

# THE FIT OF BUSINESS RELATIONSHIPS WITH BUSINESS STRATEGIES

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## **Abstract**

The concept of strategic fit has been a focus of the contemporary literature on organisational behaviour and strategy. This concept follows the logic of contingency theory and suggests that where business strategy is aligned with organizational structures, such a Gestalt (i.e. the optimised organisational implementation characteristics) provides the greatest contribution to firm performance. In this study, we apply the concept of *strategic fit* to the characteristics of inter-firm relationships. A coalignment perspective invokes a configurational view on strategy vis-a-vis relationship characteristics by which we are able to explain (a) how firms with different business strategies adopt and implement alternative relationship strategies in dealing with their counterparts, and (b) how the interplay between business strategy and relationship strategy leads to firm performance as well as relationship performance. Results of our empirical analysis with 195 international managers confirm the existence of an ideal relational configuration profile for each business strategy type. A profile deviation analysis indicates that the more similar configurations of business relationship characteristics are to those of the top performing companies for their given business strategy type, the higher is both their relationship performance as well as their firm's overall performance. We further test ideal single-firm versus multiple-firm benchmarking of deriving ideal configurations for our deviation study; however, results indicate no significant improve in explaining performance by single-firm operationalization. Furthermore, we tested the deviation logic against a fit conceptualization as covariation, which examines the impact of the internal consistency regarding aligning a company's relationship characteristics with business strategy to achieve superior relationship performance. Overall, the results provide support that the higher-order coalignment model as used by fit as covariation analyses is the preferred model specification.

**Key Words:** Configuration Theory, Business Relationship, Fit as Profile Deviation, Business Strategy, Relationship Performance

## **1. Introduction**

Research into business relationships has been the focus of much interest in the business marketing area for the last few decades. One of the pivotal findings resulting from such studies is that the business-to-business relationship management literature acknowledges the existence of different types of business relationships, stemming from different relationship strategies being employed (Cannon and Perreault 1999; Jap and Ganesan 2000). However, while many researchers have investigated the nature of business relationships (e.g. Anderson, Hakansson and Johanson 1994; Palmatier, Dant, Grewal and Evans 2006) and their impact on achieving superior performance (e.g. Cannon and Homburg 2001; Fynes, Búrca and Mangan 2008; Kalwani and Narayandas 1995), the existent literature provides little contribution to explaining how firms with different business strategies adopt and implement alternative relationship strategies in dealing with their counterparts (Reimann, Schilke and Thomas 2010), and how the interplay between business strategy and relationship strategy impacts on performance (Johnson 1999). For such issues to be answered, a coalignment perspective is necessary which invokes a configurational view on strategy vis-à-vis relationship structures (Vorhies and Morgan 2003).

The main focus of configurational research is on firms that share key underlying organizational characteristics, such as strategy and structures (Meyer, Tsui and Hinings 1993). Configuration theory asserts that firms with superior performance have more coherent structural (organizational) characteristics than those with lower performance (Child 1975). Our study analyses the coherence of organizational structures and characteristics aimed at business relationship management vis-à-vis different business strategies, thereby emulating and contributing to existing literature on configurations in the strategy area (e.g. Miller, Droge and Toulouse 1988; Venkatraman and Prescott 1990). Furthermore, such an analysis, which focuses on how best to leverage or enforce relationship characteristics in ways that enable the implementation of specific strategy types (Hughes and Morgan 2008) and to assess the impact of such a *Gestalt* perspective on firm's overall as well as relationship performance (Vorhies and Morgan 2003), provides direct implications regarding the management of business relationships (Håkansson and Snehota 1989). Although configuration theory has been used recently in the general marketing literature (Kabadayi, Eyuboglu and Thomas 2007; Olson, Slater and Hult 2005; Vorhies and Morgan 2003), this study is the first to apply configuration theory to the business marketing context.

The remaining of this paper is organized as follows: We first review the literature on configuration theory, and introduce a typology of strategy types. This is followed by a discussion of pertinent business relationship characteristics. Next we derive our conceptual model and develop our hypotheses. The research method and data analysis is outlined, which is followed by a discussion and conclusion section looking at implications, limitations, and further research.

## **2. Theoretical Background**

### **2.1. Configuration theory**

Configuration theory is a common approach for understanding how a firm's organizational structure is related to its strategic intent (Hult, Ketchen, Cavusgil and Calantone 2006). Configuration theory has its roots in the strategy literature and has been widely used in organization studies over the past few decades (e.g. Doty, Glick and Huber 1993; Drazin and Van de Ven 1985; Miller 1988). According to Short et al. (2008) configurations refer to a set of underlying organizational characteristics that are shared between companies and contribute to performance. Configuration theory posits that for every given context, there exists an organizational configuration that fits better than others. Configuration, in this sense, is defined as the degree of congruency to which organizational characteristics are orchestrated by the same pattern or theme within or across categories (Miller 1996). This is in line with Child's (1975) central argument that the organizational

(structural) configuration of firms with higher performance is more coherent in comparison to those with lower performance. As such, it is vital to distinguish between static approaches of treating configuration as *categories* and the more dynamic approach of treating configuration as *ideal types*. The former predicts marginal members of these categories to be as effective as the central members, whilst the latter distinguish the difference between marginal and central members in terms of effectiveness (Doty, Glick and Huber 1993). This study will follow an ideal type approach in its application of configuration theory.

Configuration theory aspires to identify organizational conditions under which a firm will be most successful given certain circumstances, e.g. a certain strategic intent. Typically, configuration theory-based research aims at finding the optimum fit between strategy on the one hand, and organizational structure on the other. Existing research has tried to accurately predict how to best leverage a set of organizational characteristics in congruence with a specific strategy type (e.g. Venkatraman 1989; Venkatraman and Camillus 1984). This implies that configuration theory simultaneously considers multiple organizational characteristics (Doty, Glick and Huber 1993) and takes into account the common alignments among the elements of organizational structures (Miller 1996). Therefore, configuration theory refers to the multidimensional constellation of strategic and organizational characteristics within a company (Meyer, Tsui and Hinings 1993; Miller and Mintzberg 1988; Slater, Olson and Hult 2005; Vorhies and Morgan 2003). As such, it represents a *Gestalt*-ontology. Based on these considerations, configuration theory posits that each strategy relates to a specific set of ideal organizational characteristics that result in higher performance (Van de Ven and Drazin 1985; Vorhies and Morgan 2003). The relationships among these interdependent and mutually reinforcing organizational characteristics are the main concern of configuration theory (Van de Ven and Drazin 1985; Venkatraman 1989). Of particular interest is the link between certain *strategy types* on the one hand, and organizational configurations representing the *implementation of such strategies* on the other.

Thus, the main concern of configuration theory is how to orchestrate organizational characteristics of a firm for the given business strategy to achieve strategic goals (Hughes and Morgan 2008). Recent contributions to this theory include studies investigating the fit between human resources and the environment (Wright and Snell 1998), strategy and organizational structures (Hill and Birkinshaw 2008), multinational subsidiary similarities (Birkinshaw and Morrison 1995; Rosenzweig and Singh 1991), marketing organization (Vorhies and Morgan 2003), knowledge management in the supply chain (Hult, Ketchen, Cavusgil and Calantone 2006), innovation in multinational corporations (Nobel and Birkinshaw 1998), and marketing strategy (Slater, Hult and Olson 2007, 2010).

Based on the underpinning assumption of configuration theory, this study takes its starting point from the proposition that for each business strategy type there exists a unique and ideal configuration of organizational business relationship characteristics that offer superior overall performance as well as marketing effectiveness and relationship performance. Specifically, we will test whether the *fit* between business strategy (i.e. Miles and Snow's (1978) typology of business strategies) and the relational context of the firm (i.e. business relationship characteristics) has significant positive implications for different performance aspects of the firm.

## 2.2. Concept of fit in configuration theory

In the strategy literature the concept of fit is defined as “*the degree to which the needs, demands, goals, objectives, and/or structures of one component are consistent with the needs, demands, goals, objectives, and/or structures of another component*” (Nadler and Tushman 1980, P. 45). This definition of fit requires high levels of alignment in order to achieve superior performance. However, fit or coalignment of organizational configurations may be beneficial for one unique strategy type, but not necessarily be advantageous for other types (Ginsberg and Venkatraman 1985; Miller 1992; Venkatraman 1989). Therefore, in our research fit refers to the configuration of business relationship characteristics vis-à-vis three types of business strategy which are taken from Miles and Snow (1978).

According to Venkatraman (1990), there are two approaches in conceptualizing fit. The descriptive approach refers to congruence of theoretically related constructs. Thus, the focus is on finding patterns and not on performance implications (e.g. Singh, Verbeke and Rhoads 1996). In contrast, the normative approach is focuses on performance implications of the fit among constructs of interest. From this vantage point, fit can be operationalized from different approaches: fit as matching (e.g. Toulan, Birkinshaw and Arnold 2007); fit as moderation (e.g. Slater, Hult and Olson 2010; Stanley, Slater, Hult and Olson 2007); and fit as profile deviation (e.g. Kabadayi, Eyuboglu and Thomas 2007; Vorhies and Morgan 2005). Venkatraman (1989) has analyzed alternative definitions of the concept of fit and developed practical guidelines on how to select the appropriate approach to measure fit when utilizing configuration theory. Following his approach, this research primarily employs normative fit as coalignment or *ideal profile deviation*. This approach is more practical when the simultaneous impact of multiple constructs on performance is analyzed (Doty, Glick and Huber 1993; Venkatraman 1989, 1990). Fit in this context therefore refers to the degree to which organizational characteristics differ from those of an ideal organizational profile for a given strategy type (Dess and Newport 1993; Vorhies and Morgan 2003; Zajac, Krattz and Bresser 2000).

In the ‘fit as ideal profile deviation’ approach, fit will be linked to firms’ overall performance, their marketing effectiveness, and their relationship performance. The ideal profile deviation is conceptualized as the degree of adherence to an ideal profile, which is empirically or theoretically derived for each business strategy. Therefore, the implication of the ideal profile deviation approach is that a ‘unit of deviation’ reflects a unit of misalignment between business relationship characteristics and a given business strategy type. Such a misalignment or *misfit* is expected to have a significantly negative relationship with all relevant performance measures.

The fit as ideal profile deviation approach is primarily dependent on the development, and more importantly justification, of the ‘ideal’ profile (Venkatraman and Prescott 1990). Ideal profiles represent the conditions associated with highest performing firms for each given business strategy types. Ideal profiles can be derived either theoretically or empirically. This study utilizes the empirically-derived approach due to lack of sufficient theoretical grounding for proposing configurations associated with ideal profiles. The empirical approach has been widely used in previous configuration studies (e.g. Hughes and Morgan 2008; Venkatraman and Prescott 1990; Vorhies and Morgan 2003).

In addition to employing profile deviation as our primary fit method, we also use a moderation approach as our secondary fit estimation method to test the robustness of the profile deviation model. The moderation approach implies that there is no universally superior strategy, thus implying that the impact of the predictor or independent variable (e.g. relationship characteristics) on the dependent variable (e.g. performance) is related to the level of a moderator variable (e.g. business strategy). Few previous studies have used this technique and supported its validity and reliability (e.g. Slater, Hult and Olson 2010; Slater, Olson and Hult 2005). Juxtaposition of different fit methods will allow a comparative analysis of alternative fit operationalizations.

### 2.3. Relationship characteristics

Previous studies have tried to understand and characterize successful inter-firm relationships. Many scholars have developed alternative frameworks in an attempt to define successful business relationships. These frameworks are grounded in a number of different theories including social exchange theory (e.g. Anderson and Narus 1990; Hibbard, Kumar and Stern 2001), transaction cost theory (e.g. Jap and Ganesan 2000), and the resource-based view (e.g. Cannon and Perreault 1999). They incorporate a set of relationship characteristics that together can describe the nature of business relationships. Important contributions have been made in this context by the work of the IMP Group (e.g. Dwyer, Schurr and Oh 1987; Ford, Håkansson and Johanson 1986) to enable researchers to conceptualize and study the nature of business relationship (Anderson, Hakansson and Johanson 1994; Ford et al. 2002; Johnsen and Ford 2008).

Although previous studies have developed a number of constructs that describe the nature, structure, and management of business relationships, these constructs merely cover different aspects of the nature of such relationships. This is due to the complex and multifaceted fabric underlying inter-organizational collaboration and cooperation (Håkansson 1982). An important criticism of previous studies is that they have tried to capture the intricate nature of business relationships based on only a few dimensions (Yau et al. 2000) and thus they do not provide a comprehensive and meaningful holistic description of the characteristics of a relationship as typifying an inter-organizational aspect of an organizational implementation decision (Holmlund 2004). In contrast, recent studies advocate using multidimensional perspectives on business relationships (Palmatier, Dant, Grewal and Evans 2005).

The literature acknowledges several characteristics of business relationships. For the purpose of this research we compiled a comprehensive list of relationship characteristics that have been used in previous research. In order to select business relationship characteristics, we firstly selected the most frequently cited ones, and secondly followed recent conceptualization in the area of market orientation by including both attitudinal and behavioral aspects of relationships (Deshpandé and Farley 2004; Gainer and Padanyi 2005; Hult, Ketchen and Slater 2005), thus forming a multidimensional perspective.

*Trust* and *commitment* have attracted a great deal of attention in the business marketing literature (Morgan and Hunt, 1994). Trust has been defined as “*the willingness to rely on an exchange partner in whom one has confidence*” (Moorman, Zaltman and Deshpandé 1992, P. 315) and as such it is often operationalized using both credibility and benevolence constructs. The former “... *is comprised of the belief that a trading partner is expert and reliable in conducting transactions effectively*” (Siguaw, Simpson and Baker 1998, P. 101) and the later refers to the intentions and motives of the partner in the firms’ benefits (Ganesan 1994; Kumar, Scheer and Steenkamp 1995). Trust has been studied on different levels of analysis, e.g. regarding focal firm perceptions (monadic) or as a relational construct (dyadic) (e.g. Fang, Palmatier, Scheer and Li 2008; Zaheer, McEvily and Perrone 1998). This study investigates the role of trust on two different levels, i.e. *interpersonal trust* which refers to the trust placed between collaborating firms’ representative individuals, and *inter-organizational trust* which characterizes collaborating firms’ mutual trust (Fang, Palmatier, Scheer and Li 2008). This has also been called reliance in recent research (Mouzas, Henneberg and Naudé 2007).

Similar to trust, an actor’s *commitment* towards inter-firm relationship is an important antecedence of relationship performance (Morgan and Hunt, 1994). Moorman, Zaltman, and Deshpandé (1992, P. 316) define commitment as “*an enduring desire to maintain a valued relationship*” and thus it is an important facet of business relationships because the existence of commitment warrants maximum efforts to maintain such interactions (Morgan and Hunt

1994) while the absence of it invokes the use of power, long-term contracts or monopoly situations (Ivens and Pardo 2007).

*Information sharing* represents a further inter-firm relationship characteristic that is defined as “*the formal as well as informal sharing of meaningful and timely information between firms*” (Anderson and Narus 1990, P. 44). This definition stresses on bilateral expectations of both actors involved in a relationship to proactively provide valuable information to the partner (Heide and John 1992). Such proactivity is expected to help to align expectations and also to avoid conflict as well as resolving disputes between partners (Morgan and Hunt 1994). Communication not only attenuates the risks involved in making decisions within business relationships (Heide and John 1992) but also positively impacts through creating an impression that the partners are mutually supportive (Mohr and Nevin 1990).

*Cooperation* is also an important facet of inter-firm relationships that refers to “*situations in which parties work together to achieve mutual goals*” (Morgan and Hunt 1994, P. 26). This construct implies that actors involved in a relationship combine their efforts to build a successful relationship. However, it is not in the interest of each actor to cooperate unless sufficient guarantees such as contracts induce the relationship partner to reciprocate (Luo 2002).

Finally, *relationship-specific investment* (RSI) is a pivotal aspect in relationship literature. RSIs refer to idiosyncratic investments in a specific relationship; these investments cannot be easily recovered or transferred to other relationships (Ganesan 1994) and thus enhance actors’ commitment due to increasing switching costs, which in turn increases the involved parties’ desire to maintain the relationship (Anderson and Weitz 1992). Since RSIs often accrue returns only in the long run, they can have different impact on buyers and sellers (Palmatier, Dant and Grewal 2007). On one hand, they can lower the buyers’ trust in sellers because of their uncertainty regarding the seller’s benevolence, i.e. whether sellers are acting opportunistic or fair (Gassenheimer and Manolis 2001). On the other hand, sellers’ RSIs can promote trust, i.e. sellers send strategic signals that underline that they are committed and care about the relationship (Ganesan 1994).

#### **2.4. Business strategy**

Business strategy refers to “*an integrated and coordinated set of commitments and actions designed to exploit core competencies and gain a competitive advantage*” (Hitt, Ireland and Hoskisson 1997, p 115). Firms normally select and enact a particular approach to compete in a marketplace, which is called the strategic orientation of the firm, or business strategy (Varadarajan, Rajan and Clark 1994). As the extant literature on business strategy acknowledges, there are two dominant frameworks of business strategy, i.e. Porter’s typology (1980), and Miles and Snow’s strategic types (1978).

Porter’s typology focuses on sources that impact on competitive forces. As such the focus is on competitors and customers, which are external aspects of organizations. Several scholars (e.g. Hill 1988; Murray 1988; Wright, Kroll, Tu and Helms 1991) have criticized Porter’s typology from different perspectives. Hall (1980) argues that a cost leadership strategy and a differentiation strategy are not mutually exclusive. Hill (1988) also claims that competitive advantage in many situations can be achieved through simultaneously pursuing both low-cost and differentiation strategies because of the lack of unique low-cost positions. Although external focus is a strength of Porter’s typology, many scholars criticize it for not stressing enough the structure of organizations as well as the implementation requirements. Thus, the typology does not outline the key success factors in terms of implementing these strategies, which is considered to be the major limitation (Jones and Butler 1988; Walker and Ruekert 1987).

In contrast, Miles and Snow’s (1978) typology is one of the first comprehensive frameworks of strategic types that addresses the various ways a firm defines its product/market domain. In this typology *Prospector* companies continuously search for

emerging and new product/market opportunities. The main focus of such firms is on research and development (Vorhies and Morgan 2003). They undertake the cost and risk of being first to market and concentrate on offering new products and services, which push performance boundaries. Their orientation gives them a high capability to capture the market opportunities and respond quickly to market change, and thus they often are not highly profitable as their cost base is also high (McKee, Varadarajan and Pride 1989). *Analyzers* continuously pursue Prospectors in entering new markets while trying to stabilize their secure position. They take advantage of synthesizing the beneficial aspects of the Prospector and Defender types (Slater and Olson 2000). Taking the advantage of being followers to new products, services and/or market by learning from the first mover's problems and failures, they tend to achieve well-developed and targeted strategies and consequently are often successful firms (McKee, Varadarajan and Pride 1989). *Defenders* on the other hand try not to lose their secure niche in a market. In the absence of adaptive capabilities, they try to secure a stable position by producing high quality or lower price products and/or services (McKee, Varadarajan and Pride 1989). Their strategic orientation does not allow them to be first movers in the market, and they can barely track changes in market.

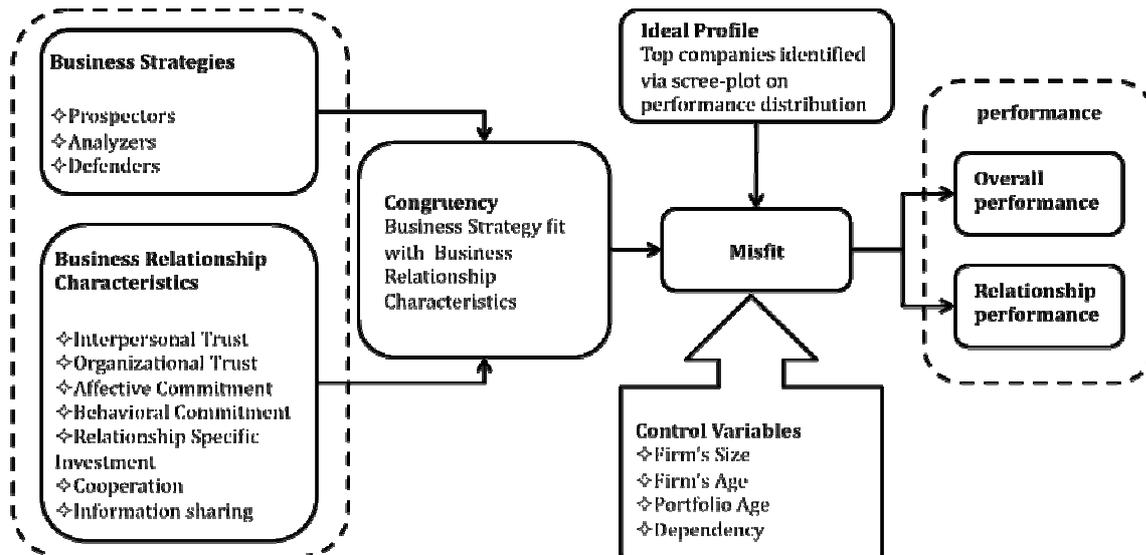
Miles and Snow's classification is mainly focused on internal aspects of organizations and on the intention of capturing market opportunities and acting upon market dynamics, and they thus overcome some of major limitations of Porter's typology (Walker and Ruekert 1987). This classification has been widely used in different research on business strategy (e.g. Hambrick 2003; McKee, Varadarajan and Pride 1989; Shortell and Zajac 1990; Zahra and Pearce 1990). Although many scholars have refined the comprehensive strategy typologies of Miles and Snow, and of Porter, (e.g. McKee et al., 1989; Walker and Ruekert, 1987) this study will use the original Miles and Snow's (1978) typology, following the approach by Vorhies and Morgan (2003), and owing to the widespread use of this classification in configuration theory research (e.g. Hughes and Morgan 2008; Vorhies and Morgan 2003).

### **2.5 Hypotheses development**

Our research focuses on configurations of relationship characteristics vis-a-vis a chosen strategy type. While we use two alternative approaches to fit operationalization outlined above (i.e. fit as profile deviation and fit as moderation) in our empirical study, we develop our initial hypotheses based on a discussion of fit as profile deviation. This approach suggests that relationship characteristics should be coaligned in a way that is more congruent with a business strategy type, and therefore these unique configurations result in higher relationship and firm performance. This conceptualization is built on Miller's (1987) concept of configuration theory. From the vantage point of this theory, for each business strategy there exists an ideal alignment of relationship characteristics which together drive performance. Any business relationship with a given ideal configuration would share certain characteristics and consequently superior performance. Thus, companies need to implement certain business relationship characteristics so as to conform as closely as possible to the ideal configuration of these characteristics for their business strategy type in order to achieve superior performance.

Building on existing literature (Miller 1987; Venkatraman 1990), the proposed conceptual model (see figure 1) suggests that firms can leverage characteristics of their inter-firm relationships (i.e. inter-personal and inter-organizational trust, behavioral and affective commitment, information sharing, cooperation, and relationship specific investment) in order to accomplish an appropriate fit with their business strategy. The conceptual model represents the relationship between business strategy types and relationship characteristics (different predictor variables) on the one hand, and relationship performance and firms' overall performance on the other hand.

Figure 1: Conceptual model



Thus, the following hypothesis will be tested, based on configuration theory logic:

**H:** *The more similar configurations of business relationship characteristics are to those of the ideal for its given business strategy type, the higher will be (H<sub>1</sub>) its relationship performance and (H<sub>2</sub>) firm's overall performance.*

### 3. Research Method

#### 3.1. Sample

This study uses empirical data, which was collected by online survey from marketing managers across different industries and in different countries around the world. The survey was initially pre-tested with executive MBA students to test both clarity and relevance from a managerial perspective. This test resulted in minor modifications of the questions used. The link to the main online questionnaire was then sent by email to international executives based on a proprietary university database in March 2010, along with an explanation of the research topic and the assurance of confidentiality. The managers are experienced, with an average work experience of 6.1 years. All respondents were asked to complete the questionnaire for the company they are currently working in. We received a total of 205 responses of which 195 were usable cases. To control for extent to which respondents are knowledgeable about their company's business relationships and business strategy, we firstly controlled for the number of years that these respondents have been working for the respective company. We also controlled for their customer facing experience. Secondly, we asked respondents to self-report their level of knowledgeability regarding the survey. This allowed us to remove those respondents (n=10) that do not meet our criteria (i.e. minimum of three years working experience; two years customer facing experience, and minimum level of knowledgeability set as "fair", i.e. point 4 on a 7-point Likert scale).

On average the companies involved had been in business for 26 years, ranging from a minimum of 2 and a maximum of 160 years. The majority of these companies (i.e. 40%) have less than 100 employees whilst approximately 12% have more than 5000 employees. Furthermore, about 43% of these companies have a turnover above \$5 million. A total of 55% of companies are active in the services industry.

#### 3.2. Late-response bias

Since the data was collected in two stages with one follow up contact, a late response test was carried out to check for late-response bias. Following Armstrong and Overton (1977), the dataset was first split up into a group of early responses and a group of late responses.

Subsequently, a number of t-test analyses were carried out to compare these groups based on some control variables (e.g. number of employees and number of years being active in market) and based on some constructs in our model (e.g. interpersonal trust, reliance, and behavioral commitment). Results of these t-test analyses indicate no significant differences between these groups, suggesting that late-response bias is not problematic in this research. As late-response is often similar to non-response, there appears to be no non-response bias present (Armstrong and Overton, 1977).

### **3.3 Construct measures**

The measures for this study are all adapted from previous research to decrease concerns regarding construct validity. We operationalized the following scales for relationship characteristic constructs based on multi-item measures: interpersonal trust (Kumar, Scheer and Steenkamp 1995; Zaheer, McEvily and Perrone 1998), inter-organizational trust (Kumar, Scheer and Steenkamp 1995; Selnes and Sallis 2003; Zaheer, McEvily and Perrone 1998), affective commitment (Kumar, Scheer and Steenkamp 1995; Lee, Sirgy, Brown and Bird 2004), behavioral commitment (Anderson and Weitz 1992; Ivens and Pardo 2007; Lin and Miller 2003; Sharma, Young and Wilkinson 2006), information sharing (Heide and John 1992; Palmatier, Dant and Grewal 2007), relationship specific investment (Jap 1999; Selnes and Sallis 2003), and cooperation (Palmatier, Dant and Grewal 2007; Siguaw, Simpson and Baker 1998). Relationship performance is also adopted from Selnes and Sallis (2003). To measure performance on firm level, overall firm performance was adopted from Vorhies and Morgan (2003). Only items above the recommended reliability cut-off point of 0.7 were used in the final analyses (Hair et al. 2006).

All constructs of our model with the exception of business strategy are measured with reflective scales (Diamantopoulos and Siguaw 2006; Diamantopoulos and Winklhofer 2001). The items were placed randomly in the questionnaire to avoid order bias. Business strategy in this research is defined as the dominant strategic position taken by a business unit (Dyer and Song 1997) and is operationalized via two alternative approaches. Firstly it was measured through a self-typing approach advocated by McKee et al (1989). In this approach, respondents were asked to read three unlabelled paragraphs characterizing the strategy types (we use descriptions adapted from Vorhies and Morgan (2003), see paragraph appendix); they were then required to identify which one represented most closely the business strategy of their organization. This approach is widely used in marketing strategy research (e.g. Matsuno and Mentzer 2000; McDaniel and Kolari 1987; McKee, Varadarajan and Pride 1989; Slater and Olson 2000) and several studies have shown the validity and reliability of this measurement approach (Conant, Mokwa and Varadarajan 1990; James and Hatten 1995; Shortell and Zajac 1990). Secondly, we used a multiple item assessment for business strategy type based on Dyer and Song (1997). This multi-item scale for measuring Miles and Snow's strategic types was developed and tested for its validity and reliability by Conant et al. (1990).

## 4. Analysis and Discussion

### 4.1. Measurement analysis

Table 1 summarizes the results of the measurement testing after purifying the items using a cut-off point of 0.7 for the loadings (Hair, Tatham and Anderson 2006). Table 2 also reports Construct Means, Correlations, Squared Correlation Matrix and AVE.

Table 1: Construct Overview

Constructs and reflective scales	Item reliability $\lambda$	t-value
<b>Interpersonal trust</b> (CR = .762, $\alpha$ = .845, AVE = .580)		
<i>In thinking of your strategic business unit's most important customer relationships, please tell us your level of agreement with these statements:</i>		
My contact persons have always been fair in negotiations with me.	0.76	11.82
My contact persons are trustworthy.	0.83	13.33
Though circumstances change, I believe that my contact persons will be ready and willing to offer me assistance and support.	0.75	11.61
When making important decisions, my contact persons are concerned about my welfare.	0.70	10.66
<b>Organizational trust</b> (CR = .868, $\alpha$ = .912, AVE = .634)		
<i>In thinking of your strategic business unit's most important customer relationships, please tell us your level of agreement with these statements:</i>		
We are confident with these customers' ability to fulfil our agreements.	0.74	11.82
We are confident that these customers are competent at what they are doing.	0.8	13.26
The performance of these customers always meets our expectations.	0.75	12.11
We have faith in these customers' ability to fulfil their promises.	0.89	15.6
Based on past experience, we can with complete confidence rely on these customers to keep promises made to us.	0.79	12.99
These customers are trustworthy.	0.8	13.3
<b>Dependency</b> (CR = .872, $\alpha$ = .894, AVE = .751)		
<i>In thinking of your strategic business unit's most important customer relationships, please tell us your level of agreement with these statements:</i>		
These customers are crucial to our business.	0.86	14.39
If our relationships were discontinued, we would have difficulty replacing these customers.	0.87	14.66
Our firm would suffer greatly if we lost these customers.	0.87	14.75
<b>Affective commitment</b> (CR = .864, $\alpha$ = .892, AVE = .741)		
<i>In thinking of your strategic business unit's most important customer relationships, please tell us your level of agreement with these statements:</i>		
We intend to continue the relationships with these customers, as we personally like their representatives.	0.81	13.3
We want to remain a member of these customers' networks because we genuinely enjoy our relationship with them.	0.9	15.52
Our positive feelings towards these customers are a major reason we continue working with them.	0.87	14.77
<b>Cooperation</b> (CR = .842, $\alpha$ = .881, AVE = .714)		
<i>In thinking of your strategic business unit's most important customer relationships, please tell us your level of agreement with these statements:</i>		
Overall, our relationships with these customers suggest that we have mutually beneficial relationships.	0.83	13.71
Overall, our relationships with these customers suggest that we can work together well in these businesses.	0.91	15.86
Overall, our relationships with these customers suggest that we describe our relationships as cooperative.	0.79	12.85
<b>Behavioural commitment</b> (CR = .868, $\alpha$ = .904, AVE = .664)		
<i>In thinking of your strategic business unit's most important customer relationships, please tell us your level of agreement with these statements:</i>		
We dedicate whatever people and resources it takes to do business with these customers.	0.77	12.3
We do all we can not to threaten the relationship with these customers.	0.78	12.54
We take a lot of time and effort to maintain the relationship with these customers.	0.86	14.71
Our firm puts considerable investment into the business we do with these customers.	0.84	14.06

We endeavor to strengthen our ties with these customers during the course of our relationship with them.	0.82	13.74
<b>Relationship specific investment</b> (CR = .789, $\alpha$ = .844, AVE = .656)		
<i>In thinking of your strategic business unit's most important customer relationships, please tell us your level of agreement with these statements:</i>		
We have made significant investments dedicated to these relationships.	0.88	14.48
We have made several adjustments to adapt to these customers' technological norms and standards.	0.83	13.31
We have invested a great deal in building up our joint businesses with this group of customers.	0.71	10.79
<b>Information sharing</b> (CR = .895, $\alpha$ = .919, AVE = .742)		
<i>In thinking of your strategic business unit's most important customer relationships, please tell us your level of agreement with these statements:</i>		
Communications between both parties are prompt and timely.	0.89	15.69
Communications between both parties are complete.	0.89	15.62
The channels of communication are well understood.	0.77	12.52
Communications between both parties are accurate.	0.89	15.67
<b>Relationship performance</b> (CR = .814, $\alpha$ = .874, AVE = .596)		
<i>In thinking of your strategic business unit's most important customer relationships, please tell us your level of agreement with these statements:</i>		
The relationships with these customers have resulted in better products/services quality.	0.74	11.71
Synergies in joint logistics efforts have been achieved because of these relationships.	0.70	10.82
These relationships have a positive effect on our ability to develop successful new products/services.	0.85	14.22
Investments of resources in these relationships, such as time and money, have paid off very well.	0.81	13.29
These relationships help us to detect changes in end-user needs and preferences before our competitors do.	0.75	11.94
<b>Overall performance</b> (CR = .836, $\alpha$ = .876, AVE = .707)		
<i>These statements are in reference to your firm:</i>		
<i>(Measured on 7-point Likert scales anchored by 1= "Not very well", 4= "Fair", and 7= "Very well")</i>		
Over the past year, how well has your business met overall performance expectation?	0.88	14.69
Over the past year, how well the overall performance of your business has exceeded that of your major competitors?	0.8	12.86
How well top management was satisfied with the overall performance of the business last year?	0.84	13.89
<b>Business Strategy</b> (CR = .914, $\alpha$ = .945, AVE = .612)		
In comparison to our competitors, the products/services we provide our customers are more innovative and continually changing.	0.72	11.49
In contrast to our competitors, my organization has an image in the marketplace as a firm with a reputation for being innovative and creative.	0.75	12.19
Our firm spends significant amounts of time continuously monitoring the marketplace for changes and trends.	0.76	12.46
In comparison to our competitors, the increases or losses in demand, which we have experienced, are due most probably to our practice of aggressively entering new markets with new types of products/services.	0.70	11.01
One of our firm's key goals relative to its competitors is availability of the people, resources and equipment required to develop new products/services and markets.	0.75	12.19
In contrast to our competitors, our managerial employees exhibit competencies (skills) that are broad, entrepreneurial, diverse, and flexible-enabling change to be created.	0.78	12.76
The one thing that protects our organization from its competitors is that we are able to consistently develop new products/services and new markets.	0.81	13.53
Our management staff concentrate more on developing new products /services, new markets, and new market segments than many of our competitors.	0.88	15.43
In contrast to many competitors, our organization identifies marketplace trends and opportunities that can result in products /services offerings new to the industry or able to reach new markets.	0.91	16.23
In comparison to our competitors, the structure of my organization is market oriented.	0.79	13.1
Unlike our competitors, procedures within our strategic business unit to evaluate performance are decentralized and participatory, encouraging many strategic business unit members to be involved.	0.73	11.78

Notes:

All items were measured using seven-point Likert scales anchored by 1 = "strongly disagree", 4= "neither agree nor disagree", and 7 = "strongly agree," unless otherwise specified.

CR = Composite reliability

$\alpha$  = Cronbach's Alpha

AVE = Average variance extracted

Table 2: Construct Means, Correlations, Squared Correlation Matrix and AVE

	Mean (S.D)	1	2	3	4	5	6	7	8	9	10	11
1- Interpersonal trust	4.62 (1.02)	<b>.580</b>	.640***	-.030	.600***	.420***	.300***	.160*	.570***	.450***	.330***	.330***
2- Inter-organizational trust	5.02 (1.06)	.410	<b>.634</b>	.000	.570***	.460***	.280***	.210***	.710***	.580***	.500***	.270***
3- Dependency	5.49 (1.26)	.001	.000	<b>.751</b>	-.060	.190**	.400***	.320***	-.110	.070	-.080	.000
4- Affective commitment	4.76 (1.26)	.360	.325	.004	<b>.741</b>	.470***	.340***	.240***	.550***	.540***	.490***	.380***
5- Cooperation	5.68 (0.92)	.176	.212	.036	.221	<b>.714</b>	.420***	.340***	.460***	.660***	.440***	.360***
6- Behavioural commitment	5.70 (0.95)	.090	.078	.160	.116	.176	<b>.664</b>	.680***	.320***	.430***	.310***	.290***
7- Relationship Specific Investment	5.43 (1.04)	.026	.044	.102	.058	.116	.462	<b>.656</b>	.220***	.420***	.230***	.190**
8- Information sharing	5.06 (1.20)	.325	.504	.012	.303	.212	.102	.048	<b>.742</b>	.660***	.530***	.410***
9- Relationship performance	5.05 (1.08)	.203	.336	.005	.292	.436	.185	.176	.436	<b>.596</b>	.600***	.560***
10- Overall performance	4.90 (1.31)	.109	.250	.006	.240	.194	.096	.053	.281	.360	<b>.707</b>	.490***
11- Business Strategy	4.82 (1.20)	.109	.073	.000	.144	.130	.084	.036	.168	.314	.240	<b>.612</b>

Bold numbers on the diagonal show the AVE  
 Upper diagonal represent correlation  
 Lower diagonal represent squared correlation

\*  $P < .1$   
 \*\*  $P < .05$   
 \*\*\*  $P < .01$

Different steps were taken to assess the robustness of the measures. First, an exploratory factor analysis (EFA) was used to identify cross-loading items. Following this approach and using principal component analysis and oblique rotation, a total of 11 factors were extracted. Loadings ranged from 0.494 to 0.900, with no significant cross loadings, and all items loading on the expected construct (Table 3). In total, these latent factors explain 75.25% of the total variance. Second, a confirmatory factor analysis (CFA) was carried out on the full sample (n= 195) using LISREL 8.80 through limiting each item to load onto one pre-identified factor. The goodness of fit statistics were:  $\chi^2_{(df=1120)} = 1710.66$  (n=195), Comparative Fit Index (CFI) = 0.98, Normed Fit Index (NFI) = 0.94, Non-Normed Fit Index (NNFI) = 0.97, Incremental Fit Index (IFI) = 0.98, Relative Fit Index (RFI) = 0.93, and Root Mean Square Error of Approximation (RMSEA) = 0.047. These statistics indicate that the measurement model produces satisfactory fit. Third, we followed the procedure suggested by Fornell and Larcker (1981) to calculate the composite reliability of each construct. These ranged from .762 to .914 with factor loadings from .70 to .91 ( $p < .01$ ). We also calculated Cronbach's alpha to compare it against composite reliability. Cronbach's alphas ranged from 0.844 to 0.945. Both composite reliability and Cronbach's alpha are considerably higher than the cutoff point of 0.7 suggested by Hair et al. (2006). Average variance extracted (AVE) also ranged between 58% to 75.1%. The AVE results support the convergent validity of the constructs using a minimum acceptance level of 50% for AVEs as suggested by Hair et al. (2006).

**Table 3: Exploratory Factor Analysis**

Latent construct	Item description	1	2	3	4	5	6	7	8	9	10	11
Information sharing	Communications between both parties are accurate.	.747										
	Communications between both parties are complete.	.718										
	The channels of communication are well understood.	.687										
	Communications between both parties are prompt and timely.	.670										
Business Strategy	Our management staff concentrate more on developing new products /services, new markets, and new market segments than many of our competitors.		.873									
	In contrast to many competitors, our organization identifies marketplace trends and opportunities that can result in products /services offerings new to the industry or able to reach new markets.		.847									
	The one thing that protects our organization from its competitors is that we are able to consistently develop new products/services and new markets.		.805									
	In comparison to our competitors, the structure of my organization is market oriented.		.79									
	Our firm spends significant amounts of time continuously monitoring the marketplace for changes and trends.		.756									
	In comparison to our competitors, the increases or losses in demand, which we have experienced, are due most probably to our practice of aggressively entering new markets with new types of products/services.		.753									
	In contrast to our competitors, my organization has an image in the marketplace as a firm with a reputation for being innovative and creative.		.727									
	One of our firm's key goals relative to its competitors is availability of the people, resources and equipment required to develop new products/services and markets.		.716									
	In comparison to our competitors, the products/services we provide our customers are more innovative and continually changing.		.714									
In contrast to our competitors, our managerial employees exhibit competencies (skills) that are broad, entrepreneurial, diverse, and flexible-enabling change to be created.		.709										
Unlike our competitors, procedures within our strategic business unit to evaluate performance are decentralized and participatory, encouraging many strategic business unit members to be involved.		.687										
Behavioural commitment	We take a lot of time and effort to maintain the relationship with these customers.			.808								
	We dedicate whatever people and resources it takes to do business with these customers.			.799								
	We do all we can not to threaten the relationship with these customers.			.777								
	We endeavour to strengthen our ties with these customers during the course of our relationship with them.			.723								
	Our firm puts considerable investment into the business we do with these customers.			.707								
Trust	My contact persons have always been fair in negotiations with me.				.811							
	When making important decisions, my contact persons are concerned about my welfare.				.794							



We evaluated discriminant validity following two different approaches. First, following the procedure explained by Hair et al. (2006), discriminant validity is supported if the shared variances between all pairs of constructs are lower than the portion of variances extracted for constructs (Fornell and Larcker 1981). Results indicate that AVEs are considerably higher than squared correlations, supporting the discriminant validity of the constructs (see table 2). Secondly, we chose those pairs of constructs that had shared variances above 0.4. This comprises three pairs, i.e. information sharing and organizational trust, relationship performance and behavioral commitment, and relationship performance and information sharing. We ran a two-factor CFA model for each of these pairs twice: Once the  $f$  coefficient was set to be free and once it was set to unity (Bagozzi and Yi 1988). For the first pair we calculated  $\Delta\chi^2 = 3.87$ , for the second pair 3.91, and for the third pair 30.6. Since in all pairs the  $\Delta\chi^2_{(df=1)} > 3.84$  (which is the minimum acceptable point for Chi square with one degree of freedom at  $p < 0.01$  (Hair, Tatham and Anderson 2006), this result indicates further evidence for discriminant validity of constructs.

Common method variance poses a potential problem, resulting in an artificial inflation of correlations in cases where a single informant accounts for both dependent and independent measures (Podsakoff, MacKenzie, Lee and Podsakoff 2003). A common technique to assess common method variance is to use Harman's one-factor test. If common method variance is problematic, either a single factor would emerge in an EFA, or the results of the un-rotated factor solutions would show a general factor that would account for the majority of the explained variance (Podsakoff and Organ 1986). Following this procedure, we used all items in an EFA, from which a total of 11 factors with eigenvalues greater than 1.0 were extracted, which accounted for 75.25% of the total variance in our data. Factor one explains only 31.62% of the variance. Therefore, common method bias does not seem to be problematic. To test the robustness of this assertion, we also followed the suggestion of Podsakoff et al. (2003) to use confirmatory CFA as a more sophisticated approach to Harman's one-factor test. We loaded all items into one confirmatory factor with fit statistics of  $\chi^2_{(df=1034)} = 4771.6$  ( $n=195$ ); CFI = .444; RMSEA = 0.137. Comparing these result against  $\chi^2_{(df=1120)} = 1710.66$  ( $n=195$ ; CFI = .98; RMSEA = 0.047) for the measurement model yields a  $\Delta\chi^2$  of 3060.94 with  $df = 86$ ,  $p < .001$ . Therefore, we can conclude that one latent factor does not account for all marked variables (Podsakoff, MacKenzie, Lee and Podsakoff 2003), therefore supporting the assumption that common method variance is not problematic in this study.

#### **4.2. Hypothesis testing**

In testing the hypotheses we followed an approach which has been applied in previous studies (e.g. Vorhies and Morgan 2003; Vorhies and Morgan 2005). In the first step we categorized our sample into three groups based on the self-reported business strategy types. This comprised prospectors=76, analyzers=76, and defenders=43. We then identified high performers within each group to derive the ideal profiles, which were subsequently used as the benchmark against which other firms that reported the same business strategy type were assessed (Doty, Glick and Huber 1993). Since we could not specify ideal profiles from theory, i.e. existing literature on business relationships, we derived the ideal profiles from our empirical data. This approach is advocated by the existing configuration literature (e.g. Gresov 1989; Ketchen, Thomas and Snow 1993), however, there are different approaches for empirically doing so. Venkatraman (1990) suggest taking the top 15% of firms by performance in each strategy type. Vorhies and Morgan (2003) applied a more accurate approach by using a scree plot of the performance to identify the drop-off point (elbow) for the performance distribution. This approach is also advocated by other researchers (e.g. Hughes and Morgan 2008). Olson et al. (2005) used the top third of firms in each strategic

group (based on performance) to develop ideal profile; Vorhies and Morgan (2005) selected only one firm by strategy type as the benchmark to build up ideal profiles.

In this study we developed ideal profiles of relationship characteristics by using the scree plot of relationship performance (for testing H<sub>1</sub>) and firm overall performance (for testing H<sub>2</sub>) of the firms in our dataset whilst ensuring that we did not exceed the ‘top-third limit’ suggested by Olson et al. (2005). Following this approach we identified a drop-off in relationship performance and overall performance after 4 and 6 companies for both prospectors and analyzers, respectively. As for defenders, we identified 5 and 3 firms as top performers for relationship performance and overall performance, respectively. To form the ideal profile based on relationship performance and overall performance, we calculated the mean scores of the top performers for each strategic type for the seven relationship characteristic variables (see table 4).

Table 4: Ideal profile based on (A): Relationship performance, and (B): Overall performance

	(A) Relationship performance				(B) Overall performance			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	All firms	Prospectors	Analyzers	Defenders	All firms	Prospectors	Analyzers	Defenders
Interpersonal trust	4.74	4.81	4.56	5.35	4.72	4.58	5.21	4.33
Organizational trust	5.94	6.21	5.75	6.37	5.69	5.25	6.14	6.06
Affective commitment	5.39	5.83	5.67	5.47	5.39	4.78	5.83	6.78
Cooperation	6.67	6.58	6.50	6.93	6.25	6.44	6.11	5.67
Behavioural commitment	6.43	7.00	6.60	6.12	6.14	6.87	5.70	5.53
Relationship Specific Investment	5.91	6.00	6.08	6.13	5.65	5.89	5.22	5.89
Information sharing	5.98	5.63	6.06	6.50	5.71	5.42	5.96	6.25
Relationship performance	6.65	6.80	6.95	6.72				
Overall performance					6.86	7.00	6.78	6.89
Cut-off score for ideal type	6.40	6.60	6.80	6.60	6.67	7.00	6.67	6.67
Number of top-Performers	22	4	4	5	17	6	6	3
Firm Size	2.18	2.25	1.75	2.20	2.71	2.33	3.17	2.67
Firm Age	2.59	2.91	2.85	2.88	2.96	2.48	3.12	3.71
Portfolio Age	2.33	2.51	2.17	2.75	2.47	2.31	2.53	2.59
Dependency	5.71	6.08	6.67	5.53	5.41	5.50	4.56	6.22
Number of firms (in total)	195	76	76	43	195	76	76	43

Extraction Method: Principal Component Analysis.

Rotation Method: Oblimin with Kaiser Normalization.

a. Rotation converged in 12 iterations.

After identifying the ideal profiles, we calculated the fit through the Euclidean distance of all remaining firms from the respective ideal profile for their strategic type across the seven relationship characteristic variables (e.g. Hult, Ketchen, Cavusgil and Calantone 2006; Vorhies and Morgan 2003; Vorhies and Morgan 2005) using the following formula:

$$ED = \sqrt{\sum_{j=1}^N (X_{sj} - \bar{X}_{ij})^2},$$

where  $X_{sj}$  is the score of the firm in the sample on the  $j$ th relationship characteristic,  $\bar{X}_{ij}$  is the mean for the ideal profile of the  $j$ th relationship characteristic, and  $j = 1$  to  $N=7$  is the number of relationship characteristics. This calculation provides the profile deviation or extent of misfit between the relationship characteristics of ideal firms and the remaining firms in the dataset. We then used regression analysis to test the relationship between these profile deviation scores within each strategic type against both relationship performance and firm overall performance in order to test for  $H_1$  and  $H_2$  respectively. If the ideal profile is associated with superior relationship performance and overall performance, then the results for our regression models should indicate that the misfit (i.e. gap) between an existing individual firm and the ideal firm for each strategic type regarding the different relationship characteristics is negatively and significantly related to both relationship performance and overall performance. We controlled the regression models for firm size, firm age (natural logarithm of the number of years of the company existing in the market), portfolio age (natural logarithm of the length of business relationship portfolio age), and dependency.

## 5. Results

Table 4 represents the ideal profile based on relationship performance (columns A) and overall performance (Columns B) for each strategic type. As a control model we included the mean score for an ideal profile among all firms irrespective of their strategic type for each performance variable ( $n=195$ ). Overall, when considering relationship performance (see table 4, column 1), we see that firms appear to score higher on cooperation (6.67 on a 7 point Likert scale) and behavioral commitment (6.43) and lower on interpersonal trust (4.74). The ideal profiles associated with each strategic type show different emphasis regarding the relationship characteristics. For instance, prospectors with highest relationship performance (see table 4, column 2) have business relationships with higher organizational trust (6.21), cooperation (6.58), and behavioral commitment (7.00). Analyzers (see table 4, column 3) tend to stress on cooperation (6.50), behavioral commitment (6.60), relationship specific investment (6.08), and information sharing (6.06). Defenders (see table 4, column 4), on the other hand, score highest on cooperation (6.93), information sharing (6.50) and organizational trust (6.37).

Well performing prospectors in terms of overall performance (see table 4, column 6) emphasize cooperation (6.44) and behavioral commitment (6.87) respectively in their relationship characteristics, while analyzers (see table 4, column 7) put more stress on organizational trust (6.14) and cooperation (6.11). Defenders on the other hand (see table 4, column 8) stress organizational trust (6.06), affective commitment (6.78), and information sharing (6.25). Interpersonal trust is in general low across all three strategic types when examining both dependent variables.

We validated three assumptions regarding the conceptualization of our strategic types prior to testing the hypotheses, in line with common configuration studies (e.g. Hult, Ketchen, Cavusgil and Calantone 2006; Vorhies and Morgan 2003, 2005), The first assumption is related to the fact that organizational implementation variables, in our case relationship characteristics, should be examined as an integrated set because they are not independent of each other, and valuable interdependencies may exist among them. To validate this assumption, we performed a higher-order analysis by way of a structural equation model using LISREL 8 (Jöreskog, Du Toit and Du Toit 2000) in which the seven relationship characteristic constructs were set as first order indicators of a second order construct which was labeled 'relationship characteristic interdependence'. This higher order construct

therefore captured the covariance among the seven relationship characteristics. We then linked this higher order construct to the performance constructs (i.e. relationship performance and overall performance). Model fit indicators show  $\chi^2 = 1018.136$  ( $df=585$ ,  $p < .001$ ); CFI=0.912; RMSEA=0.062. The results of the analysis indicate that the higher order factor is strongly, positively and significantly related to both relationship performance ( $\beta=.822$ ,  $p<.001$ ) and overall performance ( $\beta=.657$ ,  $p<.001$ ). Furthermore, the indirect paths between relationship characteristics and both performance constructs via the higher-order factor are considerably stronger than the direct paths from the relationship characteristics to the performance constructs. While the beta coefficients for the indirect paths consist of interpersonal trust= .675; organizational trust= .778; affective commitment= .709; behavioral commitment= .491; relationship specific investment= .392; cooperation = .670; and information sharing= .802 (with all  $p<.001$ ), those of the direct paths range between -.180 and .369, with only three paths being significant ( $p<.05$ ) for both relationship performance and overall performance. These findings are in line with previous studies on benchmarking (e.g. Hult, Ketchen, Cavusgil and Calantone 2006; Vorhies and Morgan 2005) and indicate that the seven characteristics of business relationship should be considered as an interdependent constellation, in line with the *Gestalt* assumption of configuration theory.

The second assumption associated with configuration theory relates to the concept of equifinality. This concept posits that firm performance is not dependent on a particular strategy choice, but on how well the chosen strategy is implemented. As such it implies that every viable strategy can theoretically yield superior results (Gresov and Drazin 1997; Slater and Narver 1993). To verify this assumption we carried out two ANOVAs to understand whether performance variation is associated with strategic choice. Results of these tests indicate that there is no significant difference in relationship performance and overall performance of firms with different strategic types ( $F_{(1)}=1.10$  and  $F_{(2)}=.089$ ), thus equifinality is present in our dataset.

Finally, we tested the assumption that the internal consistency of business relationships is more coherent when the relative emphasis on different relationship characteristics matches those of the ideal types for a given strategic type. The main underlying assumption in configuration theory suggests that distinguishing between configurations (i.e. patterns in alternative business strategies) as part of the analysis increases the variance explained (Meyer, Tsui and Hinings 1993) We therefore developed different sets of deviation scores, i.e. 'within strategic type' and 'across strategic type'. Deviation scores for within strategic type are derived from the ideal profile of the specific strategic type, whereas the deviation scores for across strategic type analyses are developed based on the ideal profile of all firms, i.e. irrespective of their strategic type (Vorhies and Morgan 2003). Given that ideal profiles could be formed based upon both relationship performance ( $IP_{RP}$ ) and overall performance ( $IP_{OP}$ ), we therefore carried out the entire analysis twice. This comprises four sets of regression analyses: (1) across deviation scores from  $IP_{RP}$  on relationship performance; (2) within deviation scores from  $IP_{RP}$  on relationship performance; (3) across deviation scores from  $IP_{OP}$  on overall performance; and (4) within deviation scores from  $IP_{OP}$  on overall performance. Results of these regression models (see table 6) indicate that in both scenarios the 'within strategic type' regression model has larger explanatory powers and larger beta coefficients than the 'across strategic type' model; 'Within strategy type' model for relationship performance (see table6, column 1):  $R^2=.506$ ,  $\beta=-.719$ , and for overall performance (see table6, column 5):  $R^2=.335$ ,  $\beta=-.568$ ) compared to 'across strategy type' model for relationship performance (see table6, column3):  $R^2=.327$ ,  $\beta=-.580$  and for overall performance (see table6, column7):  $R^2=.284$ ,  $\beta=-.520$ ). All models are highly significant on  $p<0.01$  levels. This indicates that analyzing the deviation of business relationship characteristics from ideal profiles of the same strategic type can better predict performance

outcomes (Venkatraman 1990). Therefore, in calibrating ideal profiles, firms considerably benefit from benchmarking against companies of the same strategic group rather than benchmark against firms irrespective of their strategic type.

Table 7 provides the regression results for testing the hypotheses H<sub>1</sub> and H<sub>2</sub>, which predict that the more similar the configurations of business relationship characteristics is for a company to those of the ideal for its given business strategy, the greater is its relationship performance and its overall performance respectively. The unweighted relationship performance regression models (see table 7, column 1) show significant and negative coefficients for deviation from the IP<sub>RP</sub> for prospectors ( $\beta=-.673$ ), analyzers ( $\beta=-.678$ ), and defenders ( $\beta=-.767$ ), all significant at  $p<0.01$  level (the negative coefficient is expected as higher deviation implies less fit, and consequently less performance). These results indicate that within each of the three strategic types, firms can significantly improve their relationship performance through leveraging their organizational relationship characteristics in ways that are more congruent with those of ideal companies in that strategy type, thus providing support for H<sub>1</sub>.

Our unweighted overall performance regression results (see table 7, column 5) show also support for H<sub>2</sub>. For each given strategic type, the profile deviation has negative and significant beta coefficients, though their explanatory power is slightly lower than for relationship performance regression models ( $\beta=-.593$ ,  $-.539$ , and  $-.577$  for prospectors, analyzers, and defenders, respectively). These results clearly indicate that the less the gap in between the relationship characteristic profile of a firm and those of the ideal one for its business strategic type, the greater the overall performance of the firm. For all aforementioned models, the variance inflation factors (VIF) were lower than 1.150, indicating that multicollinearity is not expected to be a problem in our analysis (Mason and Perreault 1991).

To test the robustness of these regression tests, we followed Venkatraman's (1989) approach in performing a set of identical regression models for the deviation from an alternative but randomly developed non-ideal profile for each given strategic type on each of the performance constructs. The low R<sup>2</sup> (ranging between .013 and .152) and insignificant coefficients for profile deviation in the randomly selected non-ideal profile regressions (see table 7, columns 4 and 8) provide additional support for the robustness of our profile deviation results (e.g. Hult, Ketchen, Cavusgil and Calantone 2006; Venkatraman and Prescott 1990; Vorhies and Morgan 2005).

Following the approach of Vorhies and Morgan (2005), we also compared the result of the unweighted relationship performance regression models and the unweighted overall performance models with two weighted regression models. For these alternative models the deviation of each relationship characteristic from that of the ideal one for the given strategic type was weighted by its contribution to explain the business relationship characteristic interdependence, using the following formula:

$$ED = \sqrt{\sum_{j=1}^N \beta^* (X_{sj} - \bar{X}_{ij})^2},$$

where  $\beta$  is calculated from the SEM results presented above of the higher order construct analysis (Venkatraman and Prescott 1990; Vorhies and Morgan 2005). Results in table 7, columns 2 and 6 indicate that as for prospectors the weighted models perform no better compared to the unweighted models. However, for defenders the weighted models work slightly better than the unweighted models (for relationship performance see table 7, column 2:  $R^2_w = .633$ ,  $R^2_{uw} = .621$  and for overall performance see table 7, column 6:  $R^2_w = .350$ ,  $R^2_{uw} = .340$ ). The same results were found for analyzers for the overall performance model ( $R^2_w =$

.305,  $R^2_{uw} = .302$ ). Comparing the results of the two competitive regression models (i.e. weighted and unweighted) indicates that the effect of treating each of the seven relationship characteristics as equally important vis-à-vis the model in which the relative importance of each relationship characteristic is incorporated is negligible.

Next, we assessed the impact of forming ideal profiles from single versus multiple benchmark companies. Thus, we identified a single benchmark firm (i.e. the best performer) in each strategy type following the approach of Vorhies and Morgan (2005). Single benchmark firms for each strategy type should have superior relationship performance and overall performance. In addition, the best performer firm should also report the highest relationship quality and relationship satisfaction (control variables). Using these criteria we identified a single firm as a primary benchmark for each of the three business strategy types. Table 5 summarizes the ideal profile of single benchmark firms for each strategy type. We then performed single-firm ideal relationship performance regression models, as well as single-firm ideal overall performance regression models for each strategic type. Results indicate that comparing the unweighted relationship performance models (using multiple benchmark companies), our single-firm benchmark model for relationship performance slightly improved in terms of  $R^2$  (see table 7, column 3 vs column 1:  $R^2_{sb}=.501$  vs  $R^2_{uw}=.484$  for prospectors;  $R^2_{sb}=.457$  vs  $R^2_{uw}=.454$  for analyzers; however,  $R^2_{sb}=.621$  vs  $R^2_{uw}=.640$  for defenders). In terms of overall performance,  $R^2$  slightly decreased (see table 7 column 7 vs column 5). Thus, using single-firm ideal profile derivation does not show improved results compared to multiple-firm ideal profile approaches.

Finally, we operationalized the fit conceptualization from an alternative perspective i.e. fit as covariation. This conceptualization of fit is complementary to fit as profile deviation. Whereas fit as profile deviation assesses the assumption that within each strategic type there exist ideal types against which other firms can benchmark their relationship characteristics in ways that improve relationship performance and subsequently overall performance, fit as covariation examines the impact of the internal consistency regarding aligning a company's relationship characteristics with business strategy to achieve superior relationship performance. According to Venkatraman (1989), fit as covariation tests the existence of a pattern of internal consistency among a set of underlying, theoretically related variables. He recommended EFA or CFA as two ways of assessing the covariations. In this study, we examine the covariation via a higher-order construct that captures the covariation of the coalignment of the seven relationship characteristics with the construct of business strategy (for the purpose of this model, business strategy is not operationalized via self-typing but represented by a multi-item reflective measurement model). We first developed an initial model, which is aimed at capturing the main effect. In this model all seven relationship characteristic constructs as well as the business strategy construct directly relate to both relationship performance and overall performance. However, a competing model uses a higher-order construct that is related to the performance constructs and captures the coalignment of the seven relationship characteristic constructs as well as business strategy on the other. The assumption is that if business strategy has an influence on the coalignment of business relationship characteristics, then the higher-order model should work better in comparison to the direct effect model (Venkatraman 1989). We used LISREL 8 to run these two alternative models (see figure 2) and the results are shown in table 8 for the main effect model, and in table 9 for competing higher-order model. The main effect model results in  $\chi^2_1 = 1570.4$ ,  $df = 990$ , and the competing higher-order model results in  $\chi^2_2 = 1721.0$ ,  $df = 1024$ . However, Venkatraman (1989) suggests that these two non-nested models can not be compared using chi-square difference test criteria. Since the higher-order model is just a parsimonious explanation of the captured covariation among first order constructs, the goodness of fit is always less than that of the first order model. To compare these two models,

Venkatraman (1989) introduces a step-wise assessment approach. Following his guidelines, we first compared the  $R^2$  for each of our two performance constructs in each model. The direct effect model shows:  $R^2_{RP} = .70$  and  $R^2_{OP} = .46$ , with the higher-order model  $R^2_{RP} = .71$  and  $R^2_{OP} = .45$ . These results suggest that for relationship performance construct the  $R^2$  has slightly increased, while for overall performance it has slightly decreased by the use of higher order model. Second, we calculated the target coefficient (T) (i.e. the ratio of the chi-squares) by dividing the chi-square of the first-order model by that of higher-order model. The value of T should be a positive number less than 1; for our models it is .913, and since it is close to one Venkatraman (1989) advised to favour the higher-order model. The last step is to examine the statistical significance of the eight loadings on the higher-order model. The coefficient loadings of the eight first-order constructs on the higher-order construct are between .397 and .792 and all are statistically significant ( $p < .01$ ) in the higher-order model (see table 9). The higher-order construct in this model (i.e. relationship characteristic interdependence) also strongly and significantly explains both relationship performance ( $\beta = .845$ ,  $p < .01$ ) and overall performance ( $\beta = .674$ ,  $p < .01$ ). In the direct effect model, only four of the eight first-order constructs significantly contribute to explaining relationship performance (relationship specific investment at  $p < .05$ ; and cooperation, information sharing, and business strategy at  $p < .01$  levels), and four of the first-order constructs explain overall performance (organizational trust, affective commitment, and information sharing at  $p < .05$ ; and business strategy at  $p < .01$  levels), with significant beta coefficients between .181 and .327. Overall, the results of these three steps provide support that the higher-order coalignment model is the preferred model specification.

## 6. Discussion and Implications

Our results provide strong support for the assumption that leveraging organizational business relationship characteristics in ways that are in line with those of ideal firms within business strategy types yields superior relationship performance, and subsequently leads to higher overall performance. The total variance explained in our models is sufficient to generalize from the findings (ranging from .302 to .621) and are in line with previous configuration studies (e.g. Hult, Ketchen, Cavusgil and Calantone 2006; Vorhies and Morgan 2005). Within each strategy type our results have more explanatory power with regard to relationship performance than to overall performance. This is theoretically expected as relationship characteristics ought to have clear outcome implications for relationship performance, while other important drivers also impact upon overall firm performance. Operationalizing fit as covariation also supports this finding by showing that a higher order construct capturing the coalignment of relationship characteristics has stronger impact on relationship performance.

Defenders in our relationship performance model have the highest total variance explained (see table 7, columns 1, 2, and 3:  $R^2_{uw} = .621$ ,  $R^2_w = .633$ , and  $R^2_{sb} = .640$ ). In previous studies (e.g. Vorhies and Morgan 2003) defenders did not provide good results and were dominated by the other two business strategy types (i.e. prospectors and analyzers). Thus, with regard to relationship characteristics, defenders empirically show the relevance of configuration approaches for this strategy type as well.

In terms of fit operationalization, our study provides sufficient evidence for the appropriateness of conceptualizing fit as profile deviation. This approach is most useful for considering the simultaneous impact of different constructs within the model. Although this approach has been successfully adopted in the marketing literature (e.g. Vorhies and Morgan 2003, 2005), this study is the first to apply fit as profile deviation in the relationship marketing and business marketing literature. This approach of fit is very consistent with benchmarking processes in which firms typically search for one or a group of top performers

in the industry and then try to identify the underlying organizational characteristics that are believed to be important to enhance business performance. Consequently, these companies then identify the gaps between their current situation and that of the ideal firms to develop strategies for closing these gaps. Our results therefore can help managers in conducting benchmarking studies of the management of the business relationships in their companies in terms of the beneficial attitudes and behaviors which need to be implemented or fostered. However, with benchmarking studies the fundamental questions arise as to whether a firm should look at companies following a similar strategy to itself, and whether it should identify a single top performing company or chose a group of ideal firms. Our models clearly show that within-strategy analyses yield superior results, i.e. companies should benchmark against similar firms following the same strategy. We also assessed the impact of choosing single versus multiple ideal firms to form the ideal profile; our results provide evidence that the explanatory power of single benchmark companies is only slightly better than multiple benchmark companies. Vorhies and Morgan (2005) argued that choosing the appropriate single best-performing firm is crucial in the benchmarking process. Since our results indicate that the total variance explained by our models in the two alternative approaches (i.e. single versus multiple company) are very similar, we advocate forming ideal profiles from a group of best-performing firms within each strategy type rather than a single company. Identifying the single best performer is a real challenge and carries inherent risk, while a multiple company approach mitigates against choosing an inappropriate company to accurately calibrate ideal profiles in conducting the benchmarking study.

Furthermore, we operationalized fit as covariation to capture the interdependence in between independent constructs in the model. Our results provide satisfactory fit indices in which the coalignment of relationship characteristics with business strategy strongly and significantly contribute to both relationship performance and overall performance. This finding also provides further confidence in our profile deviation results. Venkatraman (1989) considered this approach to fit as complementary to profile deviation approach. This is because fit as profile deviation considers the simultaneous impact of relationship characteristics on performance constructs, while fit as covariation stresses the interdependency of relationship characteristics in their alignment with business strategy. Therefore, we suggest to consider both fit approaches as a complementary tests for future research in configuration theory rather than using them interchangeably.

## **7. Limitations and Further Research**

We acknowledge several limitations due to trade off decisions in designing this study. Firstly, from an ideal profile perspective, the business marketing literature is not sufficiently detailed to consider the fit between types of business strategy identified in the literature and characteristics of business relationships, nor do they provide indications for each aspect of inter-firm relationships that can lead to higher performance. Therefore, we used an empirical approach to develop ideal profiles. This approach is valid and has been frequently used in domains in which pertinent literature is not able to provide theory-driven ideal profile derivation. However, Doty, Glick, and Huber (1993) suggest that using experts to define theory-based normative ideal profiles is the best approach to develop a priori ideal types. This method has been used in previous research (e.g. Doty, Glick and Huber 1993; Hult, Ketchen, Cavusgil and Calantone 2006). The appropriateness of this approach together with a comparison study of alternative approaches for ideal profile derivation ought to be considered in future research.

Secondly, whilst configuration theory assumes that the underlying organizational characteristics can be aligned with certain business strategy to achieve superior results, some scholars advocate the idea that business strategy is the outcome of firm's dynamic capability.

From this vantage point, dynamic capabilities are drivers of firm's performance (Kandemir, Yaprak and Cavusgil 2006), and thus business strategy as the outcome of these dynamic capabilities is subject to change (Teece, Pisano and Shuen 1997).

As for future research, we suggest to conduct similar studies with the focus on single industry to control for industry effects. In this research, we collected our empirical data from a broad range of industries. Although cross industry studies are common in the strategic literature and are beneficial in terms of the generalizability of the findings (Barlow and Jashapara 1998; Bharadwaj, Varadarajan and Fahy 1993; Hughes and Morgan 2008), focusing on single industry can be useful, e.g. by comparing industry results against the findings of this study. Moreover, business strategy in this research is operationalized from two mutually exclusive approaches (i.e. self-typing and multi-item Likert scale), which are exclusively designed for operationalizing Miles and Snow's business strategy type. Further research can take into account other typologies of business strategies including Porter's (1980) typology (e.g. Kabadayi, Eyuboglu and Thomas 2007), or the proposed hybrid models (e.g. Olson, Slater and Hult 2005; Slater, Hult and Olson 2007) to test whether our findings are consistent in other typologies.

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Table 5: Single-company ideal profile

	Prospectors	Analyzers	Defenders
Interpersonal trust	5.5	5.75	6.50
Organizational trust	6.67	6.33	7
Affective commitment	7	6.67	5
Cooperation	6	6.67	7
Behavioural commitment	7	7	7
Relationship Specific Investment	6	5.67	6
Information sharing	7	7	7
Relationship performance	7	7	7
Overall performance	7	6	6.33
Relationship quality	7	7	7
Relationship satisfaction	7	7	7
Turnover	5	4	5
Firm Size	3	3	2
Firm Age	3.64	3.40	2.48
Portfolio Age	3.64	2.30	2.48
Dependency	4.67	6.67	7

Table 6: Regression models using within and across business strategy type ideal profiles

Independent Variables	Dependent Variable							
	Relationship Performance				Overall Performance			
	(1) Within Strategic Model (unweighted)	(2) Within Strategic Model (weighted)	(3) Across Strategic Model (unweighted)	(4) Across Strategic Model (weighted)	(5) Within Strategic Model (unweighted)	(6) Within Strategic Model (weighted)	(7) Across Strategic Model (unweighted)	(8) Across Strategic Model (weighted)
<b>All firms</b>								
Profile deviation	-.719**	-.715	-.580**	-.595**	-.568**	-.563**	-.520**	-.517**
Firm Size	.027	.035	.042	.049	-.027	-.023	-.070	-.066
Firm Age	-.014	-.024	.009	.006	-.053	-.056	-.072	-.080
Portfolio Age	-.074	-.068	-.071	-.081	.099	.108	.124	.129
Dependency	.002	.025	-.037	-.013	-.090	-.083	-.125	-.107
R2	.506	.502	.327	.345	.335	.329	.284	.283
F-Value	38.700**	38.175**	16.244**	17.626**	19.018**	18.544**	13.669**	13.554**

\*  $P < .05$

\*\*  $P < .01$

Table 7: Regression results

Independent Variables	Dependent Variable							
	Relationship Performance				Overall Performance			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Ideal Profile Models (unweighted) UW	Ideal Profile Models (weighted) W	Ideal Profile Models (single benchmark) SB	Non-ideal Models	Ideal Profile Models (unweighted) UW	Ideal Profile Models (weighted) W	Ideal Profile Models (single benchmark) SB	Non-ideal Models
<b>Prospectors (n=76)</b>								
Profile deviation	-.673***	-.657***	-.714***	0.173	-.593***	-.584***	-.533***	.284**
Firm Size	0.082	0.088	.088	-0.016	-0.087	-0.084	-.056	-0.006
Firm Age	-0.036	-0.035	.017	-0.132	-0.079	-0.063	-.162	-0.192
Portfolio Age	0.109	0.097	-.019	0.257	.324*	.303*	.335**	0.352
Dependency	-.180*	-0.147	-.009	-0.018	-.299***	-.270***	-.141	-0.057
R2	0.484	0.463	0.501	0.066	0.449	0.442	0.432	0.152
F-Value	12.401***	11.378***	13.843***	0.929	10.444***	10.158***	10.497***	2.298*
<b>Analyzers (n=76)</b>								
Profile deviation	-.678***	-.670***	-.665***	.256**	-.539***	-.542***	-.537***	0.057
Firm Size	-0.019	-0.013	-0.047	-0.04	-0.1	-0.096	-.028	.010*
Firm Age	-0.027	-0.043	.027	0.135	-0.028	-0.035	-.050	-0.063
Portfolio Age	-0.028	-0.015	-.045	-0.14	-0.002	0.005	.034	-0.016
Dependency	-0.001	0.017	.114	0.135	-0.071	-0.076	-.170	-0.072
R2	0.454	0.443	.457	0.101	0.302	0.305	.315	0.013
F-Value	10.990***	10.493***	11.593	1.479	5.541***	5.611***	6.354***	0.171
<b>Defenders (n=43)</b>								
Profile deviation	-.767***	-.776***	-.805***	0.064	-.577***	-.586***	-.553***	-0.002
Firm Size	0.159	0.174	.116	0.093	0.079	0.093	.061	-0.068
Firm Age	-0.091	-0.116	-.086	-0.094	-0.124	-0.142	-.022	0.241
Portfolio Age	-0.14	-0.122	-.092	0.258	0.013	0.016	-.031	-0.3
Dependency	0.053	0.063	-.063	-0.044	0.096	0.096	.104	0.057
R2	0.621	0.633	.640	0.067	0.34	0.35	.312	0.05
F-Value	10.486***	11.051***	12.782***	0.457	3.506**	3.659***	3.269**	0.355

\*  $P < .1$   
 \*\*  $P < .05$   
 \*\*\*  $P < .01$

Table 8: Fit as covariation - Initial model

Interpersonal trust	-->	Relationship performance	-.102
Organizational trust	-->	Relationship performance	.153
Affective commitment	-->	Relationship performance	.076
Behavioural commitment	-->	Relationship performance	-.033
Relationship Specific investment	-->	Relationship performance	.181*
Cooperation	-->	Relationship performance	.327**
Information sharing	-->	Relationship performance	.278**
Business strategy	-->	Relationship performance	.273**
Interpersonal trust	-->	Overall performance	-.204
Organizational trust	-->	Overall performance	.233*
Affective commitment	-->	Overall performance	.191*
Behavioural commitment	-->	Overall performance	.024
Relationship Specific investment	-->	Overall performance	.020
Cooperation	-->	Overall performance	.122
Information sharing	-->	Overall performance	.199*
Business strategy	-->	Overall performance	.287**

\*  $P < .05$

\*\*  $P < .01$

Chi-square = 1570.4 df = 990

Table 9: Fit as covariation - Covariation model

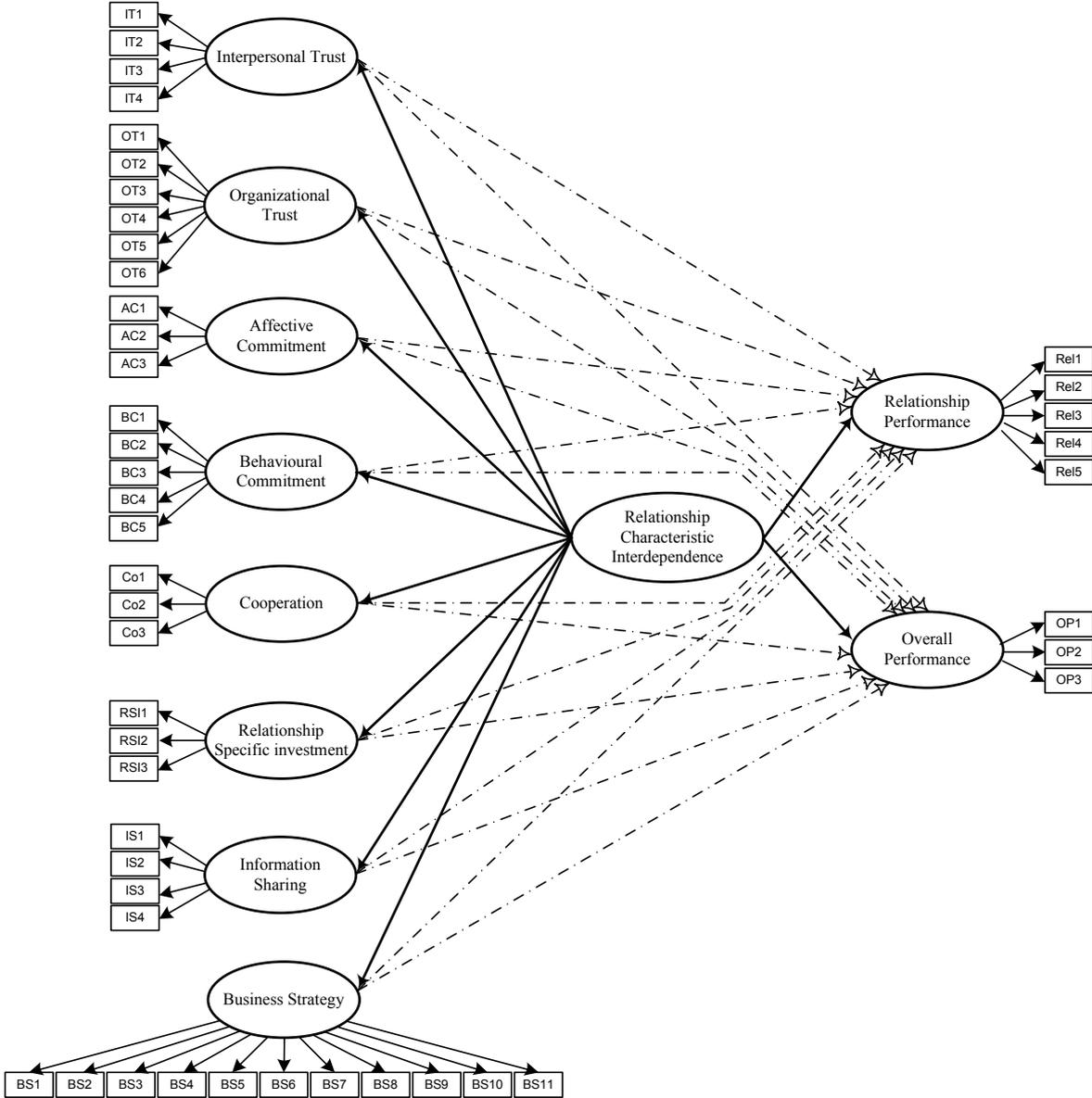
			Coefficient
Relationship characteristic interdependence	→	Interpersonal trust	.662**
Relationship characteristic interdependence	→	Organizational trust	.752**
Relationship characteristic interdependence	→	Affective commitment	.705**
Relationship characteristic interdependence	→	Behavioural commitment	.498**
Relationship characteristic interdependence	→	Relationship Specific investment	.397**
Relationship characteristic interdependence	→	Cooperation	.676**
Relationship characteristic interdependence	→	Information sharing	.792**
Relationship characteristic interdependence	→	Business strategy	.550**
Relationship characteristic interdependence	→	Relationship performance	.845**
Relationship characteristic interdependence	→	Overall performance	.674**

\*  $P < .05$

\*\*  $P < .01$

Chi-square=1721.0 Df=1024

Figure 2: Fit as Covariation



---> Initial model

—> Covariation model

## Appendix

*Strategic Types* (Source: Vorhies and Morgan (2003))

Which of these three paragraphs best describes your company? Please tick the relevant box.

***Prospector Strategy:*** This business unit typically operates within a broad products/services-market domain that undergoes periodic redefinition. The business unit values being "first to market" in new products/services and market areas even if not all these efforts prove to be highly profitable. This organization responds rapidly to early signals concerning areas of opportunity, and these responses often lead to a new round of competitive actions. However, this business unit may not maintain market strength in all areas it enters.

***Analyzer Strategy:*** This business unit attempts to maintain a stable, limited line of products or services while moving quickly to follow a carefully selected set of the more promising new developments in the industry. This organization is seldom "first to market" with new products and services. However, by carefully monitoring the actions of major competitors in areas compatible with its stable products/services-market base, this business unit can frequently be "second to market" with a more cost-efficient products/services.

***Defender Strategy:*** This business unit attempts to locate and maintain a secure niche in a relatively stable market area. The business unit tends to offer a more limited range of products or services than competitors, and it tries to protect its domain by offering higher quality, superior service, lower prices, and so forth. Often, this business unit is not at the forefront of developments in the industry. It tends to ignore industry changes that have no direct influence on current areas of operation and concentrates instead on doing the best job possible in a limited area.