

ความสำคัญของสภาพแวดล้อมทางการแข่งขันต่อ  
ผลการดำเนินงานด้านการเงิน

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The Significance of Competitive Environment  
on Financial Performance

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## บทคัดย่อ

งานวิจัยมีจุดมุ่งหมายเพื่อตรวจสอบผลการดำเนินงานของธุรกิจตัวแทนด้านการท่องเที่ยวของไทยที่ได้หันมาใช้ตัวแบบแนวคิดทางการตลาด การศึกษาตรวจสอบผลกระทบของแนวคิดทางการตลาดและผลการดำเนินงานด้านการเงินและระบุความสำคัญของสภาพแวดล้อมทางการแข่งขันในเชิงความสัมพันธ์ระหว่างแนวคิดทางการตลาดและผลการดำเนินงานด้านการเงิน การศึกษาควบคุมปัจจัยที่เกี่ยวข้องกับสภาพแวดล้อมภายนอกทางการแข่งขัน และใช้สถิติการวิเคราะห์ความถดถอยระดับปานกลางสำหรับวิเคราะห์ตัวแบบงานวิจัย ผลการวิจัยเผยให้เห็นว่าความสัมพันธ์ระหว่างแนวคิดทางการตลาดและผลการดำเนินงานด้านการเงินขึ้นอยู่กับ การเปลี่ยนแปลงทางเทคโนโลยีของสภาพแวดล้อมทางการแข่งขัน ข้อเสนอแนะจากงานวิจัยคือธุรกิจตัวแทนด้านการท่องเที่ยวอาจปรับปรุงความได้เปรียบเชิงการแข่งขันให้เหนือกว่าคู่แข่งโดยนำเทคโนโลยีใหม่ล่าสุดเข้าไปใช้ในองค์กร

แนวคิดทางการตลาด สภาพแวดล้อมทางการแข่งขัน ผลการดำเนินงานด้านการเงิน ธุรกิจตัวแทนด้านการท่องเที่ยว

## Abstract

This research aims to investigate Taiwanese travel agencies performance by using a market orientation model. The study examines the impact of market orientation and financial performance and identifies the importance of competitive environment in the relationship between market orientation and financial performance. The study controls for factors associated with the external competitive environment, and the research model is analyzed using moderated regression analysis. The findings reveal that the relationship between market orientation and financial performance is dependent on technological turbulence of the competitive environment. It is recommended that travel agencies may improve their competitive advantages over competitors by implementing the most recent technology into their organizations.

**Keyword :** Market orientation, competitive environment, financial performance, travel agencies

## 1. INTRODUCTION

Taiwan's economy faces the dual pressures of fierce competition in international market and the opening of domestic market to World Trade Organization (WTO). Hence, Taiwan's government formally announced "The Plan for Branding Taiwan" as a seven-year program (2006 to 2012). This campaign aims to achieve global competitiveness by enhancing the value of intangible assets of Taiwan's products and their international market shares. The core of this plan focuses on tourism which the government has an extensive to develop Taiwan as a major travel destination in Asia as stated in 2009 tourism policies of Tourism Bureau. Travel agencies are selected due to the key role the sector plays. According to Leblanc (1992), travel agencies are vital intermediaries in the tourism industry. They facilitate the operation of tourism by providing the essential link with customers. Market orientation has become a popular research topic (Ellis, 2005; Foley and Fahy, 2009; Gebhardt et al., 2006; Greenley, 1995; Haugland et al., 2007; Homburg and Pflesser, 2000; Hooley et al., 2003; Hult and Ketchen, 2001; Kohli and Jaworski, 1990; Naidoo, 2010; Narver and Slater, 1990; Ruekert, 1992; Slater and Narver, 2000; Raju et al., 2011). According to Kohli and Jaworski (1990), the adoption of a market

orientation should not be simply a concern of the marketing department but should be implemented organization wide. They suggest that the adoption of a market orientation can facilitate coordination and responsibility sharing between the marketing department and other departments. Gebhardt et al. (2006) state that a market orientation requires dramatic changes to an organization's culture in order to create a situation in which market understandings are shared throughout an organization. Their longitudinal multi-firm investigation develops a theoretical model to explain how firms can create a market orientation. Dawes (2000) notes that a number of studies have focused on market orientation and performance relationships and that for many years these studies have presumed that market orientation is linked to better firm performance. The studies by Kohli and Jaworski (1990) and Narver and Slater (1990) concur with the notion of Gebhardt et al. (2006) that a market orientation improves organizational long-term performance. Hence, measuring performance accurately is critical for accounting purposes and remains a central concern for many firms. A company's performance can be measured from a financial perspective, with the absolute or relative measures of the company valuations or financial measures

the company itself reports in its financial statements (Eberl and Schwaiger, 2005). Sin et al., (2004) show that market orientation is positively related to the marketing and financial performance of hotels, supporting the proposition that market orientation helps shape organizational effectiveness. A study by Elg (2007) provides an understanding of market orientation in retailing and identifies activities that a firm has to understand and manage to become market oriented. To be concluded, the core importance of market orientation is its potential contribution in influencing the achievement of a firm's objectives. As the world's economy changes dramatically and becomes more competitive, the environment for a firm is becoming more complex than ever before. Jaworski and Kohli (1993), Kohli and Jaworski (1990), Narver and Slater (1990), and Slater and Narver (1994) attempt to test competitive environmental factors as exogenous variables in order to identify the relationship between market orientation and its consequences. Hooley et al. (2000) suggest that the greater firms adopt a market orientation in a rapidly changing market environment, the better these firms respond to market imperatives. Competitive environment is the surrounding condition within which the firms operate. According to Miller (1987), the environments in which

the firms operate affect their strategic orientation. Hence, this study postulates that the environmental changes affecting the tourism industry in Taiwan will have an effect on the market orientation of travel agencies. The three dimensions of a competitive environment used in the study are derived from Jaworski and Kohli (1993): market turbulence, competitive intensity and technological turbulence. Market turbulence is operationalized as the degree of instability that exists in the environment with respect to customer needs and competitive actions (Sethi and Iqbal, 2008). Hanvanich et al. (2006) suggest that in markets with a high degree of turbulence, firms tend to have new customers whose product needs are different from those of current customers. To survive in such an environment, firms must respond rapidly to changing preferences. Competitive intensity refers to the degree of competition that a firm faces within its industry. Further, Zhou et al. (2005) suggest that in a highly competitive industry, competitors erode a firm's advantage by imitating or improving the product offerings. Technological turbulence implies the degree of changes in technology (Jaworski and Kohli, 1993). Porter (1985) suggests that fast technological advances significantly shorten the life cycle of existing products, erode the competitive advantage of existing firms,

and propel some firms to the forefront. The measure of technological turbulence is assessed by the extent to which rapid technological changes and breakthroughs have occurred in the environment leading to product development opportunities (Sethi and Iqbal, 2008). Therefore, the objective of the study reported in this paper is to examine whether the concept of market orientation is applicable to the tourism industry and whether the moderators of environmental factors affect market orientation on financial performance. Nowadays, travel agencies in Taiwan operate in a very competitive environment. This study provides an opportunity to examine whether the moderating influence of the external competitive environment affects the market orientation–financial performance relationship. As the travel agencies may be sensitive to the different dimensions of the competitive environment, this study examines the relative importance of the dimensions. The findings in this study demonstrate that the relationship between market orientation and financial performance is dependent on technological turbulence of the competitive environment. Valuable insight is provided concerning the role of moderators. The finding may be of value to travel agencies by improving the latest technology to increase the level of market orientation for gaining a competitive advantage.

## 2. MARKET ORIENTATION AND FINANCIAL PERFORMANCE

This study proposes that a market orientation, including customer orientation, competitor orientation, and interfunctional coordination, may impact the levels of market and financial performance. Under a dynamic market place, as customer needs and preference can change over time, a customer-oriented firm can develop the best products or services to fulfill their customer needs (Narver and Slater, 1990). According to Day and Wensley (1988), competitor orientation can enhance a firm's ability by identifying, analyzing, and responding to competitors' strengths and weaknesses in order to offer differentiated products or services from competitors. For a firm, interfunctional coordination (i.e., cross-functional integration) is necessary to be responsive to customer feedback. A market orientation helps firms adopt the most effective and efficient activities for creating superior value for buyers and thus continuous superior performance for the business (Narver and Slater, 1990). Firms with high market orientation can be cross-functionally integrated to find customer needs and provide services which satisfy them. Ideas can also be generated by monitoring and reacting to competitors' activities. Both rapid dissemination of customer feedback information to the different functional units

in the organization and the synergistic coordinated response by the units to this information are required to achieve strategic flexibility (Sheremata, 2000).

A review of the market orientation and service firm literature by Gray and Hooley (2002) notes a lack of research in the relationship between market orientation and service firm performance. They comment on evidence supporting links between customer satisfaction, customer value and firm performance. McNaughton et al. (2002) examine the mechanism for deploying marketing strategy to create superior customer value in the service industry. They suggest that a higher level of market orientation could translate into higher share price and wealth creation for the owners of the firm. Matear et al. (2002) study 231 firms and find that market orientation contributes to performance directly and through enhancing the capability of the firm. The finding of surveying 748 U.S. firms by Morgan et al. (2009) indicates market orientation has a positive impact on firm performance. A study by Alam (2010) investigates small firms in the small town in Malaysia and finds market orientation components are positive to business performance.

However, several studies report no significant relationship between market orientation and financial performance (Bhuian, 1997; Caruana et al., 1999;

Greenley, 1995; Han et al., 1998; Harris, 2001; Sargeant and Mohamad, 1999). The rationale is that market orientation may not be economical in certain environmental conditions (Greenley, 1995). Furthermore, the relationship may be a lagged one and hence impossible to determine in cross-sectional studies.

This research hypothesizes that the level of market orientation adopted by travel agencies in Taiwan will positively impact their level of financial performance.

H<sub>1</sub>: The greater the level of market orientation, the greater the financial performance.

### 3. COMPETITIVE ENVIRONMENT

Harris (2001), Jaworski and Kohli (1993), and Slater and Narver (1994) propose that market turbulence, competitive intensity and technological turbulence moderates the market orientation–financial performance relationship. These authors assume that companies will adjust their level of market orientation as the environment changes.

According to Jaworski and Kohli (1993), market turbulence refers to the rate of change in the composition of customers and their preferences. They suggest that in a stable market, few rewards are available to firms that can adjust the marketing mix continuously as

there are few changes provide to the preferences of a given set of customers. In addition, firms under great competitive intensity have to have a high level of market orientation as the customers have many alternative options. Hence, firms with low market orientation would lose out rapidly to competition with high market orientation.

The definition of technology is the entire process of transforming inputs to outputs and the delivery of those outputs to the customer (Kohli and Jaworski, 1990). Kohli and Jaworski suggest that for an industry with high technological turbulence, market orientation may not be as important because major forces will be developed outside the industry.

A study by Rose and Shoham (2002) indicates that the impact of market orientation on export profits was stronger in a technologically turbulent environment. Kumar et al. (1998) find that market turbulence, competitive hostility, and supplier power moderate the market orientation–performance relationship. Harris (2001) also concludes that market orientation is associated with company performance in certain environmental conditions, depending on whether the company adopts objective or subjective measures of performance. However, Greenley (1995) suggests that market orientation may not be advantageous in

highly turbulent markets, in conditions of low customer power, or in times of high technological change. Subramanian et al. (2009) investigate 166 Canadian companies and find high market turbulence and high technological turbulence have moderating effect on market orientation and performance. A study by Berćcs and Magy (2010) reveals that technological turbulence, market turbulence, and competitive intensity have a significant impact on the finance-based performance.

In summary, the dimensions of the competitive environment, which are market turbulence, competitive intensity and technological turbulence, likely interact with the market orientation–financial performance relationship.

H<sub>2</sub>: The greater the level of market turbulence, the greater the impact of market orientation on financial performance.

H<sub>3</sub>: The greater the level of competitive intensity, the greater the impact of market orientation on financial performance.

H<sub>4</sub>: The greater the level of technological turbulence, the greater the impact of market orientation on financial performance.

#### 4. METHODOLOGY

The sampling frame for this study mainly focuses on travel agencies in Taiwan because they act as intermediar-

ies between suppliers of accommodation, transport and leisure services and the consumer. All travel agencies participated in the study were members of Taiwan's Travel Quality Assurance Association (TQAA), which is supervised by the Ministry of Interior of the Taiwanese government, to ensure consistent quality in services offered by firms operating in the tourism industry. Questionnaires were distributed to the managers of travel agencies in Taiwan. Three hundred and fifty were approached, and 257 completed responses were collected. A total of 249 were considered eligible (eight were incomplete), representing a response rate of 71%. To address the research issue, the question-

naire employs multi-item measures developed from the existing literature. As Table 1 illustrates, a seven-point Likert scale is employed from "1 = strongly disagree to 7 = strongly agree". This study adopts the scale from Im and Workman (2004) and Narver and Slater (1990) to measure market orientation. The scale for financial performance is drawn from Kumar et al. (1998) and Moorman and Rust (1999). These two scales were successfully used in previous market orientation studies. Scales used to measure market turbulence, competitive intensity, and technological turbulence in the competitive environment in studies derive from the work of Jaworski and Kohli (1993).

**Table 1: Measure scale items**

<b>Customer orientation</b> <b>(<math>\alpha = 0.91</math>)</b>	In this business, we constantly monitor our level of commitment and orientation to meeting customers' needs.
	In this business, our strategy for competitive advantage is based on clear understanding of our customers' needs.
	Meeting the needs of our customers is the most important objective of this business.
	In this business, our strategies are driven by our beliefs about how we can create greater value for customers.
	In this business, we measure customer satisfaction systematically and frequently. In this business, we give close attention to after-sales service.
<b>Competitive orientation</b> <b>(<math>\alpha = 0.83</math>)</b>	Our salespeople regularly share information within this business concerning competitors' strategies.
	In this business, we rapidly respond to competitive actions that threaten us.
	In this business, top management regularly discusses competitors' strengths and strategies.
	In this business, we target customers where we have an opportunity for competitive advantage.
<b>Interfunctional coordination</b> <b>(<math>\alpha = 0.92</math>)</b>	In this business, our top managers from every function regularly visit our current and prospective customers.
	In this business, we freely communicate information about our successful and unsuccessful customer experiences across all business functions.
	In this business, all of our functions are integrated in ways so they meet the needs of our target markets.
	In this business, all of our managers understand how everyone in our business can contribute to creating customer value.
	In this business, all functional groups work hard to thoroughly and jointly solve problems.
<b>Market turbulence</b> <b>(<math>\alpha = 0.91</math>)</b>	In our kind of business, customers' product preferences change quite a bit over time.
	Our customers tend to look for new products all the time.
	We are witnessing demand for our products and services from customers who never bought them before.
	New customers tend to have product-related needs that are different from those of our existing customers.
	We cater to many of the same customers that we used to in the past.

**Table 1: Measure scale items**

<b>Competitive intensity</b> ( $\alpha = 0.93$ )	Competition in our industry is cutthroat. There are many "promotion wars" in our industry. Anything that one competitive can offer, others can match readily. Price competition is a hallmark of our industry. One hears of a new competitive move almost every day. Our competitors are relatively weak.
<b>Technological turbulence</b> ( $\alpha = 0.95$ )	The frequency of using technology such as internet and data management systems in our industry is growing rapidly.  An increased use of technology such as internet and data management systems has helped us achieve more sales of our products.  A large number of new product ideas have been made possible through technological breakthroughs in our industry.  Technological development such as internet and data management systems in our industry is slow to change.
<b>Financial performance</b> ( $\alpha = 0.93$ )	The market share of this business over the last three years. The costs of this business over the last three years. The revenue of this business over the last three year. The profit of this business over the last three year.

## 5. RESULTS

The data are analyzed by using moderated regression analysis (MRA). Reliability is evaluated by assessing the internal consistency of the items representing each measure using Cronbach's alpha. The reliability of each measure is as follows: customer orientation = 0.91; competitive orientation = 0.83; interfunctional coordination = 0.92; market turbulence = 0.91; competitive intensity = 0.93; technological

turbulence = 0.95; financial performance = 0.93. Hence, all of the scales are internally consistent and have acceptable reliability value.

The results of the MRA (Table 2) show the moderating effect of market turbulence, competitive intensity, and technological turbulence on the relationship between market orientation and financial performance by using SPSS 15.0 for Windows.

**Table 2 : MRA for moderating effect of competitive environment components on MO → FP**

Models	Standardised coefficients	R2	ΔR2	ΔF for ΔR2
<b>Model 1</b> FP = $b_0 + b_1 MO$		0.004	–	0.883
MO	0.060			
<b>Model 2</b> FP = $b_0 + b_1 MO + b_2 MT$		0.014	0.010	2.575
MO	0.049			
MT	-0.102			
<b>Model 3</b> FP = $b_0 + b_1 MO + b_2 MT + b_3 MT \times MO$		0.021	0.007	1.740
MO	0.044			
MT	-0.118			
MT × MO	0.085			
<b>Model 1</b> FP = $b_0 + b_1 MO$		0.004	–	0.883
MO	0.060			
<b>Model 2</b> FP = $b_0 + b_1 MO + b_2 CI$		0.005	0.001	0.414
MO	0.057			
CI	-0.041			
<b>Model 3</b> FP = $b_0 + b_1 MO + b_2 CI + b_3 CI \times MO$		0.006	0.001	0.103
MO	0.060			
CI	-0.038			
CI × MO	-0.021			
<b>Model 1</b> FP = $b_0 + b_1 MO$		0.004	–	0.883
MO	0.060			
<b>Model 2</b> FP = $b_0 + b_1 MO + b_2 TT$		0.138	0.134	38.343***
MO	0.157			
TT	0.379			
<b>Model 3</b> FP = $b_0 + b_1 MO + b_2 TT + b_3 TT \times MO$		0.328	0.190	69.331***
MO	0.130			
TT	0.272			
TT × MO	0.448			

Note 1.

 MO = Market Orientation; FP = Financial Performance; MT = Market Turbulence; CI = Competitive Intensity;  
 TT = Technological Turbulence

Note 2.

 \* $p < 0.05$ ; \*\* $p < 0.01$ ; \*\*\* $p < 0.001$

For market orientation,  $R^2$  in Table 2 shows a statistical insignificance which implies that market orientation does not have a direct effect on financial performance. Hence, hypothesis 1 is not supported. The results also indicate that market turbulence and competitive intensity do not moderate the relationship between market orientation and financial performance. However, the result for technological turbulence indicates a significant role as a moderator.

In order to distinguish the effect of market orientation on financial performance under different levels of moderators, this study divides all 249 samples into two groups based on the mean of technological turbulence (17.07). The numbers of samples in the high technological turbulence group and the low technological turbulence group are 154 and 95, respectively. Table 3 shows that the relationship between market orientation and financial performance is significant for the high technological turbulence group.

**Table 3 : Regression analyses for different level of TT**

Level of TT	Independent variable	Standard error	Standardised coefficients	t-values
High TT	MO	3.97	0.36***	4.75
Low TT	MO	4.64	-0.30*	-3.02

Dependent variable = FP

Note 1. MO = Market Orientation; TT = Technological Turbulence; FP = Financial Performance

Note 2. \* $p < 0.05$ ; \*\* $p < 0.01$ ; \*\*\* $p < 0.001$

The findings demonstrate that technological turbulence moderates the relationship between market orientation and financial performance. Hence, the findings support  $H_4$ . On the other hand,

market turbulence and competitive intensity do not moderate the relationship between market orientation and financial performance. Thus, the findings do not support  $H_2$  and  $H_3$ .

## 6. CONCLUSION

The study reveals that market orientation has no direct influence on financial performance. Market share, costs, revenue and profit are used to measure financial performance, and travel agencies in Taiwan may encounter difficulties to achieve high scores across all four measures. However, the finding is consistent with that of previous studies (Bhuan, 1997; Caruana et al., 1999; Greenley, 1995; Harris, 2001; Langerak, 2003; Langerak et al., 2007). A study by Langerak et al. (2007) shows that market turbulence does not have a moderating influence on the market orientation–financial performance relationship. Because of the homogeneity of this sector of the tourism industry, the travel agencies may be operating under very similar market conditions, and market turbulence may not vary greatly between firms. The study fails to find a moderating effect for market turbulence and competitive intensity, consistent with the result of Jaworski and Kohli (1990) and Slater and Narver (1994). Rose and Shoham (2002) also find that market turbulence and competitive intensity increase the perceived need for market information but decrease the firm's ability to be market-oriented. This finding implies that as the competitive intensity is already high within the tourism industry, any changes

with regard to industry competition will not significantly affect travel agencies. Significantly, the findings in this study indicate that the relationship between market orientation and financial performance is dependent on the moderating influence of the competitive environment. However, only one of the three dimensions, technological turbulence in the competitive environment, is found to be a significant moderator. This is consistent with the findings of Rose and Shoham (2002) that technological turbulence increases the need to actively monitor and respond to changes in the environment. Thus, travel agencies in Taiwan need to be flexible and responsive to any changes in the technological landscape. Travel agencies that invest in the latest technology to increase the level of market orientation should gain a competitive advantage over the competition. Travel agencies that adopt a more sophisticated approach in the way they use technology will be able to better serve their customers, lower costs and increase the efficiency of information exchange. The Internet and social media are examples of technological means that travel agencies use to facilitate their customer needs. The Internet provides available timely information about activities, transportation, tourist weather forecasts and currency exchange and offers

consumers an enjoyable virtual environment. Further, travel agencies are advised to employ social media as a newly and effective marketing tool in order to investigate behavior and preferences of tourists. Travel agencies may track valuable information, knowledge, experiences, and comments, shared among users in the particular tourism social community such as TripAdvisor and subsequently analyze the relevant data in order to develop their marketing offerings to targeted customers. Payment security on the web is also a vital issue and, in order to protect customers' privacy and security, travel agencies must ensure that each electronic purchase transaction is generated in a reliable, confidential and secure environment. A variety of payment options which meet individual needs in terms of convenience and credit availability should be made available. Travel agencies must offer a friendly customer interface, and the online virtual community, via a website, can be a potential tool to establish customer loyalty. Customers have the freedom to communicate with one another, to exchange information, share their

experiences and give their opinions about travel arrangements, hotels and accommodations, and other travel services. This study has identified the role some environmental variables play in financial performance, but the further investigation will be useful for the implications of these findings. For instance, future research should determine the type of new product development that travel agencies have already introduced successfully in response to technological turbulence. Further, the findings of the study may be of value to government agencies, the academic field and to travel agencies by helping to improve understanding of the practices of travel agencies and their operational environment. In addition, Taiwan and other Asian countries are emerging from developing country to fully developed country status, making this context particularly interesting. Further researches could examine three competitive environment factors which moderate the market orientation–financial performance relationship in other countries.

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