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The Relationship Between Strategic Orientation, Growth Strategies, and Market Share Performance

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INTRODUCTION

Business strategy has been analyzed from many differing perspectives, and one of the best known conceptualizations was developed by Miles and Snow (1978). Focusing on a firm's strategic adaptation or aggressiveness towards the market, Miles and Snow suggested that firms may be classified into four distinct strategic groups, each enacting consistent decisions and activities across a variety of organizational areas. A great deal of research over the years has served to confirm differences among the four strategic types regarding a variety of internal factors, including innovation, management characteristics, and organizational design (Aragon-Sanchez and Sanchez-Marin 2005; Slater and Narver 1993; Doty, Glick, and Huber 1993; Conant, Mokwa, and Varadarajan 1990). Moreover, recent studies have found that the strategic groups differ from each other on a variety of additional factors, including implementation and use of market research, organizational performance, and environmental perceptions (Auh and Menjuc 2005; Bednall and Valos 2005; Freel 2005; Moore 2005).

One particularly interesting proposal of Miles and Snow (1978) is that the four strategic types vary according to their efforts at innovation. "Prospector firms" are expected to place the most emphasis on growth from innovation, with leadership or first-mover characteristics common in these firms. Alternatively, "reactor firms" are late followers, only acting or innovating when the competition or market demands it. "Defender firms" are suggested to focus more on efficiently serving a focused

part of the market, rather than on innovation. They are more likely than reactors to innovate, but these efforts will be highly focused. Finally, “analyzer firms”, while not being first-movers, are oftentimes aggressive in following the lead of prospectors with new products or into new markets.

Although early research by McDaniel and Kolari (1987), further verified by Slater and Narver (1993), indicates that innovativeness is generally greatest among prospectors, followed by analyzers, defenders, and then reactors, no previous study has focused on the specific product-growth or market-growth strategies employed by the four types of firms in the financial services sector. Consequently, the purpose of this study is to determine whether the four strategic types emphasize similar or different product- and market-growth strategies during innovation efforts, and to take an exploratory look at whether these strategies, taken separately or together, affect market share performance.

PRODUCT-MARKET GROWTH STRATEGIES

When considering possible growth strategies, research has long been dependent on H. Igor Ansoff’s (1957) conceptualization of the product-market growth matrix. According to Ansoff’s theory, a firm may choose one of four product-market growth strategies: market penetration, market development, product development, and diversification. Ansoff suggests the safest growth option is to adopt a market penetration strategy, whereby a firm gains more usage from existing customers and also seeks to attract new customers in their existing market. A slightly riskier option may be to adopt the market development strategy of attracting new types of customers for the current products of the firm from either new channels of distribution or new geographic areas. Alternately, a firm may engage in product development, by producing entirely new products, different versions of existing products, or different quality levels of existing products to be sold in its current markets. The riskiest strategy overall is suggested to be a diversified approach, developing new products for new markets.

With the exception of Pleshko and Souiden (2003), whose research indicates that the chosen product-market growth strategy does have a slight influence on some aspects of firm profit performance, few studies in recent years have addressed the issue of product-market growth strategies. On the other hand, a great deal of research in recent years has addressed the relationship between a firm’s Miles and Snow strategic classification and firm performance (Brunk 2003; Desarbo, Di Benedetto, Song, and Sinha 2005; Garrigos-Simon, Marques, and Narangajavana 2005; Shoham, Evangelista, and Albaum 2002). Focusing on the product-market growth strategies of the various Miles and Snow strategic groups in the financial services sector, the authors present the following hypotheses.

HYPOTHESES

The Miles and Snow typology of strategy types depicts a firm's orientation towards its market environment. The four strategic orientations, again, are defenders, prospectors, analyzers, and reactors. In general, all four strategy types can be viable in a given situation (Garrigos-Simon et. al. 2005). Previous studies suggest, however, that prospectors exhibit the highest levels of innovativeness, followed by analyzers, then defenders, and lastly by reactor firms (Slater and Narver 1993; McDaniel and Kolari 1987). Extending these expectations to the specific product-market growth strategies of credit unions, we present the following sets of hypotheses.

According to Miles and Snow, prospectors are leaders in product-market development, wanting to be first-movers whenever possible. They compete by taking advantage of new market and product opportunities. Consequently, as indicated in the first set of hypotheses, we expect prospectors to implement the most aggressive product and market growth efforts, focusing not only on current products and markets, but also on new products and market areas.

H1a: Prospector firms are most likely to search for growth opportunities by seeking out new market segments.

H1b: Prospector firms are most likely to search for growth opportunities by developing new services.

Although, as compared to prospectors, analyzers are followers in product-market development, they are not laggards. They may change their tactics slowly and less often than prospectors, but they can be aggressive towards innovation once they see opportunities. Thus, analyzers are expected to be the second-most-aggressive strategic type with respect to product-market growth. Analyzers are expected to use current products and markets for growth, but to also develop new products and enter new markets when a good opportunity arises, leading to the second set of hypotheses.

H2a: Analyzer firms are likely occasionally to search for growth opportunities by seeking out new market segments.

H2b: Analyzer firms are likely occasionally to search for growth opportunities by developing new services.

Defenders are firms engaging in few or no product or market development efforts. They tend to control secure niches within their industry. Thus, as indicated in the third set of hypotheses, defenders are expected to be conservative in

product-market growth efforts, focusing on current products and current markets for growth.

H3a: Defender firms are likely to search for growth opportunities by primarily focusing on current market segments.

H3b: Defender firms are likely to search for growth opportunities by primarily focusing on current services.

Finally, reactors change tactics only when forced to by the market environment. Their strategic stance is one of passiveness and caution, rarely taking the lead in producing change in an industry. Therefore, reactors are expected to be the most conservative firms toward growth, focusing almost entirely on current products and markets, only after most others have already made the move into those areas.

H4a: Reactor firms are likely to search for growth opportunities by focusing only on current market segments.

H4b: Reactor firms are likely to search for growth opportunities by focusing only on current services.

In terms of performance, the theoretical ordering suggests prospectors, analyzers, and defenders will generally outperform reactor firms. Shoham et. al. (2002) suggest that performance of the strategic groups follows the theoretical order, but that each of the groups can be successful if strategy fits with a firm's strengths.

In the banking industry, McKee, Varadarajan, and Pride (1989) found, for moderate and low market volatility, that the four strategy types differed on objective financial performance measures. Analyzers and prospectors (respectively) outperformed defenders and reactors on financial measures. On market share measures, however, reactors were the best performers: an uncommon result, as most often reactors are laggards on profits and share. Other studies have also found contradictory performance orders among the strategic groups or found the typology to be limited, especially when investigating financial performance such as ROI or ROA (Aragon-Sanchez and Sanchez-Marin 2005; Brunk 2003; Desarbo et al. 2005).

From the PIMS data base, Hambrick (1983) found that prospectors outperformed defenders using financial performance measures. Other studies have shown that the theoretical ordering of the groups on performance holds, but

the relationship with performance is oftentimes weak (Woodside, Sullivan, and Trappey 1999). Due to the uncertainty surrounding the relationship between strategic type and firm performance, no specific hypotheses regarding performance are proposed in the current study. Nevertheless, in an effort to lend additional insight, the current study also includes an exploratory examination of the link between the various strategic types and relative market share performance.

SAMPLE

The authors obtained information from a sample of chief executives in the financial services industry, with an emphasis on credit unions. Credit unions are owned and operated as nonprofits by their members, making them a unique subcategory within the broader financial services sector. Therefore, if the Miles and Snow classification scheme yields expected results in an industry with such an atypical business model, the robustness of the method will be convincingly verified.

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). Membership in the FCUL represents nearly 90% of all Florida credit unions and includes 325 firms. A single mailing was directed to the president of each credit union, all of whom were asked by mail in advance to participate. A four-page questionnaire and a cover letter using a summary report as inducement were included in each mailing. Of those responding, 92% were presidents or chief executive officers and 8% were marketing directors. This approach yielded 125 useable surveys, a 38.5% response rate. 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, and indicates that the smaller asset groups are under-represented in our sample (Chi-sq = 20.73, d.f. = 7, $p < .01$).

MEASURES

Six constructs are used in the current study. Four are categorical items: asset size, product growth, market growth, and Miles and Snow strategy types. Perceived environmental dynamism and market share performance are considered interval-level indicators. The constructs are described in the following paragraphs.

Product growth strategy (PGROW) is actually service growth in this study and, as derived from Ansoff (1957), focuses on either [1] existing services, [2] new services, or [3] both existing and new services. Firms are self-classified in relation to their attempts at fostering growth by checking the box next to the

appropriate descriptor (Pleshko and Souiden 2003). Respondents could check either [1] we emphasize services presently offered by the firm, or [2] we emphasize services new to the firm. They could also check both of the boxes, indicating they use both new and current services for growth. Those firms that did not respond to the question were counted as missing and deleted from the analysis. One hundred seventeen respondents answered the question with 54% (64/117) classified as focusing on existing services, 14% (17/117) classified as emphasizing new services, and 30% (36/117) classified as using both new and existing services in their efforts at product growth.

Market growth strategy (MGROW), also derived from Ansoff (1957), focuses on [1] existing market segments, [2] new market segments, or [3] both existing and new market segments. Firms are again self-classified by marking the box next to the appropriate descriptor (Pleshko and Souiden 2003). Respondents could check either [1] we target market segments presently served by the firm, or [2] we target market segments new to the firm. They could also check both of the boxes, indicating they use both new and current markets for growth. Those firms that did not respond to the question were counted as missing and deleted from the analysis. One hundred thirteen respondents answered the question with 65% (74/113) classified as focusing on current segments, 11% (13/113) classified as emphasizing new segments, and 23% (26/113) classified as targeting both new and existing market segments in their efforts at growth.

The Miles and Snow strategy types (M&S) are also measured using self-classification. The respondents are asked to check the box that best describes their firm's strategy. They could choose from four descriptions. One hundred and nineteen respondents answered the question with 38% being defenders (45/119), 5% being prospectors (6/119), 44% being analyzers (53/119), and 13% being reactors (15/119).

Here are the descriptions from the survey:

[1] *Defenders*: We attempt to locate and maintain a secure niche in a relatively stable market environment. We try to protect our markets by offering high-quality, well-targeted services. We are not at the forefront of industry developments.

[2] *Prospectors*: We typically concentrate on many diverse markets, which we periodically help to redefine. We value being first-in with new services and in new markets, even when these efforts are not highly profitable initially. We respond rapidly to most new opportunities.

[3] *Analyzers*: We attempt to maintain a stable and secure position in the market while at the same time moving quickly to follow new developments in our industry. We are seldom first-in with new services or in new markets, but are often second-in with better offerings.

[4] *Reactors*: We appear to have an inconsistent approach to our markets and services and are often indecisive. We are not aggressive in attacking new opportunities, nor do we act aggressively to defend our current markets. Rather, we take action when we are forced to by outside forces such as the economy, competitors, or market pressures.

Perceptual measures are used to evaluate relative market share (SHARE) performance. Perceptual measures avoid errors associated with variations in accounting methods and also have been shown to strongly correlate with objective measures within the same firm (Venkatraman and Ramanujam, 1986; Miller 1988; Pearce, Robbins, and Robinson 1987). In particular, respondents are asked about their market-share performance on a scale from (1) poor to (5) excellent regarding five market share baselines: [1] versus competitors, [2] versus goals/expectations, [3] versus previous years, [4] versus firm potential, and [5] growth of share. A principal axis factor analysis indicates that the five items load highly on a single dimension explaining 66.4% of the original variance. An overall indicator, SHARE, is constructed by summing the five items pertinent to share. A reliability of .872 is found using coefficient alpha. SHARE ranges from five to twenty-five with a mean of 14.64 and a standard deviation of 3.56.

The first control variable, environmental dynamism (DYNA), is included as a proxy for external influences on the firm and its performance. The environment has been conceptualized in a variety of ways throughout the literature. The two most common perspectives use either (a) competitive rivalry as a function of influences like threat of entry (Dwyer and Welsh 1985) or (b) descriptors of uncertainty, such as dynamism and complexity (Miller 1988; Achrol, Torger, and Stern 1983). This paper uses the second approach, measuring the perceived levels of environmental dynamism, described as the amount of change occurring in an industry environment. The respondents are asked to evaluate their perceptions of the environment on a bipolar scale from (1) to (5) across three items: [1] stable/unstable, [2] variable/not variable, and [3] volatile/not volatile. The factor analysis indicates that the three items load highly on a single factor explaining 57% of the original variance in the three items. An overall indicator of dynamism (DYNA) is constructed by summing the three items. A reliability of .639 is found using coefficient alpha. DYNA ranges from three to fifteen with a mean of 7.35 and a standard deviation of 2.43.

The remaining control variable in the study, asset size (SIZE), was included as a proxy for organizational characteristics. Its inclusion is relevant, as size is an important factor in relation to firm characteristics (Hall, Hass, and Johnson 1967), as well as to market share performance: larger firms generally have larger shares (Wilson and William 2000). The credit unions were self-classified by marking the box next to the appropriate asset-size category and then classified into large versus small firms by median split. Firms with asset holdings up to \$10 million are considered small credit unions, while those with holdings greater than \$10 million are considered to be large in size. This produced 59 small credit unions and 65 large credit unions.

ANALYSIS AND RESULTS

Two general tests were used. The first analysis involved a pair of cross tabulations to determine whether firms with different strategies, as classified by Miles and Snow, emphasize different areas of product or market growth. Second, an analysis of variance was performed to determine whether the Miles and Snow strategy types, or the product-market strategies, or any interactions of these factors, provide evidence of a significant relationship to market share performance.

Regarding market growth strategies, a cross tabulation analysis was performed to determine whether firms with different strategies, as classified by Miles and Snow, emphasize different types of market growth. One hundred and ten responding firms were included in this analysis, because they answered both required questions. The cross tabulation is shown in Table 1 for strategy type versus market growth. As shown in the table, prospector firms in the sample appear to be the most aggressive in relation to market growth, with all six of the firms using both current and new markets in growth efforts. On the other hand, reactor firms appear to be the least aggressive, with 12 out of 14 firms using only current markets for growth. Defender firms are also conservative, as expected, with 31 out of 43 firms using only current markets for growth. For analyzers, 29 out of 47 firms used current markets exclusively for growth, while the remaining 18 firms included new markets in growth efforts, either alone or with current markets.

The Chi-square statistic supports a significant relationship ($p < .001$) between market growth and strategic type. Nevertheless, Hypothesis 1a suggested that prospectors would be likely to search for growth opportunities by seeking out new market segments. A look at Table 1 reveals that although prospector firms were aggressive, in the sense that prospectors were the only type of firm never to search for growth opportunities in current markets, none of our prospector firms searched for growth in new markets. Consequently, Hypothesis 1a was not supported by the data.

TABLE 1 Miles and Snow vs. Market Growth					
		MGROW			
		Current	New	Both	Total
M&S	Defender	31	3	9	43
	Prospector	0	0	6	6
	Analyzer	29	7	11	47
	Reactor	12	2	0	14
	Total	72	12	26	110
X ² = 25.54, p< .001					

Similarly, Hypothesis 2a proposed that analyzer firms would also be likely to search for growth opportunities by seeking out new market segments. Instead, the results indicate that analyzer firms in our sample are actually more likely to focus on current market segments for growth opportunities. Consequently, Hypothesis 2a was also not supported by the data.

Hypothesis 3a suggested that defender firms would be likely to search for growth opportunities by focusing on current market segments, and the evidence does in fact support this assumption (p<.001). Similarly, reactor firms were more likely than expected by chance alone to focus on current markets when searching for growth opportunities (p<.001), lending support to Hypothesis 4a.

Regarding product growth strategies, a second cross tabulation analysis was performed to determine whether firms with different strategies, as classified by Miles and Snow, emphasize different types of product growth activities. One hundred and fourteen responding firms were included in this analysis, as they provided answers for both of the required questions. The cross tabulation is shown in Table 2.

TABLE 2 Miles and Snow vs. Product Growth					
		PGROW			
		Current	New	Both	Total
M&S	Defender	28	5	9	42
	Prospector	0	0	5	5
	Analyzer	22	9	22	53
	Reactor	12	2	0	14
	Total	62	16	36	114
X ² = 24.05, p< .001					

The Chi-square statistic supports a significant relationship ($p < .001$) between product growth and strategic type. Hypothesis 1b suggested that prospector firms would be likely to search for growth opportunities by developing new services. A look at Table 2 reveals that although prospector firms were aggressive, in the sense that prospectors were the only type of firm never to search for growth opportunities with current products alone, none of our prospector firms searched for growth solely through new products. Instead, they tended to use a combination of both current and new products. Consequently, Hypothesis 1b was not supported by the data.

Similarly, Hypothesis 2b proposed that analyzer firms would also be likely to search for growth opportunities by emphasizing new services. Instead, the results indicate that analyzer firms in our sample are actually more likely to focus on either current products or a combination of new and current products for growth opportunities. Consequently, Hypothesis 2b was also not supported by the data.

Hypothesis 3b suggested that defender firms would be likely to search for growth opportunities by focusing on current products, and the evidence does in fact support this assumption ($p < .001$). Similarly, reactor firms were more likely than expected by chance alone to focus on current products when searching for growth opportunities ($p < .001$), lending support to Hypothesis 4b.

To determine the influence of each of the strategies on relative market share, an analysis of variance was performed, using the general linear model procedure in SPSS, which included all of the variables described previously. Each of the three categorical variables is classified as fixed factors while dynamism and size are interval-level covariates in the analysis. The general model is as follows, with the results shown in Table 3:

$$\text{SHARE} = \text{SIZE} + \text{DYNA} + \text{M\&S} + \text{PGROW} + \text{MGROW} + (\text{M\&S} * \text{PGROW}) + (\text{M\&S} * \text{MGROW}) + (\text{M\&S} * \text{PGROW} * \text{MGROW}) + \text{ERROR}.$$

As noted in Table 3, the model exhibits statistical significance ($p < .001$), and explains an adjusted 31% of the variance in perceived market share. Neither product growth or market growth, nor any interactions of the factors under study, exhibit a significant effect on relative market share. The Miles and Snow strategic type is revealed, however, to be a significant predictor of relative market share ($p = .030$). Post-hoc tests using least-significant differences finds no market share distinctions among prospectors, analyzers, or defenders. The tests do find, however, that reactor firms have lower perceived relative market shares than each of the other three types of firms. Also, the two covariates are significant predictors

TABLE 3
Analysis of Variance for Share

	Ssquares	d.f.	Msquare	F	"p"	Significant
Model	553.85	21	26.37	3.21	.000	
Intercept	1297.82	1	1297.82	157.98	.000	
SIZE	42.35	1	42.35	5.16	.026	positive
DYNA	48.90	1	48.90	5.95	.017	negative
MGROW	22.28	2	11.14	1.36	.263	
PGROW	4.39	2	2.19	0.27	.766	
M&S	77.18	3	25.73	3.13	.030	R<P,A,D
M&S*MGROW	21.09	3	7.03	0.86	.467	
M&S*PGROW	18.34	3	6.11	0.74	.529	
PGROW*MGROW	39.06	4	9.77	1.19	.322	
M&S*PGROW*MGROW	10.98	2	5.49	0.67	.515	
Error	673.63	82	8.22			
Total	23898.25	104				
Corr. Total	1227.48	103				
Adj. R-square	.311					

of relative market share. Environmental dynamism (DYNA) shows a significant negative relationship to share ($p=.017$), while asset size (SIZE) has a positive relationship to relative market share ($p=.026$).

DISCUSSION

The paper presents an empirical investigation in the financial services industry to determine whether firms using different strategies (prospector, analyzer, defender, and reactor) actually focus on different types of growth, as related to products and services. Additionally, the study investigates whether these strategies affect perceptions of relative market share. The statistics reveal that most firms in the study are conservative about growth strategies, as more than half of the firms emphasize only current services for their growth, while nearly two-thirds focus on current markets in growth efforts. Additionally, few firms were classified as either prospectors or reactors. Instead, the majority of firms are either classified as defenders or analyzers, as might be expected in the case of a relatively stable and conservative industry.

The study indicates that the more aggressive firms, prospectors, are likely to implement growth strategies using both new and current services while focusing on both new and current market areas. Analyzers, while using current services or

both current and new services for growth in equal amounts, are also more likely than expected to implement growth strategies emphasizing both current and new services. Analyzers are a bit more conservative, with most firms emphasizing current markets for growth. Nevertheless, they are more likely than expected to include new markets in growth efforts as well. The least aggressive firms, reactors, act in an opposite manner to prospectors, focusing their growth efforts mostly on current services and at current market groups. The defender firms, while using all three growth options, also mostly emphasize current services and current markets for growth. These findings are consistent with what might be predicted regarding the four strategic types of firms in the Miles and Snow typology.

Regarding the impact of strategies on relative market share performance, we find that the variables in the study significantly predict relative market share. The analysis also reveals that the strategies do not interact in their effect on market share. Thus, the decisions regarding product growth, market growth, and strategic orientation may be considered as separate. The study also reveals that the control variables are significantly related to market share. Firm size, as measured by assets, is positively related to share. It is not surprising that firms with larger resources, in this case asset-holdings, would leverage these resources to achieve larger market shares.

Also, environmental dynamism is found to be negatively related to relative market share. Uncertainty in the market, either from competitive rivalry, alterations in customer demand, or even changes in the macro-environment, are likely to lead to lower-than-expected performance. Therefore, in more difficult environments, firms may have an unfavorable impression regarding relative market share.

In addition, the findings indicate that product and market growth strategies do not influence perceptions of relative market share in the case of credit unions, when considered alongside the other strategic variables. This suggests that any of the growth strategies might be equally productive in improving share performance. This result is, of course, a bit surprising. It would seem logical that firms that develop new and appealing services for their markets might attract newer customers, therefore building relative market share. Similarly, firms that reach out to new market segments should be expected to achieve an overall improvement in relative market share. It is likely, however, that consumers in this particular industry tend to select and stay with a single financial service provider. Therefore, emphasizing new products or targeting new markets fails to lead to major increases in overall relative market share. Also, the effect of growth strategies on market share may be masked by the effects of the Miles and Snow strategic groups, as these strategic groups are theoretically related somewhat to growth efforts.

The strategic group to which a firm belongs does, however, appear to affect market share performance significantly. Specifically, reactor firms have lower market shares than the other three strategic groups. The fact that reactor firms underperform other firms on market share is not that surprising, given that reactors are defined as followers that rarely take advantage of new opportunities.

In summary, product growth and market growth strategies appear to be equally effective regarding their effect on market share, as no differences are found. Combinations of these strategies also show no differences in their effects on relative market share. These findings are consistent with recent investigations that suggest that long-term performance differences among firms in the financial services industry are more related to the implementation and control of strategies than to the type of strategy selected (Hatten, James, and Meyer 2004). Nevertheless, the current study does suggest that reactor type firms are likely to have the lowest market share performance, while analyzers, defenders, and prospectors are all likely to perform better in this regard. Also, firms with large resources are shown to have higher market shares, while dynamic environments lead to lower market shares.

Because credit unions exist in an environment that is more protected than other financial institutions, any generalizations beyond the scope of this study might be suspect. Therefore, the study should not be generalized to other firms in the financial services industry. It is instead suggested that future studies investigate this relationship in banks, savings and loans, and other financial services segments. In addition, the results may not truly apply to smaller credit unions, which were underrepresented in this study.

Future studies might also apply this framework to firms operating in the business-to-business or consumer products areas to further test the findings. Any future studies might also look at additional control variables, such as a firm's organizational structure or the level of competition in the industry. Finally, different measures of performance could perhaps yield different results.

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