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**Understanding Market Orientation:
Its Relationship
with Business Philosophy, the Business Environment,
and Performance**

**An Investigation into the Taiwanese
Food Manufacturing and Department Store Industries**

**By
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**A Thesis
Submitted for the Qualification of Doctor of Philosophy
Warwick Business School, University of Warwick, UK**

September, 1999

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Yau-Sheng Tsai (Andy)

10th September, 1999

ABSTRACT

The Construct of market orientation has been widely discussed, analysed and refined in recent years, but there remain fundamental disagreements about its value and significance as an explanatory tool in the study of business organisations. In particular, the relationship between market orientation, business philosophy, the business environment and performance has been understood in different ways. This thesis offers a critical view of existing theories of market orientation and seeks to overcome some of the limitations of those theories by investigating, by means of a qualitative research study, the way in which the senior managers of firms in two industrial sectors in Taiwan (food manufacturing and department stores) apply the marketing concept.

The emphasis of the present study is on four key research questions:

- Is the construct of market orientation, as it has been developed in the (mainly Western) research literature, useful for understanding the actual business practice of the case study Taiwanese firms?
- Are there any ways in which the construct of market orientation needs to be revised and/or refined to "fit" the actual business practice of the case study firms?
- How are the relationships between market orientation, business philosophy, business environment, and performance best understood in relation to the actual business practice of the case study firms?
- What does our research tell us more generally about the validity or non-validity of Western theories and models of market orientation in relation to business practice in a non-Western country, Taiwan?

The findings of the research point to the following conclusions in response to each of these four questions:

1. It shows that the construct of market orientation is useful in understanding the actual business practice of Taiwanese case firms, but it does not explain all aspects of that practice.
2. It suggests that the construct of market orientation needs to be revised and/or refined to "fit" the actual business practice of the case study firms. A 3x3 matrix representation of market orientation is suggested (see Table 7.1). This differentiates between the three components of market orientation (customer orientation, competitor orientation, inter-functional co-ordination) and three

levels of analysis (cultural, strategic, tactical). The synergy between the resulting nine "cells" is the source of market orientation's dynamism.

3. It shows that in the case study firms the relationships between market orientation, business philosophy, business environment and performance are exceedingly complex and are characterised by dynamics which vary according to a wide variety of organisational and people factors.
4. It shows that in the case of Taiwanese firms market orientation serves primarily as a mechanism by which firms respond to changes in the business environment in order to achieve balance between an internal and external focus, and between continuity and change.

A refined conceptualisation of market orientation, involving the inter-relationships between three components (customer orientation, competitor orientation, inter-functional co-ordination) and three levels of analysis (cultural, strategic, tactical) is proposed as a useful analytical tool to apply to the investigation of market orientation in different organisation settings. In addition, the tendency of Taiwanese firms to employ a market orientation as a mechanism with which to respond to business environment change in order to achieve balance between the imperatives of continuity and change, and between an internal and external organisational focus is highlight as a particularly significant research finding.

DECLARATION

This is to declare that:

1. I am responsible for the work submitted in this thesis.
2. This work has been written by me.
3. All verbatim extracts have been distinguished and the sources specifically acknowledged.
4. This work has not previously been submitted within a degree programme at this or any other institution.

Signature:

Tsaiyan-sheng

Date:

10th September, 1999

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ABBREVIATION

CIS	Corporate Identity System
CS	Customer Satisfaction
FEDS	The Far Eastern Department Stores Ltd.
MCR	Manufacturing, Customer and Research
MSG	Monosodium Glutamate
OEM	Original Equipment Manufacturer
OJT	On Job Training
POS	Point of Sale
President	President Enterprises Corporation
Printemps	Printemps Taipei Department Store Ltd.
QA	Quality Assurance
QC	Quality Control
QCC	Quality Control Circle
R&D	Research and Development
ROC	Republic of China
Shin-Shin	The Shin-Shin Department Store Ltd.
SQC	Service Quality Centre
Sogo	Pacific Sogo Department Stores Co., Ltd.
SP	Sales Promotion
Standard	Standard Foods Taiwan Ltd.
SWOT	Strength, Weakness, Opportunity and Threat Analysis
Tonlin	Tonlin Department Store Ltd.
TQM	Total Quality Management
VACRS	The Vocational Assistance Commission for Retired Servicemen
VGP	Variable Gross Profit
Wei-Chuan	The Wei-Chuan Foods Corporation
WTO	World Trade Organisation

-
- 1.1 Overview
 - 1.2 Key Research Issues
 - 1.3 Methodology
 - 1.4 Significance of the Research
 - 1.5 Organisation of the Thesis
-

1.1 OVERVIEW

For more than a generation, the "marketing concept" has attracted the interest of both educators and executives. Articles in marketing journals and trade publications alike have advocated its adoption, as have countless speakers at business conferences and academic seminars. Yet there remains much controversy about the concept's precise meaning and its practical applicability in different industries, sectors and countries. In particular, the transition from a company's marketing concept to the successful implementation of a comprehensive market orientation is an issue which has led to a wide range of opinions.

This study represents an attempt to reflect critically on the construct of market orientation as it has been developed in the Western literature, to evaluate the strengths and weaknesses of that construct, and to examine its relevance for an understanding of business activity in two different sectors of the Taiwanese economy: food manufacturing and department stores. It is primarily concerned with how market orientation – and its relations with business philosophy, business environment and performance – are actually viewed by senior managers working in these two sectors. In this respect, the research offers an approach which is different from the more common quantitative survey of business activity and performance. Its main concern is

to highlight the extent to which the construct of market orientation is a useful² analytical tool in a non-Western, i.e. Taiwanese, business context, and the need for possible future refinement of the construct in order to make it more useful.

1.2 KEY RESEARCH ISSUES

On the basis of an extensive literature review (Chapter 2), four key issues have been formulated as a basis for the research. These are examined in relation to a set of inter-firm comparisons within the food manufacturing and department store sectors in Taiwan, and also inter-sectoral comparisons:

- Is the construct of market orientation, as it has been developed in the (mainly Western) research literature, useful for understanding the actual business practice of the case study firms?
- Are there any ways in which the construct of market orientation needs to be revised and/or refined to "fit" the actual business practice of the case study firms?
- How are the relationships between market orientation, business philosophy, business environment, and performance best understood in relation to the actual business practice of the case study firms?
- What does our research tell us more generally about the validity or non-validity of Western theories and models of market orientation in relation to business practice in a non-Western country, Taiwan?

1.3 METHODOLOGY

The case study method is employed in this study. A total of eight firms in two business sectors in Taiwan (three food manufacturing firms and five department stores) are investigated. The firms have been chosen to cover the range of small, medium and large companies in each sector.

The case study method is well suited to the examination of contemporary phenomena when the relevant behaviours cannot be manipulated. It relies on many of the same techniques as a history, but it adds two sources of evidence not usually included in the historian's repertoire: direct observation and systematic interviewing. Again, although case studies and histories can overlap, the case study's unique strength is its ability to deal with a full variety of evidence – documents, artifacts, interviews and observations.

Since it seems likely that market orientation differs across industries, there are good reasons for choosing at least two different industries for comparison. Similarly, within each industrial sector, the use of multi-case studies is to be preferred. Each case must be carefully selected so that it either (a) predicts similar results (a literal replication) or (b) produces contrary results but for predictable reasons (a theoretical replication). Thus, the ability to conduct a number of case studies, arranged effectively within a multi-case design, is analogous to the ability to conduct the same number of experiments on related topics. A few cases (two or three) would afford literal replications, whereas a few other cases (four to six) might be designed to pursue two different patterns of theoretical replications. The more cases there are, the

more feasible it is to correlate the relationship between different factors, e.g.⁴ between company size or age and choice or effectiveness of market orientation.

The most important aspect of the chosen methodology to emphasise is that it is qualitative, not quantitative, and thus does not seek to produce a statistical survey of the selected case firms or to "test" a particular model of market orientation. Its emphasis is on the content analysis of the research interviews with 48 senior managers. However, some quantitative indices, e.g. of firms' actual performance and managers self-ratings of that performance are incorporated where appropriate.

The top managers are those who have most influence on the case firms' decisions and operations. Their titles differ (Chairman, President, General Manager, Vice President, Plant Manager and Marketing Manager, etc.), depending on the organisation of each case firm. Since these managers come from different backgrounds, have different experience, are of different ages, and occupy different functional posts, then it must be appreciated that they may well have different views about market orientation, even if they belong to the same firm. Thus, by selecting a fairly large number of interviewees, it is hoped that these variations will be revealed within individual firms, between firms, and between sectors.

1.4 SIGNIFICANCE OF THE RESEARCH

The present study provides evidence to enhance our understanding of market orientation and its relationships with business philosophy, the business environment and performance as viewed by senior managers in Taiwanese firms. It suggests that the construct of market orientation is indeed useful but needs revising and refining in a number of important respects if it is to be applied meaningfully in academic analysis

and as a managerial tool. In particular, it seeks to show how the three major components of market orientation (customer orientation, competitor orientation, inter-functional co-operation) operate at three levels within the firm (cultural, tactical and strategic), and that the relationships between these components and levels, and between them and the business environment vary from firm to firm, within and between sectors, according to the specific contextual circumstances of each firm. In other words, market orientation should not be seen as a uniform, universal construct but as an essentially variable and flexible construct. For Taiwanese firms, market orientation is best seen as an important mechanism for responding to environmental change in order to achieve balance between the demands of organisational continuity and change, between an internal and external focus, and between conflicting business philosophies. Furthermore, market orientation is not a universal panacea: it may or may not help firms to deal with the challenges they face. This will depend on each firm's particular circumstances and capacities, and on the decisions which senior managers take at the cultural, tactical and strategic level in relation to customer orientation, competitor orientation and inter-functional co-ordination.

It is hoped that these insights will contribute to the further investigation of market orientation in both Western and non-Western companies, and to the enhanced understanding of the complexities of market orientation in different contexts and situations. It is also hoped that the value of a qualitative approach to these issues will be demonstrated by the present research, and that this will encourage others to adopt a similar approach in future investigations. In particular, there is a need for more research beyond the confines of the present tendency to concentrate on US and UK examples.

1.5 ORGANISATION OF THE THESIS

There are seven chapters in this thesis. Chapter One presents an overview of the research problem, summarises the key research issues, briefly explains the choice of research methodology, and highlights the significance of the research.

Chapter Two reviews previous market orientation research and relevant literature before formulating the key research issues and establishing a conceptual framework.

Chapter Three reviews and examines the methodology employed in this research. The approaches used to tackle the research problems are discussed. This chapter considers the choice of methodology, the use of the case study approach, getting started, the selection of cases, crafting instruments and protocols, entering the field, and the analysis of data.

Chapters Four and Five present the industry-level context of Taiwan's food manufacturing and department store industries respectively. Each chapter begins with an introduction to the industry and choice of case firms. Then, the profile of each case firm is presented with a focus on market orientation and its relations with business philosophy, business environment and performance.

Chapter Six presents the integrated analysis of the research data, concentrating on inter-firm comparisons within each sector and inter-sectoral comparisons. As a basis for these comparisons, four specific foci on aspects of market orientation are introduced: focus 1. the overall strength of market orientation; focus 2. the relative strengths and weaknesses of the three main components of market orientation; focus 3.

the link between the actual strength, scope and content of market orientation and ⁷ business performance; and focus 4. the extent to which this link is moderated by the changing business environment.

Chapter Seven is the conclusion, offering a critical analysis of the major research findings and seeking, on the basis of these findings, to return to the four key issues originally formulated as the basis of the research. The chapter suggests a revised and refined model for developing the construct of market orientation in terms of three components and three levels of analysis as a means of expressing the complexity and variability of market orientation in Taiwanese firms.

Finally, ten Appendices contain interview and document data of case firms, and Kotler's marketing-effectiveness rating instrument (in English and Chinese).

CHAPTER 2 LITERATURE REVIEW

- 2.1 Introduction
 - 2.2 Market Orientation
 - 2.3 The Relationship between Market Orientation and Performance
 - 2.4 How the Environment Moderates the Relationship between Market Orientation and Performance
 - 2.5 The Relationship between Business Philosophy and Market Orientation
 - 2.6 Key Issues
 - 2.7 Summary
-

2.1 INTRODUCTION

As explained in Chapter 1, the basic purpose of this study is to explore and understand the complex relations between a company's market orientation and its business environment, business philosophy and performance on the basis of a study of the views of top managers in the food manufacturing and department store industries in Taiwan. The purpose of the present chapter is to set this research task against the background of the existing literature on market orientation. However, two basic points need to be taken into consideration in this respect: First, the existing literature mainly concerns the experience of Western firms. Secondly, the literature exhibits a large amount of theoretical and conceptual confusion. Therefore, in approaching the present study of Taiwanese firms, the author has used his own judgement to choose elements of the existing literature which, in his view, offer most promise as a basis for research investigation in Taiwan. It must also be stressed that the underlying approach adopted in this thesis is *qualitative* rather than quantitative. This perspective has inevitably influenced the structuring of a research framework, since the data to be used are not appropriate for quantitative statistical analysis.

Section 2.2 seeks to explore the key concept of market orientation and to show that there is still much confusion and inconsistency of terminology in this area of research. Section 2.3 discusses the relationship between market orientation and performance. Section 2.4 examines the ways in which the business environment moderates that relationship. This involves distinguishing between the various components of the business environment. Again, this is an area in which there is presently much conceptual confusion. Section 2.5 seeks to clarify the idea of business philosophy and to analyse the impact of that philosophy on market orientation. Section 2.6 highlights the key research issues to be investigated in this dissertation and endeavours to show how these issues have emerged from an analysis of the existing literature. Section 2.7 presents a summary of the chapter's main arguments.

2.2 MARKET ORIENTATION

Market orientation is the central concept of the present research study. Therefore, the first task of this chapter is to examine how this and related concepts (such as *marketing* orientation) have been formulated and applied in the existing research literature.

As Wrenn (1997) points out, the two terms "marketing orientation" and "market orientation" have been widely used to describe a company's implementation of the marketing concept. Until the late 1980s, most authors in this field preferred the use of "marketing orientation", but subsequent contributions by Shapiro (1988), Narver and Slater (1990), and Kohli and Jaworski (1990) -- and later works by these same authors -- encouraged a preference for "market orientation". One key advantage of this term is that it avoids the implication that only the marketing department is involved in the making of an organisational strategy towards the market. The new terminology is therefore adopted in the present study.

A company's market orientation represents a deliberate choice to implement a certain philosophy of doing business with customers. That philosophy may be summed up as the company's "marketing concept": "the marketing concept defines a distinct organizational culture ... that put[s] the customer in the center of the firm's thinking about strategy and operations" (Deshpande and Webster 1989, 3). The marketing concept is often seen to incorporate three distinct components: customer focus, inter-functional co-ordination, and profitability, but Kohli and Jaworski (1990) argue convincingly that it is more accurate to see profitability as a *consequence* of market orientation rather than a *part of it* (see further the discussion in Shun-Ching Horng and Arthur Cheng-Hsui Chen 1998). By inter-functional co-ordination is meant the need to bring together the functions of all individuals and groups within an organisation to increase customer value (Narver and Slater 1990). Of course, there are several different ways of putting the customer first and achieving inter-functional co-ordination, and this means that if we compare different companies, then we should be able to identify a range of market orientations.

Drucker (1954) is often credited with first articulating the marketing concept, i.e. the idea that the customer should be at the centre of management thinking. Marketing, in Drucker's view, should be more than a function alongside production, finance and human resources. Its proper role is as the overall guiding philosophy of business as a whole. Business embracing this philosophy is deemed to be "market-oriented".

Taking this argument a step further, there are substantial grounds for including not only customers but also a firm's competitors in the concept of market orientation (Narver and Slater 1990; Hunt and Morgan 1995). In other words, a market is much more than simply a set of customers. In implementing a market orientation, a firm must gather and analyse information on all customers and competitors, actual and potential,

and must use such knowledge "to guide strategy recognition, understanding, creation, selection, implementation, and modification" (ibid. 1). In reality, some firms may choose to place more emphasis on customers than competitors in their choice of market orientation, or vice-versa.

Greenley and Foxall (1998) also raise the question of whether other key stakeholders besides customers (consumers) and competitors should be included in the analysis of market orientation. This, indeed, is the argument of several authors, including Kohli et al. (1993), Slater and Narver (1995), and Donaldson and Preston (1995). In their own study of a sample of UK companies, Greenley and Foxall seek to incorporate shareholders and employees as key stakeholders with interests which firms must take into account.

Dibb et al. (1997) emphasises that a firm's employees also need to be incorporated in a view of marketing orientation. Marketing organisations, they point out, have two major approaches to marketing implementation: internal marketing and total quality management (TQM). The former approach involves "the co-ordination of internal exchanges between the organisation and its employees to better achieve successful external exchanges between the organisation and its customers", while the latter approach "relies heavily on the talents of employees to continually improve the quality of the organisation's goods and services. The three essentials of the TQM philosophy are empowered employees, continuous quality improvement and the use of quality improvement team" (p. 733).

It is now commonplace in marketing theory to stress the key importance of the marketing concept and its links with market(ing) orientation. Indeed, this philosophy of the primacy of marketing is now spreading to more and more organisational sectors,

beyond the limits of profit-making commercial businesses in the private sector. Thus health care and educational organisations, as well as local and central governments and other public service agencies, are increasingly being called upon to adopt their own distinctive market orientations (see the discussion and illustrative references in Wrenn 1997).

Empirical research in the area of the marketing concept and market(ing) orientation has produced a large literature spanning more than thirty years. A useful overview of major studies has been compiled by Wrenn (1997). He offers an eight-fold categorisation with a selection of references for each category. These are summarised in Table 2.2.1.

Table 2.2.1 Studies measuring marketing(ing) orientation/marketing concept

	Munsinger (1964)	Hise (1965)	Barksdale and Darden (1971)	McNamara (1972)	Lusch, Udell and Laczniak (1976)	Lawton and Parasuraman (1980)	Parasuraman (1983)	Decker (1985)
Construct	Marketing Concept	Marketing Concept	Marketing Concept	Marketing Concept	Marketing Concept	Marketing Concept	Marketing Orientation	Marketing Orientation
Focus of Measurement	Attitudes & Behaviors	Behaviours	Attitudes	Behaviours	Attitudes	Attitudes & Behaviours	Attitudes & Behaviours	Behaviours
Object of Measurement	Subjects	Subjects	Subjects	Constructs & Subjects	Subjects	Subjects	Subjects	Subjects
Measures (Scale)	Categorical and Open-ended	Categorical	Likert	Categorical for subjects; Arbitrary scaling for construct (Thurstone-type)	7-pt. Likert type	Likert, Categorical	Likert, Categorical	Thurstone-type based on Kotler (1977)
Empirical Setting	Industrial Organizations	Manufacturing firms	Business Executives and marketing educators	Consumer and industrial companies	Business Executives	Manufacturing firms	Industrial and consumer goods firms	University marketing agencies
Findings	High adoption and implementation of marketing concepts	High adoption of marketing concept	High belief in concept but low implementation	Higher adoption and implementation by consumer goods firms	Marketing concept expected to be important in the future	Adoption of marketing concept does not influence new product planning	Industrial goods firms more marketing oriented than consumer goods firms	Agencies scoring highly on orientation reported greater financial success

Table 2.2.1 (Continued)

	Whyte (1985)	Greenley and Matcham (1986)	McCullough, Heng and Khem (1986)	Dunn, Birley and Norburn (1986)	Lusch, and Iacznjak (1987)	Morris and Paul (1987)	Peterson (1989)	Norburn, Birley, Dunn and Payne (1990)
Construct	Marketing Orientation	Marketing Effectiveness (Orientation)	Marketing Orientation	Marketing Effectiveness (Orientation)	Marketing Concept	Marketing Orientation	Marketing Concept	Marketing Effectiveness (Orientation)
Focus of Measurement	Attitudes	Behaviors	Attitudes & Behaviours	Behaviours	Attitudes	Behaviors	Attitudes	Behaviours
Object of Measurement	Subjects	Subjects	Subjects	Subjects	Construct and Subjects	Subjects	Subjects	Subjects
Measures (Scale)	Likert	Categorical	Thurstone-type based on Kotler (1977)	Thurstone-type based on Kotler (1977)	Likert	Categorical	Categorical	Likert-type modification of Thurstone-type based on Kotler (1977)
Empirical Setting	Community health centers	Companies marketing incoming tourism to Great Britain	Banks	Large and small manufacturing firms	Manufacturing firms	Manufacturing companies	Small Business	Manufacturing (?) firms in US, UK, Australia, New Zealand
Findings	Marketing orientation of agency directors measured	Low level of marketing orientation present in companies	More marketing orientated banks had higher levels of consumer satisfaction	Small firms are as marketing oriented as large firms	Marketing and stakeholder concepts are inseparable philosophies	Firms rating high entrepreneurial orientation also rate high on marketing orientation	The marketing concept is part of operating philosophy of small business managers	Dissimilar market orientation exists among firms in four English-speaking countries

Table 2.2.1 (Continued)

	Narver and Slater (1990)	Naidu and Narayana (1991)	Miles and Arnold (1991)	Mezlou (1991)	Ruekert (1992)	Jaworski & Kohli (1993)	Kohli, Jaworski and Kumar (1993)	Qureshi (1993)
Construct	Market Orientation	Marketing Orientation	Marketing Orientation	Marketing Concept	Market Orientation	Market Orientation	Market Orientation	Marketing Orientation
Focus of Measurement	Behaviours	Behaviours	Behaviours	Behaviours	Behaviours	Behaviours	Behaviours	Behaviours
Object of Measurement	Subjects and Construct	Subjects	Subjects	Subjects	Subjects	Subjects	Construct	Subjects
Measures (Scale)	7 pt. Likert-type	Categorical and Thurstone-type based on Kotler (1997)	Likert and Semantic Differential	Itemized responses (1=poor, 4=excellent)	Likert	Likert	Likert	Thurstone-type based on Kotler (1997)
Empirical Setting	140 forest product SBU's of a US corporation	Hospitals	Furniture Firms	Manufacturing Firms	5 SBU's of large high-tech U.S. firm	MSI member companies and largest 1000 firms in US	MSI member companies and largest 1000 firms in US	Public and Private colleges and universities
Findings	For non-commodity business, relationship between market orientation and profitability is monotonic	Marketing orientation has a strong association with hospital occupancy rates	Marketing orientation and entrepreneurial orientation are related, but different, constructs	Marketing concept has been adopted by small firms	M.O. positively related to org. perf., job satisfaction, commitment to org. and trust in management by employees	M.O. affects performance across environmental contexts	Development and testing of a scale to measure market orientation	Marketing-oriented colleges more successfully attract resources

Table 2.2.1 (Continued)

	Wong & Saunders (1993)	Slater & Narver (1994)	Siguaw, Brown and Widing (1994)	Wrenn, LaTour, and Calder (1994)	Day and Nedungadi (1994)	Greenley (1995)	Pelham and Wilson (1996)	Wrenn (1996)
Construct	Marketing Orientation	Market Orientation	Market Orientation	Marketing Orientation	Market Driven (Market Orientation)	Market Orientation	Market Orientation	Marketing Orientation
Focus of Measurement	Attitudes & Behaviours	Behaviours	Attitudes & Behaviours	Behaviours	Behaviours	Attitudes & Behaviours	Attitudes & Behaviours	Behaviours
Object of Measurement	Subjects	Subjects	Subjects	Construct	Subjects	Subjects	Subjects	Construct & Subjects
Measures (Scale)	Likert-type bi-polar (Various pairs)	Likert	Likert	Thurstone	Categorical and itemized responses (small extent - very good extent)	7-pt. Likert-type bi-polar (1=not at all, 7=to an extreme degree)	7-pt. Likert-type bi-polar (Various pairs)	Thurstone
Empirical Setting	90 British, U.S. and Japanese companies	SBU's in forest product co. and diversified mfging corp.	Companies involved in sale of document imaging supplies	Hospitals	190 Large firms in U.S., Europe, Australia, N.Z.	1000 companies in United Kingdom	Small firms	Non-Profit Hospitals
Findings	Highest performing co's strike a balance between marketing and product orientation	Being market-oriented is cost-effective in different environments	Market orientation influences salesperson customer orientation and job attitudes	Hospital CEO's and marketing officers don't agree on hospital's degree of M.O.	Results suggest that market-driven businesses should outperform other firms	Five different forms of market orientation were identified	M.O. offers small firms a competitive advantage, better perfor., and relative product quality	All of the five companies of M.O. must be developed for org. success, but customer philosophy is most important

Source: Wrenn (1997)

It can be seen from Table 2.2.1 that researchers in this field have approached their investigations with a range of intentions. But, in terms of the present research study, one consistent conclusion is worthy of particular attention: that the adoption of a market orientation does lead to improved organisational performance. Furthermore, this conclusion seems to hold for all kinds of organisations: large and small; manufacturers and service suppliers; not-for-profit organisations; and high-tech companies (Wrenn 1997). There is also a great deal of evidence from previous studies that the adoption of a market orientation is associated with a whole range of internal organisational benefits, including the spread of a customer orientation within the enterprise, and employees' reduced stress levels, enhanced job satisfaction and organisational commitment (see especially Siguaw, Brown and Widing 1994; Jaworski and Kohli 1993; and the discussion by Wrenn 1997). Nevertheless, despite the evident benefits -- both external

and internal -- to be gained from applying the marketing concept through a clearly defined market orientation, according to Kotler (1994), relatively few companies have actually undertaken this task successfully, mainly because of the persistence of major attitudinal and structural barriers within companies, together with difficulties of effective implementation. Firms may simply lack the ability to implement the marketing concept or suitable opportunities may not present themselves, especially in less competitive environments (Gray et al. 1998, 884). Smaller manufacturing companies, in particular, have tended to prefer a production or sales orientation on the grounds that the result is greater profitability (see the studies of U.S. companies by Peterson 1989; Sriram and Sapienza 1991).

Most previous studies of market orientation have concentrated on the analysis of large Western, mainly American, firms. However, there are signs of growing interest in the application of the market orientation perspective to the study of small and medium-sized businesses in the West and also to the study of firms in other parts of the world, including Taiwan (see, for example, Shun-Ching Horng and Arthur Cheng-Hsui Chen 1998). The present study is indeed intended as a contribution to this broadening of the field of empirical research to encompass non-Western experience.

In all studies of market orientation, there are bound to be problems of evaluating the extent to which such an orientation has actually been adopted by a particular firm or industry. Attempts to provide definitive "scales" of measurement include those by Narver and Slater (1990) -- further refined for a Canadian study by Deng and Dart (1994) -- and Jaworski and Kohli (1993). Table 2.2.2 summarises a synthesis of these approaches utilised by Gray et al. (1998) in a multi-industry study of New Zealand companies.

Table 2.2.2 Market orientation questions

Customer orientation	<ol style="list-style-type: none"> 1. We encourage customer comments and complaints because they help us do a better job 2. After-sales service is an important part of our business strategy 3. We have a strong commitment to our customers 4. We are always looking at ways to create customer value in our products 5. We measure customer satisfaction on a regular basis 6. Our firm would be a lot better off if the sales force worked a bit harder 7. In our company marketing's most important job is to identify and help meet the needs of our customers 8. We define quality as the extent to which our customers are satisfied with our products/services 	Deng and Dart, 1994; Narver and Slater, 1990
Competitor orientation	<ol style="list-style-type: none"> 1. We regularly monitor our competitors' marketing efforts 2. We frequently collect marketing data on our competitors to help direct our marketing plans 3. Our salespeople are instructed to monitor and report on competitor activity 4. We respond rapidly to competitors' actions 5. Our top managers often discuss competitors' actions 6. We consider opportunities based on competitive advantage 	Deng and Dart, 1994; Narver and Slater, 1990 (Continued)
Inter-functional co-ordination	<ol style="list-style-type: none"> 1. In our company the marketing people a strong input into the development of new products/services 2. Market information is shared with all departments 3. All departments are involved in preparing business plans/strategies 4. We do a good job integrating the activities of all department 5. The marketing people regularly interact with other departments on a formal basis 6. Marketing is seen as a guiding light for the entire firm 	Deng and Dart, 1994; Narver and Slater, 1990
Profit emphasis	<ol style="list-style-type: none"> 1. Our management information system can quickly determine the profitability of our customers 2. Our management information system can quickly determine the profitability of our product lines 3. Our management information system can quickly determine the profitability of our sales territories 4. Our management information system can quickly determine the profitability of our distribution channels 	Deng and Dart, 1994; Narver and Slater, 1990
Intelligence generation	<ol style="list-style-type: none"> 1. Frontier staff interact directly with customers to see how we can serve them better 2. We do a lot of marketing research to assess customer perceptions of our products/services 3. We are slow to detect changes in our customers' preferences 4. We collect industry information on an informal basis 5. We regularly review the likely effect of changes in our business environment (e.g. interest rate changes, deregulation) on our customers 	Jaworski and Kohli, 1993
Intelligence dissemination	<ol style="list-style-type: none"> 1. We regularly have inter-departmental meetings to discuss market trends developments 2. Our marketing people regularly discuss customer needs with other departments 3. Customer satisfaction data are regularly distributed to all departments 4. There is minimal communication between marketing and other departments about market developments 5. When one department finds out something about a competitor it is often slow to alert other departments 	Jaworski and Kohli, 1993

Table 2.2.2 (Continued)

Response design	<ol style="list-style-type: none"> 1. It takes us forever to decide how to respond to competitors' price changes 2. Somehow we tend to ignore changes to our customers' product/service needs 3. We regularly check our product/service developments to assess whether they are in line with customer needs 4. Our business activities are driven more by technological advances than by market research 5. The products/services we sell are determined more by internal politics than market needs 	Jaworski and Kohli, 1993
Response implementation	<ol style="list-style-type: none"> 1. If a competitor launches a programme targeted at our customers we'll react immediately 2. The activities of our departments are well-co-ordinated 3. Customer complaints fall on deaf ears in this firm 4. We are quick to respond to significant changes in our competitors' pricing 5. If we find out that customers are dissatisfied with the quality of our products/services we immediately take corrective action 	Jaworski and Kohli, 1993

Source: Gray et al. (1998)

Table 2.2.2 provides a list of 44 statements in eight categories which provide the basis for a research questionnaire. The first eight questions deal specifically with customer orientation; the next six with competitor orientation; and the next six with inter-functional co-ordination. Then there are four questions on profit orientation, five on intelligence generation, five on intelligence dissemination, five on response (to market intelligence) design, and five on response implementation. Eventually, Gray et al. decided to omit the intelligence generation category (five questions) plus seven other specific questions due to their low reliability. The authors concluded that market orientation is indeed a multi-dimensional concept incorporating five key sub-dimensions: inter-functional coordination (incorporating intelligence dissemination), profit emphasis, competitive orientation, customer orientation, and responsiveness (response design). This led them to produce a new five-category 20-item research instrument using a five-point Lickert scale (see Table 2.2.3), which they then applied to their own New Zealand study.

Table 2.2.3 A parsimonious measure of market orientation

Customer orientation (CUSTOR)	<ol style="list-style-type: none"> 1. We encourage customer comments and complaints because they help us do a better job 2. After-sales service is an important part of your business strategy 3. We have a strong commitment to our customers 4. We are always looking at ways to create customer value in our products 5. We measure customer satisfaction on a regular basis
Competitor orientation (COMPOR)	<ol style="list-style-type: none"> 1. We regularly monitor our competitors' marketing efforts 2. We frequently collect marketing data on our competitors to help direct our marketing plans 3. Our salespeople are instructed to monitor and report on competitor activity
Interfunctional co-ordination (FUNCOP)	<ol style="list-style-type: none"> 1. Market information is shared with all departments 2. We regularly have inter-departmental meetings to discuss market trends developments 3. Our marketing people regularly discuss customer needs with other departments 4. The marketing people regularly interact with other departments on a formal basis 5. All departments are involved in preparing business plans/strategies 6. We do a good job integrating the activities of all departments
Responsiveness (RESPDE)	<ol style="list-style-type: none"> 1. We are quick to respond to significant changes in our competitors' pricing 2. Somehow we tend to ignore changes to our customers' product/service needs (negative values indicate greater responsiveness)
Profit emphasis (PROFEMP)	<ol style="list-style-type: none"> 1. Our management information system can quickly determine the profitability of our customers 2. Our management information system can quickly determine the profitability of our product lines 3. Our management information system can quickly determine the profitability of our sales territories 4. Our management information system can quickly determine the profitability of our distribution channels

Source: Gray et al. (1998)

Payne (1988) pays particular attention to the mix of potentially conflicting orientations in an organisation, and this is a very important point which must be emphasised since it is such conflict which often weakens the implementation of a market orientation. Following Payne, the potential conflicts summarised in Table 2.2.4.

Table 2.2.4 Alternative orientations

Types of Orientation	Typical Associated Attitudes
Product Orientation	"The quality of our products sells itself, and customers will always need our products."
Cost Orientation	"The only way to improve our profits is to reduce our marketing and production costs."
Capacity Orientation	"The more we make the more profitable it becomes. So let's go out there and make the customers buy."
Erratic Orientation	"You just cannot plan ahead in this industry, nobody knows what's going to happen from one day to the next."
Marketing Orientation	"We make our profit by creating opportunities to more effectively satisfy our customers' needs within the constraint of our resources and skill limitations."

Source: Payne (1988)

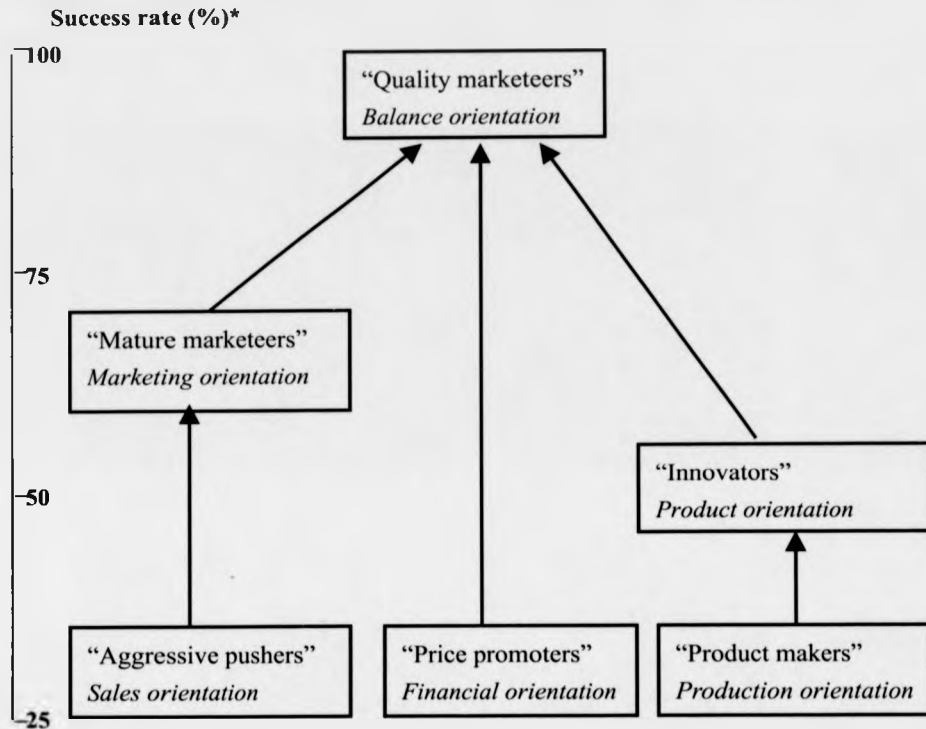
Wong and Saunders (1993) undertook a study of US, UK and Japanese firms based on their strategy and marketing activities. They defined six clusters: innovators, quality marketeers, price promoters, product marketeers, mature marketeers and aggressive pushers. They concluded that the highest proportion of successful companies were those that achieved a balanced orientation between a marketing and a product focus:

“Business aims for a balance, that is, to acquire all of the skills of innovation and marketing, as the Quality Marketeers at the top of our hierarchy have done so (see Figure 2.2.1). Our results demonstrate the superiority of a balanced orientation over other approaches as a reliable strategy for success.”

Greenley (1995b) has extended previous empirical studies by addressing the form rather than the degree of market orientation. Five forms of market orientation have been identified: customer focus orientation, undeveloped market orientation, fragmented orientation, comprehensive market orientation, and competitive focus orientation, along with three factors that discriminate between them. He concludes:

“The discriminating factors suggest that market orientation is indeed concerned with implementation (Webster 1993), but that this is balanced with intelligence generation and dissemination. However, the importance of the latter to the comprehensively market-oriented companies is consistent with the concept of market orientation being the “visible hand” that guides managerial behaviour (Lichtenthal and Wilson 1992).”

Figure 2.2.1 Business orientation and success rates



Note: *Success rates correspond to the top edge of the boxes

Source: Wong et al. (1993, 1997)

Wensley (1995) offers a commentary on operational measures and philosophical intentions in the research on market orientation:

"The empirical research on market-orientation and business performance has been bedevilled by both the problem of operationalising the construct itself and also by the external variable based on individual and collective attitudes and intentions. As a result of these confusions we not only have actual research being done in parallel with debates about the validity of

the constructs but also enough confusion in terms of construct specification, let alone differences in results and interpretation.”

Wensley specifies a number of questions which seem to be important for the future of critical analysis:

1. What are the alternatives to market orientation?
2. Are intermediate variables of any use?
3. Is the problem one of attitudes or behaviour?

Wensley (1995) proposed several criticisms of the existing research on market orientation. These are addressed as follows:

- The operationalisation of variables is problematic.
- The culture aspect of market orientation is problematic.
- There is confusion in construct specification.
- It is not clear what the alternatives to market orientation are.
- Are intermediate variables of use?
- Is the problem one of attitudes or behaviour?
- The use of cross-sectional data and questionnaires is problematic.

Greenley (1995c) criticises Wensley for relying on several UK studies which do not properly belong to the domain of market orientation. Accordingly, Greenley is not convinced by Wensley's critique. He does, however, agree that the operationalisation of marketing constructs into measurable variables causes difficulties. Furthermore, he reasserts the value of looking at the links between market orientation and corporate culture (citing Deshpande and Webster 1989; Lichtenthal and Wilson 1992). Greenley does not agree that there has been confusion in construct specification in this field, and

points to the recent suggestion of possible alternatives to market orientation, especially in terms of incorporating other stakeholders (see Slater and Narver 1994b; Greenley and Foxall 1995). The role of intermediate, moderating variables is seen by Greenley as an issue which mainly concerns the impact of the environmental moderation of the impact of market orientation on performance. Wensley is critical of those researchers who rely on single respondents, but Greenley points out that often multiple respondents have been used. Finally, Greenley agrees that much more empirical research into market orientation is needed, pointing to an incremental development of knowledge. The Wensley-Greenley debate is indicative of the conceptual confusion which presently characterises the whole area of market orientation studies.

As Greenley and Foxall (1998, 53) state, market orientation research has tended to focus on four major areas of investigation: developing an instrument for measuring market orientation, testing the instrument, investigating the effects of market orientation on performance, and analysing the moderation of those effects by the external environment. The first two of these areas have tended to involve an emphasis on the research instruments provided by Kohli and Jaworski (1990; Kohli et al. 1993), Narver and Slater (1990), and Deng and Dart (1994). The third and fourth areas have been investigated mainly in terms of studies of US and UK companies, with some equivocality in the results. Thus, while existing research on market orientation has provided a useful basis for the development of an analytical framework in the present study, the limitations and contradictions of that research must be recognised. For this reason, one of the key aims of this study is to suggest a more flexible research instrument incorporating a strong qualitative rather than quantitative dimension, and to apply this instrument to the Taiwanese -- i.e. a non-Western -- context.

2.3 THE RELATIONSHIP BETWEEN MARKET ORIENTATION AND PERFORMANCE

The primary motivation behind market orientation research remains the desire to discover whether a strong market orientation enhances business performance. As already indicated in Section 2.2, there is some confusion here. For example, Wrenn (1997), surveying the literature, concludes that evidence points to a very positive relationship between market orientation and performance with little negative impact on that relationship by external environmental influences (market turbulence, competitive intensity, and technological turbulence). Yet Greenley and Foxall (1998, 53-54), summarising the results of six major market orientation studies, point to some contradictory findings. In four US studies, market orientation appeared to have a strong impact on performance. In two out of these four studies, there was no external environmental moderation of this impact; but in one study effects were identified, while in the fourth study the issue was not investigated. Two UK studies, by contrast, revealed only a moderated or weak association between market orientation and performance, with (in both cases) significant effects by the external environment. See Table 2.3.1.

There is, then, considerable disagreement about the relationship between market orientation and performance (and its moderation by the impact of the external environment), and undoubtedly further empirical studies (not just of US or UK firms) are required. Yet, at the same time, interest in market orientation is fuelled by the widely held belief that such an orientation *will* enhance performance. The fact is, however, that it is not possible to make any simple generalisations in this area of analysis. The impact of market orientation will undoubtedly depend on a number of factors according to the specific size, structure and function of the firm(s) in question and on the particular environment and business sector(s) involved. Furthermore, for

research purposes the methods of analysis and measurements used must be coherent and consistent. Comparing the results of different studies is not always easy because of key methodological differences between those studies.

Table 2.3.1 Summary of empirical studies

Study	Country	Sample	Market orientation/performance association	Environment/performance association	Moderator variables
Narver and Slater (1990)	US	113 SBUs in one company	Positive	Relative cost, technological change, market growth	Not investigated
Jaworski and Kohli (1992)	US	Sample 1: 220 companies	Positive	Product quality, competitive intensity, supplier power.	None identified
		Sample 2: 230 companies	Positive	Competitive intensity	None identified
Ruekert (1992)	US	5 SBUs in one company	Positive	Not investigated	Not investigated
Hart and Diamantopoulos (1993)	UK	87 companies	Weaken association	Not investigated	Competitive hostility with sales growth
Slater and Narver (1994b)	US	81 SBUs in one company; 36 SBUs in another company	Positive	Relative cost, relative size, ease of market entry, competitive hostility	Market turbulence with ROI. Technological change with new product success. Market growth with sales growth
Greenley (1995a)	UK	1000 companies	None identified	Relative size, relative cost, technological change, market growth	Market turbulence with ROI. Technological change with new product success. Customer power with sales growth.

Source: Revised from Greenley (1995a, 1995b)

In terms of the analysis of business performance, one basic issue which must be resolved is that of how performance is to be measured and evaluated. In practice, sales growth and return on investment (ROI) are the two business-performance indicators most commonly used by both managers and researchers (Hofer 1983; Venkatraman and

Ramanujam 1986). Thus, Narver and Slater (1993) reported on the results of a panel data analysis investigating the effect of market orientation on these two drivers of business performance, and concluded that market orientation and customer retention were significantly related to sales growth but not to ROI. This finding clearly presents a challenge for any future research. The authors suggest that the analysis of more firms, for more years, with shorter intervals between observations would strengthen our understanding of the impact of market orientation on ROI. In addition, they suggest that emphasis should be placed on measuring behaviours in firms that more directly affect the rate of return. Given the limitations of ROI as a measure of the rate of return, Narver and Slater (1993) suggest that future research should employ a different performance measure, for example stock return.

Narver and Slater (1993) conclude that since they do not find a negative effect of market orientation on ROI, market orientation's positive effect on sales growth will increase total profits as long as ROI is greater than the cost of capital for the business. Since it is common for an increase in ROI to generate higher profits than increases in sales (Alberts 1989), Narver and Slater (1993) suggest that a market-oriented business should be concerned with ROI, and that measures of market orientation should capture behaviours that affect ROI.

Liu (1995) found that large and extra-large firms show a better profit performance than medium-sized firms. He suggests that a study of the relationship between market orientation and performance needs to isolate the contribution of market orientation to performance from size or other related factors such as advertising, vertical integration and distribution channels.

The theory of market orientation presented by Kohli and Jaworski (1990) was

developed from an extensive search of the literature and preliminary interviews with 47 US companies. One of the authors' conclusions was that the greater the level of market orientation of organisations, the higher their performance. This conclusion is based on the premise that a market orientation appears to provide a unifying focus for the efforts and projects of individuals and departments within organisations, thereby leading to superb performance.

Consequently, this hypothesis was investigated in the US by Jaworski and Kohli (1992), Narver and Slater (1990), Slater and Narver (1994b) and Ruckert (1992). Wong and Saunders (1993) investigated the impact of a range of business orientations on performance. Although all these studies emanated to some extent from the conceptual work of Kohli and Jaworski (1990), they utilised different research strategies, which makes comparisons extremely difficult.

It is thus clear that in any research study the impact of market orientation on business performance is not easy to determine. First of all, a clear, coherent construct of market orientation has to be formulated and applied. Then, this has to be related to an equally clear measure or set of measures of business performance over a specified time period. Furthermore, given that any definition of market orientation is bound to incorporate a number of distinct components, the question arises as to whether it may be possible to distinguish the specific impacts of those components (e.g. customer orientation, competitor orientation) on performance. At the same time, a firm's activities may involve a mix with other orientations (e.g. production orientation, sales orientation), and accordingly the impact of these other orientations -- or the overall mix of orientations -- on performance needs to be identified if possible. But methodologically, such an ambitious aim presents many difficulties.

The study by Greenley and Foxall (1998) seeks to overcome such methodological problems in a number of ways. First, the authors' approach to measuring company performance is *subjective* rather than *objective*. They use executives' perception of performance (in terms of market share, new product success rate, ROI and sales growth) as an appropriate measure, arguing that this is often more reliable than the so-called objective measures found in company accounts. Furthermore, managerial perceptions, they argue, are often more important than "reality" in decision-making (ibid. 58-59). This is a perspective which informs the present study's own emphasis on exploring and analysing the views of top managers as a key source of insight into how firms develop and operate. Secondly, the authors use various indicators of stakeholder orientation and external moderators. Stakeholder orientation is measured on a seven-point scale for each of the following variables (for each of the four groups of stakeholders - competitors, consumers, shareholders and employees): research, management judgement, corporate culture, corporate mission, stakeholding planning. External moderators (competitive hostility, market turbulence, market growth) are also measured on a seven-point scale. Both stakeholder orientation and external moderators are assessed on the basis of respondents' subjective responses to a questionnaire. On the basis of an extensive statistical analysis of the resulting data, Greenley and Foxall conclude that "The results indicate that stakeholder orientation per se is not associated with performance per se, but that different types of stakeholder orientation are associated with different measures of performance, and that these associations are moderated by the external environment" (p. 64). More specifically, the authors conclude that

- consumer orientation is associated with sales growth (moderated by market turbulence)
- competitor orientation is associated with ROI and sales growth (not moderated by

external variables) and also market share (moderated by market turbulence)

- employee orientation is associated with new production success, and at high levels of market turbulence there is greater employee orientation
- shareholder orientation is associated with market share (where competitive hostility is the moderator) and with ROI (where market growth is the moderator)

These findings, interestingly, challenge the results of the major US studies, which conclude that the market orientation/performance relationship is sufficiently strong not to be influenced by other variables, but are generally consistent with other UK studies. What is clear here is that it is impossible to understand the impact of market orientation on performance without at least considering the moderating effect of the external environment. Therefore, it is to this issue that we turn in the next section.

2.4 HOW THE ENVIRONMENT MODERATE THE RELATIONSHIP BETWEEN MARKET ORIENTATION AND PERFORMANCE

Recent studies have shown evidence of a positive relationship between market orientation and performance, but that relationship is complex, involving a mix of the various components of market orientation (so that an aggregate view can be misleading) and the various actual or potential moderating effects of the business environment. As stated in the previous section, there is no general agreement about these matters among all major studies, and, as Greenley and Foxall (1998) point out, different conclusions seem to have emerged from US and UK studies.

The first problem to deal with is that of how we are to characterise the external environment: what exactly does the concept mean? In the literature, the term is used to refer to institutions or forces that are outside the organisation and affect the organisation's performance. According to Duncan's (1972) interpretation, five components constitute the business environment: customers, suppliers, competitors,

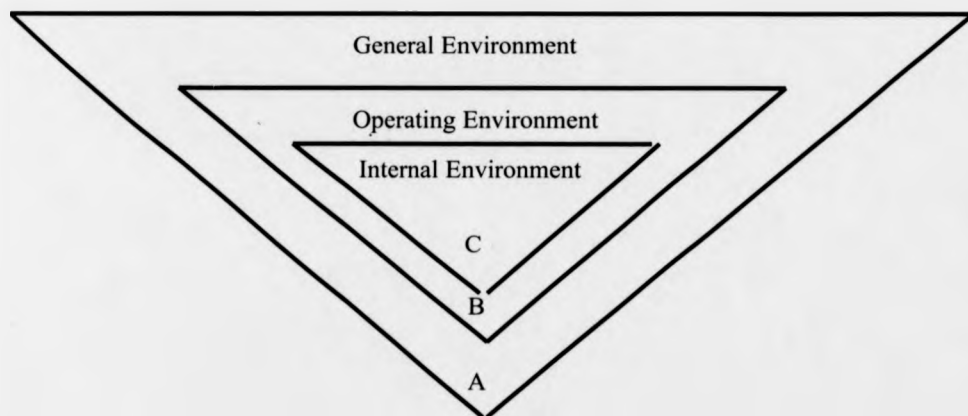
socio-political context and technology. Osborn and Hunt (1974), having taken a broader perspective, conceptualise the business environment as being made up of three components, which they describe as macro, aggregate and task. The macro environment is the general cultural context of a specified geographical area and contains those forces recognised to have important influences on organisational characteristics and outputs. The aggregate environment consists of the associations, interest groups and constituencies operating within a given macro environment. The task environment is defined as that portion of the total setting that is relevant for goal setting and goal attainment.

Because the contents of the three components of Osborn and Hunt's (1974) classification frequently overlap, the precise definition and analysis of these groupings are exceedingly difficult. Other researchers, such as Kast and Rosenzweig (1985), Luthans (1976), Robbins (1988) and Thomas (1974), have divided the environment into two parts: 1) the general (or societal) environment; and 2) the task (or operating, specific) environment. As shown in Figure 2.4.1, the general environment, which is considered superordinate to the operating environment, consists of pervasive background factors, such as technological, governmental, economic, cultural and demographic conditions. On the other hand, the operating environment, considered to correspond substantially to the sector or industry in which it functions, consists of the company in interaction with other entities such as its customers, suppliers, competitors, unions, regulatory agencies, investors, bankers and so on.

Because the business environment is becoming more dynamic and uncertain in today's world, many scholars have made efforts to identify its various dimensions and characteristics. For example, while Emery and Trist (1965) suggested that the environments of organisations are moving from "placid, randomised" to "turbulent

fields," Mintzberg (1979) focused on four dimensions: stability, complexity, market diversity and hostility. Aldrich (1979) also identified six dimensions of organisational environments: 1) capacity, the relative level of resources available to the organisation; 2) homogeneity-heterogeneity, the degree of similarity between elements of the domain population; 3) stability, the degree of turnover in environmental elements; 4) concentration, the degree to which resources are evenly distributed over the environment; 5) consensus, the degree to which an organisation's claim to a specific domain is disputed by other organisations; and 6) turbulence, the degree of interconnection among elements in the environment.

Figure 2.4.1 Environment levels



- A: General environment: The national and global contexts of social, political, regulatory, economic and technological conditions.
- B: Operational environment: The set of suppliers and other interest groups with which the firm deals.
- C: Internal environment: Within the firm's official jurisdiction.

Source: Thomas (1974)

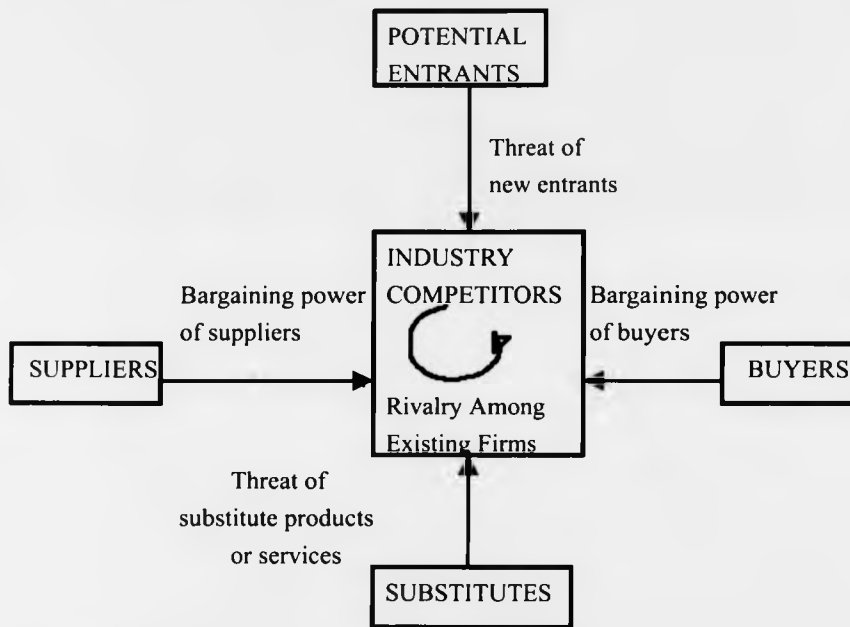
Smart and Vertinsky (1984) explored corporate responses to crisis using turbulence, accuracy, dependency, predictability, routinisation and simplicity as relevant environmental dimensions. They found that the responses of executives were contingent on the latter's perceptions of their ability to control the environment and the cost of changing it. Dess and Origer (1987) condensed Aldrich's (1979) typology to three dimensions and argued that munificence, complexity and dynamism are more important than any other factors when one seeks to explore the relationships between environment, structure and consensus among central management in the formulation of strategy. Boyd (1990) found that one would expect negative coefficients for munificence, positive coefficients for dynamism, and non-linear coefficients for complexity in relation to environmental uncertainty.

Managers must always keep a close watch on the business environment in order to acquire more information and reduce uncertainty. On the one hand, they have to analyse and predict the impact of the general environment by using scenario analysis, impact analysis and so on. On the other hand, they should identify the relationship with other entities. As Porter (1980) indicates (See Figure 2.4.2), the industry structure has five components: competitors, potential competitors, substitute products, customers and suppliers. Each plays a role in determining the intensity of competition and in explaining why some industries are historically more profitable than others. An understanding of the structure can also suggest which key success factors are necessary to cope with competitive forces. In other words, all five components jointly determine the intensity of industry competition and profitability and the strongest dominant force become crucial from the point of view of strategy formulation.

Lai's (1993) research finds that the factors that have a major influence on the food industry in the general environment in Taiwan are: 1) awareness of environmental

protection; 2) fluctuations in the domestic economy; and 3) fair trade law – all in the general environment. The threat of substitute products or services and rivalry among existing firms are the most significant task environment factors that influence the food industry in the external environment.

Figure 2.4.2 Forces driving industry competition



Source: Porter (1980)

It is clear, then, that the concept of the business environment has been interpreted in many different ways in the literature. Whatever precise approach is used, however, there remains the problem of seeking to identify the ways in which the environment actually moderates the relationship between market orientation and performance. One widespread focus of attention has been the degree of competition in the environment

and how this impacts on the market orientation-performance relationship in terms of encouraging firms to place a greater emphasis on customer analysis relative to competitor analysis, or vice-versa (Day and Wensley 1988, Slater and Narver 1994b). For example, the results of Slater and Narver's (1994b) research provide very limited support for the moderator role of a competitive environment. Since the benefits of market orientation are long term and environmental conditions are often transient, being market-oriented remains cost-effective in spite of any possible short-term moderating effects of the environment. However, the experience of firms of different sizes and types must be compared carefully before any general conclusions are reached. Thus, Liu (1995) finds that large and extra large firms are more market-oriented than medium-size firms, and there are hardly any differences in market orientation between large and extra-large firms. However, the extent to which these differences are related to environments varying in competitiveness and have different impacts on performance is not made clear. What is fairly certain, however, is that in less competitive environments an alternative (e.g. production) orientation may be more profitable than a customer orientation (Gray et al. 1998, 884).

Comparing the studies by Jaworski and Kohli (1992) and Slater and Narver (1994), Greenley (1995a) noted that different control variables were operationalised in an analysis of environmental effects on performance (see Table 2.4.1).

In the Jaworski and Kohli study, several associations were found: product quality with overall performance, organisational commitment and *esprit de corps*; competitive intensity with market share; customer power with ROE; and supplier power with market share. Slater and Narver found that predictors of ROA were relative size, relative cost and customer power; predictors of sales growth were ease of market entry and competitive hostility; predictors of new product success were relative size and

relative cost. In total, Jaworski and Kohli found that only six out of a possible 30 environmental effects on performance were significant, and Slater and Narver found that only seven out of 24 effects were significant (cited in Greenley, 1995a). The conclusions were that the association between market orientation and performance were robust and not greatly affected by changes in the environment, although a somewhat more significant effect was identified by Slater and Narver.

Table 2.4.1 Control variables

Slater and Narver	Jaworski and Kohli
Relative size	Product quality
Relative cost	Competitive intensity
Market growth	Customer power
Ease of market entry	Supplier power
Customer power	Entry barriers
Competitor concentration	Substitute products
Market turbulence	
Competitor hostility	
Technological change	

Source: Greenley (1995a)

Yet, as Greenley points out, these American conclusions are not consistent with the results of UK studies, including his own (Greenley 1995a; Hart and Diamantopolous 1993; see also Greenley and Foxall 1998), where some distinct moderator effects of the environment are clearly identified (these have already been referred to in the previous Section 2.3). Greenley and Foxall argue that companies may require more than just a marketing philosophy to be successful: they may have to adopt a multiple stakeholder orientation. So the problem then arises of how the environment influences -- and is influenced by -- the changing relationships between a company and those stakeholders (consumers, competitors, shareholders and employees).

2.5 THE RELATIONSHIP BETWEEN BUSINESS PHILOSOPHY AND MARKET ORIENTATION

As we have already seen (in Section 2.2), a company's market orientation represents an implementation of its marketing concept, which, in turn, may be seen as part of its overall business philosophy. Day (1990) and Webster (1994) stress the value of a cultural perspective on those conditions in an organisation which give rise to attitudes and behaviours associated with a market orientation. Many other writers have also adopted a cultural perspective, looking to an organisation's culture as a means of revealing whether, and to what extent, the marketing concept has been adopted. Doyle and Hooley (1992), Wong, Saunders and Doyle (1993), and Hooley and Lynch (1994) examine culture in the sense of "what happens around here". They interpret the role of marketing by clustering the perceptions of senior marketing executives. Collectively they support the view that marketing fulfils a range of roles from that of a strategic driving force to that of a minor tactical component. Harris (1998) and Harris and Ogbonna (1999) suggest that the construct of market orientation has often been built on an inadequate conceptualisation of organisational culture, and that, in particular, the common assumption that a market-oriented culture is unitary is invalid. They are also doubtful whether any organisational culture can easily be deliberately "managed" by executives.

Deshpande, Farley and Webster (1993) adopt the "Competing Values" framework (Quinn and Rohrbaugh 1983) to look at "why things happen the way they do". This recognises that alternative value systems have distinct merits. Thus, observing the value system which emerges as dominant may be indicative of management's priorities. Market-based values emphasise competitiveness and goal achievement and are consistent with the essence of the marketing concept. Meehan (1996) suggests that

market orientation needs to be modelled and measured in terms of both values and practices. He also suggests that researchers need to tap into management's (not just marketing's) shared mental model to discover how market orientation reconciles with other demands such as cost reduction.

Canning (1988) also suggests that corporate culture is one of the most important factors shaping market orientation: is marketing genuinely understood as the work of the entire company, not just the sales and marketing staff? Canning contends that the lessons implicit in this question will assist management in improving its marketing orientation.

There have been many previous studies of corporate culture, especially in relation to the beliefs, values and expectations of managers and their impact on company orientation towards customers, competitors and other stakeholders (Greenley and Foxall, 1998). Deshpande et al. (1993) concluded that companies with a customer-oriented culture achieve better performance than companies without. Similarly, Jones (1995) found that companies which accept responsibility for shareholders tend to gain competitive advantage. One problem here, though, is that the terminology surrounding corporate culture is extremely diverse. In many Asian countries, the concept of corporate culture tends not to be used, and it is more usual to refer to business philosophy. Similarly, the Western idea of a mission statement, incorporating key values and beliefs, linked to a company's main strategic goals, is rarely used in Asian countries, including Taiwan. On a broader level, the deep-rooted cultural differences between Western and non-Western societies mean that a universal notion of organisational culture and business philosophy is inapplicable. To take just one example, the important role of social connections (*guanxi*) as a basis for Chinese business networks and management practice has major cultural implications that must be

understood by the researcher (see, for example, Yeung 1998).

In this thesis, the main ingredients of business philosophy in which we are interested relate to the various orientations which a company can adopt. One interesting approach to this phenomenon is represented by the classical historic "era" model of firm development popularised by Keith (1960). But this approach involves two serious limitations: it tends to see the historic evolution of firms in terms of quite distinct periods, with one particular orientation dominant in each of them; and it is clearly not applicable to non-manufacturing firms, e.g. retail companies, since they are not involved in production operations (the first stage). Keith states that Pillsbury's progress in the marketing revolution divides neatly into four separate eras which parallel rather closely the classic pattern of development in the marketing revolution. These were the first era – production oriented, the second era – sales oriented, the third era – marketing oriented, and the fourth era – marketing control. According to Keith, the Production Era at Pillsbury extended from the firm's beginnings in the late 1860s to the 1930s; it was characterized by a management emphasis on production rather than distribution. The Production Era was followed in the 1930s by the Sales Era, in which energetic personal selling was backed by research and advertising, and in 1950 by the Marketing Era of sophisticated customer orientation. However, others, particularly Fullerton (1988) have challenged such a linear and exclusive model and suggested that a more complex changing and evolving balance of forces view might be more appropriate. Fullerton (1988) argues that there was no production era:

"The Production Era concept is clearly untenable. No such era existed. An "era" should capture the primary trends of a period of time. The Production Era notion not only ignores well-documented demand trends, but also the supply trends that resulted in a wide variety of items in most

product classes. It obscures the trend toward proactive marketing by producers and the trend toward the establishment of significant new marketing institutions. In sum, it does not subsume nearly enough of the available evidence. Its widespread acceptance has cut us off from our rich marketing heritage.”

Fullerton (1988) concludes that the evidence arrayed against the Production Era concept also weakens the conventional belief that there was a hard-sell-oriented Sales Era between 1930 and 1950 followed by the birth of a true marketing Era. He further contends that any periodisation framework is based on a model of how change occurs over time:

“The model may or may not be explicit. The Production-Sales-Marketing Era framework is built on a “catastrophic” model, that is, one in which major developments take place suddenly, with few antecedents. In the case of modern marketing, however, the evidence argues strongly against such a model; such marketing clearly did not develop from nothing overnight.”

Fullerton (1988) proposes an alternative “complex flux” model to reflect the philosophy of mainstream historical research. This posits modern marketing’s evolution as a complicated and fluid process involving simultaneous dramatic change, incremental change, and continuity. He explains that

“the complex flux model explicitly rejects the equation of “development” – or “evolution” – with “improvement”. Development brings changes, which may or may not be improvement; this is true

whether improvements are judged from the microperspective of a firm's marketing prowess or from the macroperspective of societal well being."

The complex flux model underlies a four-era periodization of modern marketing's historical development:

- Setting the stage: the era of antecedents.
- Modern marketing begins: the era of origins.
- Building a superstructure: the era of institutional development.
- Testing, turbulence, and growth: the era of refinement and formalization.

Kotler (1994) describes marketing management as the conscious effort to achieve desired exchange outcomes with target markets. Now the questions arise: What philosophy should guide these marketing efforts? What weights should be given to the interests of the organisation, the customers and society? It is very often the case that these interests conflict. Clearly, marketing activities should be carried out under some coherent philosophy of effective and responsible marketing. Kotler (1991) claims that there are actually five competing concepts under which organisations conduct their marketing activity: the production concept, the product concept, the selling concept, the marketing concept, and the societal marketing concept.

The production concept holds that consumers will favour those products that are widely available and low in cost. Therefore, managers of production-oriented organisations concentrate on achieving high production efficiency and wide distribution coverage. The assumption that consumers are primarily interested in product availability and low price holds in at least two types of situations. The first is where the demand for a product exceeds supply, and so customers are more interested in obtaining the product than in its fine points. The suppliers will accordingly

concentrate on finding ways to improve production efficiency and expand capacity. The second situation is where the product's cost is high and has to be brought down through increased productivity in order to expand the market. Generally, this concept is most relevant to a non-mature market in which the technological dimension of the production process is of crucial importance.

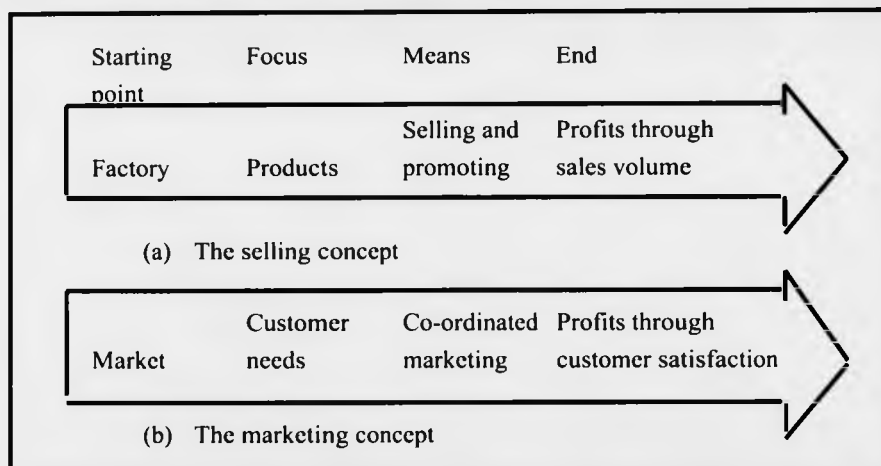
The product concept holds that consumers will favour those products that display the highest quality, the best performance, and the best features. Managers in these product-oriented organisations focus their energy on making good products and improving them over time. They assume that buyers admire well-made products, can appraise product quality and performance, and are willing to pay more for product "extras." Thus, product differentiation becomes an increasingly important issue.

The selling concept holds that consumers, if left alone, will not normally buy enough of the organisation's products. The organisation must therefore undertake an aggressive selling and promotion effort. (Corstjens and Corstjens [1999: 15] add the interesting comment that "Selling orientation is often a panic reaction when a company recognizes that its products are no longer superior and are losing market share".) The concept assumes that consumers typically show inertia or resistance in buying and have to be coaxed into buying more, and therefore the company has available a whole battery of selling and promotion tools. Customers are bombarded with television commercials, newspaper ads, direct mail, and sales calls. This is why marketing is often seen as a matter of hard selling and advertising. However, in order for such activities to be successful, the marketer must clearly identify consumer needs, develop appropriate products, and price, distribute and promote them effectively.

The marketing concept holds that the key to achieving organisational goals

consists of determining the needs and wants of target markets and delivering the desired satisfactions more effectively and efficiently than competitors. Levitt (1960) stresses the importance of distinguishing between the selling and marketing concepts (see Figure 2.5.1): Selling focuses on the needs of the seller; marketing on the needs of the buyer. Selling is preoccupied with the seller's need to convert his product into cash; marketing with the idea of satisfying the needs of the customer by means of the product and the whole cluster of things associated with creating, delivering and finally consuming it.

Figure 2.5.1 The selling and marketing concepts contrasted



Source: Levitt (1960)

In Kotler's view, the marketing concept rests on four main pillars, a market focus, customer orientation, co-ordinated marketing, and profitability: "Most companies have not arrived at full marketing maturity. They think they have marketing because they have a marketing vice-president, product managers, sales force, advertising budgets, and so on. But a marketing department does not assure a market-oriented company. The

company has marketing operations, and yet it may fail to see the big picture and adapt to changing consumer needs and changing competition" (Kotler 1994). What must be stressed here is that market orientation is much more than simply the activities of a marketing department a division. This is precisely why the term "market orientation" is preferable to "marketing orientation".

The societal marketing concept holds that the organisation's main task is to determine the needs, wants and interests of target markets and to deliver the desired satisfactions more effectively and efficiently than competitors in a way that preserves or enhances the consumer's and society's well-being. Thus, marketers are required to balance three considerations in setting their marketing policies: company profits, consumer wants satisfaction, and the public interest. Originally, companies based their marketing decisions largely on immediate company profit calculations. Then they began to recognise the long-run importance of satisfying consumer wants, and this introduced the marketing concept which calls for a balance of all three considerations. However, there are obviously major problems in seeking to define "the public interest": this is not a concept which can be easily "measured" and different groups in society will hold different, even opposing views, about whether a particular company's activities are socially responsible and accountable. In some respects, this problem relates to the growing concern with "stakeholder orientation", since all companies have many different stakeholders (e.g. shareholders, employees, consumers, competitors, the local community, society in general), and their interests are in many ways different. Thus, a company must strive to "balance" these different interests rather than seek to achieve a universal common "public interest". (Greenley and Foxall, 1998)

Deng and Dart (1994) offer a similar approach to Kotler, but they do not have a separate product orientation. Rather this is encompassed within their understanding of

production orientation. Thus, their categorisation is as follows:

production orientation, sales orientation, marketing orientation, and societal orientation. In terms of the fourth of these orientations, Deng and Dart stress that a company's various "publics" -- including customers, employees, stockholders, governmental agencies, suppliers and the public at large -- have their own distinct interests which a company must take into account.

Both Kotler's and Deng and Dart's definitions of business philosophy are clearly framed from a marketing point of view. They are an important part of an organisation's business philosophy, but not the whole. Basically, the definitions categorise the different foci of the management of an organisation. They aim to identify the top managers' perceptions in relation to key business imperatives. But we must not lose sight of the fact that a company has many other management concerns, such as R & D, technology, procurement, finance, and personnel. Accordingly, the range of possible business philosophies is actually enormous and may require a more elaborate classification than any so far suggested in the literature.

As Pearce (1982) points out, the expression of a company's philosophy, or company creed as it is sometimes known, usually accompanies, or appears as part of, the mission statement. It reflects or explicitly states the basic beliefs, values, aspirations, and philosophical priorities that the strategic decision-makers are committed to emphasise in their management of the firm. However, in practice, the typical contents of company philosophies vary little from one firm to another. This means that business owners and managers implicitly accept a general, unwritten, yet pervasive, code of behaviour by which actions in a business setting can be governed and largely self-regulated. Unfortunately, statements of philosophy display so great a degree of

similarity among firms, and are worded in such platitudinous ways, as to look and read more like an exercise in public relations than a summary of genuine commitment to core values.

Ledford et al. (1995) summarise three broad potential advantages of corporate philosophy statements that appear in the literature. The first is that such statements can be used to guide behaviour and decisions. As several authors point out, the values expressed in a philosophy statement, by their very nature, define what courses of action and outcomes "should be." Thus, the philosophy statement can help focus employee attention in some directions and not others.

A second potential advantage of an explicit corporate philosophy is that it expresses organisational culture so that employees can be helped to interpret ambiguous stimuli. Ambiguity is everywhere in organisations. There are often no obvious answers to such basic questions as: Is my unit performing well? Am I being paid at an appropriate level for my contribution? Is management treating different employee groups fairly? Is the company pursuing the right strategy? Ledford et al. (1995) state that research on organisational culture has consistently emphasised that culture helps employees to interpret their social reality in ways that permit them to answer such questions.

A third potential advantage of a philosophy statement is that it may contribute to organisational performance by motivating employees or inspiring feelings of commitment. This, in turn, can have a very positive effect on overall business performance.

Ledford et al. (1995) found that corporate philosophy statements manifest not only organisational cultures, but national cultures as well. Langlois's (1993) study of

European, American, and Japanese companies also makes this point very clearly. Western philosophy statements, for example, tend to emphasise external stakeholders. Japanese philosophy statements tend to be internally focused, putting an emphasis on internal harmony and co-operation, and are more emotional in tone. Is there a downside to a corporate philosophy? Since a corporate philosophy appears to hold so many advantages, should not every company have one? In fact, Ledford et. al. (1995) argue that a philosophy may not be a positive – or even a neutral – force in all cases. A poorly conceived philosophy is likely to breed cynicism or apathy. And the more beautiful the prose, and the more desirable the vision, the more apparent will be any discrepancy between the dream and reality. If employees see the statement as merely empty words, it may demoralise them instead of providing inspiration; and if they see it as too demanding, they may feel justified in deciding simply not to grapple with new corporate challenges. Ledford et al. (1995) also argue that a philosophy that is too rigid may become a justification for failing to grapple with new challenges. They refer to the example of IBM, a company once frequently and favourably cited for its strong corporate philosophy. However, IBM's performance declined because it failed to adapt to a changing environment. Its philosophy, penned by founder Thomas Watson, Sr., eventually became a justification for stagnation. Its emphasis on the individual encouraged IBM to ignore the important role teams play in a high-technology firm, and its emphasis on "excellence" in everything became an excuse for bureaucratic excess at every turn. A company thus needs to change its business philosophy to match changes in the business environment. Hinterhuber and Popp (1992) argue that when a vision is put into concrete terms, it becomes a corporate philosophy, i.e. the ideological creed of both entrepreneurs and their top managers. A good corporate philosophy is like a good battle cry and, as George Bernard Shaw pointed out, a good battle cry can be half the battle.

2.6 KEY ISSUES

The literature review presented in this chapter has highlighted some of the major problems and uncertainties of current research into market orientation. As we have seen, most research has sought to test particular, specified models of market orientation in relation to other variables, usually using quantitative analysis, and the most significant studies have been of Western, especially American and British firms. It is not the purpose of the present research study to try to replicate these kinds of approaches. Rather, the main emphasis here is on raising a number of key issues about the value and relevance of existing models of market orientation, and trying to show whether these models actually correspond to how senior business executives in Taiwanese companies (in the food manufacturing and department store sectors) see and experience the operation of their own businesses.

To begin with, the present research isolates four major areas of investigation: business philosophy, market orientation, business environment, and performance. *Business philosophy* is seen to consist of four major elements which, in practice, may be mixed together in various ways: production orientation, sales orientation, marketing orientation, and societal orientation. *Market orientation* is seen to consist of three major elements which, in practice, may be mixed together in various ways: customer orientation, competitor orientation, and inter-functional coordination. A fourth element which is discussed in the literature -- profit orientation -- is not included here for reasons which have already been stated above (see Section 2.2). The *business environment* is divided into two major components: the general environment (government, economics, culture, demographics and technology); the task environment (potential competitors, existing competitors, substitute products, customers and suppliers). *Performance* is here viewed in terms of two sets of measures: (1) the top managers' self-rating, using

Kotler's marketing effectiveness rating instrument (Kotler 1977); and (2) case firms' financial performance indicators, namely turnover, pre-tax profit margin, ROE and ROA which is available from Taiwanese case firms (instead of sales growth and ROI which are used by most of previous studies).

It must be stressed that, logically, the possible relationships between these four components are numerous, as is indicated in Figure 2.6.1. If we now compare this with Figure 2.6.2, which represents a fairly orthodox model of market orientation, derived from the existing literature, we can see that the environment can easily shift to become an intermediate, moderating variable, shaping the impact of market orientation on performance. What needs to be emphasised here is that this research does not wish to suggest at the outset that either of these models -- or indeed any other model - is "right" or "superior". Indeed, all linear "boxed" models of this kind have serious limitations: in particular, they tend to compartmentalise different aspects of a business into separate discrete units and give the impression that these units have clear "boundaries", which is highly questionable; and they also give the impression that firms' top managers actually perceive of their businesses in such compartmentalised terms, which, again, can be disputed. (Greenley, 1995a) Accordingly, in this research we set out to investigate whether the testimonies of senior business executives in Taiwan lend any support to the value of a particular model of market orientation in the light of their own experience and knowledge. We do not, therefore, wish to "test" any particular model, but want to explore the relationship between how market orientation has been viewed in the (mainly Western) scholarly literature and how market orientation has been understood in business practice in a non-Western society, Taiwan. At the most general analytical level, therefore, four key issues are identified for consideration in this study:

- Is the construct of market orientation, as it has been developed in the (mainly

Western) research literature, useful for understanding the actual business practice of the case study Taiwanese firms?

- Are there any ways in which the construct of market orientation needs to be revised and/or refined to “fit” the actual business practice of the case study firms?
- How are the relationships between market orientation, business philosophy, business environment, and performance best understood in relation to the actual business practice of the case study firms?
- What does our research tell us more generally about the validity or non-validity of Western theories and models of market orientation in relation to business practice in a non-Western country, Taiwan?

Figure 2.6.1 Possible relationships between market orientation, business philosophy, the business environment and performance

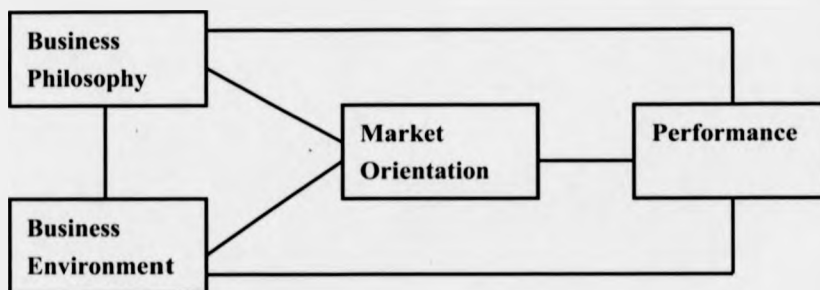
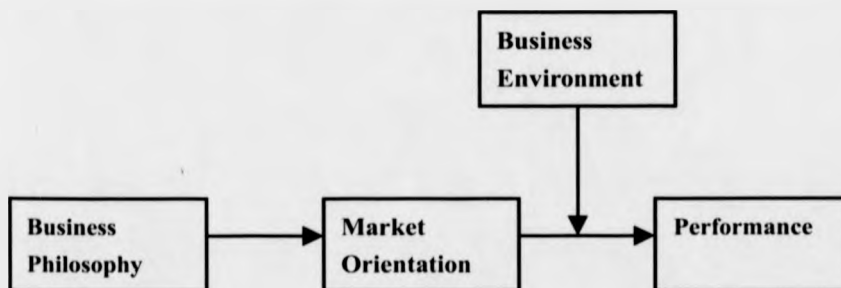


Figure 2.6.2 A fairly orthodox model of market orientation, derived from the existing literature



In order to carry the analysis forward at the empirical level, the construct of market orientation is seen in terms of four major research foci (see Sections 3.4, 6.5 and 6.7 for further details):

Focus 1. The overall strength of market orientation.

Focus 2. The relative strengths and weaknesses of the three main components of market orientation.

Focus 3. The links between the actual strength, scope and content of market orientation and business performance.

Focus 4. The extent to which this link is moderated by the changing business environment.

Because this study of Taiwanese companies covers two different sectors - the food industry and department stores - the research process also emphasises two kinds of comparisons: inter-firm comparisons within each sector; and inter-sectoral comparisons. In other words, the possibility is raised that market orientation is not understood in precisely the same ways by senior executives in different sectors, or indeed by senior executives of different firms within the same sector.

The main research instrument is a questionnaire (full details of which are provided in Chapter 3). The resulting data provide information based on the subjective responses concerning business philosophy, market orientation, business environment, and performance, and their inter-relationships. (The case for basing data on such subjective responses has been discussed above in Section 2.3).

The original research design allowed for a time frame of five years (1991-1995) in terms of the experience of the case study firms. However, owing to the open-ended interview structure, many executives offered information which went beyond this time frame. Where appropriate, this information has been included. The methods of data analysis are explained fully in Chapter 3.

2.7 SUMMARY

This chapter has sought to review critically the literature on market orientation. This literature is still developing and there is a need for much more empirical work. At the theoretical level, most of the literature emphasises the construction of specific models of market orientation in relation to other variables (e.g. business philosophy and performance) and, often, to the mediating effects of environmental influences. However, so far, the literature on market orientation has not led to any real consistency of findings, and methods of "testing" the various models of market orientation are open to criticism because of their unduly quantitative emphasis and their restriction (usually) to American and British experience.

The present research seeks to adopt a different approach. The aim is to subject the various models and theories of market orientation to critical scrutiny by investigating whether, in terms of the actual business practice of Taiwanese firms, the dominant approaches to market orientation actually make sense and prove to be reliable. The emphasis in this research is on exploring how senior business executives in Taiwan seek to understand the nature and role of market orientation in their companies in relation to business philosophy, business environment, and performance. No assumptions are made at the outset about whether the findings will or will not confirm the validity of any particular pre-existing model or theory of market orientation. The research is guided by a concern with four main research issues and is carried forward at the empirical level by four research foci. It is anticipated that there will be significant differences in the findings in relation to the two business sectors studied here (the food industry and department stores) and also within each sector.

CHAPTER 3 METHODOLOGY

- 3.1 Introduction
 - 3.2 Choice of Methodology
 - 3.3 The Use of Case Studies
 - 3.4 Getting Started
 - 3.5 The Selection of Cases
 - 3.6 Crafting Instruments and Protocols
 - 3.7 Entering the Field
 - 3.8 Analysing Data
 - 3.9 Shaping Hypotheses
 - 3.10 Summary
-

3.1 INTRODUCTION

Easterby-Smith et al. (1991) suggest that the choice of methodology is influenced by the researcher's own preferences, by the nature of the research question(s), and by the pragmatic concern of access. As an introduction to the research methodology for this thesis, it is appropriate to address these issues.

The present researcher's background extends for over twenty years in the field of business management, both academically and in practice. The last decade has witnessed a growing interest in marketing and strategic management, and an ongoing debate over the future of research in this area. The pre-eminence of quantitative, positivist studies has left the discipline open to the charge of "New Marketing Myopia" (Brownlie et al. 1994). In the early 1980's, Day and Wensley (1983) suggested that the way ahead for the marketing literature might be to adopt a more strategic focus. However, Hunt (1994) contends that marketing has made little contribution to the strategy debate in the intervening decade. Moreover, despite the undoubted value of qualitative research methodologies for in-depth research, the

marketing literature is still focused upon theory-testing rather than theory-building (Bonoma 1985, Desphande 1983). As Desphande claims:

“Marketing scholars have too long ignored the meta-theoretical implications of reliance on a single paradigm. This paradigm has been identified as that of logical positivism. In its exclusion of a more qualitative paradigm, marketing theory has developed certain inherent methodological biases. These biases come from developing new theoretical contributions while using methodologies more appropriate to theory testing than to theory generation.”

In the present study, the aim is *not* to test one or more particular models of market orientation (which would almost certainly necessitate a quantitative analysis). Rather, the aim is to take a number of key issues raised by such models and to ask some critical questions about these issues with reference to their applicability to Taiwanese business attitudes and behaviour. The fundamental social and cultural differences between Taiwan and Western countries point to the possibility that Western constructs and theories relating to market orientation, business philosophy, business environment, and performance do not correspond in a straightforward way to Taiwanese constructs and theories. The aim of this study is to identify major similarities and differences. Thus, to take the example of market orientation, it cannot be assumed that this concept is used or is understood in Taiwan in exactly the same ways as it is in Western countries. What we need to look for in our research is how, in the context of Taiwanese business, is whether in fact the concept of market orientation makes sense, what its specific components are, and whether attitudes and behaviour relating to market orientation exhibit identifiable patterns which may be compared

with Western attitudes and behaviour. The same goal relates to the three concepts of business philosophy, business environment, and performance. Furthermore, we then seek to consider the complex relationships between the four major components of our analysis, while also keeping an open mind as to whether any other components need to be brought into our understanding of the Taiwanese experience.

It follows from the above comments that this study does not seek to test hypotheses or propositions generated by any particular model or theory of market orientation (as usually expressed in a variety of box diagrams). It is more concerned with the issues and critical problems involved in investigating market orientation in a non-Western context. We are therefore particularly interested in embracing an awareness of how business attitudes and behaviour relate to each other in Taiwan. Thus this study does not utilise an empirical survey of companies; it focuses instead on the views, values and mental outlooks of senior executives in two major business sectors (food and department stores) in order to judge whether there are distinct ways in which market orientation is regarded, and then to go further in terms of trying to find out whether, in practice, the actual operation of businesses involves a consistent implementation of particular market orientation philosophies. For example, a company may claim to have a strong market orientation, but in practice this view may not be given adequate expression; indeed it may be contradicted. Or, put another way, the company may have a very particular view of its market which does not fit neatly into existing theories or models.

The reasons for the choice of the Taiwan as the empirical basis of the study are threefold. First, most research in market orientation is focused on the USA and the

UK. It should therefore be enlightening to investigate a different geographical and cultural area, and hopefully some new findings will be obtained. Secondly, Taiwan has created a so-called "world economic miracle" in the last few decades. This offers a good opportunity to investigate whether the concepts of market orientation, business philosophy, the business environment, and performance can be "tranposed" from Western theoretical models to fit the Taiwanese experience, or whether that experience – and the thinking associated with it – point to the inadequancies of Western models. Thirdly, Taiwan is the researcher's home country. It is therefore much easier for the researcher to conduct and analyse interviews using his mother language.

3.2 CHOICE OF METHODOLOGY

The following observations by Easterby-Smith et al. (1991: 42-43) provide a sound basis for the methodological approach to the present study:

"Hirschman (1986) argues that the key factors in marketing are essentially socially constructed: human beliefs, behaviours, perceptions and values. Hence, it is important to employ research methods drawn from this perspective, such as observation and qualitative interviews. But academics within the marketing field still show a strong preference for survey research methods, which are aimed at predicting, often statistically, behaviour amongst consumers or clients. This may be because marketing as an academic discipline has emerged from economics and the behavioural sciences, and both of these have well established quantitative traditions. On the other hand commercial market research agencies rely heavily on qualitative methods. As Jobber and Horgan's (1987) study into

the actual practices of agencies revealed, skills in interviewing and personal communication were considered to be more valuable than mastery of statistical techniques. Despite both changes in the concept of marketing and actual commercial practices, the teaching of market research still retains a heavy bias towards quantitative rather than qualitative approaches.”

The present research does indeed take as its starting-point a concern with “human beliefs, behaviours, perceptions and values” and endorses the view that marketing concepts and theories are socially constructed. Thus it embraces a qualitative rather than quantitative research method for the reasons which Easterby-Smith et al. provide. As this section seeks to explain, our approach challenges the positivist assumptions of much published research and adopts an interdisciplinary standpoint, since a narrow focus on the academic discipline of marketing is insufficient to achieve a broader view of how marketing orientation is rooted in a wider range of social attitudes and behaviour.

3.2.1 The Limitation of Positivism and the Need for an Inter-disciplinary Perspective

Research into marketing accords most closely with the positivist world view. Hirschmann (1986) pointed out that only one non-positivist, empirical study had appeared in *The Journal of Marketing* in the previous three decades. The predominance of the “philosophy of science” in marketing is indicated by the prevalent norms of empiricism, causality and quantification which guide much of its research. Hirschmann attributes this fact to marketing’s origins in economics.

Easterby-Smith et al. (1991) provide a composite list of methodological assumptions which are linked with positivism. While this list is more comprehensive than Comte's (1953) original suggestions in the nineteenth century, it includes features which Easterby-Smith et al. see as having become associated with positivism (see Figure 3.1). Adherence to all, or some, of these assumptions predisposes research in the field to progress in a theory-testing rather than theory-building direction (Bonoma 1985, Desphande 1983).

Indeed, the dominance of positivism has caused considerable concern within the marketing field. The debate is complex. For the past decade, Anderson and Hunt have argued the merits of critical relativism (Anderson 1983) versus critical realism (Hunt 1983). A number of reservations have been expressed about the latter. The shift in the nature of marketing towards a more socially-constructed discipline is seen to require a more humanistic approach (Hirschmann 1986). Moreover, emphasis upon quantitative, rather than qualitative, research may act as a disincentive to tackling interdisciplinary or complex questions (Anderson 1983, Easton 1993, Egan 1993, Hunt 1994).

The present analysis does not reject the value of seeking to generalise from hypotheses, nor of seeking to explain the antecedents of interesting phenomena. However, it endorses the view of Bonoma (1985) that there remains a need for preliminary "theory-building" to advance theoretical development in the field, particularly in attempts to apply marketing approach aims multiple cultural contexts.

Figure 3.1 A composite list of positivism's methodological assumptions

Independence	<i>the observer is independent of what is being observed</i>
Value-freedom	<i>the choice of what to study and how to study it can be determined by objective criteria rather than by human beliefs and interests</i>
Causality	<i>the aim of the social sciences should be to identify causal explanations and fundamental laws that explain regularities in human social behaviour</i>
Hypothetical-deductive	<i>science proceeds through a process of hypothesising fundamental laws and then deducing what kinds of observations will demonstrate the truth or falsity of these hypotheses</i>
Operationalisation	<i>concepts need to be operationalised in a way which enables facts to be measured quantitatively</i>
Reductionism	<i>problems as a whole are better understood if they are reduced to the simplest possible elements</i>
Generalisation	<i>in order to be able to generalise about regularities in human and social behaviour, it is necessary to select samples of sufficient size</i>

Source: Easterby-Smith et al. (1991)

The need for pluralism of philosophical views and methodological approaches has been recognised in a number of fields of social science. For example, Van Maanen (1983) expresses strong concerns over the predominance of deductive techniques in organisational theory (1983):

“Questions have been raised about the extent to which our methods are guiding our theory and concern has been expressed about the degree to

which our procedures have become so ritualised that the necessary connection between measure and concept has vanished.”

However, subsequent research in the field suggests a trend towards qualitative, inductive methodologies (Easterby-Smith et al. 1991). Piore (1979) argues that qualitative research methodologies can add value to the economics field, which has traditionally been dominated by quantitative and deductive research. Day and Wensley (1983) propose that the marketing discipline requires a more strategic stance which in turn demands a broader, inter-disciplinary approach to answering research questions.

Research into the attitudes and behaviours associated with market orientation, business philosophy, business environment, and performance inevitably spans economics, culture, strategy, organisation and marketing. Consequently, it is important that the chosen methodology should comprehend and build upon the considerable body of literature which exists in all these fields. This thesis attempts to achieve this aim in order to gain a better understanding of the key research questions.

3.2.2 Complexity

It has been suggested (Bonoma 1985) that the choice of methodology should be related to the level of understanding which already exists in a specific area of research. If there is “poor” theory-development, then the “premature application of theory-testing normal science methods” is inappropriate. Bonoma (1985) recognises an inherent danger in such studies since “the conclusions can contain no more information than is contained in the premises”. Moreover, they tend towards giving a

numerate description of qualitatively complex phenomena (Van Maanen 1983). A major limitation of broad, generalisable studies is that they cannot explore the full richness of the data.

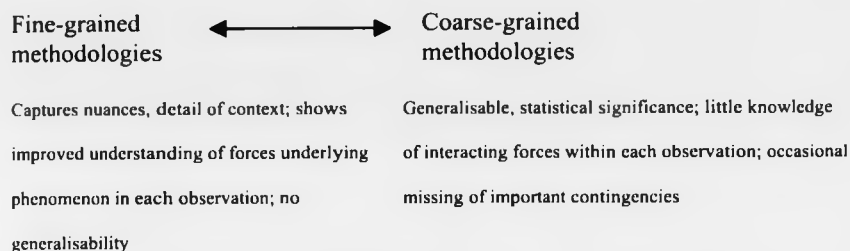
There is a relative scarcity of literature which tries to synthesise the findings of the diverse disciplinary perspectives. A key challenge for such studies is the complexity and breadth of the range of variables proposed for inclusion. It is not always clear which are dependent and which are independent. Many variables appear to be inter-related. Either composite variables or proxy measures may be required to study some of the softer issues. The use of a generalisable, quantitative study is virtually impossible. Preferred techniques for complexity reduction, such as factor analysis, require such a long questionnaire that a sufficiently high response rate is unlikely.

The alternative approach to handling this level of complexity is to use a methodology which does not seek to generalise, but rather to gain an in-depth, critical understanding of the issues. The use of an "intensive" rather than "extensive" methodology is suggested (Wilson 1993). Harrigan (1983) contends that for strategy research, methodologies can range from the "fine-grained" to the "coarse-grained". The choice of a methodology should be contingent upon the complexity of the research question. (See Figure 3.2)

The trade-off between the depth of the research methodology and the generalisability of the findings is acknowledged. However, "fine-grained" research methods can provide an understanding of complex issues when "coarse-grained"

approaches cannot. Van Maanen (1983) suggests that "fine-grained", qualitative techniques are best used to describe, decode, translate and otherwise come to terms with the meaning, not the frequency, of certain more or less naturally occurring phenomena. These techniques thus seem most suitable for the present research.

Figure 3.2 The range of methodologies from the "fine-grained" to the "coarse-grained"



Source: Harrigan (1983)

In practice, the present research relies a great deal on the analysis and interpretation of interview data. However, this has been complemented by a range of direct observations and the study of archive information. In this way, an effort has been made to consider the relationship between the attitudes of senior business executives and the actual behaviour of their firms. The structure and content of the interviews are explained more fully in Section 3.4.1. It must be stressed that in the interview situation, one of the major challenges confronting the researcher is to judge the reliability of informants. This task was greatly aided by the present researcher's own considerable business experience. As far as direct observation is concerned, the following general points may be offered at this stage. During the data collection

phase, several visits were made to the chosen department stores to observe their actual business activities. This included visits in the role of a shopper in order to experience the level and quality of customer service. Visits were also made to the food manufacturing case firms to gain an overall impression of how they operated. These visits to firms were essential to check the results of the interviews and to identify any major discrepancies between what interviewees said and the real-life situations of their firms.

3.2.3 Context

Pettigrew (1985) contends that strategic decisions cannot meaningfully be outside their context. Hence, the most appropriate methodology for this present research is in-depth, qualitative and contextual:

“Qualitative researchers are more likely than quantitative researchers to confront the constraints of the everyday social world. They see this world in action and embed their findings in it. (Denzin and Lincoln 1994)”

3.3 THE USE OF CASE STUDIES

The need to study market orientation in *context*, using an *in-depth* methodology, inductively combines to present a compelling argument in favour of the use of case studies for this research. Definitions of a case study range from those which suggest that “case” is synonymous with observation in a quantitative study (Abbott 1993) to

the majority view, which sees the case study as a means of investigating a problem in depth and in its context. Yin (1989) defines the case study as:

“an empirical enquiry that investigates a phenomenon within its real life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used.”

Yin sees this approach as being capable of answering “how” or “why” questions about a contemporary event or events over which the investigator has little or no control.

Ragin (1993) identifies four different types of case study. The case study might be specific, referring to a particular person or incident, or more general, referring, perhaps, to a firm or family. The distinction between specific and general is plotted against the objectivist or subjectivist philosophies to arrive at four ways of understanding cases. (See Figure 3.3) Ragin believes that these positions are not mutually exclusive, but represent a framework for understanding the aims of different types of cases.

Figure 3.3 Conceptual map for answers to the question: “What is a case?”

<i>Understanding Cases</i>	<i>Case Conceptions</i>	
	Specific	General
Empirical Units	1. Cases are found	2. Cases are objects
Theoretical Constructs	3. Cases are made	4. Cases are conventions

Source: Ragin (1993)

This research focuses upon issues concerning the meaning and significance of market orientation, the business environment, business philosophy, and performance as well as the various relations between those four components. If it were positioned on Ragin's grid, it would first define cases as empirical units. In fact, this research proceeds within a conventional context, the organisation. Therefore, it fits most neatly into cell 2.

The traditional criticisms which are levelled at case study research are that it is anecdotal and lacking in rigour. Therefore, the design of case-based research must address the problems of construct validity, external and internal validity and reliability (see Figure 3.4). To ensure its rigour, this research uses the structured approach proposed by Eisenhardt (1989) whose framework (see Figure 3.5) builds upon the work of Yin (1983) in terms of case study design, and of Miles and Huberman (1984) in terms of data analysis. It is used in this chapter to highlight the key methodological issues in the research design.

Figure 3.4 Construct validity, external and internal validity and reliability

Construct Validity	Establishing correct operational measures for the concepts being studied.
Internal Validity	Establishing a causal relationship whereby certain conditions are shown to lead to other conditions, as distinguished from spurious relationships.
External Validity	Establishing the domain to which the study findings can be generalised.
Reliability	Demonstrating that the operations of a study - such as data collection procedures - can be repeated, with the same results.

Source: Yin (1983)

Figure 3.5 Process of building theory from case study research

Step	Activity	Reason
<i>Getting started</i>	Definition of research question Possibly a priori constructs	Focuses efforts Provides better grounding of construct measures
	Neither theory nor hypotheses	Retains theoretical flexibility
<i>Selecting cases</i>	Specified population	Constrains extraneous variation and sharpens external validity
	Theoretical, not random, sampling	Focuses efforts on theoretically useful cases - i.e. those that replicate or extend theory by filling conceptual categories
<i>Crafting instruments and protocols</i>	Multiple data collection methods	Strengthens grounding of theory by triangulation of evidence
	Qualitative and quantitative data combined	Synergistic view of evidence
	Multiple investigators	Fosters divergent perspectives and strengthens grounding
<i>Entering the field</i>	Overlap data collection and analysis, including field notes	Speeds analyses and reveals helpful adjustments to data collection
	Flexible and opportunistic data collection methods	Allows investigators to take advantage of emergent themes and unique case features
<i>Analysing data</i>	Within case analysis	Gains familiarity with data and preliminary theory generation
	Cross-case pattern search using divergent techniques	Forces investigators to look beyond initial impressions and see evidence through multiple lenses
<i>Shaping hypotheses</i>	Iterative tabulation of evidence for each construct	Sharpens construct definition, validity and measurability
	Replication, not sampling, logic across cases	Confirms, extends and sharpens theory
	Search evidence for 'why' behind relationships	Builds internal validity
<i>Enfolding literature</i>	Comparison with conflicting literature	Builds internal validity, raises theoretical level, and sharpens construct definitions
	Comparison with similar literature	Sharpens generalisability, improves construct definition, and raises theoretical level
<i>Reaching closure</i>	Theoretical saturation when possible	Ends process when marginal improvement becomes small

Source: Eisenhardt (1989)

3.4 GETTING STARTED

This research study is focused on four major variables: market orientation, business philosophy, business environment, and performance. Each of these variables has a number of distinct components. Thus, business philosophy is seen to consist of four possible orientations, which may in practice be mixed together in various ways: production orientation, sales orientation, marketing orientation, and societal orientation. These variables and their components (which are summarised in the left-hand column of Figure 3.6) are not intended as a perfectly "correct" or "accurate" portrayal of reality, but rather they offer a basis - a starting-point - for the investigation of key issues in the context of the Taiwanese case study firms. In turn these key issues can then be translated into specific research questions. At the outset an open mind has to be maintained regarding whether the variables and components - derived from Western theories and models - will actually be viable for applications in the Taiwanese context. But since we are in so sense testing any particular model through an actual business survey, nor are we trying to "prove" any specific hypotheses or propositions, then this qualification is in no sense a methodological weakness, but rather - we hope - a strength. In Figures 3.6 the variables and their components (in the left-hand column) are related to a number of core research questions (in the right-hand column). These are now at a much more detailed level of analysis than the very broad issues already stated in Section 2.6, and they can be seen to help form a range of theoretical perspectives which can then provide a basis for the conduct of research interviews, the direct observation of firms, and data analysis.

Figure 3.6 Variables, components and research questions

<i>Variables and Components</i>	<i>Research Questions</i>
Market Orientation	R1: What is the construct of market orientation in Taiwanese actual business practice compared to Western literature? [Issue 1] (The more effectively the corporation performs on all the four components of market orientation, the better the overall business performance.)
Customer Orientation	R2: Is the emphasis on market orientation differs between manufacturing and service industries? [Issue 1]
Competitor Orientation	
Interfunctional Co-ordination	
Profitability Orientation	R3: Are there any ways in which the construct of market orientation needs to be revised and/or refined to "fit" the actual business practice of the case study firms? [Issue 2]
Business Philosophy	R4: What does it mean of business philosophy in a non-Western firms, such as Taiwanese one? [Issue 1 & 3] (As well as the definition of business philosophy in terms of production orientation, sales orientation, marketing orientation, and societal orientation, there are other business philosophies.)
Production orientation	R5: Are the business philosophies of Taiwanese firms different from those of Western firms? [Issue 3]
Sales orientation	
Marketing orientation	
Societal orientation	
Business Environment	R6: Are the top managers' perceptions of the changing business environment the same within the same sector and between sectors? [Issue 3]
General Environment	R7: Are the actions taken in response to the environment Economics changes similar within the same sector and between sectors? [Issue 3]
Government	
Culture	
Demographics	
Technology	
Task Environment	
Potential Competitors	
Existing Competitors	
Substitute Products	
Customers	
Suppliers	

Company Performance **R8:** Does the measurement by using Kotler's
Senior executives' self-rating marketing effectiveness rating instrument fit
by using Kotler's marketing with financial performance of Taiwanese
effectiveness rating instrument case firms?

Financial data
(Revenues from operations,
Net income,
Net income per share,
ROE and ROA)

Relations between Variables:

Business Environment **R9:** Does the evolution of a company's business
and Business Philosophy philosophy reflect the impact of changes in
the business environment?
[Issues 3 & 4]

Business Environment **R10:** Will a change in the business environment
and Market Orientation cause managers to emphasise a particular
choice of components of market orientation?
[Issues 3 & 4]

Business Philosophy **R11:** Has business philosophy an influence on
and Market Orientation market orientation in the corporate
organisation?
[Issues 3 & 4]

Market Orientation **R12:** Has market orientation positively influence
and Performance performance in Taiwanese case firms?
[Issues 3 & 4]
(The more effectively the corporation performs on all
the components of market orientation, the better the
overall market performance.)

Business Philosophy **R13:** Has business philosophy an influence on business
and Performance performance?
[Issues 3 & 4]

(The company which has an intended business
philosophy but does not have the capability to
implement it will not achieve a good performance.)

Business Environment **R14:** Has the business environment an influence on
and Performance business performance?
[Issues 3 & 4]

These variables, components and research questions were converted into a semi-structured interview format (see Figure 3.7). Respondents were free to decide what aspects of market orientation, business philosophy, business environment and performance to emphasise, and to express their own views about the significance of particular variables and components for the operations of their firms. In this way they could give insights into the specifics of their situations and an assessment of what they considered to be the important issues. This was felt to be a more reliable method than the use of more formal hypotheses and theory-testing.

Yin (1983) suggests that the process of data collection for case study research is not parallel, but sequential. Data are not collected at one point in time, as with a postal survey. Rather, each case study is built up from a series of interviews, and each successive case is written with knowledge of the findings of previous cases. It is a cumulative process. Thus, as interviews were completed, the data were analysed to check whether additional areas were consistently referred to. In this way a definitive list of interview questions emerged, as shown in Figure 3.7.

Not all interview questions were relevant in each case, and the respondents did not always feel in a position to answer fully. The former issue did not represent a significant difficulty. The interviewees were allowed, in any case, to place the emphasis where they wished. This revealed the importance they attached to particular issues and problems, and their own subjective understanding of key concepts.

It had to be anticipated, in preparing for the research interviews, that there would be times when respondents did not answer fully and when they did not feel that

a certain question was very important for them. In such circumstances, the researcher had to use his judgement to press the interviewees further, and in some cases it was necessary to follow up specific issues by further questioning of other informants, direct observation and/or archive research (company annual reports, news media, commercial magazines, etc.). Such additional sources were vital in supplementing and verifying the data gathered in field interviews.

Figure 3.7 Variables, components and interview questions

<i>Variables and components</i>	<i>Interview Questions</i>
Market Orientation	1. Do you put greater emphasis on customers or competitors when you make your marketing plan or marketing decisions?
Customer Orientation	2. Why? Please give some examples for explanation.
Competitor Orientation	3. How do marketing people interact with other departments such as manufacturing, finance, physical distribution, etc.?
Interfunctional Co-ordination	4. What do you think about the integration between departments?
Profitability Orientation	5. Do you think profitability is the first priority consideration in your marketing decisions?
	[Issues 1 & 2]
Business Philosophy	1. What is the business philosophy of your company?
Production orientation	2. Do you think the business philosophy is suitable for the needs of your company now and in the future?
Sales orientation	
Marketing orientation	
Societal orientation	[Issue 3]
Business Environment	1. What kind of changes have there been in the business environment during the last five to ten years?

General Environment

Government, Economics,
Culture, Demographics,
Technology

Task Environment

Potential Competitors,
Existing Competitors,
Substitute Products.
Customers, Suppliers

[Issue 3]

Company**Performance**

Kotler's marketing
effectiveness rating
instrument

1. Questionnaires.

(Senior executives' self-rating by using Kotler's
marketing effectiveness rating instrument.

Interviewees fill in questionnaire in front of the
researcher. They can feel free to ask any questions
about any ambiguity of questionnaire)

Financial data
(Revenues from
operations, Net income,
Net income per share,
ROE and ROA)

2. Archive data (No interview questions).

[Issue 3]

Relations between Variables:**Business Environment
and Business Philosophy**1. What kind of business environment change has
had a big influence on your company?2. Could you please tell me the three business
environment changes that have had the most
influence on your company?

[Issues 3 & 4]

**Business Environment
and Market Orientation**1. What marketing action did you take in response
to those environmental changes?2. Was your action taken in consideration of only
the short or the short and long terms?3. What was your major competitors' reaction to
the environmental changes?4. Do you believe the marketing action you took in
response to the business environment changes was
much better than your competitors' marketing action?

(Managers, especially top managers, may answer not only in terms of marketing action, but also in terms of other actions.)

5. If yes, why?

[Issues 3 & 4]

**Business Philosophy
and Market Orientation**

1. Do you think your business philosophy has any influence on your marketing decisions?

2. If yes, can you give some examples of how the business philosophy influences marketing decisions in your company?

3. In what ways do these influences affect your company in the long and/or short terms?

[Issues 3 & 4]

**Market Orientation
and Performance**

1. The same questions as those of market orientation.

[Issues 3 & 4]

**Business Philosophy
and Performance**

1. In what ways do your business philosophy influences affect your company's performance?

[Issues 3 & 4]

**Business Environment
and Performance**

1. The same questions as those of relation between business environment and business philosophy.

[Issues 3 & 4]

3.5 THE SELECTION OF CASES

3.5.1 Replication Logic

Yin (1983) argues that case study research should not seek to generalise on a numerical basis, as would survey-based quantitative research. Rather, he proposes that case study research should use "analytic generalisation" to ensure external validity.

Multiple case studies are not intended as a statistically valid sample of a population, but to provide replications

“Which [seek] convergent evidence regarding the facts and conclusions for the case; each case’s conclusions are then considered to be the information needing replication by other individual cases.”

Yin distinguishes two types of replication: theoretical replication and literal replication. The logic underlying the use of multi-case studies is the same. Each case must be carefully selected so that it either (a) predicts similar results (a literal replication) or (b) produces contrary results but for predictable reasons (a theoretical replication). Thus, the ability to conduct six or ten case studies, arranged effectively within a multi-case design, is analogous to the ability to conduct six to ten experiments on related topics.

Yin contends that any use of multi-case designs should follow a replication, not a sampling, logic, and an investigator must choose each case carefully. The cases should serve in a manner similar to multiple experiments, with similar results (a literal replication) or contrary results (a theoretical replication) predicted explicitly at the outset of the investigation.

In this research, the theoretical replications were between firms in different industrial sectors, and the literal replications were within each sector.

3.5.2 The Selection of Cases by Sector

Although there is one case which has more than one unit of analysis embedded within the same firm (in the business group), most of the cases are holistic. Therefore, the case design corresponds to Yin's multiple-case holistic design. (See Figure 3.8)

Figure 3.8 Case design

	Single-Case design	Multiple-Case design
Holistic (Single unit of analysis)	Type 1	Type 2 * Preferred case design
Embedded (Multiple unit of analysis)	Type 3	Type 4

Source: Yin (1983)

The selection of research sites involves issues of personal interest, academic relevance, data availability and explicit network-building for the purpose of gaining access to those sites (Pettigrew 1990). In the present research, a deliberate effort has been made to balance these criteria. However, the main aim has been to design a coherent range of case studies across two different sectors (one service-based and one in manufacturing), thus enhancing the possibilities for fruitful comparative analysis. In addition, the choice of sectors and companies was motivated by the researcher's own recognition that there have been dramatic changes in the business environments of both the food manufacturing and department store industries during the last decade or so, and that a mixture of fast- and slow-growing companies would also offer a useful basis for analysis.

In recent years service industries have been the fastest growing and most highly competitive industries in Taiwan. The department store (retail) sector has been selected from the service industries for the present analysis because the researcher has been interested in this sector for a long time. The business environment has changed very quickly, especially in the competitor and customer environments, and the researcher therefore believes that this sector is particularly suitable for this research.

The food industry is the manufacturing industry with which the researcher has been concerned in this research. It can usefully be studied in terms of the relationship between the business environment (particularly in customers and competitors) and market orientation. Some firms in this industry have grown very fast while other firms remained static.

Both the retail business and the food industry aim mostly at the domestic market, and they face a similar business environment. Therefore, this facilitates a comparison of the actions they have taken in response to change in the business environment under the impacts of their different business philosophies and marketing concepts.

3.6 CRAFTING INSTRUMENTS AND PROTOCOLS

To ensure the reliability of the research, data were drawn from multiple sources. They were collected primarily through personal field interviews, published annual reports, contemporary press information and a variety of other archival materials (Harrigan 1983). Data collection from all these resources was continued until the researcher was

able to contrast the differences across the eight case study firms with a comprehensive description.

3.7 ENTERING THE FIELD

The purpose of this section is to explain the process of data collection, beginning with the approach to interviewing.

A total of twenty face-to-face interviews were carried out between November 1995 and February 1996; and a further twenty-eight interviews were conducted between July 1996 and September 1996. The interviews varied in length between one and four hours. The average interview length was approximately one hour twenty five minutes. The gap between the first- and second-phase fieldwork made it possible to learn from the initial interviewing experience and to overcome some practical problems. The criteria for the selection of specific case study firms are explain in Sections 3.5.1 and 3.5.2.

In each case study firm, an effort was made to select for interview those individuals who had clearly had the greatest influence on the firm's recent development. This judgement was based on extensive preliminary research, including information on the firms' top managers found in various published documents and also in the mass media, as well as the views of scholars and other individuals with a sound knowledge of the firms in question. In addition, some persons were selected for interview because they clearly had a good understanding of the subjects dealt within the research. In terms of formal titles, these varied from firm to firm and included such designations as Chairman, President, General Manager, Vice President, Plant

Manager, Marketing Manager, etc. It must also be pointed out that the number of interviews varied from firm to firm. In part, this variation reflects the different sizes of companies: from small to large. In addition, some firms deliberately restricted access to only one senior manager, e.g. the Chairman. When this happened, an effort was made to gain more information on an informal level, e.g. by talking to the Chairman's secretary. A point was inevitably reached when interviewing had to stop. This was not just a matter of time limitation, but rather there seemed to be little point in interviewing more informants when the answers emerging from interviews became highly repetitive, i.e. when "diminishing returns" set in. Such a view is in accordance with Glaser and Strauss's (1967) concept of "theoretical saturation". (For further details of the interviewees for each firm, see the Introduction to the Appendices to this thesis.)

Secondary documents were collected mainly through libraries and from informants in the field. However, the fact that the Taiwanese capital market was just starting to be computerised made it difficult to trace the earlier financial statements of the case firms. Instead, only the past five year's records could be found in companies' annual reports. The researcher asked certain interviewees to provide the companies' earlier figures, but they were more or less reluctant to deal with this request as it was too laborious to carry out. Thus, only the past five years' financial records (turnover, profit margin, ROA, and ROE) for the case firms were utilised.

The face-to-face interviews were conducted according to the broad principles of the "focused interview" as developed by Merton and Kendal (1946). This combines unstructured interviews with a loose pattern of agreement with the interviewee about

the context of inquiry. Interview guides were prepared before each interview according to the stage of the research and the position of the subject. These guides only specified areas of interest and left the interviewer free to follow his/her lines of thought. In this sense, the interviews have what Merton and Kendal (1946) call "range", permitting the subjects themselves to raise unanticipated areas of concern. The interviews also have "specificity", that is, they encourage subjects to express fully their own definitions of situations and actions. Importantly, "depth" is also sought, in order to maximise self-revelatory comments concerning how the stimulus materials are experienced (Merton and Kendal 1946).

Most interviews were taped so that the interviewer could feel free to concentrate on the subject. These tapes were later transcribed verbatim for further analysis.

As already explained above (see Section 3.2.2), the data gathered from the research interviews were supplemented by further data based on a range of direct observations and archive/documentary research. For all firms financial data covering a period of at least five years (1991-1995) were collected, and Kotler's marketing-effectiveness rating data were utilised for most of the firms (Kotler 1977). This supplementary information-gathering was vitally important in order to try to confirm whether what the interviewees had actually said was in fact in accordance with the reality of business operations.

3.8 ANALYSING DATA

The purpose of this section is to explain how the data, once collected, was actually analysed.

As explained in the previous section, the research interviews provided the initial set of data for analysis. Although most of the interviews were taped, verbatim notes were taken during interviews. The discussion of some issues was so sensitive that a number of interviewees were reluctant to allow the interviews to be recorded. Taking notes resulted in the loss of some of the detailed responses. However, this was compensated by more candid responses.

Interview notes were transcribed as soon as possible after each interview. The data were then coded under the variables (and components) used in the semi-structured research instrument. For each interview, an "other information" category was created to capture information that did not fit neatly under one of the prescribed headings.

After each interview was coded, the data were compared with those of previous interviews. Similarities and differences were identified within each case and between literal and theoretical replications. These allowed for identification of convergent and divergent patterns in the research topic. Those variables were identified which appeared most clearly to explain such similarities and differences.

3.9 SHAPING HYPOTHESES

The suggestions of Eisenhardt and Yin were adopted in this thesis. Eisenhardt (1989) recommends that data analysis should involve a process of within and across-case analysis to seek patterns. Yin (1983) suggests that data analysis is an iterative process which can begin in parallel with data collection. The iterative tabulation of data suggests which hypotheses should be tested in later case studies.

In Chapter Four and Chapter Five, the industry-level context is analysed to provide a profile which is then used to explore cases in their contexts (individual case analysis). Then, in Chapter Six, integrated data analysis is conducted on an inter-firm and inter-sectoral basis. Data are cross-tabulated and the richness of responses is used to gain additional insights into how top managers understand market orientation. Preliminary typologies are suggested, based upon the identification of patterns of similarities and differences. The findings from data analysis are examined critically with an emphasis on four specific foci of comparison related to the strength of market orientation, its components, its impact on business performance, and the moderation of that impact by the business environment. In this way, key hypotheses drawn from the literature on market orientation are subjected to critical scrutiny, and the need for further revision and refinement of the construct of market orientation, incorporating new hypotheses, is revealed. The further development of these hypotheses in relation to the unique characteristics of Taiwanese firms is one of the key aims of Chapter Seven.

3.10 SUMMARY

This research is complex and inter-disciplinary in nature. An in-depth research methodology was considered to be most appropriate for this exploratory research study (Harrigan 1983, Bonoma 1985). A case study methodology is preferred so that the interrelationships between market orientation, business philosophy, the business environment, and performance can be studied in their respective contexts.

This study accords with Yin's multiple holistic case study design (1983). A semi-structured research instrument was designed, using propositions drawn from a comprehensive review of relevant literature in the fields of business environment, business philosophy, and market orientation. 48 face-to-face interviews were held with top managers of the case firms. The cases were drawn from two industrial sectors: department stores and the food industry. These sectors were selected because they both focus on the domestic market and are of personal interest to the researcher. More than one firm per sector (three firms in the food manufacturing industry and five firms in the department store sector) was researched to allow literal as well as theoretical replications (Yin 1983).

Respondents were allowed to give their own emphasis to the questions, providing detail on issues which they felt were relevant to their decisions, and omitting or explaining the relative insignificance of other variables. Multiple sources of evidence were used. Press coverage, market research reports and company documents were used to verify information.

Two phases of data collection took place in Taiwan. These were during the periods from November 1995 to February 1996 and July 1996 to September 1996.

Data were coded under the variables (and components) to which they referred. Under each heading an appendix was also used to record verbatim quotes and other relevant information which added richness to the study. Data were analysed over the period of data collection to identify emerging patterns of similarities and differences.

The underlying goal of data analysis was to provide a basis for a critical scrutiny of the original four basic variables - market orientation, business philosophy, business environment, and performance - and their interrelationships as exhibited in the cases of the firms being investigated, and to draw inter-sectoral and inter-firm comparisons. A particular focus was placed on the revelation of the links between attitudes and behaviour in terms of the four variables, their components and a series of accompanying research questions. The ultimate aim was to determine whether the variables and their components could realistically be applied to the experience of Taiwanese firms, and, if so, in what particular configurations. In seeking to achieve this objective, it was recognised that significant differences between the Western and non-Western contexts (in terms of both ideas and practice) might very well be expressed in the data which were collected, and that this might subsequently lead to a reformulation of the key components and their variables, including the core element of market orientation itself.

CHAPTER 4 INDUSTRY-LEVEL CONTEXT – TAIWAN'S FOOD MANUFACTURING INDUSTRY

- 4.1 Introduction
 - 4.2 Case 1 – Wei-Chuan
 - 4.3 Case 2 – President
 - 4.4 Case 3 – Standard
-

4.1 INTRODUCTION

This chapter will describe the experience of the case firms selected in the food manufacturing industry. We will briefly introduce each case firm first and then describe each case story.

The Wei-Chuan Foods Corporation was founded in the north of Taiwan in 1953, and at one time became the number one food manufacturing company in Taiwan. In 1973 it was overtaken by President Enterprises Corporation. The sales volume of Wei-Chuan is now far below that of President.

President Enterprises Corporation was founded in Taiwan's old capital, Tainan, in the south of Taiwan, in 1967. With 82 employees and capital of NT\$ 32 million (in 1967), the company subsequently developed as a multi-national food conglomerate. Now President has more than thirty affiliate companies and its annual sales revenue has exceeded NT\$ 50 billion. It is the number one food manufacturing company in Taiwan.

Standard Foods Taiwan Ltd. was originally an American-invested company. The company lost a lot of money in the first few years. The mother-company decided to finish its operations in Taiwan and withdraw their investment in 1986. One of its

employees decided to take over the company and reorganise it. A few years later, the company turned profitable and has now developed to become the most profitable food manufacturing company in Taiwan.

Wei-Chuan, President and Standard respectively represent the old, middle-aged, and young food manufacturing companies in Taiwan. Among these three food manufacturing companies, Wei-Chuan and President are large companies while Standard is of medium size. These case firms can provide a lot of valuable data for this research, especially in terms of the impact of business environment changes on their operations during the past few decades. The age and size of the case firms in the food manufacturing industry are shown in Table 4.1.1.

Table 4.1.1 The age and size of case firms in the food manufacturing industry

No.	Case firms	Age	Size (sales)
1.	Wei-Chuan	old	large
2.	President	Middle-aged	large
3.	Standard	young	medium

The three case firms' market orientation, their top managers' perceptions of the business environment changes, their business philosophies and performance will be further described in the following sections.

4.2 CASE 1 – WEI-CHUAN

The purpose of this section is to consider the evidence, drawn from interview data and other supplementary sources, concerning Wei-Chuan's business practice, and to use this evidence to come to some judgements about the applicability of the concepts of market orientation, business philosophy, business environment, and performance (and

their various components) to Wei-Chuan. In part, this is a matter of reflecting on the attitudes towards business operations expressed in the research interviews, since the four previously mentioned variables are in large measure a matter of attitudes, values and beliefs. In addition, however, it is vital to consider the ways in which those attitudes are actually expressed in the practical day-to-day running of the company. As far as attitudes, values and beliefs are concerned, it is important to stress that the interviews were conducted in the Taiwanese and Chinese language and that such key concepts as "market orientation" are not always directly translatable into Taiwanese from English. While, in this thesis, a detailed analysis of the linguistic differences involved in business communication is not offered, nevertheless the underlying problem of the direct comparability of English and Taiwanese terminology is clearly of great relevance to what follows.

The first point to be stressed in terms of Wei-Chuan's orientation towards its market is that in the interviewing situation Mr. J. S. Chang (Vice President) repeatedly stressed the company's emphasis on customers and pointed to the secondary importance of competitors. As examples of the company's responsiveness to changing customer needs, Mr. Chang cited the cases of innovations in the packaging of milk to fit the needs of the modern family and the supply of new beverage products to match the tastes of end users. It is noteworthy that Mr. Chang, like most of the Taiwanese interviewees, never used the actual term "market orientation" but did say a great deal about marketing. The problem here, as discussed in Chapter 2, is that increasingly Western theories have sought to distinguish between the marketing function (which has come to be seen as a part of overall business philosophy) and a company's broader market orientation. In the case of Wei-Chuan, the interview data showed that the concept of customer orientation is given emphasis as the key component of what

many Western theorists would now call market orientation.

At the same time, Wei-Chuan has clearly placed a lot more emphasis in recent years on the marketing function. This became clear in an interview with Mr. C. C. Lin, Factory Manager, who repeatedly stressed that marketing is now much more important than production as part of the company's business philosophy. One of the reasons he gave for this is that the food manufacturing industry is not a high-technology industry, with the exception of MSG (monosodium glutamate), and that production issues are accordingly not central to the company's operations. Even in the case of MSG, however, Mr. Lin pointed out that the government's recent emphasis on environmental protection standards, together with the increase in the number of manufacturers across the world, has resulted in minimum profit being made on the product. Hence, the problem with MSG is not so much how to produce it but how to sell it. At the same time, we should note that actually Wei-Chuan has devoted a lot of investment to research and development (R&D) activities. Indeed, one manager of a competitor company actually stated: "To be honest, Wei-Chuan is the only one which emphasises R&D amongst the food manufacturing companies in Taiwan." (Ref. A.1.1.4)¹ Chairman Huang also spent some time describing the company's R&D achievement:

"Our R&D has not only emphasised fundamental R&D tasks such as product development, product improvement and technical improvement, but has also recently devoted more manpower to technical advancement, and research into applied technology so as to develop differentiation with

¹ Reference numbers in brackets refer to the original sources of interview and documentary data as presented in the Appendices to this thesis.

respect to product manufacturing technology and new products with characteristics.

Meanwhile we have entered into technical co-operation contracts with domestically/internationally known R&D institutions or companies for introducing advanced technologies, developing products to a higher level, and promoting production management and quality management technique.

At present our development is focused on the items with higher added value, including four major items: (1) nutritional convenience foods, (2) health-functioning foods, (3) baby and adult health care foods, and (4) bio-tech products." (Ref. A.1.1.4)

Mr. Lin, in his interview, also gave specific examples of the implementation by Wei-Chuan of a stronger marketing function: the development of joint-venture supermarkets with Mazu Arwo and Maru Kue, Japanese supermarket companies, and the establishment of a new marketing company, Kang-Guo Marketing Co. In addition, Wei-Chuan co-operated with the American Am-Pm Convenience Store Co. However, Mr. Lin added the following critical observation: "We started too late, and later than our major competitor, President Enterprises Corporation. It's not that easy to build an excellent marketing company within one or two years. It needs at least five or six years. The time when President Enterprises Corporation lost money has past. They are making money now. But we are just starting to lose money. It happens that we met a bad economic environment, and it is more difficult to operate such a business." (Ref. A.1.1.5) This is a highly significant remark, pointing to the fact that it takes time for a company to reorient itself towards the marketing function. It may also suggest that the

absence of direct references to market orientation in the interviews is also significant, and that, from the perspective of many Western theories, this is indeed a company which could benefit from a clearer recognition of what "market orientation" means.

In terms of what we might call its guiding business philosophy, then, Wei-Chuan obviously places a great deal of stress on marketing. This was Mr. Lin's argument. However, Mr. C. M. Chen, Assistant Vice President, spent much time emphasising the company's orientation towards sales: "My feeling is that Wei-Chuan lays more emphasis on sales ... Most of our managers were promoted from those with a sales background. Only one of them was promoted from a production background during the past 30 years." (Ref. A.1.1.2) Of course, in practice marketing and sales are inextricably connected. However, Mr. Chen wished to distinguish between sales and marketing: "We depend on this kind of old sales method, including a sales plan, and numbers of customers, and use this method to pile up sales, rather than adopting marketing methods to create new customers or to create profits." (Ref. A.1.1.2) There does seem to be some confusion here: Mr. Chang stressed the company's orientation towards customers; Mr. Lin stressed the company's orientation towards marketing; and Mr. Chen emphasises sales rather than marketing, and specifically pointed to the lack of attention towards gaining new customers. With such a diversity of attitudes, it clearly makes it extremely difficult to say "objectively" whether this company is oriented in a certain way which "fits" any particular model or theory. What the variation of responses suggests is that a lot depends on the particular company position held by an interviewee.

What emerged strongly from the interviews was a widespread recognition that the business environment for food products has changed dramatically in Taiwan in recent years and that this has had a profound impact on the company's operations. No

longer could Taiwan's "economic miracle", which had boosted the food industry, be taken for granted. Thus Mr. Chang, Vice President, highlighted the significance of the changes of sales channels in the food industry: "The change represents the importation of a new retailing management style from Europe, America and Japan, as illustrated by convenience stores, supermarkets and hyper stores ... We imported those retailing business styles at the same time and within a very short time (within about five to ten years). This has caused a big shock in the sales channel in the domestic market." (Ref. A.1.1.3) Previously, the company had built an effective sales channel across the whole island, but now this channel seemed to be more or less obsolete. Mr. Chang further argued that these changes meant that materials flow (the distribution system) and commercial flow (the sales and ordering system) were now of the utmost importance to the company, and in fact these two functions were now the responsibility of different divisions: "Customer orientation, marketing orientation, and now it is an era of materials flow and commercial flow orientation ... The final winner is the one who controls the sales channel." (Ref. A.1.1.3) This concept of "materials flow and commercial flow orientation" does not fit neatly into any existing Western models or theories, but it seems closest to the idea of a sales orientation.

Mr. N. T. Huang, son of the company's founder, presented his summary of major business environment changes in a message to the shareholders, and the research interviews further confirmed the general acceptance of his analysis. Looking back on the situation in 1995, he highlighted a number of key factors: a poor domestic economy as a whole; lower consumer demand resulting from political instability, Cross-Straits tension, etc.; the continued increase of materials prices, increasingly rigid environmental protection codes, a huge increase in imported goods, the implementation of National Health Insurance, and stronger competition for market

channels. He further emphasised that the company's five major business ideas (which we may regard as constituents of its business philosophy) must be followed if these challenges were to be overcome, and he stressed the need to develop four major enterprises within the company: the food industry itself, flow enterprise, international business, and assets (especially land) operation. These arguments point to the important link between business philosophy and the business environment, which, interestingly, is a relationship normally somewhat overlooked in most Western models and theories.

What does Mr. Huang mean by the five major business ideas? In fact, the company not only has these five guiding ideas but also four operational principles. All these were originally defined by the company's founder Mr. L. H. Huang:

Five business philosophies:

1. To make our company one that offers the greatest contribution to society.
2. To make our company the worthiest investment company for the public.
3. To make our company the best working place for our employees.
4. To make our company the most creditable and reputable company.
5. To make our company the most perfectly managed company.

Four operational principles:

1. To consider "safety, profits, and development" as the most important principle in our operations.
2. To firmly stand by the principle of "business cultivates business²."
3. To unify the employees and investors in order to involve them in the operation of

² The "business cultivates business" means diversification.

the company.

4. To firmly establish a good management system and conditions of a first-class enterprise.

This kind of inventory of guiding ideas and principles is fairly typical of companies in Taiwan. The language is emphatically rhetorical and moral, and the words are regarded as embodying the original spirit of the founding father's ideals. However, it is not always easy to determine whether the strong rhetoric means very much in practice, especially as the operating environment of the company changes. It is interesting to note that the first of the five business ideas/philosophies expresses a strong societal orientation. Again, this is quite common in Taiwan: many companies believe that they have a strong responsibility towards the society in which they operate. In the case of Wei-Chuan, the company has sought to give expression to this principle in many ways, e.g. through the establishment of a fund, the Chun-Ching Foundation, which supports the University of Taiwan for research in infant nutrition, spending some NT\$20-30 million per year.

Also, the first of the four operational principles is "safety, profits, and development". The term "safety" needs some explanation: it clearly refers to the need for "safe" and "secure" business practices. The problem here is that such an outlook could easily become a recipe for undue caution and even conservatism. Indeed, Mr. Chen, Assistant Vice President, actually said in his interview: "Wei-Chuan is a firm and steady company. In other words, it is operated too conservatively. This is influenced by our business philosophy - *safety*. "Safety, profits and development" is one of our operational principles. We put *safety* as the first operational principle, but not *development*." (Ref. A.1.3) Mr. Chen further commented that the company's business philosophy had not changed in 40 years: "Our founder is still alive (85 years

old) and the company is run by his son at present. He sometimes has a hand in the main decisions of the company. Nobody would dare to change the business philosophy of this corporation unless the founder were to pass away." (Ref. A.1.3) This situation reflects the strong respect in which company founders are held in Taiwan, but there is clearly a danger that such respect will hinder dynamic change in the company.

Another problem with this kind of statement of ideas and principles is that there is often a gap between the rhetoric and the implementation. Thus Mr. Chen took the example of the second of the operational principles, "business cultivates business" and commented that Wei-Chuan has not actually achieved successful investment in other businesses: "Although he (the founder) wants to cultivate new business, after losing money for two or three years, he would then say, "let's close this business"." (Ref. A.1.3) Mr. C. C. Lin, Factory Manager, reinforced these comments and stated that Mr. K. M. Huang, the founder's elder son, was more conservative than his father: "He thinks that it would be good enough if he could manage the company in a safe way as his father did. Therefore, Wei-Chuan has proceeded surely and steadily (peacefully and without mishaps) in recent years. The company is not too good but not too bad." (Ref. A.1.3) He further observed that Mr. N. T. Huang, another son of the founder and the new Chairman, was much more aggressive in style, but that the downturn in the business environment had made it difficult to see positive results from this new style: "The results of the new Chairman's aggressive style seem worse than the results of the conservative Chairman ... Of course, this is also affected by changes in the business environment." (Ref. A.1.3)

In terms of business performance, Wei-Chuan has achieved fair, but not outstanding, results. This can be seen in Table 4.2.1, which shows the company's

revenues, net incomes, and net income per share for the years 1991 to 1995.

The evidence confirms the judgement arising from the interview data: that Wei-Chuan is a conservative company which achieves steady but modest growth. Certainly, by comparison, the performance of President Enterprises Corporation is better, reflecting that company's more aggressive stance. The figures show that sales and profits both declined in 1995, mainly as a result of Taiwan's sluggish economy and the impact of strong competition in the market. Because the company pays so much attention in its orientation to customers rather than competitors, it seems that this is a particular weakness when environmental conditions become harsh and when the competition becomes fiercer. None of the interviewees really provided much positive feedback on the question of becoming more competitor-oriented.

Table 4.2.1 Wei-Chuan's performance

Year	Revenues from operating (in million NT\$ dollars)	Net income (in million NT\$ dollars)	Net income per share (NT\$ dollars)	ROE (%)	ROA (%)
1991	8,484	176	0.38	3.39	3.64
1992	8,658	153	0.31	2.70	3.21
1993	8,905	150	0.30	2.58	3.26
1994	8,788	251	0.51	4.22	4.03
1995	8,783	123	0.22	1.42	1.85

Sources: Wei-Chuan

Three senior managers filled in Philip Kotler's marketing-effectiveness rating instrument (see Appendix 1), with an average score of 20.67. In fact, this is a very high response, suggesting that senior managers are satisfied with their marketing performance. But this result really points to a strong subjective view that the company has performed well. In terms of Wei-Chuan's conservative and "safe" business philosophy, this may well be the case. But, as we shall see, other companies have out-

performed Wei-Chuan in the food manufacturing sector. As the interview data reveals, several (5) managers are in fact quite critical of the company's conservative outlook, and it seems reasonable to conclude that they would like the company's marketing performance to be better than it is.

On the particular question of the company's capacity to change in response to major shifts in the business environment, the example of new sales channels, discussed above, is very revealing. In general, the company's attempts to innovate in this area were not at all successful. The AM-PM Convenience Store Co., a joint-venture company with the American Convenience Store, was one of the key responses. Unfortunately, the operation was not successful and was closed in 1996. However, other actions taken, such as the acquisition of the operation rights of shops within the rest areas of the entire Chungshan Freeway, and the formation of a regional alliances of supermarkets in Central Taiwan were more effective both injecting a new power into the expansion of the company's flow business¹. Furthermore, the company also faces the challenge of the need to accelerate its investment abroad, especially in Mainland China, Southeast Asia and the USA, but being a conservative company, the pace of innovation is rather slow.

In general, then, we can say that Wei-Chuan's founding business philosophy has actually become something of a problem for the company, because the result has been

¹ The terminology of what Wei-Chuan's senior managers called 'material flow & commercial flow' is developed from Japan and Taiwan. This terminology does not have a related translation in English. Mr. Wang, Vice President of Sogo, has a better explanation to this terminology. He said: 'What is so called 'flow'? That is in the process of the merchandise from production to the consumers. That the whole process we call it flow. Its meaning in English is 'distribution', that is, the distribution of goods and merchandise. There are *four* flows in business behaviour, i.e., information, commercial, material, and money flow.'

a fairly conservative business style. One particular impact of this has been the company's slowness in reacting to business environment change, as is illustrated by its efforts to change its sales orientation to a marketing orientation, and to enter the material and merchandise business flow business in order to respond to sales channel change. Part of the problem here is that managers' perceptions of environmental change sometimes differ, and that it is these perceptions, rather than any "objective reality", that shape subsequent strategic change within the company. The company has consequently achieved a fair performance but one without high growth, and Wei-Chuan has accordingly lost its leading position in Taiwan's food manufacturing industry. This does not suggest that the business philosophy in itself is erroneous. Rather, the business philosophy has been interpreted and implemented in a very conservative way, for example by emphasising the principle of "safety". There has certainly been some change in the implementation of business philosophy, e.g. from an original emphasis on production (1953-1976) to an emphasis on sales (1976-1986) and then on marketing (1986 to the present), but the latter stage has not really reached maturity. In all of these cases, change in emphasis has been prompted specifically by changes in the business environment.

In terms of the key concept of market orientation, we have seen that this idea is not specifically used by Wei-Chuan's managers. The nearest concept to it is that of customer orientation. It is noteworthy, however, that this outlook is not expressed directly in the company's business philosophy. The emphasis on customer orientation seems to overshadow all of the other three components of market orientation to which we have previously referred: competitor orientation, interfunctional coordination, and profitability. In this case, therefore, it seems reasonable to suggest that the company might well benefit from taking a broader view of its orientation towards the market,

looking beyond the demands of customers and certainly placing more emphasis on the need to gain new customers as well as to satisfy the needs of existing customers. To take just one example, Chairman Huang, in 1995, anticipated that Taiwan's entry to the WTO would result in the intrusion of many more foreign products into the domestic market and would increase the level of competition. This is clear evidence that the company must pay more attention, within a market orientation, to the changing profile of its competitors. In general, the new Chairman is definitely seeking to adopt a more aggressive stance. It remains to be seen whether this stance will be implemented effectively.

As we have seen, in many Western theories and models, the business environment is seen as a variable which mediates the impact of market orientation on performance. In our analysis of Wei-Chuan, we have certainly seen some evidence that this is the case. However, we are led to conclude that the business environment should be analysed at a more multi-dimensional level, since its significance goes beyond the rather simple notion of a mediating variable "between" market orientation and performance. Such a view, in particular, neglects the impact of the business environment on the formulation and implementation of business philosophy.

All these issues will, of course, be taken further in the cross-case analysis section of this thesis (Chapters 6 and 7).

4.3 CASE 2 – PRESIDENT

On 1 July 1967, President Enterprises Corporation was founded in Taiwan's old capital, Tainan, in the south of Taiwan. Based on the principle of "feedback to the local community", with 82 employees and capital of NT\$ 32 million, the company constructed a strong basis for subsequent development as a food conglomerate.

Though times have changed, the management philosophies of President Enterprises Corporation have never changed. They may be summarised as follows:

1. Three Bests and One Reasonable: Best quality, best credibility, and best service plus reasonable price.
2. Integrity and Diligence: As part of President Enterprises Corporation, everyone has to be faithful to customers, colleagues, supervisors, subordinates and must work hard.
3. Innovation and Commitment: To meet the needs of a rapidly changing environment, the company has to accelerate the process of R&D and organic growth, and must thus use innovative and leading concepts to compete in the international arena.

The company has always kept in mind these thoughts of service to the public.

Under the management strategy of "every moment is running for tomorrow", as well as emphasising multi-level raw materials processing to create added value, President has continuously extended new business to different fields, and has gradually become a diversified conglomerate. Now President has more than thirty affiliate companies and its annual sales revenue has exceeded NT\$ 50 billion.

With two management strategies, "Pursuit of high growth" and "Diversification of Business", President took a major step in a joint venture with internationally well-known corporations and absorb valuable concepts and skills of internationalised management. This enabled President Enterprises Corporation to transform itself from a local company to a multinational conglomerate.

The process by which the company became the number one food manufacturing company and then a multinational conglomerate is interesting and complex. The following sections will state President's top managers' thinking about market

orientation, their perceptions of change in the business environment, the actions they have taken in response to the changes, and their business philosophy and President's performance.

President is now Taiwan's number one food manufacturing company and a successful multinational conglomerate. This success has been based primarily on the company's willingness and ability to shift its business philosophy from an initial production orientation to a sales orientation, then a marketing orientation and then a societal orientation in response to the company's successive developmental stages and changes in the overall business environment (resulting from Taiwan's dynamic economic growth and increasing GNP). Most importantly, these shifting business philosophies have been effectively implemented at all levels of the company's organisation through a comprehensive programme of education and training for all employees.

In the early stage of the company's development (1967-1973), there was an emphasis on production. This made sense at the time. This was a new company, Taiwanese industry was labour intensive, and demand was greater than supply. Mr. M. S. Liu, Vice-President of the 1st Food Group, commented that the whole business environment at this time was production-oriented: "There were no problems in selling the products if you could produce good products". (Ref. A.2.1.1) Mr. David Yen, Assistant Vice-President of the Logistics Group, also stressed that President's initial production orientation reflected the fact there was no serious competition and no major demands from the consumers: "It was production-oriented in the 1970s and 1980s. With fast economic growth, most of the products that had been produced could be sold without problems". (Ref. A.2.1.1) Subsequently, however, the company recognised that it must pay much more attention to the changing market for its

products and to the variability of customers' needs and wants. It also had to realise that existing retail outlets could not actually stock and display all the company's products because of limited store space and increasing rental costs. These new conditions were a direct reflection of Taiwan's improving economy, increased affluence and high growth rates. They meant that the average survival rate of a new product actually decreased as the economy increased in strength.

Steadily, from the mid-1970s onwards, the company shifted the emphasis of its business philosophy towards sales, then marketing and then a societal orientation. These successive shifts pointed to President's growing awareness of the need to take account of its changing market. The specific term "market orientation", as we have already seen, is indicative of a company's focus on customers, competitors, interfunctional co-ordination, and/or profitability. The research interviews revealed fairly clearly that President became firmly focused on customers as the basis of its market orientation, but that also a strong awareness of the need to understand the motives and strategies of competitors played a vital role in the company's evolution.

Returning to business philosophy, President's emphasis, in the second stage of its development (1974-82), on sales represented a positive recognition of the significance of changing customer tastes and attitudes in Taiwan. Yet, to begin with, there were tensions between the sales and production departments. Mr. M. C. Yang, Manager of the Marketing Division, gave the example of situations in which the sales department wanted the production department to produce a product immediately: "But the production department says that we can only produce it two or three days later because of the production schedule. The production department needs time to change the production line. Friction between the sales and production departments arises. Then the dispute goes to the top manager. And the top manager then decides to have

the production department change the production schedule right away to fit the needs of sales. Imperceptibly, the image develops that the company puts more emphasis on sales". (Ref. A.2.1.2) In fact, Mr. Yang argued that this was a misconception, and that both production and sales were, at this stage, equally important.

In the third stage of the company's development (1983-89), the marketing function became much more important. Previously, the sales department has paid little attention to marketing; it has just been concerned with selling products. Change occurred when the marketing concept was promoted much more directly by marketing personnel, and one indication of this shift was that not only the company's headquarters but also each business group was given its own marketing department. As a result, the company's overall market orientation became much stronger, with a focus on customers but also an increasing emphasis on competitors as the market grew in size and as President sought to gain market share from its competitors.

Interestingly, Chen (1995) concluded that President adopted a societal marketing orientation between 1990 and 1995, and this view was endorsed by some of the company's own documentation. But during the research interviews, none of President's senior managers mentioned such an orientation. It would appear that this image of the company was due mainly to President's successful investment in the convenience store company, the President Chain Store Corporation, which has successfully implemented many social programmes. Thus Mr. C. J. Hsu, President of the Corporation, highlighted that "We have engaged in charity just like a business". (Ref. A.2.1.4)

The most common idea to emerge from the interviews in relation to market orientation was that consumers' tastes and needs are the key factor. Mr. M. C. Yang,

the production department change the production schedule right away to fit the needs of sales. Imperceptibly, the image develops that the company puts more emphasis on sales". (Ref. A.2.1.2) In fact, Mr. Yang argued that this was a misconception, and that both production and sales were, at this stage, equally important.

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Manager of the Marketing Division, said: "I place more emphasis on consumers. We must look at the market from a consumer orientation. We must know if the products are really needed by consumers. And then we can propose our marketing strategy to achieve consumer satisfaction". (Ref. A.2.1.5) But Mr. S. Liu, Assistant Vice-President of the 1st Food Group, wanted to stress the central importance of recognising the impact on the market of President's competitors: "Of course, we must consider our competitors when we make marketing decisions. Competition exists in the market". At the same time, he offered the interesting observation that competitors engage in forms of reciprocal behaviour: "For example, if your competitor has a long-term sales promotion and advertising campaign, and you do not take any action to fight back, your market share will be gradually taken away by your competitor. We must have a countermeasure". (Ref. A.2.1.7)

This raises the issue of President's competitive advantage vis-à-vis other companies in the market. Mr. Liu had no doubt that the President Group's strong sales channel (with about 1,800 convenience stores) was the basis of its competitive advantage. But he also recognised that there was a constant need to upgrade President's position in as many ways as possible, e.g. by reducing production costs and developing various kinds of alliance (production, sales and strategic) with other companies in the same business (i.e. competitors) and in other businesses (non-competitors): "The alliances with competitors focus on procurement in raw materials while the alliances with non-competitors focus on the sales channel, for example in warehousing and transportation". (REF. A.2.1.8) Undoubtedly, President's skill in forming and maintaining such alliances has made a major contribution to the company's success.

The biggest single change for President in recent years (since 1990) has been the

growing internationalisation of the company, which in turn has reflected the Taiwan government's new emphasis on internationalisation and liberalisation. At the same time, large international retailing business groups have entered the Taiwan market, thereby increasing the overall level of competitiveness. This has obviously affected the company's market orientation, because the market is no longer purely national and limited to Taiwan's own population of 21 million, and it is now necessary to take account of customers and competitors in other countries. Mr. David Yen, Assistant Vice-President of the Business Logistics Group, made a particular point of emphasising that in the new international environment "the brand of President alone will not guarantee a best seller. We need to face up to severe competition". Also, strategic alliances now have to be formed increasingly across national boundaries. For example, Mr. Yen referred to the case of the Japanese rice noodle market: "The Japanese like rice noodles, but the rice noodle market in Japan is not big enough for them to invest in an economic plant. The best way is to have an alliance with them. We produce for them with their brand and sales channel". (Ref. A.2.1.8) Another example was given by Mr. M. S. Liu, who suggested that President could cooperate with Coca-Cola: "We can have an alliance with them in the sales channel. Our noodle products are lighter but have large volume. Coca-Cola products are heavier than noodles. If these two products were carried in the same transportation vehicle, the transportation costs would be lower than if they were delivered separately". (Ref. A.2.1.10) Because President's products are particularly suitable for Chinese people, the company is developing a keen interest in the markets in mainland China and other Southeast Asian countries with large Chinese populations.

One clear impression to emerge from the research interviews was that for President implementing a successful market orientation has become much more

complex than before. For example, according to Mr. T. M. Lin, Assistant Vice-President and General Plant Manager, it is no longer enough to emphasise customers. Rather, marketing "should change to emphasise the environment outside of the company, including the economy, politics, government regulation, society, culture and competition. In the past, it emphasised profits and/or marketing activity. Now, we must consider the interests of the related parties, i.e. all employees, management personnel, government, shareholders and customers. Does President achieve this level? No." (Ref. A.2.1.9) This last comment is especially interesting: first, it seems to be moving towards the expression of the idea of stakeholder orientation; and secondly, it represents an admission that the company could do better.

Mr. David Yen, Assistant Vice-President of the Business Logistics Group, also spent some time discussing the growing importance of product and/or package segmentation. This is another indication of the increasing complexity of President's market orientation, and it involves paying careful attention to both the needs of customers and the strengths and weaknesses of competitors. Mr. Yen drew particular attention to the friction between the key accounts and traditional retailing markets, and suggested that "it will be a disaster if the same product with the same package exists in the [two] markets at the same time. We need to decide what kind of product with what type of packaging will have a competitive advantage compared with our competitors, as well as what will be accepted by our consumers. Of course, this decision carries a risk. For example, the fact that a product with a 250ml package has excellent sales in the traditional retailing market doesn't mean that the same product with 375ml will have excellent sales in the key accounts market". (Ref. A.2.1.17) What this mean in effect that separate marketing plans are needed for the two kinds of markets. This is why a new Business Logistics Group was set up four years ago

specifically to handle the key accounts.

Mr. Lin also added the significant observation that a strong customer orientation is not sufficient in itself. It must be matched by effective leadership, organisation, co-ordination and control. (Ref. A.2.1.11) "You must look at the company as a whole. You must emphasise every function equally and have them developed equally well. This needs a division of labour and co-operation between different departments." (Ref. A.2.1.20) This points to the importance of interfunctional co-ordination, and Mr. C. R. Guo, Personnel Department Manager, also stressed this point: "It is very important that each department cooperates with each other between manufacturing, sales, marketing, R&D and human resources. The most important need is that Personnel must be in harmony. It is very difficult to co-operate if Personnel are in disharmony. In our company it is hard to find disharmony". (Ref. A.2.1.12) Indeed, the case study of President confirms that the company has achieved an impressively high level of internal integration, strong commitment to its values, and dedication to success.

The company has emphasised not only short-term but also long-term profitability. This has been a key ingredient in its financial success. Mr. Liu commented: "If the boss and those major shareholders looked only for short-term profits, they would already have taken their profit away. President would not have any chance to grow as today's international business group". (Ref. A.2.1.13) Evidence of this long-term perspective is provided by President's investment in the convenience store business 7-eleven (the President Chain Store Corporation), which actually led to a large financial loss in the first eight years, one reason being that the stores concentrated initially on selling President's own products, whereas many customers wanted other brands. But eventually the Corporation changed its strategy and became the leader of the convenience store business in Taiwan, with annual sales of over NT\$ 20 billion,

which is very close to the sales of the mother company, the President Enterprises Corporation. This success offers a striking comparison with the failure of Wei-Chuan's convenience store business (in 1996), even though Wei-Chuan had entered the convenience store market two decades before President. Similarly, President has made a success of investing in hyper-markets (Carrefour Hyper Store, a joint venture company with France), but has done so by relinquishing its emphasis on selling only its own products. As the market for food products has grown, President has willingly sacrificed short-term profit for an increased market share. Thus Mr. Liu stated: "I emphasise taking market share from our competitors as our first priority in our operational considerations. This is the consideration of long-term profit. If the market is in a recession, I consider profit because there are no opportunities to sell more and gain additional profit". (Ref. A.2.1.15)

All this evidence points to President's considerable success in responding effectively to changes in the overall business environment. Senior managers drew particular attention to the impact of Taiwan's increasing GNP, sales channel change (from traditional outlets such as wholesalers, retailers and grocers to supermarkets, convenience stores and hyper stores), the internationalisation and liberalisation of Taiwan's economy, the relationship between Taiwan and mainland China, increasing awareness of environmental protection, the economy, competitors, the increasing costs of labour, transportation and land, Taiwan's entry to the World Trade Organisation (WTO), and changes in people's life styles (resulting, for example, in an increasing demand for frozen and oven-ready foods). Most importantly, in terms of the food manufacturing business, Taiwan's increasing living standards have led to increasing customer awareness of the importance of food quality.

President has been fortunate to have three consecutive leaders (Mr. Shiu-Chi Wu,

Mr. Chin-Yen Kao and Mr. Chang-Sheng Lin) who have all left their mark on the company's business philosophy and have helped to introduce dynamism into the company's operations through a subtle combination of traditional (Confucian) and modern business principles. For Mr. Wu, the key principle was: "Always be grateful for the kindness of the general public and feed back to society" (a clear indication of a societal orientation). It was also Mr. Wu who stressed the importance of a management philosophy based on "Three Bests" (best quality, best credibility, best service) and "One Reasonable" (reasonable price). For Mr. Kao the key emphasis was on "Recruiting talented people in pursuit of the number one position in the sector", and he also underlined the importance of "Integrity" and "Diligence". Mr. Lin's guiding philosophy was: "Let's work hand in hand to manage President Enterprises Corporation", and he also stressed the vital importance of "Innovation" and "Commitment". President has always put a lot of effort into disseminating its basic principles both inside and outside the company. Thus its statements are to be seen in company documents, on the walls of offices, and on the packages of products.

It should come as no surprise to see that President's performance is excellent among food manufacturing companies in Taiwan. The revenues, net income, and net income per share for the years 1991-95 are shown in Table 4.3.1. Sales and profits went down in 1995, mainly as a result of Taiwan's slow economy as well as strong competition in the market. The President Chain Store Corporation's performance is also excellent among retailing companies in Taiwan. The revenues, net income, and net income per share for the years 1991-95 are shown in Table 4.3.2.

Five senior managers filled in Philip Kotler's marketing-effectiveness rating instrument. The average score is 22.40, which is very good according to the level of marketing effectiveness. This shows that the senior managers are satisfied with their

marketing performance. This matches President's financial data as shown above. (For Philip Kotler's marketing-effectiveness rating instrument see Appendix I.)

Table 4.3.1 President's performance

Year	Revenues from operations (in million NT\$ dollars)	Net income (in million NT\$ dollars)	Net income per share (NT\$ dollars)	ROE (%)	ROA (%)
1991	20,895	2,169	2.85	22.07	12.01
1992	22,446	2,485	2.71	18.74	10.93
1993	23,915	2,871	2.75	18.48	12.29
1994	24,594	6,979	5.87	35.66	25.49
1995	25,531	2,802	1.77	11.07	8.90

Source: President

Table 4.3.2 President Chain Store Corporation's performance

Year	Revenues from operation (in million NT\$ dollars)	Net income (in million NT\$ dollars)	Net income per share (NT\$ dollars)	ROE (%)	ROA (%)
1991	12,742	421	1.41	29.85	12.62
1992	15,220	543	1.83	29.00	13.56
1993	17,922	797	2.71	31.73	16.15
1994	21,087	924	3.13	28.15	14.97
1995	24,948	975	3.43	24.99	13.64

Source: President

In summary, President is a company which has adapted very well to the changing business environment and has, in particular, been able to shift the focus of its business philosophy as necessary. It has developed a strong market orientation with a strong emphasis on customer and competitor orientations, as well as a clear recognition of the importance of inter-functional co-ordination. In terms of profitability, the company has been able to appreciate the need to balance short- and long-term

considerations. In general, we can refer to the company's market orientation as one of "full direction", and this has led to a strong overall performance. This in turn has contributed to the creation of a virtuous circle, enabling the company to put more investment into employees' education and training and to extend its business activities to other fields, thus increasing its competitive advantage. President continues to produce products of high quality with advanced technology, creating product value and upgrading service quality, and always remembering the need to feed back to its consumers and local community. It is now moving ahead rapidly with its strategy of internationalisation.

4.4 CASE 3 – STANDARD

Standard Foods Taiwan Ltd. (Standard) was originally an American-invested company. The company lost a lot of money in the first few years. The mother company decided to finish its operations in Taiwan. Mr. William Cheng, Director of Operations, said, "Our Chairman, Mr. D. F. Tsaur, after getting his Ph.D. from the USA, was employed as plant manager. Because of the company's big loss, the American marketing manager left the company and then the general manager also left. Mr. Tsaur succeeded as marketing manager and then general manager of the company. Quaker Foods Corporation (USA) decided to withdraw its investment from Taiwan in 1986. Mr. Tsaur made his decision to take over the company and reorganise it, and he became the chairman of the company." A few years after taking over, the company turned profitable and has now developed to be the most profitable food manufacturing company in Taiwan.

How does a company achieve a turnaround from loss to high profitability while most food manufacturing companies are in a low profit state? The following sections

will state Standard's top managers' thinking about market orientation, their perceptions of change in the business environment, the actions they have taken in response to the changes, and their business philosophy and Standard's performance.

Standard Foods Taiwan Ltd. (Standard) has achieved a remarkable turnaround from loss under its American mother company (when the Taiwan food market was dominated by Nestle) to high profitability as an independent company under Taiwanese management. Its success has been based on very effective product positioning, market segmentation, marketing technology, an integrated marketing orientation and the creation of competitive advantage. The company has aimed to produce high-quality and high-price healthy products and to position those products clearly so that all units and departments have a very clear direction to follow. Intra-firm communication thus becomes easier and more co-operative, and resources are used more efficiently. This emphasis on product positioning reflects a strong market orientation, with an emphasis on customers' needs. The emphasis on high quality means that the quality assurance function is very important within the company. (Standard's QA system was originally adapted from Quaker, the American mother company.)

One of the most impressive features of Standard's operations is the way in which the most advanced marketing knowledge has been disseminated throughout the company, not just the marketing department. For example, it has expanded the meaning of customer satisfaction from the external customers to the internal customers within and between departments. For these reasons, the company can be classified as having a fully integrated marketing orientation. In order to identify customers' needs, Standard places a lot of emphasis on SWOT analysis and the value of consumer surveys. Mr. Billy Yang, General Manager, said: "We had many

consumer tests with different test methods. We found big differences in consumer behaviour and consumer habits in different areas, no matter what kind of test instrument we used. Consumer behaviour in different areas of Taiwan is different. Consumer behaviour in different areas of Mainland China is also very different". (Ref. A.3.1.2) Thus there is an emphasis on local markets, local economies and the needs of local customers. This presents a challenge for the company's production system, since there is a need to produce different kinds of products to satisfy a wide range of tastes. It is also recognised that new products must be introduced into new markets at the right time. The main need is to actually get to know the consumers in each area, e.g. through face-to-face interviews and panel discussions. As Mr. Yang stressed: "You may not make the right decision if you read only the report produced by the marketing department or by an appointed survey company ... Sometimes I attend the panel discussion with the consumers the whole day. Or sometimes I take part in two panel discussions instead of four during one whole day ... I feel that it is much better and more direct to be in the panel discussion than rely only on what is in the report". (Ref. A.3.1.2) Consumer tests and SWOT analysis enable the company to position products accurately. As Mr. Billy Yang, General Manager, stated, this include "the development direction, the price of the product ... sales strategy and a lot of other matters ... I would like to say *integrated marketing orientation* instead of just *market orientation*". (Ref. A.3.1.11)

Top managers in the company identified four major aspects of business environment change which were of particular significance: the improvement in living standards resulting from Taiwan's high economic growth and increasing GNP; the accompanying increase in demand for consumer goods; changes in purchasing behaviour associated with the introduction of a new retailing system; and people's

growing concern with the quality of their lives and health as a result of higher living standards. Standard has successfully responded to these developments in the business environment by focusing on providing customers with the products they want and making them available through the various new retailing channels which have emerged as a result of the importation of European, American and Japanese management styles, and are illustrated by the spread of convenience stores, supermarkets and hyper stores. The company has exploited the advantages of Taiwan's new retailing system: its sales have grown as the new channels have developed. As a new company, Standard did not originally have its own sales channel. This was in some ways a problem, but it also meant that Standard subsequently found it easier to switch from traditional to modern sales channels such as the MGE (military, government and education) sales channel. As Mr. William Cheng, the Director of Operations, said: "The sales revenue increased after entering the MGE retailing sales channel. And we have more cash to reinforce our advertising. We put our efforts into R&D. Therefore, we have more good products to enforce our product line". (Ref. A.3.2.5) It should be added, however, that the continuing change in sales channels in Taiwan may become destabilising, since the retail market is increasingly oligopolistic and will be dominated by just a few retailing groups in the future. Thus Standard's top managers predict that there will be enormous pressure on all suppliers, and a price war will develop, reducing the profits of the suppliers. (Ref. A.3.2.3) This will present an enormous challenge to Standard.

For Standard, high growth and high profits (in the long term) have in the past been seen as the main targets of the company, and all managers have been expected to commit themselves to these targets, thus ensuring a high degree of inter-functional co-ordination. In this respect, the company's underlying business philosophy has

remained the same and has been a source of inspiration to all employees. That philosophy has usually been expressed as "Stability, Growth, Customer Satisfaction, and the Pursuit of Excellence" and in the slogan "One step leaves one footprint" (meaning that the philosophy must be implemented effectively step by step - working steadily, one makes progress). High growth and high profits have enabled the company to put more resources into employees' education and training, and into stimulating employees to work hard towards implementing the company's philosophy and thereby achieving a competitive advantage. High investment has also been possible in R&D, engineering and advertising. A virtuous circle has thus been formed, rooted in a strong corporate culture. At times, the various elements of the business philosophy have conflicted, e.g. Stability versus Growth, but top managers have been able to resolve such conflict. Most importantly, Standard's business philosophy has been implemented consistently and effectively throughout the company. This is largely because top managers have themselves been promoted within the company because they have demonstrated their understanding of, and commitment to, Standard's business philosophy. Also, as Mr. William Cheng, Director of Operations, put it: "Our company emphasises the moral fortitude of our employees, for example, loyalty, no corruption, and no cheating". (Ref. A.3.3.2)

Recently, Standard has also expanded into the mainland China market as a result of the changing business environment. However, because China's living standards are lower than those in Taiwan, the company has not been able to attain high gross profit margins. It has been necessary to maintain prices at levels which are acceptable to customers in mainland China. This is another example of a strong market orientation. As Mr. Billy Yang, General Manager, said: "The management in Mainland China is different from that of Taiwan. The consideration is not only the gross margin but also

the quantity and price position of the product. Actually, you need to see what is the position of your product in a lower, medium or higher price position: you don't need to have your product in a higher price position. Everything starts from the consideration of cost (price). If you have your price higher than the acceptable level for the consumers, you can hardly sell it". (Ref. A.3.3.3) Also, expansion into mainland China requires a different production system from that created for Taiwan, since, as Mr. Yang said, in China, "The production volume of plants may not be enough for the market if one of the products is successful in the market. It may need more quantities by adding a second factory and a third to offer the quantity to meet market demand. In other words, a massive production system is needed ... In Taiwan, we emphasise the flexibility of our production line to produce goods to fit the requirements of marketing. But in Mainland China what we need is an economic production, but not flexibility". (Ref. A.3.1.5) Hence, a lot of responsibility is placed on Standard's engineering team.

Interestingly, although the company's performance is superior in all respects, the top managers, in their self-rating of marketing performance (using Philip Kotler's instrument: see Appendix), describe it only as very good⁴ (Standard's average score is 24.75). They believe they actually need to work harder in the pursuit of excellence, thus abiding by the principle of "One step leaves one footprint". They are particular worried about the negative impact of such future trends as the increase in transportation costs and the oligopolistic nature of the sales channel market. The revenues, net income and net income per share of the company for 1990-1995 are shown in Table 4.4.1, and the sales growth of Standard is shown in Figure 4.4.1.

⁴ The total score is somewhat between 0 and 30. That the score between 21 and 25 shows 'very good' on the level of marketing effectiveness.

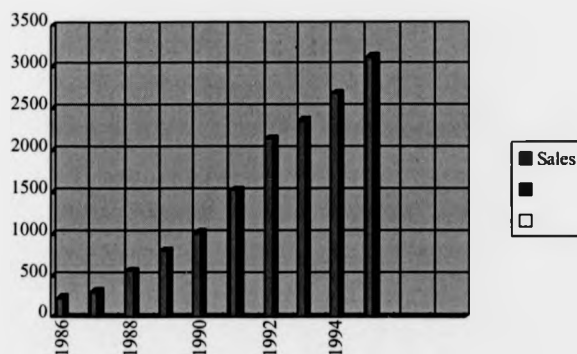
Table 4.4.1 Standard's performance

Year ⁵	Revenues from operations (in million NT\$ dollars)	Net income (in million NT\$ dollars)	Net income per share (NT\$ dollars)	ROE (%)	ROA (%)
1990	1,015	102	3.89	25.36	14.39
1991	1,529	233	6.54	39.56	23.16
1992	2,135	330	5.83	36.92	25.94
1993	2,250	423	5.40	33.22	26.70
1994	2,678	461	4.31	27.71	23.34
1995	3,118	574	3.96	27.20	21.85

Source: Standard

Figure 4.4.1 Sales growth of Standard

unit: NT\$ million



Sources: Standard

⁵ The fiscal year of Standard is from 1st July to the following 30th June. This is different from that of other cases (normally from 1st January to 31st December).

CHAPTER 5 THE INDUSTRY-LEVEL CONTEXT – TAIWAN'S DEPARTMENT STORE INDUSTRY

- 5.1 Introduction
 - 5.2 Case 4 – FEDS
 - 5.3 Case 5 – Shin-Shin
 - 5.4 Case 6 – Tonlin
 - 5.5 Case 7 – Sogo
 - 5.6 Case 8 – Printemps
-

5.1 INTRODUCTION

This chapter will describe the experience of selected case firms in the department store industry. We will briefly introduce each case firm first and then describe each case story.

The first official registered department store was Ta-Shing Department Store Ltd., which was established in Koahsiung, in the south of Taiwan, in 1965. Owing to the high economic growth of Taiwan, more and more department stores entered the market. The Far Eastern Department Stores Ltd. (FEDS) was established at an early stage in the Taiwan retail market and developed to become an island-wide leading department chain store while other department stores entered the market. The Ta-Shing Department Store Ltd. remained a very small department store and its original premises became the business group's headquarters. The group invested in another department store, but this was destroyed by fire during the fieldwork for this thesis. The data access to this company consequently became limited.

The Tonlin Department Store Ltd. entered the market in 1984. The company was established in the East District of Taipei City at a time when most department stores

were located in the well-developed western areas of the city. Tonlin created a so-called "Tonlin Business Circle"¹ of which the company was proud.

Government policy changed, the economy continuously grew and the business environment changed. The government decided to let foreigners invest in department stores in Taiwan. The Pacific Sogo Department Store Ltd. (Sogo), a Japanese-Sino joint-venture company, was the first one to enter the market and run its business successfully.

Most of the foreign investors have come from Japan and have advanced know-how in operating a department store. Moreover, the culture of Japan is similar to that of Taiwan. Therefore, their business philosophies are easily accepted by both the owners and the customers. While the domestic department stores have suffered from severe competition from foreign investors, two investors from France have recently entered Taiwan market. One closed shortly after its opening because of financial problems. The other is Printemps Taipei, a joint-venture company between France and Taiwan.

Faced with the strong competition, many department stores left the market. The Shin-Shin Department Store Ltd., a company established in 1971, always shows relative lower performance in its financial data, but the company still survives in the market.

Table 5.1.1 summarises the age and size of case firms of the department store industry.

¹ Business circle is a terminology which is used in Taiwan and Japan. It means an area in a city which attract crowds of shoppers. It is like the city centre or town centre in the UK.

Table 5.1.1 The age and size of case firms of the department store industry

No.	Case firms	Age	Size (sales)
1.	FEDS	old	large
2.	Shin-Shin	old	small
3.	Tonlin	Middle-aged	medium
4.	Sogo	Middle-aged	large
5.	Printemps	young	medium

5.2 CASE 4 – FEDS

The Far Eastern Department Stores Ltd. (FEDS) is one of the oldest and largest department store companies in Taiwan. Founded in 1967, it is now Taiwan's one and only island-wide chain in this sector. It has earned for itself a reputation as a "blue chip" company providing high-quality goods, excellent customer service, colourful international exhibitions and promotions, diversified investment plans, and a whole range of charitable and socially-oriented events. It is now thoroughly internationalised company with an impressive global vision, strong determination, enthusiasm and vitality.

These achievements are particularly impressive, given the increasing competitiveness of the retail market in recent years. As an indigenous retailer, it has had to respond positively and imaginatively to the growing impact in Taiwan of international department store chains. This has meant that FEDS' operational environment has been constantly changing, thus requiring the company to both respond to and anticipate the nature and scope of environmental transformation. As part of that transformation, the company has had to keep a careful eye on the market for its products and services. Thus, in the early stages of the modern retail market in Taiwan, customers emphasised the quality and functions of goods. This was a period

of what we might call "rational consumption" and accordingly FEDS' business philosophy at this time stressed a sales orientation. "Operating the business according to consumers' wishes" was the stated business philosophy, but, as Mr. Yeh, the Vice-President said, "actually we were still a sales-oriented company" (B.1.3.3) However, with Taiwan's growing affluence and the accompanying family and life-style changes, customers eventually became more interested in fashionable and convenience goods. This new period may be referred to as one of "perceptual consumption". More recently, the trend has been for customers to demand individualised, diversified and "good taste" products. This indicates the arrival of a new period of "customer-oriented consumption". Not surprisingly, therefore, FEDS' success has been built firmly on the company's ability to get close to customers, meet their needs, and master the impact of environmental change. The whole emphasis of the company's developing market orientation has been on the need to maximise customer satisfaction (CS). For this reason, the Chairman, Mr. Hsu, has sought to ensure that FEDS is a "user friendly" store; and the company's mission statement reads as follows: "With strict criterion for customer satisfaction and high sense of social responsibility, FEDS is dedicated to serving and accompanying consumers towards the 21st century." (Ref. B.1.3.4) FEDS' company slogan is: "We are continuously striving for better customer satisfaction".

Mr. Yeh, the Vice-President, in an interview, drew particular attention to the fact that a production orientation is completely inappropriate in a highly competitive retail environment: "You must forget all of the producers. The producers just produce goods for me. They have been eliminated by the market ... For example, there are no longer just three or five kinds of tea products as before, but 100 or perhaps 200 kinds of tea products (brands). We are now customer-oriented. We use the POS (point of sale) system to list all the best sellers. When 200 tea products come to our shop ... we

select only a few top best sellers for our customers". (Ref. B.1.1.4) This indicates the crucial difference between the service and manufacturing industries. It also illustrates the importance of a department store, with limited floor spaces, deciding to stock only those products which it knows the company wants.

FEDS has pursued a business philosophy which clearly links customer satisfaction to the goal of better performance. The company has also stressed a strategy of "winning by surprise" in the market. In this sense, winning does of course mean making sure that competitors do not gain advantages, or, put another, way that FEDS always retains the upper hand. Thus, the company's top managers have been aware that both new entrants to the market and also changes in consumer behaviour have both had a major impact on the changing business environment. Indeed, the two trends have been closely related, since, as new companies enter the market, of course customer behaviour also changes. In practical terms, FEDS has always felt that the customers "know best" and this has led to a number of CS (Customer Satisfaction) and SQC (Service Quality Center) activities. These have included systematic efforts to evaluate levels of consumer satisfaction through surveys of various kinds and, where appropriate, to use the results of those surveys as a basis for action and innovation geared to improving business performance. This strategy is further reinforced by a five-year CS promotion programme.

FEDS' very successful performance (See Table 5.2.1 and Ref. B.1.1.2) is clearly due to the company's strong market orientation, with its particular emphasis on customer satisfaction. It has also formulated a clear definition of its market as a market of "middle mass customers²", and has emphasised the need to maintain and, if

² The majority customers of middle class people.

possible, improve its market share (which has been about 20 per cent). This is consistent with the company's declared business philosophy. It should be stressed that FEDS is a growing retailing business group and it has subsidiaries which focus on other market sectors: for example, the middle-to-low end customers (Far Eastern Enterprise Ltd., HYPER, a mass merchandising shop) and high-end customers (the Ya Tung Department Store Ltd. - Taipei Metro the Mall, a famous brand store). This means that, taken as a whole, the business group has pursued a very effective strategy of market segmentation, dividing the market into three major segments, each of them served by one major company. Also, since it has 14 branches, FEDS itself can offer different selections of goods in different locations to satisfy the specific customer needs of each locality: "You need to choose merchandise according to area, customer segmentation, age difference (young or old), fashion or attitude (conservative), taste, etc." (Mr. Yeh). (Ref. B.1.1.5) Furthermore, the capacity of FEDS to change its operations quickly in response to changes in the retail market is impressive: "We can change sales activities within three to four hours. We can change all the displays in one night" (Mr. Yeh). (Ref. B.1.1.8)

Table 5.2.1 FEDS' performance

Year	Revenues from operations (in million NT\$ dollars)	Net income (in million NT\$ dollars)	Net income per share (NT\$ dollars)	ROE (%)	ROA (%)
1991	10,379	922	2.38	13.7	8.1
1992	12,962	700	1.44	8.6	5.7
1993	14,053	1,005	2.02	12.6	7.6
1994	16,383	1,062	2.14	13.7	7.2
1995	17,317	706	1.09	6.76	

Source: FEDS

Because of its enhanced performance, the company has more resources to spend on personnel training and staff development, including training in CS activities.

The overall business environment has also helped the company to prosper, since Taiwan's so-called "economic miracle" undoubtedly created an excellent environment for retailers, reflected in the sectors' high growth rate. On the other hand, FEDS' success has been especially noteworthy - better than other companies in the same sector - and this suggests that FEDS' top managers have been particularly skilled at understanding the changing business environment and exploiting its challenges and opportunities effectively. This has meant being able to change the company's operations quickly in order to meet the customers' changing needs and wants, and it has been able to do so by employing an effective contingency strategy which is called "Her-Tzong Lian-Herng"³. (Ref. B.1.1.8) At times of economic recession, the company has also succeeded very well in maintaining its market share. It has done so not by focusing on competition with other companies, but by emphasis on its own capabilities (core competencies): "I think it is very important to measure the force of the company itself ... (we must) strengthen our business's constitution so as to have a different segmentation from other competitors" (Mr. Yeh). (Ref. B.1.1.5) For example, in FEDS' case, the promotion of a CS programme was designed to achieve this objective.

In considering the changing business environment and market conditions, FEDS prides itself on adopting a truly global perspective. Thus the Chairman, Mr. Hsu, emphasises that the company scans changes in economic growth in the Asia Pacific region as a guide to the development of the business. He is also aware of the importance of understanding how global trends in the retail sector can, in due course,

³ The meaning of 'Her-Tzong Lian-Herng' is similar to what English Prime Minister Henry John Temple (1784 - 1865) said, "We have no eternal allies and we have no perpetual enemies. Our interests are eternal and perpetual, and the interests it is our duty to follow."

affect the market in Taiwan. Thus, he stresses the growth of competition from new large department stores, hyperstores, chain supermarkets and convenience stores. Mr. Ying, former President, also spoke of how new types of retailing are emerging in Taiwan as a result of changes in people's consumption habits and the promotion of public infrastructure projects. The result is that "Taiwan's retail business has prospered and diversified into a variety of distinctive patterns including hyperstores, convenience stores, supermarket chains and speciality boutiques. Foreign investors from Japan, the US and Europe have also joined operations in the local market with their advanced know-how". (Ref. B.1.2.3)

FEDS' ability to sense changes in the market environment and changes in customers' needs is impressive. The managers understand, in particular, that the main market characteristic is an excess of supply over demand. This is precisely why there has been such an emphasis on customer orientation. The various CS activities have also acted as a method of enforcing FEDS' competitive advantage. Table 5.2.2 summarises the relationship between changing customers' needs and the changing focus of FEDS' business operations.

Faced with strong competition among local retailers, FEDS' operating strategies have been focused on the following priorities:

- increasing new points of sales and store space;
- adjusting the merchandise mix and increasing the proportion of own-level goods (commodities);
- continuously promoting a series of CS activities;
- promoting the use of Far Eastern credit cards;
- intensifying the training of management personnel.

Table 5.2.2 Changing customers' needs and the changing focus of business operations

<i>Market characteristics</i>	<i>Type of consumption</i>	<i>Customers' needs for Commodities (goods)</i>	<i>The focus of business operations</i>
Supply < Demand	A rational consumption era ↓ Production orientation	1. Pay much attention to the quality of commodities. 2. Pay much more attention to differentiation of the function of commodities. 3. Very sensitive to prices.	1. Rational production. 2. Zero defect through QCC activities. 3. Pay attention to production cost control.
Supply = Demand	A perceptual consumption era ↓ Marketing orientation	1. Pay more attention to the design and new style of commodities. 2. Pay more attention to the fashion of commodities. 3. Pay more attention to the convenience of commodities. 4. Pay more attention to the identity of the brand.	1. Design of commodities. 2. Brand name familiarity. 3. Convenient usage. 4. Corporate Identity (CI).
Supply > Demand	An affected consumption era ↓ Customers' orientation	1. Individuality. 2. Diversification. 3. Satisfaction. 4. In good taste. (gratification)	1. Mastering the main customers. 2. Adding more services. 3. Paying attention to the reaction of customers. 4. Promoting customer satisfaction.

Source: FEDS

In general, FEDS has achieved a remarkably consistent and impressive level of business performance. Since other companies in the same sector have not been so successful, the studies which follow should offer interesting comparisons with the example of FEDS. Furthermore, the interesting question arises of whether, if other companies perceive FEDS to be very successful, they can themselves learn from this record of excellence and apply the lessons to their own companies' operations. In other words, to what extent and in what ways do companies, especially those in the same sector, actually learn from each other?

5.3 CASE 5 – SHIN-SHIN

Shin-Shin's origins are unusual: the company was founded in 1971 under a joint venture investment with 49 per cent of shares from the Vocational Assistance Commission for Retired Servicemen (VACRS), a government organisation, and 51 per cent from private shares. Part of the mission of the company is to place retired servicemen as well as their dependants in employment. (For example, most of the top managers are retired higher position servicemen, but their tenure of office is normally short.) Thus, the company has not been strongly oriented towards making a profit, and this is evident in its recent poor performance in the face of strong competition in the retail market. Trying to balance the need for commercial success with the social objective of looking after the needs of ex-servicemen and the aim of providing a service to the public - this indicates a societal orientation - is not easy. Obviously, profitability cannot be ignored, since without it the company could not survive and its social objective could not be achieved. Furthermore, no company can ignore the interests of its shareholders. For all these reasons, Shin-Shin is now making more of an effort to embrace a performance/profit orientation.

One key problem that Shin-Shin faces is the lack of long-term planning and vitality. This is partly a result of the short-term tenure of its top managers. This means, in turn, that the company's capacity to anticipate and respond to environmental change is limited. Taiwan's economic recession (during the period of field-work) and the resulting conservative behaviour of consumers has severely affected the company's performance. Furthermore, Shin-Shin's location in the central district of Taipei has caused problems: the surroundings are disorderly, as the neighbouring land, preserved for development, has not been utilised according to the original plan, and also several larger department stores (Re-Bar Idee and Hsin-Kong Mitsukoshi) have

opened in Shin-Shin's business circle.

Shin-Shin's main response to environmental change has been to review its operations and to re-position the company as a modern market hall⁴ combined with leisure, shopping, sports and entertainment facilities. It did this between April and July 1995 (the first refurbishment since 1989). The result was some improvement, with the financial figures showing a profit in the fourth quarter of the same year as a consequence of increased sales and profits. However, the overall performance remained disappointing. (See Table 5.3.1)

Table 5.3.1 Shin-Shin's performance

Year	Revenues from operations (in million NT\$ dollars)	Net income (in million NT\$ dollars)	Net income per share (NT\$ dollars)	ROE (%)	ROA (%)
1991	857	26	0.30	2.21	1.96
1992	855	2	0.02	0.13	0.35
1993	841	(39)	(0.60)	(4.94)	(3.39)
1994	763	(31)	(0.48)	(4.14)	(2.52)
1995	846	(33)	(0.48)	(4.29)	(2.39)

Source: Shin-Shin

Under these pressures, Shin-Shin's business philosophy has had to change. Accordingly, "offering a service to the public and placing retired servicemen as well as their dependants in employment" has now taken second place to "earning a profit for survival". This means that the company now pays much more attention to its competitors in the retail market. Slowly, it has come to realise the importance of the marketing concept as a basis for improving long-term sales performance. However, the company's response remains slow, and its operations have tended to deteriorate

into a vicious circle.

In 1989 Shin-Shin entered into a technical agreement with a Japanese department store, mainly concerning the layout of the sales floor of the shop, which indicated a greater willingness to innovate in the face of a more competitive market. However, the agreement was not successful: the costs exceeded the revenue. This failure indicates that at the time the financial assessment of the agreement was not adequate, and that it was motivated by a somewhat hasty decision to copy the joint venture strategies of other department stores.

One of the most conspicuous features of Shin-Shin is that its top managers do not have much to say about customers and their needs. They tend to concentrate on how to offer more facilities in the hope that customers will come in to the store. Mr. C. C. Lee, the General Manager, explains this is as follows: "We hope the customers come here ... to buy what they want to buy, be entertained in the way they want to be entertained, eat what they want to eat. They can have banquets in our luxury restaurant. They can have a snack in an eatery (small restaurant) ... They can take exercise if they like sports ... Parents like to go shopping or see a movie while children may like to buy a toy. The whole family can come to our place and enjoy what they want". (Ref. B.2.1.1.) Mr. Lee also emphasises that the store's business circle has changed in recent years: it has become less of a residential area as more offices have been built. There are now fewer tourists. Shin-Shin sees itself as a community department store, but the structure of the community has not remained the same.

⁴ Shin-Shin is not big enough to be called a "Shopping Mall." Therefore, it is better to use "Hall" instead of "Mall."

Because of the company's low profitability, it has had difficulty in attracting suppliers ("special cabinets"³) to sell their goods. The suppliers' sales staff are very concerned with the level of sales commission, and obviously this requires a store which has high sales performance. In the case of Shin-Shin, such a performance has normally been lacking. This was, indeed, one of the reasons why the company undertook a major refurbishment in 1995, but it was not very successful: "We experienced a lot of frustration when we had our refurbishment in 1995. Some of the suppliers we invited didn't like to come to our operation. They thought ours was not good enough for them to come. They thought this place ... would not enable them make money. But things have changed. After our refurbishment, he asked some of the suppliers to come to see our achievement. They are now interested in joining us" (Mr. C. C. Lee). (Ref. B.2.1.3)

Mr. C. P. Lee, the Manager of the Business and Planning Department, is obviously impressed by the ability of Japanese-invested department stores to concentrate more on long-term profitability: "They do not expect to invest this year and make money next year. They are looking for a profit three or five years later. In Taiwan, if you told your boss that the return on investment would be three years later, the boss wouldn't agree". (Ref. B.2.1.4) Mr. C. P. Lee also stresses that, in his opinion, there is added pressure on Shin-Shin to make a short-term profit in order to meet the needs of public investors. This gives rise to a whole range of business problems.

³ The special cabinet is a common way of doing business in the department store business in Taiwan. The suppliers rent the sales space from the department store. It is like a special cabinet (place) for selling their products. The suppliers have their own sales person and their own stock. But all of the administration must be under the management of the department store. The suppliers must follow the policy or regulation of the department store. They cannot have their own way of doing business. The department store has the income of rents and sales commission from the suppliers, but not the expense of salaries and stock.

Mr. C. P. Lee also acknowledges that Shin-Shin has not paid enough attention to the marketing concept. This is partly because the store's sales space is limited and does not support extensive promotion campaigns. The cost of advertising is too great in relation to the resulting increase in sales: "We do our best to try to spend less money (on advertising), but hopefully to get the best result. We can't spend big money on advertising as the larger department stores do. We don't want advertising handled by an advertising company if possible. We do it by ourselves". (Ref. B.2.1.7)

There is obviously disagreement among the top managers about the impact of local community change on Shin-Shin's prospects. Mr. C. C. Lee believes that the planned development of new parks in the local area will create additional demand by new customers, but Mr. C. P. Lee's view is different: "I think, as a business man, he can't expect and depend on crowds from the park. The improvement of the surroundings of the store ... doesn't have any direct influence on the business because there are not so many business opportunities as a department store close to a park. We have to make ourselves attractive to customers". (Ref. B.2.1.7) Accordingly, Shin-Shin has tried to attract more customers by developing its entertainment, sporting and recreational facilities.

Another issue which emerged from the research interviews is that Shin-Shin's managers have often been reluctant to undertake fundamental refurbishment of the store, since they believe that the employees might not welcome such a change. Mr. C. C. Lee said: "If we open a new department store, we could have all new managers and all new shop decorations, and we could manage it much better than at present. But our situation now is that almost all of our employees have worked here over one or two decades. We can hardly tell them one and they reply one, tell them two and they reply two. That's the difference". (Ref. B.2.2.4) Mr. C. P. Lee confirmed this view: "the

employees were used to what they had done during the past ten or twenty years. They thought what they had done was right and natural". (Ref. B.2.2.4)

In general, the case of Shin-Shin demonstrates very well the problems of not having a very well developed market orientation, especially in the highly competitive retail market. Its capacity to become more market oriented has inevitably been limited by its original business philosophy, its style of management, and its limited business circle, with only one store in a location that has had limited potential for growth. As new stores have been established in the same area, it has been increasingly difficult for Shin-Shin to maintain its market share. Faced with such a problem, the company has decided to expand its non-retail activities in entertainment, leisure and sport. On balance, the company has not achieved a very good business performance. The challenge it faces for the future is how to overcome past barriers to performance by enhancing customers' satisfaction and meeting their needs more effectively than its competitors.

5.4 CASE 6 – TONLIN

Tonlin Department Store (Ltd.) is presently the weakest department store in its business circle in the east district of Taipei city. Its performance must be classified as only fair. This position represents a major turnaround for the company, which, just a few years ago, seemed to be doing very well. The real cause of the problem is that within Tonlin's new business circle, created through the importation of Japanese management know-how, competitors quickly emerged (Pacific Sogo, 1987; Ming-Yao, 1987; Printemps, 1995), and Tonlin itself was unable to retain its leading position: the new competitors had better hardware (buildings) and software (management know-how). This additional competition was itself a direct result of the Taiwan

government's decision to open up the retail market to foreign investors in 1986. Going back even further, Tonlin was founded in 1984 in the unfashionable east district - not the most obvious choice, perhaps, for a new venture of this kind, but the development of metropolitan Taipei was then beginning to shift from the west to the east. The major shareholders - who came from the construction industry - decided to use their land and surplus resources to enter the department store business (because the construction industry itself was going through a recession, thus affecting the business environment), but they did not have much knowledge and experience of this kind of business. This is why they entered into a technical agreement with a Japanese department store and were then able to create a new business circle of their own. But once new competitors entered this circle, the competition proved to be too great for Tonlin.

Interestingly, Tonlin's business philosophy combined the ideas of the top management and those of the Japanese consultants. Thus "service", "let the customer be satisfied", "the customer is king", "create a better working environment for our employees", and "authorise professional managers" came to be regarded as the key principles. Yet from the start, the Japanese consultants, whose tenure of office was between two and four years, tended to stress short-term, rather than long-term, considerations. The focus was on achieving the sales target set by the top management. Accordingly, although Tonlin offered a basic service to the customers, some of the added-value special services were neglected because of the rush to achieve the sales target within two to four years. On balance, therefore, the company came to have a performance orientation, as expressed in pyng performance⁶ and sales achievement.

⁶ Pyng performance is major measurement for the operation of department stores in Taiwan as well as in Japan. It is the result of the sales amount divided by the square meters (numbers of pyng).

The emphasis on short-term considerations has meant that longer-term high growth has not been achieved by Tonlin. Furthermore, the business philosophy of the company has not been sufficiently recognised by the management team and disseminated through the whole company, i.e. it has never really been fully implemented. For example, certain tensions between the General Manager and the Japanese Deputy General Manager have been apparent, and the Chairman of the company is elected from the four main shareholders in turn, thus making it impossible to establish a strong, consistent business philosophy lead. The top managers have recognised the major changes occurring in the business environment, notably: the entry of new, strong competitors into the market; the changing behaviour of customers; and the changing labour market. They have therefore concluded that the conditions of a successful department store have changed, and have sought to take appropriate actions, especially the opening of a very large new store, opened in November 1995 in Tao-Yuan (in the north of Taiwan), and the formulation of plans to change the Taipei shop into a more specialised outlet, focusing on certain segmented customers whom the large department store cannot cater for. Tonlin has recognised that customers place much more emphasis than before on price and quality rather than on famous brands, and this shift in consumer behaviour has been reflected in Tonlin's display of goods in its stores. A Tonlin store card has also been introduced. Also, with the opening of the new store, Tonlin has taken the opportunity to reconsider its business philosophy, so that "To express the company's posture inside and outside of the company" has been proposed by Mr. Yoshiko Sato, the Deputy General Manager, as the key goal⁷ (but one

⁷ Tonlin's new operating principle: To strike an operational posture from the inside of the company according to its business philosophy.

It's new management principles:

- a. To be a department store that customers can trust perpetually by honest and stable operation.

which has not yet been recognised by the whole management team). Although, as a result of all these actions, Tonlin's sales have increased, the company's net income per share has not increased, because there have been additional costs related to the opening of a new branch. (See Table 5.4.1)

Table 5.4.1 Tonlin's performance

Year	Revenues from operation (in million NT\$ dollars)	Net income (in million NT\$ dollars)	Net income per share (NT\$ dollars)	ROE (%)	ROA (%)
1991	1,353	21	0.97	6.37	5.99
1992	1,295	27	0.89	4.65	4.67
1993	1,367	581 ^b	18.75	77.71	31.00
1994	1,305	95	1.24	6.58	4.07
1995	1,599	100	1.08	6.43	3.38

Source: Tonlin

The case of Tonlin is interesting because originally the store embraced a strong customer orientation, reflecting the strong influence of Japanese beliefs. It was under this influence, for example, that the layout of the Tonlin was store was radically changed to become well-planned, bright, clean and in good order; and there was an emphasis on dealing with customers in a kind and cordial manner. However, when

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- b. To be a department store with excellent traditions and in tune with the times.
 - c. To be a superior (high grade) department store to promote an improvement in customers' living standards.
 - d. To be a department store that has a high-class sales site with outstanding commodities and provides excellent services.
 - e. To be a department store that can provide customers with a bright, intimate and happy shopping environment.
 - f. To be a department store that has real (true) commodities, good service, and a beautiful selling place.

^b The large amount of net income in 1993 came from disposing of its assets.

competitors entered Tonlin's business circle, the top management started to pay much more attention to the need to build Tonlin's competitive advantage. This is why efforts were made to move towards a combination of multi-shops, a large shop and specialised small shops. As General Manager, Mr. Su said, "There is not any room for the small one. Those who have bigger shops and more shops will survive." He said, "The small department store needs to be developed to be a department store that is suitable for special segmented customers while the large department store is suitable for all kinds of customers." The department store will be developed to become a general purpose larger store and a specialised small department store. (For a comparison between the two, see Table 5.4.2.)

Table 5.4.2 Comparison between larger and smaller department stores

	Large Department Store	Small Department Store
Target customers	For all kinds of customers	For special segmented customers
Sales space	Larger sales space	Smaller sales space
Competitive advantage	Compete by service, merchandise, commodity quality, location, and planning capability.	Compete by its special commodities for its segmented customers

At the same time, as already noted, the top managers have always tended to stress a performance and/or profit orientation because of the preoccupation with achieving the sales target. This in turn reflects an overemphasis in the company on judging managerial performance in terms of sales attainment. All this suggests a certain inability on the part of the company to focus on a clear market orientation appropriate to the needs of the changing business environment. Indeed, Mr. Su, General Manager stated that "The marketing influence is not very great. It's unlike

beverages, for example, where different marketing strategies may attract different customers with the products scattered everywhere in the market. But, we (the department store) are not the same. If the customer likes to come to our store, he/she will come. If he/she likes to go to other stores, he/she will go there! Therefore, how to understand and persuade customers becomes more important than any other things. We can say that "customer orientation" is our business philosophy". (Ref. B.3.1.1) Mr. Su is here suggesting that a customer orientation is more important than what he calls the "marketing influence". However, a customer orientation can itself be seen as one particular component of market orientation. The two are not mutually exclusive.

Mr. Su also emphasised that Tonlin is not really very concerned with what its competitors are doing: "For example, there is the Ming-Yao Department Store, which confronted our own, but we don't care about what they are doing. We do what we should do. We do what our customers need". (Ref. B.3.1.2) In hindsight, however, it seems that Tonlin *should have paid more attention to its competitors*, since eventually Tonlin failed to compete effectively with other stores that had entered its business circle. The increase in competition actually led to an increase in the total sales revenue of department stores in the business circle, as more customers were attracted to shop in this area, but Tonlin found that it was losing its existing customers to the new stores and was not attracting a sufficient share of the new customers. There are main reasons for this failure. For example, when Pacific Sogo entered the market in 1987, the new company had a much bigger sales area, thus permitting "one stop shopping" for customers - a facility which Tonlin could not match. In contrast, the limitations of Tonlin's existing small building meant that the company could not expand.

The research interviews revealed that at least one of Tonlin's senior managers

did not agree with Mr. Su's arguments; or, at least, he suggested that the customer orientation advocated by Mr. Su was not implemented in practice. Thus Mr. C. C. Lien, Associate Manager of the Sales Department, commented that in reality Tonlin had come to emphasise a performance orientation (especially in terms of sales target), and the level of service to customers had accordingly declined. For example, "We had a large rest area for our customers in our department store right at the beginning of our operation. This idea we took from the Japanese business philosophy of offering a good service to customers. To meet the performance expectations of the top management, some of the customers' rest area was gradually used for displaying merchandise ... The operation was directed away from a customer orientation to a performance orientation". (Ref. B.3.1.3)

Further disagreement was revealed when Mr. Proteus Lin, the Marketing Manager, stated that, in his opinion, Tonlin had at last come to understand the importance of market orientation: "As a decision maker, based on market orientation, we opened a new branch last year (1995) ... The marketing comes after we have a market concept. As I said, we know there is a big market. But which market do we want to take? Here comes the marketing. We need to select a good location for the new branch. We need to have customers segmented. From the viewpoint of a service industry, I think the concept of marketing is more important than that of market". (Ref. B.3.1.4) Such a view is, perhaps, not surprising from a Marketing Manager, but it clearly contradicts what Mr. Su said.

Another issue which deserves to be mentioned in this context is that changes in the labour market have meant that Tonlin has had to make more effort to recruit staff. In department stores, working time is increasingly flexible rather than fixed, employees must work on Saturdays and even Sundays, and more female employees

are required than before. Accordingly, Tonlin has sought to attract recruits by offering a range of bonuses, welfare benefits, and trips abroad. Of course, this will increase Tonlin's operating cost.

In general, Tonlin's history points to a delay in responding positively and imaginatively to increased competition and the changing business environment. There seems to have been a lack of any consistent, fully implemented business philosophy which could guide the company to enhanced long-term competitiveness. The research interviews revealed disagreements about the precise orientation of the company towards its customers, competitors and performance criteria. Most significantly, the concepts of marketing orientation (as part of the business philosophy) and market orientation have not been embraced by Tonlin, although in recent years some efforts have at last been made to implement a more innovative strategy in response to the changed market conditions.

5.5 CASE 7 -- SOGO

Pacific Sogo Department Stores Co. Ltd. (Sogo), founded in 1987, is generally regarded as the leading department store in Taiwan. Its success has not been halted even during years of recession. This is clear from the company's impressive business performance data. (See Table 5.5.1)

The company has made a great effort to provide its customers with spacious and comfortable shopping facilities, high-quality goods and excellent services. It has also committed itself to achieving a high growth rate in order to contribute to the economic well-being of Taiwan as a whole - a principle which is clearly indicative of both a marketing orientation and a societal marketing orientation. As can be seen from the above figures (See Table 5.5.1), Sogo has achieved a consistent two-digit rate of

sales growth.

Table 5.5.1 Sogo's performance

Year	Revenues from operation (in million NT\$ dollars)	Net income (in million NT\$ dollars)	Net income per share (NT\$ dollars)	ROE (%)	ROA (%)
1991	6,157	278	6.18	31.25	11.16
1992	7,091	423	9.40	38.19	13.67
1993	7,738	486	10.80	35.92	14.40
1994	8,608	524	11.64	31.19	12.41
1995	10,142	635	14.11	30.53	9.46

Source: Sogo

By the end of 1992, the Sogo Group (Japan), which held 49 per cent of the original share investment in the new company, had established 30 department stores across the world. Thus, there can be no doubt that the Pacific Sogo Department Stores Co. in Taiwan has to a very significant extent been built upon the earlier success and know-how of the Japanese company⁹. (The other 51% of the original share investment was held by Pacific Construction Ltd. [Taiwan]).

Sogo has an impressive and wide-ranging business philosophy consisting of five key elements: to be public and classic¹⁰, to be customer-oriented, to connect with the east district of Taipei city and pursue the number one position, to connect

⁹ Because the government advocated internationalisation and liberalisation, the restriction on foreign investors' investment in the service industry was removed. Owing to this change in government regulations, Sogo became the first company to pool capital with foreign investors in Taiwan. The co-operation with foreign department stores therefore changed from a purely technical agreement to a pooling of capital. More advanced department store management know-how was therefore imported and transplanted into Sogo.

¹⁰ What Sogo mean 'classic' is that it doesn't mean that a shop which sells high price commodities is a classic department store. What Sogo means by a classic department store is that the customers feel the shop has a high class atmosphere. [REF. B.4.3]

shopping with the specific local culture, and to connect shopping with leisure. This philosophy has a strong market (customer) orientation, emphasising customer satisfaction and service quality, and, most importantly, incorporates a clear operational strategy. Furthermore, there can be no doubt that the company's top and senior managers fully understand and implement this philosophy. At all levels of the organisation, an effort is made to educate employees in the company's business philosophy and to ensure that the company's human resources are utilised to the full. Since Sogo is very successful, it can afford to devote a high level of investment to fulfilling employees' training needs. Even during times of recession, the company has not failed to place emphasis on the importance of education and training in order to maintain its high-quality customer service.

Sogo also pays a lot of attention to its competitors, i.e. those companies of the same business type (i.e. other department stores) and those in the same business circle. It has developed a very effective competitive strategy emphasising three major components: (1) a store development strategy designed to maximise its own distinct advantages, e.g. in terms of business type, business circle, location, target customers, and merchandise mixture; an assessment of competitive factors (strengths and weaknesses, as presented in Table 5.5.2; and six specific principles of competition, as presented in Table 5.5.3.)

Table 5.5.2 The competitive factors of a department store

Competitive items	Percentage (proportion)
Merchandise mixture: The strength of main commodities	10%
The quality, quantity, range of commodities	10%
The strength of commodities (such as foods) attracting customers	10%
Psychological factors: The area of sales space	10%
High class	5%
The layout	5%
Leisure factors	10%
Convenience in transportation: Parking space available	10%
Easy to visit (not too far)	10%
Service factors: The ability to service customers	10%
The number of firm customers	10%

Source: Sogo

Table 5.5.3. Six specific principles of competition

Principles of Competition	
a.	The principle of choosing the target competition
b.	The principle of focusing on the centre of emphasis (key point)
c.	The principle of besiegement (surrounding)
d.	The principle of a surprise
e.	The principle of face-to-face attack
f.	The principle of time lag

Mr. Wang, Sogo's Vice-President, described the six principles of competition in some detail and with great enthusiasm. The first principle, "choosing the target competition", is based on the idea that "the competition target is one rank in front of you and the attack target is one rank behind you". (B.4.1.2) Since Sogo itself is now the number one department store in its business circle, there is in fact no competition target in the circle. Accordingly, Sogo targets a famous department store outside the circle and/or overseas. Secondly, the principle of "focusing on the centre of emphasis (key point)" means that a store, like an army on a battlefield, must use its strongest weapons, especially its large sales space and its high-quality merchandise, and/or

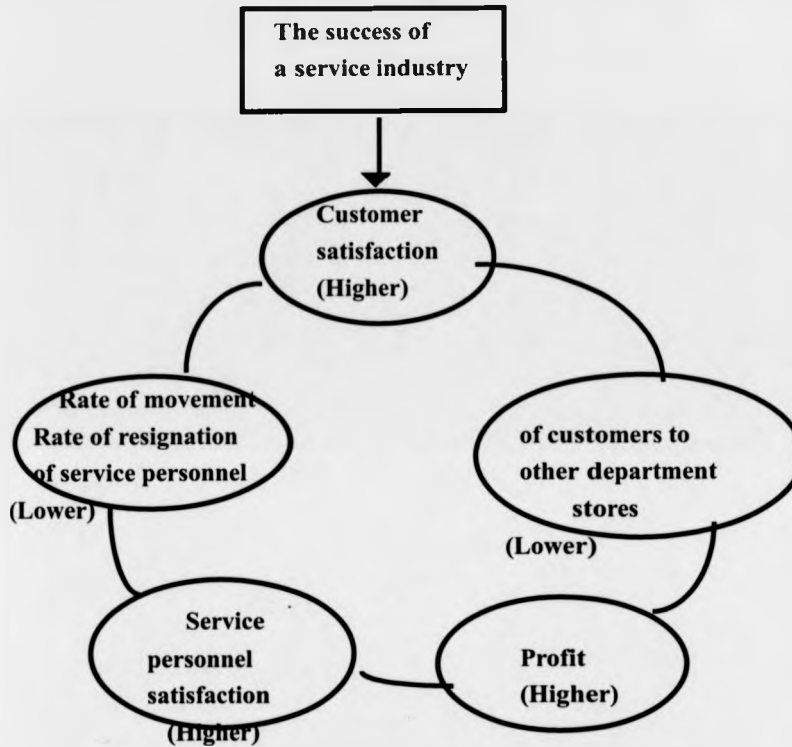
target the specific weaknesses of its competitors. The third principle, that of "besiegement", involves "surrounding" your competitors with a bigger and better range of the goods that customers want: "For example, take the price of shirts - we have a price range from the cheapest at NT\$100 to the highest at NT\$4,000 a piece. And we have more supplies ... for the best selling items which are priced at around NT\$1,000". (B.4.1.2) Continuing the military metaphor, the fourth principle is that of "attack by surprise", which involves taking attack actions which are not expected by your competitor. This strategy can be utilised very effectively by a smaller force against a larger force. Fifthly, the principle of "face-to-face attack" takes advantage of a store's "depth of commodities, i.e. we attack our competitor by concentrating only on the best sales items". (B.4.1.2) Sixthly, the principle of "time lag" exploits the fact that some commodities are seasonal, and that before this season starts, the goods can be sold at a higher price, while at the end of the season they can be sold at a discount. The result is, respectively, less quantities sold and less profit made.

Japanese department store know-how was extremely important in helping Sogo to achieve its early success. In particular, this know-how emphasised two important features of the department store sector: the operation of a department store used to be supplier oriented, but it is now customer-oriented; and the operation of a department store has developed towards two extremes - becoming larger and at the same time more specialised. This awareness of fundamental trends in the department store sector has enabled the company to develop quickly and effectively to maximise its competitive advantage in a business environment marked by a high rate of employee mobility, severe competition from other department stores and other types of business, and the pressure of increasing costs. Having reached the number one position in its own business circle, Sogo has set itself a new target: to compete with

other good department stores outside the business circle and also overseas. Thus, it has opened a new branch in Kao-Hsiung with a very large sales area and also a new, more specialised store in Taipei in 1996. Sogo has also placed an increasing emphasis on developing "value", for example in the promotion of arts activities. This approach has enabled the company to earn itself a high reputation as a company which cares about contributing to society, and this has undoubtedly helped the company to maintain its leading position.

In general, Sogo may be defined as a *full* market orientation company. It embraces all components of a market orientation, not just one or two. Its superior performance certainly confirm that the implementation of such a market orientation is associated with excellent performance. In the research interviews, there was a great deal of evidence to show that the top managers had carefully thought out their analysis of the factors that contribute to the success or failure of a service industry, and had used this understanding as a basis for Sogo's own business strategies. For example, Mrs. L. J. Ding, Service Manager and Deputy Personnel Manager, provided the explanation summarised in Figure 5.5.1. It can be seen from this diagram that for Sogo, success in the service industry depends on five key factors: high customer satisfaction, a low rate of movement of customers to other department stores, high profit, high service personnel satisfaction, and a low rate of resignation of service personnel. It is to Sogo's great credit that the company has succeeded in achieving all these five targets simultaneously.

Figure 5.5.1 The success or failure of a service industry



Furthermore, Sogo has developed a very comprehensive view of effective market positioning. This is based, first of all, on the recognition that there are four major *flows* in a business - information (between producers and consumers), commercial (sales transactions: promotion and orders), material (the distribution of merchandise) and money (payments) - and that the efficiency of these flows must be optimal if the business is to succeed. (See Table 5.5.4) This in turn requires the support of other organisations and agents outside the company: for example, the material flow requires the support of the transportation industry, and the money flow needs the support of the banks. What this shows is that Sogo has a very clear

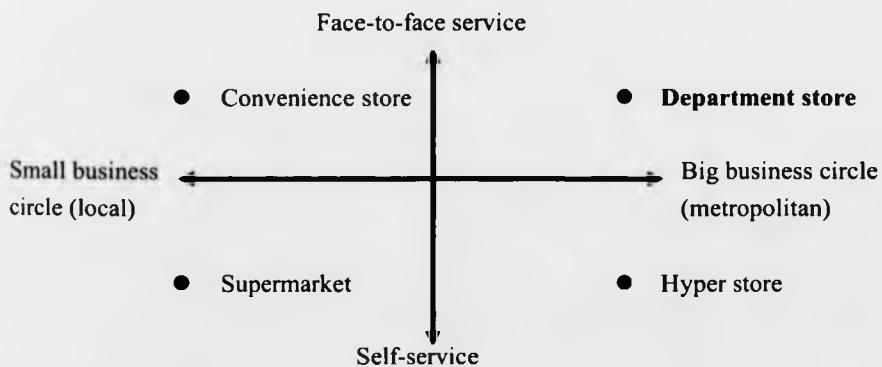
conception of its place within the broader business and social environments.

Table 5.5.4 The commercial behaviour and the four flows

<i>Four Flows</i>	<i>Commercial behaviour</i>	<i>Producers</i>	<i>Whole-salers</i>	<i>Dealers</i>	<i>Consumers</i>
1. Information flow	● The needs information		←	←	←
	● The merchandise information	→	→	→	→
2. Commercial flow	● Promotion	→	→	→	→
	● Order	←	←	←	←
3. Material flow	● Distribution	→	→	→	→
4. Money flow	● Payments	←	←	←	←

Source: Sogo

Figure 5.5.2 The relationship between business type, service type and the size of business circle



Source: Sogo

Secondly, effective market positioning requires the store to bring its business type, service type and size of business circle into balance, (see Figure 5.5.2) and, at the same time, to establish a close relationship between business type, the

characteristics of commodities and consumption activities (see Table 5.5.5). For example, Sogo sees itself as a department store for all ranges of customers, and it therefore sells high-class and middle-range commodities.

Table 5.5.5 The relationship between business type, the characteristics of commodities, and consuming activities

Business types	Population of business circle	Characteristics of commodities	Consuming activities
Convenience store	6,000	daily used commodities	Purchasing in the near
Supermarket	6,000 - 40,000	daily used commodities	Purchasing in the near
Hyper store	40,000 - 300,000	daily used > non-daily used	In the middle (between)
Local department store	0.3 - 1 million	daily used < non-daily used	Comparative purchasing
Metropolitan department store	over 1 million	Fashion commodities	Comparative purchasing

Source: Sogo

One of the most remarkable features of Sogo's success is that it spends a lot of money on sales promotion (about NT\$80 million per year), but this figure is a small proportion (about 0.8 per cent) of total sales. As Mr. K. R. Lee, Manager of the Sales Promotion Department, explained: "Normally, the sales promotion expense of a department store is between 1.2 per cent to 1.5 per cent of its total sales. As our sales are higher than other department stores, the proportion of our sales promotion expense to sales is relatively lower". (Ref. B.4.1.5) Sogo's effective advertising has certainly played a major part in securing the company's excellent performance, since it has helped to strengthen awareness of Sogo in the east business circle of Taipei, but the availability of a large sales space has also been crucial. Generally, in Taiwan, the larger department stores have tended to grow more rapidly than the smaller or medium-size stores. In addition, Sogo has boosted its sales through the issue of its own store card, which now account for about 30 per cent of total sales, and also co-

operative arrangements with other credit card companies such as Visa and Diners Club. It also arranges regular special exhibitions and displays, e.g. world-class fashion and jewellery shows. Many additional events are deliberately linked to Taiwan's cultural characteristics, e.g. through art exhibitions, educational classes and seminars - all indicating Sogo's strong societal orientation. The result of all these strategies is that Sogo has achieved a 20 per cent market share in Taipei city and is on its way to achieving its goal of a 25 per cent market share.

In general, as Mr. Wang made clear (Ref. B.4.1.8), Sogo understands the importance of exploiting the five key characteristics of a department store: an attractive, fixed location; an emphasis on female customers; fixed expense (which means that the break-even point is crucial); an emphasis on store image (through advertising, a corporate identification system, customer satisfaction and sales promotion); and the development of human resources through education and training programmes (since first-grade employees are vital for building a first-grade store image and achieving a first-grade performance through excellent service quality). The second of these factors is especially interesting: 85 per cent of the store's customers, generating 75 per cent of successful transactions, are female. Mr. Wang added that "female customers easily get emotional and excited when buying goods. This is the reason why department stores emphasise the display design and shopping layout. These are all for the sake of female customers' emotional shopping". (Ref. B.4.1.8) For all its customers, Sogo recognises that there are four steps in the "sales sequence": the development of customer awareness, then customer trust, the coming of customers to the store, and sales transactions. (See Table 5.5.6)

Table 5.5.6 The sales sequence for a department store

No.	Sales Sequence	Measurement Formula	Main method (Major means)
1.	awareness ↓	Rate of awareness = Number of people aware of the store / Population of the business circle	Advertising
2.	trust ↓	Rate of trust = Number of people trusting the store / Number of aware people	Corporate image (CIS)
3.	coming to store ↓	Rate of people's coming to store = Number of people coming to store / Number of people trusting the store	Store image (CS)
4.	transactions	Rate of transactions = Number of people purchasing / Number of people coming to store	Sales promotion (SP)

Source: Sogo

Perhaps the most striking feature of Sogo's overall business operations is that the company has a definite long-term vision of its successful future, and this vision is embraced by the whole company from top to bottom. However, for any company which has achieved success, there are always dangers that new problems will emerge. Today, Sogo faces a number of operational problems: a high rate of employee mobility; severe competition from other department stores and other types of business; and the pressure of increasing cost. Also, as the life styles and purchasing behaviour of the store's customers change, the store must also adapt. Past experience suggests that the company will indeed continue to flourish for many years to come.

5.6 CASE 8 – PRINTEMPS

Printemps Taipei is the newest of the department stores included in this study (it was founded in 1994). Accordingly, many of the comments about the store offered in this section refer to very recent experience, and in many respects it is too soon to assess the long-term development of the company. The main challenge facing Printemps in

1994 was to begin to establish a business circle from nothing in the east district of Taipei (on the east of Tonlin's business circle), which in itself was arguably not an ideal location. The company took the risk of establishing an elegant European-style department store (as a joint venture with an international French department store) at a time when the mainstream style was Japanese and/or native Taiwanese. The intention was to build a community department store catering for the needs of the increasing number of local residents, but also to expand the sale of own brand commodities for which there was a more international, cosmopolitan demand. Unfortunately, it was clear from the start that Printemps, as a single department store, could not easily achieve the economies of scale to import merchandise from Europe. Therefore, Mr. Wang, the Chairman, soon decided that he would like to establish a second store in Tao-Yuan, north of Taiwan.

Although Printemps itself was a new store, Mr. Wang, the Chairman, was also a co-founder and director of Tonlin, and thus had some considerable experience of the department store business. Indeed, Tonlin had successfully created a business circle from nothing the east district of Taipei city (see Section 5.4). Printemps, like Tonlin, was founded on the assumption that there would be impressive future development in east Tapei and the surrounding region, and this would result in a high level of customer demand for department store goods and services. Already, in 1996 the Taipei city government had moved from central to east district of Taipei and many new construction projects had been initiated. Shortly after Printemps was opened, however, it became clear that competition among department stores was becoming fiercer, so, from the start, Printemps had to decide how to respond to this change in the business environment. One of its key guiding principles was that by offering a European-style, international department store in a relaxing and tasteful environment,

those customers who were not satisfied with Taiwanese and Japanese commodities and style, and who might otherwise go to Hong Kong, Europe and the United States, would be attracted to the new global image of Printemps. The aim was therefore to achieve long-term profitability, since a short-term perspective would be of little value in this rapidly changing business environment.

From the start, Printemps, under Mr. Wang's leadership, emphasised a strong customer orientation. This is clear in the many expressions of its (i.e. Mr. Wang's) business philosophy: "To take good care of the customers and offer the best services ... To offer reasonable prices to customers ... To satisfy customers is the first thing you need to do ... The department store does not have any assets such as property and funds. Customers are the assets ... You have to know your position and customers clearly. You have to follow the customers' needs." While Printemps clearly believes that a strong customer orientation will lead to the desired performance and long-term profit, it is not easy, at this stage, to judge whether this is actually confirmed by the company's results so far. Undoubtedly, the company has created large profits for its investors, but this is mainly because of the rapid appreciation of real estate values: from about NT\$450-600,000 per ping to NT\$2-3 million (in 1996). In terms of sales revenue, Printemps initially found it difficult to achieve its targets. For example, its planned sales revenue in 1995 was NT\$3.00 billion, but its actual revenue was NT\$2.12 billion, reflecting the worsening economy and the increased competitiveness of the department store business in east Taipei. Yet, despite these difficulties, Mr. Wang was confident that the department store sector in Taiwan was still growing rapidly in the mid-1990s - by about NT\$3 billion per year: "This volume is big enough to open a new large department store every year, and without affecting the existing department stores. Throughout the last ten years, no matter whether the

economy was good or bad, there was always a growth above 10 per cent per annum in department store business.” (Ref. B.5.1.1) As the life-styles of the Taiwanese people changed, so their demand for new kinds of goods and services also changed. Thus Mr. Wang believed that Printemps should respond to these changes - for example, the demand for more sporty and casual clothes, leisure products, houseware and food products.

Printemps has been quick to learn that the display of merchandise and the merchandise mix in the store has a big impact on sales. Thus, Mr. Wang cited the example of moving some goods from the fourth to the first floor, and as a result sales revenue increased twenty times. The store has placed a lot of emphasis on creating a “softer” look in its shopping areas by utilising a light and pleasant atmosphere, quite different from the “harder” and monotonous look of Japanese stores. This is a good example, therefore, of a new department store seeking to attract customers by offering not only reasonably-priced goods of high quality but also by making the whole shopping environment unusual and attractive.

CHAPTER 6 INTEGRATED DATA ANALYSIS

- 6.1 Introduction
 - 6.2 Comparing Market Orientation: Firms and Sectors
 - 6.3 The Expression of Market Orientation in Business Philosophies
 - 6.4 The Business Philosophies of the Food Manufacturing Companies
 - 6.5 Inter-Firm Comparisons: Food Manufacturing
 - 6.6 The Business Philosophies of the Department Stores
 - 6.7 Inter-Firm Comparisons: Department Stores
 - 6.8 Inter-Sectoral Comparisons
 - 6.9 Summary
-

6.1 INTRODUCTION

The purpose of this chapter is to bring together the research data for the eight case study firms (as presented in Chapters 4 and 5) and to offer a series of inter-firm and inter-sectoral comparisons in order to illuminate the varied ways in which the top managers' varied understanding of market orientation has found expression. The central argument of this chapter is that the idea of market orientation is a very general and even vague construct, and that in practice firms understand and apply this idea in many different ways, according to their particular circumstances. To take an example, two companies may both appear to have a strong market orientation, but this is given expression in different ways and with different degrees of success. This is largely because any firm seeking to implement a market orientation still has to make specific strategic choices about its own particular position vis-à-vis customers and competitors. There is no such thing as a single market orientation for all firms in a particular economic sector. Each firm has its own unique relations with its internal and external business environments, and the variations between firms in terms of geographical

location, size and structure of organisation, type of business, financial priorities, competitive advantage, etc. mean that for each firm the pursuit of a market orientation presents its own challenges. Furthermore, even if two or more firms have strong market orientations, there are still likely to be significant differences in their business performance. Much will depend on the particular strategic and operational decisions taken by firms to enhance their competitive position in the market.

In section 6.2 some of the basic problems of comparing market orientation between firms and sectors are reviewed. In section 6.3 the importance of business philosophy as an expression of market orientation is discussed. In section 6.4 the place of market orientation in the business philosophies of the food manufacturing companies is discussed in some detail. Section 6.5 offers some inter-firm comparisons among the food manufacturing companies. Section 6.6 considers the place of market orientation in the business philosophies of the department stores. Inter-firm comparisons for the department stores are offered in section 6.7. Inter-sectoral comparisons are presented in section 6.8, and a summary (6.9) brings together the main points of argument.

6.2 COMPARING MARKET ORIENTATION: FIRMS AND SECTORS

6.2.1 The Definition and Components of Market Orientation

The idea of market orientation, as it has been developed in the (mainly Western) research literature has been interpreted and operationalised in many different ways (see section 2.2). The key issue to be addressed here is whether, and in what ways, this

idea is useful for understanding the actual business practice of the case study Taiwanese firms. Following the mainly qualitative methodology of the present research, the emphasis has been on investigating whether the senior managers of the case study firms display a clear understanding of what market orientation means (even if they do not use the actual words "market orientation"), and, if so, how that awareness is translated into business strategy. Since the research concentrates on two specific sectors (food manufacturing companies and department stores) and includes a number of different companies in each sector (three in food manufacturing and five department stores), the possibility arises that the significance of market orientation will vary from company to company within each sector, and also between sectors. The latter comparison may also point to some significant contrasts between the applicability of the market orientation idea to the manufacturing and service sectors more generally. (Most existing research has concentrated on manufacturing firms.)

For the purpose of this research, the construct of market orientation has been disaggregated into three major behavioural components, designated in the terminology of Narver and Slater (1990) as: customer orientation, competitor orientation, and inter-functional co-ordination. Put more simply, in the words of Roger J. Best (1997: 9), "Market orientation means a strong focus on customers and competitors, and working well -- across functions -- in order to deliver customer solutions that are superior to those of the competitor". Profitability, which some commentators have seen as a further component of market orientation (Deng and Dart, 1994; Gray et al, 1998), is now generally viewed as a *consequence* of market orientation, but not a part of it (Levitt, 1969; Narver and Slater, 1990; Greenley, 1995a, 1995b; Kohli and Jaworski,

1990, who, in their literature review found that profitability is viewed as a component of market orientation, but in their field data found that it is viewed as a consequence of market orientation). It is obviously the case that profitability is a key goal of any commercial organisation, and one of the issues which must be considered is whether and how the adoption of a market orientation enhances profitability. However, profitability itself is better described as one of two major "decision criteria" -- the other being a long-term focus -- rather than as a component of market orientation itself (Narver and Slater, 1990). In practice, the three components of market orientation are not mutually exclusive but can be mixed together in various ways, and the balance in the mixture can change over time. The important point to stress, however, is that, as a working hypothesis, it ought to be possible to examine both the *strength* of a company's (or sector's) market orientation and the specific *type* or *mix* of that orientation, allowing (as already indicated) that these indices can also change over time and are, in any event, not always *consistent*.

The suggestion by Kohli and Jaworski (1990) that market orientation involves "the organizationwide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments, and organizationwide responsiveness to it" is helpful because it concentrates on specific organisational activities that characterise market orientation. However, these dimensions are largely incorporated in the third of the components listed by Narver and Slater: inter-functional co-ordination. It is clear that a company wishing to strengthen its customer and/or competitor orientation must generate and disseminate relevant intelligence within the organisation and act upon that intelligence. Therefore,

for the purpose of integrated data analysis in this chapter, these specific issues raised by Kohli and Jaworski will be highlighted where appropriate but always within the framework of the following general understanding of market orientation:

A firm's market orientation is exhibited in the strength of its customer orientation, competitor orientation and inter-functional co-ordination.

6.2.2 The Links with Business Environment and Business Performance

Market orientation's relationship with business performance is a key issue in the context of the present research. Again, as a working hypothesis, based on the existing literature (see section 2.3), it may be said that the stronger a company's market orientation, the better the overall business performances is likely to be. It is precisely because market orientation is regarded by many analysts as the "key" to successful business performance that it is now receiving such widespread attention. In the context of the present *qualitative* research, we are primarily interested in whether the evidence resulting from questionnaires and interviews (supported by a study of relevant documentation) indicates a belief on the part of senior managers that business performance is indeed likely to be improved by a strong, successful market orientation of one kind or another. At the same time, a belief is one thing: it is also vitally important to find evidence that such a belief has actually been implemented effectively within the company. Indeed, throughout the previous discussion of the case study firms, the point has repeatedly been emphasised that it is pointless for a firm to proclaim that it has a market orientation if, in practice, that orientation is not effectively implemented (see Chapters 4 and 5). In terms of profitability (which is the

most commonly used index of performance), a large part of the problem lies in deciding how to measure profitability (e.g. over a short- or long-term period) and, even more importantly, how to relate profitability to its various market sources through customer-based, not just product-based, accounting data (Best, 1997: 390).

The link between business environment, market orientation and performance is a major issue in the literature (see section 2.4). There can be little doubt that market orientation is more important in a changing business environment, for the obvious reason that a firm must monitor changes in market conditions very carefully. Thus, as Kohli and Jaworski (1990) state, the relationship between market orientation and performance will be stronger in low-growth than in high-growth environments, since in such circumstances a firm can only enhance performance and profitability by its improved capacity to satisfy customers' needs more effectively than its competitor firms do. Similarly, as Day and Wensley (1988) stress, in a market with a low concentration of competitors, the main content of market orientation should emphasise customers; but with a high density of competitors, the focus needs to be on a competitor orientation. In other words, according to these views, the environment "moderates" the market orientation-performance relationship; and it follows that managers are advised to change the content of market orientation (especially the balance between a customer and competitor focus) as the environment changes.

6.2.3 Explaining Variations in Market Orientation

Another general issue that arises is that if differences between firms and/or sectors in terms of the strength and type of market orientation are observed, then these

differences need, as far as possible, to be explained: why do such differences arise? On this particular question, the qualitative approach adopted in this research ought to reveal useful information, since it is much more able than a quantitative approach to reveal aspects of managers' thinking and frames of references. Clearly, one vitally important consideration in this respect is that if a firm is not market-oriented, or is only weakly market oriented, then we must assume that there is another kind of orientation (e.g. production, sales, societal) – or mix of orientations -- which characterises the firm in question (Payne, 1988; Wong and Saunders, 1993; Deng and Dart, 1994). As already noted in section 2.5, there have been suggestions in the literature that firms develop and change their orientations in sequence across time, largely in response to changes in the business environment and also to reflect the impact of their own increasing growth. If this is so, then the ability to put the emergence of market orientation into some longitudinal context is of obvious importance. Again, it is to be hoped that the present comparative study of firms and sectors will enable some historical observations to be formulated.

However, it must be stressed that the two sectors under consideration here – food manufacturing companies and department stores – are quite different in some important respects. In particular, a manufacturing company sells its products to wholesalers (traditional sales channels) and retailers (new sales channels), who in turn sell them to end users. By comparison, department stores are retail outlets for other manufacturers. They sell directly to customers. Geographically, food manufacturing companies and department stores operate in different spatial contexts, and at the same time the individual firms in each sector have different sets of relations to particular

groups of customers and compete in overlapping – but not identical – product markets. All these variations mean that market orientation cannot be viewed as a single, monolithic construct applicable in exactly the same way to all companies in both sectors.

6.2.4 The Taiwanese Context

In the framework of the present research, all of these questions need be set within the specific cultural milieu of Taiwanese firms. There are important differences between Taiwanese and Western firms in terms of the basic values, norms and expectations which underpin business behaviour. Much has been written, for example, about the importance of social connections (*guanxi*) as a basis for Chinese business development, and the continuing influence of Confucian beliefs (see, for example, Yeung, 1998). Although a detailed analysis of these issues is beyond the scope of the present study, there are several specific implications of the Taiwanese cultural context which must be considered during this chapter. One example is the special importance attached by Taiwanese firms to their business philosophies and the respect shown by them to their founding fathers. This is one very important reason why it is important to extend the study of market orientation beyond the narrow confines of Western firms. Too many previous studies have been focused almost entirely on Western (especially American and British examples), which has all too often led to the unreasonable assumption that firms behave in exactly the same way in non-Western contexts. At the same time, as the present case studies have revealed, often Taiwanese firms have themselves imported business “know-how” from other cultures (e.g. from Japan and continental

Europe), and it is interesting to see how such cultural transfer has affected attitudes towards market orientation.

6.3 THE EXPRESSION OF MARKET ORIENTATION IN BUSINESS PHILOSOPHIES

As a general observation from the eight case studies previously described, there is clear evidence that in Taiwan, in both the sectors under investigation, senior managers have become increasingly aware of the importance of developing a market orientation. However, the precise ways in which they have tried to do this, and the degrees of success they have achieved, have varied. It should be stressed that in the case of Taiwan, this does not mean that the actual term "market orientation" is used by managers. Indeed, as can be seen from the data provided in the case studies, the term itself is not universally used (see Chapters 4 and 5). However, what is important is whether managers, in their own words, place an emphasis on the need to pay close attention to their changing customers' needs and their competitors' behaviour, and how far they are able to gear their firms' organisational resources to supporting this emphasis.

Of course, these questions in themselves are at a very high level of generality. It is very easy for managers to commit themselves to a rhetoric of customer- and competitor-focus, as expressed, for example in a firm's broad business/corporate philosophy (what the Taiwanese, like the Japanese, tend to call a "philosophy of business management"). What is more important is to look beyond such rhetorical statements to determine what precisely this rhetoric actually signifies in terms of actually business behaviour and practical strategy. As Gray et al. (1998: 884) have

pointed out, "Academics have been attempting to establish empirical support for the marketing concept for the past three decades ... Meanwhile, managers have been facing a complementary challenge: how to implement this cornerstone of marketing theory. Both groups appear to have had limited success in their respective endeavours. Part of the problem may lie in a failure to establish a generalisable model of market orientation and also the lack of a parsimonious model of market orientation which managers can use to pinpoint organisational shortcomings". In other words, managers may talk and write about market orientation, but what they need is a fairly precise set of market orientation "indicators" which they can employ in their own organisational contexts in order to strengthen their firms' market orientations. This is not easy, since it involves responding to both changing customer needs (in particular markets and market segments) and the changing behaviour of competitors who may themselves be seeking to strengthen their own market orientation.

This challenge also involves shifting the focus of Taiwanese firms' business philosophies from an *internal* focus (on guidelines for employees' behaviour, the managers' and employees' operational or management principles, and the expectations of the founders or top management, etc.) to a more distinct *external* focus (on the market) in which the *marketing concept* is applied in a full-scale market orientation (and not just to the activities of the marketing department). If marketing management is the conscious effort to achieve desired exchange outcomes with target markets (Kotler, 1991; Deng and Dart, 1994), then Taiwanese firms have traditionally not incorporated such a focus in their business philosophies. In this sense, their business philosophies have not generally been framed from a marketing point of view.

However, the present research has produced evidence that this limitation of Taiwanese business philosophies has been significantly reduced in recent years, and that now many more companies are consciously including a marketing focus in their statements about corporate principles, values and goals. At the same time, it is important to stress that the movement towards a market orientation does not imply the elimination of an internal focus. Indeed, as we have already noted, a key component of such an orientation is "inter-functional co-ordination" (see section 2.2), which means that a company with a strong market orientation must ensure that this orientation is implemented throughout the various departments of the organisation and not just (for example) within the marketing department.

The most "formal" statement of a firm's business philosophy (and hence its orientation) is in written documents and corporate slogans of various kinds. All eight of the case firms have issued clear statements of an explicit "business philosophy", and all except one (Printemps -- being a new company) have produced what they call "operating principles". In the case of Sogo, however, the so-called "business philosophy" actually includes some "operating principles".) Fewer case firms have produced sets of "management principles" (President and Tonlin) or "corporate statements" (President and FEDS). These seem to be mainly a feature of older companies, especially those seeking to become internationalised. The "corporate statement", in particular, seems to be used mainly for the benefit of interested foreign parties. Only one food manufacturing firm (President) has a "business slogan", but only one of the five department stores (the newest: Printemps) does *not* have such a slogan. (See Table 6.1)

Table 6.1 Comparison of the business philosophies of the case firms according to their original expressions

<i>Case Firm</i>	<i>Business Philosophy</i>	<i>Operating Principle</i>	<i>Management Principle</i>	<i>Corporate Statement</i>	<i>Business Slogan</i>
Wei-Chuan	✓	✓	x	x	x
President Standard	✓	✓	✓	✓	✓
FEDS	✓	✓	x	✓	✓
Shin-Shin	✓	✓	x	x	✓
Tonlin	✓	✓	✓	x	✓
Sogo	✓	✓	x	x	✓
Printemps	✓	x	x	x	x

✓: yes x: no

It must be emphasised that these differences of nomenclature are formal and official, but differences of form can be revealing. As Ledford et al. (1995) point out, such statements reflect distinct organisational and national cultures. Thus, among the present case study firms, business slogans are more common in the department store (service) sector. This undoubtedly reflects the kind of business activity in which these firms are engaged. Also, in Taiwanese companies there has long been a tendency to recognise the supremacy of the founding fathers' own philosophical outlooks: "Upon the whole, the idea and opinion of the boss is very important to his company. Any of his ideas and opinions will guide his subordinates" (Mr. Cheng, Director of Operations, Standard, Ref. A.3.3.2). To a large extent, this explains the emphasis in Taiwanese firms on having an impressive business philosophy. It is also worth noting the absence in Taiwanese firms of the Western idea of a "mission statement".

One key question is whether we can rely on these formal statements of philosophies, principles and slogans to tell us anything significant about a firm's actual business orientation. There are two major problems here. First, these statements

are often quite old and have not been modified very much since the original founding fathers first enunciated their beliefs. This means that they can be "out of touch" with the actual operation of the firm in question. Secondly, the statements are extremely general, vague and (often) platitudinous. For this reason, an effort was made in the present research to determine whether, in practice, the statements of business philosophy accurately capture the firms' operational orientations, and, more specifically, to discover the evidence for an actual developing market orientation. One of the important clues here is provided by changes in a firm's business philosophy, and the reasons for those changes, since such changes may clearly point to a conscious effort by the firm in question to modify its business operations, e.g. in response to changes in the business environment.

6.4 THE BUSINESS PHILOSOPHIES OF THE FOOD MANUFACTURING COMPANIES

To begin with, if we consider the three food manufacturing companies -- Wei-Chuan, President and Standard -- major changes can be seen in the development of the first two companies' business philosophies over time (under the impact of a changing business environment), but the third company is still a young company and therefore its business philosophy has remained more or less the same.

6.4.1 Wei-Chuan

The first company, Wei-Chuan, emphasised a production orientation from the early 1950s to the mid-1970s, a sales orientation from the mid-1970s to the mid-1980s, and a marketing orientation from the mid-1980s onwards. Furthermore, the

research interviews revealed that this marketing orientation is firmly focused on customers and not competitors. The company makes a major effort to meet the changing needs of its customers in terms of the products it sells. There can, indeed, be little doubt that such a focus has become increasingly necessary in Taiwan's food manufacturing industry as a result of the society's economic growth, changing lifestyle patterns, increasing awareness of environmental concerns, and the enhanced competitiveness of the industry. As Mr. Lin, Factory Manager, frequently stressed, the problem in food manufacturing is not how to produce something but how to sell it. At the same time, Mr. Lin acknowledged that his company's movement towards a marketing orientation came rather late -- certainly later than that of the major competitor, President.

We must also consider what exactly Wei-Chuan understands by a "strong marketing orientation". In other words, what are the precise instruments used by the company to put such an orientation into practice? The main emphasis has so far been on developing joint-venture supermarkets with a Japanese company, the establishment of a new marketing company, and co-operation with an American convenience store. (This underlines the fact that for food manufacturing companies, the choice of sales channels is vitally important, and there has been a dramatic impact in Taiwan of American, European and Japanese types of store.) Such innovations take time to implement and, in the short-run, money may be lost. Because Wei-Chuan started to embrace a strong marketing orientation at a time when the Taiwanese economy was going through a downturn, it found that there were many problems to be overcome, and the investment in new sales channels was not very successful: its investment in the

AM-PM convenience store business lost money and the store was closed in 1997. The research interviews also revealed evidence that the new business philosophy was not fully disseminated and understood throughout the whole company. Thus, Mr. Chen, Assistant Vice President, repeatedly underlined his company's emphasis on sales, not marketing, and actually stated that the company faced difficulties in gaining more customers. Furthermore, Mr. Chang, Vice President, expressed the view that the company had now entered an era of materials flow and commercial flow orientation: "The final winner is the one who controls the sales channel".

We have also noted Wei-Chuan's strong commitment since its establishment to a societal orientation, as is shown in its charitable work and its support for research in infant nutrition. However, the company does not seem to disseminate this virtue to the public. This comes from the Chinese tradition of virtue. As another senior manager, Mr. Lin, said, "We do not especially announce those charitable works to the public. Maybe this is our Chinese virtue which is "doing good things to others -- we do not want anyone to know it"". Accordingly, Wei-Chuan's managers do not emphasise that the company has a societal orientation. Also noteworthy is the company's cautious "safety first" approach to risk-taking: there can be no doubt that Wei-Chuan has been managed in a generally cautious and conservative manner, an approach which has placed limits on the nature and scope of its marketing orientation. This conservatism reflects the ongoing influence of the company's old founding father and his son, and is reflected in only fair, but not outstanding, business performance. As a result, the company has lost its leading position in the industry. This evidence shows that it is not enough to speak the language of marketing and customer orientation; it is also

necessary to implement such an orientation professionally, effectively and wholeheartedly, and to get the timing right. "Marketing orientation" (or "customer orientation", to use Wei-Chuan's preferred phrase) in itself does not mean much: the words must be carefully interpreted and implemented, and the idea's underlying values must be disseminated throughout the whole company. Wei-Chuan's record suggests that it would be more accurate to describe its customer orientation as moderate rather than strong. Also, the different components of market orientation (customer orientation, competitor orientation, inter-functional co-ordination) all have a role to play. In this respect, it seems that Wei-Chuan has not learned much from the more aggressive style of its major competitor, President: the second of our three food manufacturing cases.

6.4.2 President

Like Wei-Chuan, President has changed its business philosophy since the period of its foundation (1968-1973): from production to sales and from sales to marketing and (now) what we might call a societal-marketing orientation. These changes correspond to the evolution of the company through periods of foundation, growth, the creation of a business grouping, and internationalisation. President's success in becoming Taiwan's premier food manufacturing company and an impressive multinational conglomerate offers us an excellent opportunity to see whether this success has been linked to the company's growing commitment to market orientation. Like Wei-Chuan, President has had to respond to changes in Taiwan's business environment. However, President's adaptation has been much more systematic, effective and more clearly

understood at all levels of the organisation -- mainly because of a comprehensive education and training programme for employees.

With the growth of competition in the food manufacturing industry, the increasing strength of consumers' changing demands, and Taiwan's increasing prosperity, President quickly learned that products had to be not just manufactured but sold. This required attention in particular to the viability of existing sales outlets to stock, display and sell the necessary range of goods that customers wanted. At the same time, the limitations of a purely sales orientation became obvious in the late 1970s/early 1980s, and the company recognised the need to focus on both customers and competitors in the broader context of a marketing orientation. Changes of this kind are never easy to implement, and President is no exception: there were evident tensions within the company (e.g. between the sales and production departments) that had to be resolved speedily and efficiently. This was done largely by establishing the marketing concept firmly within the company's headquarters and each business group, by developing the President Chain Store Corporation, and by implementing many high-profile social programmes that have strengthened the image of the company as a societal-marketing business. President's major competitive advantage has been its strong sales channel (with about 1,800 convenience stores in 1996). At the same time, the company has implemented highly effective strategies of working together with other companies - both competitors in the food manufacturing industry and non-competitors in other businesses - to form alliances, e.g. for the procurement of raw materials (with competitors) and in developing sales outlets (with non-competitors). All this evidence shows that there are many different ways to design and implement a

market orientation, and that such an orientation -- *in itself* -- is no guarantee of success. It all depends on how well it is carried out in practice.

As Taiwan's economy has become more internationalised and liberalised, President has recognised that the nature and scope of competition in the food manufacturing sector has also changed, and that "market orientation" now means not simply an orientation towards the national market, but rather an orientation to the international market. This is something which Wei-Chuan has not really grasped to the same extent. At the same time, Taiwan's own domestic market has itself become subject to stronger competition from large international business groups. Thus, President has sought to become more of a multinational company and has also started to undertake strategic alliances across national borders. It has developed a particular enthusiasm for expanding into the mainland Chinese and southeast Asian regional markets. In doing this, the company realises that the whole business environment is also becoming more global than ever before. It means, for example, that President needs to concentrate on marketing strategies geared to different market segments, especially the key accounts and traditional retailing markets. In this way, designing and implementing an appropriate market orientation is becoming extremely complex, but, in general, President is proving to be remarkably successful.

President is also a very good example of a company that realises the importance of supporting a strong market orientation by effective organisational leadership, co-ordination and control. This points to the importance of inter-functional co-ordination as one major component of market orientation. At the same time, the company has recognised long-term profitability as the key business goal. Where

necessary, it has been willing to suffer short-term losses, e.g. in its investment in the 7-eleven convenience stores, and to move away from its own-brand products towards managing a highly successfully convenience store business stocking many other brands, and undertaking a joint venture with the French Carrefour Hyper Store. The company has learned that it is vitally important to build up market share, even if, in the short term, there are financial losses. This is especially important as the overall market for food products, nationally and internationally, grows. Needless to say, none of this dynamism would have been possible without the creativity and radical outlook of President's three consecutive leaders. By comparison, Wei-Chuan's leadership has been conservative and unimaginative. Presidents' success has led to high levels of profitability and the resulting ability to re-invest in extensive educational and training programmes for employees.

6.4.3 Standard

The third food manufacturing company -- Standard -- is a relatively new company, there has not therefore been sufficient time for it to modify its business philosophy. However, it is interesting to note that from the time of its foundation, Standard committed itself to a strong market orientation. In the short time of its existence, the company has turned around a serious financial loss under its American mother company (Quaker) to a high level of profitability as an independent Taiwanese company. It has done this by emphasising the product positioning of high-quality, high-price goods. It has recognised an increasing demand for such goods in the market and has sold them through the new sales channels (convenience stores,

supermarkets, hyperstores) that have been imported into Taiwan as a result of European, American and Japanese influence. It has been able to do this partly because it did not originally have a sales channel of its own: an apparent disadvantage which Standard successfully turned to its advantage.

The emphasis on high-quality, high-price products has enabled the company to look for long-term growth and high profitability; and this mission has been embraced by senior managers and disseminated effectively throughout the company (thereby achieving a high level of inter-functional co-ordination). High profits have in turn enabled the company to invest in company education and training programmes and creating a strong culture of dedicated hard work. However, more recently, with the growth of internationalisation, the company has had to face major new challenges. For example, expansion into the mainland China market is difficult because living standards on the mainland are relatively low, and therefore the demand for Standard products is limited. Sales in this market depend on keeping prices at lower levels, but this obviously reduces profitability. On the other hand, in the long term this might be an acceptable price to pay for strengthened market share. Equally problematic is the issue of production volume: since the Chinese market is so large, the production system created in Taiwan is not likely to be adequate. This is a timely reminder that even in the age of strong market orientation, issues of production cannot, of course, be ignored, especially as the market increases in size.

One of Standard's great strengths is that it has devoted a lot of resources to developing efficient methods of strategic analysis and market research (e.g. SWOT analysis and customer surveys), and to disseminating the resulting knowledge

throughout the whole company and thereby to its "internal" customers. It has come to focus on identifying specific patterns and variations of consumer behaviour throughout Taiwan (in particular local markets) and also in mainland China, and to meeting distinctly local needs through a its flexible production system. In these ways, the company prides itself on having an "integrated marketing orientation".

6.5 INTER-FIRM COMPARISONS: FOOD MANUFACTURING

It is clear from our comparison of the three food manufacturing companies that in recent years each of them has made a determined effort, under the impact of major changes in the business environment, to adopt a stronger market and/or marketing orientation in preference to a production or sales orientation. In practice, this has meant paying more attention to the specific market forces which are shaping customer demand, to the importance of market segmentation, to the growth of internationalisation, the transformation of sales channels, and to the strategies of competitors. It has also necessitated trying to make sure that internally the organisation is equipped to implement fully and effectively the market orientation idea. In practice, however, the three companies have set about these tasks in somewhat different ways, have analysed their particular markets differently, have chosen different strategies and tools in an attempt to achieve a strong market orientation, and have achieved different levels of success. These variations have themselves resulted from the different developmental backgrounds of the companies, their different organisational cultures and structures, different patterns of leadership and management, the varying impacts of past traditions and influences going back to the companies'

foundation, and the impact of environmental problems. In other words, "market orientation" is an eminently flexible, and in some ways, unduly vague concept which must be defined more precisely with reference to each particular company under review. It embraces a number of different components (customer orientation, competitor orientation, and inter-functional co-ordination), and each component contains several dimensions. For example, "customer orientation" as a term does not, itself, tell us very much. In practice, it can mean several different things depending on the specific tools which are employed and the specific goals which are set.

The main issue, therefore, is what exactly does "market orientation" mean to each case study company and how is that meaning been expressed in the company's business philosophy, actual business strategies (choice of market orientation goals and tools), and internal organisational processes. In addition, the external contextual factors which have stimulated firms to embrace a market orientation and have shaped the precise content of their market orientations need to be identified, and the impact of market orientation on business performance needs to be assessed. This agenda thus provides us with several analytical foci which need to be linked together within the framework of the market orientation "model" outlined above. In order to facilitate inter-firm comparison within the food manufacturing sector, we may present the major foci of investigation as follows:

Focus 1. The overall strength of market orientation: to what extent is the firm's management market-based? Evidence from (1a) the firm's business philosophy and (1b) the firm's actual behaviour.

Focus 2. The relative strengths and weaknesses of the three main components of market orientation: (2a) customer orientation, (2b) competitor orientation, (2c) inter-functional co-ordination.

Focus 3. The link between the actual strength, scope and content of market orientation and business performance.

Focus 4. The extent to which this link is moderated by the changing business environment.

We shall take each of these four foci in turn and compare the three food manufacturing companies under each heading and sub-heading.

6.5.1 (Focus 1) The Overall Strength of Market Orientation

The first problem that arises here is that the actual concept "market orientation" is not always used by company managers in Taiwan. Accordingly, one of the key aims of the research was to discover through the process of interviews how the managers actually described -- in their own words -- their companies' orientation towards the market as an external focus of the companies' activities, as opposed to an emphasis on a sales, production or societal orientation. In terms of the comparison of the three food manufacturing companies, it seems clear that in general they have all come to understand the importance of a market orientation more and more in recent years. However, we need to look at this in terms of both (a) business philosophy and (b) actual business behaviour, since there might easily be a gap between (a) and (b). There is clearly no point in embracing a market orientation in terms of business philosophy if it is not actually applied in practice. In considering the interview data, therefore, we

are looking for each of the two components, which we shall refer to as research foci 1a and 1b. The main findings may be summarised as follows:

Focus 1a. *Market orientation in business philosophy.* Of all three food manufacturing companies, President has most clearly and unambiguously recognised market orientation as a key component of its business philosophy. This recognition was clearly voiced in the research interviews and the actual term "market orientation" was used several times, usually with the more specific meaning of "customer orientation" or "consumer orientation". There was a strong awareness among the interviewees that the business environment in Taiwan has changed dramatically and that President can no longer operate, as it did in the past, on the basis of a production or sales orientation. The company has willingly reviewed its business philosophy every ten years and has sought to modernise it. Wei-Chuan, by contrast, is an old, more conservative company which has not formally modified its original business philosophy. Wei-Chuan does not include any market orientation statement (such as customer orientation, competitor orientation, and interfuctional co-ordination) in its business philosophy. But it does have statements (Ref. A.1.3) about a stakeholder orientation. In the present study, we found that Wei-Chuan's senior manager has a great interest in marketing orientation (but not market orientation; not one senior manager used this terminology). At the same time, Wei-Chuan has not formally modified its original business philosophy, so it does not include any statement of market/marketing orientation in its business philosophy. Since the old founder is still alive and in charge of the company, it is not possible to change its formal business philosophy. As one senior manager, Mr. Chen said, "Our

founder is still alive (85 years old) and the company is run by his son at present. He sometimes has a hand in the main decisions of the company. Nobody would dare to change the business philosophy of this corporation unless the founder were to pass away". (Ref. A.1.3) Standard, being a relatively new company compared to Wei-Chuan and President, has developed a strong market orientation which their managers call a "pure marketing orientation" or "integrated marketing orientation", and has not really had to face this problem. Mr. Billy Yang, the General Manager, insisted that it is not sufficient to consider consumer orientation by itself, and that he prefers to use the idea of *integrated marketing orientation*: "That is, we have considered consumers, the market, competitors' brands, and internal factors as a whole. It's not enough if we consider only the consumers. It's only one part of the whole." (Ref. A.3.1.11)

Focus 1b. *Market orientation in business behaviour*. We are here looking for evidence, in general terms, that the managers can point to changes in their companies' actual business behaviour which correspond to the market orientation philosophy. A statement such as "We cannot do business in the way that we have done in the past. We have now taken some actions" (Mr. David Yen, Assistant Vice President, Business Logistics Group) suggests that President is indeed a company which has tried to put its market orientation into practice. The most important examples of innovative business behaviour, according to the interviews with President's managers, are: product classification management (intended to identify the products that customers really want); systematic market research; changes in company management methods, leadership and corporate culture; and the creation of a MCR committee on the basis of

a production and seller alliance strategy. It is interesting to note also that President's managers self-rate their company's marketing effectiveness as superior (the highest possible rating), while Wei-Chuan's managers and Standard's managers rate their companies' marketing effectiveness as very good.

6.5.2 (Focus 2) The Three Components of Market Orientation

As we have seen, it has become a common practice in the literature to distinguish three major components of market orientation -- (a) customer orientation, (b) competitor orientation, and (c) inter-functional co-ordination. The first two point to an *outward* operational focus, the third to an *inward* focus. There can be no doubt that as far as possible firms need to maximise the strengths of all these components. As Gray et al. (1998: 900) point out: "Recent research by Greenley and Foxall (1997) suggests that companies with a multiple stakeholder orientation are likely to out-perform those with a single stakeholder orientation (e.g. those with a customer orientation). This suggests that companies may require more than just a marketing philosophy or culture to be successful. Implicit in the market orientation concept is the suggestion that the actions and concerns of both the external market (customers and competitors) and internal market (functional areas beyond marketing) need to be considered. So, as to successfully implement the marketing concept may also require an employee orientation". This is a complex issue since it is also widely argued that the actual balance between the three elements should not be static but needs to be flexible if a firm is to adapt to business environment change. In terms of the three food manufacturing companies, we may summarise the major findings as follows:

Focus 2a. *Customer orientation*. It is our finding that all three companies have sought to develop strong customer orientations. However, in practice, there have been some significant differences between them because of different interpretations of the marketing concept and different views of the relative importance of short- and long-term performance criteria. The key issue is how these three companies have actually implemented their ideas about customer orientation. Standard, for example, was able to turn business failure into business success by deliberately targeting a specific market for high-quality health foods. In other words, it decided to concentrate on the needs of a particular group of customers for specialised products and to use all available sales channels for this purpose. President has adopted a different approach: utilising its large number of sales channels (convenience stores and hypermarkets, but not supermarkets), it has sought to provide a large range of generally low-cost essential foods that can satisfy the needs of typical families. Wei-Chuan has concentrated on selling a similar range of products to those of President and at similar prices, but it has not developed a network of successful sales channels, as illustrated by the failure of its AM-PM convenience store business. This evidence suggests that having a commitment to the principle of customer orientation is not in itself sufficient to guarantee business success. What is vitally important is whether a company can translate this commitment into effective actions in the market and can make the best use of marketing knowledge and techniques. We therefore conclude that the customer orientations of President and Standard may be described as strong, but Wei-Chuan's customer orientation is more accurately described as moderate (see Table 6.2).

Table 6.2 A comparison of food manufacturing case firms in terms of the degree of market orientation

No	Case Firms	Customer Orientation	Competitor Orientation	Inter-functional Co-ordination
1.	Wei-Chuan	Moderate	Weak	Weak
2.	President	Strong	Strong	Moderate
3.	Standard	Strong	Moderate	Strong

2b. *Competitor orientation.* We find that there are marked differences between the three companies: President has a strong competitor orientation; Standard has a moderate competitor orientation; Wei-Chuan has a weak competitor orientation (see Table 6.2). In the case of Wei-Chuan, the statement that "We don't need to care about competitors if we can satisfy the needs of our customers" (Mr. J. S. Chang, Vice President (Ref. A.1.1.1)) is particularly noteworthy. There can be no doubt that all three companies have attempted in their various ways to maximise their competitive advantage. In practice, however, not all companies have taken a broad, dynamic view of competitor orientation. Wei-Chuan, for example, has concentrated on its strong research and development (R&D) focus, but such a technological emphasis is no longer sufficient in today's highly competitive market. By comparison, President has made an effort to investigate the competitive environment much more systematically, and has emphasised the key role of its own sales channel in building competitive advantage, consistent cost reduction, strategic alliances, reasonably priced, high-quality products (made possible by economies of scale), employee training, as well as R&D. As far as Standard is concerned, the company really falls between the other two companies in terms of the strength of its competitor orientation, with an emphasis on R&D, engineering, employee training and (its managers suggest) its market orientation

(seen as an important part of competitive advantage). Most importantly, Standard has sought to exploit its emphasis on high-quality healthy food in order to enhance its competitive advantage over other companies.

Focus 2c. Inter-functional co-ordination. While many researchers see this as a major ingredient of market orientation (see section 2.2), the research interviews revealed that not all companies seem to recognise its importance. We find that Standard's inter-functional co-ordination is strong, President's is moderate, and Wei-Chuan, the oldest of the three companies, has only a weak inter-functional co-ordination (see Table 6.2). Indeed, in the research interviews with Wei-Chuan, two managers deliberately highlighted the company's weakness in this respect. Generally, inter-functional co-ordination becomes more difficult as a company's size increases. As one of Wei-Chuan's senior managers said, "Maybe, we are big company, and the efficiency of co-ordination between departments is not good" (Ref. A.1.17). To take a specific example, a non-marketing senior manager of Wei-Chuan complained that the company's sales department do not revise their sales plan even when the sales levels fall behind the planned targets, even though they can retrieve sales data from the computer. They often need to be pushed by the production department to undertake this action. By contrast, Standard's strong inter-functional co-ordination is successfully achieved through its product positioning activities. As General Manager Mr. Yang said, "... if your product has a clear position, the product is segmented to fit certain consumers. The sales department can very easily promote the product to the focused customers. The marketing department can easily define its strategy, advertising, production and so on. Actually, the positioning is related to

many things. Have it done well, and everything is fine" (Ref. A.3.1.9) What these three cases suggest is that in developing a strong market orientation, a company needs to pay due attention to its internal organisational capacity to implement that orientation fully and effectively. This is certainly true in seeking to achieve competitive advantage, because in order to do that a company must integrate all the company's internal operations towards that goal. Equally, if customers' needs are to be met, a company must be able to produce goods of the necessary quality. Thus, the internal-external relationship is of the utmost importance.

6.5.3 (Focus 3) The Link between Market Orientation and Performance

Both President and Standard have achieved remarkably impressive excellent business performances (according to actual financial data), but we believe that Standard's performance can reasonably be described as superior to that of President (very good). By comparison, Wei-Chuan's business performance has been only fair (see Tables 6.3 and 6.4). The research interviews have provided a strong basis for suggesting that strength in all three major components of market orientation is essential for good business performance. Wei-Chuan, however, combines a moderate customer orientation with only weak competitor orientations and inter-functional co-ordination. Thus, it is perhaps not surprising that its business performance has been disappointing. We would argue that if it is to improve its performance, then its managers should pay more attention to these two weak areas. President could certainly also improve its inter-functional co-ordination, and Standard could improve its competitor orientation.

There are some striking comparisons in Table 6.3. President's size in terms of turnover is huge compared with that of Wei-Chuan (moderately large) and Standard (small), and President's operating profit is also very large. But Standard, despite its small turnover, has achieved a growing profitability over the period in question (1991-1995) and in this respect has performed better than Wei-Chuan. The figures for ROE and ROA are superior for Standard, very good for President and fair for Wei-Chuan. Yet two of the three companies (President, Standard) have strong competitor orientations, while the third (Wei-Chuan) has a moderate competitor orientation. So why have their performances been so different? The variations in competitor orientation (strong for President, moderate for Standard, weak for Wei-Chuan) and in inter-functional co-ordination (strong for Standard, moderate for President and weak for Wei-Chuan) may be significant, but there are other vitally important reasons which must be taken into account. For example, Standard's remarkable success shows that a new, small company can move from failure to success by choosing the right marketing strategy (in this case, high-quality healthfoods). Different firms have different capabilities to implement a market orientation successfully: technological, economic, managerial, cultural and financial.

There is, however, another important issue which needs to be raised here: the discrepancy which often arises between a company's actual financial performance and the assessment of that performance by its managers using Kotler's marketing effectiveness rating instrument. Much seems to depend on the age, experience and position of the managers in question. In general, the managers of Wei-Chuan (an old company) overrated their firm's performance, the managers of Standard (a new

company) underrated their firm's performance, and the managers of President (a middle-aged company) assessed their firm's performance fairly accurately.

Table 6.3 Food manufacturing case firms' performance

- (1) Turnover (NT\$1,000);
- (2) Profit margin (pre-tax) (NT\$1,000);
- (3) ROE (%);
- (4) ROA (%)

Year Case Firms	1991	1992	1993	1994	1995
Wei-Chuan	8,484,437	8,658,893	8,905,465	8,788,702	8,783,397
	176,436	153,991	150,718	251,385	123,722
	3.39	2.70	2.58	4.22	1.42
	3.64	3.21	3.26	4.03	1.85
President	20,894,884	22,446,020	23,915,617	24,593,520	25,531,432
	2,169,096	2,485,187	2,870,820	*6,978,690	2,801,618
	22.07	18.74	18.48	35.66	11.07
	12.01	10.93	12.29	25.49	8.90
Standard	1,529,267	2,135,329	2,249,845	2,678,383	3,118,000
	233,366	329,757	422,908	461,422	574,000
	39.56	36.92	33.22	27.71	27.20
	23.16	25.94	26.70	23.34	21.85

*Revenue from disposing its investment.

It must be explained that in this study we have the financial performance ranking and Kotler's marketing effectiveness rating ranking levels. Therefore, for the purpose of comparison, a comparison table is needed. Using Table 6.6 we can compare Kotler's marketing effectiveness measures as rated by top managers shown in Table 6.5 to be equivalent to the ranking used for actual financial performance (see Tables 6.3 and 6.4). Table 6.7 shows a comparison of the difference between the top managers' self-rating performance by using Kotler's marketing effectiveness rating instrument and their actual financial performance as measured by their latest financial data (taking the five-year average ROE).

Table 6.4 Comparison of case firms' actual financial performance ranking (five-year average ROE): food manufacturing companies

Levels of Actual Financial Ranking	Food Manufacturing Case Firms	Sector ROE (%)
Superior	Over 24.10	Standard 32.92
Very Good	16.01 – 24.00	President 17.59*
Good	8.01 – 16.00	
Fair	0.01 – 8.00	Wei-Chuan 2.86
Poor	Under 0.00	
None	None	

* Four-year average, not including the figure for 1994 (when there was extra revenue from disposing of its investment). The average would be 21.20 per cent if this figure were included.

Table 6.5 The result of top managers' self-rating using the Kotler's marketing-effectiveness rating instrument: food manufacturing companies

Case Firms	Persons answering the rating instrument	Scores	Average Score	Level of marketing effectiveness
Wei-Chuan	3	22/17/23	20.67	Very good
President	5	28/19/23/ 21/21	26.00	Superior
Standard	2	24/25.5	24.75	Very good

Table 6.6 Comparison of performance levels using Kotler's marketing effectiveness ranking and actual financial performance

Performance Ranking Level	Kotler's Marketing Effectiveness Rating (Scores)	Actual Financial Performance (Five-Year Average ROE in Per Cent)
Superior	26 - 30	Over 24.10
Very Good	21 - 25	16.01 – 24.00
Good	16 - 20	8.01 – 16.00
Fair	11 - 15	0.01 – 8.00
Poor	6 - 10	Under 0.00
None	0 - 5	N/A

Table 6.7 A comparison of the differences between the top managers' self-rating performance using Kotler's marketing effectiveness rating instrument and firms' actual financial performance (five-year average ROE): food manufacturing companies

	<i>Case firms</i>	<i>Company age</i>	<i>Company size</i>	<i>Kotler's marketing effectiveness as rated by top managers (A)</i>	<i>Level of actual financial performance (B)</i>
A > B	Wei-Chuan President	Old Middle-aged	Large Large	Very Good Superior	Fair Very Good
A < B	Standard	Young	Medium	Very Good	Superior

A: Kotler's marketing effectiveness as rated by top managers

B: Level of actual financial performance

It would seem from the research data that the older top managers in the old company (Wei-Chuan) tend to exaggerate their performance compared with middle-aged top managers, while the middle-aged top managers in the young company (Standard) tend to be more modest in rating their performance. The middle-aged top managers in the middle-aged company (President) tend to rate their firm's performance more realistically. In order to explain these differences, it must first be appreciated that the middle-aged top managers have already accumulated a certain amount of management experience and knowledge. There have been more opportunities for them to develop their careers in young high growth companies. The atmosphere in a young company is full of vitality. The top managers do not necessarily think their companies are the best. They think they need to work harder to improve their company's performance. They are not satisfied with the current level of achievement. And they wonder if there is anything that they can do for the company to make it better. (See Sections 4.4 and 5.5) However, the old top managers in the large old companies tend to be satisfied with their achievement now and in the

past. The old company has less growth and less vitality. The top managers feel that their company is the best in the market. They do not think that they should pay much attention to their competitors. These may be the reasons why the old top managers of the large old companies rated their performance better than their actual financial performance. These findings may remind those old top managers of large old companies to take some action in order to improve their companies' vitality and thus improve their performance.

6.5.4 (Focus 4) Mediation by the Business Environment

As the business environment in Taiwan has changed, the food manufacturing companies have also had to pay more attention to market orientation, and to weight the individual components of market orientation. The research suggests that the major changes in the general and task environments for food manufacturing companies are as presented in Tables 6.8 and 6.9. It is these changes which have led directly to the growing emphasis on market orientation among food manufacturing companies. In terms of the general environment, item number 7 (Table 6.8), sales channel change, was seen by most managers as the key factor which has encouraged them to reconsider their marketing strategy. Concern was also expressed by President and Wei-Chuan about the impact of environmental protection laws (item 4) on firms' costs, and all three companies were also aware of the likely costs and benefits resulting from Taiwan's entry into the WTO. The future of relations between Taiwan and mainland China (item 1) was also a major issue for all companies, as each of them recognised the potential for business expansion offered by greater access to the mainland market.

In terms of the task environment (Table 6.9), the threat of new entrants (item 2) was regarded as a major concern, mainly in relation to Taiwan's membership of the WTO. No company mentioned item 3 (the threat of substitute products or services), which reflects the fact that this is not a high-tech industry. Item 4 (rivalry among existing firms) was only mentioned by President, which is quite a surprising outcome. The bargaining power of buyers (item 5) was mentioned as a key concern by all companies, and this is clearly because of the growing power of the key accounts (new sales channels).

Table 6.8 How the top managers of food manufacturing companies perceive the general environment factors that most influence their operations.

No.	Factors	Wei-Chuan	President	Standard
1.	The statute governing the relations between the people of Taiwan and mainland China	✓	✓	✓
2.	The stability of the political situation	✓	x	x
3.	Fluctuations in the domestic economy	✓	✓	✓
4.	The rise of environmental protection	✓	✓	x
5.	Taiwan's entry into the WTO	✓	✓	✓
6.	Other government regulations	✓	✓	x
7.	Sales channel change	✓	✓	✓

✓: Important/Mentioned x: Not important/Not mentioned

However, business environment change is not constant: sometimes the market is growing, at other time it is stable or even declining. The competitiveness of the business environment also changes over times. So the key issue here is whether there is evidence that food manufacturing companies have understood the need to shift the focus in their market orientations according to the changing business environment. Such flexibility is also a major organisational problem. We are also interested in

whether the business environment "moderates" the capacity of market orientation to produce enhanced profitability for companies. For example, if the market is not growing, then a company can only improve performance by increasing its market share. Part of the problem here is that traditionally companies have measured their performance by finance-based indicators. What the market orientation literature suggests is that there is a growing need for more use of market-based performance indicators.

Table 6.9 How the top managers of food manufacturing companies perceive the task environment factors that most influence their operations

No	Factors	Wei-Chuan	President	Standard
1.	Bargaining power of suppliers	✓	x	✓
2.	Threat of new entrants	✓	✓	✓
3.	Threat of substitute products or services	x	x	x
4.	Rivalry among existing firms	x	✓	x
5.	Bargaining power of buyers	✓	✓	✓
6.	Higher operational costs	✓	✓	✓

✓: Important/Mentioned x: Not important/Not mentioned

As the business environment in Taiwan has changed over time, the older companies -- Wei-Chuan and President -- have shifted their orientation from production to sales and then marketing, with the addition of a strong societal orientation. Standard, the newest company, has not had to go through this whole series of changes, but has immediately sought to implement a market orientation, e.g. by installing a modern sales channel. As a result, its performance has been impressive.

6.5.5 General Comments

Table 6.10 summarises the major comparisons between the food manufacturing case firms in terms of their degree of market orientation (for each component) and their performance. It seems fairly clear from this analysis that if market orientation is to be seen as a factor which contributes to a company's overall performance, then it needs to be examined not just as a general construct but in terms of the specific expressions of that orientation in the case of each firm. Each company interprets market orientation in its own way and seeks to exploit its own particular competitive advantages vis-à-vis its customers and competitors. Thus, to say that two companies (President and Standard) have strong customer orientations and one company (Wei-Chuan) has a moderate customer orientation does not tell us enough to explain the different levels of business performance of these firms. The point is that they have *different* customer orientations; and the same points must be made about comparisons of competitor orientation and inter-functional co-ordination.

Table 6.10 A comparison of food manufacturing case firms in terms of their degree of market orientation and their performance

No	Case Firms	Customer Orientation	Competitor Orientation	Inter-functional Co-ordination	Actual Financial Performance
1.	Wei-Chuan	Moderate	Weak	Weak	Fair
2.	President	Strong	Strong	Moderate	Very Good
3.	Standard	Strong	Moderate	Strong	Superior

6.6 THE BUSINESS PHILOSOPHIES OF THE DEPARTMENT STORES

In turning to the five department store case firms -- FEDS, Shin-Shin, Tonlin, Sogo and Printemps -- we are interested in both inter-firm comparisons within this sector, and also inter-sectoral comparisons between the food manufacturing and department store sectors. It needs to be stressed that the idea of market orientation is bound to assume somewhat different meanings across two such sectors, since the "market" is very different for the two sets of companies: the first being manufacturing-based, the second being service-based. Although the same national economic conditions have had an impact on both sets of firms, the actual marketing environments for food manufacturing and department stores have developed in different ways, and because of this we will be interested to see if we can identify significant differences in the nature, scope and effect of market orientation between the two sectors. In terms of the two major dimensions of the external market -- customers and competitors -- it is obvious that the conditions in the food manufacturing and department sectors have been different. This needs to be taken into account when inter-sectoral comparisons are made (see below).

6.6.1 FEDS

The first department store company -- FEDS (The Far Eastern Department Stores Ltd.) - is a good example of how a store can do well by carefully monitoring the changing business environment and responding to the developing needs of its customers while at the same time trying to keep one step ahead of its competitors. It has become a successful island-wide and internationalised company with a reputation for high-

quality goods and excellent customer service. It has also sought to express a strong societal commitment, thus enhancing the overall image of the company. The department store business has become increasingly competitive in recent years, and it soon became evident that FEDS' original sales orientation was inadequate; hence a major effort was made to apply the marketing concept and spread strong market orientation throughout the company. Furthermore, the company has had to be proactive, since the business environment in this sector has changed so rapidly that FEDS has recognised the importance of looking at where the market is going, rather than where it is at the present time. Also, it has developed a remarkable ability to change its strategies quickly as the environment has changed. FEDS has always stated in its business philosophy that it seeks to respond to customers' wishes, but it did not originally implement this philosophy in terms of a systematic effort to become market-oriented. However, as consumer purchasing behaviour in Taiwan changed, so the company had to pay attention to this shift in the market. FEDS has accordingly done everything it can to attract customers into its stores and to give them what they want at the right price. By concentrating on a particular market segment - "middle mass customers" - and stressing the goal of improving market share, the company has been able to enhance its profitability. It has also diversified by establishing subsidiaries which cater for other distinctive market segments, and this segmentation approach has been linked to the diverse needs of customers in different localities across Taiwan. Together the aim has been for FEDS and its subsidiaries to cover all the major market segments: clear evidence of a deliberate market-led strategy.

This has meant looking carefully at the design and layout of FEDS' stores, taking market-led decisions about what products the customers want, deciding which are the best sales channels to use to satisfy customers' needs, and introducing its own Far Eastern credit card to boost sales at the right time. FEDS soon realised that it could not possibly stock every single product on the market, but must be highly selective and concentrate on the most popular products according to customers' purchasing behaviour. This has meant introducing systematic methods of gaining market intelligence about consumer demand and using this knowledge effectively within the organisation. FEDS has also appreciated that this strategy must take careful account of its competitors' business strategies. Because the department store sector has seen many new entrants in recent years and has become much more internationalised, a strong competitor focus has been essential for any company wishing to retain its competitive edge. However, when the economic environment has entered a downturn, FEDS has realised how important it is to emphasise a customer orientation in order to retain customers and even attract new ones, thus gaining more market share. This is a good example of how a successful market orientation needs to be flexible and able to shift its balance between customers and competitors as the market changes. These achievements testify to the ability of FEDS' senior managers to understand the needs of a market orientation and to disseminate their business philosophy throughout the organisation. As we shall see below, this also points to the importance of the internal organisational structure and the adequacy of staff training programmes as vehicles for the effective dissemination and implementation of a market orientation. The main

challenge to the company is now to expand its market orientation to the international level.

6.6.2 Shin-Shin

The second department store company -- Shin-Shin -- originated in unusual circumstances, with one of its key missions being to place retired servicemen as well as their dependants in employment (which amounts to a strong societal orientation). It also suffered from the start because of its choice of location. As we have seen, this meant that the company was not strongly oriented to making a profit, and hence, not surprisingly, Shin-shin did not embrace a strong market orientation. It has indeed remained relatively uncompetitive and its profitability has been unimpressive, although it has recently made some effort to overcome these problems. Its managers, however, tend to be in post for short periods of time, and this limits their capacity for effective forward planning. Its main strategic effort has been to develop the company as a modern market hall with other recreational facilities, but this has not been entirely successful, and the company has therefore had to take radical decisions about its future. Evidence suggests, though, that often the company has taken decisions without sufficient preparation and understanding of the market, as was the case with its 1989 joint technical agreement with a Japanese department store. In general, the interviews with Shin-Shin's senior managers revealed a remarkable neglect of customers' needs and market orientation.

It must be stressed that unlike FEDS, Shin-Shin is not an island-wide store and identifies its market as that of the immediate local community. This reminds us that

market orientation, even in the same sector, can mean very different things for different companies, e.g. in terms of distinct market segments or distinct geographical localities. As the market in this locality has become more competitive, Shin-Shin has also found it more and more difficult to attract suppliers to sell their goods in the store. Further hampered by the investors' desire to obtain short-term profit, the company has found it almost impossible to emphasise a long-term market orientation. Lack of profit has in turn made it impossible to devote resources to innovative marketing campaigns. Compared with other stores, Shin-Shin simply does not devote sufficient resources to the marketing function. Perhaps, if the company's managers had united in leading the company in a more market-oriented direction, things would have been different. But in fact, as the research interviews showed, there seemed to be some significant differences of opinion at the senior managerial level, and inevitably this tension has had a negative impact on staff morale. Most importantly, the attempt to attract more customers by offering a broad range of recreational facilities has simply not been successful.

6.6.3 Tonlin

The third department store company -- Tonlin -- presents us with a different situation: it used to be a successful company, but more recently its performance has been only fair. This is mainly because Tonlin has not been able to match the increasing competition within its business circle; and one lesson from this experience is that, as part of a strong market orientation, Tonlin should have paid more attention to what its competitors were doing. Tonlin is also a fairly new company, having been founded in

1984 in the east district of Taipei. This location was chosen because the founders believed that the city's metropolitan expansion was shifting from west to east, and the major shareholders, who originally belonged to the construction industry, had available land and surplus resources in the eastern area. Their lack of experience meant that they did not originally know how to deal with changing market conditions, and they placed a lot of reliance on entering into a major technical agreement with a Japanese department store. In the end, however, this strategy was far from effective, mainly because the Japanese managers, whose tenure of office was short, did not commit themselves to a long-term view of business performance. There was an overemphasis on short-term sales targets, and other, market-based, indicators of business success were neglected. This problem was accentuated by disagreements within the senior management team.

In recent years, Tonlin has attempted to shift its orientation more towards customers and their changing needs. For example, a new large store (i.e. with a sales area of more than 8,000 pyngs) was opened in 1995 in the north of Taiwan, with the Taipei store becoming more specialised. In addition, a new Tonlin store card has been introduced to boost sales. As a result, the company's sales have increased, although profitability has been adversely affected by the cost of opening the new store. Nevertheless, if a longer-term view is taken, Tonlin's recent initiatives may be regarded as very positive. The Japanese emphasis on customer satisfaction has, from the start, been an important ingredient of Tonlin's business philosophy, but it has not been matched by an awareness of the changing role of competitors as more firms have entered the market. This suggests that the movement towards a market orientation in

the company has been limited, or at least Tonlin has not found it easy to get the balance right between the customer and competitor components of that orientation. As new competitors have entered the market, Tonlin's sales have actually increased, since more and more customers have been attracted to shop in the east Taipei area, but at the same time the firm's market share has declined. One important reason for this is that Tonlin has not been able to match the sales area capacity of other larger stores in east Taipei. Yet, at the same time, the company has continued to emphasise a performance orientation based on sales achievement. If it is to improve its market orientation, the company needs to pay more attention to the specific market segments it is seeking to satisfy. This becomes increasingly important as the market becomes more competitive. It must be concluded that Tonlin has failed to develop and implement a consistent business philosophy capable of strengthening market orientation and therefore attaining long-term profitability.

6.6.4 Sogo

The fourth department store company -- Sogo -- is undoubtedly the most successful in Taiwan. Its strong market (customer) orientation is expressed in its emphasis on providing customers not only with high-quality goods but also with first-class service and excellent shopping facilities. Its business philosophy links customer orientation to an awareness of the importance of local culture, the relationship between shopping and leisure, and the need to be financially successful. The store's outlook has been built upon the success of the Sogo Group (Japan), which has gained considerable experience of establishing department stores in many parts of the world. Thus, Sogo's

success testifies to the effectiveness of internationalisation as a strategy for achieving business success. More than any other department store, Sogo has made strenuous efforts to ensure that its top and senior managers fully understand and implement the company's business philosophy, and that all employees are effectively trained to play their own distinctive roles in supporting a strong market (customer) orientation.

Sogo has also been more successful than other department stores in developing a clear strategy for monitoring the role of its competitors and maximising its own distinct competitive advantages. This became clear in the account provided by Sogo's Vice-President, Mr. Wang, of the company's "six principles of competition" (Ref. B.4.1.2). Taken together, these principles can be regarded as a comprehensive view of the "battlefield" of competition. Sogo has not spared any efforts in exploiting its superior sales environment and range of high-quality goods, in developing a sales strategy to take its competitors by surprise, and in linking the company's image to strong social and cultural values. In terms of sales strategy, this has involved specialising in those goods which Sogo knows its customers want. For all these reasons, Sogo may be seen as a company which has balanced very well the needs for a strong customer and competitor orientation, and has also recognised the trends of the changing business environment in Taiwan. It has embraced a full market orientation.

Since Sogo has become the number one department store in Taiwan, it is clear that it faces further challenges. Most importantly, since it is ahead of its competitors locally, it must extend its horizons to the national and international levels, which it is now doing. It would be too easy to remain complacent because of its previous success, because no company can afford to do this. Even a highly successful company must

keep a careful eye on its competitors, since those companies could easily seek to emulate its success and try to copy its strategies. Because Sogo has worked out very clearly the requirements of business success in the service industry, and has developed a systematic set of market positioning principles (in terms of information, commercial, material and money flows), it remains clearly superior to other department stores in terms of its ability to put market orientation into practice. It has used advertising and sales campaigns very effectively, and has realised the importance of using store cards to boost purchasing activity. In general, it has always been one step ahead of its competitors in using such modern methods of stimulating sales. In addition, it has successfully cultivated the image of a quality store, not only in terms of the goods it sells but also in terms of the leisure and social events it organises (e.g. fashion and jewellery shows, art exhibitions, educational classes, etc.). It has been able to target its specific customer markets very accurately and knows what kinds of goods and services its target customers appreciate. For example, it has learned that female customers are very important for department stores, and that Sogo must appreciate the particular life-style values and needs of its female customers.

6.6.5 Printemps

The fifth department store -- Printemps -- tells a rather different story. It is the newest of all the department store case companies. From the start, therefore, its main challenge was how to break into the department store market in the east district of Taipei. It adopted a bold strategy of seeking to establish an elegant European-style department store (as a joint venture with an international French department store) at a

time when the mainstream style was Japanese and/or native Taiwanese. However, this strategy soon proved to be difficult to implement, since a single department store in such a localised area could not achieve the economies of scale to import merchandise from Europe. Therefore, it was decided to open a second store in Tao-Yuan, north of Taiwan. This problem illustrates the importance for any company of making every effort to assess its market orientation from a financial point of view before undertaking a risky business venture. The Chairman, Mr. Wang, had sought to emulate the previous success of Tonlin in east Taipei, but when Printemps was established, the competition in this business circle was much fiercer than it had been when Tonlin was first established. In other words, the business environment was no longer the same.

In adopting a strong market (customer) orientation, Printemps made many assumptions about its target customers' willingness to purchase European merchandise. It also relied on the continuing steady growth of the department store market. But initially the company found it very difficult to achieve its sales revenue targets, and this was partly because Taiwan was (in the mid-1990s) entering a period of economic recession. The case of Printemps thus illustrates very well the importance of assessing market trends very carefully. Any company which is relying on predictions of changes in market size and in customer tastes must accept that this is a risky enterprise. For example, a company has to be proactive in trying to persuade customers to change their shopping behaviour, and this requires a department store to be imaginative in its use of floor space, its display of merchandise, its design of the shopping environment, provision of various services for customers, and its advertising campaigns. While there can be no doubt that Printemps has cultivated a new and

original image, it has faced some difficulties in persuading customers to accept this image.

6.7 INTER-FIRM COMPARISONS: DEPARTMENT STORES

We shall now take each of the five market orientation foci in turn and compare the five department store companies -- FEDS, Shin-Shin, Tonlin, Sogo and Printemps -- under each heading and sub-heading.

6.7.1 (Focus 1) The Overall Strength of Market Orientation

Comparing five department store companies is quite a complex exercise. In their own ways, they have all come to place an emphasis on market orientation, but they have done so in different ways. To begin with, we shall consider the place of market orientation in the firms' business philosophies.

Focus 1a. *Market orientation in business philosophy.* There can be little doubt that Shin-Shin has hardly begun to embrace market orientation in its business philosophy. This is largely a result of the firm's unusual origins and its mission to place retired servicemen and their dependants in employment. It has been slow to commit itself to long-term profitability and has not recognised the importance of planning systematically to deal with major changes in the business environment. Tonlin's business philosophy refers to the importance of customers, mainly as a result of the impact of Japanese managers, but it has not articulated any sophisticated concept of becoming a market leader. At the other end of the spectrum, Sogo's market-driven philosophy is very impressive. It has done more than any other

department store to articulate a sense of its capacity to satisfy customer needs, gain competitive advantage and establish a place for itself in the local community. As for FEDS and Printemps, they fall between the two extremes. They have gone a long way to shifting their business philosophies in the direction of satisfying customer needs, but this falls short of a fully comprehensive market orientation.

Focus 1b. *Market orientation in business behaviour.* As with the food manufacturing companies, we are here looking for evidence that the managers can point to changes in their companies' actual business behaviour which correspond to the market orientation philosophy. Change has been most difficult for Shin-Shin and Tonlin. These two companies have been fairly conservative, especially Shin-Shin. Shin-Shin's main response to environmental change has been to review its operations and to re-position the company as a modern market hall combined with leisure, shopping, sports and entertainment facilities (April-July 1995). It has thus hoped to attract customers but has not tried to do so in terms of the goods it offers. Nor has it really reconciled the conflicting elements in its business philosophy. Its 1989 agreement with a Japanese firm was not thought out very well and failed. Tonlin has adopted a strategy of opening multi-shops and has followed the belief that only large shops will do well in the future. The limited space of its east Taipei shop has not allowed for much development, and so the company decided to establish a new, larger store in the north of Taiwan. There is little evidence, however, that this opening has been accompanied by the implementation of a strong market orientation.

Sogo has done more than any of the other department stores to implement a fully comprehensive market orientation. It has used its superior sales environment and

range of high-quality goods to meet the needs of its targeted customer groups, has developed a strong capacity to gain competitive advantage, and has developed a powerful social and cultural image. It has harnessed its activities to the changing business environment. Most recently, it has extended its horizons to the international level.

FEDS has implemented an impressive customer satisfaction programme and has done a great deal to implement a stronger market orientation. Unlike other department store companies, it has diversified by establishing subsidiaries to cater for distinctive market segments in different parts of Taiwan. It has greatly improved the design and layout of its stores, and has concentrated on exploiting the most effective sales channels in order to gain competitive advantage.

Printemps -- the newest department store -- took the bold decision to try to achieve a strong market position by specialising in European-style goods, but this initiative proved to be unsuccessful. The orientation towards the market seemed to be strong, but the market trends were misunderstood, and the company's financial difficulties increased. Such a late entrant to the department store market, starting from a position of zero market share, obviously had to make a big effort to become successful, but the business environment was, in the end, not conducive to success. It remains to be seen whether its new store in the north of Taiwan can change the company's fortunes around.

6.7.2 (Focus 2) The Three Components of Market Orientation

Focus 2a. *Customer orientation.* It is our finding that FEDS, Sogo and Printemps have developed strong customer orientations; Tonlin has developed a moderate customer orientation; and Shin-Shin's customer orientation has remained weak. The overall comparisons are presented in Table 6.11. Shin-Shin's main problem is that it has tended to adopt a "wait and see" approach to its customers, hoping that future development in the central area of Taipei will result in an increased demand for its goods and services. Tonlin has been hampered by the top managers' insistence on strict short-term performance targets. The other three stores have not faced such limitations. Sogo has made a remarkable effort to offer an attractive shopping and leisure environment to its customers and to respond to local cultural needs. FEDS -- which has an island-wide chain of department stores -- has utilised an extensive customer satisfaction programme to ensure that it provides what customers want. For Printemps, the research data are not sufficiently detailed, but an image of strong customer orientation emerged from the interviews.

Table 6.11 A comparison of department store case firms in terms of their degree of market orientation

No	Case Firms	Customer Orientation	Competitor Orientation	Inter-functional Co-ordination
1.	FEDS	Strong	Moderate	Moderate
2.	Shin-Shin	Weak	Weak	Weak
3.	Tonlin	Moderate	Weak	Moderate
4.	Sogo	Strong	Strong	Strong
5.	Printemps	Strong	Moderate	Moderate

Focus 2b. *Competitor orientation.* As Table 6.11 shows, only Sogo has developed a strong competitor orientation. It has the clearest competitive strategy of all the department stores, and this is based on the recognition of competitors of the same business type and competitors in the same business circle. It has harnessed a clear store establishment strategy, a systematic analysis of competitive factors, and six fundamental principles of competition based on military strategy. By comparison, the competitive strategies of FEDS and Printemps may be described as moderately strong. Managers at FEDS do not seem to be very interested in competitors, mainly because they have traditionally relied on the steady growth of the retail market and have sought to increase sales levels. However, in recent years the business environment has changed and become more competitive, and managers have gradually come to appreciate the importance of a competitor orientation. In practice, however, little has changed, and this is why the company's competitor orientation is ranked as moderate (Table 6.1.1). As far as Printemps is concerned, since the company is new, it has fully appreciated the need to be competitive, but, like FEDS, it has also relied on the steady growth of the Taipei store retail market. In competitive terms, its emphasis has been on offering customers an excellent service and selling reasonably priced goods.

Focus 2c. *Inter-functional co-ordination.* In the research interviews, managers paid very little attention to the issue of inter-functional co-ordination and gave the clear impression that it was not an important matter in the department store sector. Because department stores do not have a production process and they sell their goods directly to the customer, inter-functional co-ordination is less complex than in the food manufacturing sector. Nevertheless, some comparisons between the five stores can be

offered (see Table 6.11). Sogo certainly seems to have strong inter-functional co-ordination within the department store context. This is especially evident in the fact that its sales and purchase (procurement) operations are unified and are under the charge of the same department. The benefit of this system is that the person in charge of sales has full responsibility for the performance of the products in question. By comparison, FEDS has only moderate inter-functional co-ordination: its sales and purchasing operations are separated between different departments. This has the advantage of allowing for internal checks between departments, but it has the disadvantage that the products purchased by one department may not be the products wanted by the sales department to meet customers' needs. But on the other hand, FEDS' senior managers are proud of their flexibility. Without having good inter-functional co-ordination, it is not possible to achieve operational flexibility. In the case of Tonlin, the disagreement between the company's senior managers initially decreased its inter-functional co-ordination. However, this problem was overcome when the top manager personally gave authorisation to the Japanese managers. Printemps may reasonably be ranked as having a moderate level of inter-functional co-ordination: it suffered from managerial problems arising from the conflict between Taiwanese and European managers. The Chairman of Printemps is a strong leader. He decided to introduce a European style-department store into Taiwan, but he met with the resistance of some of his colleagues because they were accustomed to working with Japanese managers. In the end, his leadership succeeded in overcoming this resistance and was able to strengthen inter-functional co-ordination. Shin-Shin has weak inter-functional co-ordination: first, the disagreement between senior managers

weakened inter-functional co-ordination; secondly, the senior managers identified many organisational problems and found it difficult to manage their subordinates.

6.7.3 (Focus 3) The Link between Market Orientation and Performance

Amongst the department stores, Sogo has achieved a superior performance, FEDS a good performance, Tonlin a fair performance, Shin-Shin a poor performance, and for Printemps (a new company) the evidence was not yet clear at the time of research (see Table 6.12 and Table 6.13). The research interviews have provided a strong basis for concluding that where managers have appreciated the need for a strong market orientation, have effectively implemented such an orientation, and have sought to achieve a good balance between the different components of market orientation, business performance has been enhanced. (It must be stressed, again, however that the data for inter-functional co-ordination in this sector are insufficient.)

FEDS' performance has been good and the company has a strong customer orientation, but it needs to strengthen its competitor orientation (moderate). With Tonlin, we can see that the company's only fair performance, points to the need to strengthen both customer and competitor orientation. Shin-Shin's overall poor performance is not surprising, since the company is weak in both customer and competitor orientation. Finally, with Printemps, it is too early to reach firm conclusions about performance, but the strength of this company's customer orientation and its moderately strong competitor orientation are good signs.

Table 6.12 Department store case firms' performance

- (1) Turnover (NT\$1,000);
 (2) Profit margin (pre-tax) (NT\$1,000);
 (3) ROE (%);
 (4) ROA (%)

Year Case Firms	1991	1992	1993	1994	1995
FEDS	10,379,585 922,953 13.7 8.1	12,962,875 700,860 8.6 5.7	14,053,190 1,005,310 12.6 7.6	16,383,464 1,062,471 13.7 7.2	17,317,685 706,788 6.76
Shin-Shin	857,000 26,000 2.21 1.96	855,000 2,000 0.13 0.35	841,000 (39,000) (4.94) (3.39)	763,000 (31,000) (4.14) (2.52)	846,000 (33,000) (4.29) (2.39)
Tonlin	1,352,965 20,815 6.37 5.99	1,294,860 26,939 4.65 4.67	1,366,601 *580,636 77.71 31.00	1,304,924 95,205 6.58 4.07	1,598,814 99,631 6.43 3.38
Sogo	6,157,000 278,000 31.25 11.16	7,091,000 423,000 38.19 13.67	7,738,000 486,000 35.92 14.40	8,608,000 524,000 31.19 12.41	10,142,000 635,000 30.53 9.64
Printemps	N/A	N/A	N/A	N/A	N/A

* Revenue from disposing of its assets.

Table 6.12 highlights some obvious comparisons. FEDS is by far the biggest store in terms of turnover and profit, followed by Sogo, yet Sogo's ROE and ROA figures are by far the best. In 1995 Tonlin, with a much smaller turnover and profit, actually achieved a ROE performance similar to that of FEDS. Shin-Shin's turnover and profit have remained more or less the same since 1991, but its ROE and ROA performances were double decrease the 1991 levels in 1995. How, then, are we to account for these differences? As with the food manufacturing companies, department stores' market orientations need to be considered in terms of organisational

capabilities. The five department stores are very different from each other, so this makes it almost impossible to apply a single construct of market orientation to all of them in the same way.

Table 6.13 Comparison of case firms' actual financial performance ranking (five-year average ROE): department stores

Levels of Actual Financial Ranking	ROE (%)	Department Store Sector	
		Case Firms	ROE (%)
Superior	Over 24.10	Sogo	33.42
Very Good	16.01 – 24.00		
Good	8.01 – 16.00	FEDS	11.07
Fair	0.01 – 8.00	Tonlin	4.81*
Poor	Under 0.00	Shin-Shin	-2.21
None		Printemps	N/A

* Four-year average, not including figure for 1993 (extra revenue from disposing of its assets). The average would be 20.35 per cent if this figure were included.

In terms of managers' self-rating of market effectiveness, data for only three of the companies are available (see Tables 6.14 and 6.15). It is interesting to note that FEDS and Shin-Shin managers rate their marketing effectiveness as superior. In the case of FEDS, this seems to be justified, but in the case of Shin-Shin, such a rating is not confirmed by actual financial performance data or by the analysis of market orientation in this study. Tonlin's managers give a self-rating of good for marketing effectiveness, which would appear to be an overstatement of the actual situation. Once again, therefore, we encounter the problem of managers' self-ratings sometimes being inaccurate.

Table 6.14 The result of top managers' self-rating using the Kotler's marketing-effectiveness rating instrument: department stores

Case Firms	No. of persons completing the rating instrument	Scores	Average Score	Level of marketing effectiveness
FEDS	2	30/25	27.50	Superior
Shin-Shin	1	26	26	Superior
Tonlin	2	20/11	15.50	Good
Sogo	0	-	-	N/A
Printemps	0	-	-	N/A

Table 6.15 A comparison of the differences between the top managers' self-rating of their firms' performance using Kotler's marketing effectiveness rating instrument and their actual financial performance: department stores

	Case firms	Company age	Company size	Kotler's marketing effectiveness as rated by top managers (A)	Actual financial performance (B)
A > B	FEDS Shin-Shin Tonlin	Old Old Middle-aged	Large Small Medium	Superior Superior Good	Good Poor Fair
A < B	Sogo	Young	Medium	N/A	Superior
Not know	Printemps	Young	Medium	N/A	Not know

A: Kotler's marketing effectiveness as rated by top managers

B: Level of actual financial performance

6.7.4 (Focus 4) Mediation by the Business Environment

As the business environment in Taiwan has changed, the department store companies have had to pay more attention to market orientation, and to weight the individual components of market orientation. However, department stores, almost by definition, are inclined to be sales and/or market-focused companies, since they are not involved

in manufacturing, so that a production orientation is not relevant to the department store business. The main challenge for department stores, therefore, has been to move from a traditional sales orientation, usually linked to an emphasis on the achievement of sales targets, to a more modern market orientation (customer and competitor orientation with accompanying inter-functional co-ordination). In this process of change, the development of the business environment has been crucial.

The research suggests that the major changes in the general and task environments for department store companies are as presented in Tables 6.16 and 6.17. As far as the general environment is concerned (Table 6.16), item (3), mentioned by four companies, refers to "technology" in the sense of management know-how. These four companies have all been involved in importing such know-how from abroad, mainly Japan. Sogo, involved in a capital pool with a Japanese company, is the only company to mention the impact of government regulations (item 4), since it benefited from the opening of the Taiwan retail market to foreign competition. Turning to the task environment (Table 6.17), it is interesting to note that some factors listed are not regarded as being of significance. Generally, the task environment does not appear to be seen by department stores as having a major impact on their operations. The impact of these changes has meant that department stores have been under pressure to strengthen their market orientation and also to shift the weighting of the various components of market orientation. This is a complex issue, since the department stores have also operated in different locations and have not seen their markets in terms of the same geographical scale (local, national and international). So in effect this means that business environment change is not the same for all

companies. Managers have to use their skills to consider change in their own particular business environments and their markets.

Table 6.16 How the top managers of department store companies perceive the factors in the general environment that most influence their operations

No.	Factors	FEDS	Shin-Shin	Tonlin	Sogo	Printemps
1.	Fluctuations in the domestic economy	✓	✓	✓	x	x
2.	Demographic fluctuations	x	✓	✓	x	✓
3.	Change in technology	✓	✓	✓	✓	x
4.	Other government regulations	x	x	x	✓	x

✓: Important/Mentioned

x: Not important/Not mentioned

Table 6.17 How the top managers of department store companies perceive the task environment factors that most influence their operations

No	Factors	FEDS	Shin-Shin	Tonlin	Sogo	Printemps
1.	Bargaining power of suppliers	x	x	x	x	x
2.	Threat of new entrants	x	x	x	✓	x
3.	Threat of substitute products or services	x	x	x	x	x
4.	Rivalry among existing firms	x	x	✓	✓	x
5.	Bargaining power of buyers	✓	x	✓	✓	x
6.	Higher cost of operations	x	x	✓	✓	x

✓: Important/Mentioned

x: Not important/Not mentioned

The performance of department stores is clearly influenced by many factors. If the market is growing for example, it is easier for all department stores to increase

their sales. But if the market is not growing, then a strong market orientation, enabling the company to increase market share, is vital. Similarly, as the market becomes more competitive, companies must pay more attention to their competitor orientation and the need to exploit to the full their competitive advantages. Getting the balance right is not easy and requires highly effective managerial leadership, organisational flexibility and (we would argue) good inter-functional co-ordination. In order to decide whether the business environment moderates the impact of market orientation on performance, a longitudinal analysis is essential, since it is only over time that such a moderation becomes apparent.

6.7.5 General Comments

If we consider the evidence in Table 6.18, it is clear that the performance of the five department stores has varied enormously. Sogo's superior performance is associated with strong customer and competitor orientations, and FEDS' good performance is associated with a strong customer orientation and moderate competitor orientation. This raises the issue of whether FEDS could improve its performance by strengthening its competitor orientation. However, this seems to be a much too simplistic suggestion, since there are numerous factors affecting FEDS' performance. All we can say, logically, is that this is an area to which FEDS should pay more attention. Four out of the five department stores have moderate or weak competitive orientations, and this is undoubtedly because the department store market has previously been growing steadily, thus making it less important for stores to emphasise their competitor orientation. However, circumstances are now changing, and, as market growth slows

down and as more new market entrants emerge, undoubtedly stores will have to become more competitive.

Unlike food manufacturing companies, department stores have to focus on their local business circles and to carefully monitor changes in customer behaviour and tastes. They are also increasingly aware that customers are attracted by the total shopping and leisure environments of their stores, and not just by the goods they are selling. Shopping is more and more a family experience, and women are particularly important as department store customers. If stores are to be successful in the future, they must pay attention to these trends. In addition, an increasing proportion of department store purchases are made by store cards, and this trend points to the need for all stores to be willing to innovate in their financial service facilities. So far, only FEDS and Sogo have understood this need, and this is almost certainly one of the reasons for their success.

Table 6.18 A comparison of department store case firms in terms of the degree of their market orientation and performance

No	Case Firms	Customer Orientation	Competitor Orientation	Inter-functional Co-ordination	Actual financial Performance
1.	FEDS	Strong	Moderate	Moderate	Good
2.	Shin-Shin	Weak	Weak	Weak	Poor
3.	Tonlin	Moderate	Weak	Moderate	Fair
4.	Sogo	Strong	Strong	Strong	Superior
5.	Printemps	Strong	Moderate	Moderate	Not known

6.8 INTER-SECTORAL COMPARISONS

If we compare our findings for the two sectors (food manufacturing and department stores), it is clear that the idea of market orientation assumes a somewhat different significance for the two types of company. In order to explain this, we need to begin by considering some fundamental differences between manufacturers and retailers.

6.8.1 Marketing from the Viewpoint of Manufacturers and Retailers

Corstjens and Corstjens (1999: 6-7 and 112-127) identify four particularly important points of comparison:

Physical network. Retailers are physically tied to a heterogeneous set of locations, which defines both their target market and their retail competition. For retailers, choosing the right location is of decisive importance. For manufacturers this is not so, since they seek to make their brands available – through efficient distribution -- to the whole of their target segment, which may be national or even international. Retailers, by contrast, have to focus on their local or regional geographical coverage and the physical proximity of competitors.

Cost structure. There are fundamental differences in cost structure: manufacturers enjoy much greater synergy across brands, i.e. a manufacturer producing several brands can share the costs. Economies of scale for retailers are not the same and vary according to the level of operation: company, chain or store. Fixed costs (property, technology) are high and high-volume sales are accordingly essential to cover these

costs. This means that in a particular location the size of a store and the assortment of goods sold are key factors in determining success.

Financial structure. There are marked differences in the financial structures of retail companies, compared to those of manufacturers. Modern retailing is a particularly hard business under competitive conditions because of high fixed costs and low margins. This can result in sensitivity to volume, and a penchant for price wars. Low profit margins mean that retailers rely on high asset turnover and leverage to generate ROEs comparable to those of manufacturers. This also means that retailers' profits are very sensitive to changes in operating costs, volume or prices.

Pricing and price perceptions. These play a different and more critical part in the choice of a shop than they do in the choice of a brand. Since it is more complex to compare price competitiveness across retail outlets, consumer price perceptions are also more open to influence; quality and price are less closely correlated than for product brands (a "good" retailer can sell cheaply); "cherry picking" (i.e. selectively spreading purchases among different retailers) has no direct product brand equivalent. Stores must continually remind shoppers of their commitment to price. By contrast, in manufacturing, often expensive brands are category leaders.

The implications of these four distinctions for the marketing strategies of manufacturers and retailers are far-reaching. In particular: (1) Retailers cannot segment consumers to the same extent that manufacturers do. They simply cannot afford to "lose" any significant part of their geographical coverage. They must attract as many shoppers as possible. (2) Manufacturers seek to win customers by

differentiating brands; retailers cannot do this. Indeed, two retailers which do not overlap geographically may offer more or less identical goods to consumers, but they will not compete with each other because of their different locations. Two stores in close proximity face the problem of deciding whether the size of the local population can justify such competition. There is a danger that each will fail to achieve the necessary high volume of sales. (3) Unlike manufacturers, retailers have to attract shoppers into their physical premises, but they must be careful not to place too much emphasis on store values (attractiveness, style, "the shopping experience"), because this may result in a loss of potential customers who do not like the store's atmosphere. If some store features prove successful (e.g. opening a store restaurant), then competitors will tend to copy them and differentiation will be lost. (4) Price competitiveness is only one aspect of differentiation for manufacturers, but for retailers it is the key to success if there is direct competition with other retailers in the same geographical area. There will always be a segment of their local customer population which is price-sensitive. (Corstjens and Corstjens, 1999: 127-137)

6.8.2 Market Orientation: Food Manufacturers and Department Stores Compared

Let us now apply some of these lessons to the comparison of the case study food manufacturing and department store companies in Taiwan. For food manufacturing companies, the market for which they are producing goods consists, first of all, of wholesale and retail outlets, and, secondly, of the actual end-users of the companies' products (individual customers). The retail outlets are vitally important sales channels, and, as we have seen, in Taiwan these channels have changed dramatically over the

last twenty to thirty years as supermarkets and hypermarkets have emerged. In terms of geographical scope, food manufacturing companies are technically able to sell their goods to a very large market, not restricted by the constraints of immediate locality. The major requirement is that transportation should be available so that goods can be moved from the manufacturer to the wholesale and retail outlets efficiently. Another key issue is whether individual companies sell their products in their own particular sales channels (outlets) or whether they share outlets with other food manufacturers. As we have seen, in practice, the case study firms have adopted different strategies.

Department stores are quite different from food manufacturing companies. They are not *producing* goods to be sold by other wholesalers and retailers, but are *selling* them directly to end users, mainly individual customers, in their own immediate geographical locality or region, although increasingly department stores have sought to expand their operations to other geographical areas beyond their "home base". Department stores have to attract shoppers not just users. They are also selling not just the goods in their department stores but also department store facilities of various kinds: amenities, leisure and catering facilities, recreational areas, and so on. However, as we have noted, it is dangerous for stores to emphasise these additional store values at the expense of price competitiveness, especially where there are other competitor stores in the vicinity. For department stores, the aim must be high-volume sales, rapid turnover of assets and a capacity to appeal to the heterogeneous market rather than specific targeted segments.

The purpose of making these basic comparisons of the two sectors is to suggest that the universal term "market orientation" means different things to managers in the

two sectors. For example, the basic choice of business philosophy (among production orientation, sales orientation, marketing orientation, and societal orientation) presents itself to the two sectors in different ways. The first alternative – production orientation – is available to food manufacturing companies but not department stores (which are not producers). This immediately highlights one of the limitations of the existing research literature, which has tended to concentrate on market orientation in manufacturing rather than service companies. Not surprisingly, because of this emphasis, the idea of market orientation has previously tended to be interpreted very much in a manufacturing context.

In manufacturing, market orientation means concentrating on the variation in customers' preferences among different segments and seeking to match those preferences with branded products that are distinct from those of competitors and which competitors cannot easily copy. This represents a movement away from a production orientation (emphasising products and productivity) and a sales orientation (emphasising aggressive sales campaigns designed to pressurise buyers) towards a recognition that different firms can co-exist by deciding to cater for specific market segments. For retailers, there is an obvious problem in trying to copy this kind of market orientation. This is because their markets are geographically-based and a strategy of segmentation is likely to be counter-productive, although there are opportunities for in-store segmentation (as opposed to segmentation between stores). Retailers must build a market orientation based on their three major abilities to influence shoppers (which are also sources of their competitive advantages): (1) their direct physical contact with shoppers, allowing them to communicate directly with

them; (2) their control of "point of purchase" marketing variables – in-store presentation, price and promotions; and (3) their access to data on consumer purchasing behaviour through the use of new information technology (in-store scanners), store credit cards, loyalty cards, direct mailing, special offers, and so on. (Corstjens and Corstjens, 1999: 172-177).

It is clear, therefore, that we cannot expect food manufacturing and department store companies to apply the marketing concept and develop a market orientation in the same ways. The two types of business enterprise are quite different. In the context of the present research, what we are looking for in making inter-sectoral comparisons is evidence that managers of the two types of company appreciate the distinctive implications of market orientation for them. In particular, the ideas of customer orientation, competitor orientation and inter-functional co-ordination need to be considered from the different viewpoints of food manufacturers and department stores.

Table 6.19 summarises the main research findings relating to market orientation and its components for the two sectors under investigation. These are organised according to the four research foci selected for attention in this chapter. It must be emphasised that these findings point to many significant issues which deserve more in-depth and comprehensive analysis than was possible during this research project. An extensive inter-sectoral comparison was not possible, but the investigation did highlight the importance of considering market orientation from the different perspectives of the two sectors.

Table 6.19 Inter-sectoral comparisons for the four foci

	Food Manufacturing	Department Stores
<i>Focus 1.</i> The overall strength of market orientation:	<ul style="list-style-type: none"> ● "Market" could be defined according to geography (local, national, international), age (e.g. young, old), product (e.g. beverages, noodles), characteristics of products (e.g. healthfoods, essential foods), etc. ● Aimed at customers (retailers) and end-users (consumers). ● Different "market" definitions and different "customers" make it difficult to compare the overall strengths of market orientation between the two sectors. ● The overall strength of market orientation varies among case firms. 	<ul style="list-style-type: none"> ● "Market" could be defined according to geography (local, national, international), age (young, old), gender (male, female) products (e.g. ladies' wear, houseware), characteristics of commodities (e.g. fashion), etc. ● Aimed at end-users (consumers/customers) ● The same comment as for food manufacturing. ● The overall strength of market orientation varies among case firms.
<i>(1a)</i> The firm's business philosophy	<ul style="list-style-type: none"> ● Relatively less market orientation statements in business philosophy. 	<ul style="list-style-type: none"> ● Relatively more market orientation statements in business philosophy.
<i>(1b)</i> The firm's actual behaviour.	<ul style="list-style-type: none"> ● Emphasis on satisfying customers by "product quality". ● How to <i>produce</i> high quality products to meet the needs and wants of customers/consumers is very important. Therefore, manufacturing technology (R&D, engineering, QA and purchasing) is emphasised. ● Aimed at consumers (since not an industrial product), so advertising is important (need to utilise marketing technology) 	<ul style="list-style-type: none"> ● Emphasis on satisfying customers by "customer services quality". ● How to <i>choose</i> the right (suitable) commodities to meet the target customers is very important. Therefore, using information technology (IT) to analyse best sellers and collecting customer information by issuing store cards is emphasised. ● Aimed at consumers, so sales campaigns are very important. Therefore, the capability of a firm's marketing planning, promotion campaigns and store image-building is crucial.
<i>Focus 2.</i> The relative strengths and weaknesses of the three main components of market orientation:		
<i>(2a)</i> Customer orientation	<ul style="list-style-type: none"> ● Top managers recognise the importance of customer orientation. 	<ul style="list-style-type: none"> ● Top managers recognise the importance of customer orientation.

(Table 6.19 to be continued.)

(Table 6.19 Continued)

	<ul style="list-style-type: none"> ● But the meaning of "customers" is not the same. Food manufacturers consider both customers (retailers) and end-users (consumers). 	<ul style="list-style-type: none"> ● But the meaning of "customers" is not the same. The department store aims at end-users (consumers/customers).
(2b) Competitor orientation	<ul style="list-style-type: none"> ● Competitors are less important. Competitors are only one factor in decision-making. To create a firm's own competitive advantage is more important. For example: Wei-Chuan: R&D President: Sales Channel, Education/training, R&D Standard: R&D, engineering, QA, education/training ● What is the real meaning of "competitors are less important?" Actually, when food manufacturers want to build their own competitive advantage, they do compare their competitors' strengths and weaknesses. This is a process of long-term planning (at strategic level, rather than quickly responding to competitors at a short-term operational level). This is probably an Oriental (Chinese, Japanese) philosophy which emphasises an "inward" rather than "outward" viewpoint. ● "Competitor orientation" has been replaced by the concept of strategic alliances (President). ● A "competitor" could be "a company" or "a product" in a target market. 	<ul style="list-style-type: none"> ● Competitors regarded as less important. More emphasis on creating own "competitive advantages". For example: FEDS: Promote CS programme Shin-Shin: Reposition as a shopping hall. Tonlin: Open new big store Sogo: Education/training Printemps: European elegant style ● What is the real meaning of "competitors are less important?" (Same comment as for food manufacturing) ● The concept of strategic alliances has been employed (FEDS) ● A "competitor" could be a firm of the same business type (department store) and in the same location. But, it could also be "a company" or "a single store".
(2c) Inter-functional co-ordination	<ul style="list-style-type: none"> ● More emphasis on the importance of inter-functional co-ordination. ● Food manufacturing companies generally involve production. Therefore, the organisation is relatively complex and the planning horizon tends to be longer. Inter-functional co-ordination is much more important if they want to deliver the goods to satisfy their customers (retailers) and consumers (end-users). 	<ul style="list-style-type: none"> ● Relatively less attention to the importance of inter-functional co-ordination. ● Department stores buy goods from manufacturing companies. They are not involved in production. Therefore, the organisation is relatively simple and the planning horizon is relatively short. Inter-functional co-ordination is thus less important except for the need to integrate sales and purchasing.

(Table 6.19 to be continued.)

(Table 6.19 Continued)

<p>Focus 3. The link between the actual strength, scope and content of market orientation and business performance.</p>	<ul style="list-style-type: none"> ● Firms that perform strongly on each component of market orientation gain better overall business performance. ● But the comparison between two sectors is not easy since they are fundamentally different as explained above. 	<ul style="list-style-type: none"> ● The same as for food manufacturing. ● The same as for food manufacturing.
<p>Focus 4. The extent to which this link is moderated by the changing business environment.</p>	<ul style="list-style-type: none"> ● Longitudinal data needed: Old companies (Wei-Chuan and President) reveal that the changing business environment has influenced their business orientation from production orientation to sales orientation, to market orientation. The evidence of the environmental moderation to the links between market orientation and performance can be interpreted by the growth of the companies (Wei-Chuan was once number one in Taiwan but has been replaced by President). 	<ul style="list-style-type: none"> ● Longitudinal data needed: Technical change (general environment) seems especially important for this sector. This is seen especially in terms of managerial know-how (including store layout, market intelligence generation, dissemination and implementation as well as the use of IT). This changing environment had influenced all the case firms, from the old (FEDS) to the young (Printemps). For example: FEDS: Continuously sending managers abroad for training. This has helped it to build up to its present leading island-wide position. Tonlin: The first company signed technical agreement with Japanese company (and was once the best department store). Sogo: The first store to have a capital pool with a Japanese partner and to incorporate the most recent management know-how from abroad. Now it is the best department store in Taiwan. Printemps: An alternative strategy of getting know-how from Europe instead of Japan.

6.9 SUMMARY

This chapter has sought to use the data for the eight case study companies (presented in Chapters 4 and 5) as the basis for inter-firm and inter-sectoral comparisons with an emphasis on four specific foci of comparison related to the strength of market

orientation, its components, its impact on business performance, and the moderation of that impact by the business environment. Some interesting and suggestive similarities and differences have emerged which point to the conclusion that the idea of market orientation involves certain key principles, but these have to be applied strategically by firms in different ways according to the specific circumstances in which they find themselves. No two firms are the same in this respect, and there are certainly fundamental differences between the two sectors studied here in terms of how market orientation is viewed and implemented. Indeed, different managers in the same firm often hold different opinions about market orientation, depending on their own age, experience and functional position. At the same time, the idea of market orientation has proved to be very useful for all firms, in both sectors, as a basis on which to enhance their competitiveness in mature markets in which traditional production and sales orientations are no longer adequate. The research evidence indicates, however, that not all managers seem to embrace the idea of market orientation in the same ways or to the same extent, and, indeed, there is clear evidence of disagreements amongst managers in some of the firms. This in turn highlights a continuing gap between academic writing on the subject of market orientation and managers' own mental worlds and personal experience.

CHAPTER 7 CONCLUSION

- 7.1 Introduction
 - 7.2 Summary of Research Findings
 - 7.3 Research Contributions
 - 7.4 Managerial Implications
 - 7.5 Research Limitations
 - 7.6 Suggestions for Further Research
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7.1 INTRODUCTION

This chapter begins (section 7.2) by summarising the main findings of the dissertation, relating these to the four key research issues identified in Chapter 2. Section 7.3 identifies the most important contributions of the research to the scholarly literature on market orientation. In section 7.4 consideration is given to the managerial implications of the research. The limitations of the research are discussed in section 7.5, and, finally, some suggestions for further research are put forward in section 7.6.

7.2 SUMMARY OF RESEARCH FINDINGS

This research is an exploratory study in understanding market orientation and its relationship with business philosophy, the business environment and performance from the viewpoint of top managers in Taiwanese firms. Although there has recently been a considerable amount of research in this area of investigation, there remain many uncertainties and disagreements which highlight the need for further investigation (Greenley 1995c, Wensley 1995). In particular, market orientation remains a contested concept in terms of its precise meaning, formulation, practical expressions and its significance from the viewpoint of business success or failure. In addition, there has been insufficient attention to the nature, scope and role of market orientation in

different economic sectors and in different countries. In other words, the usefulness of market orientation – in terms of what the construct adds to the understanding of firms' actual business philosophies and behaviour is still not yet clear.

A review of the literature served to generate four key issues for investigation (Chapter 2):

- Is the construct of market orientation, as it has been developed in the (mainly Western) research literature, useful for understanding the actual business practice of the case study Taiwanese firms?
- Are there any ways in which the construct of market orientation needs to be revised and/or refined to "fit" the actual business practice of the case study firms?
- How are the relationships between market orientation, business philosophy, business environment, and performance best understood in relation to the actual business practice of the case study firms?
- What does our research tell us more generally about the validity or non-validity of Western theories and models of market orientation in relation to business practice in a non-Western country, Taiwan?

An in-depth qualitative research methodology was selected for this exploratory research study (Harrigan 1983, Bonoma 1985) in preference to the more common quantitative analysis used in this field of enquiry, although some use has made been of quantitative evidence related to business performance. This choice was based on two major considerations: (1) the desire to explore market orientation from the viewpoint of managers' own subjective understanding of, and attitude towards, the running of their

businesses; and (2) the conviction that qualitative research is essential if new theoretical paradigms are to be generated (see Chapter 3). On the first of these points, there is accumulated evidence in the literature to suggest that the role of top management is crucial in fostering a company's orientation, including market orientation (see, for example, the review of the literature in Kohli and Jaworski, 1990), yet direct interviews with top managers have rarely been used as a research tool to explore this proposition in depth. This is a gap which the present research seeks to overcome. Furthermore, this research seeks to discover how Taiwanese managers think about the various ingredients of what – in the West – is normally known as market orientation. This is an aspect of business analysis which lies behind the usual range of quantitative data uncovered by firm surveys. Yet, it is argued in this thesis, it is at this level of investigation that some deeper insights about how firms are managed can be obtained.

Face-to-face interviews were conducted with 48 top managers in eight case study firms in Taiwan: three food manufacturing companies and five department stores. More than one firm per sector was researched in order to allow literal as well as theoretical replications (Yin 1983). Two phases of data collection took place: from November 1995 to February 1996 and from July 1996 to September 1996.

7.2.1 Is the Construct of Market Orientation Useful?

- Issue 1: *Is the construct of market orientation, as it has been developed in the (mainly Western) research literature, useful for understanding the actual business practice of the case study Taiwanese firms?*

The concept of market orientation, as it has been developed in the research literature, means (in essence) “a strong focus on customers and competitors, and working well –

across functions – in order to deliver customer solutions that are superior to those of the competitors” (Best 1997: 9). Different theorists have placed their emphasis on different dimensions of market orientation, but, for the purpose of this research, as explained in Chapter 6 (Section 6.2.1), three major components of market orientation have been selected for special attention in this thesis: customer orientation, competitor orientation and inter-functional co-ordination. A fourth component highlighted in some of the literature (e.g. in Deng and Dart, 1994; Gray et al, 1998) – that of profit orientation – is, we have argued, much too general to encompass specifically within the concept of market orientation, since it is obvious that any business will seek to achieve and maintain profitability (see Chapter 2). However, there is some evidence that market orientation requires a strong orientation towards *long-run* as opposed to *short-run* profitability (Narver and Slater, 1990), and this has been taken into account in the present study as a potentially useful focus of attention.

The construct of market orientation is undoubtedly useful in understanding the actual business practice of the Taiwanese case firms (see Sections 6.5 and 6.6). The research findings point to the conclusion that indeed the managers of the case study companies have become increasingly aware of the importance of market orientation in general and of the three major components listed above. However, at the same time, the research clearly shows that (1) not all companies have achieved a strong overall market orientation or strong individual components of market orientation; (2) there are significant differences between the two sectors (food manufacturing and department stores) in terms of how market orientation is perceived and operationalised – differences which stem from some fundamental distinctions between the manufacturing and retailing firms in terms of physical network, cost structure, financial structure and the role of price (see Section 6.8.1); and (3) there are some business

practices of the Taiwanese firms which do not really fit with the distinctions that the construct of market orientation makes. In particular, on this third point, top managers of Taiwanese firms tend to be especially concerned with achieving a balance in their firms between (a) the demands of change and the need to be loyal to their firm's historical traditions of continuity; and between (b) the imperatives of an internal and external focus. This sense of "balance" may or may not be assisted by commitment to a particular type of market orientation. It all depends on the particular circumstances. Thus, this study reveals the need to distinguish between companies which have successfully used market orientation and those which have not. *In itself*, market orientation does not guarantee success. That success is *contingent* upon a range of factors besides market orientation itself.

If, as Deshpande (1999: 7) states, market orientation involves taking actions which "relate to targeting market segments and designing new products and programs or modifying existing ones to meet customer needs", then another important point to emphasise is that the notion of market segments does not mean exactly the same thing to food manufacturing companies and department stores (see Section 6.8.2). Also, the results of the 48 interviews with top managers suggest generally that different top managers – depending on their positions within their companies, age and experience – have different levels of commitment to, and understandings of, market orientation (see Section 6.5.3). From this it must be concluded that the usefulness of market orientation for understanding the actual behaviour of the case study firms depends a great deal on the values and attitudes of top managers. In the case of a company (e.g. Standard) where top managers generally understand and articulate the concept of market orientation, disseminating it throughout the entire organisation, then, not surprisingly, market orientation's importance is evident. However, in a company (e.g. Shin-Shin)

where top managers seem less aware of market orientation, do not fully understand it, doubt its value and, perhaps, disagree amongst themselves, then market orientation is not as important.

We have also found that it can be useful to compare a market orientation with other orientations – especially production orientation and sales orientation – which have previously had a great influence on firms' business philosophies and mode of operations. There is some evidence to show that in food manufacturing in Taiwan, as the market has matured and become more competitive, the early emphasis of firms on production and then on sales has been overtaken by a new realisation of the importance of the marketing concept and market orientation (see Section 6.4). This seems to be inevitable, but, at the same time, issues of production and sales do not disappear from the agenda of food manufacturers. If we turn to department stores, then there is no real equivalent to production orientation, and this means that market orientation cannot be applied to department stores in precisely the same way.

We have also noted the basic difference between the basic definitions of "customers" for the two sectors. For food manufacturers, customers are both their end-users and sales channels, but for department stores customers are end-users: the individuals who actually enter stores and make their purchases. For department stores, customers are actually "shoppers" in every sense of the word, not just "purchasers" (Corstjens and Corstjens, 1999: Chapter 6). Similarly, the notion of "competitors" is not understood in exactly the same way by firms in the two sectors: this is mainly because department stores are in fixed locations and compete within definable business circles where the competition is determined by physical proximity, whereas food manufacturers compete across the whole of Taiwan according to market segments which are not in physical proximity.

Thus, we conclude that the construct of market orientation is indeed useful for understanding the actual behaviour of the case study firms, but it certainly does not explain all aspects of that behaviour. It is not just a matter of saying, in simple terms, that one company has a stronger market orientation than another; rather, market orientation needs to be seen as a complex phenomenon, incorporating both beliefs and action at all levels of a firm's organisation (as will be discussed further in 7.2.2.), and it must also be understood in the context of the contrasting dynamics of different firms and sectors. No two firms and no two sectors are precisely the same. In some situations, commitment to market orientation may indeed be effective; in other circumstances it may not. Indeed, from the perspective of contemporary debates on organisational culture, there is strong evidence to suggest that the marketing concept cannot always be translated into an effective organisation-wide philosophy because there are often major barriers to this achievement. These barriers are both organisational (e.g. structure, systems, control mechanisms and strategy) and people-centred (e.g. imperfect decision-making, top management ability, and an over-concentration of marketing personnel). Furthermore, the notion of a market-oriented culture or business philosophy often seems to assume that an organisation has a unitary, highly integrated culture which can be effectively "managed" by senior management, whereas in reality many organisations may have more fragmented cultures which resist such top-down management. In such situations, the espousal of market orientation is worth little if it is not accompanied by effective implementation, and the latter in turn is difficult, if not impossible, if the cultural prerequisites are not present. (On these debates see the discussion in Harris, 1998; Harris and Ogbonna, 1999). The problem here seems to be that "marketing theory's understanding of the construct of culture is limited" (Harris, 1998: 370). In the context of the present research, we may add that most attempts in the literature to enhance that understanding have tended to focus on Western examples to

the exclusion of the experience of non-Western firms.

7.2.2 Does the Construct of Market Orientation Need to be Revised and/or Refined?

- Issue 2: *Are there any ways in which the construct of market orientation needs to be revised and/or refined to "fit" the actual business practice of the case study firms?*

The construct of market orientation has been continually revised and refined since it first became the subject of serious sustained discussion in the late 1980s. As Deshpande (1999: 2) points out, it is clear that ongoing research is needed "to better define, measure, and model the construct". In this respect, it is interesting to note that market orientation was first defined as an organisation-level culture emphasising "putting the customer first" (the cultural level); then the emphasis shifted to viewing market orientation as a set of activities relating to market-intelligence gathering and dissemination and responsiveness within the firm (the tactical level); and then an effort was made to consider market orientation in terms of a firm's whole external or outward focus, i.e. towards customers and competitors (the strategic level) (Deshpande 1999: 3). These trends suggest that one of the major problems relating to the construct of market orientation concerns *the level of analysis at which market orientation is seen to operate*. If we combine this dimension of the construct with the problem of defining *the major components of market orientation* (in terms, for example, of the distinction between customer orientation, competitor orientation and inter-functional co-ordination), then it is possible to propose a 3 x 3 matrix which reveals the need to sharpen the analysis of market orientation in each of nine dimensions (cells in the diagram) individually and in relation to one another (see Table 7.1; Tables 7.2, 7.3 and 7.4 show the three levels of

analysis for each component of market orientation in turn.). In particular, following Desphande (1999: 6), it needs to be stressed that hitherto market orientation has tended to be "measured" at the tactical level (boxes 7 to 9 in the matrix), but there has been less attention to the nature, scope and operation of market orientation at the cultural and strategic levels (boxes 1 to 3 and 4 to 6 respectively; shaded in Table 7.1), or indeed in terms of the relations between these levels.

Table 7.1 Market orientation: levels of analysis and major components

	<i>MARKET ORIENTATION COMPONENTS</i>		
<i>LEVEL OF ANALYSIS</i>	<i>CUSTOMER ORIENTATION</i>	<i>COMPETITOR ORIENTATION</i>	<i>INTER-FUNCTIONAL CO-ORDINATION</i>
CULTURAL	1	2	3
STRATEGIC	4	5	6
TACTICAL	7	8	9

Tables 7.2, 7.3 and 7.4 show the three levels of analysis for each component of market orientation in turn by using case firms' data. It must be stressed that the present study mainly interviewed the senior managers of case firms. Therefore, the tactical (operational) data are not as full as the data for the cultural (business philosophy) and strategic levels. To compensate for this shortage we include some measurement instruments from previous studies on the tactical level in the Tables.

Table 7.2 Market orientation: levels of analysis and major components (customer orientation)

● MARKET ORIENTATION COMPONENTS	
LEVEL OF ANALYSIS	CUSTOMER ORIENTATION
	1
CULTURAL (Business Philosophy)	<ul style="list-style-type: none"> ● "User friendly" (FEDS) ● "Three Bests and One Reasonable" (President) ● "Slim profit with more sales." (President) ● "With the sense of innovative advancement, we will use the top guideline "market orientation" in our management. Always think of consumers' interests first, ..." (President) ● "Stability, Growth, Customer Satisfaction, and Pursue Excellence." (Standard) ● "We put an emphasis on customers." (Tonlin) ● "We take customer orientation as a kind of business philosophy." (Tonlin) ● "Customers are the assets." (Printemps)
	4
STRATEGIC (Strategic Level)	<ul style="list-style-type: none"> ● Promote a five-year CS (customer satisfaction) programme. (FEDS) ● "Talking only of consumer orientation is not enough I think, because you need to do market analysis when you enter in a certain market, for example, SWOT analysis. You would consider what is the leading brand in the market, what is its strength, what is its weakness, and so on. The SWOT analysis must be done." (Standard) ● "Our company puts an emphasis on consumer surveys." (Standard) ● "Offering the best service is most important." (Printemps) ● "For example, our current sales promotion tactics are: <ol style="list-style-type: none"> 1. To maintain a two-digit sales growth. 2. To keep our old customers and on the other hand to create new customers. 3. To reach 25 per cent market share amongst those department stores in Taipei City.
	7
TACTICAL (Operational Level)	<ul style="list-style-type: none"> ● Regular customer satisfaction survey. (FEDS) ● "We have had many consumer tests with different test methods. We found a big difference in consumer behaviour and consumer habits in different areas." (Standard) ● "The periodical activities will be renewed every two weeks, for example jewellery exhibitions, leisure goods shows, shoe fairs etc., which provide not only better prices but also unbeatable satisfaction." (Sogo) ● Deng and Dart, 1994; Narver and Slater, 1990: <ol style="list-style-type: none"> 1. We encourage customer comments and complaints because they help us do a better job 2. After-sales service is an important part of our business strategy 3. We have a strong commitment to our customers 4. We are always looking at ways to create customer value in our products 5. We measure customer satisfaction on a regular basis 6. Our firm would be a lot better off if the sales force worked a bit harder 7. In our company marketing's most important job is to identify and help meet the needs of our customers 8. We define quality as the extent to which our customers are satisfied with our products/services ● Gray et al. (1998): <ol style="list-style-type: none"> 1. We encourage customer comments and complaints because they help us do a better job 2. After-sales service is an important part of your business strategy 3. We have a strong commitment to our customers 4. We are always looking at ways to create customer value in our products 5. We measure customer satisfaction on a regular basis

Table 7.3 Market orientation: levels of analysis and major components (competitor orientation)

MARKET ORIENTATION COMPONENTS	
LEVEL OF ANALYSIS	COMPETITOR ORIENTATION
CULTURAL (Business Philosophy)	2
	<ul style="list-style-type: none"> ● "We don't need to fight, like enemy, to death". (President) ● "Be nothing but the number one." (President) ● "To firmly establish a good management systems and conditions of a first-class enterprise." (Wei-Chuan) ● Chinese military strategy - "Her-Tzong Lian-Heng". (FEDS) ● Six competitive principles. (Sogo) ● "Stability, Growth, Customer Satisfaction, and Pursue Excellence." (Standard)
STRATEGIC (Strategic Level)	5
	<ul style="list-style-type: none"> ● Strategic alliances: seeking alliances with their competitors. (President) ● Creating competitive advantage according to firm's own position: Wei-Chuan: R&D President: R&D, Sales Channels Standard: R&D, Engineering, marketing, Education and Training FEDS: Store establishment strategy, Customer services, CS programme, Education and training Sogo: Customer services, Social programmes, Education and training ● "To pursue stability and growth is one of our operational strategies." (Standard) ● "There exists competition only in the same business circle and within the same business type (department store, but not other retailers)." (Sogo) ● Deng and Dart (1994) and Narver and Slater (1990) use following instrument to measure competitor orientation: We consider opportunities based on competitive advantage.
TACTICAL (Operational Level)	8
	<ul style="list-style-type: none"> ● Be able to identify competitive factors, such as merchandise mixture, service factors, leisure factors, etc. (Sogo) ● "We can learn from our competitors, if they have launched a better programme." (Shin-Shin) ● "It is very easy to imitate (copy) from our competitors in department store business. If our competitors have a good programme, we can learn from them very quickly." (Tonlin) ● Deng and Dart (1994) and Narver and Slater (1990) use following instruments to measure competitor orientation: <ol style="list-style-type: none"> 1. We regularly monitor our competitors' marketing efforts 2. We frequently collect marketing data on our competitors to help direct our marketing plans 3. Our salespeople are instructed to monitor and report on competitor activity 4. We respond rapidly to competitors' actions ● Our top managers often discuss competitors' actions ● Gray et al. (1998): <ol style="list-style-type: none"> 1. We regularly monitor our competitors' marketing efforts 2. We frequently collect marketing data on our competitors to help direct our marketing plans 3. Our salespeople are instructed to monitor and report on competitor activity

Table 7.4 Market orientation: levels of analysis and major components (inter-functional co-ordination)

MARKET ORIENTATION COMPONENTS	
LEVEL OF ANALYSIS	INTER-FUNCTIONAL CO-ORDINATION
	3
CULTURAL (Business Philosophy)	<ul style="list-style-type: none"> ● "To make our company the best working place for our employees." (Wei-Chuan) ● "We still insist on the traditional mentality of "harmony is valuable", and this belief is the most valuable corporate culture in the development process of President Enterprises Corporation." (President) ● "Talented people come first" (President) ● "One step leaves one footprint." (Standard) ● "Stability, Growth, Customer Satisfaction, and Pursue Excellence." (Standard)
	6
STRATEGIC (Strategic Level)	<ul style="list-style-type: none"> ● Continuously send managers abroad for training. (FEDS) ● Education/training department to train all levels of employees. (Sogo, President) ● Different education and training programmes for different level of employees. To educate employees internal customer concept is so impressive. (Standard) ● "To unify the employees and investors to prefer to involve them in the operation of the company." (Wei-Chuan) ● "Through the discussion of our corporate vision, we have our business philosophy thorough an understanding from top to bottom." (Standard) ● "My boss doesn't hire a manager from outside the company. He would prefer to promote a manager who knows his business philosophy well." (Standard) ● Leadership (Wei-Chuan)
	9
TACTICAL (Operational Level)	<ul style="list-style-type: none"> ● "The transfer of know-how is mainly through OJT (on-job-training)." (Sogo) ● "Our workers will report automatically if they find any quality problem, even if they doubt it." (Standard) ● Periodic sales/marketing meeting to exchange marketing knowledge and experience from different business groups. (President) ● Datta and Datta, 1994; Narver and Slater, 1990: <ol style="list-style-type: none"> 1. In our company the marketing people a strong input into the development of new products/services 2. Market information is shared with all departments 3. All departments are involved in preparing business plans/strategies 4. We do a good job integrating the activities of all department 5. The marketing people regularly interact with other departments on a formal basis 6. Marketing is seen as a guiding light for the entire firm <ul style="list-style-type: none"> ● Gray et al. (1998): 1. Market information is shared with all departments 2. We regularly have inter-departmental meetings to discuss market development 3. Our marketing people regularly discuss customer needs with other departments 4. The marketing people regularly interact with other departments on a formal basis 5. All departments are involved in preparing business plans/strategies 6. We do a good job integrating the activities of all department

Table 7.1 seeks to show the broad relationship between the three different levels of analysis and the three components of market orientation. The suggestion is not that a company must have all of these nine components, developed as fully as possible, in order to achieve maximum market orientation. Rather, the relationships between the cells (both horizontal and vertical in the diagram) tend to vary from organisation to organisation. For example, in the case of Standard (whose performance is "superior"), one of its business philosophies (at the cultural level) is "Stability, Growth, Customer Satisfaction, and Pursue Excellence". The emphasis on customer satisfaction clearly relates to customer orientation, while elements of "growth" and "pursue excellence" relate more to competitor orientation, and elements of "stability" and "pursue excellence" refer to inter-functional co-ordination – all at the cultural level (see the cultural level in Tables 7.2, 7.3 and 7.4). At the strategic level, Standard employs SWOT analysis and consumer surveys to enhance customer orientation (see the strategic level in Table 7.2). The company's operational strategy is "to pursue stability and growth", and "to create its own competitive advantage" can also be seen to operate at the strategic level of competitor orientation (see the strategic level in Table 7.3). Furthermore, the company's different education and training programmes for different levels of employees, emphasising the inculcate the internal customer concept, is also impressive. All this evidence suggests that Standard seeks to implement its business philosophy, through its corporate vision, from the top to the bottom of the organisation. This effort relates to the strategic level of inter-functional co-ordination (see the strategic level in Table 7.4). This brings us to the tactical level of analysis. The statements that "We have had many consumer tests with different test methods," and "Our workers will report automatically if they find any quality problem, even if they doubt it," are evidence of the operationalisation of market orientation at the tactical level (see the tactical level in Tables 7.2 and 7.4). This example of Standard illustrates

the importance of looking at the different cells in Table 7.1 individually and collectively, and to examine the complex relationships between them. Such a view goes a long way towards recognising that organisations are not unitary, monolithic entities but consist of a plurality of components and levels of operation, and acknowledging that previously studies of market orientation have tended to give this fact insufficient recognition.

In different situations, different firms seek to enhance their market orientation in different ways, giving priority to selected components of the model in Table 7.1. For example, facing the increasingly strong competition of the department store business in Taiwan, and under its business philosophy, "user friendly," FEDS promoted a five-year CS (customer satisfaction) programme (see the strategic level in Table 7.2) to enforce its leading position in Taiwan's department store business (see the tactical level in Table 7.2). It considered this to be more important than taking further initiatives in relation to competitor orientation and inter-functional co-ordination.

The present research suggests that, at the cultural level, a refinement of the concept of business philosophy and the important role of senior managers in inculcating, maintaining and shaping that business philosophy is desirable. The typical fragmentation of organisational culture needs to be recognized (instead of stressing the paradigm of a unitary, highly integrated culture), and the constraints on senior management's capacity to manage business philosophy from above need to be appreciated. This conclusion is in line with the suggestion by Harris and Ogbonna (1999: 190) that "the limitations of existing conceptualizations and theories of developing a market oriented culture indicate that further theoretical development is required". At the strategic level, more attention needs to be given to the different ways in which, in different firms and different sectors, specific strategies can contribute to the implementation of market orientation. Furthermore, at the tactical level, previous

studies have proposed well-developed measurement instruments which can be used (see the tactical level in Tables 7.2, 7.3 and 7.4). We believe that the 3x3 dynamic model of market orientation (Table 7.1) contributes to the further refinement and sharpening of the construct of market orientation. In practice, any company needs to tailor its own different levels of analysis and different components of market orientation to match its own particular position. This will involve identifying those areas (represented by "cells") in which, for whatever reasons, there are significant barriers to the effective implementation of market orientation.

In terms of the link between market orientation and business environment, the crucial issue here is whether market orientation is best seen as an independent or dependent variable. The construct needs to be refined to make this clearer because otherwise there is a danger of seeing market orientation in isolation from a firm's environmental situation. Perhaps, as seems likely from the present research, market orientation is more crucial in some situations than in others. If this is so, then to simply designate market orientations as "strong", "moderate" or "weak" (for example) does not tell us very much. Two more important questions are: *At what level of operations is market orientation weak? And in terms of which component is market orientation weak?* Furthermore, the quality of *integration* or "*balance*" between the levels and components is of vital significance. The traditional notion of imposed monolithic unity in a company is not supported by the increasing empirical evidence that organisations are usually fragmented and, in many respects, difficult to manage from above. All this suggests that in the past "concepts such as the marketing concept and market orientation have been too narrowly focused" (Harris, 1998: 368). The findings of the present research point to a number of ways in which efforts should now be made to overcome these limitations.

7.2.3 The Relationships between Market Orientation, Business Philosophy, Business Environment and Performance

- Issue 3: *How are the relationships between market orientation, business philosophy, business environment, and performance best understood in relation to the actual business practice of the case study firms?*

7.2.3.1 The Relationship between Business Environment and Business Philosophy

We find that among the case study firms the changing business environment has often led to a change of business philosophy. In particular, this is true of the older companies: Wei-Chuan, President and FEDS. As they have grown and their markets have matured and become more competitive, their managers have come to realise the need for change. With the younger companies, such as Standard, Tonlin, Sogo and Printemps, it is not so easy to see any significant change in their business philosophies as a result of business environment change for the simple reason that sufficient longitudinal data are not available. The influence of business environment change on business philosophy clearly needs long-term observation. As stressed above (see Section 7.2.1), it is also clear that for Taiwanese firms in general there is a particular concern with striking the right balance between continuity and change, and between an internal and external focus. It is too simplistic to state that business environment change automatically "triggers" a change of business philosophy and hence a movement towards enhanced market orientation. In each case, managers make up their own minds about the potential benefits of introducing change in their companies, balancing this against the desirability to remain "true" to the firm's traditions and the founding fathers' intentions. They also consider carefully the ways in which a balance can be struck between a firm's internal and external focus.

To take some examples, President has entered different businesses according to the changing needs and wants of consumers at the different stages of development of Taiwan's economy (Ref. A.2.2.1). Their business philosophy, according to Deng and Dart's (1994) business definition, has changed from a production orientation to a sales orientation, marketing orientation and then to a societal orientation (Ref. A.3.2). But this typology does not really explain *why* and *how* these changes occurred. What is needed is a more in-depth understanding of the synergy within President at all levels of analysis and among all components of market orientation in order to understand the particular dynamics of the company's transformation. This is not always easy. For instance, we have found in this study that a societal orientation is particularly difficult to categorise: it does not seem to *replace* a marketing orientation but is often seen to *consolidate* such an orientation. In this sense, we might say that a societal orientation should be seen as a further development of a marketing orientation, very similar in some ways to the tendency of Western firms to develop a strong stakeholder orientation and to respond to demands to become more socially accountable (Section 2.5). What we have noted, however, is that in Taiwan, as a result of cultural tradition and embedded values, there is often a strong impetus for companies to see themselves as part of the wider society. This is a cultural and historical phenomenon which drives firms towards a certain kind of external focus and which embraces a complex mixture of continuity and change in a firm's evolution.

Not all changes in business philosophy result directly from changes in the business environment. This would be much too simplistic an explanation. For example, although Shin-Shin's business philosophy has changed from "service to the public and being charged with placing retired servicemen as well as their dependants in employment" to "earning profit for survival", this was due to pressure being exerted by the company's

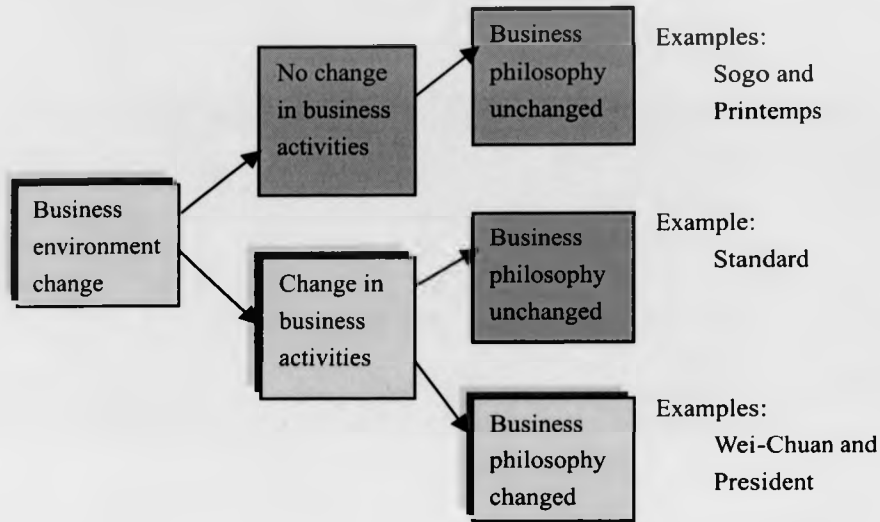
shareholders (Ref. B.2.3.1). This is a good example of the impact of contingency on a firm's development. What we can, say, however is that Shin-Shin was placed in a very restricted position by the force of its historical origins, and in order to overcome those restrictions, the conservatism of a philosophy of "continuity" had to be replaced by an enthusiasm for change.

Another variation is illustrated by the case of Standard, which is a young company whose business philosophy, based on a marketing orientation according to Deng and Dart's (1994) typology, remains unchanged. However, Standard has changed some of its business activities as the business environment has changed, especially after its investment into Mainland China. (Ref. A.3.1.6)

Tonlin is a special case since it was, to begin with, a construction company, but its shareholders decided to invest in the department store business in the mid-1980s. Since then it has not changed any major business activities as a result of business environment change. Therefore it has not introduced any significant changes in its approach to managing a department store. But from the shareholders' viewpoint, the changing business environment has certainly influenced the original company's business activities. Many of the shareholders became the department store's top managers. (Ref. B.3.2.1)

Figure 7.1 presents the variable relationships between business environment change, business activities and business philosophy.

Figure 7.1 The relationship between business environment change, business activities and business philosophy



7.2.3.2 The Relationship between Business Environment and Market Orientation

In the task business environment, managers are primarily concerned with customers and competitors. In the general environment, there are broader trends, e.g. in the economy and the political system, which managers need to monitor. Both sets of factors need to be incorporated in a company's market orientation. Changes in the task environment require suitable responses in the form of appropriate marketing changes if a company is to maintain its market interests and short-term profits. This is a matter of innovation at the tactical level (see Tables 7.1 to 7.4), where most of the routine work of sales and marketing managers is concentrated. Changes in the general environment require responses at the strategic level (see Tables 7.1 to 7.4) to maintain a firm's market interests and long-term profits. This level involves mainly the higher-level managers and the non-routine work of sales and marketing managers. Previous studies

have generally not appreciated the different impacts of changes in the task and general environments on market orientation, including the shifts in emphasis on short- and long-term profits. These factors become especially significant when the market is in recession and firms have to take major decisions about how they can best maintain sales and profits. In other words, environmental changes can have different impacts on various parts of a company's operations, including the components and levels of market orientation, as presented in Table 7.1.

7.2.3.3. The Relationship between Business Philosophy and Market Orientation

Business philosophy (at the cultural level in Tables 7.1 to 7.4) has a significant influence on the nature and scope of market orientation in the corporate organisation, i.e. at the tactical and strategic levels. But this influence can be direct or indirect, and it can be positive or negative, thus allowing four possible combinations as shown in Figure 7.2. In Taiwan there are some particular situations in which the relationship is positive or negative. If the following conditions are met, the influence is likely to be positive. First, the company's business philosophy must include a marketing concept and/or more components of market orientation. Secondly, the marketing concept and/or market orientation must be effectively implemented. The case of President clearly demonstrates such a positive influence. President has incorporated market orientation in its actual business philosophy (Ref. A.2.3), even though its intended business philosophy emphasises a societal orientation. The gap between intended business philosophy and actual implemented business philosophy is perhaps a result of a delay in implementation. But we can certainly see the positive and direct influence of this business philosophy on market orientation.

Sogo and Standard are also cases of the positive and direct influence of business

philosophy on market orientation. However, in the case of Printemps, a new company, the situation is not clear because of insufficient data. On the other hand, Wei-Chuan's and Shin-Shin's business philosophies have a negative influence on market orientation. Wei-Chuan's "safety" philosophy has directed the company's operation towards a conservative business style. This has indirectly influenced Wei-Chuan's response to environmental change. Therefore, Wei-Chuan's business philosophy has negatively and indirectly influenced its market orientation.

Figure 7.2 The four patterns of business philosophy's influence on market orientation for the case firms

Direct	Shin-Shin	Sogo President Standard
Indirect	Wei-Chuan	FEDS
	Negative	Positive

Note: Printemps is not included because of insufficient data.

FEDS' business philosophy – "user friendly" -- has had a positive influence on the company's market orientation, but it is so vague that the influence must be described as indirect. Shin-Shin's business philosophy, "providing service to the public and being charged with placing retired servicemen as well as their dependants in employment", has directly and negatively influenced its market orientation. Its business philosophy has influenced the company to become a non-profit seeking company. Therefore, Shin-Shin's business philosophy has weakened its profit orientation, but, as already

explained, for the sake of survival in the market, Shin-Shin needs to look for profits. This has resulted in a conflict of business philosophies in the company. Therefore, Shin-Shin's business philosophy has directly and negatively influenced its market orientation.

It is also important to emphasise that for Taiwanese firms business philosophy involves more than a production, sales, marketing and/or societal orientation. It also embraces a much broader philosophy of business management, in particular, as already highlighted, the need to achieve balance in the continuity/change and internal/external dimensions. This is an aspect which most Western literature has not sufficiently appreciated.

7.2.3.4 The Relationship between Market Orientation and Performance

This study finds that the more effectively a firm performs in all three major components of market orientation, the better the overall market performance. Section 6.5.2 reviewed and analysed the degree of each component of market orientation amongst the case firms. A comparison of case firms in terms of the degree of market orientation and their performance was presented in Table 6.10 and 6.18. Table 7.5 reorganises these data to show the rank order of the case firms' actual financial performance.

The data suggest that customer orientation is the most important component of market orientation amongst case firms (and indeed no top manager claims otherwise), followed by competitor orientation and inter-functional co-operation. Together, customer orientation and competitor orientation may be seen as parts of a firm's outward market focus, while inter-functional co-ordination may be seen as a firm's inward organisational capability. This distinction highlights the vital significance of an outward focus for effective market orientation. However, as already stressed, for

Taiwanese firms getting the right balance between an internal and external focus is a particularly important challenge.

Table 7.5 A comparison of case firms in terms of the degree of market orientation and their performance in actual financial performance order

No	Case Firms	Customer Orientation	Competitor Orientation	Inter-functional Co-ordination	Actual financial Performance
1.	Sogo	Strong	Strong	Strong	Superior
2.	Standard	Strong	Moderate	Strong	Superior
3.	President	Strong	Strong	Moderate	Very Good
4.	FEDS	Strong	Moderate	Moderate	Good
5.	Tonlin	Moderate	Weak	Moderate	Fair
6.	Wei-Chuan	Moderate	Weak	Weak	Fair
7.	Shin-Shin	Weak	Weak	Weak	Poor

Note: Printemps is not included because of insufficient data.

It is clear from the research data that although the top managers of all the case study firms tended to endorse the importance of customer orientation, the actual performances of their companies did vary. One possible explanation for this is that in the companies whose performance is unsatisfactory the marketing concept is not fully and consistently implemented. For example, although Tonlin's top managers emphasise customer orientation, some of the added value special services are neglected because of the managers' rush to achieve the sales target within their short tenure of office. Similarly, Shin-Shin's top managers do have much to say about their understanding of customers' needs. They concentrate on how to offer more facilities to attract more customers into the store, but they cannot be sure that, once in the store, the customers' purchasing behaviour will match the desired levels. Furthermore, there is clear evidence to show that if a company wishes to be successful, it must place an

emphasis on both customer and competitor orientation, and must not neglect either of them. It is not always enough, therefore, to express a commitment to customer orientation.

The question of inter-functional co-ordination is complex. Many previous studies have stressed the significance of such co-ordination for the successful implementation of the marketing concept (see Section 2.2). However, inter-functional co-ordination is a very broad concept which needs to be explored in more depth. Table 7.4 shows that the expression of inter-functional co-ordination can be seen at each of the three levels of analysis. First, at the level of culture (business philosophy) the importance of having a shared organisational ethos overriding departmental boundaries is highlighted. In terms of market orientation, this means that the whole company should be committed to the importance of the marketing concept. Each part of the company must recognise how its own contribution relates to the contributions of other parts. At the strategic level education and training, and cross-departmental committees and teams of various kinds (e.g. President's Manufacturing Consumer Research committee) play the key role in promoting the generation, dissemination and implementation of market intelligence. At the tactical level the main issue is the relationship between marketing specialists and the staff of other departments, e.g. manufacturing, purchasing, R & D, and engineering. In the end, inter-functional co-ordination at all three levels is a fundamental responsibility of management. No two companies are the same, however, in terms of their specific management structures and capacities for effective co-ordination.

7.2.3.5 The Relationship between Business Philosophy and Business Performance

This study has found that business philosophy has an influence on the operations and performance of the case firms. However, the nature and extent of that influence varies

between case firms. There may be a positive and/or negative influence. For example, from the viewpoint of the safe operation of a company, Wei-Chuan has a positive result in terms of one of its philosophies – “safety”. But, on the other hand, the “safety” philosophy has a negative influence on Wei-Chuan because the company follows the safety principle. Therefore, from the start Wei-Chuan ran its business in a steady manner, but it was too conservative and generated less growth than its competitors.

President has a societal marketing orientation business philosophy in order to establish a business that can offer more jobs and supply cheap and good quality products to the public. Chairman Wu said, “slim profit with more sales”. This has influenced President’s pursuit of long-term but not high profits. Its business philosophy of “Integrity and Diligence” expresses the spirit of President in establishing a conglomerate business. Under the management strategy of “every moment is running for tomorrow”, President has continuously extended its new business to different fields, and has gradually become a diversified conglomerate. Now, President has more than thirty affiliate companies and its annual sales revenue exceeds NT\$ 50 billion.

Generally speaking, Standard’s business philosophy is “Stability, Growth; Customer Satisfaction; and the Pursuit of Excellence.” The top manager sets high growth and high profit targets to challenge managers. The way to achieve these targets is by customer satisfaction and by creating competitive advantage. As a result the company’s operation is superior.

FEDS’ business philosophy is “User Friendly”. Following this philosophy, FEDS has implemented a customer satisfaction programme. The implementation of customer satisfaction makes FEDS a customer-oriented and higher performance company. This helps to explain why the company has kept its leading position in

Taiwan's retailing market.

For the past 25 years, Shin-Shin has been struggling with the conflict between taking care of retired servicemen and making profits for its survival. It is very difficult to find an equilibrium point, which is why managers have had difficulty in running the company.

Although department stores are a high growth industry in Taiwan, the performance of Tonlin does not show this pattern. The reasons, from the viewpoint of business philosophy, may come from the predominance of short-term considerations and this conflict with the business philosophy, which is not adhered to either by the management team or the company as a whole.

Sogo's business philosophy focuses on customer orientation and includes a clear operational strategy. Sogo achieved better customer satisfaction by offering better service through better service personnel. Therefore, Sogo emphasises human resources. Sogo has many education and training programmes for different levels of its employees. This is the way in which it implements its business philosophy, achieves customer satisfaction and creates competitive advantage. Therefore, the well-trained employees make customers feel satisfied and create superior performance, as shown in the company's financial data. The superior performance enables the company to provide more education and training for its employees and to increase its competitive advantage. Sogo has formed a virtuous circle in the company.

7.2.3.6 The Relationship between Business Environment and Business Performance

There can be no doubt that the business environment has a direct influence on business performance. It is common sense for any manager that when external economic

conditions worsen, business performance is also likely to suffer. For example, the Taiwan economy was in recession during the period when the fieldwork for this research was undertaken. Not surprisingly, four of the case firms' financial data showed a worsening of financial results. (See Tables 6.3 and 6.12) However, one of the case firms was not affected by the economic recession: Sogo. Sogo maintained a two-digit sales growth in the mid-1990s even though the Taiwanese economy was in recession. This demonstrates just how important a clear business philosophy is and how important it is to implement that philosophy effectively (see Sections 6.4 and 6.6).

The precise influence of business environment on business performance varies between case firms. For example, a sales channel change was perceived to be an important business environment change by most of the top managers of the food manufacturing case firms. President built its own sales channels and achieved a better position than its major competitors. Wei-Chuan, on the other hand, was not successful in building its own sales channels and finished up in a worse position. Compared with Wei-Chuan and President, Standard is a young and medium-size company. It was not possible for Standard to build its own sales channels. But Standard took advantage of the modern sales channels and got a very good result (Ref. A.3.2).

The interesting question is: why when the top managers perceived the same business environment change and took the same action (intending to build their own sales channel), were the results different? The willingness to take risks may be one of the answers. From the viewpoint of taking risk, Wei-Chuan's top manager did not like taking too much risk because of his philosophy of "safety". On the other hand, President's top managers demonstrated a higher willingness to take risk than the top managers of Wei-Chuan. President was influenced by the philosophy of "every moment is running for tomorrow ... slim profit with more sales ... pursuit of high

growth ...virtue is the first, money is the least." Therefore, although President invested in the retail market (7-eleven convenience stores) in order to establish its own sales channels and lost money in the first eight years, the company could tolerate such a long period of loss, but Wei-Chuan could not.

The propensity to take risks is clearly related to the dimension of continuity and change which has been discussed above (see Section 7.2.1). Faced with far-reaching environmental change, a firm's managers must consider how innovative to be and whether to move in new directions at the levels of culture, strategy and/or tactics. At the cultural level, this creates obvious difficulties: it is never easy to change a firm's culture and implement a new business philosophy quickly. The concept of "cultural entrenchment" refers to "the extent to which the culture of an organization is firmly established" (Harris and Ogbonna, 1999: 188). Ironically, if a firm has a "strong" organisational culture, it may be difficult to change because it is "entrenched". This is important in terms of a firm's capacity to respond to environmental change, since that capacity will depend to a large extent on "the mental models which employees use to make sense of their environments" (Harris, 1998: 363). Since those mental models are likely to be different, the idea of a single organisational-level response to environmental change may be unrealistic. In different firms, the main components of organisational culture are likely to show different degrees of adaptability. (*ibid.*: 367). In other words, two firms may identify the same changes in the business environment, but their capacities to respond effectively to those changes may differ, and this will depend on the adaptability of the organisations' cultural, strategic and tactical levels of operations. Thus, it seems clear that if two firms facing environmental changes have different performance outcomes, then the explanation must be sought in the different managerial responses to those changes and, most importantly, in the extent to which

managers actually succeed in bringing about the intended organisational changes.

7.2.3.7 The Overall Relationships between Market Orientation, Business Philosophy, Business Environment, and Business Performance

The case study firms exhibit a variety of patterns of development which point to the conclusion that the relationships between market orientation, business philosophy, business environment and performance are exceedingly complex and are characterised by dynamics which fluctuate according to a variety of organisational and people factors. Market orientation is partly a feature of a firm's business philosophy (at the cultural level) but it is expressed in business practice at the strategic and tactical levels. It also consists of three major components: customer orientation, competitor orientation and inter-functional co-ordination. Accordingly, the influence of a changing business environment on market orientation requires a much more complex description than that suggested in a simple orthodox model such as that presented in Figure 2.6.2 (in Chapter 2). The same environment change may be perceived in different ways by the managers of two different firms; and even if it is perceived in the same way, it may lead to different responses (or indeed no response) in the two cases. If there is a response, then it needs to be mapped at the three levels of analysis and in terms of the three components shown in Table 7.1. Changes in the task environment are particularly significant for the tactical level of a firm's operations, and changes in the general environment are particularly significant for the strategic level. In all these cases, there may be major barriers within the organisation which inhibit and even prevent the successful implementation or strengthening of market orientation. For example, it is never easy to change a firm's business philosophy or broader organisational culture quickly.

Market orientation cannot be reduced to just one universal form or pattern. The dynamics of market orientation vary in terms of the three levels of analysis and components identified in this analysis. We have suggested that in the Taiwanese case firms market orientation is best seen as a mechanism through which managers can respond to environmental change in order to achieve a balance between the imperatives of change and continuity, between the need for an internal and external focus. All these dimensions have an effect on a firm's business performance. In some cases, the adoption or enhancement of market orientation or the shift to a new pattern of market orientation may lead to improved performance, but this result cannot be guaranteed. If a market orientation is adopted, then further change in the business environment may indeed "moderate" the anticipated effects of market orientation on performance, but the business environment cannot simply be reduced to the role of a "moderating variable" as in Figure 2.6.2. It is much more than this. At the same time, it is quite difficult to "measure" or assess the direct impact of market orientation on performance and the moderating effect of business environment change on that relationship, because these impacts take some time to become apparent. In the present research, performance data only covered a five-year period. This makes it impossible to chart the trend of the long-term impact of changes in market orientation and the moderating role of business environment change.

It is important not to leave the skills and experience of senior managers out of this account of the relationships between market orientation, business environment, business philosophy and performance, since all of these relationships can, in different situations, be well or badly managed. In particular, organisational change requires highly effective management, especially at the implementation stage, if it is to be successful. One of the major weaknesses of existing models of market orientation is

that managers seem to be conspicuous by their absence. This omission is regrettable since, in practice, there can be no doubt that the most successful firms are those with the best managers and with the most effective leadership. Successful market orientation requires managers who understand the complex dynamics associated with the construct and who can translate those dynamics into practical solutions at the strategic and tactical levels. In Taiwanese firms, for historical and cultural reasons, there is a strong emphasis on a top-down view of successful management; but there is also an emphasis on the importance of "harmony" and "balance" within the firm at all levels. This means that any attempt to explain market orientation in Taiwanese firms must take into account these specific factors, which have generally been overlooked in the Western literature.

7.2.4 Validity or Non-validity of Western Theories and Models of Market Orientation in relation to a non-Western country

- Issue 4: *What does our research tell us more generally about the validity or non-validity of Western theories and models of market orientation in relation to business practice in a non-Western country, Taiwan?*

This thesis has sought to show that Western theories and models of market orientation are of some value in the analysis of Taiwanese firms, but in other respects those theories and models are in need of further revision and refinement. The values, norms and expectations which underpin business behaviour in Taiwan are not identical to those which prevail in the Western world, and approaches to management in Taiwan inevitably bear the imprint of Taiwan's specific social, economic and political circumstances. When we consider the case study firms studied in this thesis, it is clear that market orientation explains certain, but not all, features. Furthermore, the various components and levels of analysis of market orientation tend to be framed by

Taiwanese senior managers within a mental view which stresses the importance of organisational *balance* across two major dimensions: balance between an internal and external focus (see Section 7.2.4.1); and balance between continuity and change (Section 7.2.4.2). Market orientation is of most interest to Taiwanese senior managers as a mechanism for responding to change in the business environment and achieving the desired balance between the two aforementioned dimensions (7.2.4.3).

7.2.4.1 Achieving Balance between an Internal and External Focus

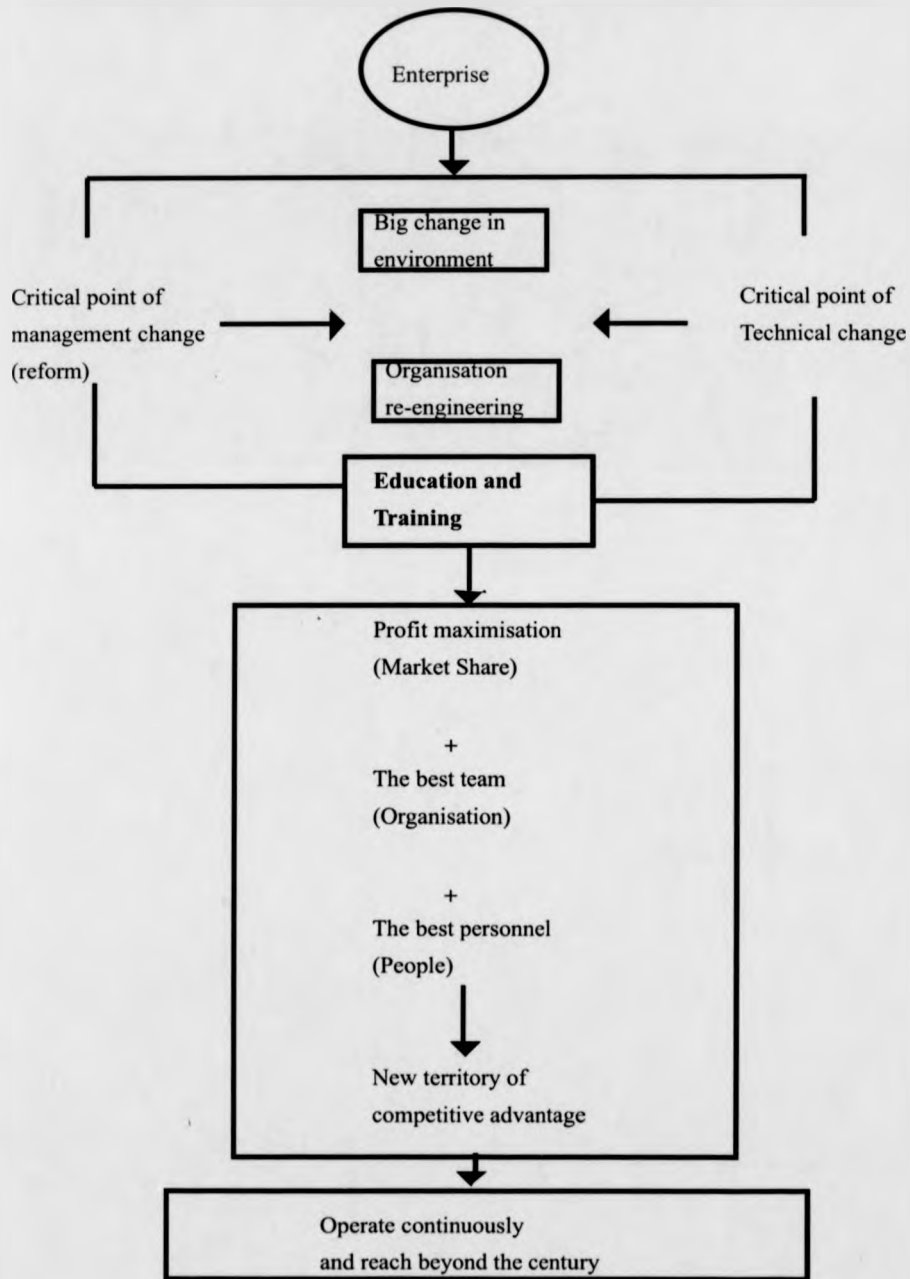
Often Taiwanese firms have themselves imported business "know-how" from other cultures (e.g. from Japan and continental Europe), and it is interesting to find that such cultural transfer has affected attitudes towards market orientation (e.g. Tonlin moved from an emphasis on product quality to an emphasis on customer services).

As discussed in Section 6.3, the challenge involves shifting the focus of Taiwanese firms' business philosophies from an *internal* focus to a more distinct *external* focus in which the *marketing concept* is applied in a full-scale market orientation (and not just to the activities of the marketing department). If marketing management is the conscious effort to achieve desired exchange outcomes with target markets (Kotler, 1991; Deng and Dart, 1994), then Taiwanese firms have traditionally not incorporated such a focus in their business philosophies. In this sense, their business philosophies have not generally been framed from a marketing point of view. However, the present research has produced evidence that this limitation of Taiwanese business philosophies has been significantly reduced in recent years, and that now many more companies are consciously including a marketing focus in their statements about corporate principles, values and goals and show positive results (e.g. Standard, President and Sogo).

At the same time, it is important to stress that the movement towards a market

orientation does not imply the elimination of an internal focus. Indeed, as we have already noted, a key component of such an orientation is "inter-functional coordination" (see section 2.2), which means that a company with a strong market orientation must ensure that this orientation is implemented throughout the various departments of the organisation and not just (for example) within the marketing department. The present research reveals that the most successful case firms (e.g. Sogo, Standard and President) emphasise the importance of education and training as well as developing their own competitive advantage. The emphasis can be seen from their business philosophies (culture), and at the strategic and tactical (operational) levels (see Section 6.3 and Table 7.4). The case of Sogo is particularly revealing since the company has a philosophy which emphasises the continuous education and training of employees, and human resource development more generally, as a means of handling environmental changes and achieving competitive advantage (see Figure 7.3). The company uses this approach to strike the necessary balance between an internal and external focus, and to achieve both employee and customer satisfaction. However, it does not refer to this as "market orientation". For example, when confronted by a major environmental change, such as increased competition from other department stores and other types of business, Sogo's approach is to make sure that its employees understand this change and know what is expected of them if the company is to retain its market position. This is also likely to involve training in new skills and an emphasis on teamwork. With the "best team" and the "best personnel", Sogo believes that it cannot fail.

Figure 7.3 The Sogo's administrative manager's opinion of the importance of employees' education and training to his company



Source: Sogo

7.2.4.2 Achieving the Balance between Continuity and Change

The key challenge facing the Taiwanese top manager is that he/she needs to carefully incorporate the imported new business management theories or models with the old traditions. The research shows that President is a very successful case in this respect because it has integrated Confucian beliefs with a modern "market orientation" (Ref. A.2.3). It has done this by carefully reviewing its corporate vision every ten years.

A further observation which emerges from this research is that a company that has an appropriate business philosophy but does not have the capability to implement it will perform less well. As shown in section 6.4, there are gaps between the intended and actual business philosophies of some of the case firms. We summarise the intended and actual implementation of their business philosophies and the performance of the case firms for the two sectors in Table 7.6.

Table 7.6 A comparison of the case firms in terms of their intended and actual business philosophies and their overall performance

Case Firms		Business Philosophy				Performance
		Production Orientation	Sales Orientation	Marketing Orientation	Societal Orientation	
Sogo	Intended				✓	Superior
	Actual			✓	✓	
Standard	Intended			✓		Superior
	Actual			✓		
President	Intended				✓	Very Good
	Actual			✓	x	
FEDS	Intended				✓	Good
	Actual			Δ	x	
Wei-Chuan	Intended				✓	Fair
	Actual		✓		x	
Tonlin	Intended			✓		Fair
	Actual		✓	x		
Shin-Shin	Intended				✓	Poor
	Actual		✓		x	

✓ : Yes x : No Δ: moderate

Note: Printemps is not included because of insufficient data.

The question thus arises: Is the gap between intended business philosophy and actual implemented business philosophy caused by a company's basic incapacity to achieve such implementation? Referring to Table 7.6, we can see that marketing orientation is a critical marketing concept for the case firms. The companies, such as Sogo, Standard and, President which actually implemented a marketing orientation achieved excellent performances. On the other hand, the companies, such as Wei-Chuan, Shin-Shin and Tonlin, which actually implemented a sales orientation gained only fair or not good performances. This difference implies that to implement a more recent and "mature" marketing concept is in itself better than to implement an older one, *even if there is a gap between the intended and actual business philosophies.*

7.2.4.3 Achieving Balance through Market Orientation

Our study of Taiwanese firms suggests that market orientation is most accurately viewed as a mechanism for achieving balance across the two dimensions discussed in 7.2.4.1 and 7.2.4.2. Most importantly, market orientation involves understanding and grasping the changing market (business environment). The three components of market orientation are not exclusive. There exists some degree of logical inter-relationship among them. This involves responding to both changing customer needs (in particular markets and market segments) and the changing behaviour of competitors who may themselves be seeking to strengthen their own market orientation. The present research suggests that most Taiwanese senior managers regard customer orientation as more important than competitor orientation. Furthermore, the managers prefer to use "competitive advantage" rather than "competitor orientation". This reveals that Chinese philosophies tend to be more "inward" than "outward." As we suggest in Section 7.2.2, a 3x3 matrix, revealing a multi-dimensional and dynamic concept of

market orientation, may be more suitable for Taiwanese managers who wish to implement market orientation. Table 7.7 provides an example of three levels of analysis of major components of market orientation by using field data from the case firms. The senior managers can review and define their market orientation by using this 3x3 matrix to fit their own corporate positions. Academics need to put more effort into developing a parsimonious model of market orientation to include the cultural and strategic levels, not just the tactical level (see Tables 7.1 to 7.4 and 7.7).

Table 7.7 Market orientation in practice: illustrative examples from the case study Taiwanese firms

	MARKET ORIENTATION COMPONENTS		
LEVEL OF ANALYSIS	CUSTOMER ORIENTATION	COMPETITOR ORIENTATION	INTER-FUNCTIONAL CO-ORDINATION
CULTURAL (Business Philosophy)	1 User friendly. (FEDS)	2 Six competitive principles. (Sogo)	3 <i>Stability, Growth, Customer Satisfaction, and Pursue Excellence.</i> (Standard)
STRATEGIC	4 Promote a five-year CS (customer satisfaction) programme. (FEDS)	5 There exists competition only in the same business circle and within the same business type (department store, but not other retailers). (Sogo)	6 Different education and training programmes for different level of employees. To educate employees internal customer concept is so impressive. (Standard)
TACTICAL	7 Regular customer satisfaction survey. (FEDS)	8 Be able to identify competitive factors, such as merchandise mixture, service factors, leisure factors, etc. (Sogo)	9 Our workers will report automatically if they find any quality problem, even if they doubt it. (Standard)

7.3 RESEARCH CONTRIBUTIONS

The basic aim of this study, as its title indicates, is to explore and understand the complex relations between a company's market orientation and its business environment, business philosophy and performance on the basis of a study of the food

manufacturing and department store companies. It has sought to achieve this aim through the adoption of a qualitative approach providing an in-depth analysis of the views, observations, values and experience of 48 top managers in a total of eight survey firms (three in food manufacturing and five department stores). In these respects, the analysis extends the scope of previous studies of market orientation in a number of ways:

- It highlights the conceptual confusion evident in much of the literature on market orientation.
- It presents a wealth of rich data relating to how Taiwanese managers view and apply the construct of market orientation in their own firms and highlighting the the similarities and differences between managers' perceptions both in and between firms.
- It uses these data to draw some inter-firm and inter-sector comparisons (in Chapter 6) in terms of four major research foci relating to the strength, antecedents and influence of market orientation and its components.
- It shows that the construct of market orientation is useful in understanding the actual business practice of Taiwanese case firms, but it does not explain all aspects of that practice. (Key issue 1)
- It suggests that the construct of market orientation needs to be revised and/or refined to "fit" the actual business practice of the case study firms. A 3x3 matrix representation of market orientation is suggested (see Table 7.1). This differentiates between the three components of market orientation (customer orientation, competitor orientation, inter-functional co-ordination) and three

levels of analysis (cultural, strategic, tactical). The synergy between the resulting nine "cells" is the source of market orientation's dynamism. (Key issue 2)

- It shows that in the case study firms the relationships between market orientation, business philosophy, business environment and performance are exceedingly complex and are characterised by dynamics which vary according to a wide variety of organisational and people factors. (Key issue 3)
- It shows that in the case of Taiwanese firms market orientation serves primarily as a mechanism by which firms respond to changes in the business environment in order to achieve balance between an internal and external focus, and between continuity and change. (Key issue 4)
- It proposes ways in which the construct of market orientation can be operationalised more effectively to encompass its multi-dimensional (three-component, three-level) and historically dynamic nature, thus contributing to the task of theory generation.
- It highlights the gap between market orientation as seen by academic researchers and market orientation as seen by business practitioners.
- It demonstrates the value of a qualitative analysis to the study of market orientation.
- It examines market orientation from the viewpoint of a non-Western researcher and in relation to non-Western business philosophy and practice.

7.4 MANAGERIAL IMPLICATIONS

The findings of this research suggest a number of major implications for top managers in their business operations. Although this study is limited to eight case firms in Taiwan, it is hoped that the resulting insights will be of interest to managers in other industrial sectors and in other countries.

- *The need to appreciate that market orientation, if applied in relation to a firm's particular circumstances, can contribute greatly to the enhancement of business performance. This task can be facilitated by the use of a 3x3 matrix representing market orientation's three components and three levels of analysis (see Table 7.1).*

From this study, we find that market orientation is in many situations a critical business philosophy. For example, the companies, such as President, Standard and Sogo, which actually implemented a market orientation gained an excellent performance. However, market orientation is not a panacea. It is also a complex construct involving three major components (customer orientation, competitor orientation and inter-functional coordination) and operating at three organisational levels (cultural, strategic and tactical). Each component and level must be considered carefully by managers. For this purpose, a 3x3 matrix (Table 7.1) is proposed as a useful analytical tool.

- *The value of learning business experience from the companies of developed countries to improve a firm's competitive advantage.*

The business philosophies and/or experience of developed countries can usefully be employed in companies in underdeveloped countries. But the latter need to cope with their own distinctive factors, such as culture, economic environment, etc. Most of the

department store case firms achieved better results after they had learned their know-how from developed countries: for example FEDS, Shin-Shin, Tonlin and Sogo learned from Japan, and Printemps from France. Wei-Chuan and President learned their management and technology from several developed countries and achieved very good performances.

Taiwan's economic development was several years behind that of Japan. President recognised this delay and developed its corporate development strategy according to Taiwan's own economic development. This is one of the reasons why President grew very fast.

- *The need to review and adjust a company's business philosophy periodically to respond to the changing business environment and to use market orientation achieve balance in two vitally important dimensions: internal/external focus, continuity/change.*

At the cultural level, a change of business philosophy may be difficult to achieve, but such a change is an essential tool with which to respond to a changing business environment. A business philosophy change towards a strong market orientation can help a company, in appropriate circumstances, to enhance its performance, but only if that change is carried forward at the strategic and tactical levels as well. The experience of Taiwanese firms points to the value of market orientation in helping a firm to achieve balance across two dimensions: internal/external focus and continuity/change. This perspective has tended to be overlooked in the Western management literature.

- *The importance of focusing on certain functions according to the growth of a company while remembering to maintain a balance among different functions in an organisation.*

Deng and Dart (1994) categorise business philosophies into production orientation, sales orientation, marketing orientation and societal orientation. These orientations can be seen as a taxonomy of a company's operations. It can be used to explain the positioning of a company's operations as focusing on a production, sales, marketing or societal orientation according to its country's or region's economic development and its own growth.

Day and Wensley (1988) suggest that the competitive environment (the number and power of competitors) can affect the necessary focus of the intelligence generation activity (i.e. a greater emphasis on customer analysis relative to competitive analysis, or vice versa) within a given magnitude of market orientation. Because businesses have limited resources to generate market intelligence, trade-offs between customer and competitor monitoring must be made. For the same reason, a company may need to position its operation to focus on a certain function (orientation) according to the organisation's growth and resources, and its country's or region's economic development. But, on the other hand, top managers must remember to maintain a balance among different functions in an organisation, as Wong and Saunders' (1995) concept of balancing orientation suggests. It is interesting to compare this concept with the two-dimensional view of balance common in Taiwanese firms (see 7.4.3 above).

- *As a top manager, the need to be sensitive to business environment change and take appropriate and actions in response.*

This study finds that the top managers' perceptions of the changing business environment are very similar within the same sector, but different between sectors. It also finds that the actions taken in response to environmental changes are similar within the same sector, but different between sectors. The best performing companies take

actions to respond to the change more quickly and effectively. For example, President is better than Wei-Chuan in this respect when faced with a sales channel change. Therefore, we suggest that as a top manager, it is vital to be sensitive to business environment change, since this will significantly influence a company's operations. For example, Taiwan's sales channel changes have greatly influenced the food manufacturing companies in Taiwan. Top managers should adopt appropriate actions to respond to such changes quickly and effectively. The scanning of business environment changes should include both the general and task environments (and not just customers and competitors). For example, Taiwan's entry to the WTO (a change in the general environment) is seen as an important factor by food manufacturing companies (but not by department store firms) because it will increase the level of international competition. This general environment change will influence the task environment change, e.g. by increasing the number of new market entrants from overseas. Managers need to balance their short-term response to task environment change and their long-term response to general environment change.

- *As a top manager, the need to be sensitive to the different opinions and values which managers may hold towards market orientation.*

Not all managers in a particular firm will necessarily share exactly the same views about market orientation. They are likely to be influenced by their own background, age, experience and particular functional responsibilities within the firm. In many cases the marketing manager may be viewed by others as having a particularly – even excessively – strong commitment to a market orientation, but other managers may not share this enthusiasm. In some cases this can lead to considerable tension between different managerial outlooks. The top managers in an organisation should be aware of

the need to deal with such pluralism if they seriously wish to enhance their firm's market orientation.

- *The importance of continuous education and training of employees as a mechanism for supporting organisational balance.*

Most of the case firms that have successfully implemented their intended business philosophies emphasise the continuous education and training of their employees. Therefore, we suggest that education and training are the best weapons for increasing the capability of implementing the company's business philosophy.

We find that the company which has an intended business philosophy but does not have the capability to implement it will exhibit a poor performance. (e.g. Wei-Chuan) This implies that when the top managers want to achieve business success, they must not only propose a better business philosophy, but must also implement it effectively.

7.5 RESEARCH LIMITATIONS

Armstrong and Brodie (1994) point out that there has never been a study that was not flawed in some way, so we acknowledge that this study also has flaws. It will thus be useful to identify some limitations in this section for reference in the context of future work in this field.

- *Lack of clarity of the time dimension*

How the environment is interpreted and indeed how the firm itself enacts its environment have become key issues in understanding what may be finally be represented as the effect of the business environment. In this study, the pattern of causality, and hence the time dimension, also becomes much less clear because we are relying on cross-sectional interview data to address the issue of the interpretation of

events through time. In such circumstances we have to recognise that questions of attribution of cause and effect are themselves problematic in that, for instance, the fact of an unfavourable outcome will generate a process of searching for what is deemed to be an acceptable cause. The focus of this research has been on the case firms' development during a limited time period (1991 To 1996), and therefore it is acknowledged that this captures only part of the complex evolution of these companies. Furthermore, no attempt has been made to incorporate any further research data covering the period since 1997.

- *Thick descriptions*

The result of detailed case-based qualitative research, often with methodological reference to Yin (1983) and Glasier and Strauss (1967), is, in Geertz's (1973) term, a series of "thick descriptions". In order to interpret the complex interrelationships between market orientation, business philosophy, the business environment and performance, the interview data were quoted at some length in the thesis. This was done because the author believed that readers would be interested to read the original words of the interviewees in order to appreciate more clearly how their own mental frames of reference operated.

- *A limited focus on two sectors*

This study has concentrated on an analysis of firms in two sectors (food manufacturing and department stores). This restriction inevitably means that the research findings cannot be simply extended to the operations of firms in other sectors.

- *Gaps in the research data*

For reasons which have been explained at various points in this study, there have been some gaps in the research data which have placed limits on the extent to which firm

conclusions could be drawn. In particular, the area of inter-functional co-ordination has not been explored in sufficient depth, since it was not possible to extract the detailed organisational information necessary for this purpose. This was particularly true in the case of department stores. Also, interview and financial data for the Printemps department store were limited because the store was only established in 1995. In general, some of the financial data for the case firms are not very detailed and, in some cases (FEDS and Printemps) not complete.

The Chairman of one case firm did not allow his senior managers to be interviewed by any outsider. Therefore, access to this company was limited. As we have already explained, *guanxi* (social connections) is an important basis for Chinese business development. This is also true when conducting research. Without any *guanxi* to the senior managers of the case firms, it is almost impossible to get in-depth data or even to interview them. The plentiful data in this research were largely based on social connections. But, in some cases, the researcher's *guanxi* was not sufficient.

7.6 SUGGESTIONS FOR FURTHER RESEARCH

This research is exploratory and, undoubtedly, its findings need to be extended further in several directions. The study has revealed many interesting questions, issues and problems which have not in any sense been finally resolved. More in-depth research is needed to deepen and widen the analysis. It is also hoped that the research limitations described in Section 7.5 will be at least partly overcome in the future.

- *Longitudinal data collection*

Because we are relying on cross-sectional interview data to address the issue of interpretation of events through time, the time dimension is less clear. We suggest that a longitudinal data collection research design is needed for research in this field,

especially for identifying the causes and effects of the changing environment.

- *The interaction between orientation, profit and competitive advantage*

This study finds that the best performing case firms not only emphasise a customer orientation but also the building up of corporate competitive advantage. The worst performing companies do not place much emphasis on this task. Although we explain that competitive advantage operates at the strategic level of competitor orientation, a question arises: what is the relationship between market orientation and competitive advantage?

While, to some degree, the three elements are linked in the interpretation of this thesis, there are also conflicts and trade-offs. Therefore, we suggest that the interaction between market orientation, performance (profit) and competitive advantage requires further investigation in the future.

- *Further research into the relationship between business philosophy and market orientation*

Although we have created a further distance between business philosophy and orientation by relying on our in-depth interview data to address some issues in terms of the degree to which the intended philosophy is actually incorporated in the specific action of organisation, there is plentiful scope for further investigation of the relationship between business philosophy and market orientation. For example, we may cite the process through which the top managers' business philosophy is implemented throughout the organisation. Also, we may ask: What kind of business philosophy will direct a company towards a stronger market orientation, and in what ways?

- *The need for further research into market orientation in non-Western countries and*

broader cross-national comparisons

This study focuses on the food manufacturing and department store industries in Taiwan. It would be very illuminating to research into market orientation in other industries in Taiwan and in other non-Western countries, and to develop more extensive cross-national comparisons.

● *Market-based performance measurement*

Any company which seeks to strengthen its market orientation will wish to know how it can best measure the outcomes of that orientation in terms of business performance. The customary performance measures – such as ROI and ROE – are of limited use because they tend to be based on annual financial data for the whole company. What are needed are more detailed data, over a longer period of time, for particular products, services, market segments, sales channels and geographical constituencies.

● *The inter-functional co-ordination component needs to be explored in depth*

The question of inter-functional co-ordination is complex. Many previous studies have stressed the significance of such co-ordination for the successful implementation of the marketing concept. However, inter-functional co-ordination is a very broad concept which needs to be explored in more depth. In this respect, it may be useful to employ organisation theories in future research.

● *The influence of manager's positions and background on their use of the Kotler marketing effectiveness rating instrument needs to be investigated further*

The discrepancy which often arises between a company's actual financial performance and the assessment of that performance by its managers using Kotler's marketing effectiveness rating instrument (see Tables 6.7 and 6.15). Therefore, we encounter the problem of managers' self-ratings sometimes being inaccurate. Much seems to depend

on the age, experience and position of the managers in question. This needs further data to identify whether a manager's age, experience and position influence the accuracy of his/her response to a questionnaire either by using a quantitative or qualitative research method.

● *Further refinement of the 3x3 matrix as an analytical tool*

The 3x3 matrix is a promising analytical tool with which to extend our understanding of market orientation, but it requires further refinement on the basis of more in-depth research investigations in a greater range of companies. In particular, the following questions are, for the moment, unanswered, but it is to be hoped that they will stimulate further research in the future: What are the boundaries between customer orientation, competitor orientation and inter-functional co-ordination? Is market orientation to be seen as simply a combination of those three separate components, or is there a more complex synergy between them – a synergy which may also cut across the boundaries between the cultural, tactical and strategic levels? How can the right balance be achieved between the factors (cells) in the 3x3 matrix? Finally, what limits are there on senior management's ability to effectively manage the firm's development at the three levels of analysis and in relation to the three different components?

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APPENDICES

INTRODUCTION

The Appendices contain the interview and documentary data for the eight case firms (Appendices A1 to A3, B1 to B5) and Kotler's marketing-effectiveness rating instrument in English (Appendix I) and Chinese (Appendix II). The contents are organised as follows:

Food manufacturing

Appendix A1: Case 1 – Wei-Chuan

Appendix A2: Case 2 – President

Appendix A3: Case 3 – Standard

Department stores

Appendix B1: Case 4 – FEDS

Appendix B2: Case 5 – Shin-Shin

Appendix B3: Case 6 – Tonlin

Appendix B4: Case 7 – Sogo

Appendix B5: Case 8 – Printemps

Kotler's marketing-effectiveness rating instrument

Appendix I: Original English text

Appendix II: Chinese translation

In each of the Appendices A1 to A3 and B1 to B5, the interview and documentary data are divided into four sections (with further sub-sections) as follows. In the main text of the thesis, references to the interview and documentary data are given in terms of the appropriate sub-section number, e.g. A.1.1.1.

1. Market orientation
2. Top managers' perception of change of the business environment
3. Business philosophy
4. Business performance

The names and titles of the top managers of each case firm appearing in these Appendices are (in alphabetical order):

- Wei-Chuan

Mr. J. S. Chang, Vice President
Mr. C. M. Chen, Assistant Vice President
Mr. C. C. Huang, Manager of the MSG Department
Mr. N. T. Huang, Chairman
Mr. C. C. Lin, Factory Manager

- President

Mr. C. R. Guo, Personnel Department Manager
Mr. C. J. Hsu, President of the President Chain Store Corporation
Mr. Chin-Yen Kao, Vice Chairman
Mr. Chang-Sheng Lin, President
Mr. T. M. Lin, Assistant Vice President and General Plant Manager
Mr. M. S. Liu, Assistant Vice President of the First Food Group
Mr. C. S. Wu, Manager of the Planning Division
Mr. Shiu-Chi Wu, Chairman of President
Mr. M. C. Yang, Manager of the Marketing Division
Mr. David Yen, Assistant Vice President of the Business Logistics Group
plus four others*

- Standard

Mr. William Cheng, Director of Operations
Dr. T. F. Tsaur, Chairman
Mr. Billy Yang, General Manager

- FEDS

Mr. Douglas Tong Hsu, Chairman
Mr. C. S. Yeh, Vice President.
Mr. Yin, Former President
plus two others*

- Shin-Shin

Mr. C. C. Lee, General Manager

Mr. C. P. Lee, Manager of the Business and Planning Department

Mr. C. S. Wei, Chairman

- Tonlin

Mr. C. C. Lien, Associate Manager of the Sales Department

Mr. Proteus Lin, Marketing Manager

Mr. Yoshiki Sato, Deputy General Manager

Mr. Tony Su, General Manager

plus four others*

- Sogo

Mrs. L. J. Ding, Customer Service Manager and Deputy Personnel Manager

Mr. W. F. Guo, Manager of the Administrative Department

Mr. K. R. Lee, Manager of the Sales Promotion Department

Mr. W. J. Wang, Vice President

plus four others*

- Printemps

Mr. M. D. Wang, Chairman

plus one other*

**Note:* A total of 48 senior managers were interviewed, but in the main text of the thesis there are direct quotations from 33 of these interviews; so it is these which are included in the Appendices.

Appendix A1: Interview and Document Data of Case 1 – Wei-Chuan

A.1.1 Wei-Chuan's Market Orientation

A.1.1.1 Customer Orientation

Wei-Chuan's top managers emphasise the importance of customers but not competitors. They pay attention to the needs of their customers. Mr. J. S. Chang, Vice President, said:

"It is very clear that *customers*, not competitors are our main concern in relation to marketing decisions. Competitors are only one of the factors in marketing decision-making. We don't need to care about competitors if we can satisfy the needs of our customers.

We concentrate on the needs of our *customers*. For example, we have changed the packaging of fresh milk to fit the needs of the modern family.

We have noticed a change in the taste of the *end users*, especially for beverage products."

A.1.1.2 Sales Orientation

Although Wei-Chuan has five business philosophies and four operational principles which lead to societal marketing, a sales-oriented philosophy seems to dominate the company's operations. Mr. C. M. Chen, Assistant Vice President, said:

"My feeling is that Wei-Chuan lays more emphasis on sales."

“Most of our General Managers were promoted from those with a sales background. Only one of them was promoted from a production background during the past 30 years.”

“Judging from the behaviour of the company, Wei-Chuan leans heavily
5 toward sales.”

“Wei-Chuan is still at the stage of a sales-oriented company.”

“We depend on this kind of old sales method, including a sales plan, and numbers of customers, and use this method to pile up sales, rather than by adopting marketing methods to create new customers or to create profits.”

10 **A.1.1.3 Materials Flow and Commercial Flow Orientation**

“The change of sales channel in food products is the biggest business environment change in the food manufacturing industry in recent years”, said Mr. J. S. Chang, Vice President. “The change represent the importation of a new retailing management style from Europe, America and Japan, as illustrated by convenience stores, supermarkets
15 and hyper stores. The operating style of the retailing business in Taiwan is quite different from that of Europe, America and Japan. The different types of retailing business were developed over a long period of time. The normal development is to begin with convenience stores, supermarkets and then hyper markets. But we imported those retailing business styles almost at the same time and within a very
20 short time (within about five to ten years). This has caused a big shock in the sales channel in the domestic market.”

Wei-Chuan has recently focused on materials flow and commercial flow business. Mr. Chang said, “The trend of business operation emphasises materials flow

and commercial flow. Wei-Chuan recently organised a marketing company called Kang-Guo Marketing Company. We tend to separate the operations of manufacturing and marketing. That is, the marketing function will be operated by the marketing company, Kang-Guo. The factory functions only in manufacturing. It's unlikely that a business division will operate from manufacturing through the sales function." This means that the distribution function is much more important than before. The sales and ordering system (commercial flow) and distribution system (materials flow) are no longer controlled by the same business division. These two functions will be operated by a special organised division or company.

Wei-Chuan's top manager senses how important the sales channel is to the company's business operation. Mr. J. S. Chang, Vice President said, "Customer orientation, marketing orientation, and now it is an era of materials flow and commercial flow orientation." And he said, "The final winner is the one who controls the sales channel."

A.1.1.4 R&D Focus

Wei-Chuan is a company with an emphasis on R&D. One of its competitor's managers said, "To be honest, Wei-Chuan is the only one which emphasises R&D amongst the food manufacturing companies in Taiwan." And Chairman Huang said:

"Our R&D has not only emphasised fundamental R&D tasks such as product development, product improvement and technical improvement, but has also recently devoted more manpower to technical advancement, and research into applied technology so as to develop differentiation with respect to product manufacturing technology and new products with characteristics.

Meanwhile we have entered into technical co-operation contracts with domestically/internationally known R&D institutions or companies for introducing advanced technologies, developing products to a higher level, and promoting production management and quality management technique.

At present our development is focused on the items with higher added value, including four major items: (1) nutritional convenience foods, (2) health-functioning foods, (3) baby and adult health care foods, and (4) bio-tech products."

A.1.1.5 Moving to a Marketing Orientation

Mr. C. C. Lin, Factory Manager, said, "My viewpoint is that marketing is more important than production under such strong competition. The food manufacturing industry is not a high technology one. The technology is not that important. Moreover, there are a lot of highly educated persons who are good at food manufacturing nowadays in Taiwan. The MSG is the only product which needs higher technology. Technology was more important in the past once the MSG made money."

He added, "Because of the government's emphasis on environmental protection and the increase in the number of MSG manufacturers in the world, the profit on this product became tiny. Therefore, MSG manufacturing technology is not that important anymore. How to sell this product became more important. You need marketing if you want to sell it out. ... We built a perfect sales net (channel) across the whole island before. But this sales net faded in this period."

He went on: "We started our marketing function. We had joint-venture supermarkets with Mazu Arwo and Maru Kue, Japanese supermarket companies. We established a marketing company – Kang-Guo Marketing Co. And we co-operated with the American Am-Pm Convenience Store Co. But we started too late, and later than our major competitor, President Enterprises Corporation. It's not that easy to build an excellent marketing company within one or two years. It needs at least five or six years. The time when President Enterprises Corporation lost money has past. They are making money now. But we are just starting to lose money. It happens that we met a bad economic environment, and it is more difficult to operate such a business."

Mr. C. C. Huang, Manager of the MSG Department, said, "We established the Kang-Guo Marketing Company a few years ago. This was a right direction (decision). But it gave rise to an adaptation problem. The managers of the sales offices all over the island could not adapt to the new marketing system. Because the manager of the local sales office controlled everything from sales to distribution, he could deal only with the sales process and not the others under the new system. This led to a big gap between the new and old systems. It was a big shock at the beginning. This problem was solved gradually. Our customers and our managers were not used to the new system and resisted it. But, after gradual adjustment, they got used to this system, a modern sales channel system. This is a trend. You can hardly refuse it."

A.1.1.6 Focus on What?

Mr. C. C. Lin, Factory Manager said, "Out of sales, technology and management, which is the most important thing in operating a business? I think these three are the major factors in operating a business. These three factors must all be in a perfect condition and then the company is strong. If any one of these factors is flawed, the

other two will not have enough strength to prop the company." He said, "Sometimes amongst these three supports (factors), the company may be weak in technology, and then they think that technology is more important than any other function. Nowadays, Wei-Chuan faces this business environment. Because of this, it is slowly transforming its sales function to fit the environmental change. It has become more important to focus on the sales function. Therefore, we came to emphasise sales. We emphasised technologies before. Those technicians accumulated a lot of experiences. You don't need to spend too much time to supervise them, and they can manage perfectly."

He said, "On the other hand, if the company has ten factories, one of the best factories may be good enough for you to worry about. The top manager doesn't spend time with it. There may be another factory which has more problems, but the top manager takes more time to look after it. Then, the problems come. The managers of the other factories feel that the top manager is fond of the factory he/she is looking after. The side-effects come out."

He said, "For the same reason, if the top manager thinks there is no problem in technology, and he starts to emphasise sales and encourage sales persons by rewards, then the production men leave the company. ... Therefore, it is a problem of leadership. As a top manager, you need to observe all the changes in a company. It will be too late if you watch it only after a big problem has emerged."

A.1.1.7 Interfunctional coordination

A non-marketing senior manager of Wei-Chuan complained that the company's sales department do not revise their sales plan even when the sales levels fall behind the planned targets, even though they can retrieve sales data from the computer. They often need to be pushed by the production department to undertake this action.

One senior manager said, "Maybe, we are big company, and the efficiency of co-ordination between departments is not good."

A.1.2 Wei-Chuan's Top Managers' Perception of Change of the Business Environment

A.1.2.1 The Chairman's Overall Perception of Change in the Business Environment

Mr. N. T. Huang, son of the founder, was elected as Chairman in 1995. He gained his MBA degree in the USA. He faced a very difficult business environment when he became a chairman. The following was his message to his shareholders. It was also strongly reflected by those top managers who were interviewed. Chairman Huang said:

"Looking back to the business environment in 1995, we witnessed a poor domestic economy as a whole. The overall market also saw lower consumers demands as a result of such factors as political instability, Cross-Straits tension and non-economic ones. There were also such adverse factors as the continued increase of materials prices, increasing rigid environmental protection codes, the huge increase in imported goods, the implementation of National Health Insurance, and stronger competition of market channels. The operation in the food industrial has all been confronted with stiff challenge. Nevertheless, all of our staff, though facing such major changes, have teamed up to uphold to Wei-Chuan's five major business ideas. And that is running the business with endeavour so as to minimise the impact from operating disadvantages."

Mr. Huang stated that in order to confront the environmental changes and

challenges, achieve a breakthrough in its operating situation, and expand the company's business scale and results,

“all our staff have been devoting themselves to the development and progress of four major enterprises – food products, flow, international and assets, – and the exertion of operating resources and competitive advantage accumulated by food assets to expand development of measures and their deployment for the enterprise's prospective flow and international business. We are never lazy in our work, though short-term operating results have been affected. However we believe that if we fail to speed up corporation's transformation, we could lose in future competition. Though operating pressure in 1996 is even higher than in the past, we are not scared of challenges. We will make a full effort by focusing on:

1. The Food Industry – Break through the restrictions of the current circumstances, widen the lead.

We believe it is high time to break through the current circumstances and widen our lead. Aggressive actions for remoulding the advantageous competitiveness of products such as strengthening product potential, adjusting product structure and the presentation of new products, will give a completely new impression to everyone. And the rationalised downsizing of manpower, the transfer of surplus manpower to flow and international business to bring manpower into full play, plus lower operating costs will be carried out actively.

2. Flow Business – Promote strategic alliances, produce comprehensive effects, and increase performance.

Commercial flow and material flow enterprises are helping each other's

growth, producing comprehensive effects as a strategy for the development of flow business. Acquiring the operating rights of shops within Freeway rest areas, and the formation of regional alliances of supermarkets in the central area of Taiwan have both injected a new power into the expansion of flow business. Total turnover is moving towards NT\$8 billion and is further helping to create synergy.

3. International Business – Grand planning, layout area by area, aggressively moving forward.

The Chinese Mainland, Southeast Asia and America are the three major markets for the operation and development of international business. Flavour products and milk products are the two main items in the Mainland China business. This year (1996) we plan to set up further plants in Chintao and Shanghai. As for milk products, we are seeking to establish Hei Lung Chiang as the powder source supply base in Mainland China; and we will set-up a milk product plant in Shanghai to extend our business area. While in the Southeast Asia market, Tai Wei Chuan is the centre for extending to Burma and Vietnam to boost the development of agricultural product processing, raw materials supply and sale, local market operation, etc. We are aggressively moving step by step towards the planning goals for the year 2000.

4. Assets Operation – Flexible use of land assets to generate business opportunity and profit.

Flexible use of land assets will be able to generate a variety of business opportunities and earn profits. The development of a multifunctional leisure business in Puhsin Farm, and the development of a residential-commercial area in Taipei Plant by integrating commerce with flow

business will move forward according to the original plan so as to realise asset profits as early as possible.”

A.1.2.2 The President's Perception of Change in the Business Environment

Chairman Huang also acted as President¹ when he was newly elected as Chairman of the company. He said:

“Overviewing the business environment for the food industry in 1996, according to a trend investigation by the Taiwan Economic Research Institute and in the general view in this industry, the growth of production and sales value in this market as a whole is expected to remain flat or to show a slight increase as a result of continuous poor economy in Taiwan and the maturity of this industry. Strengthening the agencyship for foreign products, developing business in Mainland China, and flow business will remain as the focus of this industry. Nevertheless, the overall business environment is expected to exhibit the following factors that will affect our operation and will need to be overcome:

1. Gazette No. 18 “List Reserve For Pension” will increase our expense burden.
2. Salary adjustment and the implementation of National Health Insurance will increase operating cost.
3. Compulsory recalling of environment-protection packaging containers will increase treatment cost.
4. Changes in materials price, and the continuous rise of raw material prices will result in the pressure of various items of cost.

¹ A new President was nominated about one year later after Mr. Huang was elected as Chairman.

5. Taiwan's entry to the WTO (World Trade Organisation) will result in a lot of intrusion (imports) of foreign products and cause serious competition in the market.
6. Political instability and continuous cross-Straits tension, as well as a poor economy and consumer demand, have severely affected the increase of turnover.

Confronted with such a business environment, and based on the business principle "Safety, Profits, Development", we are setting the business goal for 1996 as NT\$10,144.59 million and the profit goal as NT\$124.15 million.

To cope with the changing business environment and successfully to attain these business goals, we hereby summarise the business policies for 1996 as follows:

1. Grasp the market trend, boost R&D and the marketing of new products, strengthen product competitiveness, protect the market place and promote sales results.
2. Strengthen channel integration, expand modernised sales channels, and promote business results.
3. Pursue efficiency-based and rationalised production to attain the goal of decreasing the cost of various product items.
4. Thoroughly promote personnel rationalisation, organisational simplification, and increase operating results to reduce our operating costs.
5. Increase development of commercial and material flow systems to boost the set-up of distribution shops, expand performance and gain scale-based profit.
6. Expand the operation of international business, especially for the business in Mainland China, to carry out an international division of labour for production and sales in order to increase our profits.

7. Actively promote assets operation to make the most effective use of assets (for example, land assets).

A.1.3 The Business Philosophy of Wei-Chuan

Wei-Chuan's business philosophy is very clearly defined and stated in the company's documents, and all the top managers interviewed clearly identified their company's business philosophy, as defined by the founder, Mr. L. H. Huang. It includes five business philosophies (philosophical principles) and four operational principles:

Five business philosophies:

1. To make our company one that offers the greatest contribution to society.
2. To make our company the worthiest investment company for the public.
3. To make our company the best working place for our employees.
4. To make our company the most creditable and reputable company.
5. To make our company the most perfectly managed company.

Four operational principles:

1. To consider "safety, profits, and development" as the most important principle in our operations.
2. To firmly stand by the principle of "business cultivates business²."
3. To unify the employees and investors in order to involve them in the operation of the company.
4. To firmly establish a good management system and conditions of a first-class enterprise.

² The "business cultivates business" means diversification.

Amongst these principles, "safety" influenced most of Wei-Chuan's operation. Mr. Chen, Assistant Vice President said, "Wei-Chuan is a firm and steady company. In other words, it is operated too conservatively. This is influenced by our business philosophy - *safety*. "Safety, profits, and development" is one of our operational principles. We put *safety* as the first operational principle, but not *development*."

The business philosophy has remained unchanged during the past 40 years. No one in the company can change it. Mr. Chen said, "Our founder is still alive (85 years old) and the company is run by his son at present. He sometimes has a hand in the main decisions of the company. Nobody would dare to change the business philosophy of this corporation unless the founder were to pass away."

Although "business cultivates business" is one of Wei-Chuan's operational principles, Wei-Chuan has not actually achieved successful investment in other businesses. Mr. Chen said, "We probably can't prop up. Although he (the founder) wants to cultivate new business, after losing money for two or three years, he would then say, "let's close this business"."

Mr. C. C. Lin, Factory Manager said, "Sometimes it is a matter of personal characteristics. Our old Chairman, the founder, built up his business from nothing. He is aggressive (has an enterprising spirit). He has his idea and a mission to be done. But, his life is limited. The succeeding Chairman, Mr. K. M. Huang, the founder's elder son, is more conservative than his father. He thinks that if he could only take care of the company, what his father had founded in a safe situation would be fine. Therefore, Wei-Chuan has proceeded surely and steadily (peacefully and without mishaps) in recent years. The company is not too good but not bad."

He also said, "Mr. N. T. Huang, another son of the founder, the new Chairman

succeeding after Mr. K. M. Huang, is more aggressive. But it happens that the economics are not good at the moment. The more aggressive the actions, the more difficult it is to see the results because of the bad economy. (There are more chances to get better results in a good economy.) The results of the new Chairman's aggressive actions seem worse than the results of the conservative Chairman." And he said, "Of course, this is also affected by changes in the business environment."

He said, "It is good for a company with a conservative leader if the economic climate is going down. On the other hand, it is not good for a company with a conservative leader if the economics are booming. This is the relationship between the top manager's characteristics and the business environment."

He said, "The new Chairman follows the founder's five business philosophies and four management principles. He dares not change them. Maybe he will change them in the future. But he will not change them while the founder is still alive."

Mr. C. C. Huang, Manager of the MSG Department said, "We are not an authorised company. The founder calls you when he wants to know something about the operation of the company. And Wei-Chuan is a company quite different from President Enterprises Corporation. Wei-Chuan is more steady. The defect is too much conservatism and less growth. President Enterprises Corporation, on the other hand, is more aggressive and has higher growth. Of course, there are advantages and disadvantages between the two companies."

A.1.4 Wei-Chuan's Performance

Wei-Chuan's performance is fair amongst the food manufacturing companies in Taiwan. The revenues, net incomes, and net income per share for the last five years

are shown in Table 4.2.1 (see Chapter 4).

The sales and profits went down in 1995. This was mainly caused by Taiwan's slow economy as well as strong competition in the market.

Three senior managers filled in Philip Kotler's marketing-effectiveness rating instrument. The average score is 20.67, which is very good according to the level of marketing effectiveness. It shows that the senior managers are satisfied with their marketing performance. This matches Wei-Chuan's financial data as shown above. (For Philip Kotler's marketing-effectiveness rating instrument see Appendix I.)

Although Wei-Chuan took action to respond to the change of sales channel in the Taiwan business environment, it was not all a success. The AM-PM Convenience Store Co., a joint-venture company with the American Convenience Store, was one of the key responses. Unfortunately, the operation was not successful and was closed in 1996. Moreover, other actions taken, such as the acquisition of the operation rights of shops within the rest areas of the entire Chungshan Freeway, and the formation of a regional alliances of supermarkets in Central Taiwan both injected a new power into the expansion of the company's flow business. Total expected turnover is moving towards NT\$8 billion and is further helping to produce a comprehensive effect of Wei-Chuan's operations.

Appendix A2: Interview and Document Data of Case 2 – President

A.2.1 President's Market Orientation

A.2.1.1 Production Orientation

5 President's founding period was between 1967 and 1973. Industry in Taiwan was labour intensive in this period, and demand was greater than supply. President thus focused on production.

Mr. M. S. Liu, Assistant Vice President of the 1st Food Group, said, "It seems that the whole business environment was a production-oriented market. There were no
10 problems in selling the products if you could produce good products."

Mr. David Yen, Assistant Vice President of the Business Logistics Group, said, "There was no problem in a production-oriented operation when there was no competition or there were no severe demands from consumers. It was production-oriented in the 1970s and 1980s. With fast economic growth, most of the products that
15 had been produced could be sold without problems. The market could absorb most of the products that the manufacturers had produced."

Mr. David Yen emphasises that a modern company can no longer be production-oriented because of modern customers' requirements. The company needs to operate for the needs and wants of the customers. He said, "Absolutely, a company cannot
20 have a production orientation any more because it is against the requirements of modern consumers."

A.2.1.2 Sales Orientation

Mr. M. C. Yang, Manager of the Marketing Division, said, "All kinds of businesses

need sales. A company depends on sales personnel to sell what the factory has produced. How can a factory survive if its products cannot be sold?"

He said, "I don't agree that a company should emphasise only the sales function or whatsoever. People thought that President was a sales-oriented company. I think it was a prejudice. How can sales have a better performance if the product quality is not good and/or if the factory cannot produce the products that sales want to sell? A company wants to have its products sold and to get a profit. It must have sales promotion, i.e. it must have marketing activities. Because they (the sales department) have done their job well, their position in a company becomes more important. The weight or impact of what they say becomes more important in a company. For example, the sales person says that they want to deliver this product right away. They have run out of stock. They want the production department to produce it right away. But the production department says that we can only produce it two or three days later because of the production schedule. The production department needs time to change the production line. Friction between the sales and production departments arises. Then the dispute goes to the top manager. And the top manager then decides to have the production department change the production schedule right away to fit the needs of sales. Imperceptibly, the image develops that the company puts more emphasis on sales. I think it is a misunderstanding when people say that President emphasises sales. I think we do not emphasise sales whatsoever. We emphasise the function of each department. They are equally important."

Mr. T. M. Lin, Assistant Vice President and General Plant Manager, said, "It was about half a year ago that our company promoted some higher position managers. Most of them were marketing personnel, with a few others. It was clear that our company was now emphasising the expansion of the function of marketing. And this

also gave people the image that President emphasises sales.”

A.2.1.3 Marketing Orientation

Mr. M. C. Yang, Manager of the Marketing Division, said, “Our sales departments basically perform their sales function but pay less attention to the marketing function.

5 In general, people think we emphasised marketing. But, actually, we have only emphasised the marketing function in recent years. We have cultivated some marketing personnel, and those marketing personnel have promoted the marketing concept to every business division in our company.”

Mr. T. M. Lin, Assistant Vice President and General Plant Manager, said, “Now
0 our company pays more attention to marketing and less attention to sales. To enhance the function of marketing, as well as the headquarters’ marketing department, we now also have a marketing department in each business group.”

A.2.1.4 Societal Marketing Orientation

Chen (1995) concluded that President Group’s operation adopted a societal marketing
5 orientation between 1990 and 1995. Some of President’s documents also described President as a societal marketing-orientated company. But none of President’s senior managers mentioned this societal marketing orientation during the field work interviews.

The image of President’s societal marketing orientation mainly comes from
10 President’s successful investment in the convenience store company, President Chain Store Corporation. This company certainly emphasises a societal marketing orientation. It has successfully implemented many social programmes and gained an excellent image. Mr. C. J. Hsu, President of President Chain Store Corporation, thinks

that charity itself is a business opportunity. He said, "We have engaged in charity just like a business." Mr. Hsu's eyes were shining when we were talking about charity during the interview.

A.2.1.5 Consumer Orientation

5 Mr. M. C. Yang, Manager of the Marketing Division, said, "I place more emphasis on consumers. We must look at the market from a consumer orientation. We must know if the products are really needed by consumers. And then we can propose our marketing strategy to achieve customer satisfaction."

Mr. David Yen, Assistant Vice President of the Business Logistics Group, said,
10 "We must consider what kind of products are suitable for retailing and what kind of products are supported by our consumers. Then we produce and sell those products."

A.2.1.6 Customer Orientation

Mr. M. S. Liu, Assistant Vice President of the 1st Food Group, said, "Of course, we must emphasise our customers. Otherwise, whom do we sell our products to?"

15 A.2.1.7 Competitor Orientation

Mr. M. S. Liu, Assistant Vice President of the 1st Food Group, said, "Of course, we must consider our competitors when we make marketing decisions. Competition exists in the market."

He said, "About competitors, I think it is not only about competition but also an
20 alliance between competitors. The consumer is the final referee. We do not need a fight to the death between competitors."

He said, "The marketing decision related to competitors is a reciprocal action between the two. For example, if your competitor has a long-term sales promotion and advertising campaign, and you do not take any action to fight back, your market share will be gradually taken away by your competitor. We must have a
5 countermeasure."

A.2.1.8 Competitive Advantage

Mr. M. S. Liu, Assistant Vice President of the 1st Food Group, said, "Each manufacturer has its own competitive advantage, such as a famous brand, quality, price and sales channel etc. We (the President Group) have a strong sales channel. We
10 have in total about 1,800 convenience stores. This is our competitive advantage compared with our competitors."

He said, "There are so many factors for upgrading our competition. Other than reducing materials costs, it is also necessary to reduce production costs. I think that as well as production and sales alliances, we will develop strategic alliances. This
15 includes alliances with companies in the same businesses (competitors) and with companies in other businesses (non-competitors). The alliances with competitors will focus on procurement in raw materials while the alliances with non-competitors will focus on the sales channel, for example in warehousing and transportation."

He said, "Strategic alliances should apply not only in the domestic, but also in
20 the international, arena. For example, a product can have a market in another country, but the partner would need to invest a lot in R&D and equipment. If we produce this product for them, we can reduce the cost because of the large production volume and he can benefit by saving the investment. The rice noodle is a famous product in Taiwan. The Japanese like rice noodles, but the rice noodle market is not big enough

for them to invest in an economic plant. The best way is to have an alliance with them. We produce for them with their brand and sales channel.”

Mr. David Yen, Assistant Vice President of the Business Logistics Group, said, “In the end, competition is decided by excellent quality and reasonable price. 5 Excellent quality means that you have space for survival. With a reasonable price, you have the power to negotiate with those retailers, for example with key accounts. Controlling manufacturing cost, administrative expenses, and marketing expenses to create a product of excellent quality and reasonable price gives the company competitiveness. Nowadays, the brand of President alone will not guarantee a best 10 seller. We need to face up to severe competition.”

A.2.1.9 Strategic Marketing

Mr. T. M. Lin, Assistant Vice President and General Plant Manager, said, “The function of the marketing department should be changed to a higher level of strategic marketing. What is strategic marketing? In the past, marketing put an emphasis on the 15 customer. Now it should change to emphasise the environment outside of the company, including the economy, politics, government regulation, society, culture and competition. In the past, it emphasised profits and/or marketing activity. Now, we must consider the interests of the related parties, i.e. all employees, management personnel, government, shareholders and customers. Does President achieve this level? 20 No.”

A.2.1.10 Strategic Alliances

Mr. M. S. Liu, Assistant Vice President of the 1st Food Group, said, “In the future, we may have strategic alliances with our competitors. For example, we produce and sell

noodle products. We have competitors in the market. But we can cooperate with them in the procurement of raw materials. If several competitors can agree to purchase raw materials together, then our production costs will decrease. We will have more resources for marketing and/or sales channels expenses. We will have competitive advantage compared with those companies that do not have alliances. We compete with different brands in the market, but we cooperate with them in the procurement of raw materials. I think this will be the trend in the future.”

He said, “We can also have strategic alliances with other kinds of business. For example, if we can cooperate with Coca-Cola, we can have an alliance with them in the sales channel. Our noodle products are lighter but have large volume. Coca-Cola products are heavier than noodles. If these two products were carried in the same transportation vehicle, the transportation costs would be lower than if they were delivered separately. Then we could have lower transportation costs than our competitors, and we could also invest in warehousing with other businesses to reduce the warehouse costs.”

A.2.1.11 Market Orientation

Mr. David Yen, Assistant Vice President of the Business Logistics Group, said, “No matter what kind of orientation it is, i.e. a production orientation or market orientation, undoubtedly it must be a market orientation.”

He said, “Now, if any company operated as production-oriented, it would have big trouble. The consumers now like the new and dislike the old. And the retailer’s shop cannot display all the different kinds of merchandise because of the limited space and higher rental costs. In these circumstances, we must move to a market orientation and/or a consumer orientation. We have popular products that are

welcomed by consumers. And we have products that have lost money for three to five years without being accepted by consumers. Should we continue to produce those products? This is an issue we need to study. We must study what are the consumer's favourite products and produce and sell those products. We cannot conduct the business in the way we have done in the past. We have taken some actions now. The products classification management is one example."

Mr. T. M. Lin, Assistant Vice President and General Plant Manager, said, "You must have a market orientation and/or a customer orientation. Otherwise, to whom do you want to sell what you have produced? The products that the company has researched, developed and produced are all for the needs of customers. And all the company's resources have to be used for the needs of customers. There is no argument about what kind of orientation is good for a company's operation. No one can say market orientation and/or customer orientation is wrong. It is a principle. It needs further planning. It needs management."

He said, "Everybody talks about customer orientation. A lot of people know the importance of customer orientation. But the success or failure of a company is also related to other company factors, such as leadership, organisation, culture, company background, management methods and techniques, control and co-ordination. Those are very important."

Mr. M. C. Yang, Manager of the Marketing Division said, "I told my colleagues that market orientation does not mean that the information comes from the rack of a retailer's shop. You cannot develop a product that has been displayed on the rack of a shop because you will never know whether the product will meet the needs of the consumers or not. You must really know whether the product is accepted by the

consumers.”

Mr. M. S. Liu, Assistant Vice President of the 1st Food Group, said, “We (President) are a company operating a market orientation. Now we have a producer and seller alliance strategy. We have the MCR committee. Our company actually
5 operates according to a market orientation.”

Mr. David Yen, Assistant Vice President of the Business Logistics Group, said, “Do not doubt it. In this era, it must be a market orientation. You must respond quickly to changes in the market and the sooner the better.”

A.2.1.12 Integrated Co-operation

10 Mr. C. R. Guo, Personnel Department Manager, said, “It is very important that each department cooperates with each other between manufacturing, sales, marketing, R&D and human resources. The most important need is that Personnel must be in harmony. It is very difficult to cooperate if personnel are in disharmony. In our company it is hard to find disharmony.”

15 A.2.1.13 Long-term Profit

Mr. M. S. Liu, Assistant Vice President of the 1st Food Group, said, “If the boss and those major shareholders looked only for short-term profits, they would already have taken their profit away. President would not have any chance to grow as today’s international business group.”

20 He said, “Before you make a decision on long-term or short-term profit, you must consider which kind of products or which kind of industry you are looking at. For example, the livestock industry will face strong world competition. It is a wrong

decision if you put more investment in this industry. But, of course, from the whole company's view, if a company want to operate continuously, it must consider the long-term, but not the short-term, profit. If you aim at the products, you must depend on the characteristics of the products to decide whether it is a long-term or short-term consideration. In other words, you must have a long-term vision in choosing a product."

A.2.1.14 Virtuous Circle

President invested in the convenience store business, 7-eleven (the President Chain Store Corporation), and made a big loss in the first eight years. Now, it has become the leader of the convenience store business in Taiwan. It has annual sales of over NT\$ 20 billion, which is very close to the sales of its mother company - President Enterprises Corporation. President's major competitor, Wei-Chuan, entered the convenience store market (the Am-Pm convenience stores) about 20 years earlier than President. But after years of losing money, Wei-Chuan's convenience store business was closed in 1996. Why did President's convenience stores become profitable while Wei-Chuan's convenience store closed? There are so many reasons. Mr. C. R. Guo, Personnel Department Manager, said, "One of the reasons is the virtuous circle. Our convenience stores were all invested in by President at the beginning. But Wei-Chuan's convenience stores started under franchise. It was very difficult to educate the bosses of those convenience stores to follow the same business philosophy. Without operating under the same business philosophy, it became very difficult to make a profit. The potential investors were afraid of being a partner of Wei-Chuan's convenience stores. The fewer stores open, the less bargaining power to those suppliers. And, of course, the less profit earned. It became a vicious circle."

He said, "We are not the same as Wei-Chuan. We invested by ourselves at the beginning. After we achieved success in our operation, the potential investors were very happy to join our convenience store business. We could open more stores than any other competitors. We had more power to negotiate with those suppliers. This
5 became a virtuous circle."

A.2.1.15 Moderator: Market Growth

Mr. M. S. Liu, Assistant Vice President of the 1st Food Group, said, "When the market is growing, we need to consider not only customers but also competitors. We need to think more about our competitors and consider not profit but market share. I
10 would prefer to sacrifice short-term profit to gain more market share when the market is growing. I emphasise taking market share from our competitors as the first priority in our operational considerations. This is the consideration for long-term profit. If the market is in a recession, I consider profit because there are no opportunities to sell more and gain additional profit when the market is in a recession, i.e. what I am
15 concerned about is how much profit I can get from this recession market."

Mr. M. S. Liu, Assistant Vice President of the 1st Food Group, said, "You must have market share and then you can have profit. The company can be operated continuously if you have profit. Profit and "market share" are equally important. We need to examine the characteristics of a market. If the market is growing, we
20 emphasise market share more and look for profit two or three years later. In other words, if you have much more market share and become the market leader, then the competitors will follow your decision. Isn't it easier to run a business this way?"

He said, "If I set up a target to raise our market share from 10 per cent to 20 per cent, then I need a strategy to reach the target. The strategy includes the adjustment of

the sales channel, advertising, price, product and packaging etc., and there must be a product differentiation from our competitors. Then we also need to consider if the product differentiation meets the consumer's requirements."

A.2.1.16 Moderator: Customer Purchasing Power

5 Mr. M. S. Liu, Assistant Vice President of the 1st Food Group, said, "Customer purchasing power does not have much impact on whether the emphasis should be on customer orientation or competitor orientation. Customer purchasing power is related to GNP. We can learn from historical experience that a certain product (foods) will be needed by consumers according to the level of the GNP of a nation³."

10 A.2.1.17 Segmentation

Mr. David Yen, Assistant Vice President of the Business Logistics Group, said, "The key accounts market has friction with the traditional retailing market, as I mentioned before. I think this problem can be solved by product segmentation and/or package segmentation. My experience is that it will be a disaster if the same product with the
15 same package exists in the key accounts and traditional markets at the same time. We need to decide what kind of product with what type of packaging will have a competitive advantage compared with our competitors, as well as what will be accepted by our consumers. Of course, this decision carries a risk. For example, the fact that a product with 250ml package has excellent sales in the traditional retailing
20 market doesn't mean that the same product with 375ml will have excellent sales in the

³ President learned this historical experience from well-developed countries, especially from Japan. For example, the demand for higher protein foods increased when the GNP/capita reached US\$ 1,000 in Japan in the 1960s. The fresh milk industry was booming at the time. Therefore, President entered the fresh milk business when the GNP/capita in Taiwan reached about US\$ 1,000 in 1977.

key accounts market. The product with 375ml package needs to be tested through the market. This market segmentation needs the understanding of the retailers (key accounts) and the manufacturer. We need to apply a lot of resources and effort to achieve a product and/or package segmentation. The two partners can benefit from the product/package segmentation success. Our soy sauce product was a successful example. We developed a 1.6 L package especially for the hypermarket. This item was accepted by our consumers and did not have any friction with the traditional retailing market. The hypermarket retailers achieved a good profit from selling this item. This is a very good example of product/package segmentation.”

10 He said, “As soon as we decided to have product/package segmentation between the key accounts and traditional markets, we needed to prepare two sets of marketing plans because the characteristics of the key accounts and traditional markets were different. The production, warehouse, and distribution decisions needed to be adjusted as well. The manufacturers must have this capability to respond to these problems in order to survive.”

A.2.1.18 R&D

Mr. M. S. Liu, Assistant Vice President of the 1st Food Group, said, “New product development is directed by the MCR (manufacturing, customer, and research) committee. We have the MCR committee meeting periodically to generate ideas for new products.”

Mr. David Yen, Assistant Vice President of the Business Logistics Group, said, “The rate of survival of a new product was about 20 - 30 per cent in the past because of the booming economy. Now, the business environment has changed. The survival rate of a new product is only about 5 per cent. We have to be more careful in new

product development. We follow the principle of developing functional, healthy, differential new products.”

A.2.1.19 Education and Training

Mr. C. R. Guo, Personnel Department Manager, said, “Mr. Kao, our Vice Chairman
5 thinks that “talented people come first”. And he thinks that morale is the most
important thing for an employee. If an employee has not got enough knowledge, we
can educate him/her by our well-organised training programmes. We would like to
spend two or three hours to train an employee instead of one hour on a normal course
if he/she were not clever enough to understand the training course. We have a well-
10 organised training system to cultivate our talented personnel and to ensure very good
loyalty to our company.”

He said, “One of my friends, another company’s personnel manager, told me that
comparing individual employees, you can hardly identify the special capabilities of
President. But if compared by departments, President’s capability is higher than that
15 of other companies.”

A.2.1.20 Full Direction Management

Mr. T. M. Lin, Assistant Vice President and General Plant Manager, said, “My opinion
is that a company cannot emphasise only sales or manufacturing. You must look at the
company as a whole. You must emphasise every function equally and have them
20 developed equally well. This needs a division of labour and co-operation between
different departments.”

He said, “The sales department causes a lot of waste in our company. They do
not need to do a sales plan because they think it is very easy to manipulate production.

They can ask the manufacturing department to change the production at any time. Some of the business divisions even get their order today and pass the order to the manufacturing department on the same day. Although some of the business divisions have their sales plans, they do not work with those plans. This is one of the problems
5 created by a sales department because of the company's overemphasis on sales."

He said, "No matter whether you call it market orientation, customer orientation, marketing orientation, and profit orientation, they are all correct. A business is looking for profit. The marketing function looks for profit in the end. If you say you have done an excellent job in marketing, but unfortunately you have not made any
10 profit, then can you call it marketing?"

He said, "A company has to pursue more market share and more customers. But I also do not think it is right to emphasise production. For example, the demand for milk is 100 tons a day. If we are production-oriented, for the sake of economic production volume, we will produce 150 tons. Then, what shall we do with the
15 remaining 50 tons milk? Therefore, it is nonsense to have a production orientation operation. The manufacturing and sales must fine tune together."

He said, "I do not think that any single management function is particularly important. Emphasising a certain function will mean that the other functions are not important. Yes, the sales are very important. Without sales, other departments cannot
20 operate. Without other departments' support, the products cannot be sold. I think the operation of a company must equally emphasise every management function. The co-ordination between the functional departments must be very good as well."

Mr. M. S. Liu, Assistant Vice President of the 1st Food Group, said, "Production, sales, market, marketing orientation and competitor analysis are all important. Food

products are consumer products. If you have an excellent product, but the consumers do not know it and do not buy it, it does not have any meaning at all, right? If the consumers know this product but they cannot buy it because there are no places to display the product, it does not have any meaning too. That's why President
5 emphasises sales and marketing, i.e. we must introduce our products to our consumers and let them buy them conveniently."

He said, "Of course, this does not mean that the product is not important. If you do not have a good product to support, the consumer will buy once but never again. Therefore, the manufacturing function is also very important. But the ratio of sales
10 and/or marketing is somewhat higher than other functions."

A.2.2 President's Top Managers' Perception of the Changing Business Environment

The President's top managers' perception of the changing business environment focuses mainly on the increasing GNP of Taiwan, sales channel change, the
15 internationalisation and liberalisation of Taiwan's economy, the relationship between Taiwan and Mainland China, environmental protection awareness, the economy, competitors, the increasing costs of labour, transportation and land, the government's entry to the WTO, and changes in people's life styles.

A.2.2.1 Increasing GNP and Taiwan's Economic Growth

20 Fast economic growth has had a big influence on the development of the President Business Group. The GNP of Taiwan has increased because of the fast growth in the economy. The GNP per capita increased from US\$ 150 in 1967 to US\$ 642 in 1973, a four-fold increase within six years. Economic growth sustained a level of about 12 per

cent in this period. President started its business in basic food materials, such as powder, cooking oil and animal feeds (fodder, forages), for which there was a high demand in this period. President had tremendous growth at about 60 per cent every year. The demand was greater than the supply. There was no difficulty in selling the products if the products were good and cheap at that time. Therefore, President was in a period of production orientation. The major strategy was to buy the best food manufacturing machines and technology in the world to produce not only the best quality but also the cheapest food products.

President's growth period between 1974 and 1982 involved product extension and vertical integration. The GNP per capita of Taiwan reached US\$ 1,000 in 1977. Living standards were much improved and the people recognised the importance of quality in their foods. Higher protein food was needed by consumers. Therefore, President entered the fresh milk, cheese and bread business. In this period, more competitors entered the food manufacturing industry. Product innovation, massive advertising and improvements in foods packaging were needed. The production orientation was no longer suitable for President. President entered a period of sales orientation.

President became a business group between 1983 and 1989. The GNP per capita had increased to US\$ 7,512 by 1989, and the Taiwan economy was prosperous. The need for better services increased. President shifted its operation to a marketing orientation to match the change in the business environment. Vertical integration and diversification were its major operational strategies. Entering other industries and establishing new sales channels were its major efforts in this period.

President's internationalisation period was between 1990 and 1996. Economic

growth was between 6 per cent and 7 per cent in this period because of the collapse of the bubble economy in Taiwan. But Taiwan's GNP per capita still grew continuously and reached over US\$ 10,000 in 1994. The market was fully opened to the world because of the government's free economy policy. The foods market was saturated because large internationally famous companies as well as numerous domestic competitors entered the market. Apart from diversification, President's strategy was internationalisation in order to extend its overseas market. Depending on the strong basis of the previous twenty years' effort, President was developed to become an international business group, and its operation tended towards a societal marketing orientation.

Table A.2.2.1 The development of the President business group and the GNP per capita of Taiwan

<i>Period</i>	<i>Founding</i>	<i>Growing</i>	<i>Business Grouping</i>	<i>Internationalising</i>
Year	1968 - 1973	1974 - 1982	1983 - 1989	1990 - 1996
GNP (up to)	US\$ 695	US\$ 2,653	US\$ 7,512	US\$ 10,585
Extending directions (strategy)	Product extension	Product extension and vertical integration	Vertical integration and diversification	Diversification and internationalisation
Operational focus	Production orientation	Sales orientation	Marketing orientation	Societal marketing orientation
Major products	Basic food materials	Basic food materials and food products	Foods products, products other than foods, and service	Foods and service

The development of the President business group, as well as the relationship with the GNP of Taiwan, strategies, operational focus and major products are shown in

Table A.2.2.1.

A.2.2.2 Sales Channel Change

The sales channel change has had a very big influence on President. Vice Chairman Kao knew how important the sales channel was to a food manufacturing company. He decided to establish his own sales channel in 1977. Therefore, President organised a
5 retailing company, President Chain Store Corporation, in 1978. However, this retailing company had big losses in its first seven or eight years. One of the main reasons, according to the opinions of a top manager of President Chain Store Corporation and one competitor's senior manager, is that the purpose of establishing
10 this company was mainly to sell President's products. The problem is that the customers may prefer Wei-Chuan's or another brand's products, and not just President's products. The customers who come to the shop and cannot find the products they prefer will never return. This is an operation under the business philosophy of a production orientation or a sales orientation, i.e. producing products
15 and trying to sell them. One Japanese businessman happened to visit the President company and advised the top management on this critical problem. The managers of President then reviewed the operation of President Chain Store Corporation and changed its operation. Mr. C. J. Hsu is now the President, and is the one who turned the company around. President Chain Store Corporation is a company which really
20 implements the societal marketing orientation business philosophy in the President Business Group. It is now the number one convenience store in Taiwan, with annual sales reaching over NT\$ 20 billion.

Apart from investing in the convenience store business, President has successfully invested in hyper-markets (Carrefour Hyper Store, a joint-venture

company with France). The original purpose of establishing retailing companies was to help President to sell its products, but with President's profit centre management system, the retailing companies were concerned mainly with their own profit. They could not sell only President's products in response to customers' needs. President's
5 own retailing companies were key accounts for the company and began to be the source of serious problems.

Mr. M. C. Yang, Manager of the Marketing Division, said, "The business environment has changed. The traditional sales channel had about 90 per cent of the retailing market in the past. But the new retailing sales channel, such as supermarkets,
10 convenience stores and hyper stores now has about 35 per cent of the market. It will perhaps increase to about 50 per cent within two or three years. The gross profit will become lower and lower because of this sales channel change." He said, "The one who owns the sales channel will have a victory because of this business environment change."

15 Mr. M. S. Liu, Assistant Vice President of the 1st Food Group said, "The whole business environment was based on a production orientation in recent decades: there were no problems in the sales channel if you had good quality products. But it is a buyer's market now and the sales channel has changed in our business environment. In the past the products were sold through the traditional sales channels, for example
20 through wholesalers, retailers, grocers and then to the consumers. The market shares of the traditional sales channel had been over 80 to 90 per cent before. But the sales channels have been changing continuously. The supermarkets emerged first, followed by the hypermarkets, and then the convenience stores. It is apparent that the hypermarkets have grown by over 10 per cent every year in the past two or three
25 years."

Mr. David Yen, Assistant Vice President of the Business Logistics Group said, "As far as I knew, the retailing market in Taiwan had not changed very much for several decades. It was five years ago that the retailing market had a big change because the government's economic policy changed to internationalisation and freedom. Therefore, the international retailing business groups entered Taiwan's retailing market with their competitive advantage of huge capital and considerable experience." He said, "The market shares of key-accounts (new sales channels) quickly increased to around 30 per cent of President's sales and are still increasing continuously."

Mr. Yen said, "Sales through the traditional retailing channel have shown reasonable profit so far. But the profit is decreasing although sales through the key accounts are increasing. It would be very nice if the gross margin increased while the market in the key accounts was growing. But it is just the opposite. We said that the key accounts were the poison of those manufacturers. You cannot say "No" to those key accounts because they own a lot of customers. And if you do not want to do business with them, your competitors will do. But if you do business with those key accounts, your gross margin will decrease. Every food manufacturer has undoubtedly faced this impact in the new business environment."

He said, "In my opinion, the impact of this environmental change will be less if the manufacturer has not been well organised in the traditional sales channel in the past. Why? Because the firm will have a new chance to depend on those new key accounts to sell its products, and without the need to consider the possible friction between the new and old sales channels. The key accounts can purchase large volumes of the products that the manufacturer has produced. Therefore, the manufacturer may have a chance to retain its operation."

He said, "The key accounts break the price in the market. This will certainly have a big influence on the traditional sales channel when the key accounts have executed their low price selling. The influence will be less if you were not well organised in the traditional retailing sales channel because you do not depend so much
5 on the traditional sales channel. Some of the unknown manufacturers are very happy to rely on those key accounts because they have a new sales channel that they didn't have before. And the key accounts can absorb most of the products they have made."

He said, "but, for us (President), as a 29 year old company, we have created a perfect (flawless) sales channel at every corner of the whole island. The key accounts
10 have strong power in price negotiation. They ask for price cutting, but this price cutting will affect the traditional sales channel. This becomes a vicious circle. Therefore, the gross margins are going lower and lower. Managing the conflict between the traditional and key accounts sales channels becomes the big issue for those manufacturers who have created a perfect sales channel in the past."

15 He said, "We cannot escape this business environment change. If you do not like to deal with those key accounts, our competitors will do so because of the big market they represent. If you do not deal with them, you will probably lose your market. Therefore, we must make a quick and suitable response. Our traditional sales organisation is not suitable for this new situation. This is because the key accounts
20 have their special characteristics. Their transaction conditions are different from those of the traditional sales channel. Therefore, we organised a Business Logistics Group four years ago to handle those key accounts, including supermarkets, hypers, supermarkets in department stores, and convenience chain stores."

He said, "We had sales, accounting/finance, and warehouse/distribution

departments in our dealers or our local sales offices before the sales channel changed. Now, in this worse competitive environment, the cost is increasing and the gross margin is going down. How can we survive? We must strengthen our competition. Therefore, we organised several distribution centres around the island to enhance the efficiency of distribution and to reduce the logistic expenses. The traditional sales organisation was reorganised into two parts, commercial and distribution. We called it "commercial flow" and "materials flow". These two functions share out the work and cooperate with one another. Retail Support International Corporation is one of our distribution companies which handles merchandise distribution."

Mr. C. S. Wu, Manager of the Planning Division, said, "Facing the complexity and conflict of the different sales channels, we are no longer just looking for large sales volume. We started to look for "pocket money", i.e. how much money we can really earn from those key accounts. Therefore, we calculate the contribution of each key account. We want to maintain our retailing price to create a virtuous circle."

He said, "Facing the changing business environment, we studied this change and took several actions to respond to it. Products classification management is the first priority action. Other actions, such as a manufacturer and seller alliance and a MCR committee (manufacturing, customer and research), are planned or are now being executed. The manufacturer and seller alliance is an idea to convince sellers, especially the key accounts, to find the best way to cooperate in order to achieve the best profit for the two partners as well as for the customers. The MCR committee focused on R&D to develop the best products for our consumers."

Mr. M. S. Liu, Assistant Vice President of the 1st Food Group, said, "The MCR is a strategy of the manufacturer and seller alliance. The alliance is not only an

alliance between manufacturing and sales but also with R&D.”

Mr. Yen said, “We have around 300 products. No matter how large the space of the retail shop, such as a supermarket, convenience store, etc., it is impossible for them to display all of our products. We have now executed a product classification management programme. This helps our salesmen perform their job more efficiently. We must have an effective response to the new situation. We must consider what kind of products are welcomed by our consumers and what kind of products are suitable for a certain kind of sales channel. We must produce and sell the products that the consumers are demanding and/or supporting. We cannot follow the old way of doing business.”

Based on the success of its investment in the retailing business, President has extended its business to related fields such as the logistics business. Retail Support International Corporation (RSI) was once a logistics department of President Chain Store Corporation and is now the number one logistics company in Taiwan. President Business Group has now built its own good sales channel in Taiwan.

Business management is a never-ending management process, i.e. after solving one problem another problem arises. The manager needs to identify these problems and solve them. Compared with its major competitors, President has established a very strong sales channels while Wei-Chuan has closed its convenience store business and tried to establish other possible retailing businesses. But President faced other problems when it established its sales channels.

A.2.2.3 The Internationalisation and Liberalisation of Taiwan's Economy

Mr. T. M. Lin, Assistant Vice President and General Plant Manager, said, “If we do

not internationalise we cannot survive in the future. We have only 21 million people in Taiwan. The market was not so open in the past. But the government is going to enter the WTO. Therefore, international manufacturing companies will enter this market. We must internationalise and we must enter the service industry. We
5 (President) are going in this direction. I think this is the right way. This is why we can "win" at the moment."

Mr. M. S. Liu, Assistant Vice President of the 1st Food Group, said, "Following the government's policy of internationalisation and liberalisation of the economy, and the trend of the whole world economy, some of the industries in Taiwan will face
10 elimination under the impact of new environment changes. Even those industries that have competitive advantage now need to consider their long-term development in the future. We may extend those industries to the market of Mainland China, Southeast Asia, and other areas in the world. To achieve the long-term profit, we may have to sacrifice short-term profit. For example, we may invest more in R&D and marketing
15 and tolerate losses for three to five years, but expect to have a harvest five years later."

A.2.2.4 The Relationship between Taiwan and Mainland China

Mr. M. S. Liu, Assistant Vice President of the 1st Food Group, said, "The relationship between Taiwan and Mainland China does not have much influence on the market in
20 Taiwan. But the economy of Taiwan has relied more and more on Mainland China. You cannot say there is no economic relationship between Taiwan and Mainland China."

Mr. M. C. Yang, Manager of the Marketing Division, said, "We think our products are more suitable for Chinese people. Therefore, we aim at the market of

Chinese residents, such as Mainland China and Southeast Asian countries. We have invested in a lot of plants in these areas, especially in Mainland China, where we have over ten plants. We pay much attention to Mainland China because of its huge market. And we have to take care of Taiwan's market of 21 million people because of their strong consuming power. Taiwan is our root."

A.2.2.5 Environmental Protection Awareness

Mr. T. M. Lin, Assistant Vice President and General Plant Manager said, "The regulation by government of environmental protection has increased our costs. For example, regulations for providing environmentally protective packaging materials have increased our costs."

A.2.2.6 The Economy

Mr. M. S. Liu, Assistant Vice President of the 1st Food Group, said, "The economy will affect the average expenditure of consumers. For example, people had more money when the stock market was booming and the purchasing power of consumers was strong several years ago. Since the bubble economy disappeared, the expenditure of the people has gone down. It is apparent that the expenditure of families on consumer goods has increased in recent years. But the expenditure on luxury products, such as foodstuffs and cosmetics, has decreased."

A.2.2.7 Competitors

Mr. T. M. Lin, Assistant Vice President and General Plant Manager, said, "More competitors entered the market. The competition was more severe. Of course, the market was shared by those competitors."

A.2.2.8 Increasing Labour Costs

Mr. T. M. Lin, Assistant Vice President and General Plant Manager, said, "The shortage of labour was another problem resulting from changes in our business environment. And the cost increased. We had to employ foreign labour from Southeast Asian countries."

Mr. M. S. Liu, Assistant Vice President of the 1st Food Group, said, "Labour costs are increasing unceasingly in Taiwan. The conditions (such as higher labour costs, higher land costs, and the regulation of environmental protection) for operating a plant are getting worse than before. If you own good sales channels, you don't need to produce in Taiwan because of the higher production cost. You can produce the products in Mainland China, Indonesia, Vietnam and then import to Taiwan."

A.2.2.9 Increasing Transportation Costs

Mr. M. S. Liu, Assistant Vice President of the 1st Food Group, said, "Transportation costs are getting higher and higher in addition to the higher shop rental costs for retailers. This has a big influence on our operation. The retailers will not give you orders if the turnover of your products are not high in their shops."

He said, "The logistic expenses are getting higher because the retailers do not have enough space for stocks and they ask for more deliveries in a day. Traffic jams are getting more severe day by day in Taiwan, and transportation costs are getting higher. The efficiency of distribution has also decreased."

A.2.2.10 Increasing Land Costs

Mr. T. M. Lin, Assistant Vice President and General Plant Manager said, "Increasing

costs, such as higher labour costs, more costs arising from environmental protection regulation, and land costs as well as increased competition, have reduced our profits. Profits before tax were over 10 per cent in the past. But they are now around 5 per cent.”

5 **A.2.2.11 Taiwan's Entry to the WTO**

Mr. T. M. Lin, Assistant Vice President and General Plant Manager, said, “There will be a bigger impact on the company after the government joins the WTO if our products cannot compete internationally. We must consider this problem.”

10 Mr. M. S. Liu, Assistant Vice President of the 1st Food Group, said, “We have conducted an analysis of the influence of the government's joining the WTO. It will have much more influence on the livestock industry (animal husbandry) and the basic food materials business. For example, the production cost of pork in America is lower than in Taiwan. The competition is not only from America but also from Denmark as well as Holland.”

15 He said, “After joining the WTO, it becomes a matter of cost competition but not market competition. We can import from wherever can produce the cheapest products. For example, in the livestock and animal feeds industries, the basic food materials can be imported into Taiwan at lower prices, including transportation costs and tariffs. We don't need to waste money by investing in these industries any more.”

20 Mr. M. C. Yang, Manager of the Marketing Division, said, “The government's joining the WTO will influence our operation. We have studied what kind of products need to be produced overseas by setting up new plant or by OEM and to be imported into Taiwan.”

A.2.2.12 Changes of Life Style

Mr. M. S. Liu, Assistant Vice President of the 1st Food Group, said, "The change of life style has influenced new product development. For example, in the past, most wives did not have a job and stayed at home. The wife had more time to go to the market and prepare food at home. Now, society has changed, and most couples have their jobs. The wife has not enough time to cook foods. Therefore, the demand for frozen foods and oven-ready foods has increased. The food manufacturers have to understand the change in society and must develop those kinds of foods."

A.2.3 The Business Philosophy of President

President's business philosophy is very clearly defined and stated in its company documents. It has been influenced mainly by three consecutive leaders of the company. The first one is Mr. Shiu-Chi Wu, Chairman of President, a co-founder and charismatic leader of the Tainan Gang⁴. He has become less involved in the President Group's operation at the moment because he is over eighty years old. The second leader is Mr. Chin-Yen Kao, Vice Chairman, the founder of President, who actually created and guided President from a local company to a multinational conglomerate. The third leader is Mr. Chang-Sheng Lin, President, a successor of Mr. Kao. Mr. Wu, Mr. Kao, and Mr. Lin represent the consecutive leaders of the three generations of President. Their business philosophies have deeply influenced the operations of the company and have also provided evidence of how business philosophy changes in response to changes in the business environment between different generations. The following are statements by the three leaders:

A.2.3.1 Always be Grateful to the Kindness of the General Public and Feed Back to Society

Chairman Wu said:

5 "It is said by Confucius in the 'Ta-Hsueh': 'Virtue is the first, money is the least'. Based on this belief, the establishment and development of President Enterprises Corporation are actually implementing the idea of 'Business is the property of society/the public'."

10 President Enterprises Corporation does not only provide our fellow citizens with high quality foods, but more importantly we also get along with the evolution of domestic economic policy and more complicated and diversified consumption styles to give our consumers the best services and to practise our start-up motive and principle: "Feed back to the neighbours".

15 In view of the above belief, since our establishment, we have always insisted on the consistent management philosophy of "Three Bests and One Reasonable" – best quality, best credibility, best service plus one reasonable price to develop new markets, products, and services. At the same time, based on the principle of "slim profit with more sales", we hope to offer more affordable prices to our customers to fulfil our accountability in serving the public's livelihood.

20 We shall always be thankful for the kind support, patronage and confidence of our customers, and the policy instruction of the government.

⁴ The so-called "Tainan Gang" is a big business group in Tainan, in the south of Taiwan. The group was originally developed from the textile manufacturing industry. President was founded by Mr. Chin-Yen Kao and was supported by the group.

Based on the thought, "Taken from society, used for society", our profits should also be shared with our customers, employees, staff as well as shareholders, in order to fulfill our obligation as part of society.

5 We now have all kinds of products, and each of them has been reaching all families as necessities. In addition, our products have built up a deep impression in the minds of numerous consumers. Nevertheless, we are not satisfied with these achievements. We shall contribute more efforts to improving product development, quality upgrade, and service attitude.

10 Looking to the future, "internationalisation" is our goal, and we really hope to perform well by providing our fellow people with service of an international standard. Meanwhile, in facing the changes and satisfying consumers, we expect to work further with other domestic industries to serve mass consumers, upgrade the living quality of our fellow people, and enjoy exquisite lives of high quality along with them."

15 **A.2.3.2 Emphasis on Recruiting Talented People in Pursuit of the Number One Position in the Sector**

Vice Chairman Kao said:

20 "In the past twenty-odd years, local economic development has evolved at a tremendous pace. President Enterprises Corporation was founded, grew and became stronger with the support of everybody. Marching towards the business journey of the 21st century, we shall concern ourselves more with our performance, stand firm in our footsteps, affirm our belief, and practise innovative advancement and the idea of corporate internationalisation.

From the very beginning, President Enterprises Corporation implemented the management style of achieving a superior position and pursuing the number one place in the sector. This is also reflected in the management philosophies of "With all effort and no compromise" and "Be nothing but the number one". Therefore, we have recruited outstanding staff, stressed our brand reputation, and emphasised our products' safety and hygiene, and after-sales services.

Pursuing the first goal, we place special value on the cultivation of talented people. Human resources, capital investment, and business administration are all crucial factors used in modern economic development. The shortage of raw materials, equipment and capital can be replenished within the short term, but the development of human resources needs long-term planning.

President Enterprises Corporation, with the goal of diversification, has used the food industry as a basis to extend its operations arena aggressively in line with the world trend and social demand to carry out the corporate ideas of innovative advancement and internationalisation. Under the guidelines of expansion, steadiness and diversification, we now have more than thirty affiliate companies covering foods, leisure business, trading, leasing, construction, securities investment, and convenience chain stores.

Consolidating these strong growing businesses, the President Group has achieved a competitive advantage for pursuing high growth and excellence (See Table A.2.3.1).

As a Taiwanese local company, President Enterprises Corporation uses

the most talented people along with working capital to develop its global view. With the unreserved efforts and team-work of our co-workers from all affiliates, we have today achieved outstanding performance. This is the evidence that high growth is highly correlated with the best use of human resources.

Table A.2.3.1 Sales of the steadily growing President Business Group

Unit: NT\$ 1 million

	1991	1992	1993	1994	1995
President Enterprises Corporation	20,894	22,446	23,916	24,593	26,100
President Business Group	45,970	50,596	56,441	64,445	66,800

Source: President

The world is constantly changing. President Enterprises Corporation knows how to make the most use of the "changing" opportunities to make itself stronger and better. In the future, we shall keep producing products of high quality with advanced technology, creating product value and upgrading service quality, with feedback to the local community and the general consumers."

A.2.3.3 Let's Work Hand in Hand to Manage President Enterprises Corporation

President Lin said:

"Looking back over the past twenty-odd years, President Enterprises Corporation, under the efforts of Vice Chairman Kao, has achieved the reputation of a "Foods Kingdom" and has built up a foundation for a

brighter future. Particularly in this transitional period, we still insist on the traditional mentality of "harmony is valuable", and this belief is the most valuable corporate culture in the development process of President Enterprises Corporation.

5 The management environment we are facing today is quite different from the past. The factors causing more intense competition, such as environmental protection, labour ideology and shortage, internationalisation and automation, are all waiting to be overcome through group effort and team work.

10 Managing a giant company like President Enterprises Corporation is absolutely not a task for only a few people to accomplish, but is a collective effort, especially for all general public. Whoever you are, our employees or consumers, as long as you think there is room for us to improve with constructive suggestions, we sincerely welcome your comments.

15 Today, both income per capita and living standards are improving. We will nevertheless be honest and keep on working hard. In addition, with the sense of innovative advancement, we will use the top guideline "market orientation" in our management. Always think of consumers' interests first, and achieve the ultimate goal of "feed back to society" through the
20 combination and utilisation of all the available resources.

 Finally, I would like to urge everyone in President Enterprises Corporation under the support and encouragement of society and consumers, to have a stronger sense of responsibility for society and commit ourselves for the future development of President Enterprises Corporation. Let's exert

all our efforts hand in hand for a healthier and happier society and a better tomorrow.”

A.2.3.4 President's Business Statement (or Slogan)

5 President has its business statement (or slogan) clearly defined and disseminated everywhere inside and outside the company. Its statement can be seen in the company's published materials, on the walls of its offices, and on the packages of its products, etc.

“Pioneer for a healthier and happier 21st century” is President's business statement. And the statement is followed by subtitles as follows:

10 “Health gives life hope
Happiness makes the world bright
With the deepest concern for humanity
President Enterprises Corporation
In the epoch of transition
15 Has always held its management philosophies and
corporate culture
Has progressively innovated for achievement
Has persistently committed itself to excellent quality and
Has striven together with YOU
20 For a healthier and happier 21st century”

President also tries to explain its business statement more clearly as follows:

“At this turning point to the 21st century, we are now confronting a great era with all kinds of competition and innovation, with drastic changes of technology, economy, and societal structure, and with resource integration,
15 manifold disintegration, and tribal diversification of the coming international society.

President Enterprises Corporation has maintained an enthusiasm for life, looked into the future, insisted on a corporate concern for humanity, extended the business territory, and striven to achieve innovation and excellence for the purpose of providing our fellow folk and overseas friends with the best products and services.

Starting as a local company, for the past twenty-odd years, President Enterprises Corporation has constantly initiated diversified new phases for high quality, global overview, and the internationalisation of domestic businesses, thus igniting the desire for modern living of our fellow people.

Vigorously interpreting the old motto as we look forward to the future, President Enterprises Corporation will be persisting in the management philosophy of "Integrity and Diligence, Innovation and Commitment to The Future", to pioneer with YOU hand in hand for a healthier and happier 21st century."

A.2.4 President's Performance

President's performance is excellent amongst the food manufacturing companies in Taiwan. The revenues, net income, and net income per share for the last five years are shown in Table 4.3.1 (see Chapter 4).

The sales and profits went down in 1995, mainly due to Taiwan's slow economy as well as strong competition in the market.

Five senior managers filled in Philip Kotler's marketing-effectiveness rating instrument. The average score is 22.40, which is very good according to the level of marketing effectiveness. This shows that the senior managers are satisfied with their

marketing performance. This matches President's financial data as shown above. (For Philip Kotler's marketing-effectiveness rating instrument see Appendix 1.)

President Chain Store Corporation's performance is also excellent amongst the retailing companies in Taiwan. The revenues, net income, and net income per share
5 for the last five years are shown in Table 4.3.2 (see Chapter 4).

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Appendix A3: Interview and Document Data of Case 3 – Standard

A.3.1 Standard's Market Orientation

A.3.1.1 Long-term Profit

5 Standard's business philosophy is to look for long-term profit. Mr. Billy Yang, the General Manager, said, "Our boss told us to consider long-term profit. We would like to establish our brand name as a famous one by sacrificing short-term profits. This is our strategy to get more market share. Therefore, I think that thinking about long-term operation (profit) is one of our business philosophies. Then, we develop our strategy and/or policy under this philosophy. I think this is very important in our operation. ...
10 The way of operating the company is totally different when you consider the long term instead of the short term."

A.3.1.2 Consumer-Oriented

Standard puts an emphasis on consumer surveys. Mr. Billy Yang, the General
15 Manager, said, "Our company emphasises consumer surveys. We had many consumer tests with different test methods. We found big differences in consumer behaviour and consumer habits in different areas, no matter what kind of test instrument we used. Consumer behaviour in different areas of Taiwan is different. Consumer behaviour in different areas of Mainland China is also very different."

20 He said, "You can't introduce successful products from Taiwan into the market of Mainland China. It's a very dangerous thing to do so. You must consider the product, packaging and acceptability to the local consumers, etc. Overall, you must look at the local market to develop products to fit the needs of the local consumers. That's what I said: marketing needs to walk deeply into the local situation. If you

think that the product that has succeeded in this place will automatically have success in another place, it will fail absolutely. Therefore, marketing is market- and consumer-oriented. You must study what kind of product the consumer needs. What is the type of consumer? What are the characteristics of the consumers? Then, you can develop a product to meet the requirements of the consumers. Otherwise, you may develop a product that the consumer doesn't accept. It is easily to fail, isn't it?"

He said, "I think every product has a certain relation to the development of the local economy. What kind of product is suitable to introduce into a market in this time period? What kind of product is suitable to introduce into a market in another time period? There is a suitable time to get into the market. It can't be successful if you introduce the product into the market too early or too late. The reality is that if you can't sell the product, you need to collect it back when its "best-use" date has expired. You can't survive without sales. As a marketing man, you must have your products sold."

He said, "There is not any problem in manufacturing in the food industry in Taiwan. Neither capital nor technology is a problem. The most important thing is the acceptance of the product for the whole market, the consumers, and your ability to master the power of consuming (purchasing power). It's very dangerous if you can't have a good command of these things. We handle these things with great care. We will investigate the market to see how the product will be accepted by the market before we launch a new product."

He said, "But I think the consumer survey itself sometimes creates bias. As a marketing man, you may get data or information which substantially distorts the actual situation if you do not get deeply involved in the whole survey process. Your

decision may be wrong if your survey had deficiencies. Therefore, we expect our marketing persons to take part in the whole process of the consumer survey, even if the survey was carried out by our appointed marketing survey company. You can get first-hand information from your consumers through face-to-face interviews. This is very important.”

General Manager Yang said, “The consumers have first-hand information. Sometimes I attend the panel discussion with our consumers myself. You need to know the details if you want to make the right decision. You may not make the right decision if you read only the report produced by the marketing department or by an appointed marketing survey company. The report is not direct enough and not very close to the point. Sometimes I attend the panel discussion with the consumers for the whole day. Or sometimes I take part in two panel discussions instead of four during one whole day. I read the report after attending the panel discussion. I feel that it is much better and more direct to be in the panel discussion than rely only what is in the report. It is much easier to know what the consumer thinks. Some of the information you can’t get from the report. You will hear a lot of information that will let you know what the consumers are thinking. What is their opinion of our product, price, taste, etc. This is first-hand data. We put an emphasis on these matters. We will study it in depth, no matter whether it is in Taiwan or in Mainland China. ... We are really looking for what are the needs of the consumers. I think this is the real thing.”

He said, “Doing marketing, you need to invite your consumers to the panel discussion. You need to meet your consumers. Then, your choice of products, and/or your design of a product will be more fitting to the demands of the consumers.”

A.3.1.3 Consumers versus Competitors

Are consumers or competitors the major consideration when Standard's manager makes his decision? Mr. Yang said, "I consider both of them. But consideration of consumers is more important. For example, for a price decision, of course you need to consider your competitors' price if it has already existed in the market. This depends on the position of the price of your product. I think the positioning of the product in the market is much more important than other factors from a marketing point of view. That is, how do you define the position of your product in the market?"

He said, "Of course, the product positioning will automatically connect to the consumers. ... Product positioning, you can say, is market segmentation, because you will know what kind of consumers you aim at with your product if you have your product's position defined. The manufacturing process and packaging of your product, the price, the consideration of your competitors, and the most important of all is that the segmentation of your consumers is very clear since the product position is defined. How to segment your product is the most important thing when you are developing a new product. Your marketing effort will have no focus at all if the segmentation is not clear. And of course, the future development will be not good either. ... You also need to communicate to your segmented consumers after the product has been positioned."

A.3.1.4 Marketing Orientation

Mr. William Cheng, Director of Operations, said, "Generally speaking, the company which produces consumer products will tend to be more consumer-oriented or marketing-oriented. It must be a good consumer product manufacturing company if the company is a marketing-oriented company. It might not have a good future if the

company is focused on manufacturing or on R&D, but not on marketing. This is my viewpoint up to the moment.”

He said, “My opinion is that the food manufacturing industry is quite a marketing-oriented one. Like our company, we have a pure marketing orientation. All
5 the activities of every function are mainly done for marketing.”

He said, “We do not focus on production, because the food manufacturing industry is not a high technology industry. What I mean is that the product may not be successful in the market if you have only a good manufacturing technology. On the other hand, your product may be successful in the market if you have good marketing
10 but do not have a very good product. If you ask me which is more important between manufacturing and marketing in a food manufacturing company, I would say marketing is much more important than manufacturing, even though I am a Director of Operations.”

A.3.1.5 Production Orientation versus Marketing Orientation

15 Does the company put more emphasis on production or marketing? Mr. Yang said, “Actually, most consumer product companies tend to be more marketing-oriented. Marketing is the most important. But it does not mean that production is not important. I feel there is a big difference in production systems between Taiwan and Mainland China.”

20 He said, “Because the market is not big enough in Taiwan, the market is so segmented that a product has to be developed to satisfy different kinds of taste. Therefore, a production line needs to produce different kinds of products for different

tastes. This becomes a kind of “many products but less quantity” production system in Taiwan to fit the requirements of Taiwan’s small market.”

He said, “But it is not the same as in Mainland China. The production volume of a plant may not be enough for the market if one of the products is successful in the market. It may need more quantities by adding a second factory and a third to offer the quantity to meet market demand. In other words, a massive production system is needed. To design the best manufacturing process and produce the most suitable standard product to fit the customers’ needs as well as at the cheapest cost, massive production and more efficiency have become more important in Mainland China than in Taiwan.”

He said, “To design the best manufacturing process doesn’t mean to consider how to expand one production line to more production lines within a plant. It means to consider how to design a totally new plant which is standardised, massive, economical and fitted to achieve economies of scale.”

He said, “In Taiwan, we emphasise the flexibility of our production line to produce goods to fit the requirements of marketing. But in Mainland China what we need is an economic production, but not flexibility. This is a very big difference in the production systems between Taiwan and Mainland China.”

A.3.1.6 R&D Focus and the Engineering Team

Mr. Cheng said, “Our R&D department can develop any products to meet the requirements of our marketing department. The machines installed in Mainland China are made by our engineering team. We have machines with our own patent. The capabilities of our R&D and engineering teams are our competitive advantages.”

He said, "I believe no other food manufacturing company can compete with our ability in engineering. But it's no use at all if you have only the good capability of an engineering team. Of the most important things is marketing."

A.3.1.7 Create Competitive Advantage to Form a Virtuous Circle

5 Mr. Cheng said, "My boss will appreciate a product which will create a good VGP (variable gross profit) margin. The quality becomes very important when looking for a high VGP margin. How can you sell it at a high price without the support of high quality? Although you have advertising, no one will buy your product again if it is not good. How can you make a good quality product? You need good R&D personnel.

10 How can you produce a low cost product? You need good machines. How can you get good machines? You need good engineers. All of these things combine together. For example, the QC personnel find out the quality problem. There are machines or processes which need to be improved. If the engineers say, "I'm sorry. I can't do it." How can you get good quality? Another example: If the QC personnel say, "The

15 quality is no good," but for the sake of meeting the delivery deadline, the top manager says, "let it go". Then, you don't have any motivation for taking actions to improve your quality. Having a philosophy of "The quality must be good, otherwise, don't let it go" means that your subordinates will find ways to reach it. This, of course, needs the support of the boss."

20 Standard has created competitive advantage and has formed a virtuous circle within the company.

A.3.1.8 Product Positioning

Mr. Yang said, "I think the positioning of a product in the market is much more important than other factors from the marketing point of view. That is, how do you define the position of your product in the market?"

5 He said, "Of course, the product positioning will automatically connect to the consumers. ... Product positioning, you can say, is a market segmentation because you will know what kind of consumers you are aiming at for your product if you have your product's position defined. The manufacturing process and packaging of your product, the price, consideration of your competitors, and the most important thing of
10 all is that the segmentation of your consumers is very clear since the product position is defined. How to segment your product is the most important thing when you are developing a new product. Your marketing effort will have no focus at all if the segmentation is not clear. And, of course, the future development will be not good as well. ... You also need to communicate with your segmented consumers after the
15 product has been positioned."

A.3.1.9 Positioning and Internal Co-operation

Mr. Billy Yang, the General Manager, said, "I think that product positioning is the most important of all. Your strategy, tactics, plan and so on will be positioned after your product is positioned. All actions will follow this focus. It will naturally combine
20 the concept with departments in the company. This is very important. For example, if you do not have your new product clearly positioned, how can you have your R&D department develop the product you want? How can sales personnel sell your product if marketing can't clearly position your product? On the other hand, if your product has a clear position, the product is segmented to fit certain consumers. The sales

department can very easily promote the product to the focused customers. The marketing department can easily define its strategy, advertising, production and so on. Actually, the positioning is related to many things. Have it done well, and everything is fine.”

5 **A.3.1.10 Reducing the Waste of Assets by Product Positioning**

Mr. Yang said, “Product positioning is directed by the marketing department. They do manufacturing analysis, including manufacturing technology as well as market surveys, to find out the right point for cutting into the market. There is no position if we can’t find the point to enter the market. That cutting point means we centre on the product position. The co-ordination between departments is easier if our product position is very clear. This means that the direction (target) is well planned. The assets will be diversified and/or wasted if we haven’t got our product well positioned.”

A.3.1.11 Integrated Marketing Orientation

Mr. Cheng said, “To be an excellent company, there is no single factor. ...”

5 Mr. Billy Yang, the General Manager, said, “Talking only consumer orientation is not enough, I think, because you need to do market analysis when you enter a certain market. For example, SWOT analysis, you must consider what is the leading brand in the market, what is its strength, what is its weakness, and so on. The SWOT analysis must be done.”

20 He said, “Yes, the consumers are very important in the field of marketing. But the SWOT analysis is also very important, and the product positioning as well. How do you launch your product into your target market? The target market is related to your product position. What I want is this part of the whole market after doing the

SWOT analysis. Then, we have the market segmented. The positioning includes the development direction, the price of the product. It includes also sales strategy and a lot of other matters. These will have a close relation to product positioning. Therefore, from the viewpoint of marketing, the consumers, the whole market, product positioning, and then the target market, your marketing strategy, the 4P mix will come out, and marketing activities will go ahead. In fact, from my personal practical experience, I would like to say *integrated marketing orientation* instead of *market orientation*. That is, we have considered consumers, the market, competitors' brands, and internal factors as a whole. It's not enough if we consider only the consumers. It's only one part of the whole."

A.3.2 Standard's Top Managers' Perception of the Changing Business Environment

A.3.2.1 Top Managers' Overall Perception of the Changing Business Environment

From Standard's company's documents, the top managers' perception of the changing business environment can be summarised as follows: Living standards have greatly improved because of high economic growth and high GNP growth in Taiwan in the last decade. Consumer behaviour has also changed in relation to three major factors:

1. The demand for consumer goods has increased substantially because of higher living standards.
2. Purchasing behaviour has changed because new retailing stores with large selling spaces, such as supermarkets and hyper stores, entered the market in Taiwan. People started to buy their daily goods from these large stores because they offered more choice to meet their needs. These large stores attract customers by offering

diversified goods and more opportunities for customers to choose their goods. This accelerates the pressure on manufacturing companies to develop new products. Competition amongst suppliers (manufacturing companies) then becomes more severe.

- 5 3. People are more concerned about their lives and health owing to their higher living standards. The issue of health is becoming very important in our society, and so demand for healthy foods has been created. The people's demand, therefore, has changed from "satisfaction of quantity" to "deliciousness and health". "Eating healthily" has become a common wish (aspiration) of consumers.

10 **A.3.2.2 Advantageous Operational Factors**

Standard's managers have identified the following advantageous factors for their operations:

- 15 1. Some of our major products will benefit from Taiwan's entry to the WTO (World Trade Organisation) because of the consequent decrease in tariffs. This will help us to promote more of our products in the market.
2. We insist on creating and maintaining our high quality and healthy product image. We have created famous brands in the minds of our consumers. This will help us to launch more new products.
- 20 3. Our company emphasises R&D. We have many well trained and qualified R&D personnel. We put more effort into gathering market information. We plan to launch more nutritious products. Therefore, we hope to enlarge our market share.

A.3.2.3 Disadvantageous Operational Factors

On the other hand, Standard's managers recognise the following disadvantageous factors for their operations:

1. Transportation costs are getting higher and higher because the transportation
5 situation is getting worse and worse in Taiwan. This will reduce profits in the future.
2. The sales channel market (retailing market) is becoming gradually oligopolistic. In the future it will be dominated by just a few retailing groups. Their powerful and strong way of doing business will exert a lot of pressure on all of the suppliers
10 (manufacturing companies). A price war will develop and the suppliers' profitability will drop. Confronted with this trend, our company will accelerate the speed of developing new products and support those new products with advertising in order to influence the market, become popular, and then lead the sales channel.

A.3.2.4 Reasons for Financial Loss at the Start of the Business

15 Mr. William Cheng, Director of Operations, said, "Standard Foods (USA) established its plant in 1980 and withdrew from Taiwan in 1986 because of big losses. There were about five years of continuous loss."

He said, "The losses had several causes: First, we did not have our own sales channel. Secondly, our marketing was not good enough. Thirdly, the product line was
20 too short (not enough products). Fourthly, we set up our factory first and then started our sales and marketing after the product was produced."

A.3.2.5 Acted as a Challenger at the Beginning

Mr. Cheng said, "At the beginning, Standard Foods Corporation (USA) estimated that Taiwan was a big market. But the problem is that there was a strong and big company, Nestlé existing in the market. The market was almost 100 per cent owned by Nestlé, 5 the world's second largest food manufacturing company. Of course, we are the challenger in this market. Can we beat Nestlé? That's the problem."

"At the very beginning, we met difficulties including the sales channel. We did not have a wholesaler distribution system, a common selling system, in Taiwan's retailing market. We had only one sales agent, a large UK sales company, in Taiwan. 10 One common attitude of sales agents is that they would like to be your agent only if your product line is strong enough. Although our sales agent was an excellent large agent, our product line was not good enough at that time."

He said, "Of course, we had advertisements too. But the customers did not know our products. To have a brand name accepted in the market requires two or three 15 years' effort."

"In the first five years, although we put efforts into advertising, we lost a lot of money. The turning point was when our Chairman, Mr. Tsaur, put all his efforts into entering the MGE (military, government and education) retailing sales channel, an organisation for providing huge quantities and cheaper consumer goods for the 20 employees of military, government and educational organisations."

He said, "Our sales revenue increased after entering the MGE retailing sales channel. And we had more cash to reinforce our advertising. We put our effort into R&D. Therefore, we had more good products to reinforce our position."

“We discontinued the sales agent and organised our own sales team. We set up three sales offices in Northern, Middle and Southern Taiwan. Then, the distribution system was set up. ... Now, our market share is higher than our major competitor, Nestlé: just a little bit higher.”

5 **A.3.2.6 Change of Suppliers**

Mr. Cheng said, “We do not have any problem or big changes with our suppliers. Our suppliers like to do business with us because they know our purchasers are very clean. They know we are a high potential company. We never have any delay or any problem in payment.”

10 **A.3.2.7 Change in Technology**

Mr. Cheng said, “Owing to our excellent R&D capability and strong engineering team, we do not have any problem with technology. We don’t feel there are big changes in technology.”

A.3.2.8 Environmental Protection

15 Mr. Cheng said, “The awareness of environmental protection does not have a big impact on our company. Of course, we have waste water and waste gas and so on. We have spent a lot of investment in dealing with wasted water and gas. We will spend money on processing wasted water and gas as far as we can afford it. We have had hardly any protests from our neighbours because of environmental protection
20 problems.”

A.3.2.9 Consumer Trends

Mr. Cheng said, "We are at the right time to introduce our high quality with high price products into the market because of the economic booms and increasing GNP in Taiwan in the last few decades. Our advertisements promote "healthy" foods to our customers. We have caught up in the trend of customers looking for *healthy* foods."

A.3.2.10 The Relationship between Taiwan and Mainland China

Mr. Billy Yang, the General Manager, said, "Standard invested in Mainland China because of the improving relationship between Taiwan and Mainland China in the past decades. ... The main reason for investing in Mainland China is the long-term development of the market and the economy."

He said, "We reviewed mainly political and economic factors before we invested in Mainland China. The political factors include the relationship between Taiwan and Mainland China, and internal political power change in Mainland China. There is risk in the political situation, but we think it is minor. Therefore, the economy has become our main concern. We consider the positive economic development."

A.3.3 The Business Philosophy of Standard

As a young company, Standard's business philosophy is not yet clearly defined or stated in the company's documents. Nevertheless, that philosophy does exist and helps to form a strong corporate culture within the company.

A.3.3.1 Chairman's Introduction

The Chairman, Dr. T. F. Tsaur, said:

“Ever since Standard Foods Taiwan Ltd. was established in 1986, we have devoted ourselves to the development of nutritious food products. We insisted on doing the right things to pursue quality and to achieve results. With the hard work of every one of its employees, Standard Foods has built a strong foundation in the food industry in Taiwan.

Today, Standard Foods is home to many famous names in Taiwan like Quaker, Great Day, Ovaltine, and Mentos, etc. It is even more important for us to be dedicated to research and the development of new products to serve our consumers’ needs.

In the future, we have developed a strategy based on gaining market share under our philosophy of “one step leaves one footprint”. We will continue to seize all the opportunities for growth. We have the means appropriate to our ambitions... to anticipate the future and offer the best products to the largest number of consumers.”

A.3.3.2 The Top Managers’ Understanding of Business Philosophy

Mr. William Cheng, Director of Operations, said, “Upon the whole, the idea and opinion of the boss is very important to his company. Any of his ideas and opinions will guide his subordinates.” And he said, “Maybe, he (the boss) does not have a firm business philosophy. But he has a model of his thinking. ... We sometimes discuss business philosophy in the meeting, then we will know what the boss thinks.” The following are the elements of the company’s business philosophy according to Mr. Cheng:

“One step leaves one footprint – working steadily, one makes progress. It is a philosophy which means to practice or perform energetically or to act with strength.”

5 “A key part of his (the boss’s) philosophy is stability and growth.”

“Just a few months ago, we spent about two months discussing our company’s vision with a management consultant. We concluded with only twelve words in Chinese. In English, it is: Stability, Growth, Customer
10 Satisfaction, and Pursue Excellence. This is the direction of our future operation of the company.”

“Through the discussion of our corporate vision, we have our business philosophy thorough an understanding from top to bottom.”

15 “We have a very good company image. The reason is mainly customer satisfaction. We put customer satisfaction as number one in our operations.”

“To pursue stability and growth is one of our boss’s operational strategies. He asks for stability. On the other hand, he asks for growth. Stability and
20 growth seem to be in conflict. Our target is 20 per cent growth in sales and 10 per cent growth in net profits per year. This is a very difficult target to reach. How can we make it? We need excellence. How can we be excellent? We need excellent managers if the company wants to be excellent.”

25 “My boss doesn’t hire a manager from outside the company. He would prefer to promote a manager who knows his business philosophy well. He wouldn’t promote a manager to a higher position without a five or eight

years' examination or investigation within the company. That is why he can't expand its business quickly."

5 "We discussed whether we want to expand our business quickly because we now have lots of money. The conclusion is that we don't want to. He (the boss) didn't say "no". But, in the end, I realised later that he hopes for growth and he hopes for stability as well."

10 "I told my subordinates that you want customer satisfaction. What is the customer? I told them that the customer is, for example, our operations department, and our customer is perhaps the marketing department. The consumers are the customers of the marketing department. The customer of the production management department is perhaps the manufacturing department. That is, every department has its customers. We need to extend
15 the meaning of customer to every department."

"As for excellence, we need to extend its meaning. The manufacturing department needs to manage its yield rate and to be an excellent department. All other departments need to pursue their excellence. This becomes our
20 direction. And we are moving according to this direction."

"Our company emphasises the moral fortitude of our employees, for example, loyalty, no corruption, and no cheating. The company wouldn't be good if the moral fortitude of employees were not good."
25

"We do more than we talk. For example, we emphasise the education and training of our employees. We have training programmes covering different

levels of employees through the year.”

“We have a very good QA system which was originally adapted from Quaker, our American mother company. QC personnel has its absolute authority in quality control. The manufacturing department has never argued if the QC has judged the quality. Our boss strongly supports the decisions of the QA department.”

“Our workers will report automatically if they find any quality problem, even if they doubt it. This is the result of our continuous training. The consciousness of quality is sometimes even higher with workers than managers. The consciousness of quality has become one of our corporate cultures.”

“I believe our company will not easily become a bad one because we have created such a good culture, one of our most important assets.”

In addition to Mr. Cheng’s understanding of the business philosophy of Standard, Mr. Yang, the General Manager, also said:

“Our boss told us to consider long-term profit. We would like our brand name to become famous even if we must sacrifice short-term profits. This is our strategy to get more market share.”

“Our company puts an emphasis on consumer surveys. We have had many consumer tests with different test methods. We found a big difference in consumer behaviour and consumer habits in different areas, no matter what

kind of test instrument we used.”

“There is no manufacturing problem in the food industry in Taiwan. Neither capital nor technology is a problem. The most important thing is the acceptance of the product by the whole market, by all consumers, and your ability to master the power of consuming.”

A.3.3.3 Influence of Business Environment Change

Because of the change in the business environment (a better relationship between Taiwan and Mainland China), Standard decided to invest in Mainland China. This has changed part of Standard’s business philosophy. Standard looks for only high gross margin products in Taiwan. But in Mainland China, Standard cannot do this because the living standards in Mainland China are far below those in Taiwan at present. Accordingly, the company must consider what is the acceptable price to customers in Mainland China.

Mr. Billy Yang, the General Manager, said, “The decision factors we consider in Mainland China are different from those of Taiwan. We will put more effort, for example through advertising, into creating the best image of our product only if the product has a high gross margin when we launch it in the Taiwan market. But the management in Mainland China is different from that of Taiwan. The consideration is not only the gross margin but also the quantity and price position of the product. Actually, you need to see what is the position of your product in a lower, medium or higher price position: you don’t need to have your product in a higher price position. Everything starts from the consideration of cost (price). If you have your price higher than the acceptable level for the consumers, you can hardly sell it. Don’t you agree?”

You must consider what is the acceptable price when you want to launch a new product. It is not possible to launch a product into the market if the price is too far away to be accepted by the consumers. And we won't launch such a product, of course. We will consider this factor when we review a new product."

5 **A.3.4 Standard's Performance**

Standard's performance is excellent among the food manufacturing companies in Taiwan. The revenues, net income, and net income per share for the last five years are shown in Table 4.4.1 (see Chapter 4).

Standard is a fast growth company (see Figure 4.4.1 in Chapter 4). Two senior
10 managers filled in the Philip Kotler's marketing-effectiveness rating instrument. The average score is 24.75, which is very good according to the level of marketing effectiveness. It shows that the senior managers are satisfied with their marketing performance. Compared with other food manufacturing companies, the actual performance result is superior and is much better than the senior managers' self-
15 rating. (For Philip Kotler's marketing-effectiveness rating instrument, see Appendix I.)

Appendix B1: Interview and Document Data of Case 4 – FEDS

B.1.1 FEDS' Market Orientation

B.1.1.1 Emphasis on Market Share

5 The company emphasises market share and tries to keep its leading position in the local market. Former President Yin said, "FEDS not only recorded a growth higher than the average growth of Taiwan's large department stores, but maintained a market share of 20.5 per cent." And he said, "Faced with this strong competition among local retailers, FEDS' operating strategies have been emphasised ... so as to maintain its
10 leading position in local retail business."

B.1.1.2 Looking for Long-term Profits

President Yin said, "Taiwan's overall retail industry encountered unfavourable conditions and revenues did not surge as before. However, Far Eastern Department Stores managed to perform remarkably in 1993. Operating income rose by 8.4 per cent to NT\$14.05 billion (US\$528 million). ... While revenues from the apparel
15 (clothing), household and supermarket divisions grew by 10.6 per cent, 5.3 per cent and 8.0 per cent, respectively, it was exceptional for FEDS to maintain the same 22 per cent gross profit rate as a year ago. Operating income in 1993 rose by 17 per cent to NT\$633 million (or US\$23.78 million) from NT\$540 million in 1992."

20 Mr. Yeh explained, "To become a retailing business group is our company's long-term plan. ... In terms of servicing the needs and wants of well-defined markets, we choose long-term growth and profit potential for our company. For example, Far Eastern Enterprise Ltd., a FEDS' invested subsidiary, aims at middle-to-low end

customers. The Ya Tung Department Store Ltd., another FEDS' invested subsidiary, aims at high-end customers. We are planning to open a shopping Mall in the near future."

B.1.1.3 Emphasis on Customer Satisfaction

5 FEDS emphasises customer satisfaction and continuously promotes a series of CS (Customer Satisfaction) activities. A five-year CS promotion programme was designed. Different activity themes were designed for each year.

B.1.1.4 Customer Orientation

FEDS, as a service company, does not agree with looking at marketing from the
10 viewpoint of the manufacturer which must also consider its production. Mr. Yeh, the Vice President said, "The marketing that you learned abroad is somewhat different from what I now do practically because many of your initial viewpoints came from the manufacturers. ... Actually, you must have a completely new concept, that is, you must forget all of the producers. The producers just produce goods for me. They have
15 been eliminated by the market. It is not in the early stage that the manufacturers can dominate the market. ... For example, there are no longer just 3 or 5 kinds of tea products as before, but 100 or perhaps 200 kinds of tea products (brands). We are now customer-oriented. We use the POS (point of sale) system to list the best sellers. When 200 tea products come to the shop, for example, we select only a few top best
20 sellers for our customers. As for the other products, we say sorry! We do not accept them! They cannot be sold in our shop!"

Mr. Yeh's view shows the difference between service and manufacturing industries. The service industry cares more about what the customer needs and wants

than about the product itself. He points out that the manufacturer no longer dominates the market in Taiwan, especially in terms of consumer products.

Mr. Yeh said, "As a department store, we never consider production matters. What we consider is whether the product meets customers' needs and wants. We will
5 only introduce those goods that we think are acceptable to customers. Otherwise, we eliminate them from our computer file. There is no chance at all for them to be sold in our shop."

Mr. Yeh said, "I never consider the matter of production. I only consider the acceptability of the merchandise to customers. I only consider the issues of
10 acceptability to our customers."

Because of the top managers' sense of the importance of customers and limited selling space, the company needs to choose the right goods for its customers. Mr. Yeh said, "We choose what our customers need and want. We cannot introduce all kinds of goods into our shop. There is not any selling site in the world that can store all
15 kinds of goods, even a 50,000 pyngs¹ selling site cannot allow them to get in. Certainly, we need to make a choice (of the merchandise)."

The managers sense the importance of the customers in running a retailing business. Choosing the right merchandise is one of the key factors in running the business. Mr. Yeh said, "We choose these goods for our customers. Therefore, if we
20 have the ability to choose the right merchandise, then the customers will come."

¹ 1 square yard = 0.253 pyngs or 1 square feet = 0.028 pyngs

Mr. Yeh said, "When the company has high market growth and a high profit margin, of course it will place more emphasis on customer orientation, that is, more emphasis on customer service."

B.1.1.5 Market Segmentation

5 Although the managers sense the importance of the customers, where are the customers? You must know who your customers are, that is, you must define your customers. Mr. Yeh said, "We eye (seize on) the middle mass market." And he said, "Our company has been developed as a retailing group from a single department store business."

10 FEDS business group aims at all levels of the retail business. The group divides the retail market into three levels, that is, the high, middle and low ends. Three major companies run the three segmented markets respectively (see Table B.1.1). Mr. Yeh said, "We develop different offers and marketing plans for different segments of the market. For example, our department store aims at the middle mass market. The
15 HYPER, the mass merchandising shop, aims at the middle to low end market. And Taipei Metro The Mall, a famous brand shop, aims at the high end market."

Table B.1.1 The FEDS' retail business group

Company name	Company characteristics	Target market
Ya Tung Department Store Ltd. (Taipei Metro The Mall)	A distinguished store (famous brand) shop	Aims at high end market
FEDS	A chain department	Aims at middle mass market
Far Eastern Enterprise Ltd. (HYPER)	A mass merchandising shop	Aims at middle to low end market

Mr. Yeh said, "Even different branches of the department store have different offers because of different locations (areas). For example, the offerings at the Pao-Ching Branch, Taipei and the Hua-Lian Branch are different. One is in Taipei city and the other is in the east of Taiwan."

5 Market segmentation is the first thing that needs to be decided. If the customers are clearly defined, then you know how to choose merchandise to meet the customers' needs and wants. Mr. Yeh said, "You need to choose merchandise according to area, customer segmentation, age difference (young or old), fashion or attitude (conservative), taste, ..."

10 FEDS emphasised customer service for a long time. But actually, it did not carry it out. As Mr. Yeh said, "Before, we didn't put customer satisfaction, that is, the customer service in first place. We shouted for customer service, but we didn't really implement it or put it into effect. Why we promote CS is to put customer satisfaction in first place, to consider it as the first priority."

15 FEDS' managers think that creating a competitive force (competitive advantage) is another segmentation of the market. Emphasising the company's own competitive force, FEDS reaches it in the following two ways: first, by fortifying the company's constitution when the market grows; secondly, by defending the market share when the market is in recession. Mr. Yeh said, "The key point does not focus on
20 competition with competitors. It's on the measurement of the corporation's capability. I think it is very important to measure the force of the company itself. I would like to elevate our corporate constitution if our company has high market growth and profit margin. That is to say, to fortify satisfactory service to our customers, and other activities to strengthen our business's constitution so as to have a different

segmentation from other competitors.”

B.1.1.6 Competitor Orientation

FEDS’ managers seem not to be interested in competitors. One of the reasons is that the retail market is a high growth market in Taiwan. The retailers need only look for sales but not competitors, especially in the early stage of the Taiwan retail market. As Mr. Yeh said, “We have a tacit understanding among each other in the early Taiwan retailing market. The tacit understanding involves how many days will each department store’s anniversary ceremony be? When will the seasonal discount begin? And how big will the discount be? The retailers aim their sales operation at the early Taiwan retailing market. They emphasise the change of market and ...”

The retailers must battle for their survival by increasing their competitive force when the market goes into recession. Mr. Yeh said, “You may have an equal chance, either better or worse than your competitors, when the market goes into recession. It is time for you to defend your own market.”

B.1.1.7 FEDS’ Emphasis on Creating a Competitive Force

FEDS’ managers emphasise competitive force, but not competitors. Mr. Yeh said, “... For example, recently the Japanese department stores have faced economic stagnation (recession). They placed their emphasis on competitive force, but not on competitors. The competitive force focuses on the company itself (the company’s own force), not on others (competitors).”

FEDS’ managers have learned the lesson from Japan and emphasised the importance of creating the competitive force of the company. Mr. Yeh said, “When

the business (company) faces market recession, the company does not have growth. Its profit declines. This is the situation of the retailers in Japan now. Some of the Japanese retailers are losing money. The company's "competitive force" becomes their first consideration. Can they upgrade their sales revenue? Can they reorganise themselves to be more concise? The competitive force is more important than any thing else."

FEDS tried to create its competitive force by promoting a CS programme. Mr. Yeh said, "Actually, promoting CS is a way of improving the company's constitution."

Mr. Yeh repeated again the importance of competitive force. He said, "Facing a life-and-death crisis (that is, can the company make money? can the company grow?), the business enterprise will focus on its competitive force."

B.1.1.8 The Contingency Strategy of FEDS

FEDS has a contingency strategy, a way of ensuring its survival in the face of the rapidly changing business environment. But FEDS does not emphasise its competitors. Mr. Yeh said, "Both competitors and competitors' hostility, we don't keep them in our mind. It's sales strategy that we are concerned about."

The sales strategy and tactics of FEDS employ a philosophy from ancient Chinese history: The so-called "Her-Tzong Lian-Herng²". "Her-Tzong" refers to the alliance of six states against the state of Chin during the Epoch of Warring States in Chinese history. "Lian-Herng" means a proposal advanced by Chang Yi in the Epoch of Warring States, which called for the other six states to serve Chin. Mr. Yeh said,

“The so-called sales strategy concerns how to fight against each other. You have one shop and I have one too. We are robbing the market, the big cake of the market. It is a battle between the two. We need strategy or tactics. We can go “Her-Tzong Lian-Herng” and follow any kind of tactics that we can employ. For example, for the anniversary ceremony, we were to be “Lian-Herng”, in alliance with each other. The tacit understanding about the anniversary ceremony has now disappeared. The alliance no longer exists. Therefore, we can't say the competitor's hostility. It's a kind of tactics. It's an individual way of doing business. It's unlike the hostility when two sides go to battle with their guns.”

10 Mr. Yeh said, “The retail market changes very fast. We are a fast-response and flexible company compared with manufacturing industry. We can change sales activities within three to four hours. We can change all the displays in one night.”

Mr. Yeh said, “We are very nimble and flexible in using marketing resources. We could fail if we are not flexible in the retailing market.”

15 Here is an example of FEDS' contingency thinking and planning as Mr. Yeh explained: “The regulations of the Kaohsiung city government do not agree with those of the central government. The city government ordered us to close the Kaohiung Branch because of the problem of the legal usage of the building located in Kaohiung City. We had only 3 days to make all the decisions including all kinds of advertising and sales activities. We had a one-week auction but we got 2 months' revenue. This shows our flexibility.”

² The meaning of 'Her-Tzong Lian-Herng' is similar to what English Prime Minister Henry John Temple (1784 - 1865) said, “We have no eternal allies and we have no perpetual enemies. Our interests are eternal and perpetual, and the interests it is our duty to follow.”

B.1.2 FEDS' Top Managers' Perception of the Changing Business Environment

B.1.2.1 Chairman's Overall World Economic Review

Chairman Hsu places more emphasis on a global view of business management. He looks at the overall world economy to run his business. The following is his message to shareholders:

“The Republic of China recorded an economic growth of 5.9 per cent in 1993, which was lower than the targeted 7.0 per cent and also below the 6.06 per cent growth registered in the previous year. The growth was hampered by the stagnant demand of the public sectors and particularly the procrastination of public investment projects, which had been originally estimated to contribute 2.3 per cent but actually only contributed 1 per cent to the economic growth rate. Among the four Asian Little Dragons, except for Singapore which boasted a growth of 8.5 per cent, ROC's growth was higher than those of Hong Kong (5.5 per cent), Korea (4 per cent) and the average growth of the industrialised countries (1.1 per cent). When participating in last year's APEC meeting, ROC government officials and other member countries all emphasised the importance of multilateral economic cooperation. To reach its goal of becoming the commercial centre of the Asia Pacific region, the Republic of China will further enhance international economic cooperation and diversification with Southeast Asia countries.

In 1993, Taiwan's per capita GNP was US\$10,570, though lower than the target of US\$11,570, and consumer prices only increased by 2.9 per cent, the lowest increase in the last five years. The Republic of China's 1993 trade

5 volume reached a total of US\$162 billion. While still ranking among the top
14 trading countries world-wide, the differences with the trade volumes with
South Korea and Singapore are narrowing down, leading to fiercer
competition among these three countries. According to statistics from the
Directorate General of Budget, Accounting and Statistics, Executive Yuan,
Taiwan's economy has entered into a stable growth stage and has shifted from
an industry-oriented economy to a nation with a growing service sector. With
Taiwan's 1993 service sector product value rising to 55.9 per cent of GNP, the
Republic of China is beginning to have the structure of an industrialised
10 country."

The company always scans changes in economic growth as a guide to its
development of the business. Economic growth is therefore one of the major factors
that top managers consider.

B.1.2.2 Chairman's General Review of the Local Market

15 Chairman Hsu sees a continuous growth of the retail market. On the other hand, he
senses strong competition from the new large department stores as well as the rapid
growth in the number of hyperstores, chain supermarkets and convenience stores. The
following is what he said to his shareholders.

The following is what Chairman Hsu said to his shareholders:

20 "With vibrant public consumption, Taiwan's major department stores boasted
sales revenues of over NT\$70 billion (or US\$2.63 billion) in 1993. Three new large
stores joined operations, adding a total of 56 major department stores in Taiwan with
several more expected to open in 1994. Furthermore, with the rapid growth in the

number of hyper stores, chain supermarkets and convenience stores, the industry is in the midst of buoyant developments and is facing much stronger competition.”

B.1.2.3 The President's Perception of the Changing Business Environment

Mr. Ying, former President, senses not only the company's operating income and cost control but also the economic growth of the country. He also looks to maintaining a large market share. Here is what he said:

Mr. Ying, former President, said:

“Despite the influence of the economic slow down world-wide, Taiwan reported a growth of 5.9 per cent in 1993, a little lower than the 6.06 per cent registered in the previous year. Taiwan's overall retail industry encountered unfavourable conditions and revenues did not surge as before. However, Far Eastern Department Stores managed to perform remarkably in 1993. Operating income rose by 8.4 per cent to NT\$14.05 billion (US\$528 million). FEDS not only recorded a growth higher than the average growth of Taiwan's large department stores, but maintained the market share of 20.5 per cent.

While revenues from the apparel, household and supermarket divisions grew by 10.6 per cent, 5.3 per cent and 8.0 per cent respectively, it was exceptional for FEDS to maintain the same 22 per cent gross profit rate as a year ago. Operating income in 1993 rose by 17 per cent to NT\$633 million (or US\$23.78 million) from NT\$540 million in 1992, thanks to the efficient control over operating costs which grew by only 4.5 per cent, much lower than the increase in operating income. The substantial growth in operating income for the past two consecutive years indicates that the core business has

grown more and more steadily.”

He senses also the increase in national income, change of consumption habits, and the promotion of public infrastructure projects as part of environmental change. These changes are causing the development of new types of retailing in the Taiwan market. The development of the retailing market makes for strong competition among
5 businesses. He said:

“With the increase in national income, change of consumption habits, and the promotion of public infrastructure constructions, Taiwan’s retail business has prospered and diversified into a variety of distinctive patterns including
10 hyperstores, convenience stores, supermarket chains and speciality boutiques. Foreign investors from Japan, the US and Europe have also joined operations in the local market with their advanced know-how.”

B.1.2.4 Changing Customers’ Needs and the Changing Focus of Business Operations

15 FEDS senses changes in the market environment and changes in customers’ needs. Therefore, FEDS has modified its business operation focus from time to time. The managers understand that the main market characteristic is the excess of supply over demand. This perception has forced the company to focus its operation on a customer orientation. The CS activities have also acted as a method of enforcing its competitive
20 advantage. Table 5.2.2 (see Chapter 5) explains the changing customers’ needs and the changing focus of business operations.

B.1.2.5 Activities in Response to Environmental Changes

Faced with strong competition among local retailers, FEDS' operating strategies have been focused on the following points so as to maintain its leading position in local retail business.

5 1. Increase New Points of Sale and Store Space

As many new large department stores and other types of retailers have been introduced in Taiwan recently, FEDS has sought to fortify its leading position. It has established a new Panchiao branch to replace the old one, and has refurbished and expanded the Taichung Branch, adding a total of 33,878 square meters of operating space in 1993.

Furthermore, in September 1993 FEDS purchased several floors of a commercial building in Tainan. The total store space was planned to be some 49,300 square meters by the end of 1994. This new store was designed as a comfortable, enjoyable and multi-purpose shopping mall to attract and serve more customers.

15 2. Adjust Merchandise Mix and Increase Ratio of Own-level goods (Commodities)

All FEDS' 14 branch stores island-wide regularly evaluate the efficiency of every goods and properly adjust their merchandise mix in accordance with each location's changing commercial circles and geographical characters. FEDS has long been striving to raise the ratio of own-level goods so as to increase its profit margin. For example, during the December 1993 anniversary sales, FEDS recorded revenues of NT\$1,690 million (or US\$63.49 million), 40 per cent higher than those of 1992. This remarkable contribution was achieved through successful promotions of cost-saving own-level goods.

3. Continuously Promote a Series of CS Activities

A five-year CS promotion programme was designed. A different activity theme was designed for each year. For example, 1993 was designated as the Year of Enhancing Customer Satisfaction. Aside from establishing CS promotion committees
5 in each branch to organise programmes for the whole year's CS activities, FEDS has also held intensive courses to teach salespeople adequate concepts and manners in order to improve FEDS' service quality and corporate image. According to poll result, FEDS' 1993 CS rating was 5 per cent higher than in the previous year. In addition, its corporate image was ranked first among the 56 major department stores in Taiwan.

10 4. Promote the Use of Far Eastern Credit Cards

FEDS is Taiwan's first department store to issue its own credit cards since 1973. The issuance of FEDS credit cards not only serves to cultivate customers' loyalty to the store and helps to stimulate spending, but also provides valuable information on customers' consumption habits and enhances the effect of promotion activities. Up to
15 the end of 1993, FEDS issued more than 105,000 credit cards, which was a remarkable 60 per cent growth since 1992. The 1993 credit card amounts accounted for some 6 per cent of FEDS' annual operating income, meaning that the FEDS credit card has already become a trendy, convenient and mutually beneficial way of consumption welcomed by local customers.

20 5. Intensify Training of Management Personnel

FEDS has emphasised personnel training in order to strengthen its operations. Mr. Yeh said, "During the years between 1981 to 1983, we sent about 200 managers to Japan to learn to emulate the good points of Ito Yokado, a famous Japanese department store. After the emulation training, those managers brought back a new

concept of department store management into our operations. It was the best management concept in Taiwan at that time.”

In order to cultivate management personnel, FEDS organised 536 training courses during 1993 and 16,567 persons participated. Among those courses, the seminars and visiting programmes held in June 1993 to give mid-level management a better understanding of nation-wide and international retail operations were most fruitful and rewarding. On the other hand, FEDS is also promoting R&D projects in co-operation with the Yuan-Ze Institute of Technology, which was established by the Far Eastern Group in 1989.

B.1.3 The Business Philosophy of FEDS

B.1.3.1 Business Philosophy in the Earlier Stage

“Operating the business according to consumers’ wishes was our business philosophy in the early years of our department store which was established in 1967”, said Mr. C S Yeh, Vice President. “Therefore, our company’s direction headed for establishing an island-wide chain store and serving the public, not only for operating a single large department store or a few (2 or 3) department stores.”

B.1.3.2 Chairman Hsu’s Business Philosophy

“User Friendly,” is Chairman Douglas Tong Hsu’s business philosophy. He deems that “People will pay more and more attention to the quality of the service after the standard of living has improved. Not only the service industry, but also the manufacturing industry, should promote customer satisfaction activities to provide a

satisfactory service to the customers. That is, to increase the customers' satisfaction is the key point of business operations."

B.1.3.3 The Changing Business Philosophy of FEDS

5 "Although 'operating the business according to consumers' wishes' was our business philosophy in the earlier stage of our company, actually we were still mainly a sales-oriented company," said Mr. Yeh. "We promote CS (customer satisfaction) activities. We have a five-year promotion plan. We have changed the whole management structure (from a sales-oriented to customer-oriented company)."

B.1.3.4 FEDS' Mission Statement

10 "With strict criterion for customer satisfaction and high sense of social responsibility, FEDS is dedicated to serving and accompanying consumers towards the 21st century." is FEDS' mission statement.

B.1.3.5 FEDS' Slogan

FEDS' slogan is "We are continuously striving for better customer satisfaction."

B.1.4 FEDS' Performance

15 FEDS' performance is quite good amongst the retailers in Taiwan. The revenues, net income, and net income per share during the last five years are shown in Table 5.2.1 (see Chapter 5).

20 The profits went down in 1995 although the sales still went up. Mainly, this was caused by the slow economy of Taiwan and strong competition in the market.

Two senior managers filled in the Philip Kotler's marketing-effectiveness rating instrument. The average score is 27.5, which is superior according to the level of marketing effectiveness. It shows that the senior managers are satisfied with their marketing performance. This matches FEDS' financial data as shown above. (For 5 Philip Kotler's marketing-effectiveness rating instrument, see Appendix I.)

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Appendix B2: Interview and Document Data of Case 5 – Shin-Shin

B.2.1 Shin-Shin's Market Orientation

B.2.1.1 Customer Orientation

5 The top managers do not talk much about the emphasis they place on customers. They are more interested in thinking about how to offer more facilities and look forward to customers' coming to the store. Mr. C. C. Lee, the General Manager, said, "We hope the customers come here (to our department store) to buy what they want to buy, be entertained in the way they want to be entertained, eat what they want to eat. They can
10 have banquets in our luxury restaurant. They can have a snack in an eatery (small restaurant) in our department store. They can take exercise if they like sports (bowling). Parents like to go shopping or see a movie while children may like to buy a toy. The whole family can come to our place and enjoy what they want."

The senior manager has noticed that the customers have changed because of the
15 change in the Shin-Shin business circle. Mr. C. P. Lee, the Manager of the Business and Planning Department, said, "The characteristics of this business circle have changed tremendously. This was a residential area as well as being surrounded by so many business offices. Now, a lot of business offices have moved to the east district of Taipei city. There were a lot of tourists who came to this area. But the tourists are
20 fewer and fewer. The basic customers are mainly residents who live in small en- suites, some employees of nearby business offices (not as many as before), and residents of this area." Mr. C. C. Lee, the General Manager, said, "We tend to be a community department store."

B.2.1.2 Competitor Orientation versus Customer Orientation

Mr. C. P. Lee, the Manager of the Business and Planning Department, said, "In my opinion, to consider the needs of customers is very important. On the other hand, we can also learn the merits of the operation by reference to our competitors, especially those department stores having joint ventures with Japanese department stores."

B.2.1.3 Virtuous versus Vicious Circle

Although the top managers thought it would be better if Shin-Shin were a new department store, they thought that the virtuous circle was very important to the operation of a company. Mr. C. P. Lee said, "As a new local department store, if it were not good enough to let the special cabinets³ (suppliers) make money, no one would want to become one of its special cabinets (suppliers). Or, for the sake of reaching an economic scale, the supplier perhaps wants to come to the shop although the department store is lower in overall performance. But the sales person doesn't like to come to a department store which has lower sales because they will gain more sales commission in a high sales department store although the work may be harder than in lower performance stores. On the other hand, no sales person would like to be an employee in a poorly performing department store with a lousy boss. (The employee feels the boss is lousy because the boss/managers ask for more sales in response to poor overall business performance.)"

³ The special cabinet is a common way of doing business in the department store business in Taiwan. The suppliers rent the sales space from the department store. It is like a special cabinet (place) for selling their products. The suppliers have their own sales person and their own stock. But all of the administration must be under the management of the department store. The suppliers must follow the policy or regulation of the department store. They cannot have their own way of doing business. The department store has the income of rents and sales commission from the suppliers, but not the expense of salaries and stock.

He said, "We found that we must become a stronger (more competitive) company. If we are not strong enough, we must seek some strong special cabinets to joint our department store to help us upgrade our competitive operation. ... Therefore, if we want to have another refurbishment, we would make it much better than the last refurbishment in 1995."

He said, "We experienced a lot of frustration when we had our refurbishment in 1995. Some of the suppliers we invited didn't like to come to join our operation. They thought ours was not good enough for them to come. They thought this place (Shin-Shin) could not let them make money. But things have changed. After our refurbishment, we asked some of the suppliers to come to see our achievement. They are now interested in joining us."

Mr. C. C. Lee, the General Manager, said, "One of the suppliers didn't want to join us when we invited him last year. But he came to ask us give him a chance to join the operation now."

15 **B.2.1.4 Long-term versus Short-term Considerations**

The top managers admired the way that the Japanese-invested department stores have aimed at the long-term consideration of their operations. Mr. C. P. Lee said, "No matter how much money was needed, if they thought the promotion activities were necessary, they would spend it. They consider the long-term operation of their business. They do not expect to invest this year and make money next year. They are looking for a profit three or five years later. In Taiwan, if you told your boss that the return on the investment would be three years later, the boss wouldn't agree. But, as

an international department store group, they had a lot of experience of successful investment. They could implement their investment plan with confidence.”

Mr. C. P. Lee, the Manager of the Business and Planning Department, said, “For us, if I have a good idea, then I propose a programme (project). We would probably
5 quit the programme one or two years later if the project lost money right at the beginning. This is because we are a company whose stock is transacted publicly. We have pressure coming from public investors asking us to make a profit. The top manager feels pressure when he is making his decision. We, as staff, also have pressure when we are making a plan. It is hard to continue a programme if it loses
10 money in the beginning. If you said that this programme will surely make big money five years later, people would ask, “where are you going to be five years later?” Nobody knows. ... A lot of business problems come from these short-term considerations. As foreign investors, they can say they are absolutely right in their operation because of their successful experience in other investment cases.”

15 **B.2.1.5 Performance/Profit Orientation**

Shin-Shin seeks a better performance and more profit. Mr. C. P. Lee, the Manager of the Business and Planning Department, said, “Actually, we followed the general business principle to operate our company from the start of our business operation, i.e. aiming at making money. This is the way to survival.”

20 **B.2.1.6 Market Positioning**

As mentioned in section B.2.2, Shin-Shin has re-positioned its operation because the business environment has changed.

B.2.1.7 Market and Marketing Orientation

Mr. C. P. Lee, the Manager of the Business and Planning Department, said, "As a planning department, I think we did not do much about marketing. Compared with our competitors, the money spent on promotion is less because of our smaller sales space. There is not enough benefit compared with the promotion expenses. For example, the larger department store has an area of 10,000 pyngs. Their advertising expense is about NT\$1 million a month. Their sales amount is about NT\$100 million a month. The advertising expense is 1 per cent of its sales. Our sales amount is about NT\$30-40 million a month. The ratio of our advertising expense to sales will be 3-5 per cent. We have reviewed this problem. We do our best to try to spend less money (on advertising), but hopefully to get the best result. We can't spend big money on advertising as the larger department stores do. We don't want our advertising handled by an advertising company if possible. We do it by ourselves. But we must have advertising; otherwise, we will be forgotten. It's not only the competition between the department stores, but also the invasion from the hyperstores and convenience stores. We must take actions continuously."

Mr. C. C. Lee, the General Manager, said, "We are waiting for the development of parks number 14 and number 15. We expect customers to come shopping not only from the nearby streets but also from the parks. We are thinking about what kind of people will come to the park in the future. We want to meet the demands of those people in order to attract them to come shopping."

But his staff does not think in the same way. Mr. C. P. Lee, the Manager of the Business and Planning Department, said, "I think, as a business man, he can't expect and depend on the crowds from the park. The improvement of the surroundings of the

store (shop) doesn't have any direct influence on the business because there are not so many business opportunities as a department store close to a park. We have to make ourselves attractive to customers. For example, we have bowling facilities which the Hsin-Kwang Department Store, the largest one close to us, doesn't have. We have
5 other services that the larger department stores don't have. More customers come because of those services."

B.2.2 Shin-Shin's Top Managers' Perception of the Changing Business Environment

B.2.2.1 The Chairman's Perception of the Changing Business Environment

10 Mr. C. S. Wei, the Chairman, said, "We have faced an austere challenge because the economy was affected by a lot of non-economic factors (mainly the tension between Taiwan and Mainland China). The stock market became the bear market. The estate market was at the bottom. The consumer proved to be conservative. Therefore, the sales of most of the department stores and retailers were going down. To the south
15 side of our shop, there is preserved land for development as parks number 14 and number 15 of Taipei city. The surroundings of our store are disorderly because the development has not yet taken place according to the original plan. This has more or less affected our performance. Therefore, we follow a stable development strategy and have a good command of the flexibility of development. We want to motivate our potential capability and unify our employees to seek something new in our company.
20 We want to gain business information energetically, actively, and cleverly in order to strive for business opportunity."

He said, "We do our best to have our employees trained continuously, upgrade the capability of our professional managers, implement financial budget management,

have operations modernised, obey the accounting system, and be elaborate about the cost concept to seek profit and a growth of sales.”

B.2.2.2 Importing Department Store Management Know-how from Japan

Mr. C. P. Lee, the Manager of the Business and Planning Department, said, “We had a
5 technical agreement with Mazu-Ya, a Japanese department store in 1989. The expenses were a big burden to us because the gross margin of the department store was only about twenty per cent of sales. Therefore, the technical agreement mainly concerned only the layout of the sales floor of the shop, but not the whole know-how of department store operation.”

10 B.2.2.3 The Environment Changes and the Action Taken by Shin-Shin

Mr. C. C. Lee, the General Manager said, “Several larger department stores opened near our business circle. In such a competitive environment, our display and decoration were too old to attract customers to come shopping compared with those new department stores.”

15 He said, “We have only 1,636 pyngs of sales space. We can’t develop to be a full customer level department store like those larger ones. And parks number 14 and number 15 have not yet been developed. Therefore, the surrounding environment has not been improved like the progress of the entire environment (economics and society, etc.) of the city. The Lin-sung South Road, where our shop is located, has less traffic
20 to bring customers to come shopping. Those are the reasons why we run the company with difficulty.”

He said, "We refurbished our building to be a modern market hall⁴, including not only a department store, but also restaurants, cinemas, bowling, and a large toy shop. We are changing gradually. This is what I have said: we need to try to change in such a competitive environment. We have to change. But we can't change everything in a night. We have to take care of another thing, that is, to place the retired servicemen."

The performance was improved after the refurbishment. Mr. C. S. Wei, the Chairman, said, "We had a small loss in the third quarter after re-opening in July 1995. And it turned black in the fourth quarter. The benefit of the refurbishment is evident."

10 **B.2.2.4 The Positioning of Shin-Shin**

Mr. C. C. Lee, the General Manager said, "To confront this difficult situation, we refurbished our shop in April 1995 and re-opened in July 1995. After the refurbishment in 1989, we did not have any refurbishment until 1995. The decoration of the shop was out of fashion. The merchandise did not fit the requirements of the modern business circle."

He said, "To cope with consumer behaviour in this business circle, we totally reviewed our operation and re-positioned our company as a modern market hall, combined with leisure, shopping, sports, and entertainment, etc., to be a multi-functional operation. We focus on metropolitan ladies, consumers of the local business circle, and those salaried consumers."

⁴ Shin-Shin is not big enough to be called a "Shopping Mall." Therefore, it is better to use "Hall" instead of "Mall."

A company like Shin-Shin needed to take serious action to guarantee its survival in the future. However, the top managers felt vulnerable in taking such action. Mr. C. C. Lee, the General Manager, said, "If we open a new department store, we would have all new managers and all new shop decorations, and we could manage
5 it much better than at present. But our situation now is that almost all of our employees have worked here over one or two decades. We can hardly tell them one and they reply one, tell them two and they reply two. That's the difference."

Mr. C. P. Lee, the Manager of the Business and Planning Department, said, "If we had a new department store or reformed this shop totally, we might manage the
10 company much better. ... But the employees were used to what they had done during the past ten or twenty years. They thought what they had done was right and natural. ..."

He said, "The small to medium size department stores are facing a big problem. That is the building itself. The building of the department store is too small and its
15 layout is fixed. It's very difficult to make any changes to the building in order to meet the requirements of the modern department store, unlike the new larger department stores, which can have complete layout planning before they construct the building for the department store."

B.2.3 The Business Philosophy of Shin-Shin

20 B.2.3.1 The Evolution of Shin-Shin's Business Philosophy

Mr. C. C. Lee, the General Manager said, "Talking about our business philosophy, we must know the background of this company. The founder of Shin-Shin is VACRS.

The purpose of founding this company at that time was to provide a service to the public and to place retired servicemen as well as their dependants in employment.”

He said, “But, after the operations of those years, there have been some changes. Aside from the mission of placing retired servicemen, we must earn a profit to ensure
5 the continuing operation of the company. This has become our unchangeable operation model.”

For the past twenty-five years, Shin-Shin has struggled to resolve the conflict between their twin objectives. He said, “We need to take care of retired servicemen as well as to make money for the company. It is very difficult to find an equilibrium
10 point. This is why we have run our business with more difficulty than other companies.”

Shin-Shin had a slogan, “New enjoyment, hearty service”, after its refurbishment and re-opening in 1989. No other slogan was used, even after the latest refurbishment in 1995.

15 **B.2.4 Shin-Shin’s Performance**

Shin-Shin’s performance is poor amongst the department stores in Taiwan. The revenues, net income, and net income per share of the last five years are shown in Table 5.3.1 (see Chapter 5).

20 Sales have decreased in recent years. The account balance has turned from black to red. This has been due to the limited expansion of its hardware, i.e. the department store building. The trend of the department store is to have a large sales space to offer more merchandise for attracting more customers. A Taiwan-Japan joint-venture department store has successfully entered the same business circle and has formed

strong competition to Shin-Shin. The lack of a long-term perspective is another reason of the company's poor performance.

One senior manager filled in Philip Kotler's marketing-effectiveness rating instrument. The score is 26.00, which is superior according to the level of marketing effectiveness. It shows that the senior manager is satisfied with the marketing performance. This does not match Shin-Shin's financial data as shown above. (For Philip Kotler's marketing-effectiveness rating instrument, see Appendix I.)

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Appendix B3: Interview and Document Data of Case 6 – Tonlin

B.3.1 Tonlin's Market Orientation

B.3.1.1 Customer Orientation

5 As stated in the section B.3.2, Tonlin employed department store management know-how from the Japanese. Previously the department store management style was based on the ideas of small retailing in Taiwan. Mr. Su said, "The layout of the traditional department store was not well planned. The commodities were displayed on the basis of the more the better, without any orders, and only based on what the customers
10 wanted to buy. After we imported Japanese know-how, the first difference was a well-planned sales site in the store. It is bright and clean and in good order. The second difference is in the *service*. We offer the customer a cordial and kind service. We do our best to serve our customer as *king*."

He said, "We put an *emphasis on customers*. Because the department store has a
15 fixed location, if you want customers to come, you need do your best to attract them. The marketing influence is not very great. It's unlike beverages, for example, where different marketing strategies may attract different customers with the products scattered everywhere in the market. But, we (the department store) are not the same. If the customer likes to come to our store, he/she will come. If he/she likes to go to other
20 stores, he will go there!"

He said, "Therefore, how to understand and persuade customers becomes more important than any other things. We can say that "customer orientation" is our business philosophy."

B.3.1.2 Competitor Orientation versus Customer Orientation

Tonlin emphasises how important the customer is to them. Its managers care less about its competitors. Mr. Su said, "Yes, we take *customer orientation* as a kind of business philosophy. For example, there is the Ming-Yao Department Store, which
5 confronted our own, but we don't care about what they are doing. We do what we should do. We do what our customers need."

He said, "... the hardware (building) may be different, the business philosophy may be different ... of course, I would take notice of what they are doing. But, it does not mean that I need to take any action when they have any programme. No, it is not
10 necessary to do that because the customers would be segmented automatically. How to grasp your own segmented customers is the most important thing."

He again emphasises how important the customer is to them. He said, "... Customers, competitors, profits, interfunctional integration, ... of course, we need to consider them all. But, without customers coming, where do you get profits? No
15 customers, there is no business. You say you have achieved a huge cut in costs. Then, so what?"

He repeated again and again about his emphasis on customers and customer services. He said:

20 "... attract customers ...
... procure the merchandise that they need ...
... and other added value ...
... service the feeling of service ...
... good sales site customers' loyalty..."

B.3.1.3 Performance Orientation

Although Mr. Su emphasises customer orientation, his senior manager does not agree. Mr. C. C. Lien, Associate Manager of the Sales Department, said, "Our operation is inclined towards evaluating the achievement of business activities (i.e. sales revenue; 5 pyng performance⁵; the track record). Our boss asks his managers to achieve the target according to the budget. We had a large rest area for our customers in our department store right at the beginning of our operation. This idea we took from the Japanese business philosophy of offering a good service to customers. To meet the performance expectations of the top management, some of the customers' rest area was gradually 10 used for displaying merchandise. The attempt to increase sales revenue to meet the request of the top management had reduced the level of service to the customers. The operation was directed away from a customer orientation to a performance orientation."

As part of the technical agreement Tonlin had with the Japanese department 15 store, the top management authorised the Japanese managers (most of them were in higher positions, such as the Deputy General Manager) to have full responsibility in the operation of the company. The tenure of senior Japanese managers lasted for two to four years depending on their performance. Mr. Lien said, "To achieve the sales target which is set up by the top management is the common concern of those 20 Japanese managers. Although we have offered a basic service to our customers, some of the added value special services are neglected because of their rush to achieve the sales target within their short tenure of office."

⁵ Pyng performance is major measurement for the operation of department stores in Taiwan as well as in Japan. It is the result of the sales amount divided by the square meters (numbers of pyng).

He said, "We follow our boss's idea. He asks for "pyng performance" and profit. We go this way and do our best to achieve it."

B.3.1.4 Market and Marketing Orientation

Mr. Proteus Lin, the Marketing Manager, said, "The more department stores open in
5 the same business circle, the more severe the competition becomes. But there exists an
"effect of concentrated market" in the department store business. For example, after
creating the business circle in the east part of Taipei in November 1984, Pacific Sogo
(November 1987), Ming-Yao (December 1987), and Printemps (1995) entered into
this business circle. The customers in the same business circle will be divided and
10 distributed (partitioned) by those department stores. Therefore, as a matter of common
sense, the sale revenue for each department store will decrease. But the opposite is
true. This is because the more department stores open in the same business circle, the
more customers will be attracted to this area for shopping. The total sales revenue of
those department stores has increased."

15 He said, "The department store market grew every year. The total sales revenue
was about NT\$110 billion in 1996. We estimate that the total department store market
will reach the amount of NT\$200 billion within ten years. The market is so big. As a
decision maker, based on market orientation, we opened a new branch last year
(1995)."

20 He said, "The marketing comes after we have a market concept. As I said, we
know there is a big market. But which market do we want to take? Here comes the
marketing. We need to select a good location for a new branch. We need to have

customers segmented. From the viewpoint of a service industry, I think the concept of marketing is more important than that of market.”

B.3.1.5 The Differences between Operating Service and Manufacturing Industries

5 Tonlin’s shareholders extended their business from construction to department stores. The top managers have experience in both manufacturing and service industries. Mr. Su, therefore, talks about the differences in operating the two industries. He said:

“... the department store belongs to the service industry. In other words, *service* is the most important thing! It is something like the service of a
10 barber’s shop. Would you come again if you were not satisfied with their service?”

“The first thing to consider in a service industry is *customers*, but in manufacturing the first thing to consider is *quality*.”

“... We took “*quality is first*” when we ran the construction business
15 before we came into the department store business.”

“The second thing to consider in manufacturing industry is *cost*.”

B.3.2 Tonlin’s Top Managers’ Perception of the Changing Business Environment

B.3.2.1 The General Manager’s Perception of the Changing Business Environment

20 Tonlin’s major shareholders originally devoted themselves to the construction business. About eleven years ago the economy in the construction industry was not good. To avoid a loss during the recession, the shareholders decided to make use of their own land and to utilise their surplus capacity to construct the building for a department store (hardware). Mr. Su said, “We extended our business from the

construction industry to the department store eleven years ago while the construction industry was not in prosperity." And he said, "We understood that there was a potential need to establish a department store for the local customers (on the east side of Taipei metropolitan) owing to our experience in running the construction
5 business."

There are several reasons other than the economic environment change that made Tonlin's shareholders' enter this business. Mr. Su said:

"The development of Taipei metropolitan moved from the west to the east side. And we happened to own land in the east district of Taipei."

10 "Owing to the traffic problems (mainly traffic jams), communities were separated from each other. The people were forced to consume (buy) goods locally."

"We understood this environmental change. Therefore, we invested in this industry while the construction industry was in recession."

15 **B.3.2.2 The Importation of Department Store Management Know-how from Japan**

Tonlin imported department store management know-how from Japan because of their lack of knowledge and experience in managing a department store. Mr. Su said,
"Because we did not have experience in managing a department store, we had to
20 introduce (import) department store management know-how from Keio Department Store, Japan."

The company would like to employ and train new personnel instead of hiring trained people from other department stores. Mr. Su said, "We employed new persons

and trained them with the staff and consultants from Keio Department Store at the early stage of our operation.”

B.3.2.3 Environmental Changes and Action Taken by Tonlin

In the early stage of Tonlin's new development, the east part of Taipei city was not well developed. Mr. Su said, “We opened the store in a new community of Taipei. 5 There were no crowds of people surrounding the store.” He said, “We had to open two cinemas in the same building of our department store to attract crowds of people.”

Tonlin was the first department store to employ modern management know-how from Japan to replace the traditional department store management style. Mr. Su said, 10 “The traditional department store in Taiwan at that time was a store with the sales area full of merchandise without any orders.” And he said, “We introduced the new department store management know-how by creating a clean and brighter sales area and introducing the MD concept (Merchandise Categories concept).

Some other new Japanese concepts were introduced at this time. As Mr. Su said:

15 “To have the sales area bright and clean.”

“To make service more intimate (cordial; kind).”

“The customer is king.”

The business environment changed because government policy changed. In 1985 the government decided to open up the retailing market so that foreign investors could 20 invest in Taiwan. The first to be approved was Pacific Sogo Department Store Ltd. Mr. Su said, “Pacific Sogo, a new Taiwan-Japan joint venture department store, entered into operation in this community four years after our store opened.” This new department store was very successful.

Sogo and Tonlin are similar in operation. Mr. Su said, "The operating conditions in Sogo are about the same as in Tonlin, especially in terms of the same management know-how from Japan." But why was Sogo very successful in a very short time? He said, "The major reason for the successful operation of the Sogo Department Store was the *big sales area (large sales space)*." And he said, "The major benefit of the big sales area is that it offers "*one stop shopping*" for customers."

Following Sogo's successful entry, many foreign investors came in. Therefore, the conditions for running a modern successful department store changed. Mr. Su concluded that the main conditions for operating a successful modern department store are as follows:

1. Good location: a place for crowds of people.
2. Larger shop: larger sales space for "one stop shopping" for customers.
3. Multi-shops: for lower costs from the economies of scale.

To confront this environmental change and meet the new conditions for running a successful business in this competitive situation, Tonlin aimed at multi-shops and a new branch opened in Tao-Yuan, North of Taiwan in 1995. The branch is located in the city centre of Tao-Yuan with crowds of people. It is a big department store, which has a total floor area of 12,000 Pyngs.

B.3.2.4 Change in the Labour Market

The working environment in a department store is much better than in a factory. Initially people liked to be employed in a department store, but the environment has changed. As Mr. Su said, "The working environment in a department store is not attractive in the labour market for the following reasons:

1. The working time is flexible rather than fixed.
2. The employees need to work even on Saturday and Sunday.
3. More female employees are needed."

To confront such labour market changes, Mr. Su said, "With the stress from
5 competition and the problem of working conditions, we offer bonuses, welfare, trips
abroad, etc. to attract employees if they meet our goals."

B.3.2.5 Changes in Customer Behaviour

Consumer behaviour has also changed. As Mr. Su said, "From a decade ago to the
present, the customers have changed. In the beginning, the customers placed an
10 emphasis on famous brands. They bought only famous brands. But a famous brand
does not mean good quality." And he said, "Now, the loyalty to a famous brand is not
as high as before. Price is an important factor. The customers are more and more
concerned with quality, of course, but the price must also be reasonable."

Faced with changes in customer behaviour, he said, "We issue Tonlin cards to
15 hand on to our major customers." And he added, "To give those who have a Tonlin
card favourable treatment is a feedback to our main customers."

B.3.2.6 The Future Trend of the Department Store

The top manager senses that department store operations will be dominated by
conglomerates in Taiwan in the near future. Mr. Su said, "There is not any room for
20 the small one. Those who have bigger shops and more shops will survive." He said,
"The small department store needs to be developed to be a department store that is
suitable for special segmented customers while the large department store is suitable
for all kinds of customers." The department store will be developed to become a

general purpose larger store and a specialised small department store. (For a comparison between the two, see Table 5.4.2 in Chapter 5.)

B.3.3 The Business Philosophy of Tonlin

B.3.3.1 The Evolution of Tonlin's business philosophy

5 Although the business philosophy of Tonlin does exist within the company, it is not well recognised by its management team and/or is not well disseminated through the whole company. The main reasons are as follows:

1. The influence of Japanese consultants.

The business philosophy of Tonlin was greatly affected by the consultants from
10 the Keio Department Store, Japan.

Mr. Su, the General Manager said, "We are laymen in managing a department store. Therefore, we employed the people with professional skill to run the store." He said, "Really, in the operation of the department store, we *authorised our subordinates* to handle it."

15 2. The main shareholders act as chairman in turn.

The chairman of the company is elected from the main shareholders in turn. The business philosophy is not built up by any one of the main shareholders.

Mr. Proteus Lin, the Marketing Manager, said, "They have an implicit agreement between the four main shareholders, that the main shareholders will be elected as
20 chairman in turn." He said, "The succeeding chairman does not make any big change in the business philosophy because of the special close relationship between the main shareholders. Any big change in business philosophy means denying the achievement

of the predecessor in operating the company. The business philosophy therefore is mainly affected by the Japanese consultants.”

3. The expansion of business.

The expansion of the business causes the company to think about and build up its
5 business philosophy. Mr. Yoshiki Sato, the Deputy General Manager, a Japanese who
has the full responsibility to plan and establish another new branch in Tao-Yuan,
north of Taiwan, proposed the business philosophy as a general guideline for planning
the new store. The business philosophy was reported to, and approved by, the top
management. It includes a business philosophy, operating principle and management
10 principles, as follows:

Business Philosophy:

To express the company's posture inside and outside of the company⁶.

(To explain the philosophy to staff and customers.)

Operating Principle:

15 To strike an operational posture from the inside of the company according to its
business philosophy.

Management Principles:

- a. To be a department store that customers can trust perpetually by honest and stable
operation.
- 20 b. To be a department store with excellent traditions and in tune with the times.
- c. To be a superior (high grade) department store to promote an improvement in
customers' living standards.

⁶ It is a very abstract business philosophy and is not easy to understand. It tries to motivate its staff to operate Tonlin as an excellent department store (inside the company) and to show Tonlin's best posture to its customers (outside the company).

d. To be a department store that has a high-class sales site with outstanding commodities and provides excellent services.

e. To be a department store that can provide customers with a bright, intimate and happy shopping environment.

5 f. To be a department store that has real (true) commodities, good service, and a beautiful selling place.

However, the above business philosophy was not actually mentioned by other senior managers who were interviewed. Only the General Manager mentioned part of it. This means that the business philosophy of Tonlin is not recognised by the whole
10 management team, and is not widely disseminated through the whole company.

4. The CEO's opinion

Mr. Tony Su, the General Manager who actually handles the company, has a business philosophy which is much more influenced by Japanese. He said:

“Service”

15 “Let the customer be satisfied; the customer is king.”

“Create a better working environment for our employees to reduce the rate of personnel mobility (floating).”

The evolution of Tonlin's business philosophy can be summarised as in Table

20 B.3.1.

Table B.3.1 The evolution of Tonlin's business philosophy

Period	Proposed by	Business philosophy
1984 - 1993	Japanese consultants together with the founder	Deliver the aesthetics of a new life
1993 - till now	President Su	Emphasis on the service concept and customer orientation
1994 - till now	Japanese consultants together with top management team	To express company's posture inside and outside of the company (To explain the philosophy to staff and customers)

B.3.3.2 The Different Business Philosophies for Operating Department Stores: Japan, Europe and Taiwan Compared

5 Mr. Su said, "Compared with the evolution and difference of the operation of the department stores from Japan, Europe, America and Taiwan, Tonlin (Taiwan) employed management know-how from Keio (Japan) while Keio employed their know-how from Takashimaya (Japan). Takashimaya learned their know-how from Harrods, the UK, Europe."

10 Tonlin (Taiwan) ← Keio (Japan) ← Takasimaya (Japan) ← Harrods (UK, Europe)

The business philosophies for operating department stores vary between Japan, Europe and Taiwan. Mr. Su said:

15 "European department stores place more emphasis on merchandise, atmosphere (mood) of the sales site, services to customers."

"The *service attitude* (manner) of Japanese department stores is much better than that of other places (countries)."

“The Japanese department stores place more emphasis on *service concept*.”

“(The Japanese) can make *customers* feel more *satisfied*.”

5 “(The Japanese) place more emphasis on “*the customer is king*” as a kind of manner (attitude) as well as a business philosophy.”

“The Japanese department stores learn their management know-how from Europe and the US and add their unique features. Now they contrarily have the ability to invest and open their branches in Europe and the US.”

B.3.4 Tonlin's Performance

10 Tonlin's performance is fair amongst the department stores in Taiwan. The revenues, net income, and net income per share during the last five years are shown in Table 5.4.1 (see Chapter 5).

15 Sales have been stagnant in recent years⁷. This is subject to the expansion limitation of the company's “hardware”: the department store building. The trend for department stores is to have a large sales space to offer more merchandise and attract more customers. In addition, Pacific Sogo Department Store (the first Taiwan-Japan joint-venture company) made a successful entry into the same business circle, and this increased the competitive pressure on Tonlin.

20 Two senior managers filled in Philip Kotler's marketing-effectiveness rating instrument. The average score is 15.50, which is good according to the level of marketing effectiveness. It shows that the senior managers are not fully satisfied with their marketing performance. This matches Tonlin's financial data as shown above. (For Philip Kotler's marketing-effectiveness rating instrument, see Appendix I)

⁷ Revenues increased in 1995 because a new branch started its operations in November of that year.

Appendix B4: Interview and Document Data of Case 7 – Sogo

B.4.1 Sogo's Market Orientation

B.4.1.1 Customer-Oriented

5 “Customer first” is the principal aim of Sogo. The company pays a lot of attention to the development of “value”, for example in the promotion of arts activities. This is the trend of the newly forming ideology and rising living standards in Taiwan. Sogo highlights customer orientation as one of its business philosophies (see section B.4.3).

Sogo's top managers strongly emphasise the importance of customers. Mrs. L. J. Ding, Customer Service Manager and Deputy Personnel Manager, said, “The success or failure of a service industry relies heavily on customer satisfaction.” Figure 5.5.1 (see Chapter 5) shows her view of the success or failure of a service industry.

B.4.1.2 Competitors and Competitive Strategy

Sogo defines its competitors as those companies of the same business type (department store, but not other retailers) and those in the same business circle. Mr. Wang said, “There exists competition only in the same business circle and within the same business type.”

Sogo's competitive strategy can be explained under three headings: store establishment strategy, competitive factors, and principles of competition.

20 1. Store establishment strategy

Mr. Wang said, “Opening a department store in a place without any competitors is the best store establishment strategy. For example, there was no department store in

Tao-Yuan. Then, one small department store opened. And FEDS followed it later and opened a medium-size department store. Now, Tonlin has opened a big one in Tao-Yuan. Therefore, the strategy for establishing a new department store is to select a business type, business circle, location, target customers, and a merchandise mixture to fit your own advantage (strength in finance, materials, and/or manpower, etc.).

2. Competitive factors

Mr. Wang said, "It is the competition factors (see Table 5.5.2 in Chapter 5) that need to be considered after the store is opened. We need to examine which is our weakest factor and reinforce it."

10 3. Principles of competition

a. The principle of choosing the target competition

Mr. Wang said, "The principle of choosing a target competitor is to choose the target for competition and for attack. The competition target is one rank in front of you and the attack target is one rank behind you. For example, ranking company performance from the first to the sixth in a business circle, the competition target is number three if you are ranked number four. The one ranked in front of you has its merits. You need to learn from it and set your own target to compete with your competitor. For the one ranked number five, which is behind you, you must attack it without hesitation. It is something like being a year five pupil. Do not fight with the year six pupil, but fight with the year four and you have a chance to win. Therefore, attack the one whose performance is right behind you."

He said, "Now, we (Sogo) are the number one in this business circle. We have only an attack target, but do not have a competition target. Right? Where is our

competition target? We make our competition target a famous department store which is outside this business circle and/or overseas.”

b. The principle of focusing on the centre of emphasis (key point)

Mr. Wang said, “The business field is like a battlefield. The side with more
5 military strength (soldiers) has more chance to win. The side that has the better
weapons also has more chance to win. What is the military strength of a
department store? What is a good weapon for a department store? The sales space
of a department store is something like military strength on a battlefield. Larger
sales space has more strength. Merchandise is something like the weapon on a
10 battlefield. Compared with the competitor, better merchandise is a better weapon in
the field. Then, what is good merchandise? Good merchandise is the goods that are
highly accepted by the customers.”

He said, “The principle of focusing on the centre of emphasis (key point) is to
attack the strength of your competitor or to use your strength to attack your
15 competitor if you are the powerful and strong one. On the other hand, attack the
weakness of your competitors if you are the weaker one.”

He said, “The so-called ‘stronger’ and ‘weaker’ is a relative comparison, not
absolute. For example, we have the largest sales space area in total. But it doesn’t
mean we are the stronger in every kind of business, such as ladies’ wear, men’s
20 wear, toys, etc. We have only half the floor space for selling toys. Compared with
Toys’R’us, we are the weaker one. The advantage of the powerful one is that it can
fight either the strong or the weak point of its competitor. But the weaker one can
fight only the weak point of the stronger competitor.”

c. The principle of besiegement (surrounding)

He said, "The principle of besiegement can be used only by the stronger one. For example, take the price of the shirts we have a price range from the cheapest at NT\$100 to the highest at NT\$4,000 a piece. And we have more supplies (quantities) for the best sale items which are priced at around NT\$1,000. Therefore, we have the items that our competitor has, but we have more items than our competitor has in terms of both price or quantity. Which department store do customers wish to go to? Surely, they will come to our store because we have besieged the merchandise of our competitor. Of course, the besiegement principle needs a larger sales space."

10 d. The principle of attack by surprise

He said, "The principle of attack by surprise is used by a smaller military force (a department store with a smaller sales area) when it wants to make an attack on a larger military force (larger sales area store). This principle is used by the weaker one. To attack by surprise means that your competitor doesn't know your attack actions. It can't be called attacking by surprise if your competitor knows your attack actions. For example, we propose a promotion programme which concentrates sales forces on one item which has a smaller sales area compared with our competitor. Is there any effect? Yes, there is."

e. The principle of face-to-face attack

20 He said, "This is a normal way of attacking and is used by the weaker one. This is unlike the principle of attacking by surprise. The merchandise has its width and depth of range. The besiegement takes the advantage of the width of the price area (line) and the quantities of commodities. The face-to-face attack takes the advantage of the depth of the commodities, i.e. we attack our competitor by

concentrating only on the best sale items. This is unlike the besiegement principle.”

f. The principle of time lag

He said, “The time lag is the simplest principle. There are many commodities which have their time (seasonal) factor in a department store. Everybody knows
5 that there will be a sale after the end of each season, you can choose either to sell the goods earlier each season at a higher price or later with more discount. This is a very difficult way of doing business because less quantities are sold early and less profit is made when you sell later.”

B.4.1.3 Macro View of Market Positioning

10 Mr. Wang, Vice-President of the Sogo Department Store, said, “What is so-called *flow*? That is the processing of the merchandise from production to the consumers. The whole process we call *flow*. Its meaning in English is distribution, that is, the distribution of goods and merchandise. There are four flows in business behaviour, i.e. information, commercial, material, and money flows. The information flow is a
15 two-way communication between producers and consumers. The information of a demand from consumers flows to the producers. The producers can then produce the products that meet the requirements of the consumers. On the other hand, the producers need to tell consumers about their new products by advertising. The information needs to circulate quickly to consumers. The transaction is a commercial
20 flow. The sales promotion is top-down while the orders are bottom-up. This is the commercial flow. The material flow starts when the transaction reaches agreement. The merchandise flows from factories, wholesalers, retailers, and then to consumers. Of course, the retailers may directly order merchandise from producers. The material flow is the process of the distribution of merchandise. As a department store, we have

to distribute the merchandise to consumers. The material flow needs support from the transportation industry. The successful transaction follows the payments. Then, the money flows. The payments need the operation of banks. We can say that the transportation and banking industry are also flow business. Or, we can say that the
5 wholesalers and/or retailers have the major role while the transportation and banking industry have a minor role in the flow business.” (For the commercial behaviour and the four flows see Table 5.5.4 in Chapter 5)

Mr. Wang said, “The retailers operate their businesses in different types to fit the needs and wants of different consumers, we call it *business type*. In the past, the
10 department stores had only hundreds of pyngs sales areas. For the needs of the customers’ one-stop-shopping, they piled up the commodities in the small sales area. Therefore, a lot of large groceries called themselves department stores. Some cabinets (manufacturers) did their businesses together in the same commercial building, which was also called a department store. The positioning of the operation of a department
15 store, therefore, was not clear. They were confused with supermarket, convenience store, and hyper. How can a department store match the needs of customers and be successful in this way?”

Therefore, the clear position of the department store is very important. Mr. Wang said, “Compared with the service types, the size of business circle, characteristics of
20 commodities, and consuming activities, we can clearly have our position.” (The relationship between business type, service type and the size of business circle is shown in Figure 5.5.2 (see Chapter 5). The relationship between business type, the characteristics of commodities, and consuming activities is shown in Table 5.5.5 (see Chapter 5).

B.4.1.4 Market Segmentation

Mr. K. R. Lee, Manager of the Sales Promotion Department, said, "Our business philosophy is very simple, i.e. classic and public. We want our customers to feel that we are a high class department store when they come into our store. But we do not think it is necessary to sell very high price commodities (for the public). For example, there are some department stores only selling high price commodities. But this is only suitable for small department stores. We are a large department store. We can't display all commodities with a high price. We are a department store for all ranges of customers. We sell high class commodities as well as those in the middle range."

10 B.4.1.5 Sales Promotion

Mr. K. R. Lee, Manager of the Sales Promotion Department, said, "As a Sales Promotion Department, we are a spending money department (for example, spend money for advertising) but not making money. Our budget for sales promotion is around NT\$80 million a year. It seems quite a lot of money. But it is only about 0.8 per cent of our total sales. Normally, the sales promotion expense of a department store is between 1.2 per cent to 1.5 per cent of its total sales. As our sales are higher than other department stores, the proportion of our sales promotion expense to sales is relatively lower."

He said, "All of the decisions must consider customers." And he said, "The original point of sales is the commodities themselves. If the quality of commodities is not good, no matter how excellent the service, you can hardly sell the goods. There are many success factors of Sogo. We can say that it is because of our good advertising. But the larger sales space is one of the important factors. We can display

more commodities to offer more choices for our customers. This is the first consideration for attracting customers. The market of department stores is still growing in Taiwan. But there is an obvious trend that the larger department stores have had positive growth, while the small-medium department stores have negative growth in recent years in Taiwan. The main reason is that the larger department store can offer more quantities of commodities to customers. Nowadays, people like to go shopping at Sogo but not to Tonlin in our business circle because we have more commodities in terms of types and brands. For example, we have more brands of cosmetics than Tonlin. If a customer doesn't like a Japanese brand, she can choose European or American brands instead. Customers have more choice shopping at our store than at Tonlin. Therefore, the commodities are the original point of sales." And he said, "Quality, price, and service are the key points of commodities."

He said, "Sales promotion seeks the right customers at the right time to come to our store to shop and therefore to increase our sales. The so-called right time means festival, seasons, politics, the economy, and the current fashions etc. The right customers can be found from our customer database. We have issued around 260,000 Sogo cards. The sales contributed from those holders of Sogo cards account for 30 per cent of our total sales. This is a very high proportion of our total sales. We have also co-operated with those major credit card companies, such as VISA golden card, Diner Club card, etc. to get the right customers."

He said, "We follow our business philosophy, classic and public, to propose our sales promotion strategy. We propose our sales strategy every year according to the up-to-date situation."

He said, "For example, our current sales promotion tactics are:

1. To maintain a two-digit sales growth.
2. To keep our old customers and on the other hand to create new customers.
3. To reach 25 per cent market share⁸ amongst those department stores in Taipei City.”

5 **B.4.1.6 Marketing Orientation**

Delicacy, versatility, creativity, and uniqueness are emphasised by Sogo when activities are organised. From general festival activities to planned programmes of special topic shows, the variety of alternatives offers customers the best opportunity to appreciate life.

- 10 The periodical activities will be renewed every two weeks, for example jewellery exhibitions, leisure goods shows, shoe fairs etc., which provide not only better prices but also unbeatable satisfaction. Unexpected surprises have been brought by anniversary activities, special holiday programmes and also foreign programmes such as “The Japan Week”.

- 15 Sogo also hold world-class fashion shows every April and September to bring the current trends in world fashion to customers and also provide awareness and recreation.

Complete, thorough and well-planned activities are the most direct way in which Sogo demonstrates its sincerity to the public.

20 **B.4.1.7 Societal Marketing Orientation**

“Connect shopping with a specific culture” is one of Sogo’s business philosophies (see section B.4.3). Sogo has periodically organised art exhibitions, topic seminars

and has opened different kinds of classes for supplementary schooling in order to enhance the quality of leisure life. Besides, Sogo has contributed to many social work, as in "Care for Abused Children", "Love Connection Seminar", "Charity Sale and Donation for the Heart Disease Children". This emphasises that Sogo cares about society.

Sogo tries its best to create a multi-functional and splendid shopping space by providing various cultural activities to make customers not only shop in the department store, but also enjoy the various cultural activities.

B.4.1.8 The Focus

10 What is the focus of Sogo's operation? It can be explained by the top managers' mastery of the characteristics of a department store. Mr. Wang said, "The characteristics of a department store are: 1. fixed location, 2. emphasis on females, 3. fixed expense, 4. emphasis on store image, and 5. human resources.

1. Fixed location

15 Mr. Wang said, "The first characteristics of a department store is that it is an industry of fixed location. A department store belongs to the service industry. As a service industry, the most important thing is the store location. But what is the best location? An excellent location is a place which can attract and gather masses of customers. Someone asked a scholar what are the main conditions for opening a shop?
20 The scholar said the first important thing is the location. Then, what is the second important thing? The scholar said it is the location. What is the next? It is also the location. He said that once the location has been decided and other matters are easily

* Sogo now has about a 20% market share amongst those department stores in Taipei city.

solved. Looking at the map, our department store is located in the centre of Taipei city and is very close to the station where two MRT lines converge. We are really at the best location.”

2. Emphasis on females

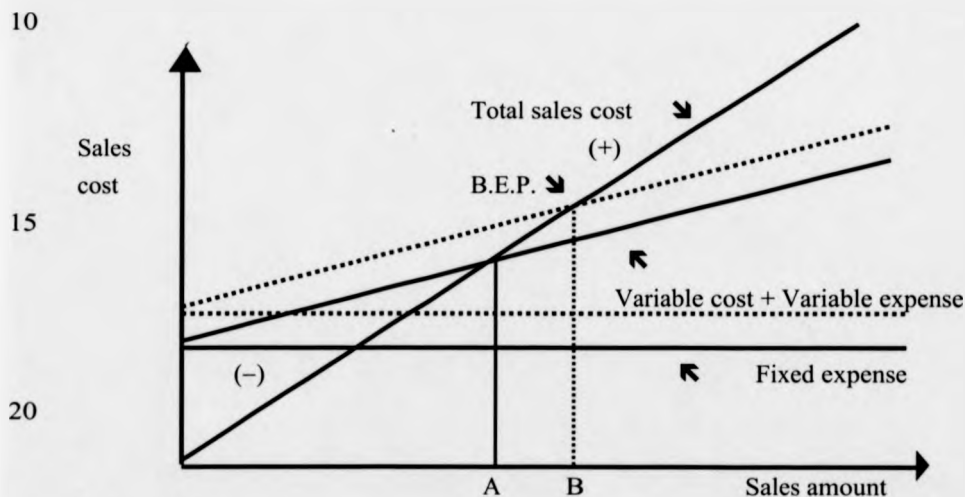
5 He said, “Eighty-five per cent of customers, who generate seventy-five per cent of successful transactions, are female. Although only fifteen per cent of customers are male, they are more generous and account for twenty-five per cent of successful transactions. There is a funny story. A couple went past a department store. The husband asked his wife to go to the store to buy a towel. He didn’t like shopping and
10 he thought it wouldn’t take too much time to buy a towel. Therefore, he waited outside the store. He waited quite a while but didn’t see his wife come out. At last, his wife came out with a lot of bags. But inside the bags there was no towel. She bought a lot of goods but forgot the towel. This is so-called emotional shopping. Female customers easily get emotional and excited when buying goods. This is the reason
15 why department stores emphasise the display design and shopping layout. These are all for the sake of female customers’ emotional shopping.”

3. Fixed expense

He said, “The expenses include fixed expenses and variable expenses. As a department store, we are a fixed expense industry. No matter how much revenue you
20 have, you must pay a fixed rent and salaries every month. Sales revenue minus sales cost equals gross margin. (The variable expense of a department store is almost equal to its sale cost.) The gross margin of a department store is about 22 per cent to 26 per cent in Taiwan. Using the concept of B.E.P. (break-even-point), we can easily calculate the minimum sales revenue for one year. It doesn’t matter if a department
25 store can’t reach this figure (break-even point) in its first year’s operation. Then, it

must raise its sales in the second year or next few years. The store must be closed if its sales can never reach B.E.P. The expense of the first year is fixed. But it will increase every year. Therefore the B.E.P. also increases. It will move from point A to point B (see Figure B.4.1). Point B becomes the second year's break-even point. Although B.E.P. increases every year, our sales revenue increases much faster. We had two-digit growth (over 10 per cent) for the past eight years except there was one year when the sales revenue grew only 9 per cent. The fixed expense didn't increase more than our sales growth. Therefore, we achieved very good profits."

Figure B.4.1 Break-even point chart



Source: Sogo

25

He said, "It is warning signal if the growth of a department store has stopped. Why? Because the profit will definitely decrease. As I said, the fixed expense will increase every year. Therefore, the money earned this year will be less than last year if the sales didn't increase. For the same reason, the loss for this year will be more than that for last year if there was a deficit last year. The reason is so simple."

30

4. Emphasis on store image

Sogo's top managers think that a department store is an industry which emphasises store image. More successful sales are needed to raise the sales performance. More transactions depend on more people coming to the store. More people coming to the store depend on more people trusting the store. More people trusting the store depends on more people recognising the store. Therefore, advertising, CIS (corporate identification system), CS (customer satisfaction) and SP (sales promotion) are the main methods to raise the rate of each of the sales sequences (see Table 5.5.6 in Chapter 5).

The top manager highlighted the following factors:

a. Awareness of a store:

Mr. Wang said, "There are about one million people in the east business circle in Taipei. How many know the Sogo Department Store? This is the awareness problem. How do we calculate the rate of awareness? The rate of awareness is the number of people who know the store divided by the population of the business circle. The main method of raising the rate of awareness is advertising."

He said, "In the first year when our store opened, I took a taxi and told the taxi driver that I wanted to go to the Sogo Department Store. The driver told me that he didn't know where Sogo was. The driver was not aware of Sogo. Now, when I take a taxi, the taxi driver will ask me which Sogo I want to go to? The original Sogo or the new branch? Therefore, the sales performance growth depends on the increased recognition of the store every year. Why were the sales of the first year after the store was opened less than those of the second year? And why were the sales of the second year less than those of the third year? The rate of awareness is the answer."

b. Trust in a store:

He said, "After people know of the store, the problem becomes: how many trust the store? This is called the rate of trust, i.e. the number of people who trust divided by the number of people who know. The main method to raise the rate of trust is by
5 what is called CIS (corporate identification system).

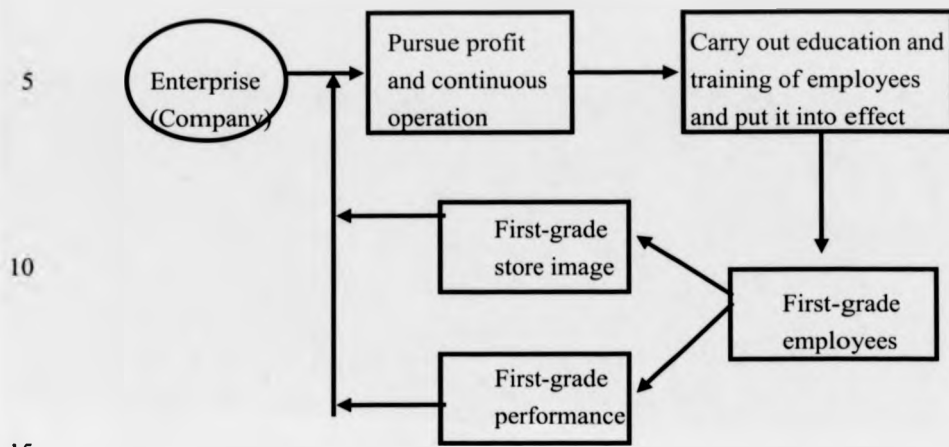
c. Number of people coming to the store:

He said, "People come to the store because they trust it. It is very difficult to invite them to come to the store if they do not trust your store. The rate of people coming to the store is the number of people coming to the store divided by the number
10 of people who trust it. The main method of raising the number of people coming is by way of customer satisfaction (CS). The customers will come again if they are satisfied with our store's services. Otherwise, they will not come again. Therefore, this depends on the store image, but *not* the corporate image.

d. Number of transactions:

15 He said, "We called it the rate of transaction, the number of people purchasing in the store divided by the number of people coming to the store. The main method of raising the rate of transaction is by way of sales promotion (SP). Because there are many female customers, we not only need excellent decoration and merchandise to attract them but also an atmosphere to make customers purchase emotionally. For
20 example, an atmosphere and/or a display which will encourage an association of ideas: if I buy clothes to match one of my handbags and these shoes, my boy friend will admire me when we have a date tonight."

Figure B.4.2 The importance of education and training to Sogo and its employees.



Source: Sogo

5. Emphasis on human resources

Mrs. L. J. Ding, Customer Service Manager and Deputy Personnel Manager, said, "If a department store wants to pursue profit and continuous operation, it needs to carry out the education and training of its employees and put this into effect. We are the best in employee training amongst those department stores in Taipei because we have an education and training department in our organisation. We have a budget for education and training every year and have different courses aiming at different levels of employees including managers."

She said, "A department store that has a first-rate image and performance must have first-grade employees. How do we have first-grade employees? It is through education and training. We must tell them the business philosophy of Sogo: what is our service concept? what is our business culture? We want to tell our employees

about their roles in Sogo. Of course, we must also educate them with the knowledge that they need in their jobs." (On the importance of education and training to employees, see Figure B.4.2)

Mr. W. F. Guo, Manager of the Administrative Department, also mentioned how Sogo emphasises education and training for its employees. (see Figure 7.3) shows Mr. Guo's opinion of the importance of education and training to his company.)

B.4.1.9 Emphasis on service quality

Mrs. Ding said, "The success or failure of a service industry relies heavily on customer satisfaction."

To satisfy customers, therefore, Sogo emphasises the importance of the service quality that its sales persons provide to its customers. Mrs. Ding said, "The way to promote service quality in Sogo is as follows:

1. To create a quality culture in the company.
2. To create differentiation.

The sales persons in a department store do the same job and speak the same way in their daily work. The service quality will be decreased if the sales persons are not well trained. We want to create a differentiated service style by education and training to distinguish us from other department stores.

3. To create an after-sales complaint system.

We want to serve customers not only during sales but also after-sales. A customer complaints resolving system is very important.

4. To develop self-conscious quality control.

5. To understand fully the expectations of customers.
6. To identify the factors of service quality.
7. To pursue customer satisfaction through a customer-oriented operation.”

B.4.1.10 Virtuous versus Vicious Circle

- 5 Mrs. Ding said, “Why do we emphasise the education and training of our employees? What’s the benefit from education and training? Through education and training, we can cultivate first-grade employees. Then, we can upgrade our company’s strength (competitive advantage). This becomes a virtuous circle. An excellent company hires excellent employees and offers better education and training for them. The excellent
- 10 employees create an excellent company. This becomes a virtuous circle in our company through education and training.”

B.4.1.11 Long-term versus Short-term Consideration

Sogo’s managers look for long-term operation and expect their company to operate continuously beyond the century (see also paragraph on “the focus” in this section).

15 B.4.1.12 Performance/Profit Orientation

Sogo does not emphasise performance and/or profit orientation, but emphasises customers and high quality of services. The performance and profit of Sogo are excellent although the company does not emphasise a performance/profit orientation (see also paragraph on “customer-oriented” in this section).

B.4.2 Sogo's Top Managers' Perception of the Changing Business Environment

B.4.2.1 Internationalisation and Liberalisation

Sogo was the first department store to have pooling capital with a foreign investor, and was approved by the Ministry of Economic Affairs in 1986. Mr. Wang said,

5 "There were many Japanese department stores which took part in the operation of Taiwanese department stores. Why were we the first case? It was because in the past the government had allowed foreigners to invest only in manufacturing industries. The foreign investors were not permitted to invest in the service industries such as department stores. The government started to advocate internationalisation and

10 liberalisation and permitted foreigners to invest in the service industry in about 1985. The government believed that the investment of foreigners in the service industry would improve the living standards of the country. Before this policy change, the co-operation with foreign department stores was through technical co-operation, but not through pooling capital."

15 B.4.2.2 Technical Agreement versus Pooling Capital

What is the difference between technical co-operation and pooling capital with a foreign department store? Mr. Wang said, "There were several department stores which had technical assistance agreements with Japanese department stores, such as FEDS, and the Yeong-Chyi department store. The relationship of technical guidance

20 in service industries is something like that between teacher and student. The performance of the technical co-operation depends on three things: First, the quality of the teacher. Does the teacher teach all he/she knows? Are the students offered the

best teacher? Secondly, the abilities of students to absorb the know-how from the teacher. Thirdly, whether the students intend to implement what they have learned."

He said, "In the past, there were some department stores which had bought know-how from Japan. But the interesting thing is that there were some cases where it was not the managers, but the boss of the department store, who did not accept the know-how which had been bought from Japan. It sounds like a paradox that the parents (boss) spend money to employ teachers and the students accept what teachers say, but the parents are not convinced. Since the boss couldn't agree with the teachers, the boss was angry. The trained managers (students) said goodbye to the company when the boss was angry. Therefore, the money spent for buying know-how was just wasted."

He said, "We, Sogo, were not like that. Because of pooling capital, we have a relationship with the Japanese department store which is like a marriage. It's not a relationship like teacher and student. Because Japanese Sogo was very serious in this new territory, they sent the best managers here. The Japanese managers have full responsibility for the success of the operation of Sogo. The Taiwanese shareholders can therefore argue with the ability of the Japanese managers if the performance is not good."

B.4.2.3 Transfer of Japanese Know-how

Technical know-how transfer in manufacturing industry is very easy to measure according to the test standard. But how can we measure the know-how transfer in a service industry such as a department store? Mr. Wang said, "Of course, we can see the result of the know-how transfer by looking at the sales performance. The higher

the sales performance, the more customers come for shopping and the more people identify with this shop. This depends on how far the customers are satisfied with this shop. Therefore, we can measure the result of know-how transfer by customer satisfaction as a test standard. For example, if there are thirty thousand customers in a day, it is impossible to expect that every one is satisfied with our service. But we can measure it by surveying our customers.”

The transfer of know-how is mainly through on-job-training (OJT) in Sogo. He said, “The transfer of know-how mainly depends on OJT. The Japanese managers are teachers and the Taiwanese managers are students. As soon as the know-how has been transferred and become acceptable to Taiwanese managers, it becomes part of the assets of our company. We think that capable employees are our assets. Therefore, we don’t think that the training cost is an expense but an investment. We will benefit in the future.”

The Japanese managers’ tenure of office in Taiwan is between two and three years. Another manager will be assigned here to replace the one who returns to Japan. The short tenure of office causes some problems. Mr. Wang said, “One manager came to ask me because he was confused with what Japanese managers had taught him. He told me that the former Japanese manager asked him to do something in this way, but the current Japanese manager told him to do it in another way. He asked me which way is right? Is it the instruction of the former Japanese manager or the present one? I told him that both were right. But they had taught differently. I told him that it was because the former Japanese manager came from the Tokyo area and the current one came from the Osaka area. The operations in the Tokyo area and in the Osaka area are different. I told him that the way of doing a thing (practice) may also be different.

Although the way of doing a thing is perhaps different, the principle is the same, i.e., to master what kinds of items are best sellers and what kinds of items are difficult to sell. You can choose this method or that method. Wouldn't it be much better if you can have these methods well digested and completely understood?"

5 **B.4.2.4 Change of Customer Behaviour**

Mr. K. R. Lee, the Manager of the Sales Promotion Department said, "Consumer behaviour has changed quite often, mainly in terms of consumer consciousness. The purchasing amount is different compared with that of three years ago. And, of course, it is not like those years when the stock market was at its high point. At that time, a lot
10 of people earned easy money from stock market. Therefore, we sold jewellery worth NT\$8 million to NT\$10 million for one purchase during our promotion for mother's day. But at the jewellery exhibition for mother's day this year, we are offering jewellery at a price ranging from NT\$30,000 to NT\$50,000 because we expect that the sales will not be good this year (1996) owing to the recession in economy.
15 Therefore, to run a department store, only half of it can be learned from experience. For the other half, you must have the characteristics of a gambler because you will never know whether any promotion programme will be a success or failure. It is a scientific method to learn from the past experience. But, as a department store, you can't only do what you have done in the past. You have to try something new
20 although you may only be successful twice in ten trials. What a lovely and hateful job it is to be running a department store business! This is what I feel."

B.4.2.5 Top managers' Perception of the Changing business environment

The top managers' perception of the changing business environment can be explained from three perspectives: first, the characteristics and development of Taiwan's department stores; secondly, current operational problems; and thirdly, the present
5 trends of the department stores.

1. The characteristics and development of Taiwan's department stores

The characteristics and development of Taiwan's department stores, as described by Sogo's top managers, can be summarised as follows: a. The operation of the department stores has changed from being supplier-oriented (a special cabinet style)
10 to being consumer-oriented (a modern style). b. Co-operation with foreign department stores has changed from technical know-how co-operation to pooling capital. c. The operation of department stores has developed towards two extremes: larger and more specialised.

a. From supplier-oriented to consumer-oriented

15 Mr. Wang said, "In the past, the department stores in Taiwan were run in a type of special cabinet (the supplier), i.e. by inviting some suppliers (manufacturers) to display and sell their products in the department store. The suppliers were very happy if their products could be sold in a department store⁹, even if the commission was as high as 30 per cent of sales. The managers of a department store did not
20 necessarily understand strategy, and they did not necessarily know what the needs of their customers were. All these matters were handed over to those special

⁹ The suppliers must pay the department store commission in a certain percentage of their in-store sales amount according to the agreement between the two parties. In the past, selling products in a department store meant the confirmation of the good quality of their products. Therefore, the suppliers were very happy if they could rent a space in a department store.

cabinets (the suppliers). The special cabinets had more knowledge than the department stores. That's why we feel there are not enough well-trained managers in the department store industry today. It is because department stores found it very easy to make money in the past."

5 He said, "As a modernisation operation of a department store, it must be changed. We must know what the consumers' needs are. Nowadays, the consumers know about the world of fashion. Sometimes, they know even more quickly than us. It's a shame if the customers come to ask us why we don't have specific fashionable products. Therefore, the modern department store must operate according to the
10 consumer orientation."

b. From technical co-operation to pooling capital

Sogo has benefited from pooling capital with foreign investors. Therefore, Mr. Wang said, "It won't work now to have only technical co-operation with foreign
15 department stores. It is much better to have a pooling of capital than technical co-operation."

c. Towards a larger and more specialised operational style

He said, "If you cannot become a larger department store in a business circle, you can hardly become number one. In other words, if you are a smaller department store in a business circle, you must change your type of business. For
20 example, you need to change from a small department store to a large specialised store. Like human beings, the industry has its life-cycle. The change of business type can create a new life for the business."

2. Current Operational Problems

The operational problems that Sogo has faced are: a higher rate of employee mobility, severe competition from other department stores and other types of business, and the pressure of increasing cost.

5 a. Higher rate of employee mobility

Mr. Wang said, "We are facing the problem of a higher rate of employee mobility." And he added, "We will put more emphasis on education and training and let our employees have a sense of fulfilment to overcome this problem."

b. Severe competition from other department stores and other types of business.

10 He said, "We are not only facing strong competition from other department stores but also new emerging types of business. The new business type, such as the large shopping centre, will invade our market in the future."

c. The pressure of increasing cost

15 He said, "The pressure of increasing cost is another problem we are facing, especially in terms of rent, because the price of the real estate has soared in Taiwan. This is one of the reasons why some Japanese retailers have reduced their investment in Taiwan."

3. The present trends of department stores

20 Mr. Wang said, "The development of the department store must change according to the changing life styles of future consumers. We can't run the same promotion programmes as those we ran last year if we want to raise our sales performance this year. Therefore, we must develop better programmes than last year's so that better sales performance can then emerge."

He said, "The department store will face more challenges from different kinds of business and different types of business in the future. For example, as well as competition from department stores, the new shopping centre¹⁰ and shopping mall will invade this market in the future."

5 **B.4.3 The Business Philosophy of Sogo**

The business philosophy of Sogo is clearly defined in its company documents. It consists of five elements: First, be classic and public. Secondly, be customer-oriented. Thirdly, connect with the east district of Taipei city and become number one. Fourthly, connect shopping with a specific local culture. Fifthly, connect shopping
10 with leisure.

1. Classic and public

To be a classic and public department store is the first component of the business philosophy of Sogo. Mr. W. J. Wang, Vice President said, "What is classic? What is public? There seems to be a paradox between the two concepts. It doesn't mean that a
15 shop which sells high price commodities is a classic department store. What we mean by a classic department store is that the customers feel the shop has a high class atmosphere. For example, we must sell internationally famous brands which may not be accepted by the masses of the public. Of course, it is not necessary to have a popularised brand. But the people will feel that we are a high class department store
20 because we sell the commodities of internationally famous brands. In other words, a classic department store is a high standard shop with high standard commodities and services."

¹⁰ There are no shopping centres in Taiwan like those in the UK. But there are some large shopping centres at their planning stage being developed by some big business groups.

He said, "To be a public department store means that the commodities we sell are acceptable to most of the people. Some of our commodities are very cheap. Although the commodities may be cheap, the quality of the products must be good. The bad quality products can't be sold in a department store. This is a very important principle that we follow. We hope that most of the public can afford shopping in our shop. This is what we mean by a public department store."

2. Customer orientation

The second component of Sogo's business philosophy is a customer orientation. Mr. Wang said, "We want our customers to be satisfied with our services. Why is this important? Because we hope that they will come shopping again. As a department store, we must offer our customers the best service. Otherwise, they won't come again. This is what we call customer-oriented."

3. Connect with the east district of Taipei city and become number one

"Business circle" is an important terminology in the department store business in Taiwan. Mr. Wang said, "The business circle is the area in which the loyal customers live. We recognise that our loyal customers live in the east district of Taipei city. Therefore, the target customers we want to serve are the people who live in the east district of Taipei. Based on this concept, the department stores which open in the same business circle become our competitors. We are in the business circle of the east district of Taipei. The department stores in the business circle of the west district are not our competitors, although they may have some influence on our operations. But the influence is quite small. We must be the number one department store in the business circle of the east district. This is the way we will survive. Therefore, nothing

is more important than connecting the operation to the east district and pursuing an objective of being the number one in the business circle.”

4. Connect shopping with a specific local culture

Connecting shopping with a specific culture is the fourth component of Sogo's business philosophy. Mr. Wang said, “As a department store, we must have a concept of commodity mixture. This means that we must organise our merchandise to meet the different customers' needs. The culture is one of the merchandise mixtures. We want to connect cultural activities to customers' shopping. We have a culture hall and some culture classrooms on the twelfth floor. For example, we sell microwaves and we have a cooking class for teaching customers how to use microwaves. We have established a Sogo Culture and Education Fund. We donate several million NT\$ to this foundation (fund) every year to promote cultural activities.”

5. Connect shopping with leisure

Connecting shopping with leisure is the fifth component of Sogo's business philosophy. Mr. Wang said, “In the past, people went shopping as if they were just living to suffer (they suffered greatly), especially those gentlemen who need to carry commodities (goods) home for their wives. We have a lot of space. We have a lot of leisure facilities to let our customers feel that shopping can be enjoyable.”

Other than the above stated components of Sogo's business philosophy, there exists another kind of business philosophy in the booklet which introduces the Sogo Department Store. This is as follows:

1. Elegant style / High class

Sogo is a popular department store renowned for its fashion mainstream, grand image, fully-fledged functions and elegant style as well as high class image.

2. Amiable and considerate / Safe and comfortable

Sogo cares for the rights of every customer. The etiquette of service personnel, the planning of operational systems, hardware establishments and their maintenance, all stress the safety and comfort of customers. It is the most kindly and considerate department store.

3. Abundant merchandise / Bright environment

Sogo is able to meet the whole family's needs. It provides all kinds of services to satisfy our countrymen with most of their living requirements. It is a department store which fully displays the economic strength of the Republic of China.

4. Decent, honest and trust worthy

Sogo regards social responsibility as of great importance and is willing to participate in the work of social construction. It is a department store that develops and makes progress jointly with our community.

B.4.4 Sogo's Performance

Sogo's performance is superior amongst the department stores in Taiwan. The revenues, net income, and net income per share for the last five years are shown in Table 5.5.1 (see Chapter 5).

Sogo has high growth in its sales as well as in its profit. Despite the economic recession in 1995, Sogo achieved 19 per cent growth in sales. The change in the business environment has had a limited influence on the company's performance.

No senior managers were available to fill in Philip Kotler's marketing-effectiveness rating instrument¹¹. Although the Sogo managers are very proud of their performance, they think that Sogo is not good enough. Mrs. Ding said, "I am proud of being a member of Sogo." And she said, "You may ask me why Sogo has such an excellent performance. What are the factors? Are we really excellent? I will say "No". We believe that we are not good enough. There are so many areas in which we need to improve. For example, our service quality, is it very good because of our excellent sales performance? No, the answer is "No". We don't think our service can satisfy all of our customers."

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¹¹ Sogo is a Japanese-dominated company. The senior managers were very careful in answering questionnaires. The financial data were very difficult to get and were obtained by a special contact in the company.

Appendix B5: Interview and Document Data of Case 8 – Printemps

B.5.1 Printemps' Market Orientation

Since 1982 the business environment has changed. Many competitors have entered
5 the market. The Chairman also feels very strong pressure in this business, and he
recognises that a business war has started. However, he still sees the market
opportunity and does not care anything about his competitors, but rather insists on
following his own business philosophy.

B.5.1.1 Market Opportunity

10 Mr. Wang said, "Actually, the managers were very easy (comfortable) in operating a
department store before. The customers came as soon as you opened a department
store. But the war really started in the department store industry right after our
department store opened." He said, "From 1982 to this year (1995), the department
store has grown every year. The total sales revenue was NT\$41.9 billion last year
15 (1994). It will be about NT\$45 billion this year (1995) as estimated."

He said, "The annual increase in sales of department stores in the Taipei area is
about 3 billions. This volume is big enough to open a new large department store
every year, and without affecting the existing department stores. Throughout the last
ten years, no matter whether the economy was good or bad, there was always a
20 growth above 10 per cent per annum in department store business. Though it is highly
competitive, the prospect for department stores is bright. People who purchased from
vendors or went abroad can now get what they need or want right in Taiwan."

He said, "The economy is not so good this year (1995). Running a department
store is not that easy now. As a top manager, you must pay more attention to the

operation of the company. And it is very important that he knows his company's position very clearly in running this business. First of all, you have to take good care of the customers who have any of your VIP cards. Don't let your competitors take over these clients."

5 He said, "Offering the best service is most important. Moreover you'd better create some new ideas. Discount is one of the ways to attract more customers, but it is not the best way in the intensive competition of the department store business, and it will "spoil" the consumers. That is a loss in both sides. The best way of running a department store is to offer reasonable prices to customers. That is to sell at a fair
10 price."

B.5.1.2 Customers Are the First Thing

The top managers of Printemps think that the customers are most important and that the competitors are less important. To satisfy customers is the first thing that needs to be done. Chairman Wang said, "Yes, customers are the first thing. Honestly, a
15 department store business does not have any assets such as property and funds (he means that the department store business is a fundless industry). Customers are the assets."

B.5.1.3 Catching the Trend

He said, "Moreover, you have to be able to catch the trend. Modern people are not
20 particular about their dress. The trend of dress is towards a sporty style. People don't go to the office (work) in black or dark blue suits. In short, they dress sportily."

He said, "Another thing is that nowadays parents pay close attention to their children. In particular, *eating* is the very nature of being Chinese. The business volume of *eating* and *playing stuff (leisure products)* and *houseware* will probably amount to more than 50 per cent of total sales."

5 B.5.1.4 Positioning

Chairman Wang also acted as chair of the Tonlin Department Store in a very close business circle. Will the future operating direction of Printemps be the same as that of the Tonlin Department Store? Or, is it going to create competition in almost the same area? He said, "It must be different. The operating area of Tonlin only measures about
10 3,000 pyngs (9,915 square metres). Furthermore, there is a cinema included in this operating area. Because of the lack of space, Tonlin must turn to be a specialised store. You cannot crowd every kind of goods into a small area." He said, "*You have to know your position and customers clearly. You have to follow the customers' needs.* The display of merchandise and the merchandise mix are flexible, but not
15 fixed. As soon as you have properly changed the merchandise display or the merchandise mix, the business opportunity comes. For example, we moved the goods (some items) from the 4th floor to the 1st floor. As a result, the sales revenue (business volume) went up by twenty times. It's amazing, when these goods were on the 4th floor, the sales (income) was only about NT\$10 thousands a day. But now that
20 they are downstairs, the sales (income) is NT\$200 thousands a day. Every programme should be planned precisely."

B.5.2 Printemps' Top Managers' Perception of the Changing Business Environment

Chairman Wang said, "With regard to the department store industry, there were two developments. Before department stores were said to be managed in a Taiwanese style. Then, in 1984 Japanese know-how was imported, which changed our whole concept of department store management. As Japan is close to Taiwan, the information flow was fast. One could even fly back and forth in one day's time, or at most in two to three days." He said, " However there were disadvantages. As all the information was from Japan, we always followed on the heels of Japanese fashion, two to three years later. Japan, on the other hand, acquired their information from Europe, digesting and absorbing it, and then exporting it to Taiwan."

He said, "Taiwan's department store industry was like this before. Nowadays, as the world is more globalised and Taiwan's GNP has been increasing, people are more concerned with style and taste. When our department store was first opened, some Japanese counterparts contacted us. They were very interested in co-operating with us. But we thought that the department stores of Taiwan had previously been managed in a Japanese style. The so-called Japanese style means that all the managers are Japanese. This means that Taiwanese department stores will be influenced by the Japanese forever. Well now, the real estate is ours, isn't it? And also the department store is in Taipei. Therefore, I thought this was unreasonable. Furthermore, as they use their own business philosophy to direct our customary habits, consequently what we have is all Japanese commodities and Japanese thoughts. And our young people will be nurtured under this Japanese culture and accept it too. Other people, who have better taste, will instead go to Hong Kong, Europe and the United States to shop because nowadays people can travel back and forth more easily and they know that

Japan is not the only world." He said, "Generally speaking, there are five fashion-leading cities in the world: the first one is Paris; then New York, London, Milan and Frankfurt. In fact Japan herself also learns from others. She is not the fashion leader. She absorbs the fashions of these places and then "recreates" her own fashion. So the

5 Japanese are very good at imitation and they know how to "create" business opportunities: of course this is not creation in the real sense."

He said, "Our department store is at section 5 of Chung-Shao East Road, Taipei, which is next to the district of the Shinyi Development Project. Added to this, there is a population of more than 200,000 in the Shinyi district, and about the same in the

10 neighbouring Nankang and Sungsan districts. This region is still virgin land and has great potential for development. In the long term, we could even expand to Keelung, a city very close to Taipei. The whole region has a population of more than one million, yet there is no department store. Only about 120 – 150,000 is enough to support one department store: so the potential for development is great and we really have a big

15 market."

The city government has moved to the east district of Taipei. This will positively influence the development of the east district of Taipei. Mr. Wang sees this change as a good factor for future development.

B.5.3 The Business Philosophy of Printemps

20 "The philosophy of business management is a very broad topic," said Chairman and President Mr. M. D. Wang. "Roughly speaking, there are two kinds: one is that of department stores, that is, our department stores' philosophy of business management.

The other one is of personal investors. They are different. Generally speaking, these two have different philosophies.”

He said, “As for investors, now in the department store industry there are two trends. Investors invest in real estate, like the Pacific Construction Corporation, which has been co-operating with the Sogo Department Store of Japan. Regarding investors, 5 nowadays most of the department stores are owned by real estate business groups who invest in the real estate (buildings) of department stores. As they say, they have real estate (the buildings of department stores). With the increase of GNP and the development of business day after day, the price of real estate will then rise and the 10 business circle will prosper, which in turn creates more business circles and provides more business opportunities. Therefore, in 1984 some friends and I opened a department store (the Tonlin Department Store), creating a new business circle in the east district of Taipei city. At first, there were a cemetery and some farm fields opposite the department store. Therefore, prognosis is vital. You have to be far- 15 sighted. Our business circle has created the prosperity of the east district in Taipei city.”

He said, “The price before was about half a million New Taiwan Dollars for every pyng¹² (between NT\$450-600 thousand), but now it is NT\$2-3 million. So the smart genuine investors who invested in real estate (buildings of the department 20 stores) have earned from this appreciation of the land. Therefore, they do not really care about the gain or loss of the department store. This is the first example in Taiwan of a business circle being created (from nothing), and as a result the neighbouring district has been developed and later even society itself.”

¹² Pyng is a Japanese square measure used in Taiwan. 1 square yard = 0.253 pyngs.

As a new company, Printemps' business philosophy is not written in company documents. It is in the founder's mind. Chairman Wang said, "To put it simply, our business philosophy is to provide a stylish, tasteful and elegant shopping environment for customers, and at the same time, to provide good but not expensive commodities.

5 Apart from shopping, we want our customers to be able to relax physically and mentally. If that is so, this would be a nice place to shop."

While the traditional department store in Taiwan is in a more metropolitan style, Printemps tends to operate its business in a community style. Mr. Wang said, "Moreover, the Taipei city government (City Hall) has moved to here. This area is the

10 star of tomorrow in this city. Besides, in creating a business circle, our business philosophy is to combine with the neighbouring districts and grow with them."

The style of Printemps is more European. He said, "We want to introduce the delicate and elegant style of Europe to Taiwan. With our special design of the space, we tell the customers that you can shop in a light and pleasant environment, or you

15 can just come for a look. Our entire design for the shopping environment is rounder and softer. The lighting, the atmosphere... all aims at creating another kind of shopping environment, different from that of the Japanese, which is rather monotonous, rather hard. Therefore the better taste a customer has, the more he will come to our department store."

20 Printemps is a single department store at the moment. A lot of merchandise is imported from France. There is less economic volume (efficiency, or benefits) in such a single department store. It would be harder than other competitors to run such a business. But, Mr. Wang said, "Well, we have to work step by step. You cannot expect to succeed at the beginning. You have to keep thinking that you want your

business to run forever and successfully. With the success of this department store, we will try to open up the market for our own brand. The year after, the second Printemps store will open in Tao-Yuan, north of Taiwan. It's not possible to accomplish one's aim in one move."

5 **B.5.4 Printemps' Performance**

The financial data are not available since the company does not like to open up its operating results. This lack of financial data is not very important because it is a new company. It is too early to say whether the performance is good or bad. The sales revenue, as revealed by financial data from the Department Store Association, was
10 NT\$2.12 billion in 1995. Although this did not match its NT\$3.00 billion target, it is not bad, considering the conditions of the first year operation of a new company with difficult timing for market entry and which is not situated in the best location.

Appendix I. Marketing-Effectiveness Rating Instrument

The following market-effectiveness rating instrument is used for self-rating by the marketing manager after the interview.

(Check One Answer to Each Question)

Customer Philosophy

A. Does management recognise the importance of designing the company to serve the needs and wants of chosen markets?

Score

- 0 () Management primarily thinks in term of selling current and new products to whoever will buy them.
- 1 () Management thinks in term of serving a wide range of markets and needs with equal effectiveness.
- 2 () Management thinks in term of serving the needs and wants of well-defined markets chosen for their long-run growth and profit potential for the company.

B. Does management develop different offerings and marketing plans for different segments of the market?

- 0 () No.
- 1 () Somewhat.
- 2 () To a good extent.

C. Does management take a whole marketing system view (suppliers, channels, competitors, customers, environment) in planning its business?

- 0 () No. Management concentrates on selling and serving its immediate customers.
- 1 () Somewhat. Management takes a long view of its channels although the bulk of its effort goes to selling and servicing the immediate customers.
- 2 () Yes. Management takes a whole marketing system view recognising the threats and opportunities created for the company by changes in any of the system.

Integrated Marketing Organisation

D. Is there high-level marketing integration and control of the major marketing functions?

- 0 () No. Sales and other marketing functions are not integrated at the top and there is some unproductive conflict.
- 1 () Somewhat. There is formal integration and control of the major marketing functions but less than satisfactory co-ordination.

2 () Yes. The major marketing functions are effectively integrated.

E. Does marketing management work well with management in research, manufacturing, purchasing, physical distribution, and finance?

- 0 () No. There are complaints that marketing is unreasonable in the demands and costs it places on other departments.
1 () Somewhat. The relations are amicable although each department pretty much acts to serve its own power interests.
2 () Yes. The departments cooperate effectively and resolve issues in the best interest of the company as a whole.

F. How well-organised is the new product process?

- 0 () The system is ill-defined and poorly handled.
1 () The system formally exists but lacks sophistication.
2 () The system is well-structured and professionally staffed.

Adequate Marketing Information

G. When were the latest marketing research studies of customers, buying influences, channels, and competitors conducted?

- 0 () Several years ago.
1 () A few years ago.
2 () Recently.

H. How well does management know the sales potential and profitability of different market segments, customers, territories, products, channels, and order sizes?

- 0 () Not at all.
1 () Somewhat.
2 () Very well.

I. What effort is expended to measure the cost effectiveness of different marketing expenditures?

- 0 () Little or no effort.
1 () Some effort.
2 () Substantial effort.

Strategic Orientation***J. What is the extent of formal marketing planning?***

- 0 () Management does little or no formal marketing planning.
- 1 () Management develops an annual marketing plan.
- 2 () Management develops a detailed annual marketing plan and a careful long-range plan that is updated annually.

K. What is the quality of the current marketing strategy?

- 0 () The current strategy is not clear.
- 1 () The current strategy is clear and represents a continuation of traditional strategy.
- 2 () The current strategy is clear, innovative, data-based, and well-reasoned.

L. What is the extent of contingency thinking and planning?

- 0 () Management does little or no contingency thinking.
- 1 () Management does some contingency thinking although little formal contingency planning.
- 2 () Management formally identifies the most important contingencies and develops contingency plans.

Operational Efficiency***M. How well is the marketing thinking at the top communicated and implemented down the line?***

- 0 () Poorly.
- 1 () Fairly.
- 2 () Successfully.

N. Is management doing an effective job with the marketing resources?

- 0 () No. The marketing resources are inadequate for the job to be done.
- 1 () Somewhat. The marketing resources are adequate but they are not employed optimally.
- 2 () Yes. The marketing resources are adequate and are deployed efficiently.

O. Does management show a good capacity to react quickly and effectively to on-the-spot developments?

- 0 () No. Sales and market information is not very current and management reaction time is slow.

- 1 () Somewhat. Management receives fairly up-to-date sales and market information; management reaction time varies.
- 2 () Yes. Management has installed systems yielding highly current information and fast reaction time.

Total Score

The instrument is used in the following way. The appropriate answer is checked for each question. The scores are added - the total will be somewhere between 0 and 30. The following scale shows the level of marketing effectiveness:

0 - 5 = None	16-20 = Good
6 -10 = Poor	21-25 = Very good
11-15 = Fair	26-30 = Superior

Source: Kotler (1977)

Appendix II Marketing-Effectiveness Rating Instrument (in Chinese)

行銷效果評等量表 (每一問題選一答案)

顧客哲學

- A. 管理當局是否體認到將公司設計成能滿足其所選定的市場之需要與慾望的重要性？
- 0 管理當局認為以現有的與新的產品即可銷售給任何想購買的顧客。
- 1 管理當局認為服務廣大的市場與需要，可獲致相同的效果。
- 2 管理當局認為須先審慎界定市場之需要與慾望，然後再提供服務，如此才能達到公司長期的成長與利潤潛量。
- B. 管理當局是否為不同的市場區隔，發展不同的產品組合與行銷計劃？
- 0 沒有。
- 1 有一點。
- 2 有相當的程度。
- C. 管理當局是否從整個行銷系統的角度（供應商、通路、競爭者、顧客、環境）來規劃其事業？
- 0 否；管理當局只專注於現有的顧客之銷售與服務。
- 1 有一點；雖然管理當局大部分努力於現有顧客之銷售與服務，但對於通路則採長期的眼光。
- 2 是；管理當局體認到系統內任何一部分的改變皆會為公司帶來各種威脅與機會，因此必須採取整體行銷系統的觀點。

整合的行銷組織

- D. 主要的行銷功能是否有高層次的行銷整合與控制？
- 0 否；銷售與其他行銷功能未作高層次的整合，並有一些非建設性的衝突存在。
- 1 有一點；主要的行銷功能有正式的整合與控制，協調與合作方面不太令人滿意。
- 2 是；主要的行銷功能已作有效的整合。
- E. 行銷管理當局的工作是否與研究、製造、採購、實體配銷、及財務部門等的工作有良好的配合？
- 0 否；對於行銷部門所加諸於其他部門的需求與成本，他們認為不合理且有怨言。
- 1 有一點；雖然每一部門皆為自己的利益著想，但彼此間的關係仍是密切的。
- 2 是；部門之間能有效的合作，且皆以公司整體利益為前提來解決問題。
- F. 新產品發展過程有無良好的組織？
- 0 該系統未有明確的界定，且處理不當。
- 1 該系統已正式地存在，但缺乏精緻的作業程序。
- 2 該系統結構良好且配有專業人員。

足夠的行銷資訊

- G. 最近一次對顧客、影響購買的因素、通路及競爭者動向所做的行銷研究是何時進行的？
- 0 好幾年前。
- 1 近幾年前。
- 2 最近。
- H. 管理當局對於不同的市場區隔、顧客、區域、產品、通路及訂單大小的銷售潛力與獲利力，是否相當清楚？
- 0 一點也不。

- 1 有一點。
2 非常清楚。

I. 花費多少努力來衡量各種行銷支出水準的成本效益？

- 0 很少或沒有。
1 有些努力。
2 非常努力。

策略導向

J. 正式行銷規劃的程度為何？

- 0 管理當局做得很少或根本沒有正式的行銷規劃。
1 管理當局發展一套行銷年度計劃。
2 管理當局發展一套行銷年度計劃，且每年更新週詳的長程計劃。

K. 目前行銷策略的品質為何？

- 0 目前的策略不夠清楚。
1 目前的策略清楚，且為傳統策略的延續。
2 目前的策略清楚，且創新性，並有資料作基礎且很合理。

L. 權變思考與規劃達到何種程度？

- 0 管理當局做得很少或根本沒有權變思考。
1 管理當局雖然很少正式地權變規劃，但仍有一些權變思考。
2 管理當局正式地確認最重要的權變因素，並發展權變計劃。

作業效率

M. 由高階層至直線階層對於行銷思考的溝通與執行如何？

- 0 很差。
1 普通。
2 很成功。

N. 管理當局是否有效地處理行銷資源？

- 0 否；對須完成的工作而言，行銷資源常感不足。
1 有一點；行銷資源尚稱足夠，但並非以最佳的方式來運用。
2 是；行銷資源充分且作有效地運用。

O. 管理當局對市場狀況的發展是否具有迅速及有效的反應能力？

- 0 否；銷售與市場的資訊並非是最新的，且管理當局的反應時間太長。
1 有一點；管理當局可收到適時的市場與銷售資訊，但其反應時間不一。
2 是；管理當局已建立一套能蒐集最新資訊的系統，且反應時間快速。

總分

此份量表依下列方式使用：就每一問題勾選一適當的答案，將其分數加總，總分在0至30之間。下列的等級顯示行銷效果的水準：

0-5=無	16-20=好
6-10=差	21-25=很好
11-15=普通	26-30=極為優越

資料來源：方世榮譯自 Philip Kotler 原著的行銷管理學，東華書局，中華民國八十四年二月二版，第 988 - 989 頁。

Source: Translated by Mr. S. R. Fung, Marketing Management, Tong-Far, Taipei, 1995, pp. 988-989.