



Reframing the Combination Strategy Debate: defining forms of combination

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ABSTRACT *Researchers have not yet reached a broad consensus on the nature of the business strategy–performance relationship and, specifically, the efficacy of combining competitive strategies. This paper examines empirical and anecdotal evidence that supports the notion that combination strategies at the competitive level can lead to superior performance. Propositions that identify specific, effective strategy combinations are developed and tested. Results suggest that some combinations are effective, while others are not.*

Introduction

The strategic management literature is replete with strategy typologies, research methodologies, and theories on the strategy–performance relationship. In general, researchers have demonstrated that strategies that emphasise quality, incorporate a product or service's distinctive competencies, and focus on the core business are most likely to result in superior firm performance (Dacko & Sudharshan, 1996). Advances in the field notwithstanding, however, a consensus concerning the precise nature of competitive strategy and its relationship to business performance has not yet emerged. This lack of resolution can be traced to fundamental differences in the competing industry- and organisation-based perspectives on strategy and the application of strategy typologies based on those perspectives.¹ Indeed, this debate—now seen as a clash between industrial organisation (IO) and resource-based theories—has led to differing perspectives on the nature of strategic groups and the viability of combination strategies (Mauri & Michaels, 1998). This paper addresses the nature of these differences, develops the notion of first- and second-level strategies, and tests for strategy–performance relationships among various first- and second-level strategy combinations.

The remainder of the paper is divided into four main sections. First, an historical development of the combination business strategy conundrum is presented, including discussions on the IO perspective, strategy typologies, the present combination strategy debate, and resource-based theory. Second, a framework integrating these alternative viewpoints is developed, and propositions are presented, suggesting the validity of some—but not all—strategy combinations. Third, the data collection and analysis is presented, and propositions are evaluated. Finally, challenges for future research are outlined.

An Historical Development of Business Strategy Theory

The Industrial Organisation Perspective and Strategic Groups

The roots of contemporary business strategy research can be traced to—among other perspectives—industrial organisation theory. Within Bain (1956) and Mason's (1939) IO framework of industry behaviour, firm profitability is viewed as a function of industry structure. Characteristics of the industry—not the firm—are viewed as the primary influences on firm performance (see also Barney, 1986c). More recently, Bain and Mason's basic structure–conduct–performance model has been posited as most appropriate for industries with uncomplicated group structures, high concentration, and relatively homogeneous firms (Seth & Thomas, 1994).

Early strategy researchers challenged the IO perspective, noting its inability to explain large performance variances within a single industry. As a result, an additional level of analysis—the strategic group level—was proposed as a compromise between the deterministic, industry level of analysis proposed and developed by industrial organisational economics and the firm or business level of analysis studied by strategic management researchers (Hergert, 1983; Porter, 1981). Strategic groups describe apparent clusters of firms that exhibit similar or homogeneous behaviour within a somewhat heterogeneous industry environment (Fiegenbaum *et al.*, 1988; Nouthoofd & Heene, 1997). Strategic group research has demonstrated group–performance linkages in the brewing (Hatten & Schendel, 1977; Hatten *et al.*, 1978), chemical process (Newman, 1973), consumer goods industries (Porter, 1973), paints and allied products (Dess & Davis, 1984), industrial products (Hambrick, 1983), US insurance (Fiegenbaum & Thomas, 1990), and retail mail-order (Parnell & Wright, 1993) industries, among others.²

Not all studies have supported a strong association between strategy and performance (McGee & Thomas, 1986, 1992). Ketchen *et al.*'s (1997) meta-analysis found that only about 8% of firm performance can be explained by strategic group membership. Katobe & Duhan (1993) identified three strategy clusters among Japanese businesses—'brand skeptics, mavericks, and true believers'—and found that membership in one of the groups was not a significant predictor of performance. Rather, the link between strategy and performance was moderated by organisation situational variables such as the degree of emphasis on manufacturing and profitability (Davis & Schul, 1993; Zahra, 1993).

Business Strategy Typologies

As strategic group assessments identified clusters of businesses employing similar strategies, researchers were beginning to categorise similarities within the strategic groups across studies. Business strategy typologies identifying several generic strategic approaches were developed and utilised as a theoretical basis for identifying strategic groups in industries. Although strategic groups are an industry-specific phenomenon, many strategic group researchers began to utilise approaches believed to be generalisable across industries, specifically those proposed by Porter (1980, 1985, 1987) and by Miles & Snow (1978).

According to Porter's framework, a business can maximise performance

either by striving to be the *low-cost* producer in an industry or by *differentiating* its line of products or services from those of other businesses; either of these two approaches can be accompanied by a *focus* of organisational efforts on a given segment of the market. Specifically, a low-cost strategy is effectively implemented when the business designs, produces, and markets a comparable product more efficiently than its competitors. In contrast, a differentiation strategy is effectively implemented when the business provides unique and superior value to the buyer in terms of facets such as product quality, special features, or after-sale service. Differentiation leads to market success not based on a competitive price, but on the demands of a sophisticated consumer who wants a differentiated product and is willing to pay a higher price.

Miles & Snow's (1978) framework identified four strategic types: prospectors, defenders, analysers, and reactors. Based on Child's (1972) conceptualisation of strategic choice, Miles and Snow assume that organisations act to create their own environments through a series of choices regarding markets, products, technologies, and desired scale of operations. The enacted environment is severely constrained by existing knowledge of alternative organisational forms and managers' beliefs about how people can and should be motivated.

Prospectors perceive a dynamic, uncertain environment and maintain flexibility and employ innovation to combat environmental change, often becoming the industry designers (Miles & Snow, 1986). In contrast, *defenders* perceive the environment to be stable and certain, and thus seek stability and control in their operations to achieve maximum efficiency. *Analysers* stress both stability and flexibility, attempting to capitalise on the best of both of the preceding strategic types. *Reactors* lack consistency in strategic choice and perform poorly.

Although attempts have been made to further develop both typologies, the original versions of the typologies appear to remain the most widely cited and tested. Considering Porter's model, Miller's (1986) expansion suggested two different types of differentiation strategies. One type—intensive image management—highlights the creation of a positive image through marketing techniques such as advertising, market segmentation, and prestige pricing. The second type—product innovation—involves the application of new or flexible technologies as well as unanticipated customer and competitor reactions (Miles & Snow, 1978; Miller, 1988; Miller & Friesen, 1984; Scherer, 1980).

While many researchers were utilising and/or extending one typology or the other in their strategy-performance studies, others were seeking common theoretical ground for combining the two approaches into a single, all-encompassing typology (Kotha & Orne, 1989). Indeed, a comparison between the two typologies suggested that strategic types within both classification schemes could be categorised along the two dimensions of consistency and proactiveness. For example, differentiation and prospecting strategies tend to emphasise proactivity, while cost leadership and defender strategies are more reactive. Segev (1989) noted that Miles and Snow's reactor type may also be equated with Porter's 'stuck in the middle' (1980, p. 41) type as strategies that lack consistency. Miller (1987) emphasised four integrated types: innovation, market differentiation, breadth, and cost control. Chrisman

et al.'s (1988) framework considers differentiation, scope, and competitive methods.

Combination Strategies: the two schools

As researchers began to study the relationship between strategy and performance, some studies concluded that only 'pure' strategies (i.e. cost minimisation or differentiation) were associated with superior performance, whereas others found that combination strategies (i.e. low-cost and differentiation) were optimal.³ Attempts to resolve this conundrum have not accounted for one primary theoretical difference. Porter's approach does not allow for long-term viable combination strategies. Miles and Snow's typology allows for one via the analyser.⁴ However, the debate extends well beyond the typologies. Indeed, conflicting interpretations of empirical research utilising both typologies resulted in the emergence of two schools of thought on the strategy-performance relationship.

One school embraced Porter's (1980, 1985) original contention that viable business units must seek *either* a low-cost or a differentiation strategy to be successful (Dess & Davis, 1984; Hambrick, 1981, 1982; Hawes & Crittendon, 1984). For example, Dess & Davis (1984) examined 19 industrial products businesses and suggested that superior performance was achieved through the adoption of a single strategy. Similar results were found in Hambrick's (1983) investigation of capital goods producers and industrial product manufacturers. Indeed, most studies defending the single strategy position have identified clear strategic groups, each with its own association with performance.

However, a second school considered the combination strategy to be viable over the long run, and in many cases, to be associated with superior performance (Buzzell & Gale, 1987; Buzzell & Wiersema, 1981; Hall, 1983; Hill, 1988; Murray, 1988; Phillips *et al.*, 1983; White, 1986; Wright, 1987; Wright *et al.*, 1991).⁵ Although both sides appear to have moved towards common ground, a substantial gap remains. Specifically, little—if any—research published in recent years has suggested that strategies cannot be effectively combined, or that combination strategies are necessarily effective in all industries. However, no consensus has yet emerged.

There are at least three bases for the debate in its present form. First, researchers disagree on methodological issues. Miller & Friesen (1986) contend that studies by researchers supporting the first school reported by Dess & Davis (1984) and Hambrick (1983) considered only certain industrial markets, where buyers are typically better informed and more rational than consumer buyers. Chen & Smith (1987) and others have argued that data bases utilised in many of the first-school studies—including the PIMS data base—do not necessarily constitute representative samples (see also Zeithaml & Fry, 1984). Barney & Hoskisson (1990) questioned the validity of many strategy-performance studies, which utilised cluster analysis, a technique commonly utilised by first-school research. Others contended that the data collection techniques of second-school studies, many of which utilise top executive and perceptual data, were not necessarily valid or reliable (Golden, 1992).

Second, there are competing organisational theories that differ in their

application to the debate. For example, citing transaction cost theory, Jones & Butler (1988) contend that cost leadership and differentiation are not at opposite ends of a strategy continuum because both strategies are subject to the same underlying cost tradeoffs. Transaction costs are the negotiating, monitoring, and enforcement costs associated with the transfer of goods and services between the firm and the consumer (Jones & Butler, 1988). Since transaction costs are the main component of differentiation and production costs are the main component of cost leadership, Jones and Butler assert that the difference between the two strategies is one of degree rather than of kind. Indeed, there is increasing evidence that many, if not most, businesses combine generic strategies to some extent (Kotha *et al.*, 1995), and that the forms of combination vary across cultures (Lemak & Arunthanes, 1997; Luo, 1997).

Third, the relationships among the generic strategies are often disputed. Researchers in the first school tend to see various generic strategies as mutually exclusive. In contrast, members of the second school argue that a business' ability to effectively implement one strategy may lead to its adoption of another. For example, Jones and Butler suggested that effective differentiation can actually lead to improved economies of scale. When sophisticated consumers demand a differentiated, quality product, its producer can raise production capacity in order to enjoy economies of scale, driving down production costs, total costs, and (potentially) price. Thus, the quality achieved through the differentiation strategy can actually lead to scale economies and consumer prices lower than those of firms that select low-cost strategies.

As a result of the inability of strategy researchers to agree on a common typology or resolve the combination strategy debate, emphasis in the field began to shift towards an alternative paradigm of the strategy-performance relationship. A dissatisfaction with the IO overtones inherent in strategic group analysis may have been the primary impetus for a renewed interest in firm resources, not strategic group membership, as the foundation for firm strategy (Barney, 1991; Collis, 1991; Grant, 1991; Lawless *et al.*, 1989).

Emergence of Resource-based Theory

In the 1980s, several literature streams in the strategic management field began to synthesise into a broader perspective. The resulting paradigm, resource-based theory, drew from the earlier work of Penrose (1959) and Wernerfelt (1984) and emphasised unique firm competencies and resources in strategy formulation, implementation, and performance.⁶ Resource-based proponents have studied such firm-level issues as transaction costs (Camerer & Vepsalainen, 1988), economies of scope, and organisational culture (Barney, 1986a, 1991; Fiol, 1991). Key business-level issues include the analysis of competitive imitation (Rumelt, 1984), informational asymmetries (Barney, 1986b), causal ambiguities (Reed & DeFillippi, 1990), and the process of resource accumulation (Dierickx & Cool, 1989).

The nature of competitive advantage began to take renewed prominence within the new perspective. From the resource-based perspective, competitive advantage occurs when a firm is implementing a value-creating strategy not simultaneously being implemented by any current or potential compe-

titors. Sustained competitive advantage exists when competitors are unable to duplicate the benefits of the strategy (Barney, 1991). Hence, the discussion has evolved from combining strategies to combining resources (Dess *et al.*, 1995; Feurer & Chaharbaghi, 1994; Robins & Wiersema, 1995).

First-level Strategies

The model developed in this paper identifies three 'first-level' and three 'second-level' business strategies based on six forms of competitive advantage, each elaborated below and in Table 1. Each of the first- and second-level strategies is founded in the previous theoretical work. There is a clear distinction between first- and second-level strategies worth noting, best elaborated using Mintzberg's (1978) notion of intended and emergent strategies (see also Mintzberg & Waters, 1985).

Mintzberg & Waters (1985) argued that real-world strategies lie on a continuum between deliberate or intended strategies and emergent strategies that are realised despite, or in the absence of, intentions. Mintzberg's (1978) elaboration of intended and emergent strategies and his conceptualisation of strategic deliberateness focused on the differences between strategy formulation and implementation. According to Mintzberg (1989, pp. 29–31):

Strategies need not be deliberate—they can also emerge, more or less ... Strategies can form as well as be formulated. A realized strategy can emerge in response to an evolving situation, or it can be brought out deliberately, through a process of formulation followed by implementation ... We ... call strategies that appear without clear intentions—or in spite of them—emergent strategies.

This analogy does not suggest that there is no forethought to the specific actions required to effectively implement an intended strategy. Indeed, the difference between the two levels is subtle, as the selection of a first-level approach may *imply* a specific second-level approach. The first level is more idealistic and visionary, outlining a few basic principles about strategic thinking in an organisation. In contrast, the second level is more practical and pragmatic, suggesting more specific ways in which the organisation can be positioned relative to its competitors.

First-level strategies represent Mintzberg's notion of *deliberate or intended strategy*. This level outlines the organisation's general approach towards strategy. At the first level, businesses can generally seek to be (1) proactive as a first mover, (2) contemplative as a second mover, or (3) governing as a segment controller.

Second-level strategies represent Mintzberg's *emergent or realised strategy*. This level examines the *specific competitive means* through which businesses seek to orchestrate their competitive activities. At the second level, businesses can (1) seek to develop and maintain broad product/service lines, (2) develop and emphasise perceived uniqueness, or (3) develop and maintain a high degree of production and/or distribution efficiency.

A business may employ any combination of first- and second-level strategies, and may choose to compete with a strategy (or strategies) on one level and not the other. Each first- and second-level strategy is discussed below.

Table 1. Revised business strategy framework

Strategy	Earlier references	Benefits	Costs and risks	Industry influence	Functional strategy and organisational resource implications	Possible effective strategy combinations
First-mover	Prospector	High margins Development of innovative reputation	No market application Product/service failures	Low	Effective product R&D Innovative culture	Product/service breadth
Second-mover	Analyser	Limited initial investment, but potential for early entry	Never first in the market Markets entered are not fully developed	Moderate	Marketing expertise Flexibility in production Speed	Perceived uniqueness Product/distribution efficiency
Segment control	Defender focus	Large market share Development of expertise through specialisation	Lost opportunities for synergy and new markets	Moderate	Efficient production processes Market segment expertise	Product/service breadth Product/distribution efficiency
Product/service breadth	Lack of focus	Synergy through satisfaction of related needs	Potential for lost efficiencies in production	High	Flexibility in production Marketing expertise	First mover Segment control
Perceived uniqueness	Differentiation focus	High margins Brand loyalty	Potential for higher production costs	High	Marketing expertise Effective product R&D	First mover Second mover
Production and distribution efficiency	Low cost	Ability to survive price wars Potential for low prices and/or high margins	Potential for low perceived value of offerings	High	Effective process R&D Efficient production processes Cost containment culture	Second mover Product/distribution efficiency

First Mover

First movers seek to be the first to introduce new or modified products or services in their industries (Lieberman & Montgomery, 1988). First-mover companies such as 3M often develop a reputation for innovation, and can generally command higher margins for their products or services because competitors cannot provide the same offering. The success of the first mover depends on its ability to efficiently develop new offerings and recoup the expenses associated with their development from the increased margins.

First movers do not always create new products or services, but may find new ways to capitalise on existing competencies. Caterpillar's 1995-to-1997 turnaround was spawned by movement away from its manufacture of engines for its construction equipment to newly designed engines for use in generators, heavy-duty trucks, and boats (Elstrom, 1997). As such, a single first mover can play a major role in redefining the success factors in a given industry (Nagle, 1993).

First movers can also substantially influence the structure of their industries. For example, John Harvard's Brew House has been delivering hand-crafted ales and an English pub atmosphere in Cambridge's (Massachusetts) Harvard Square since 1993, thereby developing a market virtually undeveloped 10 years ago (Benavides, 1997). Some may suggest that John Harvard's is following a focus strategy within the restaurant industry, while others may contend that the business is simply a prospector within the recently developed 'brewpub' industry. Regardless of level of aggregation, John Harvard's, in concert with several others, has helped define an 'industry within an industry'.

The renewing organisation (see Hurst *et al.*, 1989) implements a version of first-mover strategy by seeking constant change during periods of strong performance to maintain industry leadership positions and capitalise on new business opportunities. Nike CEO Phil Knight views his company's strategy as a never-ending response mechanism designed to deliver constant strategic change based on shifts in social, 'non-market' forces (see Baron, 1995; Lieber, 1997).

Second Mover

Second movers seek to imitate and enhance the successful product and service enhancements initiated by the first movers. Although valuable to the first mover, speed—reaction time, including redesign, manufacturing, testing, and distribution—is especially critical to the effective implementation of the second-mover strategy. Whereas first movers must respond effectively to changes in the external environment, second movers must respond to changes initiated by first movers.

Marketing expertise is often critical, as customers may see the second-mover's offerings as mere imitations without an effective campaign. As such, second movers accept some degree of industry influence on profitability, but seek to minimise substantial effects by modifying the change efforts initiated by the first movers. The second-mover strategy resembles the analyser strategy originally proposed by Miles & Snow (1978).

Segment Control

Some organisations attempt to efficiently produce competitively priced products and services for an established market niche. Segment controllers concentrate efforts on one or a few market segments and seek to develop a leadership position within them. In some cases, such efforts may be accompanied by a desire for growth. For example, Baby Superstore's 62-store retail chain seeks to control the entire infant/toddler market by selling everything a parent needs to raise a baby (Ratliff, 1996).

Many organisations implementing a segment control strategy seek to target niches left vacant by other businesses. For example, Seattle-based Advance Capital Inc. markets commercial finance to small businesses which do not qualify for traditional bank loans (Russell, 1997). Facing increased competition from larger dealerships, Kansas-based Haven Ford Sales Inc. targets the customer who desires a 'small town' relationship encompassing friendly service, no-pressure sales tactics, and a sense of fairness not typically associated with vehicle retailers (Howell, 1997).

Some companies may target two or more segments, a strategy difficult to implement but potentially rewarding. Sam's Wholesale Club sells food and other products in large quantities to small business, but also targets large families as well. Construction supplier Payless Cashways seeks to serve both professional and do-it-yourself customers (Trollinger, 1997).

Second-level Strategies

Product/Service Breadth

Wide product/service lines serve multiple market segments, can lead to greater efficiencies through resource sharing, and can deter prospective competitors by maintaining a presence in multiple market segments. However, the greater customer choice associated with greater breadth can also reduce production efficiencies associated with economics of scale if the specific combination of services does not create synergy for the organisation,

For businesses with broad product/service lines, specific strategies may vary from one line to another. For example, the Maxwell House Division of Kraft General Foods pursues production/distribution efficiency with its regular ground coffee, but high perceived uniqueness with some of its other offerings, such as Colombian Supreme (Nayyar, 1993). Although the combination of line breadth with efficiency is difficult to achieve, Kraft is able to do so via its massive distribution efficiencies associated with its size and experience in the prepared foods market.

General Electric's 'Smart Bomb' strategy illustrates the complexity of a business strategy based on breadth of the product line. In its Asian operations, GE enters geographical markets where it believes it can achieve a 20% return on investment. The result is a collection of business units (or sub-units, depending on one's level of aggregation) in different Asian locales, each with varying product lines and functional strategies (Grant, 1997).

Perceived Uniqueness

Businesses may choose to produce unique products or services, or at least promote the *perception* that its offerings differ substantially from the competi-

tion, to enhance margins associated with its perceived differentiation. In many, but not all, cases, the emphasis on product or service enhancements or marketing campaigns designed to support the strategy can ultimately reduce margins. The success of a uniqueness emphasis depends on a firm's ability to command a higher price, or in some cases develop economies of scale, to justify the increased expenses.

Businesses implementing a strategy emphasising uniqueness are most vulnerable to performance declines if they begin to neglect their core business. Sytje's Pannekoeken Huis Family Restaurants, once profitable and known for its puffy pancakes and windmill-kitsch decor, began to experiment with new dining concepts and unrelated acquisitions to boost sales. This shift in attention from the facets of the company's uniqueness to factors that may prove successful for some of its competitors resulted in a muddled image and decline, ending in liquidation (Fudge, 1997). On the contrary, after struggling during the early 1990s, Honda Motor Company initiated a turnaround by re-emphasising its unique approach to automobile design and manufacturing (Thornton, 1997).

A company's uniqueness need not be based on products or services sold. Rather, it can be based on a business process or philosophy. For example, Wetherill Associates crafts its strategy around high ethical standards. The 480-employee auto parts distributor builds relationships with other businesses based on honesty and integrity, and does not work with companies whose practices are suspect (Burger, 1997).

The concept of quality is often confused with that of uniqueness. Although the two often co-exist, this is not always the case. Indeed, the application of quality as a functional strategy can enhance the effectiveness of any business strategy. For example, checks and forms manufacturer Short Run Companies—like a growing number of other firms—decentralised its quality effort so that line employees make relevant decisions (Heckelman, 1997). As a result, lower-level employees influence the specific attributes of products in the mix. If such an effort allows line workers to make decisions affecting the introduction of new products or services or the elimination of existing ones, then the quality effort ultimately becomes a quality *and* strategy effort.

Production/Distribution Efficiency

Virtually every industry contains a sizeable number of businesses pursuing high performance via production and distribution efficiency. Although most seek to meet basic quality standards, such businesses avoid expenditures that are not directly associated with the production and distribution of a competitive product or service. Businesses emphasising efficiency are in strong competitive positions when price is the most important factor in a customer's decision. As such, they are generally able to survive and even initiate price wars. However, when price is not as critical or industry offerings are highly differentiated, efficiency-based businesses become vulnerable.

The theory supporting the notion on an efficiency-based strategy was well developed two decades ago. According to Porter's (1980) typology, a firm can maximise performance either by striving to be the low-cost producer in an industry, by differentiating its line of products or services from other firms, or by focusing its efforts on a given segment of the market. Porter

defined the low-cost strategy as the ability of the firm to design, produce, and market a comparable product more efficiently than its competitors. To successfully implement the strategy, businesses must maintain low costs by producing and distributing their products more efficiently than their competitors.

Propositions

Based on the previous discussion, three propositions were developed to test for the efficacy of specific strategy combinations of first- and second-level strategies. It should be noted that these propositions are somewhat speculative, as previous research does not provide a basis for hypothesising about specific competitive strategy combinations. These relationships are summarised in Table 2.

Proposition 1: among businesses employing the first-mover strategy, performance will be positively associated with the degree to which the product/service breadth strategy and perceived uniqueness strategy are employed, but negatively associated with the degree to which the production/distribution efficiency strategy is employed.

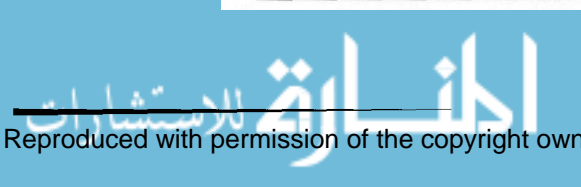
By their nature, first movers may develop wide arrays of products that are perceived to be unique. However, efficiencies are less likely to be attained, as first movers must incur high costs in product development and related areas.

Proposition 2: among businesses employing the second-mover strategy, performance will be positively associated with the degree to which the perceived uniqueness strategy and/or the production/distribution efficiency strategy are employed, but negatively associated with the degree to which the product/service breadth strategy is employed.

Like first movers, second movers may also develop products that are perceived to be unique. Further, second movers may also be able to develop efficiencies not enjoyed by first movers because of their lower emphasis on innovation. However, second movers that attempt to develop wide product/service lines are more likely to find themselves 'stuck in the middle' (Porter, 1980, p. 41) between first movers that develop the line extensions and

Table 2. Hypothesised strategy–performance relationships for first- and second-level strategy combinations

Hypothesised performance relationships	Second-level strategies		
	Product/service breadth	Perceived uniqueness	Product/distribution efficiency
First-level strategies			
First mover	+	+	-
Second mover	-	+	+
Segment control	+	-	+



segment controllers that are better equipped to efficiently manage a wide production line.

Proposition 3: among businesses employing the segment control strategy, performance will be positively associated with the degree to which the product/service breadth strategy and production/distribution efficiency strategy are employed, but negatively associated with the degree to which a perceived uniqueness strategy is employed.

Segment controllers understand their limited markets exceptionally well. As a result, they may be able to produce most efficiently and/or offer their customers wide product lines. However, products and services are more likely to be standardised; attempts to emphasise uniqueness will tend to fail.

Data Collection Analysis

Development of the Survey Instrument

A parsimonious self-report (Likert-oriented) instrument was developed to measure each business' emphasis on the six business strategies aforementioned. Responses for each item were anchored with scores of '1' for strongly disagree and '5' for strongly agree. In a preliminary test, 48 items were developed to serve as potential measures of the six strategies. Following a pilot test of 47 executives and further scrutiny, three items were utilised for each strategy.

The first item considered the business' intentions concerning the strategy in question (e.g. 'We seek to be the first in our industry to offer new products and services'). The second examined the philosophy of the business' top executive with respect to success in the industry (e.g. 'In our industry, the rewards associated with being first with new products and services outweigh the risks of failure'). The third addressed the degree to which the business is willing to accept the potential downside or risk associated with the strategy (e.g. 'Although we recognize that new ideas can sometimes lead to failure, we are willing to take the risks necessary to be first with a new venture'). The complete list of strategy items appears in Table 3.⁷

An instrument containing these 18 items (i.e. three for each of the six strategies) was mailed to executives in 149 eating establishments to test the reliability of the instrument. Each of the six three-item scales produced factor loadings in excess of 0.50 and a coefficient alpha in excess of 0.60, suggesting a level of reliability appropriate for additional research (Kuratko *et al.*, 1990; Peter, 1979).

Performance was measured by mean three-year return-on-investment (ROA) and annualised three-year revenue growth data provided by Stock Quest (Market Guide Inc., 1997). Surveys were sent to the 577 retail companies included in Stock Quest's financial data base of publicly traded corporations, 231 of which were properly completed and returned, resulting in a response rate of 40%.

Statistical Analysis

Three-item scales for each of the six strategies were factor analysed for the 231 respondents. Factor scores (Anderson-Rubin method) were computed

Table 3. Strategy survey items

First-mover items:

We seek to be the first in our industry to offer new products and services

In our industry, the rewards associated with being first with new products and services outweigh the risk of failure

Although we recognise that new ideas can sometimes lead to failure, we are willing to take the risks necessary to be first with a new venture

Second-mover items:

We watch our competitors' new product or service introductions and imitate them when they are successful

In our industry, it makes sense to watch the innovators closely and quickly adopt the new products, services, or changes that seem to work well for them

Although being second with a good idea is sometimes too late, we prefer to let our competitors test the waters before we follow

Segment control items:

We strive to serve only one or two established market segments exceptionally well

In our industry, it is best to identify one or a few established customer groups and serve them well

Although we forego opportunities to serve new markets, we prefer to focus on meeting the needs of our existing customer base exceptionally well

Product/service breadth items:

We attempt to offer a very wide assortment of products and services

It is important in our industry to offer a wide selection of products and services

Although producing a wide variety of products and services hurts our production efficiency, we succeed by satisfying more of our customers' needs through our wide variety

Perceived uniqueness items:

We strive to differentiate our products from others in the market place

The most successful companies in our industry produce products or services which customers perceive to be unique

Although producing and marketing a unique product or service can increase costs, our customers are willing to pay for the difference

Production/distribution efficiency items:

We place a great emphasis on producing our products and services at the lowest cost in the industry

One of the best ways to attain success in our industry is to produce our products and services at a cost level lower than that of our competitors

Although our products and services may not be perceived as unique, our emphasis on minimising production costs gives us a superior competitive position in the market place

from each of the six scales to serve as measures for the strategies. For each of the strategies, factor loadings exceeded 0.50 and Cronbach's alpha exceeded 0.55 (see Table 4). Marginal loadings (between 0.52 and 0.55) and alpha (0.55) were found with the segment control strategy, suggesting a flexible interpretation by executives of how such an approach may be effectuated. As one executive put it, '—being first or second is at least easy to attempt—controlling part of the market is a little more complicated'.⁸

Propositions

Businesses were classified as following a particular first-level strategy when (1) the strategy's factor score was higher than that of the other two first-level strategies and (2) the factor score was greater than 0.50 (i.e. the business scored at least one-half of a standard deviation above the mean for the

Table 4. Factor analysis for strategy items

Strategy item	Factor loading	% of variance	Cumulative % of variance	Coefficient alpha
First mover: intention	0.782	67.8	67.8	
First mover: philosophy	0.561	20.9	88.7	
First mover: risk	0.690	11.3	100.0	0.76
Second mover: intention	0.633	64.2	64.2	
Second mover: philosophy	0.623	18.9	83.2	
Second mover: risk	0.672	16.8	100.0	0.72
Segment control: intention	0.519	52.9	52.9	
Segment control: philosophy	0.546	24.0	77.0	
Segment control: risk	0.522	23.0	100.0	0.55
Product/service breadth: intention	0.656	72.7	72.7	
Product/service breadth: philosophy	0.689	18.4	91.1	
Product/service breadth: risk	0.835	8.9	100.0	0.81
Perceived uniqueness: intention	0.700	65.4	65.4	
Perceived uniqueness: philosophy	0.669	19.6	85.0	
Perceived uniqueness: risk	0.592	15.0	100.0	0.73
Product/distribution efficiency: intention	0.619	68.1	68.1	
Product/distribution efficiency: philosophy	0.665	19.3	87.4	
Product/distribution efficiency: risk	0.760	12.6	100.0	0.77

strategy). This test was designed to be conservative in assigning strategies to business, and resulted in 48 first movers, 58 second movers, 73 segment controllers, and 52 businesses without clear first-level strategies. Within each strategic group, propositions were tested by examining the significance of correlations between factor scores measuring second-level strategies and both ROA and three-year revenue growth.

The first proposition was not supported. Considering the correlation between the strategy's factor score and performance, the first-mover strategy was significantly correlated with revenue growth, but not with ROA (see Table 5). Among first movers, the product/service breadth strategy was

Table 5. Strategy combination and performance

First-level strategy	Second-level strategy	Correlation with ROA	Correlation with three-year revenue growth
First mover	All strategies ($n = 231$)	-0.037	0.202*
	Product/service breadth ($n = 48$)	-0.295*	-0.323*
	Perceived uniqueness ($n = 48$)	0.005	0.374*
	Product/distribution efficiency ($n = 48$)	0.367*	-0.384*
Second mover	All strategies ($n = 231$)	-0.031	0.006
	Product/service breadth ($n = 58$)	0.027	-0.077
	Perceived uniqueness ($n = 58$)	-0.072	0.281*
	Product/distribution efficiency ($n = 58$)	0.318*	0.148
Segment control	All strategies ($n = 231$)	0.183*	0.004
	Product/service breadth ($n = 73$)	0.341*	0.279*
	Perceived uniqueness ($n = 73$)	-0.332*	-0.146
	Product/distribution efficiency ($n = 73$)	0.404*	0.207

Note: *Significant at 0.05 level.

negatively correlated with both performance measures. Perceived uniqueness was positively associated with growth, but not with ROA. Interestingly, production/distribution efficiency was positively associated with ROA, but negatively associated with growth.

The second proposition was generally supported. Considering the correlation between the strategy's factor score and performance, the second-mover strategy was not associated with either of the two performance measures. However, among second movers, perceived uniqueness was positively associated with growth, while production/distribution efficiency was positively associated with ROA. However, the emphasis on product/service breadth strategy was not found to be significantly correlated with either ROA or revenue growth.

The third proposition was strongly supported. Considering the correlation between the strategy's factor score and performance, the segment control strategy was significantly correlated with ROA, but not correlated with growth. Among segment controllers, product/service breadth was positively associated with both performance measures. Perceived uniqueness was negatively associated with ROA. Production/distribution efficiency was positively associated with ROA.

Discussion

In general, the empirical data presented in this study suggest that combination strategies can lead to superior performance, but not necessarily for all competitors. In addition, some combinations led to superior performance in *either* growth *or* profitability, but not both. Many businesses in the present study effectively combined strategies (e.g. segment controllers also emphasising the product/service breadth second-level strategy). However, some strategy combinations (e.g. first movers also emphasising the product/service breadth second-level strategy) were associated with poor performance.

In some respects, a strategy represents a choice between two or more alternatives. For example, a strategy that emphasises new product development *costs* the organisation resources in research and development, costs which must be recouped in higher margins or increased sales if the business is to be successful. However, a business may allocate only a portion of its resources to new product development, reserving other resources for another area of emphasis.

Businesses, which successfully combine strategies must utilise synergies to overcome the apparent tradeoffs associated with combinations. For example, to be successful, a manufacturer pursuing a strategy that emphasises both first-mover advantages and efficiency in production may emphasise the development of new products, which can be produced at lower costs than existing ones. Indeed, a single business might base its strategy on several facets of competitive advantage, although some combinations may be easier to implement than others.

Specifically, two first- and second-level strategy combination findings warrant discussion. First, the negative association between product/service breadth and both performance measures suggests that first movers in the industry were most successful when they concentrated their efforts on a

limited number of products or services. In a similar vein, the positive association between production/distribution efficiency and performance among first movers suggests that seeking to be first in the market does not preclude efficiency. Considered together, these two findings suggest that successful first movers tended to be those that were selective in their innovative efforts, with a watchful eye on costs.

Second, the notion that segment controllers are most successful when they emphasise broad product lines and efficient operations was strongly supported in the present study. However, an emphasis on developing perceptions of uniqueness reduced performance for segment controllers. Hence, customers in established market segments appear to perceive little if any difference in various product or service offerings, and are not as likely to pay higher prices to support attempts at establishing differentiation. As a result, segment controllers that do not allocate substantial resources to establish perceptions of uniqueness may be more likely to achieve superior performance.

A final insight may be gleaned by examining the resource-based perspective. Specifically, resource-based theory is inconsistent with the widespread application of strategic groups. According to IO theory, just as industries may be identified based on similarities shared by their members, strategic groups within the industry can be defined based on strategic commonalities shared by their members. Indeed, the notion of strategic groups is intuitively appealing and emphasises the similarities among groups of businesses in an industry. However, the notion of 'pure' and 'combination' strategies perpetuated by strategic group thinking may not be appropriate. Rather, resource-based theorists might argue that *all strategies* reflect unique combinations of resources, and that all businesses employ combination strategies to varying degrees.

Future Challenges

The present study strongly supports the viability of some—but not all—combination strategies. However, it also presents a variety of challenges for future investigation. First, one could argue that there are more than three strategic options available to an organisation at the second level. The first level of the framework developed in this paper focuses on a dimension with clear restrictions (i.e. *when* an organisation intends to move—*first*, *last*, or somewhere in between. In contrast, the three second-level strategies elaborated in the paper may be the most widely accepted and researched approaches, but they are not mutually exclusive. Such limitations are necessary for the sake of parsimony, but should be recognised and re-evaluated in future studies.

In addition, the long-term viability of various combination strategies remains untested. It is also possible that some strategies defined as combinations may reflect businesses in transition from one strategy to another. During such a time of strategic change, the competent business would *appear* to be following two distinct approaches simultaneously. Present strategy classification schemes do not consider that some businesses are likely in the process of changing strategies. Under such circumstances, the validity of forcing a generic strategy classification can be brought into question.

Second, if the combination strategy is a matter of degree and not of form, tests of the framework proposed in this paper can move beyond the issue of *whether* strategies can be combined and suggest *which forms* of competitive advantage can likely be pursued in a single coherent strategy. Following resource-based theory, a business may, *given the proper array of resources*, succeed by implementing any single strategy in the framework or any combination of strategies. However, following the IO model, some combinations appear *more likely* to be effective than others, and such combinations may be common in a given industry, thereby forming strategy groups. For example, first movers may be most likely to also develop perceived uniqueness, but less able to emphasise production and distribution efficiencies. In contrast, segment controllers may be well equipped to emphasise efficiency but not uniqueness. Previous research has focused predominantly on combinations of the uniqueness and efficiency strategies (i.e. differentiation and low cost), perhaps one of the least attractive combinations in the framework. Additional research may develop a taxonomy of combination strategies.

The third challenge is associated with the measurement and role of performance (Venkatraman & Ramanujam, 1986). While strategy researchers struggle with various performance measures such as return-on-assets, stock price and revenue growth, many companies are beginning to use a mixture of financial and non-financial measures for performance (Kaplan & Norton, 1997; Wiliford, 1997). The present study considered two of the most common measures: ROA and revenue growth. Researchers can utilise different measures of performance in future combination strategy studies, reflecting both quantitative and qualitative outcomes. In addition, future research may consider the effect of performance in one time period on strategy in the subsequent period (Khatri & D'Netto, 1997).

Fourth, the inclusion of only one industry in the study and the relatively small groups of business classified along each first-level strategy limit the generalisability of the present findings. Additional research that examines other industries is needed to provide additional empirical support for the first- and second-level strategy hierarchy proposed in this study, as well as the appropriateness of specific first- and second-level combination strategies. In addition, larger samples may also allow researchers to consider combinations of second-level strategies.

In a similar vein, the present study considered only American business; replications in other nations may provide additional insight. Research has suggested that the notion of competitive strategy in non-Western economies is not conceptualised in the Western context (Birkinshaw & Morrison, 1995; Kobrin, 1994; Parnell & Sokoya, 1997). The international generalisability of the present study will be enhanced as additional research tests the model in additional geographical settings.

Fifth, it is not sufficient to investigate the strategy-performance relationship without giving consideration to managerial consensus—the degree to which managers (especially members of the top management team) agree on strategy. If consensus is linked to performance—an argument advanced by Bowman & Ambrosini (1997) and others—then one may argue that some competitive strategies lend themselves to greater agreement among managers. For this reason, future studies may consider the perceptions of

multiple top and functional managers. For example, consensus may be high among segment controllers where everyone seems to understand the niche being targeted by the business, but be low among first movers where the essence of the strategy is not always well understood (Wooldridge & Floyd, 1990). Strategy coherence—the consistency of strategic choices across business and functional levels—has also been linked to performance (Nath & Sudharshan, 1994). There is also increasing evidence that strategy formulation is linked to the top executive's personal philosophy and personality (Kotey & Meredith, 1997). In a similar vein, based on CEO assessments, Golden (1992) found that 58% of organisations he surveyed did not agree with the previously validated accounts of their organisations' past strategies!

Finally, this framework provides a unique opportunity to promote practical applications of strategic management research. Indeed, the field has been replete with concerns about its practical relevance (Dacko & Sudharshan, 1996; Gopinath & Hoffman, 1995). Further elaboration of the line of research introduced in the present study can facilitate the development of prescriptive work that can help top executives to coordinate their strategic efforts more effectively.

Notes

1. This is not to suggest that industrial organisation and resource-based perspectives have not been viewed as somewhat complimentary. See Mahoney & Pandian (1992) for a discussion of some of the conceptual overlap between the two theories.
2. See McGee & Thomas (1986) for a thorough discussion of the development of strategic group research.
3. Studies utilising the Miles and Snow typology also generated conflicting results.
4. Wright *et al.* (1990) extended the Miles and Snow typology by proposing a high-performing combination strategy—the 'balancer'. Whereas the analyser has been viewed as a hybrid strategy, the balancer organisation operates in three separate product-market spheres simultaneously.
5. Although the theoretical differences are clear, membership in one school or the other is not always easy to classify. Most researchers acknowledge limitations of both schools to some degree. Miller & Dess' (1993) assessment of Porter's model, for example, is difficult to classify.
6. See Mahoney & Pandian (1992) for an excellent overview of the utility of resource-based theory in strategic management.
7. Items were scrambled on the survey instrument.
8. Executives were not interviewed as any formal part of the research process, but one made this comment in a follow-up telephone call.

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