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## New Venture Strategies: Fit Between Environmental Hostility, Competitive Strategies, and Firms' Performance กลยุทธ์ธุรกิจตั้งใหม่: ความเหมาะสมของ สภาพแวดล้อม กลยุทธ์การแข่งขัน และผลการดำเนินงานของธุรกิจ

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### บทคัดย่อ

งานวิจัยนี้เป็นการศึกษาหาความเหมาะสมระหว่างสภาพแวดล้อมทางธุรกิจ กลยุทธ์การแข่งขัน และผลการดำเนินงานของธุรกิจตั้งใหม่ในยุคการเปลี่ยนแปลงทางเศรษฐกิจ โดยมุ่งศึกษาธุรกิจใต้อุตสาหกรรมอาหาร และผสมผสานความรู้ด้านการตลาดและวรรณกรรมที่เกี่ยวข้องกับธุรกิจที่ก่อตั้งใหม่ เพื่อสร้างความรู้ความเข้าใจกลยุทธ์การแข่งขันที่ทำให้ธุรกิจที่ก่อตั้งใหม่สามารถบรรลุถึงความสำเร็จด้านการเงินและการตลาด วัตถุประสงค์หลักของการศึกษานี้ คือ การสร้างแนวความคิดเกี่ยวกับมิติต่างๆ ของกลยุทธ์ด้านตลาดจากการทบทวนวรรณกรรมที่เกี่ยวข้องร่วมกับการวิจัยภาคสนาม ซึ่งสามารถสร้างขึ้นจากกลยุทธ์การแข่งขันที่ธุรกิจตั้งใหม่นำมาใช้ในยุคการเปลี่ยนแปลงทางเศรษฐกิจได้ 5 มิติ คือ นวัตกรรมด้านผลิตภัณฑ์ การสร้างความแตกต่างในตลาด ขนาดของตลาด พันธมิตรในตลาด และกลยุทธ์ด้านการเมือง มิติดังกล่าวสามารถแบ่งออกเป็นสองกลุ่ม คือ กลุ่มกลยุทธ์การแข่งขันในตลาด (ประกอบด้วยสามกลยุทธ์แรก) และกลุ่มกลยุทธ์ด้านการสร้างความสัมพันธ์ในตลาด (ประกอบด้วยสองกลยุทธ์หลัง) บนพื้นฐานของความไม่แน่นอนและสภาพแวดล้อมที่ถูกกำหนดไว้แล้ว กรอบทฤษฎีได้ถูกพัฒนาขึ้นเพื่อศึกษาหาความสัมพันธ์ระหว่างกลยุทธ์การแข่งขันและผลการดำเนินงานของธุรกิจตั้งใหม่ โดยมีขอบเขตของการศึกษา คือ (1) กลยุทธ์การแข่งขัน

มีส่วนเสริมผลการดำเนินงานของธุรกิจตั้งใหม่ (2) ประสิทธิภาพของกลยุทธ์การแข่งขันมีเพียงพอในกลุ่มกลยุทธ์ด้านการสร้างเสริมความสัมพันธ์ในตลาด จากผลการวิจัย พบว่า มีการใช้กลยุทธ์ทั้ง 5 มิติในธุรกิจตั้งใหม่ อย่างไรก็ตาม ผลการวิจัยบ่งชี้ว่า กลยุทธ์การแข่งขันเพียงบางปัจจัยที่มีนัยสำคัญในการช่วยเสริมธุรกิจตั้งใหม่ ยิ่งไปกว่านั้นผลการวิจัยเห็นพ้องกับงานวิจัยก่อนหน้านี้และสมมติฐานเรื่องความไม่แน่นอน การเปลี่ยนแปลงอย่างรุนแรงของสภาพแวดล้อมทำให้ประสิทธิภาพในการแข่งขันน้อยลง การสร้างสรรค์ด้านการตลาดและนวัตกรรมการสร้างความแตกต่างในผลิตภัณฑ์มีแนวโน้มต่อผลการดำเนินกิจการของบริษัทมากขึ้น นอกจากนี้ ผลการวิจัยยังชี้ให้เห็นความเกี่ยวเนื่องอื่นมากยิ่งขึ้นว่า ความสัมพันธ์ระหว่างสภาพแวดล้อมทางมหภาค ความขัดแย้งในตลาด การเปลี่ยนแปลงอย่างรวดเร็วของเทคโนโลยี และกลยุทธ์ตลาดด้านการใช้ต้นทุนต่ำ ล้วนมีนัยสำคัญที่ส่งผลต่อผลกำไร

**คำสำคัญ :** กลยุทธ์การแข่งขัน ผลการดำเนินงาน

## **Abstract**

This research paper investigates the relationship between competitive strategies and new venture performance in the transitional economy of the Thai food industry. It aims to integrate the marketing and new venture literatures by understanding how new ventures compete via competitive strategies to achieve financial and market success. The main objective of the study is to conceptualize the dimensions of marketing strategies. Through a comprehensive literature review and field interviews, five dimensions of competitive strategies adopted by new ventures in Thailand's transitional economy are identified: product innovation, marketing differentiation, market breadth, marketing alliance, and political strategy. These dimensions are further classified as competitive marketing strategies (comprising the first three) and relationship-based marketing strategies (comprising the last two). Based on strategic contingency and environmental determinism perspectives, a theoretical framework is developed to investigate the relationship between competitive strategies and new venture performance. In the framework, it is proposed that (1) competitive strategies have a unique contribution to new venture performance and that (2) the effectiveness of competitive strategies is moderated by environmental factors and relationship-based competitive strategies. Empirical results show that the five dimensions of competitive strategies do exist in new ventures. However, the results indicate that competitive strategies make significant contributions to new venture performance only on a particular factor. Moreover, consistent with the contingency hypotheses and the literature, environmental turbulence is shown to moderate the

effectiveness of all of the competitive strategies. Innovative marketing and innovation product differentiations tend to have stronger influence on the firms' performance. Moreover, the results suggest significant links between environmental macro, marketing hostility, technology hostility, and low cost leadership strategy that significantly effect total profits increment.

**Keywords:** Competitive Strategies, Firms' Performance

## Introduction

For young companies, environmental adversity can have positive or negative dimensions. On the one hand, the strong competitive realities associated with adverse environmental conditions can challenge these companies' pursuit for growth and profitability (Zahra and Bogner, 1999: 55). Given their limited capacity to support new companies' missions and goals, these environments can lead to the demise of new ventures. On the other hand, many new ventures survive, succeed and, in fact, thrive in these environments. One reason is that adverse environmental conditions can compel new ventures to innovate, take risks, and become entrepreneurial (Miller, 1983: 774; Zahra, 1993a: 5, 1993b: 326, 1995: 232; Zahra and Covin, 1995: 48), a factor that can promote the profitability and growth of these young companies (Wiklund, 1998: 104). The dual effect of adverse environmental conditions on a new firm's operations raises the question: How do new ventures compete under such hostile conditions?

This article attempts to answer this

question using data from 64 new ventures that compete in food industries. Defining companies that have existed for eight years or less as new ventures (Zahra, 1996c: 293; Zahra and Bogner, 1999: 55; Zahra, Neubaum, and Huse, 1997: 28), this study explores the effect of environmental adversity on new ventures' competitive strategies and firm performance in domestic operations. The study selected Thai's food industries that emerged within six years. The industry is focused as one of Thailand's national clusters of advantage competencies. The Thai case demonstrates that the key feature of structural transformation is the development of new firms, especially small businesses. Food industries have played an important role in accelerating Thailand's phenomenal growth and shaping its economic reforms and thus become one of the country's dominant output contributions (สำนักงานสถิติแห่งชาติ, 2545: 268). Although the management of the industries received increased scholarly attention, the majority of the writing has been anecdotal in nature. Few scholars have vigorously examined the issue either empirically or theoretically. To

ground the argument and findings in the literature, the following section of the paper defines the concept of environmental adversity, the Porter's competitive strategy model, and firm performance. This review builds on prior research conducted in entrepreneurship, strategic management, and organizational theory. The paper then presents an empirical study that examines the fit between environmental adversity and competitive strategy on firm performance. The final section of the paper summarizes the findings and discusses their implications for new venture managers and future research.

## **Theory and Hypotheses**

The concept of Fit Model has served as an important building block for theory construction in strategic management (Snow and Miles, 1983: 231-259). However, Venkatraman (1989: 428) argued that a major problem is the lack of corresponding schemes by which fit has been tested. Although it is common for theorists to postulate relationships using phrases and words such as matched with, contingent upon, consistent with, fit, congruence, and co alignment, precise guidelines for translating these verbal statements to the analytical level are seldom provided. Consequently, researchers choose an available or convenient mathematical form and perform statistical tests without examining the validity of their choice. In this study, fit

as moderation (Venkatraman, 1989: 423-444) is used to examine the research questions.

Concerning environmental adversity and its relationship to entrepreneurship, over the years researchers have used different terms to describe adverse business environments with hostility being the most dominant label (Miller and Friesen, 1982: 1-25, 1983: 221-235, 1984: 1-67). Past studies have also conceptualized environmental hostility in different ways, a factor that has resulted in contradictory results (Zahra and Bogner, 1999: 55). This study focuses on four dimensions of environmental hostility. The first is macro environmental hostility which refers to the existence of unfavorable conditions in the firm's general, external environment. This hostility stems from the environment's unfavorable political, legal, regulatory, and economic conditions which can reduce the firm's degrees of freedom in mapping and pursuing strategic choices (Miller and Friesen, 1984: 1-67). The second is market hostility which refers to the unfavorable industry's structure and dynamics as they affect a firm's operations. This hostility reflects the historical evolution of the industry and its major structural features (Porter, 1980: 322-329) as well as unfavorable supply-demand conditions that can lower a firm's profitability and even limit its growth. The third is competitive hostility which refers to the intensity of competition in the industry and

the relative powers of different rivals who may use diverse competitive approaches (Slater and Narver, 1994: 48). The fourth is technological hostility which refers to radical shifts in the industry's technological resources and capabilities (Zahra, Nash, and Bickford, 1995: 19). Confronted with these diverse types of hostilities, new ventures often employ multiple strategic choices (Grant, 1998: 228-232). One of the most important options is to increase the firm's commitment to entrepreneurial risk taking activities that can create new revenue streams, improve profits, and enhance its growth (Miller, 1983: 774).

Zahra and Neubaum (1998: 132) conducted an empirical study which attempts to link macro, competitive, market and technological hostility to the entrepreneurial orientation of 321 new ventures in low and high technology industries. The results show that the associations between different types of environmental hostility and entrepreneurial orientation are stronger among high than low technology companies. Luo (1999: 37) also studied the environment-strategy-performance relationships for Chinese small business with focus on the township and village enterprise. His research examined the effect of complexity, dynamism, and hostility influence on a manager's perception of the firm's strategic orientation such as innovativeness, risk-taking, and proactive characteristics. However, the constructive variables of environmental

perspective in his study are almost different from this research study. It is argued that using too broad operational variables can contribute less to a practitioner.

This study is an integrative model developed to test contingency theories that link environmental conditions, competitive strategy, and organization performance. The modified operational items and modified constructed variables based on Dess and Davis (1984: 467-488) and Miller (1988: 280-308) and on Porter's (1980: 322-329) generic competitive strategies. To include differentiation-based strategies as suggested by Miller (1988: 288) and Mintzberg (1988: 23) is generalized to innovative marketing strategies and innovative product differentiations that suit business atmosphere of both local and foreign rivals. The interrelationships between a new venture firm and local are bilateral and independent. When firms constitute the primary source of revenue for local governments, they also receive immense governmental assistance in financing, resource access, risk diversification, and the like (Nee, 1992: 1-27). These characteristics are confirmed by the pre-interview results; therefore, political interaction with the government sector is included in this study as another important competitive strategy. The integrated alignment model shown in figure 1 incorporates environment hostility, competitive strategy, and firms' performance.

*H<sub>1</sub>: Perceived of environmental macro hostility is positively related to the firms' innovative market differentiation, innovative product differentiation, low cost leader, and political interaction.*

*H<sub>2</sub>: Perceived of environmental competitive hostility is positively related to the firms' innovative market differentiation, innovative product differentiation, low cost leader, and political interaction.*

*H<sub>3</sub>: Perceived of market hostility is positively related to the firms' innovative market differentiation, innovative product differentiation, low cost leader, and political interaction.*

*H<sub>4</sub>: Perceived of technology hostility is positively related to the firms' innovative market differentiation, innovative product differentiation, low cost leader, and political interaction.*

A contingency theory holds that an interaction between strategy and environment determines firms' performance (Luo, 1999: 37; Miller, 1988: 280-308). Business success is a

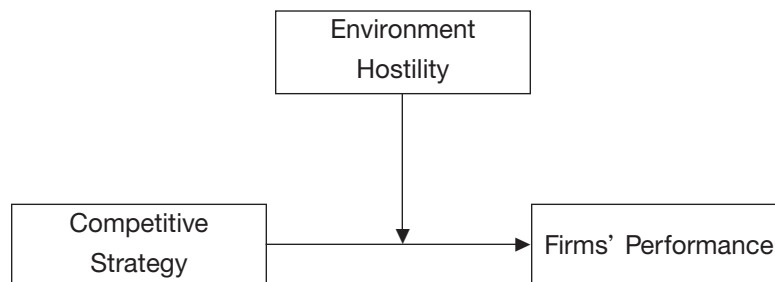
function of the entrepreneur's ability to develop effective strategies that best fit environmental conditions (Wright, et al., 1995: 148). The environment-strategic orientation and performance paradigm further argues that an appropriate match between strategic orientation and environmental characteristics will lead to superior performance (Venkatraman and Prescott, 1990: 1-23). In light of the above, the following relationships are predicted:

*H<sub>5</sub>: The degree of innovative marketing differentiation is positively related to profitability, total profit, and growth.*

*H<sub>6</sub>: The degree of innovative product differentiation is positively related to profitability, total profit, and growth.*

*H<sub>7</sub>: The degree of low cost leadership is positively related to profitability, total profit, and growth.*

*H<sub>8</sub>: The degree of political interaction is positively related to profitability, total profit, and growth.*



**Figure 1** Conceptual Model of Fit

## Methodology and Analysis

### *Sample and Data Collection*

The study was based on the development of a self-administered mail survey. First, the environmental hostility instrument of Zahra and Neubaum (1998: 131), the instrument of Dess and Devis (1984: 474) and Miller (1988: 288), the generic competitive strategies of Porter (1980: 322-329) and the performance measured instrument of Beal (2000: 32) were incorporated into a preliminary questionnaire and were pre-tested via a series of personal interviews with the owners or managers of 12 food industry firms. Following some refinement, the instrument contained 36 items in 11 variables. The questionnaire was mailed to a sample of 210 Thai food industry firms. Sixty four questionnaires were returned, which were calculated as 30.5 percent response rate. This figure is considered acceptable according to the suggestions by Dennis (2003:284) and McDougall, *et al.* (1994: 546).

### *Measures*

Multiple-item scales were developed on the basis of items previously proposed and used successfully in survey research studies. The correlations among the variables are shown in Table 1. Cronbach's coefficient was used for reliability test, and the value is within around 0.7 considered adequate for internal consistency (Nunnally, 1978: 138). Multicollinearity was diagnosed by examining the variance inflation factors (VIF) for the predictors. The VIF values for the four predictors ranged from 1.07 to 1.39, thus indicating a small threat of Multicollinearity. Research hypotheses were tested using multiple regression analysis. Moreover, the MANOVA test was also conducted in order to assess the multivariate effect of the strategy-environmental-performance relations. The combination of the above approaches presents both multivariate and univariate effects of the predictor variables.

**Table 1** Correlation Matrix for Predictors of Firms' Performance

	1	2	3	4	5	6	7	8
1. MACRO								
2. COMPET	-.2962							
3. MARKET	-.3478	.4839						
4. TECHN	-.2263	.1587	.1596					
5. IMD	-.0874	.1058	.0763	-.0594				
6. IPD	-.0348	.0911	-.0594	.0669	.2657			
7. LC	.0392	-.1034	.1353	.2394	.1374	-.1279		
8. PI	.0852	-.0519	.2273	-.0590	-.1619	.1376	.1033	

### *Environmental Hostility Measurement*

The operation variables constructed follow suggestions of Zahra and Neubaum (1998: 128-141). The study's measures of hostility captured macro (4 items), competitive (4 items), market (4 items) and technological hostility (4 items). In each case, responses to the four items were averaged, and the mean was used in testing the study's hypotheses. All items followed a 5-point scale ranging from 1 = very strongly disagree to 5 = strongly agree. All scale items had a neutral point (= 3). Items used to construct the measures were as follows: 1. Macro Hostility, items were: supply of capital is limited; government regulations are extensive; regulations discourage growth; and general business conditions are unfavorable. 2. Competitive Hostility, items were: competition based on quality is strong; competition based on price is strong; competition based on service is strong; and competition based on product newness is strong. 3. Market Hostility, items were: customer needs change frequently; customer needs are becoming more and more unpredictable; customer loyalty is decreasing; and rate of failure is high. 4. Technological Hostility, items were: speed of technological change is high; products become obsolete quickly; rate of product innovation is high; and rate of innovation in production (manufacturing) technology is high.

### *Measurement of Competitive Strategy*

A total of fourteen items were used to measure the four dimensions of competitive strategy. Items were based on the operational variables constructed by Dess and Devis (1984: 467-488) and Miller (1988: 280-308) and on Porter's (1980: 322-328) generic competitive strategies. These items were complemented with a set of additional items to represent a multi-dimensional view of differentiation-based strategies as suggested by Miller (1998: 280-308) and Mintzberg (1988: 1-67). In this study, the author included a set of two items in political interaction that were taken from twelve pre-interviews. Respondents were asked to indicate the extent to which their firms emphasized each of the fifteen competitive methods in the past three years. Data were recorded using five-point scales that ranged from 1 = no emphasis to 5 = major and constant emphasis. James and Hatten (1995: 161-168) showed in his empirical studies that methodology examining the self-typing of business level strategy by CEOs is valid.

Innovation marketing differentiations (IMD) create perceptions in the minds of targeted customers that the firms' products are distinctively different from those of their competitors. The five competitive methods that affect this factor are: building brand/company identification, marketing of new



products, selling high-priced products, innovative marketing techniques, and broad range of products.

Innovative product differentiations (IPD) involve the distinction of products with unique features or performance characteristics. The four competitive methods that affect this factor are: obtaining patents or copyrights, improving existing product, new products, and best manufacturing process in industries.

Firms pursuing low cost leadership (LC) seek to secure a low-cost position within their markets. The following three methods affect this factor: improving efficiency and productivity, developing new manufacturing process, and reducing overall cost.

Firms have concern for political interaction (PI) in order to be involved in business prosperities. Elements in this factor are concern for politics to protect business and concern for politics to enhance business utilities.

#### *Measurement of Firm Performance*

Firm performance plays a key role in strategy research but there is considerable argument on the appropriateness of various approaches to conceptualization and measurement (Venkatraman and Ramanujam, 1986: 801-814). The complexity of performance is the major factor contributing to the debate. The author of this research paper has

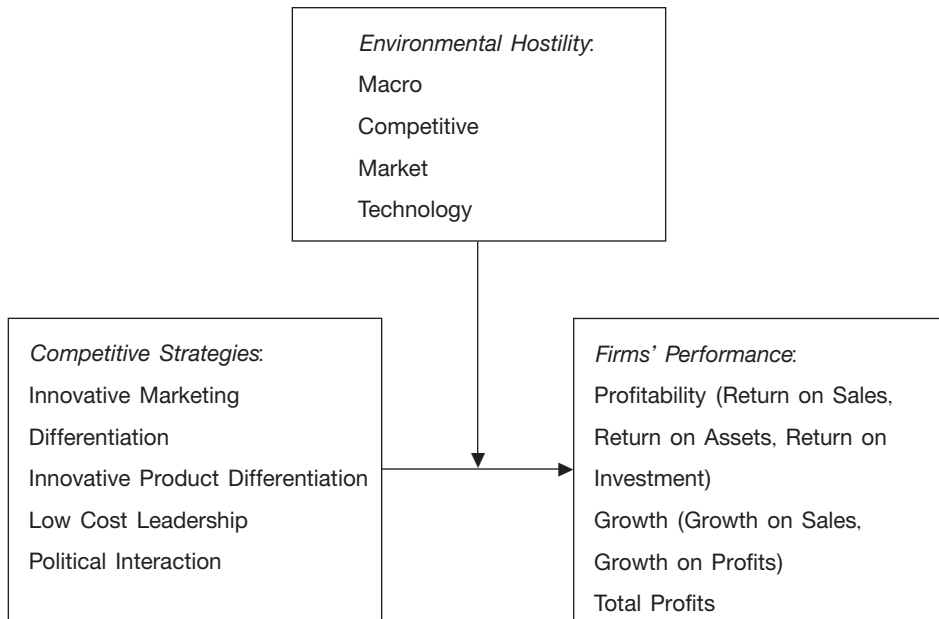
examined five pre-interviews with the small business owners and found that they were inclined to provide subjective evaluations of their firms. Further, the author agrees with Dess and Robinson (1984: 265-273) that objective data on the performance of small firms is usually not available because most small firms are privately held and the owners are neither required by law to publish financial results nor are they usually willing to reveal such information voluntarily to outsiders.

The study thus relies on the perceptual measures of organization performance; in particular, the approach follows those used by Beal (2000: 27-47) that were adopted from the measurement of financial performance by Naman and Slevin (1993: 141). Respondents were asked to indicate on five-point scales, ranging from 1 = very unimportant to 5 = very important. The degree of importance was attached to each of the six financial performance indicators: profitability (return on sales, return on investment, and return on assets), growth (growth of sales and growth of profits), and total amount of profits. The respondents were further asked to indicate the extent of their satisfaction with their firms' performance along each of the the six performance indicators. The five-point scales used for this measurement range from 1 = very dissatisfied to 5 = very satisfied. The six satisfaction scores were then multiplied by their respective importance ratings. The resulting six scales were averaged

to construct a composite measure of firm performance. This composite measure reflects an aggregate view of performance based on the level of owners' satisfaction with their firms'

performance along each of the six financial performance criteria weighted by their respective importance to their firms.

*A Structural Model*



**Figure 2** Structural Model of Fit

**Results and Discussion**

**Table 2** Environment-Strategy Relations: Results of Multiple Regressions (Standardized  $\beta$  Estimated)

Environmental Dimensions	Innovation Marketing	Innovation Product	Low Cost Leadership	Political Interaction	MANOVA Wilk's $\lambda$	MANOVA F
Macro Hostility	.075	-.030	.116*	.150**	0.88	2.21
Competitive Hostility	.087	.145**	-.229	-.180	0.93	1.55
Market Hostility	.023	-.150	.245**	.376**	0.54	3.45**
Technology Hostility	.094	.061	.263**	-.056	.78	1.89
R <sup>2</sup>	.023	.027	.124	.111		
F	.136	.161	.816	.716		
N	28	28	28	28		

P<0.05; \*

P<0.01; \*\*

As shown in Table 2, multiple analysis suggests that environmental dimensions: macro hostility, competitive strategy, and technology are not significantly related to innovative market differentiations. It appears that environmental competitive hostility provides only the prediction of the degree of innovation product differentiations. It is found that low cost leadership is positively related to increased macro hostility, market hostility, and technology hostility. Moreover, the regression equation demonstrates that political interactions are positively related to macro hostility and market hostility. In contrast, perceived competitive hostility and technology hostility are not systematically

related to political orientation. The underlining implication is that when the industrial environment is dynamic and the market is more unpredictable, the firms tend to be adaptive and aggressive to governmental politics concerns. Overall, the key results from the multiple regression analysis of the new food industry firms in Thailand lend partially support to  $H_1$ ,  $H_2$ , and  $H_3$  and reject  $H_4$ . The MANOVA results further suggest that environmental market hostility profoundly influences overall competitive strategies whereas macro hostility, competitive hostility, and technology hostility are not important in affecting overall strategic choices.

**Table 3** Strategy-Performance Relations: Results of Multiple Regression (Standardized  $\beta$  Estimates)

Competition Strategy	Profitability	Growth	Total Profit	MANOVA Wilk's $\lambda$	MANOVA F
Innovative Marketing	.070	.384**	-.023	.83	0.87
Innovative Product	.161**	.283**	-.084	.79	2.13**
Low Cost Leadership	.101	.051	.273**	.88	0.62
Political Interaction	-.229	-.087	-.286	.94	0.54
R <sup>2</sup>	.086	.301	.157		
F	.543	2.47	1.07		
N	28	28	28		

P<0.05;\*

P<0.01;\*\*

Table 3 exhibits the regression results of competitive strategy-performance relations for the new food industries in Thailand. It is found that dependent variable growth is positively related to innovative market strategy and innovative product differentiations,

whereas no relation is suggested on low cost leadership and political interaction strategies. Similarly, profitability performance is positively related to innovative product strategy; in contrast, there is no significant relation between growth and low cost leadership, and between growth

and political interaction. In the total profits dimension, only low cost leadership was found to be significantly related. From the results, it is clear that innovative marketing and innovative product strategies enhance growth performance (growth on sales or growth on profits), but do not affect total profits. The reason is that innovative marketing and innovative product differentiations only significantly influence increase growth on sales. However, where total profit is significantly influenced by low cost leadership strategy, cost on unit product should be less and profits on growth of sales should be reasonable (growth on profits). To explain such evidence, firms extensively spend for the innovative market strategy and product differentiations.  $H_5$ ,  $H_6$ , and  $H_7$  are therefore partially supported where  $H_8$  is rejected. The MANOVA results also demonstrate that innovative product differentiation is important for Thai's food industry firms overall performance given the significant multivariate effects on performance measures. Innovative market, low cost leadership, and political interaction strategies are not a critical factor underlining overall performance.

## **Conclusion**

This study assessed the configuration between strategic orientations and environmental characteristics and its performance implications for new food industry firms in

Thailand. Food industries are now becoming increasingly important for Thai national economy and structural reform. The issue addressed in this study is central to a better understanding of Thai new small business. The competitive strategies examined in the study include four major dimensions, namely, innovative marketing, innovative product differentiations, low cost leadership, and political interaction. Environment is also defined as a multidimensional construct which contains the macro hostility, market hostility, competition hostility, and technology hostility.

Based on an analysis of survey data, it is found that particular environmental characteristics have a significance on particular strategies orientation. The multiple regression analysis demonstrates that low cost leadership and political strategies are positively associated with an increment of macro hostility and marketing hostility. Low cost leadership is also positively related to technology hostility. Additionally, this study observes a positive association between innovative market and growth, innovative product and growth, and innovative product and profitability. Furthermore, low cost leadership strategy is found significantly associated with total profits, whereas political interaction strategy is not positively related to any of a firm's profits performance. The results do not show a significantly unique association between environmental hostility and strategies,

and make significantly unique contributions to performance as researched works done by some researchers (Luo, 1999: 37; Haiyang, 1998: 68-77; and Beal, 2000: 27-47). Therefore, the study indicates that Thai food industry firms do not systematically put emphasis on every competitive strategy that is related to environmental hostility, and logical inconsistency between performance variables suggests the improvement of strategic formulations and financial planning.

Nevertheless, this study is subject to typical limitations. Some respondents mainly involved in the export market are excluded in this study. Future research should be on competition in the global area that is extremely important. The study is cross-sectional. Further research should be devoted to longitudinal, comparative and replicate investigations. The statistics used and underlying theories are also critical and the results might be interpreted differently.

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