

Influence of Business Strategy on Inter-firm Coordination Efforts: Moderating Role of Environment

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Abstract

The success of an organization's business strategy depends on the fit among various factors i.e. business environment, organizational structure, processes, control and coordination efforts, etc. (Fauzi, 2009). The coordination efforts that firms use while interacting with partnering firms can have a significant impact on their inter-firm relationships. Amongst various factors that influence the suitability of coordination efforts, business strategy of the firm has received special attention. The effectiveness of business strategy and coordination efforts is contingent on the specific environmental characteristic. We use Walker and Ruekert (1987) typology and develop a conceptual framework for the influence of business strategy on inter-firm coordination efforts under different environmental conditions. By drawing from contingency theory, we propose that firm strategy can enhance the channel relationship when its coordination efforts are aligned with business strategy and environment. We extend the applicability of business strategy to coordination efforts in the distribution channel and suggest that contingency theory can provide useful insights in understanding channel relationship.

Keywords: business strategy, coordination efforts, business environment, channel relationship, strategic fit, contingency theory.

1. Introduction

The success of an organization's business strategy depends on the fit among multiple factors, i.e. business environment, structure, control and coordination system (Fauzi, 2009). Since its introduction, Miles and Snow's (1978) and Porter's (1980) typology of business strategies have received extensive research attention in the various disciplines. The majority of these researches have focused on the relation between (1) strategy and performance (Slater & Olsen, 2000) (2) environmental characteristic

and strategy (Desarbo et. al., 2005; Venkatraman, & Prescott, 1990), (3) organization's structural characteristics and strategy (Olson, Slater, & Hult, 2005; Walker & Ruekert, 1987), and (4) strategy and control (Govindarajan & Fisher, 1990; Lassar, & Kerr, 1996). These studies particularly investigated the impact of the strategy on firm performance under different environmental and/or organizational structural arrangement. Thus, it suggests that researchers are more interested about internal system, structure and process that enhance the positive effect of strategy on performance.

However, researchers have given less attention to the effect of strategy on inter-firm relationship with few exceptions (Justin & Litsschert, 1994; Lassar & Kerr, 1996), although it has been considered the critical driver of organization's performance (Dwyer & Oh, 1987, Morgan & Hunt, 1994). The effective implementation of firm strategy in market depends on its relationship with channel partners, as they distribute products and/or services to final consumers (Lassar & Kerr, 1996). The relationship between firm and channel partners depends on the type of the coordination efforts exercised by the manufacturer (Celly & Frazier, 1996). Thus, coordination efforts become critical from the perspective of improving relationship and enhancing the performance of the firm.

Scholars emphasised the importance of coordination efforts for effective implementation of firm strategy and enhancing the performance through strong relationship with channel partner (Celly & Frazier, 1996; Lassar, & Kerr, 1996), because firm's coordination efforts (1) provide signal to the channel partners about the objectives and activities valued by firm (i.e. sales, skills) (Celly & Frazier, 1996), (2) can enhance the channel partners' role clarity, thereby enhancing overall channel performance (Chun & Rainey, 2005), (3) can influence the resource allocation of distributors for selling activities (Anderson, Lodish & Weitz, 1987). Slater and Olson (2000) suggested that firm should align its strategy with

the sales force control system to enhance the performance. Thus, we build on this literature, and posit that strategic fit between strategy and coordination efforts will improve the overall performance of the firm.

The effective implementation of business strategy and the type of coordination efforts also depend on the environment in which firm operates (Celly & Frazier, 1996; Porter, 1980). The extant literature suggests that effectiveness of different strategies is contingent on the different environmental conditions (Homburg, Workman & Krohmer, 1999). For example, in complex and dynamic environment, differentiation strategy is more effective (Porter, 1980), whereas in stable environment, cost leadership strategy is found to be more successful (Marlin, Hoffman & Lamont, 1994). Similarly, the effectiveness of firm's coordination efforts also depends on the environmental characteristics. For example, behaviour based coordination efforts are more useful in uncertain environment for enhancing the relationship whereas outcome based coordination efforts lead to frustration and dysfunctional behaviour of channel members (Celly & Frazier, 1996). Thus, environment characteristics represent the significant contingency between firm's strategy and coordination efforts to improve the channel relationship and firm performance.

In channel research, inter-firm relationship is considered to be one of the important drivers of firm's performance (Dwyer & Oh, 1987; Morgan & Hunt, 1994). Among several factors, coordination efforts have profound effect on inter-firm relationship (Celly & Frazier, 1996). The use of specific type of coordination efforts depends on various factors (i.e, environment, resource constraint). One of the important determinants of the type of coordination efforts in channel relationship is firm's strategy (Lassar, & Kerr, 1996). Although, firm's strategy can play significant role in developing channel relationship through suitable coordination efforts, it has achieved very less attention in the existing research (Lassar & Kerr, 1996). Lassar, and Kerr, (1996) emphasised that fit between firm strategy and control (i.e. behaviour based and output based) can enhance the relationship with channel members. However, the significant role of environment on the strategy type and control used

has been ignored. Justin and Litsschert, (1994) focused on fit between strategy type and environmental uncertainty, and suggested that defensive strategies are more effective under uncertainty. This study also ignored the role of the control and studied only one characteristics of the environment.

Although, several scholars emphasised that success of firm's business strategy depends on the fit among multiple factors (Desarbo et al., 2005; Fauzi, 2009; Kabadayi, Eyuboglu & Thomas, 2007), the extant literature has given very less attention to fit among 'strategy, environment and coordination efforts' in inter-firm research. Thus, we draw from contingency theory and develop a conceptual framework to analyse the relationship between the business strategy and inter-firm coordination efforts. In addition, we also argue that relationship between the business strategy and the inter-firm coordination efforts is contingent on the external environment.

In the next section, we review the literature on contingency theory, business strategy, control theory and organizational environment, and develop the conceptual framework that identifies the moderating role of environment between the business strategies and inter-firm coordination efforts. Next, we present the propositions regarding the strategy type and corresponding coordination efforts under specific environmental condition, and emphasize the importance of fit among three strategic elements for inter-firm relationship. Finally, we conclude with a discussion on the potential expansion and application of the framework and the directions for future research.

2. Contingency Theory

The contingency theory to strategy implementation adopts the general and open systems approach (Vorhies, & Morgan, 2003), in which organization is considered to be a social system composed of interdependent subsystem. The success of the strategy depends on the alignment between the elements of these subsystem and the demands of the environment. The coordination between the elements of the subsystem is achieved through internal alignment between organizational policies and practices. This internal cohesion between

strategic elements interacts with the external environment to realize organization's objectives (Olsen, Slater & Hult, 2005). The interaction between the organizational internal subsystems and the external environment results in two important characteristics of open system (1) Adaptation (2) equifinality.

The theory of adaptation suggests that manager should adjust the strategy to deal with changes in the external environment (Chakravarthy, 1982). We extend the theory of adaptation to our context, and suggest that managers should adopt specific type of coordination efforts that best satisfy the demand of the firm's business strategy and enhance the channel relationship. The concept of equifinality suggests that organizational performance is more dependent on how effectively firm implement the selected strategy than the particular strategy in use (Gresov and Drazin 1997; Venkatraman 1990). Thus, equifinality indicate that managers should be more concern about the effective implementation of the chosen strategy to enhance the performance of the firm than the strategy itself. As environmental characteristics and coordination efforts are important contingency for effective strategy implementation, it is reasonable to expect that superior performance of the firm depends on how well the coordination efforts are align with the strategy under different environmental conditions.

3. Business Strategy

Business strategy refers to "how firms compete in an industry or market" (Vorhies & Morgan, 2003, pg. 51; Walker & Ruekert 1987). Extant literature identifies two major framework for business strategy, i.e. Porter's (1980) and Miles and Snow's (1978) typology. The Porter's (1980) framework has external orientation and centres on customers and competitors. However, Miles and Snow's (1978) typology has internal orientation and concentrate on rate of product market change (Walker & Ruekert 1987). Miles and Snow (1978) propose a broader classification of strategies that use different methods, to identify and approach the product-market domain, and devise the firm's structures and processes to achieve advantage over competitors. They recognize four prototype of how organizations deal with these issues: (1) "Prospectors" (2) "Defenders" (3) "Analyzers"

(4) "Reactors".

Prospectors constantly strive to find and exploit new products and market opportunities, whereas defenders tend to protect a segment to create a stable set of customers and products. Analyzers secure the middle position on the continuum in which prospector is on the one extreme and defender on the other. Thus, Analyzers follows prospectors into new product-market area and defenders in the other market through protection of products and customers. However, reactors do not respond consistently to any business problem. Porter (1980) contends that the aim of the business is to create extra value for customers compare to competitors in the market (i.e. low cost or differentiation) and to define the scope of market coverage (i.e. market wide or focused).

However, Walker and Ruekert (1987), argue that both typologies have intrinsic strengths and weaknesses. Porter's external orientation ignores the firm's role in strategy formulation and Miles and Snow's internal orientation overlook the impact of environment on strategy. Thus, both typologies are limited due to one dimensional orientation. By emphasising on both dimensions, Walker and Ruekert (1987) propose a mix typology of prospectors, differentiated defenders, and low-cost defenders. We draw from Walker and Ruekert's (1987) work and add the analyzer strategy due to its validity in strategic management literature (Slater et al., 2000; Olson, Slater & Hult, 2005; Oyedijo, & Akewusola, 2012). We do not consider reactors because of its inconsistent approach to environment.

4. Control System

Control system can be defined as any process that influences the behaviour of partnering firms, ideally in a way that enhance the welfare of both the firms (Anderson & Oliver, 1987; Snell 1992; Miao, Evans & Shaoming, 2007). It involves various firm processes, such as, setting goals, directing, monitoring and evaluating performance, administering reward / punishment, compensating, etc. (Celly & Frazier, 1996, Miao et al., 2007). Control theory identifies three major categories of controls i.e. output control, behavioural control, and capability control (Anderson & Oliver, 1987,

Challagalla & Shervani, 1996; Joshi, 2009).

In output control systems, managers set output targets (i.e. sales or profit) for the partnering firms and evaluate their performance on the basis of achievement of those pre-set targets. They do not emphasize specific activities or behaviour and provide flexibility to the partnering firms for achieving the targets in their own ways (Anderson & Oliver, 1987, Celly & Frazier, 1996; Miao et al., 2007). Additionally, output control offers an objective measure for performance evaluation under uncertainty (Hoskisson & Hitt, 1988). However, output controls must be used with caution, as overemphasis on short-term outcomes may discourage partnering firms from making long term investments (Hoskisson & Hitt, 1988). Furthermore, output controls are effective when the output of partnering firms can be measured accurately and completely (Anderson & Oliver, 1987; Celly & Frazier, 1996).

In behavioural control, managers specify the required activities, closely monitor and evaluate actual behaviour of employees and administer the rewards or punishment on the basis of performance of the specified activities (Anderson & Oliver, 1987; Celly & Frazier, 1996). Use of behavioural control needs high level of managerial guidance and intervention in the business activities of the partnering firms (Anderson and Oliver, 1987; Miao et al., 2007). Additionally, comprehensive behaviour control system demands detail information and close monitoring of employees which raise the cost for the organization (Celly & Frazier, 1996). The greater level of behaviour control can standardize the processes and curtail the flexibility of partnering firms. It may lead to inferior performance due to rigid and cautious behaviour of the partnering firms (Celly & Frazier, 1996).

Behaviour control system assumes managerial knowledge of cause-effect relationships between the actions and the outputs (Anderson & Oliver, 1987; Celly & Frazier, 1996). When managers lack the adequate cause-effect knowledge and do not fully comprehend the process, it is difficult for them to translate intentions into specific action. In such situations, they cannot effectively implement the behaviour based control system (Celly & Frazier, 1996). Furthermore, performance evaluation of partnering firms will be

complex and subjective under behavioural control system. Manager subjective evaluation of employees may introduce bias and lack of credibility in the performance appraisal system (Anderson & Oliver, 1987, Snell 1992).

Capability control systems involve setting goals for the skills and abilities of the partnering firms, monitoring their development, directing for improvement, and compensating on the basis of actual level of skills and abilities (Challagalla & Shervani, 1996, Miao et al., 2007). It emphasize on the building of skills and abilities that can enhance the overall performance of the firm and also of the partnering firm. Capability controls also satisfies the individual instinctive psychological need for competence and provide motivation for greater efforts (Deci & Ryan, 1985). The capability control ensures that the partnering firm possess the appropriate skills and abilities to deliver the greater performance. The exercise of the capability control demands better understanding of the skills and abilities required to perform the task. Thus, manager should have the enough cause and effect knowledge of market and the kind of skills required to transform that knowledge in to performance (Challagalla & Shervani, 1996).

Extant literature on alignment of strategy, environment, structure and control, focused at the organizational level (Vorhies & Morgan, 2003; Fauzi, 2009). In addition, control systems are studied in organizational context where the focal firm has formal authority over the partnering firms. However, several underlying conceptual arguments from organizational research seem to be useful in the channel context. Scholars have indicated that the conceptual arguments from organizational context are equally applicable in the inter-organizational research (Anderson & Oliver, 1987, Eisenhardt, 1989). In addition, if we change our focus to 'coordination efforts' (i.e. efforts by organization personnel to align channel members activities), output, behaviour and capability controls becomes relevant for the distribution channel. On the basis of these arguments, and previous channel literature, we used three types of 'coordination efforts' in this study, i.e. output-based, behaviour-based and capability-based coordination efforts.

5. Environmental Characteristics

In organizational control, and strategic management literature, environment has been considered as one of the important contingencies. In addition, organization's environment is crucial to management research from all major theoretical perspectives. The contingency theory (Boyd's et al., 1993) has shown that success of a business strategy depends on the different environmental conditions. In addition, Jaworski (1988) argued that appropriate use of controls depends on the environmental context faced by the organization. Researchers have found link between the specific environmental characteristic and the type of the controls being used by firms (Celly & Frazier, 1996; Fauzi, 2009). Fauzi (2009) found that fit among the business environment, strategy, and control system enhanced the performance of the organization. Thus, we argue that in general the success of the strategy and the appropriateness of control system will be moderated by environmental characteristics.

Although, earlier literature has identified several dimensions of the environment, the three dimensions have been considered particularly important and are included consistently in management research studies, i.e. munificence, dynamism, and complexity (Achrol & Stern 1988; Dwyer & Welsh 1985; Sharfman & Dean, 1991). In addition, it has been suggested that these three environmental dimensions are theoretically similar to those suggested by other scholars, but are more inclusive than others (Dess and Beard, 1984).

Munificence is defined as the availability and accessibility of critical environmental resources to firms' (Dess & Beard, 1984). High munificence refers to an abundance of resources and greater demand of the products in the environment whereas low level of munificence implies scarce resources in the environment (Achrol & Stern 1988). Complexity refers to the number of different, suppliers, buyers, competitors, and other environmental players that managers should consider in designing their strategies (Sharfman & Dean, 1991). Dynamism is the frequency of changes in the environment tied with the unpredictability in the market (Homburg et al., 1999). In this study, we argue that the

environmental characteristics will influence the types of the coordination efforts that must be used by the organization operating under different business strategies (Jaworski, 1988, Celly & Frazier, 1996).

6. Conceptual Framework: Hypothesis Development

The success of the organization's strategy depends on the fit among the business environment, strategy, structure, and control system (Desarbo et al., 2005; Fauzi, 2009). Govindarajan and Fisher (1988) found that the choice of control is the function of the firm's business strategy. They identified the appropriate controls for each strategy type for Miles and Snow's (1978) typology. In addition, Govindarajan and Gupta (1985) argued that managers have to adopt appropriate control under different environmental conditions to enhance organization performance. Thus, we argue that each strategy type uses appropriate coordination efforts under different environmental circumstances and develop prepositions to describe the type of the 'coordination efforts' that is most relevant for each strategy type under different environmental context.

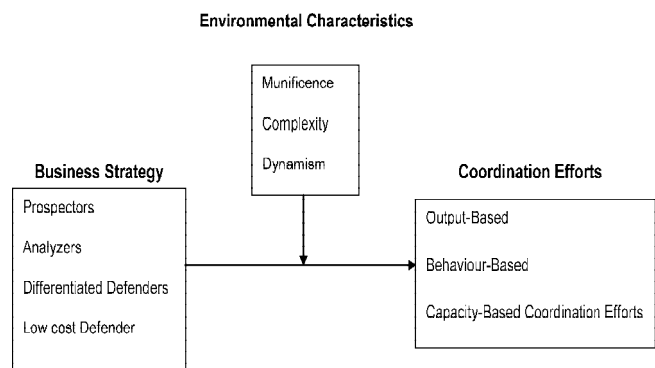


Figure 1: A Conceptual Framework of Strategic Fit Among Business Strategy, Environment and Coordination Efforts

6.1 Prospectors

High environmental munificence indicates that the market demand for the firm's products is high. Prospectors rely on developing new products and focus on customers who are keen to buy innovative products (Miles & Snow, 1978; Olson et al., 2005). The development and sales of the new products is a complex and creative process which requires detail knowledge about particular

technique, product and customers. To facilitate this process, prospectors must provide enough autonomy to their partnering firms and use informal coordination mechanism (Walker & Ruekert, 1987; Olson et al., 2005). One of the important business partners is the partnering firms in downstream distribution channel relationships. Prospectors seek customer and market information from channel partners to improve the sales and new product development. In highly munificence environment, outcome based coordination efforts provide flexibility to channel members to use their own creative strategies to sell the products and understand customers (Anderson & Oliver, 1987; Celly & Frazier, 1996). Moreover, it is easier for prospector to accurately measure the output of the channel partners compared to measuring their behaviour or capability.

Behaviour based coordination efforts will standardize the sales processes and reduce the flexibility of channel partners which may lead to rigid and cautious behaviour (Celly & Frazier, 1996). Moreover, the cost of implementing behaviour based coordination efforts is higher relative to outcome based coordination efforts. In highly munificence environment, if the behaviour based coordination efforts do not generate enough sales it can frustrate the channel members (Celly & Frazier, 1996). Similarly, capability based coordination efforts builds the skills of the channel members, and provides no assurance of greater performance in the short run (Snell, 1992; Challagalla & Shervani, 1996). In the study of the sales force control system, Slate and Olson (2000) reported that outcome control significantly explain the performance of the prospectors. Therefore, we argue that

Proposition 1: Prospectors will emphasize outcome-based coordination efforts in environment characterised by high munificence.

When the environment is characterized by high complexity, organizations face high number of suppliers, customers, and competitors in the task environments (Sharfman & Dean, 1991). In such a complex environment, organization perceives more heterogeneity (Dess & Beard, 1984), and managers have greater information-processing requirements (Olson et al., 2005).

Moreover, as the prospectors place higher emphasis on developing new product and markets they will require even more information under high complexity (Slater & Narver, 1995). Prospectors are likely to have better understanding of how to market new products compared to their channel partners. Therefore, prospectors can guide their channel partners about how to market products, and collect required information. Thus, we argue that prospectors must use behaviour based coordination efforts in highly complex environment. The output based coordination efforts may not be appropriate as customer needs are heterogeneous. Prospectors may not use capability based coordination efforts due to lack of direct relationship with the performance in the short term (Snell, 1992; Challagalla & Shervani, 1996). Therefore, we propose

Proposition 2: Prospectors will emphasize behaviour-based coordination efforts in environment characterised by high complexity.

When the environment is high on dynamism, organization experiences higher uncertainty because of frequent and unpredictable changes in the external environment (Dess & Beard, 1984; Sharfman & Dean, 1991). Using output based coordination under highly dynamic environment may be considered as holding channel partners responsible for the uncontrollable factors (Jaworsky & Macinnis, 1989; Celly & Frazier, 1996). Output based coordination efforts may frustrate channel partners and elicit their dysfunctional behaviour. Moreover, under high uncertainty, output based coordination efforts may not provide meaningful information about the degree of support that a channel partner is extending towards the suppliers' products (Celly & Frazier, 1996). Additionally, it will be difficult for the prospector to clearly understand the cause and effect relationship between channel partner's activities and higher performance under dynamic environment. Therefore, behaviour based coordination efforts are less likely to be used in the dynamic environment (Merchant, 1985).

Prospector's continuous efforts to develop new products provide them with the knowledge and expertise on handling uncertain environments. Hence, in uncertain

environment, prospectors can use their product and channel functional knowledge to develop the skills and abilities of their channel partners. Enhanced skills and abilities of the channel partners can reduce the perceived riskiness of their actions and lessen perceived cause and effect ambiguity. Therefore, we argue that

Proposition 3: Prospectors will emphasize capability-based coordination efforts in environment characterised by high dynamism.

6.2 Differentiated Defenders

The competitive advantage of differentiated defenders depends on their ability to provide high quality products to niche customers who are willing to pay premium price (Walker & Ruekert, 1987; Olson et al., 2005). Differentiated defenders focus on existing customers by providing greater service and superior product quality. Therefore, differentiated defenders choose selective channel partners who can deliver superior service and maintain strong customer relationships (Slater & Olson, 2001). Differentiated defenders also develop close relationships with channel partners to get essential information about value creation opportunities. One of the key success factors for differentiated defenders therefore, is effective communication of this information between them and the channel partners.

As effectiveness in accomplishing these factors is very difficult to measure in the short term, differentiated defenders are more likely to use behaviour-based coordination efforts (Govindarajan & Fisher, 1990) in environment that is characterised by high munificence. The high demand in the output market may be less appealing to the differentiated defenders due to their focus on niche segments (Slater & Olson, 2000). To serve their consumer segment better, differentiated defenders would need lot of information from their channel partners which is difficult to come by output or capability coordination efforts. Therefore, we argue that

Proposition 4: Differentiated defenders will emphasize behaviour-based coordination efforts in environment characterised by high munificence.

When the environment has high complexity, differentiated defenders faces more heterogeneity and

a greater number of members in the task environments (Sharfman & Dean, 1991). However, this heterogeneity may not affect differentiated defenders as much as other competing firms, because differentiated defenders focus on a smaller niche segment. Differentiated defenders create customer value by providing unique products to customers, so they are less vulnerable to competitive actions. To defend the segment, differentiated defenders seek information about customers' requirement through channel partners (Slate & Olson, 2000). They also prescribe the service process to channel partners due to better understanding of the cause and effect knowledge of the marketing environment. Thus, Differentiated defenders are more likely to use behaviour-based coordination efforts over capability and outcome based coordination efforts. We propose

Proposition 5: Differentiated defenders will emphasize behaviour-based coordination efforts in environment characterised by high complexity.

When the environment is characterised by high dynamism, differentiated defenders faces external markets that are unpredictable and uncertain. In such environment, differentiated defenders would have insufficient understanding of the cause and effect relationships between external factors (Merchant, 1985; Celly & Frazier, 1996). Using output based coordination efforts by the supplier may frustrate the channel partners and induce their dysfunctional behaviour (Jaworsky & Macinnis, 1989; Celly & Frazier, 1996). Moreover, as differentiated defenders aim to provide unique value through superior customer service and higher customer orientation (Slate & Olson, 2000), they have to build superior service capability to satisfy the unique service needs of their customers. The right set of skills and abilities with their channel partners will ensure that differentiated defenders efforts are aligned with their business objectives (Celly and Frazier, 1996). Therefore, differentiated defenders are likely to use capability based coordination efforts over behaviour and outcome based coordination efforts in environment characterised by high dynamism. We propose that

Proposition 6: Differentiated defenders will emphasize capability-based coordination efforts in environment characterised by high dynamism.

6.3 Analyzers

Analyzers maintain the intermediate position between prospectors and defenders by focusing on regular customers while simultaneously exploiting new market opportunities (Miles & Snow, 1978; Olson et al., 2005). They develop either improved or cost effective version of the prospectors' products while protecting their core market and products (Olson et al., 2005). These dual demands create the coordination efforts conflict that requires constant information about customers and greater output at lesser cost. Analyzers must use the type of coordination efforts with their channel partners that defines their expectations for output in some contexts and prescribes expected behaviours in others. Thus, analyzers must adopt a mixed coordination efforts (Slate & Olson, 2000) that emphasis one type of coordination efforts relative to others as per the suitability under specific environmental conditions.

When the environment has high degree of munificence, analyzers are likely to use a mix of output and behaviour based coordination efforts for channel member, but more emphasis on output based coordination efforts due to high demand for the products. The more emphasis on output based coordination efforts provide them the flexibility to market products in a flexible and creative way and less emphasis on behaviour based coordination efforts maintain the coordination cost (Anderson & Oliver, 1987; Celly and Frazier, 1996). Additionally, behaviour based coordination efforts help analyzers in implementing specific procedure and gaining enhanced understanding of customers' needs. Therefore, we propose that,

Proposition 7: Analyzers will emphasize output-based coordination efforts in environment characterised by high munificence.

In case of highly complex environment, analyzers use the same mixed coordination efforts, but more emphasis on behaviour coordination efforts. The more emphasis on behaviour based coordination efforts provide detail information about the heterogeneous customers needs (Celly & Frazier, 1996) and less emphasis on the outcome based coordination efforts make channel members accountable for results.

Proposition 8: Analyzers will emphasize behaviour-based coordination efforts in environment characterised by high complexity.

When the environment is highly dynamic, analyzers are more likely to use capability and output based coordination efforts to build the necessary skill level and also generate reasonable output. The more emphasis on capability based coordination efforts ensure that channel members have appropriate skills (Challagalla & Shervani, 1996) and less emphasis on output based coordination efforts shows that channel partners are putting in enough efforts.

Proposition 9: Analyzers will emphasize capability-based coordination efforts in environment characterised by high dynamism.

6.4 Low-Cost Defenders

Low-cost defenders rely on providing quality products at lower cost with a minimum level of service (Walker & Ruekert, 1987; Olson et al., 2005). They seek to maximize the sales volume at lower marketing cost due to lower profit margin. Low-cost defenders emphasise on standardize practices to minimize the risk and administrative cost. In addition, low-cost defenders use relatively lower levels of marketing activities (Slater & Olson, 2001). As their customers are likely to make purchase decisions mostly on price, channel partners are evaluated primarily on their sales.

In environments characterised by high munificence, low-cost defenders are most likely to use outcome-based coordination efforts (Govindarajan & Fisher, 1990). Moreover, low-cost defenders are not likely to invest in capability building and standardizing channel partner's behaviour under high market demand. Additionally, due to high cost of emphasizing capability and behaviour based controls (Snell, 1992) in channel relationships, low-cost defenders are likely to prefer output based coordination efforts over capability and behaviour based coordination efforts. Therefore, we propose

Proposition 10: Low-cost defenders will emphasize output-based coordination efforts in environment characterised by high munificence.

When the environment is high on complexity, low-cost defenders would face a highly heterogeneous environment and would have to deal with greater number of stakeholders in the task environment (Dess & Beard, 1984). However, low-cost defenders mostly focus on low price products and are often less concerned about other market factors compared to the competitors. Moreover, low-cost defenders are usually sellers of commodity products that are often standardized and are not vulnerable to changing market information (Slater & Olson, 2000). Therefore, low-cost defenders are likely to emphasize outcome based coordination efforts for channel partners in complex environments. Output based coordination efforts will also provide flexibility to the channel partners to promote the products and focus on sales to the price sensitive segment (Snell, 1992; Celly & Frazier, 1996). Low-cost defenders will not prefer behaviour and capability based coordination efforts due to higher cost of emphasizing these coordination efforts in channel relationships. Therefore, we propose that

Proposition 11: Low-cost defenders will emphasize output-based coordination efforts in environment characterised by high complexity.

When the environment is high on dynamism, low-cost defenders face an unpredictable and uncertain environment. The lack of cause and effect understanding of channel activities will limit low-cost defenders' ability to assess the degree of support that channel partners extend to its products. In highly uncertain environment, emphasis on output measures may be equivalent to holding the distributor responsible for uncontrollable external factors that may lead to dissatisfaction of channel partners and elicit their dysfunctional behaviour (Celly & Frazier, 1996). Moreover, the use of outcome measures by low-cost defenders may transfer the excessive risk to the channel members and increase the overall coordination cost (Jaworsky & Macinnis, 1989; Merchant, 1985). Low cost defenders are less likely to emphasize the outcome and behaviour based coordination efforts due to higher implementation costs. We argue that low-cost defenders may emphasize capability based coordination efforts because of its cost efficiency relative to behaviour based coordination

efforts, and to improve the skills and abilities of channel partners for future gains.

Proposition 12: Low-cost defenders will emphasize capability-based coordination efforts in environment characterised by high dynamism.

7. Discussion

The paper extends the contingency theory in distribution channels to provide further insights in inter-firm relationship. The proposed conceptual framework integrates research from business strategy, control theory and distribution literature to develop propositions that examine the fit among business strategy, environmental conditions and coordination efforts on channel relationship.

The extant literature provides less insight about the role of strategy in channel relationship (Lassar, & Kerr, 1996), although it has been considered the critical driver of organization's performance (Dwyer & Oh, 1987; Morgan & Hunt, 1994). We draw from business strategy and distribution literature, and argue that effective implementation of strategy depends on the relationship with channel partner. This relationship is influenced by the strategic fit between coordination efforts and strategy used by the firm. Further, the effectiveness of strategy and coordination efforts is contingent on the specific environmental characteristics. Thus, the success of the business strategy is contingent on how well firm's strategy is aligned with the environmental conditions and coordination efforts.

In terms of theoretical contribution, this is the first study to focus explicitly on the 'strategic fit' among business level strategy, coordination efforts and environmental conditions in distribution channel. In addition, this study contributes to the scarce literature on application of strategy in marketing channel (Webster, 2005). Thus, we contribute in marketing literature by extending the influence of firm business strategy on channel relationship through coordination efforts.

We extend contingency theory in the distribution channel to provide useful insight for channel relationship. Although, contingency theory has been extensively used in organizational, strategy and marketing literature

(Vorhies, & Morgan, 2003; Desarbo et al., 2005; Olson et al., 2005), it has been rarely used in the distribution channel despite its theoretical and practical application to inter-firm relationship (Kabadayi, Eyuboglu & Thomas, 2007). We use contingency theory to develop propositions which emphasised the importance of 'strategic fit' among business strategy, environment and coordination efforts for channel relationship.

For managers, our study suggests that multiple combinations of business strategy, environment, and coordination efforts are possible that can enhance the channel relationship. In addition, we argue that, when channel manager improve the fit among the three strategic elements, their channel system will make greater contribution to the firm performance.

Besides the conceptual contribution, this study opens several directions for future research. The proposed 'strategy-environment-coordination' framework should be empirically tested to conform or reject the propositions. In addition, we have not explored the direct effect of the strategy on relationship quality between firm and channel members, but focus on coordination efforts as it has been found central to channel relationship (Celly, & Frazier, 1996). Further research can explore the direct effect of strategy on relationship quality and indirect effect through coordination efforts and provide insight on the role of firm strategy in channel relationship. The framework can be further extended to understand the indirect effect of the strategy on performance through coordination efforts as managers are more concerned about the effect of specific strategy on channel performance.

In this study, we have extended Walker and Ruekert (1987) typology, and analyzer strategy (Slater et al., 2007, Oyedijo, & Akewusola, 2012) in distribution channel to study the relationship among strategy, environment and coordination efforts. This proposed insight can be used by the future research to enhance the understanding of the concept of 'fit' by including additional variables. For example, researchers can use other typology (e.g. Miles and Snow, 1978; Porter, 1980) or hybrid strategies to understand its implication for channel relationship.

Although, we have focused on the fit among strategy, environment and coordination efforts to enhance the channel relationship, the combination of coordination efforts may have complementary effects on channel relationship. For example, the combination of capability based and outcome based controls have found positive combinatory effects on sales person's performance (Miao & Evans, 2012). Hence, the combination of coordination efforts for different strategy, environment configuration presents an interesting avenue for future research.

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