

Full Length Research Paper

How the environment affects travel agency performance

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This research examines the performance of travel agencies in Taiwan by using a market orientation framework. 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 (MRA). The primary data were collected through a questionnaire survey completed by 249 managers of travel agencies in Taiwan. The results revealed that one element of the competitive environment (technological turbulence) influences financial performance.

Key words: Market orientation, competitive environment, financial performance, travel agencies.

INTRODUCTION

Recently, market orientation is a popular research topic (Deshpandé and Webster, 1989; 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; Narver and Slater, 1990; Ruekert, 1992; Slater and Narver, 2000). 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.

The core importance of market orientation is its potential contribution in influencing the achievement of a firm's objectives. 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. 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

factors affect market orientation on financial performance.

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) attempted 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).

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.

LITERATURE REVIEW AND HYPOTHESES

Market orientation and financial performance

This study proposes that a market orientation, including customer orientation, competitor orientation, and inter-functional 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 (that is, cross-functional integration) is necessary to be responsive to customer feedback. 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 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. 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. Matear et al. (2002) investigate 231 firms and find that market orientation contributes to performance directly and through enhancing the capability of the firm.

McNaughton et al. (2002) examines 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. However, several studies report no significant relationship between market orientation and financial performance (Bhuan, 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.

H₁: The greater the level of market orientation, the greater the financial performance.

Market orientation and financial performance moderated by 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 providing for the preferences of a given set of customers. In addition, firms under great competitive intensity need 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.

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. A study by Rose and Shoham (2002) indicates that the impact of market orientation on export profits was stronger in a technologically turbulent environment. 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.

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.

H₂: The greater the level of market turbulence, the greater the impact of market orientation on financial performance.

H₃: The greater the level of competitive intensity, the greater the impact of market orientation on financial performance.

H₄: The greater the level of technological turbulence, the greater the impact of market orientation on financial performance.

METHODS

The sampling frame for this study mainly focuses on travel agencies in Taiwan. In 2006, the tourism industry in Taiwan contributed US\$18 billion and accounted for 4.52% of total gross domestic product (GDP). According to the World Travel and Tourism Council (WTCC), over 3.52 million foreigners visited Taiwan in 2006, a rise of 9.3% over the previous year. Tourists spent a total US\$34.43 billion in 2006, an increase of 5.75% year-on-year, which is higher than the global average of 4.85%. 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. In Taiwan, they act as intermediaries between suppliers of accommodation, transport and leisure services and the consumer. Thus, the market orientation of travel agencies is likely to be a key factor in determining the success of the tourism industry.

To address the research issue, the questionnaire 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). 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).

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%.

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.

Table 1. Measure scale items.

Customer orientation ($\alpha = 0.91$)	<p>In this business, we constantly monitor our level of commitment and orientation to meeting customers' needs.</p> <p>In this business, our strategy for competitive advantage is based on clear understanding of our customers' needs.</p> <p>Meeting the needs of our customers is the most important objective of this business.</p> <p>In this business, our strategies are driven by our beliefs about how we can create greater value for customers.</p> <p>In this business, we measure customer satisfaction systematically and frequently.</p> <p>In this business, we give close attention to after-sales service.</p>
Competitive orientation ($\alpha = 0.83$)	<p>Our salespeople regularly share information within this business concerning competitors' strategies.</p> <p>In this business, we rapidly respond to competitive actions that threaten us.</p> <p>In this business, top management regularly discusses competitors' strengths and strategies.</p> <p>In this business, we target customers where we have an opportunity for competitive advantage.</p>
Interfunctional coordination ($\alpha = 0.92$)	<p>In this business, our top managers from every function regularly visit our current and prospective customers.</p> <p>In this business, we freely communicate information about our successful and unsuccessful customer experiences across all business functions.</p> <p>In this business, all of our functions are integrated in ways so they meet the needs of our target markets.</p> <p>In this business, all of our managers understand how everyone in our business can contribute to creating customer value.</p> <p>In this business, all functional groups work hard to thoroughly and jointly solve problems.</p>
Market turbulence ($\alpha = 0.91$)	<p>In our kind of business, customers' product preferences change quite a bit over time.</p> <p>Our customers tend to look for new products all the time.</p> <p>We are witnessing demand for our products and services from customers who never bought them before.</p> <p>New customers tend to have product-related needs that are different from those of our existing customers.</p> <p>We cater to many of the same customers that we used to in the past.</p>
Competitive intensity ($\alpha = 0.93$)	<p>Competition in our industry is cutthroat.</p> <p>There are many "promotion wars" in our industry.</p> <p>Anything that one competitive can offer, others can match readily.</p> <p>Price competition is a hallmark of our industry.</p> <p>One hears of a new competitive move almost every day.</p> <p>Our competitors are relatively weak.</p>
Technological turbulence ($\alpha = 0.95$)	<p>The frequency of using technology such as internet and data management systems in our industry is growing rapidly.</p> <p>An increased use of technology such as internet and data management systems has helped us achieve more sales of our products.</p> <p>A large number of new product ideas have been made possible through technological breakthroughs in our industry.</p> <p>Technological development such as internet and data management systems in our industry is slow to change.</p>
Financial performance ($\alpha = 0.93$)	<p>The market share of this business over the last three years.</p> <p>The costs of this business over the last three years.</p> <p>The revenue of this business over the last three years.</p> <p>The profit of this business over the last three years.</p>

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. For market orientation, R^2 in Table 2 shows a statistical insignificance which implies

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

Model	Standardised coefficient	R²	ΔR²	ΔF for ΔR²
Model 1		0.004	–	0.883
FP = b ₀ + b ₁ MO				
MO	0.060			
Model 2		0.014	0.010	2.575
FP = b ₀ + b ₁ MO + b ₂ MT				
MO	0.049			
MT	-0.102			
Model 3		0.021	0.007	1.740
FP = b ₀ + b ₁ MO + b ₂ MT + b ₃ MT × MO				
MO	0.044			
MT	-0.118			
MT×MO	0.085			
Model 1		0.004	–	0.883
FP = b ₀ + b ₁ MO				
MO	0.060			
Model 2		0.005	0.001	0.414
FP = b ₀ + b ₁ MO + b ₂ CI				
MO	0.057			
CI	-0.041			
Model 3		0.006	0.001	0.103
FP = b ₀ + b ₁ MO + b ₂ CI + b ₃ CI × MO				
MO	0.060			
CI	-0.038			
CI×MO	-0.021			
Model 1		0.004	–	0.883
FP = b ₀ + b ₁ MO				
MO	0.060			
Model 2		0.138	0.134	38.343***
FP = b ₀ + b ₁ MO + b ₂ TT				
MO	0.157			
TT	0.379			
Model 3		0.328	0.190	69.331***
FP = b ₀ + b ₁ MO + b ₂ TT + b ₃ TT × MO				
MO	0.130			
TT	0.272			
TT×MO	0.448			

MO = Market orientation; FP = financial performance; MT = market turbulence; CI = competitive intensity; TT = technological turbulence; *p < 0.05; **p < 0.01; ***p < 0.001.

that market orientation does not have a direct effect on financial performance. Hence, H₁ 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

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

MO = Market Orientation; TT = Technological Turbulence; FP = Financial Performance; *p < 0.05; **p < 0.01; ***p < 0.001

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.

The findings demonstrate that technological turbulence moderates the relationship between market orientation and financial performance. Hence, the findings support H₄. 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 H₂ and H₃.

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 (Bhuiyan, 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 is an example 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. 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 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. Furthermore, 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 countries to fully developed country status, making this

context particularly interesting. Further researches could examine three competitive environmental factors which moderate the market orientation–financial performance relationship in other countries.

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