A Business Strategy Typology for the New Economy: Reconceptualization and Synthesis

John A. Parnell
Texas A & M University-Commerce

ABSTRACT

Research on the nature of the competitive strategy-performance relationship has focused primarily on traditional, brick and mortar businesses. Although competitive strategy theory is applicable to the new economy, generic strategy typologies do not account for the opportunities and challenges that this economy has presented to strategic managers. This paper reticulates three critical debates in the field--IO/resource-based theory, strategic groups, and combination strategies and performance--into a business strategy framework specifically applied to businesses operating in the digital, knowledge-based economy. Challenges for future research are presented.

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 emphasize 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 (Mauri & Michaels, 1998), and recent changes in social, technological, and economic factors suggest that this relationship be revisited. This paper proposes a competitive strategy typology for the new economy.

The remainder of the paper is divided into four main sections. First, an historical development of business strategy research is presented, including discussions on the industrial organization (IO) perspective, strategy typologies, the combination strategy debate, and resource-based theory. Second, the strategic implications of recent social, technological, and economic changes are presented. Third, a framework integrating these changes into existing theory is developed. Finally, challenges for utilizing the framework are outlined.

HISTORICAL DEVELOPMENT OF BUSINESS STRATEGY THEORY

The roots of contemporary business strategy research can be traced to--among other perspectives--industrial organization theory. Within Bain (1956) and Mason's (1939) IO framework of industry behavior, 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, the strategic group level of analysis was proposed as a compromise between the deterministic, industry level of analysis proposed and developed by industrial organizational economics and the firm or business level of analysis of interest to strategic management researchers (Hergert, 1983; Hunt, 1972; Porter, 1981). Strategic groups describe apparent clusters of firms that exhibit similar or homogeneous behavior within a somewhat heterogeneous industry environment (Fiegenbaum, McGee & Thomas, 1988).

Theorists have proposed at least three rationales for the existence of strategic groups (Fiegenbaum et al., 1988). First, differing goals (i.e., profit, revenue, or growth maximization) among industry players lead to different competitive approaches. In addition, firms with similar goals may seek to attain them through different strategies. Second, strategic managers make different assumptions about the future potential of their industries, and are thereby affected differently by changes in the external environment. Third, skills and resources vary among competitors. Following this logic, it is reasonable to assume that there may be at least several "groups" of businesses, each with common goals, similar resources, and shared assumptions.

Strategic group research has demonstrated group-performance linkages in the home appliance (Hunt, 1972), brewing (Hatten & Schendel, 1977; Hatten, Schendel, and Cooper, 1978), chemical process (Newman, 1973), consumer goods industries (Porter, 1973), paints and allied products (Dess & Davis, 1984), industrial products (Hambrick, 1983), U.S. insurance (Fiegenbaum & Thomas, 1990), and retail mail-order (Parnell & Wright, 1993) industries, among others. However, not all studies have supported a strong association (McGee & Thomas, 1986, 1992). Ketchen et al.'s (1997) meta-analysis found that only about eight percent of firms' performance can be explained by strategic group membership. Katobe and 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 organization situational variables such as the degree of emphasis on manufacturing and profitability. Additional studies have also examined variables thought to moderate the strategic group-performance relationship (Davis & Schul, 1993; Nouthoofd & Heene, 1997; Zahra, 1993).

Business Strategy Typologies

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

According to Porter's framework, a business can maximize 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 organizational 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 and Snow's (1978) framework identified four strategic types: prospectors, defenders, analyzers, and reactors. Based on Child's (1972) conceptualization of strategic choice, Miles and Snow assume that organizations 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 organizational 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. *Analyzers* stress both stability and flexibility, attempting to capitalize on the best of both of the preceding strategic types. *Reactors* lack consistency in strategic choice and perform poorly.

A number of theorists have sought to modify or integrate the typologies. For example, Miller's (1986) expansion suggested two different types of Porter's differentiation strategy. 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 utilizing 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 suggests that strategic types within both classification schemes could be categorized along the two dimensions of consistency and proactiveness. For example, differentiation and prospecting strategies tend to emphasize 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) emphasized four integrated types: innovation, market differentiation, breadth, and cost control. Chrisman, Hofer, & Boulton's (1988) framework considered differentiation, scope, and competitive methods. Attempts have been

made to further develop both typologies. These and other efforts notwithstanding, the original versions of the typologies appear to remain the most widely cited and tested (Eng, 1994).

Strategy Typologies: The Combination Debate

Although attempts at typology integration have linked similarities between the two approaches, they 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 analyzer, and Wright, Kroll, Pringle, and Johnson's (1990) expansion of the typology adds a second, the balancer. However, the debate extends well beyond the typologies themselves. Indeed, conflicting interpretations of empirical research utilizing both typologies resulted in the emergence of two schools of thoughts on the strategy-performance relationship.

One school has 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, 1982; Hawes & Crittendon, 1984). For example, Dess and 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 products 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 considers 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, Chang, & Buzzell, 1983; White, 1986; Wright, 1987). Although both sides appear to have moved toward 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.

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 toward 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, Bergh, & Wilstead, 1989).

Emergence of Resource-Based Theory

In the 1980s, several literature streams in the strategic management field began to synthesize into a broader perspective. The resulting paradigm, resource-based theory, drew from the earlier work of Penrose (1959) and Wernerfelt (1984) and emphasized unique firm competencies and resources in strategy formulation, implementation, and performance. Resource-based proponents have studied such firm-level issues as transaction costs (Camerer & Vepsalainen, 1988), economies of scope, and organizational 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 competitors (Peteraf, 1993). Sustained competitive advantage exists when competitors are unable to duplicate the benefits of the strategy (Barney, 1991).

Resource-based theory challenges three key tenets of the industrial organization approach (see table 1). First, IO assumes that firm profitability is primarily a function of industry profitability. Although this view recognizes the roles played by a variety of industry-level factors such as entry and exit barriers, it does not account for a firm's ability to redefine an industry or substantially influence its structure, even to the extent that it has no direct competitors. Resource-based theorists contend that the ability of a firm to develop and utilize valuable resources is the primary determinant of its performance.

Second, 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 its members, strategic groups within the industry can be defined based on strategic commonalties shared by their members. Indeed, the notion of strategic groups is intuitively appealing and emphasizes the similarities among groups of businesses in an industry. By maintaining a group level of analysis within the industry, IO researchers seek to identify appropriate or inappropriate strategies by comparing the performance levels of the strategic groups. In contrast, a number of resource-based theorists charge that all strategic groups are merely the an

Table 1
Assumptions Of The IO And Resource Based Perspectives

IO Tenet	Strength of the Tenet	Weakness of the Tenet	Resource-Based Theory's Response	Weakness of Resource-Based Theory's Response
Firm profitability is primarily a function of industry profitability	Recognizes the roles played by industry factors such as entry, exit, and mobility barriers in firm profitability	Does not account for a firm's ability redefine an industry or substantially influence its structure	Firm profitability is primarily a function of a firm's development and utilization of unique, valuable resources.	Unique, valuable resources are difficult to identify and measure. Generalizable, prescriptive research on the strategy-performance relationship is

				cumbersome since each organization must be assessed individually.
Each industry contains strategic groups--clusters of businesses implementing essentially the same strategy	Emphasizes the similarities among strategies employed by groups of businesses in an industry Allows for the empirical identification of appropriate and inappropriate strategies because groups can be compared	Strategic groups cannot be objectively defined (Barney & Hoskisson, 1990) There is no evidence that strategic groups exist in any or all industries De-emphasizes the uniqueness associated with each business strategy	Each business' control over resources and strategy development is unique. Strategic groups are not employed since they do not account for this uniqueness.	The strategy-performance relationship cannot be empirically investigated unless some degree of similarity among strategies is recognized.
In the long run, information is perfect and industry firms possess the same strategically relevant resources. Any short-run heterogeneity will disappear as firms purchase valuable resources at the strategic factor markets. Hence, a static view of long-run industry structure is warranted.	Recognizes that all firms have access to a common body of resources Does not attempt to measure the value of an intangible resource to a specific firm	During the time in which it takes for information about a strategically relevant resource to become perfect, its value may diminish as superior resources are developed (Rumelt, 1984) Ignores valuable resources not easily quantified, such as knowledge, expertise, and culture.	Industry structure, firm resources, and business strategies are dynamic entities and should be investigated as such.	Changes in industry factors and business resources are difficult to assess. Research must be longitudinal and utilize creative means for measuring the effects of these changes.

artifact of empirical research, whereas others suggest that they may exist in some industries, but not others (Barney & Hoskisson, 1990).

Third, there are key differences concerning the control of valuable resources. IO theorists contend that information is perfect in the long run, and that any short-run heterogeneity among businesses within an industry will be eliminated as competitors purchase valuable resources at the strategic factor markets (Barney, 1986b). Recognizing that all firms have common access to a common body of resources, the IO approach does not become mired in an attempt to measure intangible resources believed to be transitory.

In contrast, the resource-based perspective recognizes that businesses within an industry or strategic group may control heterogeneous resources, and that heterogeneity may be long-lasting. Both industry structure and firm control over resources are dynamic. As such, resource-based theorists do not see the expectational and information asymmetry (i.e., perfect strategic factor markets) that must exist in the traditional (IO) paradigm as realistic (Barney, 1986b). They contend that firm resources include all assets, capabilities, organizational processes, firm attributes, information, and knowledge controlled by a firm--many of which may be intangible and/or difficult to measure--that enable it to conceive of and implement successful strategies.

A firm's resources may include physical capital resources (e.g., technology, plant, equipment, geographic location, access to raw materials, etc.), human capital resources (e.g., knowledge, training, experience, relationships, quality of managers and employees, etc.), and organizational capital resources (e.g., planning, controlling, and organizing systems, etc.). To the resource-based theorist, ignoring firm-specific resources believed to be transitory so that researchers can incorporate a static approach to investigating firm profitability substantially reduces the precision of the analysis and is therefore unjustified. However, accepting the transitory nature of resources that lead to competitive advantage further complicates the research process for the resource-based theorist (Dess, Gupta, Hennart, & Hill, 1995; Feurer & Chaharbaghi, 1994; Robins & Wiersema, 1995).

Recently, strategic managers have begun to emphasize the value of human capital as a source of competitive advantage (Huff, 2000). According to knowledge management theory, people and their skills and abilities represent the only resource that cannot readily be reproduced by a firm’s competitors if it is deemed to be a source of competitive advantage. As such, high performing firms must leverage their human capital if they are to remain successful over the long term. A firm’s strategy is it’s most sophisticated form of knowledge.

In sum, the resource-based perspective exposes weaknesses inherent in the IO-based strategic group level of analysis and offers a variety of opportunities for strategic management scholars. Regardless of the limitations, however, proponents of the strategic group argue that their attempt to combine the advantages of both the industry (IO) level and firm level of analysis is warranted. Although the consideration of smaller groups of firms may provide some of the generalizability typically lost in firm-level case studies, the often-subjective assignment of firms

into groups should be acknowledged, and its limits recognized. Indeed, strategic groups do not fully consider the unique idiosyncratic resources prevalent at the individual firm level (Barney & Hoskisson, 1990).

RISE OF THE INTERNET AND THE NEW ECONOMY

The rise of the Internet has resulted in pronounced changes in the strategic management process. The Internet has provided a new channel of distribution, a more efficient means of gathering and disseminating strategic information, and a new way of communicating with customers. The most fundamental change, however, concerns the dramatic shifts in organizational structure, and their influences on viable business models.

The Internet has unleashed a number of alternative business models, some successful and some not. By early 2001, CyberRebate had become one of the most visited sites on the web, offering rebates with every product, some for the full purchase price. Critics charged that a business cannot sustain by giving away merchandise. However, a small percentage (less than 10 percent, according to CEO Joel Granik) of customers failed to collect their rebates for merchandise typically priced several times the retail level, and many others converted to products whose rebates only constitute part of the purchase prices (Edmonston, 2001). Time will determine the viability of such alternative business models. In Cyberrebate's case, the company filed for chapter eleven bankruptcy protection in May 2001. These alternative models do not always seek to leverage the same strategic factors prominent in traditional models.

During the past two decades, organizations have engaged in a process economists call disaggregation and reaggregation (Malone & Laubaucher, 1998; Tapscott, Ticoll, & Lowy, 2000). The economic basis for this transformation was proposed by Nobel Laureate Ronald Coase in what is now referred to as Coase's law: A firm will tend to expand until the costs of organizing and extra transaction within the firm become equal to the costs of carrying out the same transaction on the open market (Coase, 1990). In other words, large firms exist because they can perform most tasks—raw material procurement, production, human resource management, sales, and so forth—more efficiently that they would otherwise be performed if they were outsourced to the open market. Recent technological advances, most notably the development of the Internet, have reduced the costs of these transactions. As a result, progressive firms have placed less emphasis on performing all of the required activities themselves, and have formed partnerships to manage many of the functions that were previously handled in-house.

In addition to the movement toward disaggregation and reaggregation, the Internet has a number of characteristics closely associated with the strategic management process, the effects of which tend to be industry-specific. Five strategic dimensions of the Internet are worthy of discussion. First, the Internet has created a movement toward information symmetry, a state whereby all parties to a transaction share the same information concerning that transaction (Porter, 2001). Information symmetry is an underlying assumption of the economics-based models of "pure competition," and is the primary reason why many markets that might otherwise tend toward pure competition remain marginally competitive.

Businesses often seek to promote information asymmetry and utilize the information edge to their own advantage. Automobile retailers, for example, generally do not post their absolute bottom line prices on their vehicles. Consumers often negotiate with a number of dealers to estimate the true wholesale cost of the vehicle and the value of various options and accessories. The lack of consumer knowledge, as well as the lack of time and expertise required to pursue it, results in higher selling prices for many of the retailers (Porter, 2001).

Following this example, the Internet provides a wealth of information to educate consumers in this regard. Independent vehicle test results, retailer web sites, wholesale costs for new vehicles, and estimated trade-in values are all readily available. Some consumers may end up purchasing a vehicle from a sponsor of an informational site, and even educated consumers who do not complete part or all of the transaction process online will likely force their traditional retailer of choice to negotiate in a more competitive manner.

Second, the Internet acts as a distribution channel for non-tangible goods and services. Consumers can purchase items such as airline tickets, insurance, stocks, and computer software online without the necessity of physical delivery (Venkatraman, 2000). For largely tangible goods and services, businesses can often distribute the "intangible portion" online, such as product and warranty information.

Third, the Internet offers numerous opportunities to improve the speed of the actual transaction, as well as the process that leads up to and follows it (Penbera, 1999; Venkatraman, 2000). Consumers and businesses alike can research information 24 hours a day, and orders placed online may be processed immediately. Software engineers in the U.S. can work on projects during the day and then pass their work along to their counterparts in India who can continue work while the Americans sleep.

Fourth, the Internet provides extensive opportunities for interactivity that would otherwise not be available (de Figuerido, 2000). Consumers can discuss their experiences with products and services on bulletin boards or in chat rooms. Firms can readily exchange information with trade associations that represent their industries. Users can share files with a click of a mouse.

Finally, the Internet provides many businesses with opportunities to minimize their costs—both fixed and variable—and thereby enhance flexibility (Mahadevan, 2000; Porter, 2001). Information can be distributed to thousands or millions of recipients without either the expense associated with the mail system or the equipment required to do so.

These five strategic dimensions have fundamentally altered the nature of competitive advantage and the process of developing it. In many cases, top managers are openly challenging the traditional notion of strategy and seek to "violate the rules" in an effort to foster uniqueness and superior performance. Hence, a modified competitive strategy typology that both reticulates traditional approaches and integrates concepts from the new economy is needed.

A REFINED COMPETITIVE STRATEGY FRAMEWORK

Performance variations across businesses can be attributed to industry effects and organization effects (Rumelt, 1991). In its simplest form, the IO/resource-based theory debate can be reduced to a single question: Are organizational factors more or less important than industry factors in determining firm performance? Henderson and Mitchell (1997) suggest that attempting to answer this question may be a fruitless exercise, since organizational capabilities, competition, strategy, and performance are fundamentally endogenous. In a similar vein, McGahan and Porter (1997) found that industry accounted for 19 percent of variance in profitability within specific SIC categories, and that this difference varied substantially across industries. Powell (1996) suggested that industry accounts for between 17 and 20 percent of performance variance (see also Stimpert & Duhaime, 1997). Hence, *both* sets of factors are important, and research should proceed based on this assumption.

Any attempt at building on the merits of both the IO and resource-based perspectives must account for the varying degrees of influence of both industry factors and firm resources on performance (Roquebert, Phillips, & Westfall, 1996). Although past approaches aimed at expanding or integrating the original typologies proposed by Porter and Miles and Snow represent useful strategy frameworks, they do not account for different perspectives on the viability of combination strategies or the role of industry in business performance. In contrast, this framework utilizes past contributions, but is built on four basic assumptions.

First, the influence of industry on performance is greatest when businesses choose to *adapt* to existing conditions rather than attempt to *influence* them. Specifically, strategies that emphasize adaptation enhance industry's role, whereas those that emphasize enactment minimize it. In industries where strategic groups may exist, businesses choose whether or not to join them.

Second, combination strategies can lead to superior performance, but not necessarily for all firms or in all industries (Kotha, Dunbar, & Bird, 1995). A strategy represents a choice between two or more alternatives. For example, a strategy that emphasizes new product development *costs* the organization 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 that successfully combine strategies must utilize synergies to overcome the apparent trade-offs associated with combinations (Lemak & Arunthanes, 1997; Luo, 1997). For example, to be successful, a manufacturer pursuing a strategy which emphasizes both first-mover advantages and efficiency in production may emphasize the development of new products which can be produced at lower costs than existing ones. Indeed, a single business may base its strategy on several facets of competitive advantage, although some combinations may be easier to implement than others.

Third, many successful Internet businesses also compete with “brick and mortar” operations. Strategies for each side of the business (i.e., bricks and clicks) are generally most

effective when they are complimentary. Nonetheless, some competitors may employ one strategy for the "clicks" side of the strategy and another for the "bricks" side of the operations.

Finally, although the contributions of Porter and Miles and Snow are clear, the strategies depicted in this framework are based on forms of *competitive advantage* achieved when resources are effectively utilized, not on *how* organizations attempt to utilize them. This model accepts the resource-based contention that valuable resources should the focal point for strategy development. However, the value of a resource can only be measured through its contribution as part of an effective strategy.

The model developed in this paper identifies four business strategies based on three forms of competitive advantage. Specifically, it is argued that competitive advantage in the new economy is based on product, process, or structural innovation, or some combination of the three. Table 2 summarizes the components of the model.

Product Innovation

Product innovators seek to be the first to introduce new or modified products or services in their industries (Kerin, Varadarajan, & Peterson, 1992; Lieberman & Montgomery, 1988). This strategy is similar in a number of respects to the prospector (Miles & Snow, 1978) and differentiation (Porter, 1980) strategies. Because product (or service) innovators initiate activity within an industry, influence on profitability from the industry is low. To be successful, product innovators should emphasize risk-taking, speed, technological leadership, marketing expertise, and effective product R&D.

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. Successful first movers also tend to possess the most sophisticated environmental scanning systems (Subramanian, Fernandes, & Harper, 1993).

Table 2
Refined Business Strategy Framework

Primary Means of Competitive Advantage	Related Earlier References	Benefits	Costs & Risks	Industry Influence	Functional Strategy & Organizational Resource Implications
Product Innovation	Prospector Differentiation	High Margins Development of Innovative Reputation	No Market Application Product/Service Failures	Low	Culture of Chance Speed

		Leverage Internet Technology Brand Loyalty	Potential for Quick Competitor Duplication of Success High Marketing Costs Potential For Higher Production Costs Difficult to Sustain in an Internet Environment		Technological Leadership Marketing Expertise Effective Product R&D
Structural Innovation	Analyzer	Limited Initial Investment, But Potential For Early Entry Leverage "Frictionless" Nature of B2C	Never First In The Market Markets Entered Are Not Fully Developed	Moderate	Marketing Expertise Culture of Flexibility Speed Technological Ability
Process Innovation	Defender Focus Low Cost	Large Market Share Development of Expertise Through Specialization Ability To Survive Price Wars Potential For Low Prices	Lost Opportunities for Synergy and New Markets Potential For Low Perceived Value Of Offerings Commitment to Existing Technology	High	Culture of Efficiency Market Segment Expertise Effective Process R&D Cost Containment Culture

		and/or High Margins			
Synergistic Innovation	Balancer Combination Strategy	Combines advantages of all types	Difficult to implement Rick being "stuck in the middle"	Low	Cultural blend of change, flexibility, and efficiency Speed Technological leadership Marketing Expertise

First movers do not always create new products or services, but may find new ways to capitalize 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).

Product innovation can be an attractive alternative to businesses that seek to capitalize in part on continued development of the Internet in order to compete with traditional brick and mortar firms. It may also be attractive to competitors that seek to utilize Internet technology and social trends to reconceptualize an existing industry or invent a new one.

Businesses may choose to produce unique products or services, or at least promote the perception that its offerings differ substantially from the competition, 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 emphasizing 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 décor, 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 reemphasizing its unique approach to automobile design and manufacturing (Thornton, 1997).

The concept of quality is often confused with that of uniqueness. Although the two often coexist, 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--decentralized 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.

Structural Innovation

Structural innovators seek to imitate and enhance the successful product and service enhancements initiated by the first movers. This strategy is similar in a number of respects to the analyzer (Miles & Snow, 1978) strategy. Although critical to effective product innovation, speed--reaction time, including redesign, manufacturing, testing, and distribution--is especially critical to the effective structural innovation. Whereas product innovators must respond effectively to changes in the external environment, structural innovators must respond to changes initiated by first movers. Product innovators attempt to create barriers to discourage followers, whereas structural innovators seek to develop skills to respond and reinvent first moves as expediently as possible. Marketing expertise is often critical, as customers may see the structural innovator's offerings as mere imitations without an effective campaign. As such, structural innovators accept some degree of industry influence on profitability, but seek to minimize substantial effects by modifying the change efforts initiated by the first movers.

Structural innovation often relies on substantial contributions from partner firms. In many respects, a partner can be viewed an extension of the organization. Partner capabilities and limitations are fast becoming as important as internal strengths and weaknesses. Although, these changes are more pronounced in some markets than in others, the development of the Internet economy has significantly changed the nature of business in all industries.

Given the seemingly frictionless environment of business-to-consumer (B2C) transactions, the pursuit of high performance via structural innovation appears to be a popular strategy among B2C businesses. 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 emphasizing 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.

Process Innovation

Some organizations attempt to efficiently produce competitively priced products and services for an established market niche. Process innovators 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 chain seeks to control the entire infant/toddler market by selling everything a parent needs to raise a baby (Ratliff, 1996).

The process innovation strategy is similar in a number of respects to the defender (Miles & Snow, 1978) and low cost (Porter, 1980) strategies. Because process innovators operate primarily in industry segments that are well established and developed, influence on profitability from the industry is high. To be successful, process innovators should emphasize efficiency, market segmentation, cost containment, and process R&D.

An organization may emphasize process innovation to target niches left vacant by other businesses. For example, Seattle-based Advance Capital, Inc. markets commercial finance to small businesses which do not quality for traditional bank loans (Russell, 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).

Wide product/service lines serve multiple market segments (Kekre & Srinivasan, 1990), can lead to greater efficiencies through resource sharing, and can deter prospective competitors by maintaining a presence in multiple market segments (Raubitschek, 1987). 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 organization,

For businesses with broad product/service lines, specific strategies may vary from one line to another, especially among traditional "brick and mortar" firms. 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 offering, 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.

Synergistic Innovation

Synergistic innovators effectively innovate along all three dimensions—product, structural, and process—simultaneously. This strategy is consistent with the notion of the "combination strategy" aforementioned, and more specifically with the balancer strategy (Wright et al., 1990). Organizations attempting to implement this strategy are faced with the challenge of integrating the diverse qualities of change, flexibility, efficiency, and speed, into their activities. Technological leadership and marketing expertise are also important. Because a key tenet of the synergistic innovator is product innovation, the performance of businesses implementing this strategy are not heavily influenced by that of the industry as a whole.

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.

Previous research has focused predominantly on combinations of the product and process innovation (i.e., differentiation and low cost). For example, Wright et al. (1990) extended the Miles and Snow typology by proposing a high-performing combination strategy--the "balancer". The balancer is a combination of the three viable types of organizations in the typology, structuring an effective "balance" between the needs of a stable technology and those of fluid technologies (see also Hurst, Rush, and White, 1989). The balancer organization operates in three separate product-market spheres simultaneously. In one sphere, managers stress established products and buyers. The resistance in this product-market to technological change closely resembles the defender type of organization. In the second sphere--similar to the analyzer type--technological changes are welcomed only if they explicitly have yielded promising products for competitors. The efforts of the balancer in the remaining market area (i.e., the third sphere) are characterized by the initiation of technological change. Organizational processes tend to be organic, similar to those processes characteristic of the prospector type of organization. Empirical results not only support the existence of the balancer type of organization but conclude that the balancer on average has higher profitability and lower risk (Wright et al., 1990).

In the proposed typology, synergistic innovators effectively combine the product and process orientations of the balancer while also incorporating facets of structural organizational structure and even partnerships to leverage the product-process combination. Synergistic innovators have the potential for above normal financial returns.

FUTURE CHALLENGES

The framework presented in this paper seeks to synthesize the competing perspectives in the IO/resource-based theory, strategic group, and combination strategy debates with the facets of the new economy into a typology appropriate for strategic managers in the twenty-first century. The industry-level of analysis should not be discarded in an attempt to better comprehend the business strategy-performance relationship (Zahra & Pearce, 1990). Indeed, both I/O and the resource based perspective can be complementary and are both necessary for a holistic perspective. For example, recent studies (e.g., Dooley, Fowler, & Miller, 1996; Miles, Snow, & Sharfman, 1993) have concluded that high strategic heterogeneity positively influences the overall profitability of an industry. Although these investigations have occurred at the industry level of analysis, implications for the business level are clear. Simply stated, the strategy-performance relationship may be moderated by the strategies implemented by one's competitors. Hence, industry-level studies such as these continue to increase the wealth of knowledge about individual firm strategies and performance.

The proposed typology, however, presents a variety of challenges and opportunities for researchers. First, the application of any business strategy framework must allow for valid and reliable measurement if it is to contribute to an understanding of strategy's influence on performance. Traditionally, cluster analysis has been the predominant tool of strategic group

researchers for classifying businesses into strategic groups. However, the appropriateness of this technique has been seriously questioned (Barney & Hoskisson, 1990; Ketchen & Shook, 1996; Nayyar, McGee & Thomas, 1989; Thomas & Venkatraman, 1988). Hatten and Schendel (1977) cautioned that the application of factor analysis or clustering algorithms to discover strategic groups in an industry rests on the untested assertion that these groups actually exist. Given that a number of B2C competitors have sought to "redefine" existing industries or invent new ones, cluster analysis should be applied with caution. Although cluster analysis remains the chosen methodology for most strategy-performance studies (Cool & Schendel, 1988; Derajtys, Chrisman, & Bauerschmidt, 1993), researchers have begun to more greatly emphasize the importance of classification schemes utilized in configuration studies (Dess, Newport & Rasheed, 1994).

A second key challenge also concerns the measurement 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). Researchers should utilize varying measures of performance in future studies, reflecting both quantitative and qualitative outcomes.

Third, 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 (Thomas & Ramaswamy, 1996). If consensus is linked to performance--an argument advanced by Bowman and Ambrosini (1997) and others--then one may argue that some competitive strategies lend themselves to greater agreement among managers. For example, consensus may be high among process innovators where everyone seems to understand the niche being targeted by the business, but be low among product innovators 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).

Finally, this framework provides a unique opportunity to promote practical, timely applications of strategic management research (D'Aveni, 1995; Gopinath & Hoffman, 1995). Critics charge that research that cannot provide strategic managers with improved decision-making abilities does not serve one of the field's primary constituencies (see also Dacko & Sudharshan, 1996). Developing and refining a competitive strategy typology offers opportunities for immediate, practical application.

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