

# STRATEGIC CONSIDERATIONS IN THE FINANCIAL SERVICES INDUSTRY: DOES STRATEGIC CONSISTENCY INFLUENCE PERFORMANCE?

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## ABSTRACT

*This paper suggests that the consistency of strategic leadership decisions is relevant to the performance of a firm. An organization with consistency in decision making across six relevant marketing strategy variables (promotion, price, channels, products, markets, and technology) is described as exhibiting "purity-of-form". An empirical examination is performed in the financial services industry investigating the relationship of strategic consistency to both profitability and market share while controlling for the firm's environment, structure, and size.*

*The findings indicate that a consistent strategy may have a positive effect on share performance, with high-levels of strategic leadership observed in the better-performing group. The authors suggest that either (a) a "pure form" utilizing high levels of strategic leadership or (b) a "mixed" strategic leadership form is preferable in the financial services industry. No relationship is found between strategic consistency and profitability.*

## INTRODUCTION

An issue that has become a dominant focus in the strategic management literature is the identification and categorization of actions considered to be strategic in nature, and the subsequent classification of those variables into strategic configurations (Kaufman, Wood, & Theyel, 2000; Miles & Snow, 1978; Miller, 1986; 1987a; Porter, 1980; Woodside, Sullivan & Trappey, 1999). The purpose of this paper is to develop and empirically test one such strategic configuration, the consistency of strategic form.

As in previous strategic typologies, the basis of the proposed strategic configuration is the assumption that successful firms tend to implement a consistent strategy across a variety of strategic dimensions. Specifically, this consistency may be described as a "pure" form strategic configuration. In contrast, a strategic configuration with inconsistency across the marketing variables may be referred to as being of a "mixed" form. Thus, firms can implement one of three configurations regarding consistency of strategy: (1) pure-form: high levels, (2) pure-form: low levels, or (3) mixed-form.

In addition to presenting a new strategic classification scheme, the current study addresses some limitations of previous research in this field by using an expanded variety of covariates. The paper begins with a review of the relevant literature, followed by descriptions of the sample and the measures. We then present the analysis and conclude with a discussion of the findings and limitations of the study.

### **COMPONENTS OF A STRATEGIC CONFIGURATION**

The use of technology, research and development, the introduction of new products, the shifting or expansion into new markets, and the focusing of specific market segments are only a few of the ways in which the strategy of the firm has been empirically measured (Miles & Snow, 1978; Porter, 1980; Miller, 1987b; VanderWerf & Mahon, 1997). The variables of the strategic configuration used in this study are based on previous studies examining multiple aspects of strategy, the components of which are noted as being part of marketing decision making (McDaniel & Kolari, 1987; McKee, Varadarajan & Pride, 1989; Smith, Guthrie & Chen, 1989). As such, six salient strategic marketing variables are proposed for inclusion in the present strategic typology: (1) products or services, (2) promotion campaigns, (3) pricing, (4) distribution, (5) technologies, and (6) markets.

Consistent with previous research, the selected strategic variables can be described as relating to the degree to which a firm aggressively deals with their current and future market environments. In fact, firms with an aggressive posture may seek to gain first-mover advantages in each of these strategic domains (Pleshko, Heiens & McGrath, 2002). Extending this view of marketing leadership, or initiative, the proposed conceptualization suggests that it is the consistency with which strategic decisions are made across these six domains that is important to a firm's success.

### **PURITY OF STRATEGIC FORM**

Consistent with the proposed view, previous research has considered the broad concept of strategy as a configuration of decisions across a variety of domains (Hambrick, 1983; Miles & Snow, 1978; Porter, 1980; Snow & Hrebiniak, 1980). As previously mentioned, numerous studies have involved empirical tests to identify and categorize managerial decisions in order to classify firms into one of several configurations. As a result, what are described as "pure" forms of these configurations have been identified and tested to some degree (Hambrick, 1982; Conant, Mokwa & Varadarajan, 1990). Much of the past research into pure forms has shown that implementing a pure form of decision making does not necessarily lead to desired outcomes, such as increases in performance or shareholder value (e.g., Beer & Nohria, 2000; Pleshko & Souiden, 2002).

Nevertheless, few studies have investigated the concept of pure forms as it relates to marketing strategy. Instead, most studies tend to focus on internal matters of structure or culture.

Under the common conceptualizations, pure strategies are usually described by either (i) the "fit" of strategic components within a specific classification or (ii) the consistency of the firm's actions as they relate to a goal-driven situation, such as the development of a new product or the management of a sales force (e.g., Berry, Hill & Klompmaker, 1999; Erickson & Kushner, 1999; Oliver & Anderson, 1995). The conceptualization used in this study most closely aligns with the second approach. In the present study, *it is proposed that organizations are considered to have a "pure"-form configuration if they exhibit consistent levels (either high or low) across the relevant strategic components and "mixed"-form if the strategic components are not consistent. Thus, firms can implement one of three configurations regarding purity of leadership strategy: (1) pure-form: high levels, (2) pure-form: low levels, or (3) mixed-form.*

This approach is a viable alternative to other strategic classifications whereby strategies are classified into categories even though all the characteristics of that strategy may not correspond completely (e.g. Miles & Snow 1978). A major problem with forced classifications is the limitation related to empirical testing (Zahra & Pearce 1990). Thus, the proposed conceptualization may help to overcome this limitation by looking at the many components of a strategy simultaneously.

## SAMPLE DESCRIPTION

In the current study, the relationship between strategic purity and performance is examined in the financial services industry. Credit unions have shown a rapid growth in asset holdings over the past decade and ongoing industry consolidation has led to larger institutions faced with stronger competition from both within their sector as well as from other types of financial institutions, such as banks and investment companies (Jefferson & Spencer, 1998; Kaushik & Lopez, 1996). Thus, credit unions are an important industry within which to investigate the proposed conceptualization (Allred & Addams, 2000).

Data for the study were gathered from a statewide survey in Florida of all the credit unions belonging to the Florida Credit Union League (FCUL). At the time of the study, membership in the FCUL represented nearly 90% of all Florida credit unions and included 325 firms. A single mailing was directed to the president of each credit union. Included in each mailing was a four-page questionnaire and a cover letter. In order to increase response rates, a copy of the summary results were promised and provided to responding credit unions.

This approach yielded 125 useable surveys, a 38.5% response rate. Of those individuals responding, 92% were presidents and 8% were marketing directors. A chi-squared test of the respondents versus the sampling frame indicates that the responding credit unions are significantly different from the membership firms based on asset size ( $\chi^2 = 20.73$ , d.f. = 7,  $p < .01$ ) with an indication that medium to larger firms are more represented than smaller ones.

## MEASURES

The study includes eight constructs. The main items of interest are strategic leadership purity-of-form (pure-high, pure-low, mixed) and business performance (market share, profits). Also included in the study as control variables are three indicators of the market environment (dynamism, heterogeneity, and complexity), three indicators of the firm's structure (formalization, centralization, integration), and one indicator of the firm's size (asset size).

For the purity-of-form measure (PURITY), this study focuses only on strategic variables relevant to marketing decision making. The components of a firm's strategic marketing configuration are based on previous studies examining multiple components of strategy (Pleshko et al., 2002; McDaniel & Kolari, 1987; McKee et al., 1989; Smith et al., 1989). The six components selected for study relate to a firm's aggressiveness, innovativeness, or leadership regarding marketing decision making and include: (1) products or services, (2) promotional campaigns, (3) distribution, (4) prices, (5) technologies, and (6) markets. Respondents were asked to evaluate their company's strategic efforts on a five-point scale anchored by "true" and "not true".

Based on responses provided, each firm was profiled by the six strategic marketing characteristics (i.e., high or low price leadership) with a median split being used to divide the firms into either high or low on each of the six characteristics. Each firm was then classified regarding PURITY as either "pure" (low-level assigned a value of negative one, high-level assigned a value of one) or "mixed" (assigned a value of zero). The pure-form firms are those that were described as either "high" on all six strategic dimensions or as "low" on all six strategic dimensions. A "mixed" firm exhibits an inconsistency of high and low strategic characteristics. To note the frequencies of the usable responses, 44% were classified as "pure" in the sample. Thirty-three pure-form firms exhibited low-levels of leadership while the remaining eighteen exhibited high-levels of leadership. The remaining 56% were classified as "mixed".

Performance was measured using perceptual indicators of profitability and share (Ruekert, Walker & Roering, 1985). Perceptual measures are said to avoid the variable accounting methods associated with objective measures while also having been shown to strongly correlate with objective measures of the same firm (Dess & Robinson, 1984; Pearce, Robbins & Robinson, 1987).

Respondents were asked to evaluate their firm's PROFIT performance across five items on a seven-point semantic differential scale anchored by the adjectives "terrible" and "excellent". The five items in the PROFIT scale included profits: (1) versus goals, (2) versus competitors, (3) versus past performance, (4) versus potential, and (5) growth of profits. The five items in the resulting summated PROFIT scale exhibited a reliability coefficient alpha of .87.

Respondents were also asked to evaluate their firm's market SHARE performance across five items on a seven-point semantic differential scale anchored by "terrible" and "excellent": (1) versus goals, (2) versus competitors, (3) versus past performance, (4) versus potential, and (5) growth of

profits. The seven items in the resulting summated SHARE scale exhibited a reliability coefficient alpha of .88.

For the environment in which the firms operate, nine original items were subjected to a principal factors analysis followed by a varimax rotation. Three of the items were discarded because they did not load on a single factor. The analysis resulted in three factors comprised of two items each: (1) dynamism (DYNA), (2) heterogeneity (HETE), and (3) complexity (COMP). A summated scale was used for each variable.

For the organizational structure items, twelve original items were subjected to a principal components analysis followed by a varimax rotation. Two of the variables were discarded for not loading on a single variable. This resulted in three factors: (1) formalization (FORM): three items, (2) centralization (CENT): four items, and (3) integration (INTE): three items. A summated scale was also used for each variable.

An indicator of firm size was also included in the study. The level of asset holdings (ASSETS) indicates the size of the credit unions. Asset holdings ranged from less than \$500,000 to more than \$50,000,000. Firms were grouped into two categories: (1) small: \$10,000,000 or less and (2) large: more than \$10,000,000.

## ANALYSIS AND RESULTS

The first set of analyses combines the high-pure and low-pure firms into a single group, pure-form, which is compared with the mixed-form group. This variable is referred to as PURITY2 and distinguishes simply between pure-form and mixed-form firms. The first analysis is done to test if purity itself is important in predicting performance. The two models used to empirically investigate the effects purity-of-form might have on performance were examined using univariate analysis of variance and can be expressed as follows. Interactions are not included in the study due to sample size restrictions.

$$(1) \text{ PROFIT} = \text{PURITY2} + \text{DYNA} + \text{HETE} + \text{COMP} + \text{FORM} + \text{CENT} + \text{INTE} + \text{ASSETS} \text{ and}$$

$$(2) \text{ SHARE} = \text{PURITY2} + \text{DYNA} + \text{HETE} + \text{COMP} + \text{FORM} + \text{CENT} + \text{INTE} + \text{ASSETS}$$

Table 1 and Table 2 reveal the regression results for the first set of analyses. The findings differ for both profit performance and market share performance.

As noted in Table 1, the model for PROFIT performance is significant ( $p < .001$ ) with the predictors explaining an adjusted 15% of the variance. However, the strategic purity variable is not significant ( $p = .970$ ). Thus, simple purity-of-form has no effect on profit performance. Only the three environmental control variables seem to have a significant impact on profit performance. The variable constructed variable for dynamism (DYNA,  $p = .028$ ) exhibits an inverse relationship while the measure of complexity (COMP,  $p = .032$ ) shows a positive relationship with profits. Thus, results

seem to indicate that as the environment becomes more dynamic, then profit performance decreases. On the other hand, as the environment becomes more complex then profit performance increases. As noted in Table 2, the model for market share performance is significant ( $p < .001$ ) with the predictors explaining an adjusted 24% of the variance. In this instance, the strategic purity variable is significant ( $p = .042$ ). Thus, purity-of-form regarding leadership does seem to have an impact on market share performance. As in the first regression, the environmental control variable, DYNA ( $p = .001$ ) is significant. In addition, the organizational structure control variable measuring formalization (FORM,  $p = .023$ ) is significant as well. The variable DYNA shows an inverse relationship while FORM exhibits a positive relationship with market share. The negative control variable indicates that as the environment becomes more dynamic then market share performance decreases. On the other hand, the positive control variable indicates that as the firm implements a more formalized structure, then market share performance increases.

**Table 1: Profits Analysis  $p < .001$  15% of adjusted variance explained**

VARIABLE	SIGN	"F"	"p"
PURITY2		.001	.970
DYNA	negative	4.939	.028 *
HETE		3.752	.055
COMP	positive	4.728	.032 *
FORM		.001	.973
CENT		2.297	.133
INTE		.196	.659
ASSETS		.000	.986

**Table 2: Market Share Analysis  $p < .001$  24% of adjusted variance explained**

VARIABLE	SIGN	"F"	"p"
PURITY2		4.239	.042 **
DYNA	negative	9.602	.002 *
HETE		.033	.856
COMP		3.121	.080
FORM	positive	5.296	.023 *
CENT		.046	.830
INTE		.262	.610
ASSETS		.299	.586

\*\* mixed > pure

Regarding the purity-of-form relationship, further investigation using Tukey's mean-comparison test reveals that the mixed-form group significantly out-performs the pure-form group. This is most likely because the simple pure-form group in this analysis includes firms exhibiting both consistently high and low levels of strategic leadership. Because combining the two pure-form groups into a single category may have hidden any differences evident in the type of pure-form strategy implemented, a second analysis is performed to test if any masking has occurred. The second analysis splits the pure-form firms into two groups: high-pure and low-pure. This variable is called PURITY3 because it consists of three groups. As before, the two models used to empirically investigate the effects purity-of-form might have on performance were examined using univariate analysis of variance and can be expressed as follows. One should note that interactions are not included in the study due to sample size restrictions.

(3)  $PROFIT = PURITY3 + DYNA + HETE + COMP + FORM + CENT + INTE + ASSETS$  and

(4)  $SHARE = PURITY3 + DYNA + HETE + COMP + FORM + CENT + INTE + ASSETS$

Table 3 and Table 4 reveal the regression results. The findings differ for both profit performance and market share performance.

VARIABLE	SIGN	"F"	"p"
PURITY3		.090	.914
DYNA	Negative	5.024	.027 *
HETE		3.396	.068
COMP	Positive	3.980	.049 *
FORM		.000	.992
CENT		1.837	.178
INTE		.138	.711
ASSETS		.003	.957

As noted in Table 3, the model for PROFIT performance is significant ( $p<.001$ ) with the predictors explaining an adjusted 15% of the variance. However, the strategic purity variable is not significant ( $p=.914$ ). Thus, purity-of-form regarding leadership has no effect on profit performance. Only the two environmental control variables seem to have a significant impact on profit performance. Specifically, the variable DYNA ( $p=.027$ ) exhibits an inverse relationship while COMP ( $p=.049$ ) shows a positive relationship with profits. The negative control variable indicates

that as the environment becomes more dynamic, then profit performance decreases. On the other hand, as the environment becomes more complex then profit performance increases.

VARIABLE	SIGN	"F"	"p"
PURITY3		3.987	.022 **
DYNA	Negative	10.743	.001 *
HETE		.229	.633
COMP		1.577	.212
FORM	Positive	4.957	.028 *
CENT		.068	.795
INTE		.057	.811
ASSETS		.047	.829

\*\* pure-high, mixed > pure-low

As noted in Table 4, the model for market SHARE performance is also significant ( $p < .001$ ) with the predictors explaining an adjusted 26% of the variance. In this instance, the strategic purity variable is significant ( $p = .022$ ). Thus, purity-of-form regarding leadership does have an impact on market share performance. Also, one environmental control variable, DYNA ( $p = .001$ ) and one organizational structure control variable, FORM ( $p = .028$ ), are significant. The variable DYNA shows an inverse relationship while FORM exhibits a positive relationship with market share. The negative control variable indicates that as the environment becomes more dynamic then market share performance decreases. The positive control variable indicates that as the firm implements a more formalized structure then market share performance increases. Regarding the purity-of-form relationship, further investigation using Tukey's mean-comparison test reveals that the low-level group significantly under-performs both the high-level group and the mixed group regarding market share performance.

## DISCUSSION AND RESEARCH LIMITATIONS

This empirical study provides evidence in the area of marketing strategy that both supports and contrasts the findings of most other studies in pure forms. As in most previous research, pure-forms of strategy show no impact on profit performance. However, the research does show that pure-form strategy does have an impact on market share performance. This is consistent with the



notion that profitability may be partly determined by the efficiency of internal operations, whereas market share is largely determined by a firm's strategic decisions.

The findings seem to suggest that when striving for profitability, it appears that any of the three strategic typologies may yield positive results if a firm enjoys sufficient internal efficiencies. However, when focusing on market share as the performance measure, either a mixed-form or pure-form focusing on high-levels of leadership are the options of choice.

One potential weakness of the present study is the use of market share as a performance measure. According to a meta-analysis examining the impact of research methods on findings of first-mover advantages, VanderWerf and Mahon (1997) find that tests using market share as a performance measure are significantly more likely to find a first-mover advantage. On the other hand, their research suggests that tests using relative return, survival or other measures yield a more nearly random distribution. Consequently, the significant relationship between pure-forms of strategic leadership and market share may simply be an artifact of the performance measure employed.

One final limitation of the study is that the sample was somewhat biased toward medium to larger firms. In addition, the focus of the study was on a single industry. A cross-sectional investigation of a variety of industries may lead to different findings, as might a longitudinal study of the same nature. Similarly, utilizing different marketing strategy indicators or concepts may also result in different findings. Finally, the inclusion of interaction effects may offer more detailed insights into the effects of pure-forms on performance.

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