

CHAPTER 1

INTRODUCTION

1.1 Significance of the Problem

In the last decade, business incubation has been an important strategy for promoting business and entrepreneurship development, both in developing countries and the EU. According to the United Nations (UNCTAD, 2010), while traditional manufacturing and businesses were seriously affected by the recent global financial crisis, the knowledge-based creative sectors were more resistant. Thailand was listed as one of the world's top 20 leading exporters of creative goods in 2002 and 2008 (UNCTAD, 2010), and is seeking to reinforce its position as an important creative economy. To strengthen Thailand's economy in the creative industries, business incubation and entrepreneur development can foster continuous development towards creative goods and services.

1.1.1 The Creative Economy

In 2008, policy makers, development practitioners and researchers from developing countries followed the United Nations, which suggested that creative industries were among the most dynamic sectors, offering new high growth opportunities (UNCTAD, 2010). The United Nations Creative Economy Report 2010 pointed out that in 2008-2009, the world economy had faced the most severe recession in 70 years. During this recession, as manufacturing and traditional businesses were critically affected, the knowledge-based creative sectors were more resistant to this global crisis. To further support the resilience of these sectors, according to UNCTAD, creative goods and services continued to expand by approximately 14%, or 592 billion USD during the period 2002-2008, compared to a 12% fall in global trade (UNCTAD, 2010). Despite the resilience of the creative economy, there is often difficulty in defining it.

A number of different concept of the creative economy have been put forward in recent years, as governments in both developed and developing countries attempt to systematically define and initiate policies to push ahead the concept of the creative economy. In the year 2000, it was estimated that the creative economy was value 2.2 trillion USD worldwide, and was rising 5% annually (UNCTAD, 2010). Howkins (2001) noted that the term ‘creative economy’ is based on a relationship between creativity and economics, and describes by stating that, creativity is not new and neither is economics, but what is new is the character and degree of the relationship between them and how they bring together to create exceptional value and wealth.

According to United Nations Conference on Trade and Development (UNCTAD, 2010), the ‘creative economy’ is an evolving concept based on the possibility of creative assets in creating economic growth and development. It can stimulate innovation and provide income generation, job creation, earning from export. It utilize local cultural and social asset with available technology to develop countries intellectuals property and tourism industries.

The creative economy has gained importance for many governments, (Alwis, 2008) particularly in Asia, (e.g. Singapore, Hong Kong, South Korea, Taiwan) and during the early 2000s, governments formally integrated the term into their policies. An important view is that although the term’s definition varies between countries, the objective of the creative economy is very alike: to develop and sustain the nation’s economic competitiveness and global position. Consequently, the creative economy has turn out to be a leading competitive strategy for many Asian countries.

As the creative economy concept is based on the potential of creative assets, creativity is a vital factor to become competitive within the creative economy. According to social psychologist Teresa Amabile (1996), there are three basic ingredients to creativity. First, domain skills can develop as an individual becomes an expert in a particular field. For example, to be a creative designer for a handicraft product, one must first master the fundamental requirements such as production skills and knowledge of materials. Secondly, creative thinking skills, which involve seeking novelty and diversity, being independent, being persistent, and having high standards.

Lastly, intrinsic motivation implies that the reasons for doing things come from within, and from passion and pleasure, not the result of external requirements, force, or compensation. Creative people often focus attention to their world, look at things differently, question assumptions, take risks, are not afraid to fail, and strive to generate multiple solutions to problems. They are passionate about creativity and try to find opportunities to innovate. For this reason, to enhance SMEs' competitiveness toward the creative economy, significant attention must focus on knowledge management during the business incubation process, which involves three participants: incubatee, incubator, and facilitator.

1.1.2 Thailand's Creative Economy Strategy

In Thailand, the total number of all enterprises was 2,900,759 in 2009 with 2,896,106 small and medium enterprises (SMEs), or a combination of 2,884,041 small enterprises (SE) and 12,065 medium enterprises (ME) (OSMEP, 2010). According to the Office of Small and Medium Size Enterprise Promotion (OSMEP), the total number of large enterprises was approximately 4,586. The total GDP value of Thailand's SMEs was 3,446,589.2 million baht in 2008 or 37.9% of the overall GDP. SE contributed more than ME as their GDP share was 2,295,711.5 million baht or a 25.2% share of overall GDP and experienced a 1.7% growth rate compared with the previous year. Meanwhile, GDP share of ME was 1,150,877.7 million baht, or a 12.6% share of overall GDP and a 2.3% growth rate. SE low growth rate may affect the country growth rate therefore, government assistance may require for develop. The Thai government has encouraged development toward the concept of the 'Creative Economy' as an important strategy for Thailand's economic development (Economic Contributions of Thailand's Creative Industries, 2009), particularly in Northern Thailand.

1.1.3 Northern Thailand Strategy

In Chiang Mai, the second largest province in Thailand, a self-assessment survey revealed most businesses have average production and management capability (OSMEP, 2010). Their business strategy is mainly focused on the existing market, and while most businesses are highly aware of the importance of searching for new product ideas, developing different target customers and building new marketing channels in order to survive in today's competitive market they were less concerned about training (Thassanabanjong, Miller and Marchant, 2009).

In the Northern Region of Thailand, handicraft (particularly, in home decorative items) businesses are important part of the Thai's export; in addition, it play an essential role in supporting tourism industry. As a report indicated that many tourism destinations in the northern part of Thailand are essential to the country tourism industry, it is vital that new product idea, new target customers and new marketing channels are develop to support Thai tourism industry. The essences of Lanna culture highlight the tourism industry in northern area. To increase the competitiveness, it is important for continuous development in term of product differentiation and create new product from existing valuable intellectual asset.

As "Change" has become a vital term when we consider economic development, competitive strategy and sustainable development, it is also affect the ability to ride up and down in the ever changing global economy. For SMEs ability to adapt quickly to market changes depend on managers and workers skills upgrading (OECD, 2002). Business incubation strategy has been confirmed that it optimistically contribute to many countries economic development, employment rate and start-up rate (Johnsrud et al., 2003). After reviewed many literatures, much attention has been devoted to the description of incubator facilities, less attention has been focused on the incubatees, the innovations they seek to diffuse, and the incubation outcomes that have been achieved. Generally, Thailand business incubation programs are in the early stages of development. The government funded business incubation program reveals that limited motivation and contributions from experts affects the quality of the business incubation process and often causes concern for the development of

entrepreneurs. It is therefore essential that proper strategies and processes are developed to improve the quality of the business incubation program. This is especially so with government strategy leaning toward the creative economy an effective business incubation program can enhance chances of success.

1.1.4 Business incubation in Thailand

To enhance SMEs' competitiveness, Thai government policies have focused on rising the value of SMEs' products and services through the creative economy concept. The concept focuses on merging between local identity and traditional knowledge with modern technology to create new products and services (UNCTAD, 2009). These new products and services should respond to the changing requirements of their target customers, or tailor to specific niche markets in order to offer the superior value to their customers. SMEs are an important factor of Thailand's economy (OSMEP, 2007); they account for about 77% of total employment, 40 % of national GDP and 99 % of all businesses. Accordingly, the government has continuously focused on SME development to increase country competitiveness. Considering Thailand's economic growth rate, the development of SMEs is lower when compared to large enterprises. Formerly, most Thai SMEs focused on low labor cost as an advantage, but this is no longer viable or sustainable for the country's long-term development (OSMEP, 2010).

Innovation and entrepreneurship have become the prime drivers of Thailand's economic growth (NSTDA, 2007) and as a result, the National Science and Technology Development Agency (NSTDA) started the Business Incubation Program in 2002, through Software Park Thailand, to promote entrepreneurship in technobusinesses. The model of business incubation is a useful tool for business development and an effective accelerator for economic growth (Thebtaranonth, 2009; Thebtaranonth, 2010). The business incubation help weak business with high probability of growing into successful ventures (Hamdani, 2006). The case study in this research was undertaken at the College of Arts, Media and Technology (CAMT), at Chiang Mai University, where the business incubation concept has continuously been a part of advancement strategy. An e-tourism and e-handicraft project was

undertaken by the college in 2005, and was one of several efforts to incubate both students and entrepreneurs in developing their businesses. Recently, CAMT has undertaken the Creative Building for North SMEs project and develop online traders for tourism, handicraft and e-commerce industries. The Creative Building for Northern SMEs project was carried out between March and September 2010. The project development process required collaboration between university staff, experts and entrepreneurs, with collaboration as shown in Figure 1. The project generated important information and lessons learnt which were gathered for analysis to enhance the effectiveness of business incubation.

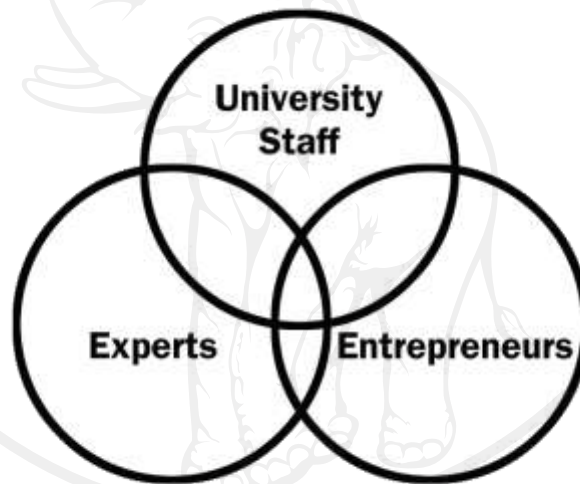


Figure 1: Cooperation requirements in the university business incubation process

1.1.5 University Business Incubation in Thailand

Business incubation programs in Thailand are in the early stages of development (NSTDA, 2007). Thai University Business Incubations (UBIs) were officially initiated in 2004, with the primary aim of facilitating ‘start-up companies’. The organizations supporting business incubation in Thailand include: The Office of Small and Medium Enterprise Promotion (OSMEP), Commission on Higher Education, NSTDA, and Kennan Institute Asia (KIA). For UBIs, the Commission on Higher Education is the direct supporter, which is responsible for overseeing UBIs’

performance. Most UBIs focus on providing facilities, consultation services (business set up and business management) and assistance in marketing (business matching). The two major types of business incubation are in-wall incubation, which provides facilities and other basic services, and out-wall incubation, which mainly provides consultation services. Most UBIs make an effort to utilize the university's human resources, intellectual capital and expand the available research work with the aim of commercialization. However, UBIs in many institutions have not yet succeeded in transforming available intellectual resources into commercialize-able products or services.

According to an interview with OSMEP officers, the main focus of Thailand's business incubation programs still involves providing facilities (office space and equipment), funding, and basic training, while the most appropriate attention should be the business incubation process development. The report also indicated that a common weakness of most UBIs is a lack of experts and business networks.

1.2 Problem Statement: University Business Incubation at the College of Arts, Media and Technology, Chiang Mai University

After investigating two UBIs project at CAMT, it was determined that the industry expert's contribution and effort is important and largely dictates the outcome of new product development in the creative sector. However, despite the importance of expert contribution to UBI success, such contribution is currently limited, and should be enhanced to leverage the full potential of Thailand's UBIs and product development in the creative industries.'

1.3 Research Objectives

The research reported in this thesis aims to investigate issues for SMEs in the context of Thailand's creative industry, with a particular focus on the handicraft industry. Specifically, it is designed to identify the critical business incubation processes in order to enhance industry experts' contributions and effort, with the

ultimate intention of improving the outcomes of UBIs toward creative economy.

Therefore the objectives of this study are:

- To identify the critical processes that affect Thai's UBI outcomes of business incubation.
- To utilize knowledge management approach in developing a framework leading to sustainable university business incubation.
- To suggest a management strategy for Thai's UBI.

1.4 Research Questions

To achieve the research objectives, the following set of research questions are answered in this thesis:

- What are the processes in a UBI creative economy project?
- What are the knowledge creation processes in a UBI creative economy project?
- What are the critical knowledge management processes that affect the university incubation creative economy projects outcomes?
- What is a proper knowledge management framework for Thai's UBIs concerning with development of the creative economy?
- What is a practical management strategy for Thai UBIs concerning with development of the creative economy?

1.5 Novel Contributions to Knowledge

This research offers novel contributions in areas including knowledge management, business incubation management and new product development focuses on knowledge creation, knowledge sharing and expert incentive.

In the knowledge management area the thesis elucidates the business incubation process, where knowledge is a medium of exchange between and among all actors involved in the process. The research will also significantly affect the outcome of the incubation program itself, especially in terms of knowledge sharing

(knowledge exchange and knowledge transfer) between experts and incubatees which is a key factor required to enhance the effectiveness of the program.

In the business incubation management area, there has already been a global shift indicating a globalized environment, where external knowledge from expert is vital to success for incubatees attending the incubation center. In addition, the effective management of external knowledge can lower the risk of business failure and increase the chance of commercialization.

In the area of new product development the research contributions will focus on the creativity employed through experience from industry experts. This in turn will enhance the efficiency and sufficiency of new product development management.

1.6 Thesis Organization

This thesis consists of five chapters, which is arranged as follows: the first chapter has presented the introduction, problem statement and the objectives of the study. The second chapter provides a literature review on relevant research areas, including the creative economy, small and medium size enterprises (SMEs), business incubation, and knowledge management. The third chapter describes the methodology and research process used in the thesis, while the fourth chapter presents results and analysis of the research. Finally, a discussion of the findings and conclusions are presented in chapter five.