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Linking strategic practices and organizational performance to Porter's generic strategies

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Abstract

Purpose – While Porter's generic strategies are a widely accepted typology of strategic options for businesses, prior studies have not linked specific strategic practices with each generic strategy and explored the associations between the practices and overall organizational performance. The purpose of this paper is to propose and test the following two hypotheses: specific strategic practices (or tactics) can be identified which are associated with each generic Porter strategy; and there are specific strategic practices which are more strongly associated with higher levels of organizational performance within each generic strategy.

Design/methodology/approach – To test these hypotheses, a questionnaire was developed and administered to a sample of 226 working adults. A factor analysis and regression analyses were used to analyze the data.

Findings – Findings include a list of critical strategic practices significantly associated with organizational performance for each of Porter's generic strategies.

Research limitations/implications – Future research would be advised to include a more geographically and randomly selected sample. Furthermore, the use of archival financial performance data is suggested.

Practical implications – Suggestions for managers crafting strategies and reinforcing supporting strategic practices based on the findings of this research are discussed.

Originality/value – This research has uncovered a core list of strategic practices which better defines each generic Porter strategy. The authors have also pinpointed an even smaller list of critical practices strongly associated with performance for each specific generic strategy.

Keywords Generics, Organizational performance, Strategic management, Product differentiation

Paper type Research paper

Generic strategies can be successfully linked to organizational performance through the use of key strategic practices.

Porter's (1985) generic strategies of low cost, differentiation, focus and combination strategies are generally accepted as a strategic typology for organizations. However, little empirical research has identified the strategic practices associated with each generic strategy. Furthermore, research has not identified critical strategic practices for each generic strategy to firm performance. This exploratory study attempts to address this gap in the literature. From this study, empirical evidence using factor

Business Process Management Journal
Vol. 12 No. 4, 2006
pp. 433-454
© Emerald Group Publishing Limited
1463-7154
DOI 10.1108/14637150610678069

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analysis and regression analysis supports a group of strategic practices linked to greater perceived organizational performance for each of Porter's generic strategies. Suggestions for managers crafting strategies and reinforcing supporting strategic practices are included as well as recommendations for further research.

Porter's generic business strategies

Strategy is an essential part of any effective business plan. By using an effective competitive strategy, a company finds its industry niche and learns about its customers (Porter, 1980). Porter (1985) asserts there are basic businesses strategies – differentiation, cost leadership, and focus – and a company performs best by choosing one strategy on which to concentrate. However, many researchers feel a combination of these strategies may offer a company the best chance to achieve a competitive advantage (Cross, 1999; Karnani, 1984; Miller and Friesen, 1986; White, 1986; Hill, 1988; Mathur, 1988; Murray, 1988; Miller, 1992; Dess and Miller, 1993; Johnson and Scholes, 1993; Fuerer and Chaharbaghi, 1997; Hlavacka *et al.*, 2001). Whatever strategy a business chooses, it must fit with the company and its goals and objectives to gain a competitive advantage (Kippenberger, 1996; Surowiecki, 1999; Parker and Helms, 1992; Ross, 1999).

Porter purports companies must be competitive to become an industry leader (Murdoch, 1999; Suutari, 1999), to be successful both nationally and abroad (Niemira, 2000; Davidson, 2001; Anon, 1998), and these strategies for gaining competitive advantage apply to all industries in most nations (Brooks, 1993; Median and Chin, 1995; Kropf and Szafran, 1988; McNamee and McHugh, 1989; Green *et al.*, 1993; Kim and Lim, 1988; Liff *et al.*, 1993; Campbell-Hunt, 2000).

While various types of organizational strategies have been identified over the years (Miles and Snow, 1978; Chrisman *et al.*, 1988; Porter, 1980) Porter's generic strategies remain the most commonly supported and identified in key strategic management textbooks (David, 2000; Miller, 1998; Thompson and Stickland, 1998) and in the literature (Kim and Lim, 1988; Miller and Dess, 1993). Porter's (1980) generic strategies can yield competitive advantage. Porter (1980) also suggests ensuring long-term profitability, the firm must make a choice between one of the generic strategies rather than end up being "stuck in the middle".

Differentiation. Differentiation is one of Porter's key business strategies (Reilly, 2002). When using this strategy, a company focuses its efforts on providing a unique product or service (Hyatt, 2001; Porter, 1979, 1987, 1996; Bauer and Colgan, 2001; Hlavacka *et al.*, 2001; Cross, 1999). Since, the product or service is unique, this strategy provides high customer loyalty (Porter, 1985; Hlavacka *et al.*, 2001; Cross, 1999).

Product differentiation fulfills a customer need and involves tailoring the product or service to the customer. This allows organizations to charge a premium price to capture market share. The differentiation strategy is effectively implemented when the business provides unique or superior value to the customer through product quality, features, or after-sale support. Firms following a differentiation strategy can charge a higher price for their products based on the product characteristics, the delivery system, the quality of service, or the distribution channels. The quality may be real or perceived based on fashion, brand name, or image. The differentiation strategy appeals to a sophisticated or knowledgeable consumer interested in a unique or quality product and willing to pay a higher price.

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The key step in devising a differentiation strategy is to determine what makes a company different from a competitor's (McCracken, 2002; Reilly, 2002; Berthoff, 2002; Rajecki, 2002; Tuminello, 2002; Surowiecki, 1999). Factors including market sector quality of work, the size of the firm, the image, graphical reach, involvement in client organizations, product, delivery system, and the marketing approach have been suggested to differentiate a firm (McCracken, 2002; Davidson, 2001). To be effective, the message of differentiation must reach the clients (McCracken, 2002), as the customer's perceptions of the company are important (Berthoff, 2002; Troy, 2002). Van Raaij and Verhallen (1994) suggest bending the customer's will to match the company's mission through differentiation.

When using differentiation, firms must be prepared to add a premium to the cost (Hyatt, 2001). This is not to suggest costs and prices are not considered; only it is not the main focus (Hlavacka *et al.*, 2001). However, since customers perceive the product or service as unique, they are loyal to the company and willing to pay the higher price for its products (Hlavacka *et al.*, 2001; Venu, 2001; Cross, 1999).

Some key concepts for establishing differentiation include: speaking about the product to select panels (McCracken, 2002), writing on key topics affecting the company in the association's magazine or newsletter (McCracken, 2002), becoming involved in the community (McCracken, 2002), being creative when composing the company's portfolio (Tuminello, 2002), offering something the competitor does not or cannot offer (Rajecki, 2002), adding flair and drama to the store layout (Differentiation will be key, 2002), providing e-commerce (Chakravarthy, 2000), making access to company information and products both quick and easy (Chakravarthy, 2000), using company size as an advantage (Darrow *et al.*, 2001), training employees with in-depth product and service knowledge (Darrow *et al.*, 2001), offering improved or innovative products (Helms *et al.*, 1997), emphasizing the company's state-of-the-art technology, quality service, and unique products/services (Hlavacka *et al.*, 2001; Bright, 2002), using photos and renderings in brochures (McCracken, 2002), and selecting products and services for which there is a strong local need (Darrow *et al.*, 2001).

Cost leadership. Another of Porter's generic strategies is cost leadership (Malburg, 2000). This strategy focuses on gaining competitive advantage by having the lowest cost in the industry (Porter, 1979, 1987, 1996; Bauer and Colgan, 2001; Hyatt, 2001; Anon, 1998; Davidson, 2001; Cross, 1999). In order to achieve a low-cost advantage, an organization must have a low-cost leadership strategy, low-cost manufacturing, and a workforce committed to the low-cost strategy (Malburg, 2000). The organization must be willing to discontinue any activities in which they do not have a cost advantage and should consider outsourcing activities to other organizations with a cost advantage (Malburg, 2000). For an effective cost leadership strategy, a firm must have a large market share (Hyatt, 2001). There are many areas to achieve cost leadership such as mass production, mass distribution, economies of scale, technology, product design, input cost, capacity utilization of resources, and access to raw materials (Malburg, 2000; Venu, 2001; Davidson, 2001). Porter (1985) purports only one firm in an industry can be the cost leader (Venu, 2001; Sy, 2002) and if this is the only difference between a firm and competitors, the best strategic choice is the low cost leadership role (Malburg, 2000).

Lower costs and cost advantages result from process innovations, learning curve benefits, economics of scale, product designs reducing manufacturing time and costs,

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and reengineering activities. A low-cost or cost leadership strategy is effectively implemented when the business designs, produces, and markets a comparable product more efficiently than its competitors. The firm may have access to raw materials or superior proprietary technology which helps to lower costs.

Firms do not have to sacrifice revenue to be the cost leader since high revenue is achieved through obtaining a large market share (Porter, 1979, 1987, 1996; Bauer and Colgan, 2001). Lower prices lead to higher demand and, therefore, to a larger market share (Helms *et al.*, 1997). As a low cost leader, an organization can present barriers against new market entrants who would need large amounts of capital to enter the market (Hyatt, 2001). The leader then is somewhat insulated from industry wide price reductions (Porter, 1980; Hlavacka *et al.*, 2001; Malburg, 2000). The cost leadership strategy does have disadvantages. It creates little customer loyalty and if a firm lowers prices too much, it may lose revenues (Cross, 1999).

Focus. In the focus strategy, a firm targets a specific segment of the market (Davidson, 2001; Porter, 1979, 1987, 1996; Bauer and Colgan, 2001; Cross, 1999; Hlavacka *et al.*, 2001; Hyatt, 2001). The firm can choose to focus on a select customer group, product range, geographical area, or service line (Anon, 1998; Hyatt, 2001; Venu, 2001; Darrow *et al.*, 2001; Martin, 1999; McCracken, 2002). For example, some European firms focus solely on the European market (Stone, 1995). Focus also is based on adopting a narrow competitive scope within an industry. Focus aims at growing market share through operating in a niche market or in markets either not attractive to, or overlooked by, larger competitors. These niches arise from a number of factors including geography, buyer characteristics, and product specifications or requirements. A successful focus strategy (Porter, 1980) depends upon an industry segment large enough to have good growth potential but not of key importance to other major competitors. Market penetration or market development can be an important focus strategy. Midsize and large firms use focus-based strategies but only in conjunction with differentiation or cost leadership generic strategies. But, focus strategies are most effective when consumers have distinct preferences and when the niche has not been pursued by rival firms (David, 2000).

Combination. An organization may also choose a combination strategy by mixing of the aforementioned generic strategies. For example, a firm may choose to have a focused differentiation strategy. This means the organization has a unique product offered to a targeted market segment. An organization may also choose to have a focused cost-leadership strategy. In this instance, an organization would use a cost leadership strategy targeted to a specific market segment.

There is much debate as to whether or not a company can have a differentiation and low-cost leadership strategy at the same time (Helms *et al.*, 1997). Porter felt differentiation and cost-leadership were mutually exclusive (Helms *et al.*, 1997; Campbell-Hunt, 2000). However, research shows this is not the case (Buzzell and Gale, 1987; Buzzell and Wiersema, 1981; Gupta, 1995; Hall, 1983; Jones and Butler, 1988; Miller and Friesen, 1986; Miller, 1998; Phillips *et al.*, 1983; Slocum *et al.*, 1994; White, 1986; Wright, 1987; Karnani, 1984; Mathur, 1988; Miller, 1992; Dess and Miller, 1993; Johnson and Scholes, 1993; Fuerer and Chaharbaghi, 1997, Hlavacka *et al.*, 2001).

Kumar *et al.* (1997) in their study of generic strategies used in the hospital industry found when hospitals follow a focused cost leadership hybrid strategy they exhibit higher performance than those following either cost leadership or differentiation alone.

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Similarly in their research on the UK wine industry, Richardson and Dennis (2003) found the hybrid focused differentiation approach was best for niche segments. Spanos *et al.* (2004) studied the Greek manufacturing industry and found hybrid strategies were preferable to pure strategies.

According to Porter (Argyres and McGaha, 2002), lower cost and differentiation are directly connected with profitability. As research addressed the relationship between strategy and performance, some studies concluded only "pure" strategies (i.e. generic strategies of cost leadership or differentiation) resulted in superior performance, while other research found combination strategies (i.e. low-cost and differentiation) were optimal. This debate continues in the literature.

Generic strategy and performance link

The strategy literature provides numerous theories, research methodologies, and ideas on the strategy-performance relationship. Strategy research has its roots in industrial organization (IO) theory. Within Bain (1956) and Mason (1939), the IO framework of industry behavior, firm performance or profitability is seen as a function of the industry structure. Industry characteristics rather than firm-based issues are found to determine firm performance (Barney, 1986). This structure-conduct-performance model from IO and economics has been used in industries with high concentrations and similar firms (Seth and Thomas, 1994). Studies, however, have not found a link between strategy and performance (McGee and Thomas, 1986, 1992). Others have found the link between strategy and performance lessened by situational variables including a focus on manufacturing and profitability (Davis and Schul, 1993; Zahra, 1993). To investigate the strategy and performance link, many researchers began utilizing approaches found to be generalizable across industries, specifically those proposed by Porter (1980, 1985, 1987).

Pure generic strategies. Researchers found support for Porter's (1980, 1985) original generic strategies (Dess and Davis, 1984; Hambrick, 1981, 1982; Hawes and Crittendon, 1984; Nayyar, 1993; Parker and Helms, 1992; Reitsperger *et al.*, 1993). Dess and Davis (1984) examined industrial products businesses and suggested performance was achieved through the adoption of a single strategy. Hambrick (1983) investigated capital goods producers and industrial product manufacturers and found support for generic strategies. Ross (1999) supported two distinct focus strategies including low-cost and differentiation – one aimed at distinct needs in terms of cost in a narrow target market and the other at distinct customization requirements in a narrow target market. Parker and Helms (1992) found superior performance associated with mixed and reactive strategies as well as with single generic strategies.

Combination generic strategies. Other researchers found combination strategies to be optimal and associated with superior performance (Buzzell and Gale, 1987; Buzzell and Wiersema, 1981; Hall, 1983; Hill, 1988; Murray, 1988; Phillips *et al.*, 1983; White, 1986; Wright, 1987; Wright *et al.*, 1991). Several studies have suggested in higher performing businesses, low cost and differentiation strategy may be adopted simultaneously (Gupta, 1995; Slocum *et al.*, 1994). In an attempt to investigate whether low cost and differentiation are mutually exclusive or whether they can be adopted simultaneously, Helms *et al.* (1997) found business units which simultaneously compete on low cost and differentiation strategies (combination strategies) have higher returns on investment.

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Gaps and contradictions remain in the strategy research. Ironically, some of the research supporting singular generic strategies also produces results which sow seeds of doubt about the relationship between singular generic strategy and superior performance, and it appears some businesses succeed only when they combine differentiation and low cost generic strategies (Hill, 1988, Murray, 1988). For example, White (1986) found 19 of the 69 business units examined had the highest ROI and achieved competitive advantage based on combined cost and differentiation strategies. Similar support for a combination strategy was found by Phillips *et al.* (1983). Wright and Parsinia (1988) identified successful firms using combined generic strategies in fragment industries including banking, retailing, distributing, and creative businesses. As a result of these studies and other work, Hill (1988) proposed the generic business-level strategies of differentiation and overall cost leadership are not incompatible but may be combined in some firms to achieve competitive advantage.

In summary, the strategy literature reveals contradictory results on the link between singular generic strategy and performance. As Campbell-Hunt (2000) points out, the dominant paradigm of competitive strategy is now over two decades old, but it has yet to prove its adequacy as a descriptive framework or move beyond its propositions about the performance consequences of different strategic designs. Further research on the relationship between strategy and firm performance, including potential moderators of this relationship, is clearly needed in order to advance strategic theory.

Firm performance measures

While researchers may not always agree on the best strategy, or strategy combination, most if not all, support the long-term benefits of strategic planning for the successful performance of an organization or business unit. However, measuring the performance of a company is challenging. Researchers (Buckley *et al.*, 1988; Littler, 1988; Day and Wensley, 1988) disagree about how to both define and operationalize performance.

Most studies on organizational performance use a variety of financial and non-financial success measures. Researchers employ financial measures such as profit (Saunders and Wong, 1985; Hooley and Lynch, 1985; Baker *et al.*, 1988), turnover (Frazier and Howell, 1983), return on investment (Hooley and Lynch, 1985), return on capital employed (Baker *et al.*, 1988), and inventory turnover (Frazier and Howell, 1983). Nonfinancial measures include innovativeness (Goldsmith and Clutterbuck, 1984) and market standing (Saunders and Wong, 1985; Hooley and Lynch, 1985). When performance is measured at a variety of levels (e.g. national, industry, company, and product), comparison of results is difficult (Baker and Hart, 1989; Buckley *et al.*, 1988; Frazier and Howell, 1983).

Measures of firm performance generally include such bottom-line, financial indicators as sales, profits, cash flow, return on equity, and growth. It is important to determine how a firm compares with its industry competitors when assessing firm performance (Dess and Robinson, 1984). With the multitude of competitive environments faced by firms in differing industries, knowing only absolute financial numbers such as sales, profits, or cash flow is not very illuminating unless viewed in the context of how well the firm is doing compared to their competition. Therefore, it is important to use an industry comparison approach when making firm performance assessments for organizations sampled from a wide variety of industries.

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Identifying organizational performance measures

Lusch and Laczniak (1989) define business performance as the total economic results of the activities undertaken by an organization. Walker and Ruekert (1987) found primary dimensions of business performance could be grouped into the three categories of effectiveness, efficiency, and adaptability. But there is little agreement as to which measure is best. Thus, any comparison of business performance with only these three dimensions involve substantial trade-offs: good performance on one dimension often means sacrificing performance on another (Donaldson, 1984).

In many research situations it is impractical or impossible to access objective measures of organizational performance. Even if such measures were available it does not guarantee the accuracy of the performance measurement. For example, when a sample contains a variety of industries, performance measurement and comparisons can be particularly problematic. What is considered excellent performance in one industry may be considered poor or middling performance in another industry. If researchers limit themselves to a single industry, the performance measures may be more meaningful, but the generalizability of the findings to other industries is problematic.

The literature has remained largely at the conceptual level in discussing the link between the generic strategies and firm performance. Authors agree it should and must exist, but researchers have not determined which specific strategic practices within the generic strategy framework best achieve organizational performance goals. It seems some combination of practices is more effective than others, but propositions on strategic practices have remained largely untested and there is a recognized need for empirical work in this area. This exploratory research begins to fill this gap in the literature and considers whether specific strategic practices used by organizations are better than others when comparing employee's perceptions of firm performance.

Research model

The research model presented in Figure 1 shows the proposed relationships explored in this study. The basic idea is that organizational strategy should determine the strategic practices (or tactics) used by a firm. Use of the appropriate strategic practices will help drive organizational performance.

The following two hypotheses are proposed based on this research model:

H1. Specific strategic practices (or tactics) can be identified which are associated with each generic Porter strategy.

H2. There are specific strategic practices which are more strongly associated with higher levels of organizational performance within each generic strategy.

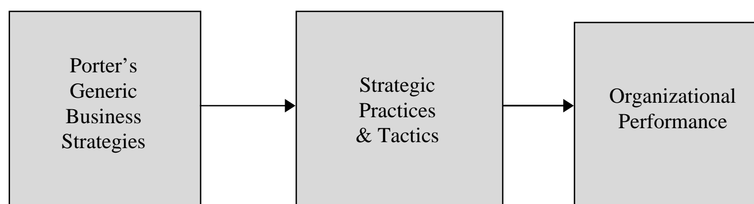

Figure 1. Research model

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Research study

A questionnaire was developed to investigate the linkage between Porter's generic strategies, strategic practices, and performance. Existing scales and items were utilized or adapted where applicable to develop a questionnaire to test the aforementioned hypotheses. New items and Likert-type scales were composed when appropriate existing items or scales could not be located.

The questionnaire included a cover page explaining the purpose of the survey and asked respondents to select a single organization as a point of reference when answering the survey questions. Respondents were guaranteed anonymity. If the organization under study had multiple divisions or subsidiaries, respondents were asked to base their answers on the specific division or subsidiary in which they worked. Respondents were given ample time to complete the survey and researchers were on hand to personally administer the questionnaire and answer any questions.

In addition to summary information about the organization, respondents were polled on the length of employment, number of employees in the organization, the primary business sector, whether the organization was unionized, and their position within the organization.

Strategy questions. A section of 25 questions regarding the various strategic practices or tactics used by the organization followed the general demographic and personal information section. These items were developed to operationalize each of Porter's (1980) four generic strategies. While the literature review did not identify an existing instrument of strategic practices to operationalize Porter's typology, one was developed from these key practices or tactics previously reviewed for each generic strategy.

Respondents were asked to estimate how frequently the various strategic practices are used by their organization. Table I presents some samples of the strategy questions and the scale used.

Organizational performance questions. Firm performance was measured using a scale of five items adapted from Dess and Robinson (1984). Since, this research was exploratory it was important to include a broad range of organizations in the sample to improve the generalizability of the findings and reduce the likelihood of industry specific performance effects. Firm performance was measured using a scale of five items. The five point, Likert-type scale asked respondents to rate how their organization compared to competitors on a series of key objective performance indicators including total revenue growth, total asset growth, net income growth, market share growth, and overall performance or success. Respondents were asked to compare their organization's performance level to competitors for each of the five items, over the most recent three-year period in which they worked for the organization.

Respondents were cautioned some of the measures might not apply to the organization chosen as their point of reference. For example, market share growth might not apply to a government agency. Accordingly, in addition to the given choices, a "not applicable" choice was also available for respondents in these situations. Sample questions are shown in Table II.

This organizational performance scale allows the comparison of a wide variety of organizations on performance measures are commonly accepted as valid indicators of organizational success. The scale allows comparisons across industries because it does

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Table I.

	Never (0 percent)	Almost never (1-20 percent)	Some times (21-40 percent)	About half (41-60 percent)	Most times (61-80 percent)	Almost always (81-99 percent)	Always (100 percent)
Vigorous pursuit of cost reductions	1	2	3	4	5	6	7
Providing outstanding customer service	1	2	3	4	5	6	7
Improving operational efficiency	1	2	3	4	5	6	7
Controlling the quality of products/services	1	2	3	4	5	6	7
Intense supervision of front-line personnel	1	2	3	4	5	6	7
Developing brand or company name identification	1	2	3	4	5	6	7
Targeting a specific market niche or segment	1	2	3	4	5	6	7
Providing specialty products/services	1	2	3	4	5	6	7

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Table II.

(Average over three years)	Lowest 1-20 percent	Lower 21-40 percent	Middle 41-60 percent	Next 61-80 percent	Top 81-100 percent	Not Applicable
Total revenue growth	1	2	3	4	5	(n/a)
Total asset growth	1	2	3	4	5	(n/a)
Net income growth	1	2	3	4	5	(n/a)
Market share growth	1	2	3	4	5	(n/a)
Overall performance/success	1	2	3	4	5	(n/a)

not rely on specific results in each category, but instead is based on how well the organization is performing relative to its competitors. Thus, an organization with high growth (top 81-100 percent) in a low performing sector can be compared with an organization performing with similar growth levels in a high performing sector. The Cronbach α for the cumulative organizational performance scale was 0.95. This compares favorably with previous research using this scale to measure organizational performance.

The sample

A sample of 226 graduate students enrolled in either an evening MBA or weekend executive MBA program were administered the questionnaire. The subjects, albeit a convenience sample, represented a broad cross section of working adults. For inclusion in the final study, it was determined a respondent must have at least six months employment at the organization under study to have adequate organizational knowledge to accurately complete the questionnaire. If respondents were not currently employed, or if employment with their current organization was less than six months, they were instructed to select a different organization as their reference point (provided they had been employed for at least six months). Post administration interviews with the respondents reinforced these criteria and respondents with a minimum of six months work experience reported no difficulty in answering the survey questions.

Five respondents were eliminated because they had less than six months prior work experience, resulting in a final sample size of 221 with a 97 percent response rate. Respondents had an average of four years work experience, but the time employed ranged from six months to 27 years with a standard deviation of 4.37 years. Of those respondents, 38 percent held professional or technical positions in their organization, 16 percent were in middle management, 16 percent were in administrative roles, 11 percent were front-line managers and 6 percent were senior managers.

The organizations included in the sample had a mean number of 1,467 employees with a range from 3 to 57,000 employees. A total of 62 percent were service organizations, 28 percent were manufacturing and 10 percent were in the government/non-profit sector. About 17 percent of the organizations were unionized.

Strategy scales: factor analysis

The strategy related items were subjected to a factor analysis to test whether the strategic practices naturally grouped into Porter's (1980, 1985) generic strategies. Using SPSS principal component analysis with a Varimax rotation and Kaiser

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normalization, a four factor solution emerged explained 50.67 percent of the variance with an eigen value of 1.373.

As is typically the case with a factor analysis, the individual items (strategic practices) loaded with differing strengths onto several identified factors. The four factors identified were composed of those strategic practices with the highest factor loadings. Thus, each factor is defined by a different set of strategic practices. The strategic practices and loadings for each factor are summarized in Table III.

The highest factor loadings for each item were included in Table III. This is not to imply that any of the individual strategic practices are exclusive to a single strategy. For example, the practice of extensive training of front-line personnel loaded onto the factor which we labeled focus-cost leadership at the 0.455. It also loaded onto the other three factors, but at much weaker levels (for example, 0.244 on the differentiation factor, and at miniscule levels onto the other two factors). Certainly training of frontline personnel is also important to the other three strategies, but our data indicated that it is most strongly associated with the first factor.

After all the individual practices which comprised each factor were analyzed it appears the resulting factors conceptually correspond with Porter's (1980, 1985)

Strategy	Product differentiation	Focus-cost leadership	Cost leadership	Focus – product differentiation
Innovation in marketing technology and methods	0.776			
Forecasting new market growth	0.750			
Forecasting existing market growth	0.724			
Utilizing advertising	0.706			
Fostering innovation and creativity	0.659			
Developing brand identification	0.657			
Refining existing products/services	0.646			
Building a positive reputation within the industry for technological leadership	0.594			
Extensive training of marketing personnel	0.567			
Developing a broad range of new products/services	0.502			
Building high market share	0.366			
Controlling the quality of products/services		0.822		
Providing outstanding customer service		0.748		
Improving operational efficiency		0.629		
Extensive training of front-line personnel		0.455		
Intense supervision of front-line personnel		0.206		
Vigorous pursuit of cost reductions			0.880	
Tight control of overhead costs			0.874	
Minimizing distribution costs			0.423	
Providing specialty products/services				0.652
Targeting a specific market				0.649
Dropping unprofitable customers				0.548
Producing products/services for high price market segments				0.545

Table III. Factor analysis – factor loadings for the four generic strategies

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framework of four generic organizational strategies. Factor 1 reasonably appears to represent a product differentiation strategy, factor 2 was the focus-cost leadership strategy, factor 3 was the cost leadership strategy, and factor 4 was the focus-product differentiation strategy. This factor analysis supports *H1* that specific strategic practices (or tactics) which are associated with each generic Porter strategy can be identified.

These four factors and their associated items were used to form scales. Cronbach αs were computed for the scale reliabilities. The product differentiation factor of 11 items has an α of 0.8997; the focus-cost leadership factor of five items had an α of 0.7707, the cost leadership scale consisted of three items with an α of 0.7761, and the focus-product differentiation factor with four items had an α of 0.5723.

While the α for factor 4 was not as strong as the other three factors, it is still within the expected range for a broad construct established by Van de Ven and Ferry (1980) and was deemed acceptable. Likewise, the average inter-factor correlations were low and within the acceptable range established by Van de Ven and Ferry (1980). The focus strategies concentrate on smaller, unique, or niche markets and are combination strategies (with differentiation or cost leadership). Thus, they experience more conceptual over-lap in strategic positioning than the pure forms of cost leadership or product differentiation, therefore, their α would be expected, a priori, to be lower than the pure strategic forms.

Product differentiation factor. Because a product differentiation strategy emphasizes the uniqueness of a product or service and attempts to make the product or service special in the mind of the customer, marketing related actives will predominate. All 11 of the factor loadings are indeed marketing related and emphasize developing or refining products and services and planning for market growth. By fostering innovation and creativity as well as building a reputation of technological leadership, a firm should be assured of a stream of new innovations to attract the interests of new customers as well as to meet existing customer's demands for uniqueness.

Focus-cost leadership factor. For this factor an emphasis on reducing costs while at the same time meeting the needs of an undeveloped niche is expected a priori. The items which loaded highly on this factor support this strategy. By providing outstanding customer service a previously neglected market segment is catered to. The variables of improving operational efficiency and controlling quality emphasize the overarching cost objectives. Quality is important to insuring low costs because producing a product or delivering a service right, the first time, eliminates rework and scrap costs. Extensive training and supervision of front-line personnel will also serve to meet customer needs by streamlining processes to provide for cost efficiency.

Cost leadership factor. Three strategic practices comprise the cost leadership factor. A deep discount retailer using a pure cost minimization strategy stresses ongoing cost reductions and tight control of overhead costs to the exclusion of almost any other organizational issues. This is contrasted with a focus-cost leadership retailer who also competes on the basis of providing outstanding customer service and quality in addition to low costs for a chosen niche.

Focus-product differentiation factor. The focus-product differentiation factor again emphasizes a unique product or service but to a smaller, possibly undefined or overlooked specialty niche. First targeting a specific market and providing them with

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specialty products and service is by definition, the focus – product differentiation strategy. Dropping unprofitable customers ensures an even tighter focus while providing products and services for high price market segments further focuses the strategy on customers with unique needs.

Organizational performance scale. Finally, the Cronbach α for the organizational performance scale was 0.9504. This compares favorably to previous research using this scale to measure organizational performance of 0.93 (Allen and Kilmann, 2001; Allen and Helms, 2002; Allen *et al.*, 2004).

Analysis and results

The descriptive statistics and correlations are presented in Table IV.

A correlation analysis of the four strategy scales (from the factor analysis) indicate each is significantly associated with organizational performance. Thus, more extensive use of the strategic practices comprise the scales was associated with higher levels of performance.

The correlation matrix also indicates strong correlation between the strategy scales. These correlations make conceptual sense and were expected. The items comprising the strategy scales are all strategic practices or tactics and there is a conceptual overlap between the items. For example, there is a 0.495 correlation between the product differentiation and focus-product differentiation strategies. These two strategies, by definition are very similar in that they utilize differentiation tactics, but the focus version targets a specialized market. Likewise, there are conceptual similarities between many of the strategic practices that tend to make them more similar than different.

The primary interest is in uncovering what specific practices really make a difference in determining a specific strategy. This research question is explored in the following section.

Organizational performance analysis: regression results

What practices or tactics have the most significant impact on their relationship with organizational performance? In *H2*, the authors assert there are specific practices which differentiate the effectiveness of each strategy.

To investigate the relationships between generic strategies and specific strategic variables to performance, a stepwise variation of multiple regressions was employed to test for differences in significant performance based on the four generic strategies previously identified in the factor analysis. Organizations scoring above the mean on each of the four strategy scales were selected for inclusion in a regression equation for

	Mean	SD	N	1	2	3	4	5
1 Cost leadership scale	14.58	4.08	218	1.000				
2 Product differentiation scale	50.36	13.4	206	0.418**	1.000			
3 Focus-cost scale	25.95	5.25	219	0.436**	0.538**	1.000		
4 Focus differentiation scale	16.96	4.64	212	0.353**	0.495**	0.303**	1.000	
5 Overall performance	17.63	5.48	177	0.394**	0.568**	0.480**	0.297**	1.000

Notes: $^{*}p < 0.05$; $^{**}p < 0.01$

Table IV. Descriptive statistics and correlation matrix for strategy and performance scales

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each of the four generic strategy types. The regression analysis found a smaller subset of the strategic practices for each factor was associated with significantly higher levels of performance for the different types of strategies. A regression equation was calculated for each of the four generic factors using overall organizational performance as the dependent variable and the factor-loaded strategic practices as independent variables. The ANOVA results (Table V) indicate between 1 and 4 strategic practices were significant predictors of performance for each of the four generic strategies and explained from 41 percent ($r^2 = 0.41$ for the differentiation strategy) to 16 percent ($r^2 = 0.16$ for differentiation) of the variance in the organizational performance variable.

The regression results for the reward practices which were associated with significantly higher levels of performance for each respective type of strategy are summarized in Table VI.

Discussion and conclusions

This exploratory research was undertaken to identify strategic practices associated with Porter's generic strategies. While Porter's (1985) generic strategies have been widely accepted by academic and practitioner audiences, few studies have linked particular strategic practices or tactics to each of the strategies. Because a chosen strategy is a set of operationalized practices and tactics, understanding the critical practices linked with organizational performance for each generic strategy would provide clearer guidance for top management and strategic planners. These priorities would focus actions toward organizational success, as evidenced by the organization's performance. In the discussion below, the critical strategic practices associated with each generic strategy are summarized followed by implications for both practitioners and academicians.

Differentiation

Examining each specific generic strategy indicates a relatively small number of strategic practices were significantly correlated with organizational performance. For the differentiation strategy, innovation seems to be the most critical factor for success. Fostering innovation and creativity as well as innovation in marketing technology and methods were both significant practices. One can see this evidenced in a company like Hewlett-Packard. HP was founded on the core values of innovation and creativity and has used the slogan "invent" in company marketing. This makes sense because a company in the information technology sector must constantly be innovating in order to keep up with the fast-moving, ever changing marketplace.

	Product differentiation	Cost leadership	Focus-cost leadership	Focus-product differentiation
Degrees of freedom	11	3	5	4
Strategic practices – significant predictors of performance	3	1	4	2
F-statistic	9.723**	11.360**	14.921**	7.979**
R	0.638	0.406	0.551	0.400
R^2	0.407	0.165	0.304	0.160

Notes: $^{*}p < 0.05$; $^{**}p < 0.01$

Table V.
ANOVA results

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Differentiation	Cost leadership	Focus/cost	Focus/differentiation
Extensive training of marketing personnel	Vigorous pursuit of cost reductions	Providing outstanding customer service (0.323)**	Providing specialty products and services (0.181)**
Developing a broad range of new products or services	Tight control of overhead costs	Improving operational efficiency (0.274)**	Producing products or services for high price market segments (0.252)**
Refining existing products or services	Minimizing distribution costs (0.237)**	Controlling the quality of products or services (−0.248)**	Dropping unprofitable customers
Developing brand identification		Extensive training of front-line personnel (0.253)**	Targeting a specific market
Innovation in marketing technology and methods (0.187)*		Intensive supervision of front-line personnel	
Utilizing advertising			
Building a positive relationship within the industry for technological leadership			
Forecasting existing market growth			
Forecasting new market growth			
Fostering innovation and creativity (0.251)**			
Building high market share (0.306)**			

Notes: *β significant at the < 0.05 level; **β significant at the < 0.01 level

Table VI. Regression results – standardized β coefficients

Focus-differentiation

Even though building high market share was also a significant strategic practice for the differentiation strategy, this practice separates the differentiation strategy apart from the focus/differentiation strategy. Whereas the differentiation strategy goal is building a large share of a broad market, the focus/differentiation strategy is much more targeted. The significant strategic practices for a focus/differentiation strategy include producing products or services for high price market segments and providing specialty products and services. For example, an automobile company like Ferrari uses a focus-differentiation hybrid strategy. Ferrari's success is from targeted a very small portion of the car buying public willing to pay for an ultra-high performance vehicle.

Cost-leadership

In contrast, the cost leadership strategy had only one significant tactic – minimizing distribution costs. This is not to say other cost leadership practices, namely the vigorous pursuit of cost reductions and tight control of overhead costs are not integral parts of this strategy. All organizations attempting to compete with this strategy need to be cognizant of these practices. But the practice which appears to differentiate the

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organizations using this approach is the minimization of distribution costs. Nowhere is this more apparent than in the grocery business. Distribution and logistics costs are absolutely critical to grocery stores which typically compete on extremely thin, single-digit margins.

Focus-cost

The focus/cost strategy is different than the pure cost leadership strategy. While improving operational efficiency is important, the other critical success factors focused more on quality and service issues. Providing outstanding customer service was important. This can be accomplished by focusing on one of the other significant practices – extensive training of front-line personnel. These practices in turn make it possible for the organization to achieve another critical success practice – controlling the quality of their products or services. The Saturn division of GM, for example, competes in the low-cost segment of the automobile market. They attempt to differentiate themselves from other low-cost automakers is by providing extremely user-friendly customer service. Saturn's dealerships initiated the no-haggle pricing scheme and vehicle service centers combine customer-friendly hours and comfortable waiting areas. Saturn uses the principles of participative management and empowerment of their front-line workers and invests heavily in the training of front-line personnel. These practices support quality and productivity and the can more effectively compete in the niche they have carved out for themselves in the low-cost automobile market.

Implications for managers

Even though this study was exploratory in nature, the results are interesting for executives, top-level managers and directors. The findings support much of the popular literature and discussions about aligning strategic practices consistent with the chosen generic strategy for optimal organizational performance. The popular press urges managers to choose a strategy and then to follow the chosen strategy. Thus, matching key strategic practices to the generic strategy is intuitively appealing to practitioners and academicians. For companies following a generic strategy, this research has uncovered a core list of strategic practices which help better define each strategy. The authors have also pinpointed an even smaller list of critical practices strongly associated with performance for the specific generic strategy in question.

This does not mean organizations can be successful with a particular strategy solely by focusing on just the significant practices. As was previously mentioned, a company that is attempting to compete with a cost leadership strategy cannot focus solely on minimizing distribution costs and forget about the vigorous pursuit of other cost reductions or the tight control of overhead costs. Their competitors would easily under-price them if they did.

What this research does mean is managers must focus on all the practices which define their chosen strategy. If you want to perform at a significantly higher level than your competition you must excel at the critical and most statistically significant practices identified in this study. These findings have important practical implications for senior managers and others responsible for the development, implementation, or execution of strategies in organizations. Top managers must work closely with lower-level managers to implement strategic practices consistent with and supportive

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of the chosen organizational strategy. The relationship between performance and strategy must be clearly communicated the employees so they understand the organization's generic strategy as well as the linkages between their lower-level strategic practices and the overall firm performance and ultimately longevity and security.

Areas for further research

The preliminary findings of this research require further, detailed study to uncover the psychological underpinnings responsible for the reported results. As with any exploratory research, more interesting and important research questions have been uncovered. Is an organization's environment a moderator on the effects of strategic practices on performance? Does the relative importance of strategic practices change over time or over the life cycle of a firm? Do strategic practices lose their effectiveness over time? Are the strategic practices, once known in an industry, subject to duplication and loss of effectiveness. Do trends in organizational restructuring, information technology, demographics, and globalization influence the choice and implementation of organizational strategies? Do emerging trends of mass-customization force the combination or blurring of generic strategies? All are important questions for future research.

Moreover, researchers are encouraged to improve on the limitations of the present study. To begin with, a more geographically diverse sample of individuals and organizations should be included in subsequent studies. The use of a convenience sample served initial theory-building aims but a broader geographic range of organizations and respondents would be preferred.

Additionally, other studies might access archival financial performance data of the organizations so they can be analyzed independently of the other data. This could reduce the possibility of common variance errors. Perhaps a series of case studies with several organizations supplying their formal documents and allowing researchers to interview managers concerning the strategic practices utilized by the organizations could further aid understanding.

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