmental or business classifications and boundaries, lines of authority, and definition of employee roles. Miles & Snow (1978) argue that the structural characteristics act as an information filter, limit what an organization can see and perceive and, therefore, what it can learn. Along the same lines, Miller (1987) finds that organizational structure influences information flows as well as the context and nature of human interactions. For that reason, at least from a theoretical point of view, the trend observed is the transition from bureaucratic, hierarchical structures to increasingly organic, flexible ones. The horizontal organization, structured around multi-function work teams that facilitate the dissemination of information throughout the firm is regarded as a better option than the typical vertical structure (the functional one), which makes knowledge transfer more difficult (Lei & Slocum, 1992; Kanter, 1994).

Laforet & Tann (2006) find that the structure of hierarchies within the firm affects the performance of the SME. A flatter structure leads to a better performing enterprise (Laforet & Tann, 2006). In small organization, the persons take care of more than one job such as plays the role of manager and has the responsibility for the financial management of the business while other members play different roles such as sales, purchase, cashier, and delivery. In addition, the manager of the organization acts as decision-maker and the other employees implement those decisions which have been made by manager (Analoui & Karami, 2003). Organizations that rely on quick and adaptive responses as a competitive advantage need a flat organizational structure and short lines of communication among employees and between the employees and management thus allowing employees to make important decisions at all levels (Beijerse, 2000). The idea is that well-trained workers will be more productive when they are more directly involved in the decision making process, rather than closely supervised by many layers of management. This structure is

generally possible only in smaller organizations or individual units within larger organizations (Longenecker, Moore, & Petty, 1994). The flat organization model promotes employee involvement through a decentralized decision making process. By elevating the level of responsibility of baseline employees, and by eliminating layers of middle management, comments and feedback reach all personnel involved in decisions more quickly (Jones, 2001). Sharratt & Usoro (2003, p. 190) suggest that "Organizations with a centralized, bureaucratic management style can stifle the creation of new knowledge, whereas a flexible, decentralized organizational structure encourages knowledge-sharing, particularly of knowledge that is more tacit in nature".

In small organization, Analoui & Karami (2003) explain that the communication between manager and the employees is informal and very fast. They can see each other all the time and discuss about job. Moreover, the employees are assigned to work in variety of responsibilities. Therefore, a competitive feature of SMEs is that business and responds quickly changes in the markets and customer expectations (Gilmore, Carson, & Grant, 2001). In comparison with large organizations, Hale & Cragg (1996) find that SMEs have relatively informal, flatter and highly centralized structure so they rarely face the problems about middle management when attempting to implement organization improvement activities.

2.2.3 SMEs and Culture

Many studies find that firms with strong cultures are pointed out as examples of excellent management. Organizational culture implies to the overall way the firm operates. It is the important element that gives any organization that elusive, sustainable competitive advantage. It is believed that the culture is a soft, intangible element that deals with people, trust, leadership, and passion. In addition, it is what people will do when no one tells them what to do (Rinke, 1998).

Miller (1995) describes organizational culture as a complicated set of assumptions, values, behaviors, and artifacts. More importantly, organizational cultures change over time as organizations adapt to environmental contingencies. Organizational culture drives an organization's formal and informal expectations of individuals, defines the types of people who will fit into the organization, and affects

how people interact with others both inside and outside the organization. Building an effective culture within which people operate in an organization is a crucial requirement for effective knowledge management (Gupta & Govindarajan, 2000; Gummer, 1998). While most managers may recognize the importance of culture, they find it difficult or impossible to articulate the culture-knowledge relationship in ways that lead to action (De Long & Fahey, 2000).

Organizational culture is identified as either a major catalyst or a major hindrance to knowledge creation and sharing (Alavi & Leidner, 2001). A knowledge-friendly organizational culture is one of the most important conditions leading to the success of KM initiatives in organizations (Davenport & Prusak, 1998). For knowledge creation and transfer to flourish, group members must understand that the viability of their group depends on their contribution and commitment. If this understanding does not exist, the group will not survive. Each time someone contributes to knowledge sharing, the outcome not only increases the common knowledge base, but also increases the trust among group members (Hall, 2001). Leadership commitment to the KM process is also essential. In a case study that compares manufacturing plants that have successful KM programs to ones that do not, Kalling (2003) reports that one of the critical factors in success is the commitment among top leaders of the plants. Leadership is responsible for creating the knowledge vision of the organization, communicating that vision, and building a culture that regards knowledge as a vital company resource (Pemberton, Stonehouse, & Francis, 2002).

Choueke & Armstrong (2000) find that the culture of small organization tends to be informal. The informal culture is being a consequence of both social and job-related interaction both within teams and departments. Alvesson (1995) explains the attributes of organization culture as being present in terms of organizational climate, corporate ideology, informal behavior patterns, norm systems or shared meanings and symbols as alternatives. Growth and long term survival of SMEs depends largely on the entrepreneurial abilities and enterprise of individuals owning and managing these businesses (Ritchie & Brindley, 2005).

Schell (1996) concludes that the key elements of culture in small businesses which make up the entrepreneur's personality. Culture is important for small

businesses success because a firm's culture is unique and its competitors can not duplicate it. In small businesses, the culture of a firm comes from entrepreneur- it reflects their personal and believes.

Barney & Clark (2007) explain that in order for a firm's culture to provide sustained competitive advantages, there are three conditions that must be followed: First, the culture must be valuable. It must enable a firm to do things and behave in ways to create economic value to the firm. Second, the culture must be rare. It must have attributes and characteristics that are not common to the cultures of large number or other firms. Finally, such a culture must be imperfectly imitable. If the culture is perfectly imitable, it cannot give anyone firm a sustained competitive advantage.

Denison & Mishra (1995) studied about the effects of organization culture and firm performance. They find that organization culture has a high effect to the effectiveness of organization because good culture stimulates job involvement and participation, adaptability, and consistency. Finally, Rinke (1998) concludes that the firm's competitor can duplicate everything the firm does, but they cannot duplicate the firm's culture especially in small business.

2.2.4 SMEs and Systems

About learning process in organization, learning can be defined as a change in behavior as a result of experience. Learning is acquiring new knowledge, behaviors, skills, values, preferences or understanding, and may involve synthesizing different types of information. Over the years, many theories have attempted to explain how people learn. All learning is by experience, but learning takes place in different forms and in varying degrees of richness and depth. However, they can make them meaningful only if they understand them well enough to apply them correctly to real situations. It seems clear enough that the learning of a physical skill requires actual experience in performing that skill (Conner & Clawson, 2004).

Carr & Gannon-Leary (2007) find that the lack of understanding about how SME learners learn is the major obstacle to the diffusion of management development. This study examined the nature of learning in SMEs and considers the incidence of informal support for informal learning. The results show that SME learn by both formal and informal way. Michael, Allan, & Oswald (2006) reveal that most

research attempts to model the process of organizational learning (OL) are based on large organizations. So they represented an attempt to better understand the unique learning processes in SMEs. Such firms are generally limited in both their managerial capabilities and mechanisms for accessing knowledge from external sources. Data were obtained from interviews with 26 owner-managers in the North West of England. The findings indicate two distinct groups, which we term innovative and stable firms. Owner-managers in stable firms are inward facing, and learning is generally experiential and concentrated on single individuals or small groups. In contrast, owner-managers in innovative firms are outward facing and encouraged the development of deeper and wider learning.

In this study, four basic levels have been indentified as follow: 1) doing again. It is doing repeatedly until right (Trial and error); 2) minimizing effort. It is doing until it becomes skilled, so that effort can be minimized; 3) recombining. It is integrating particular knowledge in order to enhance the result; and 4) continuous shaping. It is doing continually until being skillful and accomplishing task perfectly.

Coordination is about integrating different parts of the organization in order to achieve a common goal. The need for coordination increase as organization is more decentralized. When task is divided and delegated to more than one staff, someone has to integrate the separate actions to ensure task completion (Plunkett, Attner, & Allen, 2005). Mintzberg (1979) explains about five mechanisms of coordination within the complexity of organization step by step as followed: mutual adjustment (in small organizations), direct supervision, standardization of work, output of skills, and mutual adjustment again.

In small organization, the division of labor is very small and all persons know the tasks and adapt to each other informally (Jaatinen & Lavikka, 2007). Direct supervision is needed when there are more than five or six people and informal communication is not enough for achieving coordination. Standardization of work (plan) is used when increasing of organizational size and task is simple and routine. Others coordination mechanism is rule. The rule is defined as when organization becomes more expert the tasks are so complex that standardization has to focus on skills. In this coordination stage, the specification of training is needed. Lastly, mutual adjustment is often appearing in small sized organization. Mutual adjustment is

composed of informal communication between persons who are working together. Jaatinen & Lavikka (2007) state that at the end of task achievement, it consists of lateral linkages and people work in group coordination.

Mondy, Noe, & Premeaus (2002) explain about the important role of performance appraisal as every manager is aware of differences in performance among their employees. Most would see it as only fair that the top performers should get a reward of some kind for their effort, dedication, productivity and overall contribution to the success of the enterprise. The purposes of performance appraisal are to reward high ability employees and to point out underperforming employees that need to improve their skills and knowledge. Therefore, performance appraisal has become the tool for achieving these objectives.

About assessment mechanism in SMEs, Hornsby & Kuratko (1990) find that performance appraisal is the assessment of employees' ability to meet targets, and the use of rating scales as appraisal methods increased in prominence with firm size. In contrast, Macmahon & Murphy (1999) argue that owner-managers usually lack of skills necessary to carry out effective performance reviews and may perceive formal performance appraisal systems as time consuming. In very small firms, assessment mechanism would be informal and continuous as owner-managers directly control all activities (Mintzerg, Quinn, & Voyer, 1995). As the span of control increases, it is expected that assessment would be more formal (Kotey & Slade, 2005). Performance appraisal may be defined as a structured formal dialogue between an employee and their supervisor, that usually takes the form of a periodic interview (annual or half yearly), in which the work performance of the employee is examined and discussed, with a view to identifying weaknesses and strengths as well as opportunities for improvement and skills development.

There are many techniques of performance assessment in small organization: role based, performance based, and person based. The role based is explained as when an individual's task outcome is difficult to determine, it is common to evaluate the person's task-related behavior. For example, an appropriate behavior to evaluate for a manager might be leadership style (Mondy *et al*., 2002). Performance based or task outcome are defined as the assessment which is based on judgment against the standard. Task outcome is the appropriate factor to evaluate when a goals-oriented

process is used. The outcomes established should be within the control of the individual or team and should be those results that lead to the firm's success (Mondy *et al*., 2002). Finally, person based is the assessment based on person judgment. This is an informal way of performance appraisal that is often found in SMEs (Kotey & Slade, 2005).

Adaptiveness and innovation rely on the effectiveness of an organization's information gathering (Penn, Ang'wa, Forster, Heydon, & Ricardson, 1998). Shiels, McIvor, & O'Reilly (2003) find that adoption and use of Information and Communication Technologies (ICTs) is now accepted as a key driver in the development of a knowledge-based economy and is therefore intimately related to the future sustainability and development of businesses. ICTs in SMEs can be defined as the use of Electronic commerce (E-commerce), Electronic data interchange (EDI), Electronic funds transfer (EFT), World Wide Web (WWW). In small organization, ICTs is rarely found because the characteristics of SMEs is labor intensive industries. Daniel & Grimshaw (2002) find that smaller businesses believe that they achieve greater benefits from their e-commerce services not less than the larger firms in all areas explored. Kula & Tatoglu (2003) studied about internet adoption by SMEs in Turkey. They find that SMEs often use E-mail, search engine, exchange information with customer, and seeking for business information respectively. The manager perceives that internet has beneficial for SMEs in order to help business communication.

About the readiness and need for E-commerce of SMEs in Thailand, Jariangprasert, Tantiprapa, Chaiprasit, & Nimanandh (2007) find that there are several difficulties of using E-Commerce for SMEs. The major difficulty is businesspersons do not have sufficient encouragement in taking risk of an investment in an on-line business. Moreover, the results find that most SMEs had never used E-Commerce. The major reason is the lack of human resources.

2.2.5 SMEs and KM Strategy

As explained earlier, SMEs play a key role in Thai economy. The study about their excellent management is necessary in order to help these enterprises to fulfill their roles in the economy as a whole. Analoui & Karami (2003) indicate that

company strategies needed for SMEs to grow and be successful could be based on a technological commercial innovation, or on a focused niche strategy with a differentiated product or services. Therefore, strategic management is still considered as powerful tools in managing the firm successfully under a competitive environment. Strategies indicate which direction the company should be heading to in the future. Based on market research, competition analysis and self-analysis, the crucial differentiating competencies or strong sides of the company are identified and formulated. Meanwhile, the coordinating mission and the near future goals are also determined.

According to Senge (1990: 3) learning organizations are:

> …organizations where people continually expand their capacity to create the results they truly desire, where new and expansive patterns of thinking are nurtured, where collective aspiration is set free, and where people are continually learning to see the whole together.

Senge (1990) explains about the characteristics of learning organization as: 1) high energy and enthusiasm; 2) each individual feel, take responsibility and understand the whole function of organization not only for their part; and 3) employees have openness to new ideas. Moreover, Senge argues that learning organizations require a new view of leadership, which is a very important task. They are responsible for building up organizations where people continually expand their capabilities in understanding complexity, clarify vision, and improve shared mental models. In learning organization, leaders are designers, stewards and teachers.

Leader as a designer. In this role, the organization's policies, strategies and systems are main approaches that needed to be designed by leader. The first task entails designing the governing ideas- the purpose, vision and core values by which people should live. Building a shared vision is crucial early on as it fosters a long-term orientation and an imperative for learning. Other disciplines also need to be attended to, but just how they are to be approached is dependent upon the situation faced by seeing company as a system- internal and external or environment. In essence, the leader's task is designing the learning processes whereby people throughout the organization can deal productively with the critical issues they have to encounter with, and develop their mastery in the learning disciplines of the

organization's policies.

Leader as a steward. In this role, the basic concept is to understand human nature. Organization are more consistent with human nature not only food, shelter, or belonging, but should have self-respect and self actualization. As the result of this, building a learning organization is to identify the way every individual committed to such work could describe their own senses of purpose. Leader will try to build a value based, vision driven environment. Being a steward of a vision, leader has to be responsible without possessiveness. One of the important things to grasp here is that stewardship involves a commitment to, and responsibility for the vision, but it does not mean that the leader should possess it. It is not their possession. Leaders have to learn to listen to other people's vision and to change their own whenever necessary. Telling the story in this way allows others to be involved and to help develop a vision that is both individual and shared.

Leader as a teacher. In this role, leaders can actually exert in helping people in achieving more accurate, more insightful and more empowering views of reality. Building on an existing hierarchy of explanation leaders, Senge argues, can influence people's view of reality at four levels: events, patterns of behaviour, systemic structures and the purpose story. Leaders in learning organizations attend to all four, but focus predominantly on purpose and systemic structure. In addition, leaders can cultivate an understanding of what the organization and its members are seeking to become.

> "Leader as teacher" is not about "teaching" people how to achieve their vision. It is about fostering learning, for everyone. Such leaders help people throughout the organization develop systemic understandings. Accepting this responsibility is the antidote to one of the most common downfalls of otherwise gifted teachers – losing their commitment to the truth. (Senge 1990: 356)

About strategy of KM in organization, Nonaka & Takeuchi (1995) identify four possible methods for knowledge creation process that tacit knowledge can become explicit knowledge as: 1) socialization is a process of creating common tacit knowledge through shared experiences. For socialization, it is a need to build a field of interaction, where individuals share experiences and space at the same time,

thereby creating common unarticulated beliefs or embodied skills; 2) externalization is a process of articulating tacit knowledge into explicit knowledge as concepts or diagrams, often using metaphors, analogies or sketches. This mode is triggered by a dialogue intended to create concepts from tacit knowledge; 3) combination is a process of assembling new and existing explicit knowledge into a systemic knowledge, such as a set of specifications for a prototype of a new product. Often, a newly created concept should be combined with existing knowledge to materialize it into something tangible; and 4) internalization is a process of embodying explicit knowledge into tacit, operational knowledge such as know-how. This mode is triggered by "learning by doing or using". Explicit knowledge documented into text, sound, or video formats facilitate the internalization process. Therefore, manuals, a quintessential example of explicit knowledge, are widely used for internalization.

In small organization, tacit knowledge is more highly use than explicit knowledge (Islam & Kulkarni, 2009). Tacit knowledge is exchanged through joint activities rather than through written or verbal instructions (Nonaka, 1994). Hayduk (1998) suggests that learning processes are more effective when shared within or among a self-selected peer group. Brown & Duguid (1998) share this view and suggest that knowledge creation is best served by close ties in a "Community of Practice", since these individuals would share a common language and be more at ease when discussing ideas openly and challenging the ideas of others. They suggest that this encourages a shared understanding of work. This study is consistent with the result of Islam & Kulkarni (2009). Islam & Kulkarni (2009) who find that because of in SMEs, employees can have a strong sense of belonging to the company. So they try to look for others who can bring their knowledge to tasks, and provide knowledge to others who need it.

In Thailand, SMEs and community business seem to be business partners rather than competitors. They rely on each other by share labors, can be supplier and customer, share knowledge, and technology transfer.

2.3 Knowledge Management Organization

Many of scholars believe that businesses will find it increasingly difficult to succeed in a knowledge economy without leveraging the power of organizational design for effective knowledge management. Organizational design is more than a structure because it is about enabling group of people to combine, coordinate, and control resources and activities in order to produce value. Therefore an appropriate organizational design enables an organization to execute better, learn faster, and change more easily (Myers, 1996).

In order to achieve the objectives of the study, this study uses KM organization framework of European Knowledge Management Forum (EKMF) as the guideline for investigate the pattern of Thai community business Knowledge Management. In the KM organization model that is shown in Figure 2.3 organization dimensions are divided into four main groups (macro-dimensions), namely Structure, Culture, Systems and Strategy. Each macro-dimension also comprises of sub-dimensions. Dimensions related to Structure are number and relevance of hierarchical level, allocation of decision rights, organization application level, and existence of knowledge workers' role. Dimensions related to Culture are relevance and applicability of employees' proficiency, commitment, behavior, and atmosphere. Dimensions related to Systems are adopted to learning mechanism, coordination mechanism, assessment mechanism, and relevance and purpose in the use of Information and Communication Technology (ICT). Dimensions related to KM strategy are styles of direction, organization aim, KM process emphasized and prevalent knowledge types and sources (EKMF, 2000). The sample of new organization form below is excerpted from the study that EKMF have been made, which is called hypertext organization form as shown in figure 2.6, at the moment is interested by all KM and organization studies researchers.
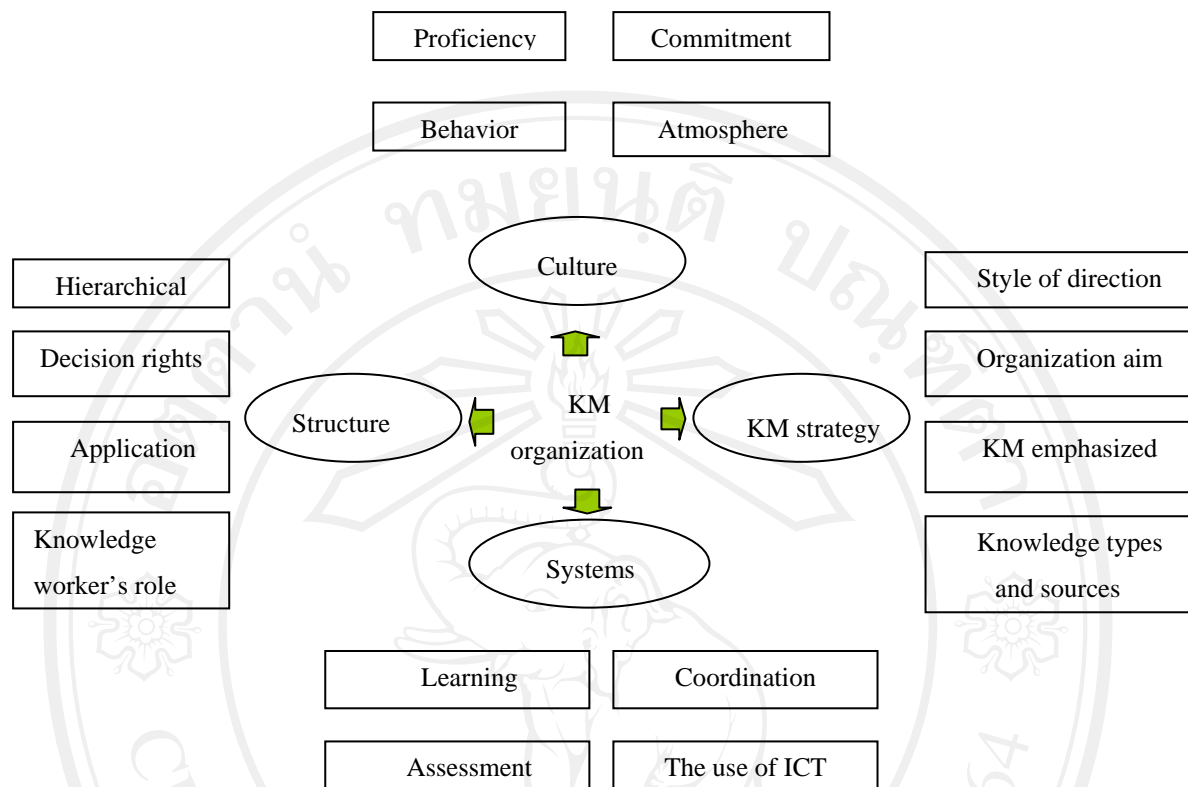
Figure 2.3 KM Organization Dimensions and Sub-dimensions (EKMF, 2000)

The EKMF study focuses on the organization form which the configuration of an organization is assumed to be a result from its own characteristics. The results of EKMF study indicates that there are several types of organization forms, from modern organization forms such as hypertext organization and spaghetti organization, to traditional forms such as bureaucracy organization, functional organization form. The study of EKMF (2000) investigated 29 organizations and developed the results to knowledge organization model totally 29 models. However, 29 organizations are large sized companies. So this study selected 8 organization forms which are considered to be suitable to apply to small and medium sized organizations.

According to the organization forms evolution, this study uses the study of Miles, Snow, Mathews, Miles, & Coleman (1997) which attempts to categorize the different approach of organization form into three approaches as follows:

Table 2.5 Organizational Evolution

Organization Form Approach	Standardization	Customization	Innovation
Key asset	Capital goods	Information	Knowledge
Influential Manager	Chief Operating Officer	Chief Information Officer	Chief Knowledge Officer
Key Capacity	Specialization and Segmentation	Flexibility and Responsiveness	Design Creativity
Organization Form concept	Hierarchy	Network	Cell
Organizational Form	Bureaucracy, Functional form, Division form	Hypertext organization , Information Ecology, Clan organization	Cellular form, Spaghetti organization

2.3.1 Standardization Approach

The standardization approach is hierarchical forms of organization. The knowledge utilization of this form is the know-how for physical assets management as raw materials, capital equipment, and plant facilities. The well known organization form is functional organization which uses a centrally coordinated, vertically integrated structure to manage employees in highly specialized jobs. The purposes of organization form in standardization era are focusing on limited product and service lines and utilize know-how in cost reduction that makes mass production successful (Miles *et al.*, 1997).
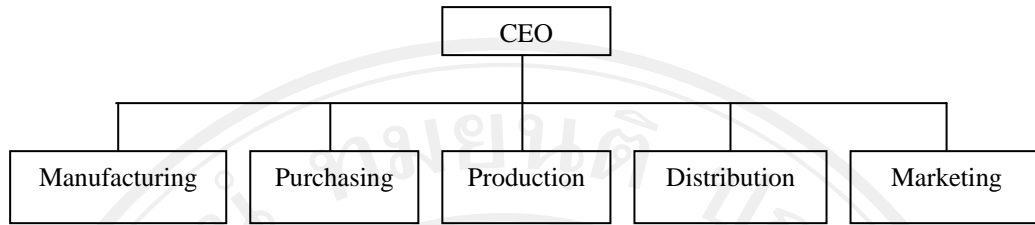
2.3.1.1 Bureaucracy

A bureaucracy organization is an organization structure which is ordered by rules, laws, regulations, and hierarchies of management. The management of this organization is based on written document, such as standard operating procedures (EKMF, 2000). The relation of employees is very formal and employees task are specialized and routine job. It is the structure and set of regulations in place to control

activity, usually in large organizations and government. Max Weber (1864–1920), a

German sociologist, developed an organizational structure to improve operations. He

developed the bureaucracy, a structure in which people follow rules and are

accountable for their actions. Weber's six principles of bureaucracy are as follows

Jones (2001):

> 1) A bureaucracy is founded on the concept of rational-legal authority, a
> person's authority is due to position in the organization. Power should be
> separate from personality.
> 2) Organizational roles are determined by technical competence, not social
> status, kinship, or heredity. This principle requires managers to see all
> potential job candidates objectively.
> 3) A role's task responsibility and decision-making authority and its
> relationship to other roles in the organization should be clearly specified. A
> clear pattern of vertical and horizontal differentiation is necessary for
> effectiveness. Role conflict, conflicting demands on a subordinate, and role
> ambiguity (fear of responsibility because of unclear tasks) should be
> eliminated.
> 4) The organization of roles in a bureaucracy is such that each lower office in
> the hierarchy is under the control and supervision of a higher office. People
> know the chain of command.
> 5) Rules, standard operating procedures, and norms should be used to control
> the behavior and the relationship between roles in an organization. Rules are
> formal written standards of behavior, whereas norms are unwritten.
> 6) Administrative acts, decisions, and rules should be formulated and put in
> writing. When written down, rules become official guidelines that can be used
> even when people leave. Written documents ensure that people can be held
> accountable.

In addition, Mises (1946) concludes that the advantages of bureaucracy

organization are rules for designing the hierarchy, increased accountability and

reduced transaction costs, reduced costs of monitoring subordinates, increased

integration, decreased costs of performance evaluation and of rule enforcement, the

position separated from the person, guidelines and skills able to be passed on to

successors, stability needed for employees to take long-term perspectives. Also the

disadvantages are decision-making and increased costs due to a tall and centralized

hierarchy, and failure to meet stakeholders' needs due to too many rules.

2.3.1.2 The Functional Form

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  │Manufacturing│ │ Purchasing │ │ Production │ │Distribution│ │ Marketing │
  └───────────┘  └───────────┘ └───────────┘ └───────────┘ └───────────┘
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Figure 2.4 Functional Form Organization

Martinson (1994) concludes that the functional form is a good example of bureaucratic structure. It is based on the functional grouping of similar activities such as sales and marketing, finance and operations under major functional manager. Small and Medium size organization with few product lines tend to apply this structure. The effectiveness of this structure is based on division of labor. Component knowledge is specialized based on functional area.
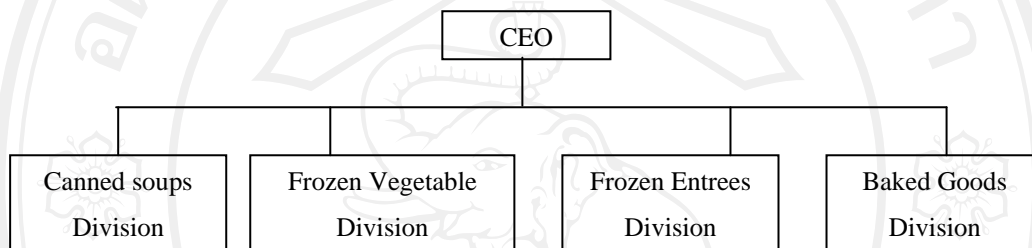
This form is appropriate in stable environments, few product marketed combination with long life cycle. Because in unstable conditions, priority conflicts occur, decisions are very frequent, product augment, communication line get longer so that the functional form is unsuitable (EKMF, 2000). Jones (2001) concludes that the advantages of functional form are that people who are grouped together by common skills can supervise one another, stimulate knowledge sharing among workers, workers become more specialized and productive, they can learn the best way to perform the task and solve the problem, the most skilled staff can train new staff. The efficiency it attains from economies of scale, overheads, and skills. But the disadvantage is the scope and flexibility of knowledge absorption of the functional form is limited. Martinson (1994) and Wilson (1986) explain that this structure can lead to coordination problem. As Wilson (1986) explains:

> Operating efficiencies afforded by grouping specialist together in functional areas with a tradition chain of command become a barrier of cross functional communication and co-ordination needed effectively to implement multiple product– market strategies.

A functional structure best serves a company that produces a few, similar products at a few production sites and markets to one type of customer. When production expands to more products at more locations and to several types of customers, a company requires a complex structure.

For the above reason, the divisional form is attractive to some organizations.

2.3.1.3 The Divisional Form

```
                        ┌──────────┐
                        │   CEO    │
                        └──────────┘
        ┌───────────────┬──────────┴──────┬───────────────┐
┌───────────────┐ ┌───────────────┐ ┌───────────────┐ ┌───────────────┐
│ Canned soups  │ │Frozen Vegetable│ │ Frozen Entrees │ │ Baked Goods   │
│   Division    │ │   Division    │ │   Division    │ │   Division    │
└───────────────┘ └───────────────┘ └───────────────┘ └───────────────┘
```

Figure 2.5 Divisional Form Organization

The division form is an organizational structure in which each product line or business is handled by a self-contained division. Each division is self-contained because it has a complete set of all function-marketing, R&D, production, finance (Jones & George, 2003). It is based on grouping by product-market combination, a limited hierarchy of authority consisting of few hierarchical levels with large span of control, and a limited fictionalization of management in the form of some central staff functions. Because of the autonomy of divisions in terms of operational decisions and their direct contacts with environment, the flexibility of knowledge absorption is higher than in the functional form EKMF (2000). Furthermore, the scope of knowledge absorption is limited to a single division. A division form is appropriate in a dynamic environment with a large number of different product-market combinations that have few knowledge characteristics in common, and of which life cycle is relative long (EKMF, 2000). A divisional structure is appropriate if products are different and are sold in many markets. Divisions are self-contained, each with their own support functions and control. Because products differ, centralized support functions at the top

are infeasible. Staff members facilitate integration to share information quickly among divisions. Unlike a product division structure, a multidivisional structure can control many businesses.

Furthermore, Jones (2001) concludes that the advantages of a divisional structure are increased organizational effectiveness, due to a division of labor between corporate and divisional managers, increased control, because corporate managers monitor divisional managers and make comparisons, profitable growth, because capital can be allocated to divisions with the greatest potential return on investments, an internal labor market, because good divisional managers are promoted to corporate management. Also the disadvantages are determining what authority to centralize or decentralize from the corporate to the divisional level, coordination problems from uncooperative divisions competing for resources, determining transfer pricing, the price of a product or service sold by one division to another, higher bureaucratic costs, and distorted information, resulting in communication problems.

2.3.2 Customization Approach

The movement from standardization to customization that creates a new organizational form is needed in order to help firms use and extend their capabilities. In the era of customization, accumulated know-how that could not be utilized in the production of their existing goods and services but know-how and resources pushed them toward new markets where expansion was possible (Miles *et al.*, 1997).

2.3.2.1 Hypertext Organization
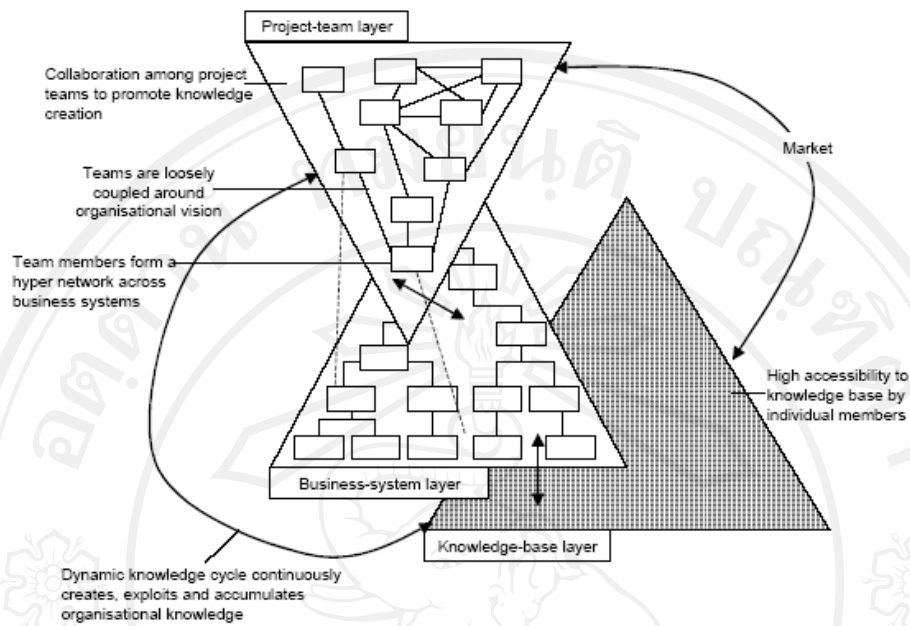
**Figure 2.6** Hypertext Organization (Nonaka & Takeuchi, 1995)

Nonaka & Takeuchi (1995) describe the hypertext organization as an organization that has some characteristic in relation with knowledge intensive organization. A hypertext organization consists of three layers or context i.e., business-system layer, project-team layer and knowledge-based layer. The business-system layer is the organization form in operating normal or routine operation, as bureaucratic structure, hierarchical level, is still the most effective form in managing routine work efficiently. On the top part is project-team layer, which is an organization form that consists of members from across the business system to accomplish the task until the assigned project is completed. At the bottom part is knowledge-base layer, which is established when organizational knowledge has been created and collected for a certain period. This layer does not exist in form or structure, but embedded in corporate vision, organization culture, or technology.

2.3.2.2 Information Ecology

EKMF (2000) explains that information ecologists can mobilize not only architectural designs and IT but also information strategy, politics, behavior, support staff, and work processes to produce better information environment. When managers manage ecologically, they consider methods for achieving information objective. The full power of information ecology will worked when organizations are able to combine and integrate the diverse sources of information and to take them to higher level where information became knowledge.

The information ecology consists of three environments as follows:

- The information environment: this environment is the core of information ecology. It has six components which are strategy, politics, behavior/culture, staff, processes, and architecture.

- The organizational environment: this environment has three components which are business situation, existing technology investing, and physical arrangement.

- The external environment: the company information ecology is bounded to be affected by external factors which company can not directly control. All companies need information about external side. The external environment is consisted of general business markets, technology markets, and information markets.
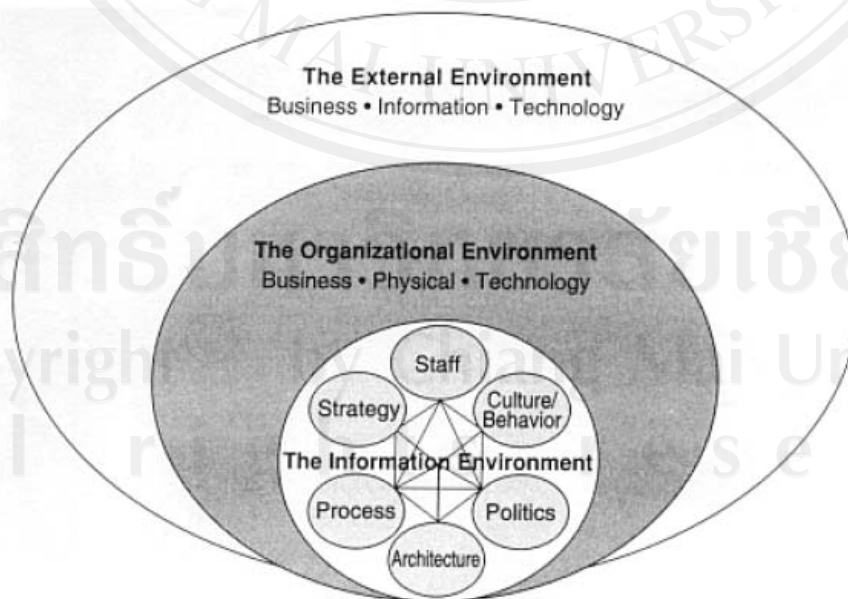
Figure 2.7 An Ecological Model for Information Management

2.3.2.3 Clan Organization

EKMF (2000) explains that in clan organization, the employees are scattered over a wide geographical range. Since management can not resort to close monitoring of each individual's performance, therefore, a strong culture development is needed for this organization to accomplish the information required. The advantage point of this organization is organization culture. Employees try to use problem solving skills, making decisions, and work toward task accomplishment to aligns their objectives to the organization goal.

A good example of clan organization is the U.S. Forest Rangers. They often can not engage in face-to-face communication with fellow employees and administrators, especially during a crisis. Therefore, it is proposed in this clan organization that a strong culture will be effective in managing information processing requirements to achieve strategic goal.

2.3.3 Innovation Approach

Another modern structure is network. While business giants risk becoming too clumsy to proactive, act and react efficiently (Gummesson, 2002), the new network organizations contract out any business function, that can be done better or more cheaply. In essence, managers in network structures spend most of their time coordinating and controlling external relations, usually by electronic means (Miles, *et al.*, 1997). This organization form existed in knowledge-businesses such as design and engineering services, advance electronics and biotechnology, computer software design, health care, and consulting. In addition, Pang (2002) explains that the most radical concept in today's organizational design is the concept of boundaryless, which seeks to overcome traditional boundaries between layers of management in vertical, functional areas in horizontal, as well as geographic boundaries. The company works closely with suppliers by providing technical assistance, leasing them equipment, and giving advice. As a result, the company can offer lower prices, which supports its low-cost focused strategy.

2.3.3.1 Cellular form

EKMF (2000) explains that cellular form is organization which consists of a collection of self-managing firms or cells held together by mutual interest. A cellular organization is built on the principles of self-organization, member ownership, and entrepreneurship. Each cell within the organization shares common features and purposes with its sister cells but is also able to function independently. Cell can perform more complex functions. If the members share knowledge across all cells, they can generate and create new knowledge for organization. It is a combination of independence and interdependence that allows the cellular organizational form to generate and share the know-how that produces continuous innovation.

Miles *et al.* (1997) conclude about the role knowledge in cellular organization as follows:

> Beyond knowledge creation and sharing, the cellular form has the potential to add value through its related ability to keep the firm's total knowledge assets more fully invested than do the other organizational forms. Because each cell has entrepreneurial responsibility, and is empowered to draw on any of the firm's assets for each new business opportunity, high levels of knowledge utilization across cells should be expected.

2.3.3.2 Spaghetti Organization

EKMF (2000) explains that spaghetti organization form is a creative, non-linear organization model. The communication and relationship is very close. One member has several functions at the same time. All tasks are fulfilled by project teams. In project team, all members are in the same hierarchical level. Everybody has the freedom to be proactive and to implement ideas on their own initiative.

There is no need for personal workplace. The whole enterprise is a free, open space with freely accessible workplaces. Communication is informal and direct with short dialogues. The written document or memo in organization is short. Routine work is supported by information technology.

2.3.4 KM Organization Model of European Knowledge Management Forum (2000)' Result

In this section the KM organizations previously described have been classified based on the dimensions presented in Table 2.6

Table 2.6 KM Organization Model of EKMF (2000)'s Result

Organization Form	Structure				Culture				Systems				KM Strategy			
	Hierarchical levels (number/relevance)	Decision right	Application level	"K" roles	Proficiency(diffusion/ applicability)	Commitment	Behavior	Atmosphere	Learning mechanism	Coordination mechanism	Assessment mechanism	Use of ICT (Relevance/ purpose)	Style of direction	Organization aim	KM process emphasized	Knowledge emphasized (type/source)
1.Bureaucracy	Many/High	Centralized	Business unit	Not definite	Middle/ Systemic	Middle	Both	Ideological	Doing again	Plan	Role based	Low/ Application	Designer	Shareholder Oriented	Application	Explicit/ Internal
2.Functional Form	Many/ High	Centralized	Company	Not definite	Middle/ Systemic	Middle	Both	Ideological	Doing again	Plan	Role based	Low/ Application	Designer	Shareholder Oriented	Application	Explicit/ Internal
3.Divisional Form	Many/ High	Empowered	Company	Definite	High/ Systemic	High	Competition	Political	Doing again	Roles	Performance based	High/ Sharing	Designer	Shareholder Oriented	Application	Tacit/ Internal
4.Hypertext organization	Many/ High	Centralized	Company	Definite	Middle/ Systemic	High	Cooperation	Ideological	Continuous Shaping	Group coordination	Performance based	High/ Application	Teacher	Shareholder Oriented	Creation	Tacit/ external and internal

Table 2.6 (Cont.) KM Organization Model of EKMF (2000)'s Result

]Organization Form	Structure				Culture				Systems				KM Strategy			
	Hierarchical levels (number/relevance)	Decision right	Application level	"K" roles	Proficiency(diffusion/ applicability)	Commitment	Behavior	Atmosphere	Learning mechanism	Coordination mechanism	Assessment mechanism	Use of ICT (Relevance/ purpose)	Style of direction	Organization aim	KM process emphasized	Knowledge emphasized (type/source)
5.Information Environment	Middle/High	Empowered	Company	Definite	High/Both	Low	Both	Political	Recom bining	Mutual adjustment	Performance based	High/ Sharing	Designer	Shareholder Oriented	Creation	Explicit/ Both
6.Clan	Many/Middle	Centralized	Company	Not definite	Middle/ Systemic	High	Coopera tion	Ideological	Doing again	Plan	Performance based	Low/ Sharing	Teacher	Customer oriented	Applica tion	Both/ Internal
7.Cellular Form	Few/Low	Decentralized	Company	Definite	Low/ Systemic	High	Coopera tion	Ideological	Recom bining	Group Coordination	Person based	High/ Sharing	Teacher	Employee oriented	Sharing	Tacit/ Internal
8.Spaghetti organization	Few/Low	Decentralized	Business unit	Definite	Low/ Systemic	High	Coopera tion	Ideological	Recomb ining	Group Coordination	Person based	High/ Sharing	Teacher	Employee oriented	Sharing	Tacit/ Internal

Of eight organization forms, it is shown that each organization form has its own KM organization model as follows:

In standardization approach (bureaucracy, functional form, divisional form), all of them are tall organizations with high hierarchy. The communication lines between the employees and the management are long. If the relevance of hierarchical level is examined, it can be concluded that all of organizations have high relevance of hierarchical level. In addition, organization forms also share the patterns of similar system of learning in a form of doing again. They demonstrate a pattern of KM strategy in that they share the style of design direction. The leaders act as designers who initiate and design policies, strategies and implement systems, integrating tasks and learning process for organization. The organization's main focus lies with its shareholders and the KM process emphasizing on knowledge application.

In customization approach (hypertext organization, information environment, clan), they gauge their performance based on judgment against the standard.

In innovation approach (cellular form, spaghetti organization), it is shown that both are horizontal organizations with little hierarchy. The communication lines between the employees and the management are short. If the relevance of hierarchical level is examined, it can be concluded that both have low relevance of hierarchical level. Knowledge worker's roles are loosely defined so staff perform various tasks and continually develop skills in new-activities.

In conclusion, KM organization model of EKMF (2000) can be used as guideline to find patterns for Thai community business KM in order to build competitive advantage.

2.4 Best Practices and High Performance Organization

Best means the highest, in the context of best practices studies. Sharma (1999) suggests that the more appropriate term of use is better practices rather than best practices. Best practice is the best practical way which comes from accumulated practical knowledge. It is knowledge that has been proved from previous experience such as problem solving. The best practical way can be a pattern for copy and adapt to other organizations which want to be successful and do need to spend more time in trial and error process. The important roles of best practice and knowledge management is learning from successes and failures, sharing knowledge with other community businesses to be a lessons learned from others will lead to better results now and in the future (Bogner & Bansal, 2007).

The purpose of the best practices study is to gather information and insight about better, more efficient and effective methods and approaches, with the view to identifying and implementing the best practice. Another field of best business practices study is focused on the study of high performance organization (Nanayakkara, 1999). According to the term of finding the best practices, the organization that has been selected should be a high performance organization or excellent organization in order to make sure that the results will be beneficial for unsuccessful organization. Sharma (1999) summarizes different aspects of business and management practices which can be called best practice concept and high performance practices such as Total Quality Management (TQM), Quality Control Circles (QCC), Self-managing work teams and empowerment. In fact, it seemed that the terms "high-performance" and "best practices" are often used interchangeably (Dalesio, 1998).

de Waal (2007) explains that an organization does need to behave as high performance organization because of globalization, increases of competitive pressures, shorter product and organizational life cycles, more independent and self-assured employees. High performance companies are the role models of many organizations because they possess high performance and high capability in its competitiveness and operations. They represent real world versions of modern managerial ideal: the organization that is so excellent in so many areas that it consistently outperforms most of its competitors for extended period of time.

Managers want to learn more about high performance organizations so they can apply those lessons to their own companies (Jamrog, Vikers, Overholt, & Morrison, 2007).

There are many scholars who have taken an interest to study about high performance organization. Beginning with Peters & Waterman (1982) that study In Search of Excellence, Built to Last by Collins & Porras (1997), and Good to Great by Collins (2001). There has been wide interest in identifying the characteristics of high performance organizations. It is not easy to explore exactly why some organizations perform better than others do and also there are many factors that determine the success of businesses.

Studies on best practices in small and medium businesses especially in community business are extremely limited. In the study of Peters & Waterman (1982), they identify 62 organizations that they believe to be the best performing organizations in the United States. They find that the eight characteristics of excellent organization are 1) Bias for action 2) Close to customer 3) Autonomy and entrepreneurship 4) Productivity through people 5) Hands-on and value driven 6) Stick to the knitting 7) Simple form and lean staff and 8) Simultaneous loose-tight properties (Jones & George, 2003). In addition, de Waal (2007) finds that, there are eight high performance characteristics as follows: 1) Appropriate organizational design to support internal operation 2) Focus on strategy by define strong, clear vision and common understanding of the direction 3) Good in process 4) Implement ICT Systems 5) High ability of leadership 6) Create a learning organization 7) Good organization culture by empowering people, give them freedom to decide, create culture of trust and openness and 8) External orientation by maintaining good relationship with all stakeholders.

According to research assumption: "A high performance organization should have well-performed KM", therefore it is the core concept of investigation high performance community business. The criteria for selecting those organizations have been set up and the process of identifying high performance community business is explained in Chapter 3.

2.5 Competitive Strategy of SMEs

    2.5.1 Resource-based Theory

        The field of strategic management attempts to answer the question, "Why do some firms persistently outperform others?" (Barney & Clark, 2007). In the past, Porter's strategic development process starts by looking at the relative position of a firm in a specific industry. Then start by considering the firm's environment and then try to assess what strategy is the one that may maximize the firm's performance (Porter, 1985). The resource-based theory, by contrast, is an inside-out process of strategy formulation. This theory starts by looking at what resources the firm possesses, then assessing their potential for value generation, and end up by defining a strategy that will be able to capture the maximum of value in a sustainable way. This concept initiated by Penrose (1959) and later expanded by others (Wernerfelt 1984, Barney 1991, Conner 1991). The resource-based view has emerged as one of several important explanations of persistent firm performance differences in the field of strategic management. It suggests that valuable, rare and costly-to-imitate resources can be sources of sustained competitive advantages. Therefore, many researches attempt to examine a variety of different resources that have these attributes to varying degrees, and study their impact on performance. Barney & Clark (2007) explain firm resources' four attributes as follows:

        1) Value resources

        - Resources are valuable when they enable a firm to conceive of or implement strategies that improve its efficiency and effectiveness.

        - These attributes only become resources when they exploit opportunities or neutralize threats in a firm's environment.

        2) Rare resources

        - Valuable firm resources possessed by large numbers of competing potentially competing firms cannot be sources of either a competitive advantage or a sustained competitive advantage.

        - A firm enjoys a competitive advantage when it is implementing a value-creating strategy not simultaneously implemented by large numbers of other firms.

        3) Imperfectly imitable resources. Valuable and rare organizational resources can only be sources of sustained competitive advantage if firms that do not possess

these resources cannot obtain them. Firm resources can be imperfectly imitable for one or a combination of three reasons:

- Unique historical conditions and imperfectly imitable resources. If a firm obtains valuable and rare resources because of its unique path through history, it will be able to exploit those resources in implementing value-creating strategies that cannot be duplicated by other firms. For firms without that particular path through history cannot obtain the resources necessary to implement the strategy

- Causal ambiguity and imperfectly imitable resources. Casual ambiguity exists when the link between the resources controlled by a firm and a firm's sustained competitive advantage is not understood or understood only very imperfectly.

- Social Complexity. A wide variety of firm resources may be socially complex, in most of these cases it is possible to specify how these socially complex resources add value to a firm. Several firms may all possess the same physical technology, but only one of these firms may possess the social relations, culture, traditions, etc., to fully exploit this technology in implementing strategies. If these complex social resources are not subject to imitation, firms may obtain a sustained competitive advantage from exploiting their physical technology more completely than other firms, even though competing firms do not vary in terms of the physical technology they possess.

4) Substitutability

- Though it may not be possible for a firm to imitate another firm's resources exactly, it may be able to substitute a similar resource that enables it to conceive of and implement the same strategies.

- Very different firm resources can also be strategic substitutes.

The resource-based view proposes that firms will use their resources and capabilities in such a way as to create sustainable competitive advantage based on distinctive competencies (Penrose, 1959; Wernerfelt, 1984; Barney 1986, 1991; Hunt, 2000). The resource-based view relies on two fundamental assumptions, that of resource heterogeneity (resources and capabilities possessed by firms may differ), and of resource immobility (these differences may be long lasting) (Barney, 1991). A firm resource is an asset, competency, process, skill or knowledge and is controlled by the organization. A resource is strength if it provides a SME with competitive advantage

(Analoui & Karami, 2003). Resources may include both tangible and intangible assets (Wernerfelt, 1984), tradable and non-tradable (Dierickx & Cool, 1989), or "all assets, capabilities, organizational processes, firm attributes, information, knowledge" (Barney, 1991).

The application of the resource-based view to small firms has to date been relatively limited but a number of papers using the approach are now appearing, and so it is important to understand the nature of the approach. Like many strategic management theories, the resource-based view of the firm applies to SMEs as well as to large organizations. The general notion is that whilst SMEs have access to resources which are not vast in comparison to the large firms, their resource base tend to be more flexible and entrepreneurial (Runyan, Huddleston, & Swinney, 2007). Most SMEs have concentrated on developing strategies which might be different from large organizations. In recent years there has been much concern for the resource-based view of the firm and strategy implication in SMEs (Rangone, 1999; Analoui, 2000).

Several researchers have adopted a resource-based perspective to address the area of SMEs by investigating the most empirical test of resource-based logic in SMEs. It can be concluded that in SMEs 1) the firm effects should be more important than industry effects in determining firm performance; 2) the valuable rare, and costly-to-imitate resources should have a positive impact on firm performance (Analoui & Karami, 2003). Brush & Chaganti (1999) find that in small service and retail business resource or in particular human and organizational resource, may play a greater role in explaining performance than strategy. Owner commitment, planning systems, and staff skills have positive effect on cash flow. Rangone (1999) finds that there are three basic capabilities of small and entrepreneurial firms are innovativeness, production, and marketing management. Borch, Huse, & Senneseth (1999) find that firm-specific in small and entrepreneurial firms are human resources (experience, education), governance structure, network social resources, and technology (proxy for non-imitable resources, operationalized as patents). Firms that have a formal structure and use social network pursue market and product strategies. The impact of resources on performance of small service and retail firms was examined by Brush & Chaganti (1999), and Michael & Robbins (1998) focus on retrenchment among small

manufacturing firms during recession. Consistent with resource-based view, Choi & Shepherd (2004) find that entrepreneurs are more likely to exploit opportunities when they perceive more knowledge of customer demand for the product, more fully developed enabling technologies, greater managerial capability, and greater stakeholder support. Runyan, Huddleston, & Swinney (2007) find that in small retailers in USA, both community brand identity and social capital are articulated by focus group participants as resources which helped them to be successful. Brand identity is seen as important regardless of environment, while social capital emerged as a resource used more in hostile environment.

The resource-based view of the firm argues that competitive advantage comes about through strategic use of advantage-generating resources that comprise assets and capabilities residing within the firm. A firm employs both assets (Wernerfelt, 1984; Barney, 1986, 1991) and capabilities (Hamel & Prahalad, 1994; Teece, Pisano & Shuen, 1997) to realize its objectives through adopting a strategy that is more effective than that of rival firms. Resource-based view makes the distinction that strategic resources are different from other resources. Strategic resources are termed as "advantage-generating resources" in resource-based view, and as such must be difficult to duplicate, and must create value that can be appropriated.

In Chiang Mai, Thailand, handicraft community business is a high potential business. It can be explained in terms of resource-based approach as follows: 1) human resource: high quality labor force with lower overhead and turnover rate; 2) machine: simple, locally produced and inexpensive; 3) material: locally cultivated with lower raw material cost; and 4) management: concentration of knowledge is the sole responsibility of one individual, avoiding the hassle of cross organizational politics. In conclusion, handicraft community business's resources have four attribute as follows: valuable, rare, costly-to-imitate, and substitutability which can be sources of sustained competitive advantages.

2.5.2 Clusters

With globalization and the shift to a knowledge-based world economy, time-to-market and just-in-time delivery becomes more critical. Firms are attracted to communities that can provide the key functions needed to bring their products or services to market rapidly. Porter (1998) says that today's economic map of the world is dominated by what we call clusters. Business clusters are widely acknowledged to have the potential to improve the financial performance of businesses within a cluster and contribute to the economic development of an area in which a cluster is located.

Clusters are geographic concentrations of interconnected companies, specialised suppliers, service providers, firms in related industries, and associated organisations (such as universities, standard agencies, trade associations) in a particular field linked by commonalities and complementarities.There is competition as well as cooperation (Porter, 1998). The concept of traditional model and clusters model are shown in the following table:

Traditional Model	Cluster Model
Single Corporation	Cluster of small corporations
Vertically Integrated	Highly Specialized
Static Technology	Dynamic Innovative
Mass Production	Small-lot, multi-products
Competition	Competition & Collaboration
Internal growth	Spin-off
Price	Human Touch, Trust

Table 2.7 Concept of Traditional Model and Cluster Model
Source: Porter (1990)

2.5.2.2 Why Clusters are Critical to Competition

Porter (1998) concludes that modern competition depends on productivity, not on access to inputs or the scale of individual enterprises. So clusters are considered to increase the productivity with which companies can compete, nationally and globally (Porter, 1998). Moreover, Porter claims that clusters have the potential to affect

competition in three ways:

       1. Being a part of clusters allows companies to operate more productivity in sourcing of input; access information, technology, and need institutions; coordinating with related companies; and measuring and motivating improvement.

       2. Clusters play a vital role in a company's ongoing ability to innovate, companies inside clusters usually have a better window on the market than isolated competitors do. They also provide the capacity and the flexibility to act rapidly. A company within cluster often can source what it needs to implement innovations more quickly. Local suppliers and partners can and do get closely involved in the innovation process, thus ensuring a better match with customers' requirement.

       3. Once established, clusters will grow as the result of creation of new firms and the presence of new suppliers. Clusters are conductive to new business formation for a variety of reasons. Individuals working within clusters can more easily perceive gaps in products or services around which they can build businesses. Clusters can be formed based on an initiative from the business sector (bottom up), a state or multinational companies (top down) or the combination of these two models. The most natural is the model where enterprises itself recognize the possibilities of mutual cooperation and in that way create cluster fundamentals.

2.5.2.3 The Role of Clusters

       Economic policy in developing countries is usually centralized at the national level and there is typically little policy support relating to competitiveness and clusters. Cluster initiatives are organised efforts to increase growth and competitiveness of clusters within a region, involving cluster firms, government and/or the research community.

       Poor countries are trying to define and become specialized in a particular industry in which they obtained competitive advantage, based on cheap labour and rich natural resources, all in order to make it on the world market. On the other hand, developed countries are creating essential prerequisites for the growth and development of their economies and a higher level of social welfare, through transfer of technologies, mass production and innovations. Higher investments in education/science and the increase in innovations make the centre of aspiration for better competitiveness. Experiences of developed countries show that macroeconomic

policy represents a significant support to the achievement of competitiveness. Yet the basis of competitiveness lies in the micro sphere – the number, business successfulness, productivity, enterprise innovations, especially of small and medium-sized enterprises. The process of modern economic development encompasses the collaborative process that consists of enterprises, educational institutions, scientific-research industry and local, regional and national government. Competitiveness is determined by productivity (value per unit of input) through which the entire economy, region or cluster utilizes its resources (labour, capital and natural resources).

The Thai government has implemented cluster development strategies to improve the national economic performance and technological capabilities. The former government led by Prime Minister Thaksin Shinawatra has asked Professor Michael E. Porter to do research on what Thailand should focus on in order to promote the country's competitiveness. At that time, the Thai government has focused on five specific clusters: automotive, food, tourism, fashion, and software. The aim of the clusters in Thailand is to focus on specific internal capabilities in order to improve technological competitiveness and research capabilities to meet the needs of the country.

2.5.3 Clusters VS. Resource-based Theory

The concept of industrial clustering fits the notion of systems of innovation since both deals with capabilities and relationships (Porter, 1990). The idea of industrial clustering has a long history and is well related to the study of economic geography. Benefits can accrue to an area from the activities of firms in that area. These benefits typically arise from the fact that a firm cannot capture all the economic benefits from its innovation process (i.e. bringing its products to market). There are spillovers from the firm that can benefit the community at large if there are suitable structures and receptors in place to take advantage of them. For example, people with expertise leave firms to work for other firms or to set up their own firms. Capturing these spillovers leads to the establishment of new capabilities and more growth in the community.

While key assumptions of resource-based theory are that of resource heterogeneity (resources and capabilities possessed by firms may differ), and of resource immobility (these differences may be long lasting) (Barney, 1991). A firm resource is an asset, competency, process, skill or knowledge and is controlled by the organization. In addition, the resource-based theory is an inside-out process of strategy formulation. It starts by looking at what resources the firm possesses, then assessing their potential for value generation, and end up by defining a strategy that will be able to capture the maximum of value in a sustainable way. To gain competitive advantage, a firm resource must have four attributes: 1) it must be valuable, in the sense that it exploits opportunities and/or neutralizes threats in a firm's environment, 2) it must be rare among a firm's current and potential competition, 3) it must be imperfectly imitable, and 4) it must be able to be exploited by a firm's organizational processes (Barney & Clark, 2007).

The comparison of clusters and resource-based theory are shown in the following table:

Cluster Framework	Resource-based Theory
Unity of Analysis: Industry	Unity of Analysis: Resource
Within industry/group, firms homogeneous	Within industry/group, firms may be heterogeneous
Industry structure: Oligopoly or monopoly	Industry structure: Globally competitive
Primary strategic implications: Barriers to entry and collusion	Primary strategic implications: Efficiently meet customer needs

Table 2.8 Comparison of Clusters and Resource-based Theory

Source: Barney & Clark (2007) and Porter (1990; 1998)

Summary

In the meantime, there is a need to better understand the community business Knowledge Management in creating competitiveness. The Knowledge Management organization model of EKMF (2000) is applied to only large organizations. However, the Knowledge Management organization model of small sized organization has not been examined especially in community business organization.

In pursuing this study, the problem identification is investigated by using the community business management concept. The background and situation of major community business countries such as the United Kingdom, China, Spain, and Japan make increasingly clear of the objectives of community business. Then, the background and situation of Thai community business is used as the guideline for understanding the weak points present in Thai community business situation.

In order to achieve the objectives of the study, this study develops Knowledge Management organization model of Thai community business by investigating eight high performance community businesses in Chiang Mai, Thailand. This study uses the Knowledge Management (KM) organization framework of European Knowledge Management Forum (EKMF) as the guideline. In the KM organization model, organization dimensions are divided into four dimensions- structure, culture, systems, and KM strategy.

According to the term of finding the best practices, the organization that has been selected should be a high performance organization or excellent organization in order to make sure that the results will be beneficial for unsuccessful organization.

The SMEs view also reminds us that SME management is different from large sized organization management. Therefore, this study attempts to use the resource-based theory to analyze and explain Knowledge Management organization model of Thai community business. Finally, the concept of business clusters will be used to discuss about Thai community business KM.