



Impact of business strategies of automobile manufacturers in Thailand

Automobile
manufacturers
in Thailand

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Abstract

Purpose – The paper aims to investigate automobile manufacturers in Thailand and the effects that their business strategies had on their organizational performance.

Design/methodology/approach – For empirical analysis, the method of confirmatory factor analysis and the structural modeling method were applied in order to refine business strategies, functional strategies, financial, and marketing organizational scales.

Findings – This research reveals that there are three significant business strategies of automobile manufacturers in Thailand which have a positive effect on the organization's financial and marketing performance: cost focus (the first priority), cost leadership (the second priority), and integrated cost differentiation (the third priority). All the priorities of functional strategies that have a positive effect on the financial and marketing organization performance were subsequently analyzed as follows: manufacturing strategy (most significant), human resource management (the second most significant), marketing strategy (the third most significant), and the financial strategy (the least significant).

Research limitations/implications – Future research should select different random samples to assess the perceptions of front line managers of automobile manufacturers, dealers and automobile part firms.

Practical implications – The management of automobile manufacturers and automobile part firms should implement and improve their business strategies in terms of cost focus, cost leadership, and integrated cost leadership strategies achieve higher financial and marketing performance.

Originality/value – This paper contributes to the existing literature by reexamining the impact of business strategies of automobile manufacturers on organizational performance.

Keywords Thailand, Corporate strategy, Organizational performance, Automotive industry

Paper type Research paper

Introduction

In the global market and new world economy, industries are facing many challenges and opportunities which include the globalization of markets and production, advancement in information technology, hyper-competition, intellectual capital, workforce diversity, deregulation, and ethics (good governance) among others (Hitt *et al.*, 2003; Dess *et al.*, 2007). In particular, the automobile industry is facing new challenges on a global scale, such as the effects of globalization, tougher safety requirements, increased competition, the use of more advanced information technology, increased environmental responsibilities, and improved production technologies (Linker, 2004; Gallasch *et al.*, 2004).



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The growth prospects of a national economy are largely determined by its key industries. In recent decades, the automobile industry in many triad countries have proven to be one of the strongest drivers of technology, growth, and employment (Gottschalk and Kalmbach, 2007).

Today's management must execute more than simply set long-term strategies and hope for the best (Begley and Boyd, 2003).

More specifically, many studies dealt with similar as well as differing perspectives of various significant integrated and individual functional strategies of automobile manufacturers. These previous studies have empirically examined the improvement in the performance of firms in foreign countries including the integrated functional strategy studies of Gallasch *et al.* (2004), Stephens (2005), Tay (2003), Ban *et al.* (2005), Linker (2004), Welch (2003) and Magee (2003). Additionally, many studies have been conducted and have validated the functional strategies of automobile manufacturers in Thailand that affect organizational performance. Examples include the studies of Shimokawa (2001), Johri (2000), Petison and Johri (2006), Thailand Automobile Institute (TAI) (2002), Fongsuwan (1999) and Kertels and Porter (2003).

Hence, it is interesting to study how the different business strategies influence marketing and finance organizational performance among automobile manufacturer in Thailand. A few studies have addressed the relative importance of different business strategy of automobile manufacturers over others affecting marketing and financial organizational performance in Thai context.

Objectives of the study

The purpose of this study is to identify and examine the different strategies employed by Thai automobile assembly companies and the resulting organizational performance in 2007 when the price of oil increased. The specific objectives of this study are to:

- analyze the impact of business strategies of automobile manufacturers in Thailand on their organizational performance; and
- assess different business strategies of automobile manufacturers in Thailand.

Literature review

In this study, we have reviewed findings of research in three specific areas related to automobile manufacturers: the first is an exploration of the general views of strategic management theories; the second is definitions of Porter's business strategies and the third is the meaning of various aspects of organizational performance.

Many scholars have discussed and defined strategic management theory by dividing it into two important perspectives: the industrial organizational (IO) theory and the resource-based view (Foss, 1996; Mauri and Michaels, 1998; Hoskisson *et al.*, 1999; Spanos and Lioukas, 2001; Stoelhorst and van Raaij, 2004).

Industrial organizational theory

The latest development of the IO theory by Porter (1998a, b) explains how the profit potential of companies within a particular industry depends on the five market forces: bargaining power of buyers, bargaining power of suppliers, threat of new entrants, threat of substitute products, and rivalry among competitors. Companies can earn above average returns by offering standardized products or services at a cost below those of their competitors (known as a cost leadership strategy), or by manufacturing

differentiated products at a premium price known as a differentiation strategy. The company can select various strategic types including cost leadership, differentiation, cost focus, differentiation focus, integrated cost and differentiation to manipulate these forces in their favor (Porter, 1985; Dess *et al.*, 2007).

Business strategies

Second, various authors have defined business strategy in the following dimensions: business strategy is integrated and is a coordinated set of commitments and actions a company uses to gain a competitive advantage by exploiting core competencies in specific product markets. The main concept of this strategy is to choose to perform activities differently, or to perform different activities, compared to their rivals. In addition, the objective of this strategy is to build unique and strong competencies in one or more areas to gain a competitive advantage over their rivals (Slater and Olsen, 2000; Porter, 1980, 1996, 1998a, b; Thompson and Strickland, 2003). Porter (1985, 1996, 2001) has identified generic strategies, overall cost leadership, differentiation, and focus covering cost and differentiation; as a result, companies may choose either one or a combination of these business strategies (Dess and Miller, 1993; Mintzberg *et al.*, 2003; Merriless, 2001). Dess and Miller (1993) extended the concept of business strategy presented by Porter by combining multiple forms of competitive advantage, specifically integrating differentiation and overall cost strategies to achieve the highest financial and marketing performance for the organization (Wright *et al.*, 1991; Kim and Lim, 1988).

Porter's business strategies are generally defined as:

- Overall cost leadership strategy aims to achieve overall cost leadership in the industry which place concentration on asset use, employee productivity, and discretionary expenses. Examples are cost reduction from experience, tight cost and overhead control, cost minimization primary and supporting activities on firm's value chain, such as research, manufacturing, service, sale forces, and advertising (Porter, 1985; Dess *et al.*, 2007; Hitt *et al.*, 2003; Pamel, 2000).
- Differentiation is consist of offering unique product and services in various forms, such as prestige and brand image, technology leadership, engineering design, rapid product innovation, features, customer service, and dealer network (Porter, 1985; Dess *et al.*, 2007; Hill and Jones, 2004).
- Focus strategy can be categorized into cost and differentiation focus. It is to choose a narrow competitive scope within an industry for selection of specific market group in order to provide better service. The cost focus is to create a cost advantage within a particular market, while the differentiation focus aims to differentiate the target market. The firm enables to utilize technology, research capability, managerial creativity, and talented workforce to serve unique market segment differentiation (Porter, 1985; Hill and Jones, 2004).
- Integrated overall low cost and differentiation strategy enables a firm to provide two type of value and lower prices for unique value to customers, such as automated and flexible manufacturing systems, extended value chain by information technology (Porter, 1985; Dess *et al.*, 2007).

In the case of the automobile industry, several researchers have identified that along with the cost leadership strategy, automobile assemblers adopt many different business

strategies to improve the organization's performance. For example, Hitt *et al.* (2003) explained that Honda Motor Co., was able to reduce its production costs by 30 percent by adopting flexible production systems through small car and small volume operations. On the other hand, BMW and Mercedes-Benz cars have high prestige, superior engineering, and high quality (MacMillan and Mcgrath, 1997). Markides (1999) has indicated that Lexus, a division of Toyota Motor Co., Ltd, can strengthen its differentiation strategy by achieving integration at multiple points along the value chain. Hill and Jones (2004) have found that automobile manufacturers with a differentiation focus strategy can offer a product to satisfy the focus customers; for example, GM's new midsize Cadillac, and Ford's new midsize. Hill and Jones (2004) has mentioned that Toyota, Ford, Daimler-Chrysler, and Mercedes Benz have implemented an integrated cost leadership and differentiation strategy to gain a competitive advantage, such as with the new Lexus model, and various models of sport utilities from Toyota, and Mercedes Benz's low-priced C-Class for the luxury automobile market. Magee (2003) also indicated that the integrated cost leadership and differentiation business strategy are business strategies adopted by Nissan Motor Company.

Organizational performance

The significant organizational performances are explained as follows.

The use of both financial and non-financial organizational performance indicators creates a more accurate performance measurement because it offers a more complete view of a business (Kaplan and Norton, 1992; McAdam and Bailie, 2002). Several non-financial organizational performance indicators are widely used including customer satisfaction, market share, sales growth, sales volume, and market share growth (Sharma and Fisher, 1997; Li, 2000). Financial organizational performance includes (Moyer *et al.*, 2002; Brigham and Ehrhardt, 2005):

- *Return on investment (ROI)*. The result of dividing net income after taxes by total amount assets invested.
- *Return on equity (ROE)*. The result of dividing net income after taxes by total amount of stockholders' equity.
- *Return of invest capital (ROIC)*. The ratio of net operating profits after tax to total operating capital.
- *Economic value added (EVA)*. The after tax operating income minus the total annual cost of capital.
- *Market value added (MVA)*. The difference between the market value of the firm's stock and the amount of equity capital by shareholders.

Doyle (2000) and Jearuzelski *et al.* (2005) stated that automobile manufacturers should focus not only on profit maximization but also on shareholder value maximization. The market organizational performance of auto makers in Asia-Pacific can be measured by market value, market volume, market segmentation, and market share.

Conceptual framework

A schematic diagram of the theoretical framework for automobile manufacturers in Thailand of this study is given in Figure 1 and is based upon the mentioned literature review. The complementary of Porter's competitive strategy and resource-based view

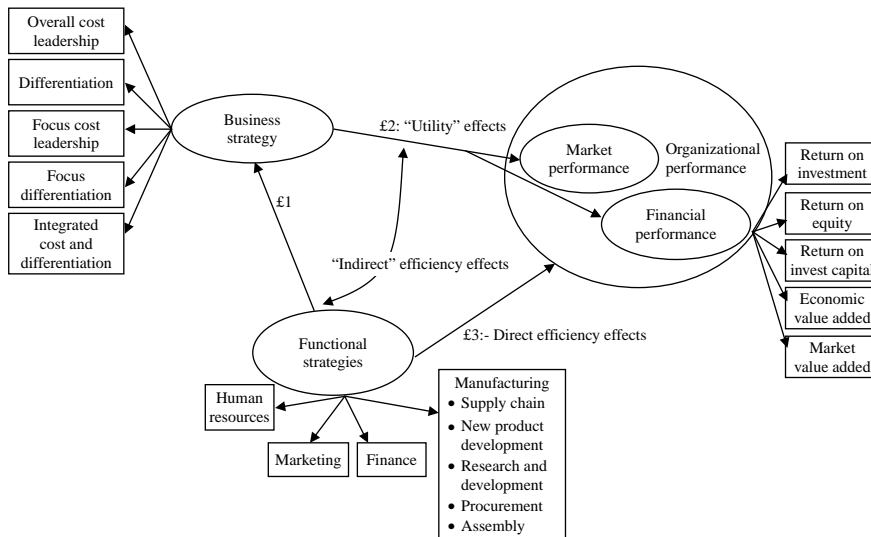


Figure 1.
Conceptual framework

model are used as basis for this study's conceptual framework. More specifically, many empirical studies have supported this conceptual framework and the relative impact of industry, strategy, firm-specific factors on organizational performance (McGahan and Porter, 1997; Rummler and Brache, 1991; Mauri and Michaels, 1998; Spanos and Lioukas, 2001). With respect to the empirical findings of Spanos and Lioukas (2001), they suggested that strategy includes innovative differentiation, marketing differentiation, and low cost, whereas company assets are related to organizational, managerial, marketing, and technical factors that affect financial and marketing performance.

In this study, the Porter's business strategies of overall cost leadership, cost focus, integrated cost and differentiation, differentiation focus as well as functional strategies of human resource, manufacturing, marketing, finance affecting marketing, and financial performance of automobile manufacturers in Thailand have been analyzed.

Research methodology

Data collection

The respondents for the questionnaire survey were top executives from 12 automobile manufactures in Thailand. A total of 374 questionnaires were distributed to respondents, directly targeting those holding top management positions. The presidents and vice presidents from various departments were interviewed to acquire more in-depth perceptions from the questionnaires. A total of 254 questionnaires were returned and the response rate was 67.9 percent; these respondents answered all eight parts of questionnaire. The explorative research approach was utilized and data were gathered from many sources including published and unpublished articles, text books, existing case studies, in-depth interviews with top executives from automobile makers, and internet sources.

Questionnaire design

The questionnaire consisted of seven parts. The first part described the brand name, automobile product, and group of individual automobile manufactures. In the second

to seventh parts of the questionnaire, respondents were asked for their perception in order to assess the implementation of their automobile manufacturers' business strategies, financial, and marketing performance. The attributes of the above variables were measured by using a Likert's six-point scale which ranks the priority in the following manner: 0 – did not pursue the strategy, 1 – pursued the strategy with very low priority, 2 – pursued the strategy with low priority, 3 – pursued the strategy with moderate priority, 4 – pursued the strategy with high priority, and 5 – pursued the strategy with very high priority. The ranking priority on Likert's scale was used in the second to the seventh parts of the questionnaire.

Reliability construct

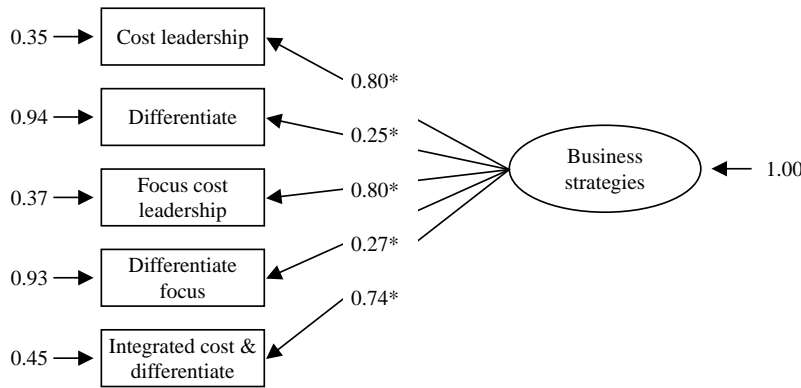
To assess the reliability of the collected data, the Cronbach's alpha reliability test was performed for the following constructs: business strategies, functional strategies, and organizational performance. For the diagnostic measure, the generally agreed upon lower limit for Cronbach's alpha is 0.7 although it may decrease to 0.6 in exploratory research (Hair *et al.*, 1999; Nunnally, 1978). The business strategies provided a Cronbach's alpha which proved its reliability at 0.6724 (see Appendix 1). The organizational performance had a Cronbach's alpha of 0.94 and is reliable (see Appendix 1).

Survey finding

The confirmatory factor analysis (CFA) and structural equation modeling (SEM) analysis, path diagram, and SEM path analysis were employed in an attempt to validate and to generalize the research model as suggested by Hair *et al.* (1999).

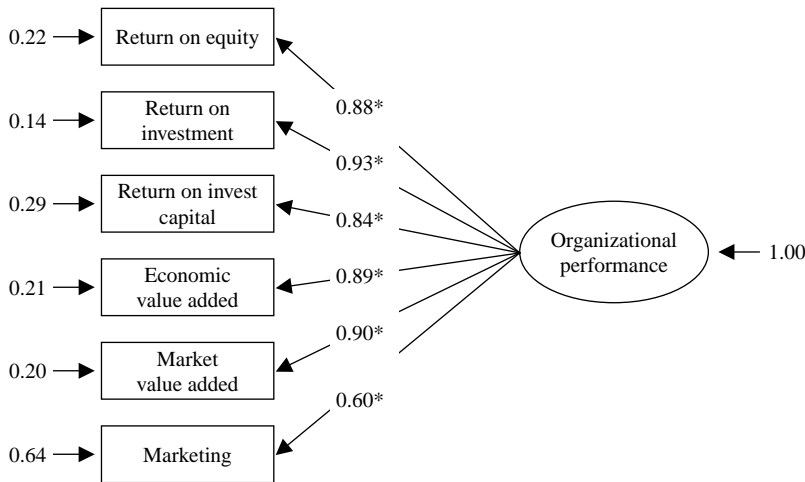
Validity construct

According to Hair *et al.* (1999), besides the χ^2 to the degree of freedom ratio (χ^2/df ratio), other widely used measures of fit for the model include the goodness of fit index (GFI), the Bentler comparative fit index, The Bentler-Bonett non-norm fit index, adjusted goodness fit indices (AGFI), and standard root mean squared residual (SRMR) which are at least 0.90 and the and the root means square error of approximation (RMSEA) is less than 0.1. The χ^2 -value is less than 3, while the factor loading coefficient criterion of above 0.3 serves as the cut-off point for significance. Sometimes its value was below 0.3; nevertheless, it was theoretically useful to be included for analytical purposes (Hair *et al.*, 1999; Ameida, 1999). The CFA was employed to test the construct validity of measurement for business, and the organization's financial and marketing performance. All analyses (see Appendix 2 for detailed description of procedures and results) provided reasonable confidence that the measures used are valid and reliable. Figure 2 for CFA on business strategy model and in Figure 3 confirmatory of organizational performance with statistical estimated and the fit indices were shown. Appendix 2 indicated that these requirements for sub factors of business strategies, and the organization's financial and marketing performance are satisfactory in regards to both the measurement and SEM. All variables presumed to measure latent constructs had high factor loading coefficients for their respective constructs and had statistically high significance (all *p*-values equal 0 and 0.01). Thus, all variables that measure latent constructs in this model achieved convergent validity.



Notes: * $p < 0.01$; $\chi^2 = 0.66$; $df = 3$; $p\text{-value} = 0.88$; $RMSEA = 0.00$; $n = 254$

Figure 2.
CFA of business strategies
model, standardized
estimates



Notes: * $p < 0.01$; $\chi^2 = 13.12$; $df = 8$; $p\text{-value} = 0.12$; $RMSEA = 0.05$; $n = 254$

Figure 3.
CFA of organizational
performance model,
standardized estimates

Structural equation modeling and path diagram

The structural relations among the constructs in our conceptual model were examined through path analysis using the maximum likelihood estimation procedure with LISREL statistical package 8.52 program through SEM. Results obtained from fitting the model in Figure 1 are shown in Table I. Table II and Figure 4 summarize the results of the direct and indirect effects (i.e. functional strategy, business strategy affecting organizational performance) as well as the overall model fit statistics.

Table I shows that the multiple indices, including χ^2 of 62.61, degree of freedom of 48, p -value of 0.076, GFI of 0.968, AGFI of 0.920, SRMR of 0.074, RMSEA of 0.035 which are all considered satisfactory and significant above the acceptable threshold as suggested by Hair *et al.* (1999) and Jöreskog and Sorbom (1999).

According to Figure 4 and Table I, the functional strategies had a maximum positive direct effect on organizational performance with path coefficient of 0.44 ($p < 0.01$),

Scale content	χ^2	df	p	GFI	AGFI	SRMR	RMSEA
Full five items	62.61	48	0.076	0.968	0.920	0.074	0.035
To			<i>Business strategy</i>		<i>Organizational performance</i>		
From		<i>Total effect</i>	<i>Direct effect</i>	<i>Indirectly effect</i>	<i>Total effect</i>	<i>Direct effect</i>	<i>Indirectly effect</i>
Functional strategy		0.12*	0.12*	–	0.47**	0.44**	0.03*
Business strategy		–	–	–	0.29**	0.29**	–

Notes: * $p < 0.05$, ** $p < 0.01$; $n = 254$; γ , value represents effect between exogenous variable to endogenous variable; β , value represents effect between endogenous variable to endogenous variable

Table I.
Full model fit statistics

	Factor loading	Ranking priority
<i>Business strategies</i>		
Cost focus	1.141**	The first
Cost leadership	1.088**	The second
Integrated cost and differentiation	1.026**	The third
Differentiation focus	0.394**	The fourth
Differentiation	0.243**	The fifth
<i>Functional strategies</i>		
Manufacturing	0.554**	The first
Human resource	0.457**	The second
Marketing	0.370**	The third
Finance	0.361**	The fourth

Table II.
Ranking values of factor loading for observed variables

Note: * $p < 0.05$ and ** $p < 0.01$

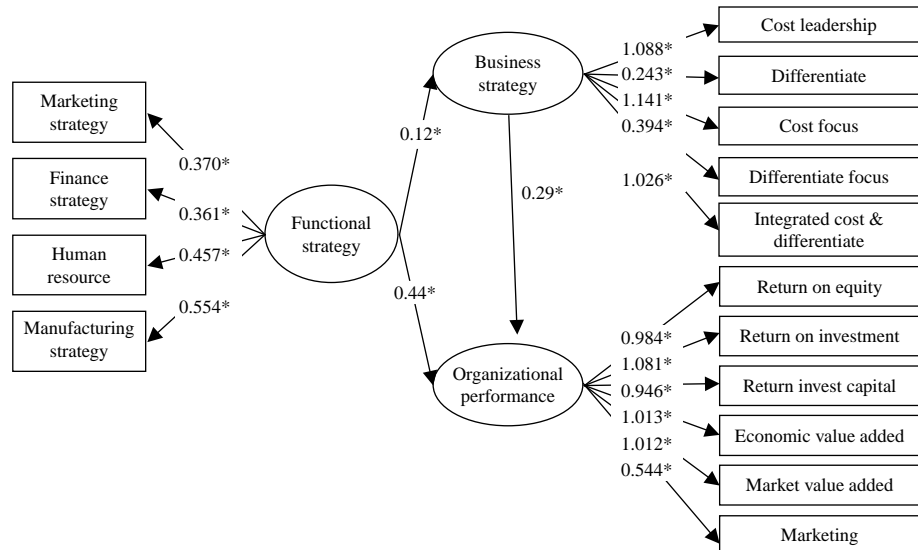


Figure 4.
SEM path diagram-automobile manufacturers in Thailand

Notes: * $p < 0.01$; $\chi^2 = 62.61$; $df = 48$; p -value = 0.076; RMSEA = 0.035

while the functional strategies also has a positive indirect effect on organizational performance with path coefficient of 0.03 ($p < 0.01$) through business strategies. Thus, the functional strategies have a positive total effect on organizational performance with a path coefficient of 0.47 ($0.44 + 0.03$) at the statistical significant level of 0.01.

The functional strategies have a positive total effect on business strategies with a path coefficient of 0.12 ($p < 0.01$) while business strategies affect the organizational performance with a path coefficient of 0.29 ($p < 0.01$) through the influence of functional strategies.

The value of factor loading for sub constructs of business strategy, functional strategies, financial, and marketing performance of automobile manufacturers are presented in Table II. Therefore, the findings of the study are as follows.

Business strategies ranking from the first to fifth priorities with mentioned values of factor loading are classified as cost focus (the first priority), cost leadership (the second priority), integrated cost and differentiation (the third priority), differentiation focus (the fourth priority), and differentiation (the fifth priority). Furthermore, the functional strategies categorizing from the first to fourth priorities with a value of factor loading include manufacturing (the first priority), human resources (the second priority), marketing (the third priority), and finance (the fourth priority) at the significant level 0.01 as indicated in Table II.

Discussions

The findings of this study showed that all business strategies and functional strategies of automobile manufacturers in Thailand have positively affected their financial and marketing performance at a significant level of 0.01, with respect to Tables I and II, and Figure 4.

Business strategies affecting financial and marketing organizational performance of automobile manufacturers in Thailand when the price of oil rose in 2007.

The findings of the study provided clear evidence that all of the different business strategies of automobile manufacturers in Thailand had direct positive effects on marketing and financial organizational performance, something which is consistent with previous studies (Porter, 1985, 1996, 2001; Slater and Olsen, 2000; Mintzberg *et al.*, 2003; Merriless, 2001; Hitt *et al.*, 2003; Hill and Jones, 2004; Lowerdahl and Revang, 1998).

The three significant business strategies are selected for discussions according to the priority ranking on the degree value of factor loading ranging from 1.1141 to 1.026. The first significant business strategy is cost focus, followed by cost leadership as the second significance, and integrated cost and differentiation as the third significance for automobile manufacturers in Thailand that have a direct effect on organizational performance (Table II, Figure 4). These findings both confirm and contradict the results of many previous studies (Spanos and Lioukas, 2001; McGahan and Porter, 1997; Mauri and Michaels, 1998; Miller and Dess, 1993; Teece *et al.*, 1997) such as Spanos and Lioukas (2001) who suggested that business strategies including innovative differentiation, marketing differentiation, and low cost have a positive effect on market performance, and later profitability of the firms for various manufacturing industries in Greece. Miller and Dess (1993) also revealed that various business strategies proposed by Porter (1985, 1996, 2001) are significant direct determinants of market performance and profitability of the organization across a wide variety of industries, while the most significant business strategy integrates differentiation and cost leadership with a 35.5 percent ROI,

and a 15 percent sales growth. This is followed by differentiation as the second significance, cost leadership as the third significance, cost focus as the fourth significance, and differentiation focus as the fifth significance (Kim and Lim, 1988; Wright *et al.*, 1991).

(a) Cost focus strategy (the first priority)

Our findings have indicated that the utilization of the cost focus strategy by automobile manufacturers in Thailand is positively related to the organization's financial and marketing performance. In addition, these findings are confirmed by the results from a number of previous studies of Porter (1985, 1996), Dess *et al.* (2007), Hitt *et al.* (2003), Teece *et al.* (1997), Johri (2000) and Shimokawa (2001). The findings of Dess and Miller (1993)'s research also confirmed that the low cost focus strategy can achieve 23.7 percent ROI, 16.4 percent of sale growth, and 6.1 percent of gain in market share. Johri's (2000) study concerned Toyota Motor (Thailand) Co., Ltd's use of segmentation as their marketing strategy with very competitive pricing of the new model of Toyota Corolla for city customers and of the Hilux Tiger car model for up-country customers. Shimokawa's (2001) study indicated that Thai automobile manufactures should mainly focus on mass market and the small commercial size passenger car market in urban areas, paying attention to fuel-efficiency and very competitive pricing.

(b) Cost leadership strategy (the second priority)

The cost leadership of automobile manufacturers in Thailand has positively affected the organization's financial and marketing performance. The results of this study were consistent with the empirical studies of with the empirical studies of Porter (1985, 1996), Spanos and Lioukas (2001), Merrelees (2000), Dess *et al.* (2007) and Hitt *et al.* (2003). Hitt *et al.* (2003) explained that Honda Motor Co.,'s cost leadership strategy is to adopt flexibility manufacturing method for small car and small volume with 30 reduction of production cost. The price of various car models, such as Accord, Aura TL sedan, Odyssey minivan made in the USA is lower that the price of other car makers. Spanos and Lioukas (2001)'s research also revealed that overall cost leadership strategy are a significantly direct determinant of market performance, and indirectly of financial performance of the organization.

The empirical research in Thailand reviewed by Fongsuwan (1999) also found that Japanese automobile companies have focused on price strategy as a major competitive tool, and they have frequently sold below cost to gain strategic footholds. The findings of this study were supported by Petison and Johri (2006) who explained that the segmentation of marketing strategy focuses mainly on two customer groups: the city customer for economic passenger cars, and those from up-country for low priced pick-up trucks in order to market automobiles for customers whose income is at the rather low to medium levels. The empirical research reviewed by Denduangboripan (1998), has also found that Toyota (Thailand) Co., Ltd, market leader, is interested in its own prices and its Japanese competitor's price. On the other hand, the price of other brands does not depend on its own price but will depend on the price of Japanese competitors.

(c) Integrated cost and differentiation strategy (the third priority)

Automobile manufacturers in Thailand with integrated cost leadership and differentiation of business strategy have a positive effect on the organization's financial and marketing performance. The findings of this research were consistent

with the findings of Dess *et al.* (2007), Ghemawat *et al.* (2001) and Hill and Jones (2004) which showed that there is a relationship between successful use of the integrated cost and differentiation of business strategy and above average ROI. More specifically, Priddle (2001), Smith (2001) and Dess *et al.* (2007) also found that Toyota Motor Co., in the USA adopted an integrated cost leadership and differentiation strategy to gain advantage over General Motors by providing more value to customers and establishing a lower cost structure with a broad range of prices, flexible manufacturing systems, information network, customer relationship, and total quality management.

The study of Thompson and Strickland (2003) also confirmed that Toyota Motor Co., has combined overall cost leadership and differentiation strategy by launching the Lexus model which has been positioned as premium quality luxury car at cost below other luxury car manufacturers, such as Mercedes Benz and BMW. Furthermore, Magee (2003) has revealed that Renault and Nissan adopt low cost leadership and different business strategies. The cost leadership has involved cost reduction of global logistics, manufacturing, and purchasing, while the differentiation has concentrated on new product worldwide with product quality, reliability, sale, and service quality.

(d) Examples of business strategies for automobile manufacturers in Thailand

In Thailand, many Japanese automobile manufacturers such as Toyota Motor (Thailand), Siam Nissan Automobile, Honda Motor (Thailand), and some US automobile manufacturers, Chevrolet (Thailand), Ford Sale and Service (Thailand) have adopted cost leadership, cost focus, integrated cost leadership, and differentiation of Porter's business strategy. In contrast, some European automobile manufacturers, such as BMW (Thailand), Mercedes Benz (Thailand) have implemented differentiation, differentiation focus, integrated cost leadership, and differentiation of Porter's business strategy. The mentioned business strategies are further illustrated as follows.

Japanese automobile manufacturer's business strategies

Most Japanese automobile manufacturers dominated the local auto market and gained about 90 percent of the local market share in 2005 (Office of Industrial Economics (OIE), 2006). Some examples are.

Toyota Motor (Thailand)

Toyota's business strategies have focused various car models in every market segment with the competitive price ranges, such as commercial car, passenger car, one ton pick up, multiple purpose vehicle, and mini van. The examples are given in Table III.

Honda Motor (Thailand)

The different business strategies have been adopted with the introduction of various car models, for example, Honda Jazz and Honda City for cost focus, Honda Civic, City Accord for cost leadership, and Honda CRV (sports utility), Odyssey (multi-purpose) for integrated cost and differentiation (www.honda.co.th).

US automobile manufacturer's business strategies

Chevrolet Sales (Thailand) Co., Ltd

Chevrolet business strategy has been concentrated on the cost leadership, cost focus, integrated cost and differentiation with various car models in Thailand, such as

Business strategies	Car model	Types	Market segments
<i>Passenger car</i>			
Cost focus	Yaris, Vios	Super mini/sub compact	University students, young executives, low to middle class income
Cost leadership	Corolla, ATIS, Wish	Compact/	White collar employees/lower-middle class income, small families
Integrated cost and differentiation	Camry, Innova	Compact/small	Middle class income families
<i>Commercial car</i>			
Integrated cost/ differentiation	Fortuner	Off road	Middle class
Cost focus	Hilux, Vigo	Pick up	Lower-middle class/suburban
Cost leadership	Hiace, Ventury	Full size minivan	Middle and above middle class income/large family

Table III.

Source: Available at: www.toyota.co.th

Chevrolet Avero, Chevrolet Optra Sedan, Chevrolet Optra Estate, Chevrolet Colorado, Chevrolet Lumina Chevrolet Captiva, and Chevrolet Bardge (one-ton pick-up). The cost of ownership concept has been adopted to maintain competitive price and to be more economical car (www.chevrolet.co.th).

European automobile manufacturer's business strategies

European automobile manufactures, such as BMW and Mercedes Benz, have implemented differentiation and differentiation/focus of business strategies to achieve high engineering performance (OIE, 2006) (Tables IV and V).

Managerial implications

This study contributes to both theoretical and practical implications. In Thailand, most global automobile manufactures and automobile importer from Europe such as BMW, Mercedes Benz, Volvo, Audi, Volkswagen, and Peugeot have mostly focused on luxury car with high-income people. They have adopted differentiation, differentiation focus, integrated cost and differentiation for theirs business strategies, representing only 9.5 percent of total industry demand in 2005, whereas the market share of Toyota,

Business strategies	Car model	Types	Market segments
Integrated cost and differentiation	BMW 1 series	Sport hatch	Young and middle executives
Differentiation	BMW 3 sedan	Compact	High-level executives/business owners
	BMW 5 sedan	Luxury/family	
Differentiation/focus	X3	Sport utility	Very high income/business owner
	Z4	Sport	
	BMW 7	Luxury/large family	
	M5	Sport	
	BMW	Coupe	

Table IV.
BMW (Thailand)Source: Available at: www.bmw.co.th

Isuzu, and Honda were 39.4, 25.1, 8.32 percent, respectively, representing 72.9 percent of total automobile industry demand (OIE, 2006).

Many Japanese automobile manufacturers have implemented cost leadership, cost focus, integrated cost leadership, and differentiation of business strategies to achieve higher market share for low to middle income groups. Nevertheless, Nissan, and Mitsubishi were able to achieve market share only 5.7 percent and 6.7 percent in 2005. Therefore, Europe and US automobile manufacturers, automobile importers, automobile parts should modify their business strategies to concentrate in cost leadership, cost focus, integrated cost leadership, and differentiation with various car models including passenger car, commercial car for various market segments at competitive price like Toyota's business strategy in order to gain more market share in Thailand and to enhance organizational performances.

For example, Mercedes Benz has currently launched A-class, B-class, C-class car models with lower price as integrated cost leadership and differentiation business strategies. Chevrolet Sales (Thailand) has also implemented cost leadership, cost focus of business strategies, integrated cost leadership and differentiation through launching various car models for compact car market to compete with Japanese automobile makers, such as Chevrolet Barge (one ton pick up), Chevrolet Avero (compact car). Nevertheless, the potential pitfalls for cost leadership and cost focus being implemented should be taken into account (Hill and Jones, 2004; Thompson and Strickland, 2003).

Cost leadership

- To avoid overly aggressively price cutting and ending up with lower rather than higher profit.
- The value of cost advantage is imitated easily by competitors.
- A lack of parity on differentiation incur if buyers begin to opt for enhanced quality, innovative performance features, faster services, and other different features.
- The current leader may have difficulty in shifting quickly to the new technologies or new value chain approaches because heavy investments lock it in (at temporarily) to its existing value chain approaches.

Cost focus

In Thailand, especially pick up cars' demand was the highest percentage at 38 percent of overall car demand in 2004 (Gottschalk and Kalmbach, 2007). This market segment

Business strategy	Car model	Type	Price (million baht)
Integrated cost and differentiation	A-class	Salon	2-3
	B-class	Salon	2-3
	C-class		2-3
Differentiation	E-class	Salon	3-5
	SLK-class	Roadster	3-5
Differentiation focus	E-Class	Saloon	5-7
	SLK-Class	Roadster	7-10

Table V.
Mercedes Benz
(Thailand)

Source: Available at: www.mercedes-benz.co.th

has mostly consisted of potential customers in rural province because the purchase power of the people has involved in agricultural sector has been better than white collar worker in urban areas due to increasing export earning from agricultural products. Toyota, the market leader, has focused more the Vigo pick up car on attractive exterior, interior design, and common rail-engine, while Isuzu, the second market leader, has concentrated on genuine common rail-engine and strong brand loyalty (Johri, 2000). However, these two leading automobile manufacturers should be aware of the fierce competition from their competitors, Mitsubishi, Nissan, Ford, Chevrolet because of the potential pitfalls of cost focus strategy being implemented (Hill and Jones, 2004; Thompson and Strickland, 2003). They are:

- The rivals are able to find the effective ways serving the target niche (i.e. more appealing product offering, developing capacity to offset the cost focuser's strength.
- The preference of niche customer and cost advantages can shift overtime toward the product attributes, desired by the majority of buyers.
- To become too focused to satisfy buyer needs.

In Thailand, the proportion of population in the middle income and lower middle income range are higher than the proportion of population in these ranges in developed countries, such USA and England. The culture of Thai people is different from people in the developed countries; therefore, Thai consumer behaviors are different from customer behaviors of developed countries. Hence, it is suggested that the cost leadership and cost focus of business strategies should be adopted by the automobile manufacturers in Thailand.

Conclusions

The study sought to analyze the impact that business strategies of automobile manufacturers in Thailand have on their organizational performance.

The CFA used of SEM analysis validated and generalized the research model and results. With respect to the SEM analysis, the linear structural modeling statistical package was used while the path analysis technique and path diagram were conducted.

The empirical findings of this study suggested that all the different business strategies and different functional strategies of automobile manufacturers in Thailand have a positive effect on the financial and marketing aspects of the organization's performance.

The three significant business strategies are: cost focus (the first priority), cost leadership (the second priority), and integrated cost and differentiation (the third priority). The strategies have also been prioritized in order of significance. These business strategies have been adopted by Japanese and US automobile manufacturers which account for about 90 percent of the total market share in Thailand. They represent such brands as Honda, Toyota, Ford, Nissan. On the other hand, to enhance their organizational performance, BMW (Thailand) and Mercedes Benz have used a differentiation focus with less significance and differentiation of business strategy. Moreover, all the priorities of functional strategies that have the positive effect on financial and marketing organizational performance were subsequently analyzed as follows:

- manufacturing (the most significant);
- human resource (the second most significant);

- marketing strategy (the third most significant); and
- the financial strategy (the least significant).

Furthermore, implications of the findings were provided for the management of automobile manufacturers and automobile part firms which they should implement to help improve their business strategies of cost focus, cost leadership, and integrated cost leadership strategies. In turn, all of these can lead to higher gains in their market share in Thailand and avoidance of potential pitfalls in implementing these strategies.

In terms of limitations, this study involved only 12 automobile manufacturers and excluded automobile part manufacturers as well as automobile dealers. Second, the research design was cross sectional, not longitudinal. As such, the causal relationships may not be inferred from the results. Third, the information used in this study was obtained from top management, while front line managers who are often involved in dealing with the actual strategies were not included.

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(The Appendices follow overleaf.)

Appendix 1. Reliability analysis

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Item-total statistics	Method 1 (space saver) will be used for this analysis			Alpha if item deleted
	Scale mean if item deleted	Scale variance if item deleted	Corrected item – total correlation	
<i>Reliability analysis – scale (alpha)</i>				
ROE	15.1746	23.1462	0.8625	0.9170
ROI	15.1119	22.9088	0.8772	0.9150
ROIC	15.0804	23.9609	0.8178	0.9228
EVA	15.1628	23.6707	0.8422	0.9197
MVA	15.0289	23.2390	0.8616	0.9171
Marketing performance	14.7240	27.5196	0.5932	0.9476
<i>Reliability coefficients</i>				
No. of cases	254.0			
No. of items	6			
Alpha	0.9358			
Cost leadership	12.2653	11.5058	0.4926	0.5888
Differentiate	10.4385	16.4164	0.1458	0.7149
Focus cost leadership	11.9925	10.5062	0.5788	0.5405
Focus differentiate	10.8243	14.8925	0.2412	0.6933
Cost and differentiate	11.5720	10.6289	0.6821	0.4919
<i>Reliability coefficients</i>				
No of cases	254.0			
No. of items	5			
Alpha	0.6724			

Table AI.
Reliability

Appendix 2

Variables	Factor loading ^a	SE	t	Square multiple correlation	Factor score coefficient
ROE	0.88 *	0.06	17.78	0.78	0.13
ROI	0.93 *	0.06	19.26	0.86	0.30
ROIC	0.84 *	0.06	16.53	0.71	0.10
EVA	0.89 *	0.06	17.78	0.79	0.22
MVA	0.90 *	0.06	18.26	0.80	0.15
Marketing	0.60 *	0.05	10.45	0.36	0.04

Table AII.
CFA for construct validity of organizational performance

Notes: * $p < 0.01$; ^astandardized solution shown; $\chi^2 = 13.12$; $df = 8$; $p = 0.12$; GFI = 0.98; AGFI = 0.96; SRMR = 0.015; RMSEA = 0.050

Variables	Factor loading ^a	SE	t	Square multiple correlation	Factor score coefficient
Cost leadership	0.80 **	0.08	14.78	0.65	0.32
Differentiate	0.25 **	0.08	3.06	0.06	0.24
Focus cost leadership	0.80 **	0.08	14.63	0.63	0.27
Differentiate focus	0.27 **	0.08	3.79	0.07	0.06
Integrated cost and differentiate	0.74 **	0.08	12.85	0.55	0.11

Table AIII.
Confirmatory analysis for construct validity of business strategies

Notes: * $p < 0.01$; ^astandardized solution shown; $\chi^2 = 0.66$; $df = 3$; $p = 0.88$; GFI = 1.00; AGFI = 0.99; SRMR = 0.008; RMSEA = 0.000

Appendix 3

Scale content	χ^2	df	P	GFI	AGFI	SRMR	RMSEA
Full five items	62.61	48	0.076	0.968	0.920	0.074	0.035
Squared multiple correlation for structural equations			Business strategy	Organizational performance			
R ²			0.015	0.311			
To	Business strategy			Organizational performance			
From	effect	effect	Indirectly effect	Total effect	Direct effect	Indirectly effect	
Functional strategy	0.12*	0.12*	-	0.47**	0.44**	0.03*	
Business strategy	-	-	-	0.29**	0.29**	-	

Notes: * $p < 0.05$, ** $p < 0.01$; γ , value represents effect between exogenous variable to endogenous variable; β , value represents effect between endogenous variable to endogenous variable

Table AIV.
Structural equation modeling (business, functional strategies and organizational performance; model fit statistics)

Talent variables	Business strategy	Organizational performance	Functional strategy
Business strategy	1.000		
Organizational performance	0.343	1.000	
Functional strategy	0.122	0.479	1.000

Table AV.
Correlation matrix of latent variables

Latent variable	Factor loading ^a	SE	t	Square multiple correlation
<i>Observed variables</i>				
<i>Organizational performance</i>				
ROE	0.984**	0.048	17.001	0.772
ROI	1.081**	0.049	18.281	0.861
ROIC	0.946**	0.050	15.603	0.705
EVA	1.013**	0.049	17.030	0.813
MVA	1.012**	0.050	16.940	0.788
Marketing	0.544**	0.040	11.169	0.337

Notes: * $p < 0.05$, ** $p < 0.01$; ^astandardized solution shown

Table AVI.
Factor loading of observed variables

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