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Extending the Competitive Marketing Strategy Paradigm: The Role of Strategic Reference Points Theory

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The purpose of this article is to extend and integrate the new strategic reference points theory (SRP), developed in the strategic management area, into the discipline of strategic marketing management. The major new tenets of the theory are the inclusion of cognitive, organizational processes and benchmarking simultaneously. First, the authors describe the impact of the marketing SRP on marketing strategic choice behavior captured in the tradeoff between risk and return (risk avert vs. risk lover) as was proposed by prospect theory. Then, they explore the performance consequences of integrating the newly formed stages while considering organizational process and implementation issues of reference points such as content, configuration, consensus, and change.

The relationship between marketing strategies and performance has been studied from numerous theoretical perspectives (e.g., transaction cost economics, Rindfleisch and Heide 1997; market orientation, Jaworski and Kohli 1993; and profit impact of marketing strategy [PIMS], Szymanski, Bharadwaj, and Varadarajan 1993). The focus on the *contents* of marketing strategies has been valuable in identifying performance-enhancing strategies. However, relatively few have examined the *strategy selection and implementation processes* and *cognitive* aspects that lead to selecting and executing one combination of strategies over another or the impact they have over performance.

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Notably, distinctive capabilities contribute to superior strategy selection and implementation and to sustainable competitive advantages. Capabilities are defined as "complex bundles of skills and accumulated knowledge, exercised through organizational processes, that enable firms to coordinate activities and make use of their assets" (Day 1994:38). In contrast, the contents of the marketing mix are easily imitated (Day 1990, 1994).

Both strategy selection and execution processes drive performance. Thus, while K-Mart knows about Wal-Mart's superior logistics strategy (content), it cannot imitate it because it is embedded in a complex management process (implementation). Bartmess and Cerny (1993) noted that it is well known that the best strategy in the computer workstation market is rapid product development and rollout (content). However, the highly successful Sun Microsystems competes by emphasizing the processes that link manufacturing and design, design and customers, and design and purchasing (implementation). Creating and managing such links are less susceptible to imitation. These examples highlight the importance of "complexity" and "organizational diffuseness" (Amit and Schoemaker 1993; Peteraf 1993). The more complex the process underlying superior strategies and the wider it cuts across functional groups, the more difficult it is to imitate (Bartmess and Cerny 1993). In sum, the implementation processes that support performance-enhancing strategies may be more important in explaining performance than the strategies themselves.

Therefore, our article provides an effort to fill the gap in the literature identified above. Our main emphasis is on aspects of the strategy implementation process rather than

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on the contents of strategies per se. Understanding the impact that these two issues (content versus process and measurement of performance) have in the broader context of the strategy-performance relationship provides the background for our article.

The theory of strategic reference points (SRP) provides structure to our discussion. SRP is defined as a three-dimensional construct that describes the set of all available reference points used by firms. While any referential dimension that is important for organizational success can be called an SRP, we categorize SRP along three dimensions: internal, external, and temporal. The competitive space created by these dimensions defines the SRP. SRP used by firms has an impact on the level of risky decisions they make. Specifically, research that ignores SRP theory assumes that firms will choose a risky strategy according to the level of expected return associated with the level of risk—the higher the risk, the higher the expected return—known as risk averse behavior. In contrast, SRP theory argues that individuals use SRP when evaluating choices; acceptable risk will depend on their perception as being below or above their SRP (Kahneman and Tversky 1979). Firms above their SRP will indeed be risk averse. However, firms below their SRP (e.g., when performance falls short of expectations) will be risk loving; such firms will prefer riskier projects with lower expected return (Fiegenbaum 1990; Fiegenbaum and Thomas 1988). "By signaling organizational priorities and overall direction, top managers focus the attention of organizational members on particular goals and objectives; in doing so, they define the *strategic reference point* for the firm" (Fiegenbaum, Hart, and Schendel 1996:220). As will be shown, SRP in use by firms and managers may affect the choice and implementation of marketing strategies and performance measures. Thus, SRP may also affect the relationship between strategies and performance.

Furthermore, previous research has examined some SRP in isolation. For example, Day and Nedungadi (1994) studied the environment as a determinant of managerial representations of competitive advantage. They documented that the salience of competitors or customers in firms' environments affects managerial representations of such advantage. Similarly, Lee and Mowen (1998) viewed managerial education as a determinant of managerial frames of reference. To the best of our knowledge, our article provides the first integrative approach to studying multiple, simultaneously determined SRP in marketing.

The article begins by reviewing SRP theory. A theoretical section is developed to explore two perspectives related to SRP theory in the context of marketing strategy. First, we generate propositions about marketing strategic choices—will marketing strategies be risk loving or risk averting? Second, we explore the performance consequences of SRP.

SRP THEORY: A REVIEW

Many firms monitor products and practices of leading competitors—industry leaders. Such measures are typical of benchmarking—a continuous search for better ways to produce and market products (Watson 1993). Thus, Ford used Saab's seat design to improve its own (Kotler 1997), whereas Xerox used Canon's copiers to improve its own (Dumaine 1988).

Benchmarking can be traced to Taylorism's emphasis on comparing work processes of a firm to those of other firms (Watson 1993). It has been applied mostly to production and design (Grupp 1990; Grupp and Hohmeyer 1986, 1988; Grupp, Koschatzky, Frenkel, and Maital 1991; Watson 1993). However, it can be used to compare firms to standards set by leading competitors in other strategic domains (e.g., distribution, service, or advertising). The use of benchmarks is central to institutional theory, which argues that few firms usually serve as imitation models for other firms (Meyer and Rowan 1977).

Parallel to the development of benchmarking, prospect theory (Kahneman and Tversky 1979) demonstrated that individuals and firms tend to use SRP when selecting strategies. Decision making depends on whether managers perceive themselves and their firms as above or below some given SRP (Fiegenbaum and Thomas 1988). Firms will avoid or seek risks depending on whether decision makers perceive their firms as operating in the domain of gains or losses, respectively. When decisions are made at a point that is lower than managers' SRP, they will seek risks. Arguably, even declining firms may be risk averse because they do not wish to go under completely. Such firms frame their position as being above the bankruptcy SRP. However, in general, firms' operation in above- or below-SRP domains is a major determinant of their risk-taking behavior. Thus, decision makers use managerial- and organizational-level SRP in evaluating risky choices (Fiegenbaum 1990; Fiegenbaum and Thomas 1988).

Fiegenbaum et al. (1996) developed SRP based on multiple theoretical perspectives (Table 1). They suggested three SRP subdimensions: temporal (past, present, and future), internal (means and ends), and external (customers, stakeholders, and competitors). These subdimensions form a multidimensional SRP construct (Figure 1). The three SRP subdimensions represent a menu of simultaneously determined multiple reference points. Fiegenbaum et al. claimed that some managers evaluate their firms' position based on all subdimensions. Stated differently, a firm can use a number of SRP. For example, sales growth from a previous to the next year target implies a simultaneous consideration of the time and internal subdimensions. Figure 1 may help explain why managers select different strategies and performance criteria under seemingly similar circumstances. Such differences are based on a focus

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TABLE 1
Major Strategic Reference Points—Relevant Theories, Dimensions, and Selected References

Theory	*Selected References*	*Organizational Referential Dimension*	*Major Arguments for Organizational Success*
Resource-based theory	Barney (1991)	Internal	Sustainable advantage can be created by finding unique ways to combine difficult-to-imitate resources.
Motivation theory	Latham and Yukl (1975)	Internal	Organizational efficiency and effectiveness can be achieved by finding the best ways to motivate individuals and teams.
Industrial organization economics	Porter (1980)	External	Success is mainly based on industrial characteristics (e.g., seller concentration, demand growth rate, and entry barriers).
Game theory	Tirole (1989)	External	Success depends on the position of sellers relative to competitors.
Population ecology	Hannan and Freeman (1984)	Time	Past dependence is the essential determinant of future strategic behavior.
Strategic intent	Hamel and Prahalad (1989)	Time	Future superb intentions and the ability to execute them are the essential drivers of success.

on different SRP in decision making or on differing perceptions about the firms' loci relative to such SRP. For example, an increase in sales may be below target for one firm and above it for another. The former will be below its SRP and tend to select risky strategies. Conversely, the latter firm will be above its SRP, leading it to select risk-averse strategies.

Below, we discuss the role of SRP theory in explaining marketing strategy and performance criteria selection. This is followed by a section discussing the potential impact of SRP on the relationships between marketing strategy and performance.

A MARKETING SRP MATRIX

Previous Use of SRP

SRP theory is based on elements that are shared with standard strategic analyses (e.g., organizational strengths, weaknesses, opportunities, threats, structures, processes, and environmental constraints). We focus our discussion on elements commonly found in analyses of marketing activities. These include distinctive firm capabilities and assets and their use to create positions of advantage (Amit and Schoemaker 1993; Day 1994; Peteraf 1993). Our objective is to illustrate that the three subdimensions have been used (mostly implicitly) in previous research. Additionally, previous research has tended to focus on specific elements of SRP. As will be shown, using the complete framework has advantages by providing a more integrated view of managerial decision-making processes.

Most analyses of marketing strategy use two components: means and ends. Means are processes designed to transform inputs (skills and resources) into desired outcomes. Superior skills and resources, combined with high-quality tactics, programs, and implementation systems, determine positional advantage (Day and Wensley 1988). Day and Nedungadi (1994) use competitive advantages (market driven; customer, self, and competitor centered) as determinants (means) of superior performance. Ends are desired firm outcomes. Day and Wensley (1988) discuss four performance outcomes (satisfaction, loyalty, market share, and relative profits); Day and Nedungadi use relative profitability; and Walker and Ruekert (1987) define performance in terms of adaptability (new product success), effectiveness (increase in market share), and efficiency (return on investment). Irrespective of how means and ends are conceptualized, they are important to studies of the strategy-performance link.

Ends are typically studied in terms of firm performance, whereas means are studied in terms of marketing strategies. However, we do not suggest that all stakeholders necessarily agree on means or ends. Potential conflicts between stakeholders can arise from internal and external goals. For example, investors may emphasize share value as a performance outcome. Managers may emphasize financial outcomes, which usually have little relevance to most low-level employees (Day 1990). Conflicts can also arise internally. For example, Jaworski and Kohli (1993) suggest that interdepartmental conflict over organizational action may inhibit communication across departments (Narver and Slater 1990; Slater and Narver 1995). Furthermore, time horizons can differ within a firm—some departments may emphasize long-term growth, while others may emphasize short-term profits.

In sum, a conceptualization of a marketing SRP can only be complete if all subdimensions are considered. The matrix should provide a perspective such that means and ends of the marketing system (the internal subdimension) will be studied from the perspective of numerous external stakeholders (the external subdimension) in relation to different time horizons (the temporal subdimension). Table 2 provides examples of previous studies that have used the SRP subdimensions. It highlights the mostly implicit nature in which SRP have been used. Previously used means have centered on the marketing mix; systems have included issues such as the three components of a market

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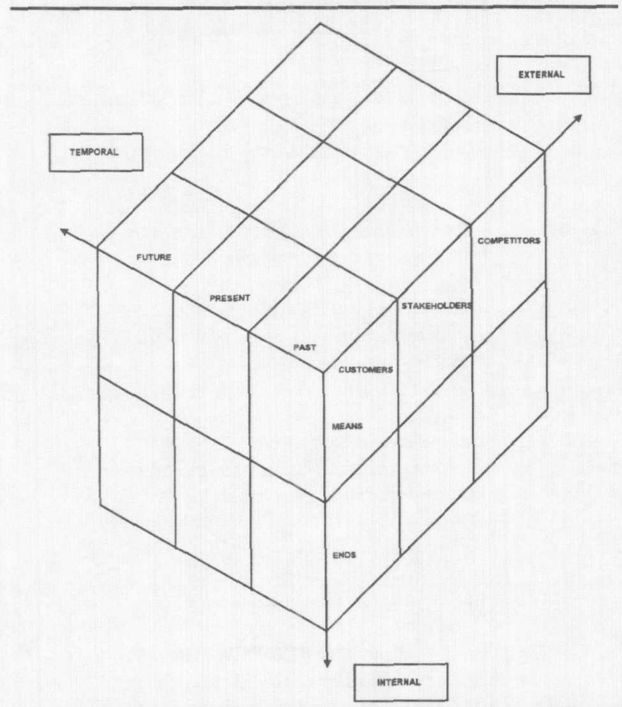
FIGURE 1
The Strategic Reference Points Matrix



SOURCE: Adapted from Fiegenbaum, Hart, and Schendel, 1996.

orientation, and commonly used processes have included centralization and formalization of decision making. Three commonly identified ends include profitability, marketing productivity, and team spirit. The three most important external SRP have been customers, competitors, and society. Finally, in many cases, previous research has examined temporal issues, such as changes in market share, learning over time, and performance expectations/outcomes congruence.

Illustrative Examples

The following examples highlight the issues discussed in this article. Russo and Schoemaker (1989) compared American and Japanese carmakers in the late 1970s. American carmakers focused on improving manufacturing efficiency (ends). For this purpose, they accepted die changeover time as given and concentrated on improving efficiency through long production runs (means). In contrast, Japanese carmakers framed the efficiency improvement problem through a total system perspective and concentrated on improving efficiency by examining all facets of production. This multifaceted approach to achieve a desired end included a reduction in changeover time. Shorter changeover time affected positively other means (smaller inventories, higher line utilization, wider product lines, and faster response to customer needs). In short, the Japanese were more successful than their U.S. counterparts by using multiple facets of the means SRP subdimension.

A second example is provided by the market failure of the NeXT computer (Kotler 1997). The NeXT computer was attractive and user friendly but failed nonetheless. The main reason for this failure was that these attributes were less important to the original target market—academics. Such users could not afford the hefty price tag. NeXT was then targeted at engineers. However, the computer failed to deliver on two attributes important to this segment: IBM compatibility and software availability. In sum, NeXT failed to sufficiently address customer needs, an important facet of the external SRP subdimension.

Below, each SRP subdimension is discussed in isolation for exposition purposes. This is followed by a section explaining how the three subdimensions and their facets are used in combination. It provides a behind-the-scenes look at the black box of managerial decision-making process. Additionally, we illustrate the potential of SRP to affect findings in previous research that used the strategy-conduct-performance paradigm.

The Internal Subdimension

Ends and means are important components of the marketing audit in most firms. Means provide managers with tools to achieve desired ends efficiently and effectively. Performance can be defined based on means (e.g., new product development processes) or desirable ends (e.g., shortened new product development cycle). In some cases, means and ends are used in one framework. For example, Bonoma and Clark (1988) discuss marketing productivity analysis, which assesses firm sales or profits per one marketing effort unit.

Marketing means are commonly categorized along the 4Ps. They can be ordered on an external/internal emphasis continuum (Day 1994). Market sensing and channel bonding are examples of external emphases; integrated logistics and human resource management exemplify internal emphases; and pricing, services, and new product development capture the middle ground as they share both external and internal emphases (Day 1994). Each capability can be used to set performance targets spanning either means (e.g., adoption of a new channel bonding philosophy) or ends (e.g., lower channel conflict). Specific marketing capabilities can serve as internal, means-based reference points. For example, if a firm emphasizes market sensing (Day 1994) or a market orientation (Kohli and Jaworski 1990), it is likely to focus on recruitment and training of boundary personnel (e.g., salespeople).

The marketing audit assesses means and performance. During an audit, the firm examines its segmentation, targeting, and positioning strategies (means); systems (e.g.,

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TABLE 2
Previous Use of Strategic Reference Points Subdimensions

Emphasis	*Contents*	*Illustrative Papers*	*Illustrative Findings*
Internal: Means			
Strategies	4Ps	Szymanski, Bharadwaj, and Varadarajan (1993)	Service/product quality and line breadth enhance profitability
Systems	Intelligence generation, dissemination, and responsiveness	Jaworski and Kohli (1993)	Market orientation enhances performance
Processes	Centralization and formalization	Jaworski and Kohli (1993)	Centralization reduces market orientation
Internal: Ends			
	Profitability	Day (1990)	Distinctive capabilities drive performance
	Marketing productivity	Hawkins, Best, and Lillis (1987)	Lower marketing costs and higher outputs drive productivity
	Esprit de corps	Jaworski and Kohli (1993)	Market orientation drives esprit de corps
External			
Customers	Customer emphasis	Kotler (1997)	Basis of marketing concept
	Customer outcomes	Day (1994); Day and Wensley (1988)	Customer satisfaction as a desirable outcome
Competitor	Competitive arena	Porter (1980)	Competitors define the arena
	Competitor orientation	Narver and Slater (1990)	Competitor orientation as a determinant of market orientation
	Benchmarking	Watson (1993)	Benchmarking against best practices
Societal	Societal emphasis	Kotler (1997)	Basis of societal marketing concept
Temporal			
Past, present, future	Relative market share	Kotler (1997)	Basis of changes on BCG/DPM matrix
	Accumulated knowledge	Day (1994)	Basis for distinctive capabilities
	Congruity	Bonoma and Clark (1988)	Performance expectations/outcomes

sales forecasting; means); and outcomes (ends). Managers tend to focus on measured performance areas (Tsui 1984; Tsui and Gomez-Mejia 1988) because they serve as a directional and motivational force (Bamberger and Fiegenbaum 1996). Due to their impact on managerial decision making, internal SRP can affect the selection of marketing strategies.

Ends-based goals can affect the choice of strategies. For example, profitability (ends) is an outcome of multiple strategies (means) (Szymanski et al. 1993). Walker and Ruekert (1987) recognized the explicit relationship between strategy (means) and goals (outcomes) and identified a distinct set of strategies for each firm archetype. Such strategies should be useful in enhancing archetype performance. Similarly, Day (1990) modeled performance outcomes of distinctive capabilities, which include marketing (e.g., new product development) and nonmarketing (e.g., human resources management) strategies. Marketing costs measure marketing inputs and can be used to measure marketing productivity; reducing such costs (and increasing marketing outputs) can improve marketing productivity (Hawkins, Best, and Lillis 1987). Thus, marketing outputs provide a complementary approach to measuring marketing ends internally. These approaches affect the choice of performance measures *and* marketing strategies. If a firm emphasizes costs, it may use cost-cutting strategies (e.g., a reduced sales force); if it emphasizes outputs, it may use share-enhancing strategies (e.g., reduced prices).

The External Subdimension

The external subdimension is important because external stakeholders can have an impact on multiple facets of a firm's operations. These stakeholders constitute the environmental background within which firms operate. Thus, environmental scanning is an important factor to consider during the marketing audit. External stakeholders may affect the choice of marketing strategies and performance criteria. Fiegenbaum et al. (1996) categorize outsiders into three groups: customers, stakeholders, and competitors.

Marketing personnel have close and frequent contacts with *customers*. Thus, the choice of marketing strategies has important implications for the interaction between the firm and its customers. The marketing concept holds that the key to achieving organizational goals is in identifying and satisfying customers' needs better than competitors do. Similarly, responding to customer needs is a defining activity of market orientation (Kohli and Jaworski 1990). Customers may also affect the way in which marketing performance is measured. Day and Wensley (1988) used customer satisfaction and customer loyalty as customer-based performance measures. They suggested that both require customer input because neither can be inferred from historical data on sales, market share, or profitability.

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Stakeholders include governments, investors, and other external interest groups (e.g., labor organizations). Firms heed the requirements of such stakeholders for two reasons. First, they want to be good citizens. The newer approach to defining marketing orientation (societal marketing orientation) addresses such concerns explicitly. Second, firms need to comply with laws and may suffer legal consequences otherwise. For example, a firm may set a high market share goal. If the resulting market share is too high, the firm may be designated a monopoly with regulatory limitations on strategy setting (e.g., maximum prices).

Competitors define the arenas in which firms operate (Porter 1980). Thus, sources of advantage are defined in terms of superior skills and resources relative to competitors' (Day and Wensley 1988). Similarly, competitor orientation is a component of market orientation (Narver and Slater 1990). An emphasis on competitors can affect the choice of strategies. Many firms monitor products and practices of leading competitors in a continuous search for better ways to produce and market (Watson 1993). Competitors also influence the choice of marketing output measures (ends). For example, the market share theorem considers the marketing efforts of all competitors (Bell, Keenye, and Little 1975).

The Temporal Subdimension

Time affects many marketing decisions for strategy setting (means) and measurement of performance (ends). On the strategy-setting side, time enters many elements of the marketing audit. For example, the macro-environment part of the audit requires firms to evaluate temporal changes in demographic, economic, ecological, and cultural environments (Kotler 1997). Additionally, organizational capabilities (Day 1994) form bundles of skills and accumulated knowledge. If a firm wishes to use its distinctive capabilities for setting strategy, it needs to build on time-honed experiences. Time also affects measurement of performance when data from consecutive years are used. Such data are useful to identify time trends and to assess whether changes in strategy are necessary. Bonoma and Clark's (1988) marketing performance construct also includes a temporal facet. Managerial satisfaction is based on congruity between expectations (formed in the past) and results (formed at the present time).

Using only past-based SRP can be detrimental to performance. Learning from the past is useful during evolution but not during revolution (Hannan and Freeman 1984). Past-based decision making assumes that the conditions underlying past strategy-performance relationships will hold in the future. If the competitive arena undergoes revolutionary changes, this assumption is violated, leading to ineffective strategies (Hannan and Freeman 1977). This problem has severe consequences because managers tend to react to poor performance by emphasizing the strategies that led to the disappointing results in the first place (Senge 1990). Day (1994) argues that market-driven firms should be involved in open-minded inquiry, which requires firms to monitor markets to identify departures from what is normal. Firms should also continuously tinker with established practices and incorporate what they find into future plans. In sum, there is a need to emphasize the past, present, and future in determining strategies and selecting performance criteria.

Combining the Three SRP Subdimensions

In this section, we address how managers may combine the three SRP subdimensions. We examine how they are used by managers simultaneously, in terms of how they are weighed, and in terms of partial information processing. Arguably, commonly used discounted cash flow analyses (e.g., net present value) force managers to consider the joint impact of the three subdimensions in decision-making situations. Thus, an investment decision (internal means) will require an analysis of expected sales (internal, future-based outcomes) under different strategic scenarios (internal means) in the face of competitive and societal (external) reaction. However, even in such situations, managers may use limited decision making due to the large number of possible scenarios that can affect outcomes (e.g., multiple competitors, high uncertainty about their reaction, uncertain demand).

Managers may use a subset of the SRP subdimensions due to bounded rationality. March and Simon (1958) pointed out three difficulties associated with the "economic man" model of complete rationality. First, not all action alternatives are known. Second, not all consequences of action alternatives are known with certainty. Third, the rational man does not necessarily have complete utility-ordering rules for these consequences. They argued that because of the limits of intellectual capacity, rational behavior requires managers to use simplified models that capture the main features of a problem without capturing all its complexities. Similarly, Thompson (1967) noted that decision complexity requires firms to limit the way in which these decisions are analyzed.

The same assumption underlies transaction cost theory, which is based on arguments about opportunism, bounded rationality, asset-specificity, and small-numbers bargaining (Williamson 1985, 1996). Bounded rationality is a cognitive assumption on which transaction cost economics are based (Williamson 1985). Processes based on bounded rationality result in the use of limited subsets of choices and consequences (e.g., the use of decision heuristics in general and specific problems) (Heimer 1983; Simon 1978).

Increasing market interdependencies force managers to consider a large number of internal, external, and temporal

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factors (Porter 1980). Consequently, managers may engage in limited SRP-based decision-making processes. For example, in international marketing, market selection models exist, but managers do not seem to follow them systematically (Cavusgil 1985). Thus, based on bounded rationality theory and the empirical evidence supporting it, we expect decision-making processes to involve subsets of the dimensions and facets of SRP. We provide a short discussion on decision rules below.

Decision Rules

Studies of limited decision-making processes recognize that, in many cases, managers satisfice rather than maximize (Simon 1978). Consequently, rather than using a complete compensatory decision rule, managers tend to use simpler decision rules. In the *consumer* decision-making literature, Helgeson and Ursic (1993) documented that when decision complexity increases, people rely on simple decision strategies, such as the use of a single attribute, which is the basis of lexicographic decision rules. They attributed this tendency to a desire to simplify the task. A different approach to simplification is based on an elimination-by-aspects decision rule. Under such an approach, options are eliminated based on minimum cutoff levels on attributes by descending order of importance. Similar simplification rules have been observed by Onken, Hastie, and Revelle (1985).

Simplification rules also have been observed in *managerial* decision making. Payne (1976) suggested that simple decision making is a useful simplification mechanism. Decision rules for SRP-based situations fall under "task effects" (Payne 1982). The number of alternatives (subdimensions, in our case) and the number of attributes (facets of each subdimension, in our case) is large, making the decision process complex. Etzioni (1989) argued that the increasing amount of information available to organizational decision makers makes the rationalism-based decision-making mode irrelevant. In contrast, he suggested an alternative mode of "humble" decision making. Under this approach, managers concentrate on a limited number of facts and choices.

In sum, we expect managers to use subsets of the SRP subdimensions and facets. The order in which these are evaluated will depend on their importance to any given firm. For example, the most important organizational subsystems for defenders are production and finance (Miles and Snow 1978). Both are required to solve the major administrative problem of defenders: maintaining control to ensure organizational efficiency. In such firms, SRP in use would focus on production efficiency (a combination of production-based means and ends). Other SRP would be assigned less importance or will be disregarded.

SRP Theory's Potential to Affect the Classical Strategy Paradigm

In this section, we illustrate the potential of SRP to provide additional insights to studies that have used the classical, strategy-conduct-performance paradigm. For this purpose, we use Jaworski and Kohli's (1993) market orientation article. Briefly, their model included links from managerial and firm characteristics and strategies (e.g., formalization and centralization) to firm conduct (market orientation) to firm performance.

SRP can potentially enhance this model in two ways. First, top management risk aversion is a determinant of a market orientation (Jaworski and Kohli 1993). However, why are managers risk averse in the first place? They viewed risk aversion as an organizational rather than a personal trait. SRP theory could be useful in understanding why managers in one firm are more or less risk averse than in another firm. Such an understanding may affect the impact that risk aversion has on a market orientation. For example, managers in a firm that is above its SRP would tend to be risk averse and de-emphasize responsiveness (one of the three components of a market orientation). However, risk aversion could be due to the firm being above any of the three SRP subdimensions, leading to differential effects on a market orientation. The firm may be above its SRP on production efficiency (internal SRP), leading its managers to de-emphasize production-related innovations, which may or may not be related to responsiveness. Alternatively, the firm may be above its competitors on customer satisfaction (external SRP). In this case, its managers may de-emphasize customer responsiveness, as was found by Jaworski and Kohli (1993).

Second, Jaworski and Kohli (1993) used risk aversion as a determinant of a market orientation. Other determinants include organizational systems, such as formalization and centralization. Managers of a firm above its SRP will tend to engage in centralized and formalized decision-making processes. Risk aversion, centralization, and formalization would be determined simultaneously and will not be independent.

Such insights are made possible when the "black box" of managerial cognition is opened through SRP-based explanations. Such a behind-the-scenes look at managerial cognition makes SRP theory an important addition to the existing paradigm.

THEORY DEVELOPMENT AND PROPOSITIONS: EXTENDING THE MARKETING STRATEGY PARADIGM

The right-hand side of Figure 2 describes the classical strategy paradigm. Notably, SRP can be used for additional purposes. For example, SRP can redirect a firm to

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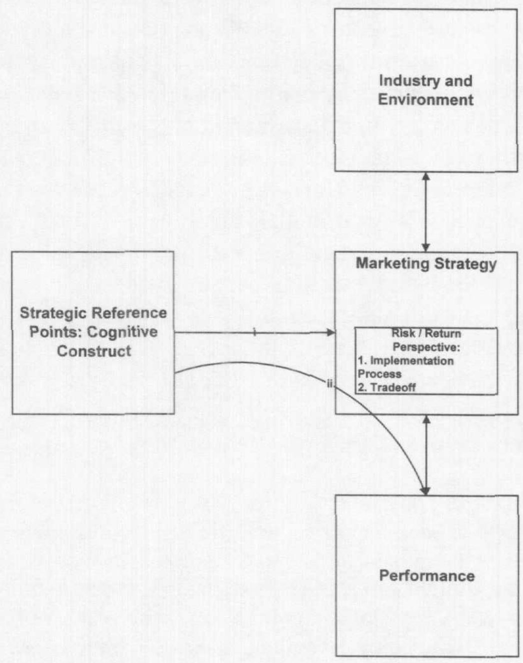
new destinations that will provide new strategic intents (Hamel and Prahalad 1989). Thus, not all SRP outcomes operate through risk perception as a moderator or a mediator. However, for simplicity of presentation, Figure 2 highlights the importance of risk and excludes other possible routes from SRP to their outcomes. The competitive arena is divided into subarenas: the environment/industry, strategy, and performance. The role of the marketing manager is to find the best fit of marketing strategies that will align with changes in the industry to maximize performance. Since it is well documented (Henderson and Mitchell 1997; Porter 1980), we do not discuss it in detail here. However, the theory argues that the existence of cognitive SRP affects the choice of marketing strategy, formulated in terms of marketing strategies' risk/return tradeoff (line i). The interaction between SRP and strategy (through the implementation process) affects firms' performance (curve ii). In sum, the extended paradigm includes cognitive *and* process aspects in addition to the economic/rational perspectives of the existing paradigm.

FIGURE 2
An Extended Marketing Strategy Paradigm With the Strategic Reference Points Matrix



The Impact of SRP on Marketing Strategies

The position of the firm relative to its SRP should be related to a number of cognitive organizational processes and behavioral characteristics. Jackson and Dutton (1988) demonstrated that issues categorized as threats imply a negative situation in which a loss is likely, whereas issues categorized as opportunities imply a positive situation in which a gain is likely. The former is expected for firms above their SRP and the latter for firms below them. Thus, firms above their SRP will tend to see new issues as threats; those below will see them as opportunities. These observations suggest decision-making *tendencies*—not all firms will behave similarly under seemingly equivalent conditions. For example, the organizational slack literature argues that firms with excess resources are more likely to invest. The existence of such resources may suggest that a firm can be above its SRP and still be risk taking. However, even slack resources can be below expectations, leading a firm to be below its SRP. The impact of such resources on SRP should be resolved in future research. Finally, a firm may be above some SRP (e.g., higher than expected sales) and below others (e.g., lower than expected profits). Our discussion focuses on scenarios in which the firm is above its vector of salient SRP. We address other scenarios in the Future Research section.

Staw, Sanderlands, and Dutton (1981) and Dutton and Jackson (1987) proposed links between issue categorization and organizational processes. They hypothesized that when facing a threat (above the SRP), decision makers will constrict information flow, become rigid by applying only tested repertoires, and engage in centralized decision making. In contrast, decision makers facing an opportunity (below the SRP) will tend to be open to new information, flexible, and willing to try new repertoires and to decentralize decision making.

Finally, behavior should be risk averse (conservative and defensive) when a firm is above its SRP and risk seeking (daring and offensive) when below them. Decision makers' attitudes toward risk are based on their framing of the situation. Risk-taking decision makers are dissatisfied with their current situation, seeing themselves as below where they would like to be. Conversely, risk-averse managers are satisfied with their situation. An industry leader, for example, should be less inclined to take risks if decision makers see a particular action as potentially harming the firm's position of advantage. Thus, conservative behavior is expected when firms have met or exceeded their goals, whereas risk taking is anticipated in cases in which firms are below their target (Fiegenbaum and Thomas, 1988).

Similar issues have been examined in consumer behavior and marketing management. Meyer and Johnson (1995) discussed models of consumer choice and suggested that attribute valuations are nonlinear, reference-point-dependent functions of objective product attributes. They summarize as follows: "The major locus of context effects in attribute valuations has been the idea of a single perceptual parameter, termed a *reference point*. . . . Evidence

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comes from a number of different domains and paradigms" (p. G182).

Similar effects have been observed in marketing management studies. In the context of industrial buying decisions, Qualls and Puto (1989) proposed that work environment, reward orientation, and risk attitudes affect buyers' initial reference point. This reference point provides a decision frame and, subsequently, affects choice. Contrary to expectations, risk attitudes did not affect the initial reference point. However, as expected, the work environment and reward orientation had an impact on the initial reference point. Additionally, the initial reference point had the hypothesized impact on the decision frame. Qualls and Puto summarized, "Our study confirms the decision-framing process of prospect theory in which industrial buyers view decision outcomes above the reference point as gains and decision outcomes below the reference point as losses" (p. 191). In sum,

Proposition 1a: Marketing managers who perceive their firm to be above its salient SRP will perceive new issues as threats, engage in formalized and centralized decision making, and behave in a risk averse manner.

Proposition 1b: Marketing managers who perceive their firm to be below its salient SRP will perceive new issues as opportunities, engage in nonformalized and decentralized decision making, and behave in a risk-seeking manner.

SRP, Marketing Strategies, and Performance

This section deals with the impact of SRP on firm performance. Four SRP characteristics are expected to affect firm performance: content, configuration, change, and consensus (Fiegenbaum et al. 1996). Propositions for each are developed below.

Content. Since strategic choice is expected to vary depending on whether the firm sees itself as above or below its SRP, the content of the reference points is of critical strategic concern. Top managers play a central role in managing organizational attention through the articulation of their firms' vision and mission (Bennis and Nanus 1985; Hart 1992; Quinn 1978; Westley and Mintzberg 1989). Therefore, by choosing carefully which dimensions of SRP to emphasize, marketing managers could influence the framing of issues in a way that motivates organizational members and focuses their actions. Thus, a firm's performance should be directly influenced by its choice of SRP.

SRP subdimensions capture the basic structure of the marketing vision and mission. However, given the complexity of the structure, great variation should be observed with respect to the actual configurations of SRP adopted by marketing managers. Some firms might be primarily internally oriented, emphasizing internal SRP to the virtual exclusion of external ones. Others might be primarily externally oriented, focusing primarily on competitors or customers while downplaying the importance of marketing inputs or outputs. In addition, some firms may be preoccupied with the past, basing important decisions on history or tradition, while others are concerned more with the future trajectory of the firm.

Each element of SRP may be correlated with particular facets of performance. A focus on competitors might result in market-share gains, a strong customer focus might result in higher product quality or in market-share gains, and a concern with stakeholder issues should be associated with strong social and environmental performance. Similarly, an internal emphasis on costs and production might be related to profitability, whereas an emphasis on speed of product development might be related with growth. Finally, a mission orientation might produce an emphasis on future positioning, whereas preoccupation with the firm's past successes might translate into a focus on greater efficiency and profitability.

Effective management requires a balancing and simultaneous mastery of seemingly contradictory capabilities. Such capabilities include a broad vision, attention to detail, external and internal foci, and an emphasis on flexibility and stability (Bourgeois and Eisenhardt 1988; Mitroff 1983; Quinn 1988; Quinn and Cameron 1988; Torbert 1987). Applying this logic to SRP, effective firms would evidence SRP that emphasize all three subdimensions and eight facets simultaneously. Through these 18 ($3 \times 3 \times 2$) combinations of SRP and facets, marketing managers can help direct the attention of organizational members to multiple concerns. Such firms should possess a superior understanding of the situation, thereby facilitating performance on several dimensions and facets.

As noted earlier, managers tend to be partial information processors and use heuristics, allowing decision makers to satisfice rather than optimize. For this reason, firms whose managers consider a wider set of SRP combinations should enjoy superior performance:

Proposition 2: The larger the number of SRP subdimensions and facets used by marketing managers, the higher their firm's performance.

Configuration. It is also important to examine the configuration of the firm's SRP—the relationships among the different subdimensions and facets. Contingency (Lawrence and Lorsch, 1969; Thompson, 1967) and management (Galbraith and Kazanjian, 1986; Miles and Snow, 1978; Peters and Waterman, 1982) theorists have emphasized the importance of fit between firm strategy, structure, technology, systems, processes, and environment.

Applying this logic to SRP, marketing departments that emphasize multiple SRP and demonstrate internal consistency among them should be most effective. For example, when a marketing department identifies an industry leader

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as its primary external SRP, its targets for inputs and outputs should be directed to overtaking that rival. If the rival has strong technological and distribution capability, an internal SRP targeted at cost reduction and efficiency introduces inconsistency and tensions to the firm. Even when a long-term mission far beyond current capabilities has been adopted, the associated internal and external SRP should be identifiably connected to and consistent with this mission. SRP should be mutually reinforcing on the critical path to the ultimate goal. In such cases, the demands placed on the marketing department for improvement, change, and performance by SRP will align, producing a mission and vision with integrity. In contrast, when marketers perceive conflicting targets, the effectiveness of SRP will be reduced. Thus,

Proposition 3: The more internally consistent and mutually reinforcing the multidimensional SRP in use, the more effective the marketing department.

Change. It is essential to consider the dynamic aspects of SRP. While the structure of SRP should be internally consistent and mutually reinforcing at any point in time, this is not to suggest that SRP should remain static. The literature on strategic change suggests that organizations pass through periods of relative stability and equilibrium punctuated with episodes of revolution. Such episodes are characterized by disequilibrium and divergence from the status quo (Greiner 1972; Miller and Friesen 1980; Romanelli and Tushman 1986). The concept of dynamic fit (Itami 1987) asserts that creating order and chaos is an important role for top management. Management must strive to send consistent messages and align organizational strategies, systems, and processes to achieve high performance. However, management must never allow the organization to settle into complacency. As soon as balance and alignment have been achieved, they must be reevaluated. The firm must be challenged to acquire new competencies so that it might be positioned for the future. Thus, SRP should continually evolve and change, suggesting the following:

Proposition 4: Continuously altering or revising SRP in use to focus on new market challenges will lead to more effective marketing departments than otherwise.

Consensus. Consensus relates to perceptions about SRP within the organization. The literature on top management teams indicates that top management consensus affects firm performance (Dess 1987; Hrebiniak and Snow 1982). The nature of the relationship depends on the environment and the strategy-making process used (Wooldridge and Floyd 1989). Agreement across organizational levels concerning these issues is an important predictor of firm performance (Hart 1991, 1992; Yeung 1990). The corporate culture literature has long asserted the importance of shared values and understanding to organizational effectiveness (Pascale 1985; Peters 1987; Weick 1987). Thus, while the CEO and top management team may have a clear concept of the firm's SRP, marketing managers may not share the same perception. Marketers may interpret the signals sent by top managers differently than intended, resulting in perceived SRP that diverge from those intended (Weick 1979). When marketing managers do not share the same SRP perceptions, issues will be framed and decisions made in ways that run counter to those desired. A lack of consensus concerning the firm's SRP would have negative consequences for strategic behavior and performance. Thus,

Proposition 5: The higher the agreement between marketing and other managers about the firm's SRP, the higher the effectiveness of the marketing department.

DIRECTIONS FOR FUTURE RESEARCH

We now turn to an analysis of the theory's implications for future research. We first analyze an example of the potential inaccuracies resulting from not accounting for SRP explicitly in studies of international marketing performance. Then, we provide guidelines for possible extensions of our model. We conclude with a call for empirical research on SRP.

Earlier, we discussed internal measures of performance, such as profitability (Szymanski et al. 1993), expected sales, market share, relative realized price, or a combination of market share and relative realized price (Hawkins et al. 1987). Additionally, as in Bonoma and Clark's (1988) marketing performance assessment model, performance can be measured subjectively (e.g., managers' satisfaction with the results of the marketing program). In the context of international performance, Madsen (1987) and Shoham (1998) discuss a number of performance subdimensions (sales, profits, change in sales, and change in profits). We shall argue that a firm's choice of means-based reference points influences its choice of ends-based reference points. Conversely, the use of ends-based SRP affects the firm's choice of means-based reference points. Furthermore, because of this duality, to the extent that researchers use either differing means (strategies) or ends (performance criteria), inconsistent findings may result.

Before discussing these issues, an example may be useful. Assume a defender-type firm for which the two most important subsystems are finance and production (Miles and Snow 1978). These emphases are required to solve the main administrative problem of such firms (maintaining organizational control to ensure efficiency). In such a firm,

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outcome measures should focus on production efficiency, which would enable managers to evaluate the firm's success in solving its main administrative problem. If this firm is sampled in a research effort in which firm type is the explanatory variable but performance is measured by a competitor-based measure (e.g., relative market-share), firm type might be insignificant in predicting performance. Only a production-efficiency measure of performance will capture the true nature of the link between type and performance in this situation.

We now use studies of international performance as an example. We show how the choice of different SRP-based performance measures may have affected their findings. Notably, our intent is not to criticize these articles. Rather, we use them to illustrate the potential of SRP to account for their different findings. Bilkey (1985) and Koh and Robicheaux (1988) reported a positive impact of high prices on international performance. They measured performance by 5-point scales ranging from *exporting the product to that country is much less profitable than selling it in the US (profitability is smaller by about 8% or more)* to *exporting the product to that country is much more profitable than selling it in the US (profitability is larger by about 8% or more).* Cavusgil and Zou (1994) found an insignificant relationship between price competitiveness and performance, measured by four items: goals' achievement weighted by their importance, overall success, 5-year sales growth, and overall, 5-year profitability. Szymanski et al. (1993) used relative market share and return on investment to measure performance. They reported that price affected profitability positively in Western Europe but not in the United Kingdom, the United States, or Canada. Price did not affect relative market share in these markets.

While our argument is speculative, we believe it provides a reasonable explanation for the findings. Assume that the managers in all four samples used profit- and domestic-oriented performance SRP (ends, internal outcomes). Szymanski et al. (1993) used a measure of relative market share. This measure would differ from managers' SRP, which is domestic and profit based rather than competitor and sales based. Their absolute measure of profitability did not consider managers' emphasis on the internal, domestic-based SRP, which would account for the insignificant relationship. Bilkey (1985) and Koh and Robicheaux (1988) tapped into profit- and domestic-based SRP ("exporting the product is much more (or less) *profitable* than *selling it in the US*"; emphases added). Cavusgil and Zou (1994) used one profitability item, but it was not domestic oriented. Another item assessed overall satisfaction, which may tap into profits compared to domestic operations but may also capture other performance SRP. A third item measured goal achievement, which may tap into domestic- and profit-based SRP but may also tap into other reference points. The final item measured sales that may differ from managers' SRP.

In sum, unmatched dependent and independent variables may have accounted for the inconsistent findings. The relationship between means and ends studied previously should be reexamined in light of the consistency of the measures of means and ends used.

Our discussion of the role and impact of SRP offers two broad directions for future research. First, the model presented here should be extended. SRP structure, strategies, and performance were emphasized here. Additional work is needed to develop an understanding of antecedents to possible SRP combinations. In other words, what determines the extent to which firms emphasize one subdimension over another, and what determines the extent to which they emphasize elements within each subdimension (e.g., short- versus long-term temporal emphasis)? For example, a number of factors may affect firms' choice of means versus ends on the internal subdimension. Three possible factors are the accuracy and completeness of outcome measures and the accuracy of understanding the link between means and ends (Anderson and Oliver 1987). Such extensions of the model remain a task for future research.

A second direction for future research is to test empirically the propositions discussed here. While we provided theoretical arguments for each, future empirical studies can examine the extent to which the relationships hypothesized hold. For example, slack resources may have opposite effects on risk-taking behavior, depending on whether they are higher or lower than expected. Which of these forces dominate is an empirical issue to be resolved in future research. Additionally, we proposed that firms using combinations of two SRP (e.g., internal/external and past/future orientations) would outperform firms that use only one such SRP. Future research can provide answers to questions such as, do some two-SRP combinations dominate other two-SRP combinations in the performance advantages they provide over one-SRP choices? Conversely, Proposition 2 stated that firms possessing multidimensional SRP—a simultaneous emphasis on internal, external, and temporal dimensions—would outperform firms focused on only one or two SRP. Is a multidimensional emphasis equally superior for all one- or two-dimensional SRP emphases? Such questions can best be answered by empirical studies.

SUMMARY

The purpose of this article was to integrate and extend SRP theory from the strategic management discipline to the strategic marketing discipline. For this purpose, we discussed the major building blocks of SRP theory and described its impact on the choice of marketing strategies. We then explored the performance consequences of

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integrating combinations of SRP subdimensions while considering organizational processes and implementation issues in the context of strategy, organizational configuration, consensus, and change. However, as noted, much work still needs to be done, both in theory development as well as in empirically testing the propositions outlined in this article.

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