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Aligning operations, marketing, and competitive strategies to enhance performance: An empirical test in the retail banking industry

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Abstract

The close linkage between competitive strategy and functional strategic activities is asserted to be a precondition to the achievement of optimal business performance. This study explores how the relationship between (and among) operations, marketing, and competitive strategies affects organizational performance in the banking industry. Our findings show that: (a) competitive strategy moderates the relationship between operations and marketing strategic activities, and organizational performance, (b) certain integrated strategic decisions of operations and marketing functions have a significant impact on organizational performance, and (c) the performance of retail banks within a strategic group differs depending on the quality of the strategic fit.

Keywords: Service operations; Strategic fit; Banking operations; Strategy

1. Introduction

In the literature on service strategic management, the close strategic linkage between competitive strategy and the operations function has been asserted to be crucial to the success of a service organization [1–5]. Furthermore, this strategic linkage is crucial to achieve world-class competitiveness [1,6,7]. Likewise, marketing strategists consider the strategic fit between marketing and competitive strategy critical to the organizational performance. Hence, it is necessary to find whether the strategic association between marketing and competitive strategies is significant, and to analyze how the strategic association impacts organizational performance.

The efficiency of a service organization is usually dependent on well-managed operations, while its effectiveness depends on well-administered marketing [8]. In addition, there are unique aspects of services such as simultaneous production and consumption as well as customers' active participation in the production process [9]. Such characteristics of services require that a service organization establish close strategic integration between its operations and marketing strategies. Therefore, a proper alignment of operations and marketing functions becomes crucial to the success of a service organization.

In this paper, we study the performance implications of the strategic fit of operations, marketing, and competitive strategies in the retail banking industry from both the reductionistic and the holistic perspectives. The performance

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impact of the strategic fit is analyzed by utilizing not only a bi-variate but also multi-variate analytical methods. Throughout, we consistently maintain the correspondence of the definition of the fit concept and the selection of an analytical tool to measure it.

The remainder of the paper is organized as follows. Section 2 describes the theoretical background. Related hypotheses are developed and presented in Section 3. The research methodology is presented in Section 4. Empirical results and their implications for management are discussed in Section 5 followed by specific conclusions in Section 6.

2. Theoretical background

2.1. Strategic issues in the management of retail banks

Deregulation and the development of communication and information technologies have brought revolutionary changes in the retail banking industry [10,11]. Emergence of these technologies has allowed retail banks to offer their services at regional, national, and global levels (e.g., Citigroup's global internet banking operations). These changes have provided the welcome convenience of time and place to banking customers. However, these changes have reduced incoming revenues for retail banks thereby forcing them to assess fees for specific customer services [12]. This, in turn, requires banks to offer a wide range of revenue generating products to certain customer groups (e.g., high income group) in order to develop strong customer relationships and loyalty [13]. As suggested by Roth and Van der Velde [12], such changes also force banks to make provisions for effective retail delivery systems in their strategic plans.

Effective and efficient management (and use) of retail delivery systems requires integration of a bank's capabilities in the operations and marketing areas [12,14]. In this regard, banks must achieve strategic fit between the two crucial functional areas of operations and marketing. This integration becomes increasingly important towards quickly responding to changing customer needs in today's dynamic marketplace. Hence, strategic fit issues in the banking sector become a justifiable research area. Our study explores the integration of strategic activities in the operations and marketing areas of retail banks, and researches the associated strategic fit issues necessary to compete effectively towards enhancing business performance.

2.2. Strategic fit issues in the operations and marketing areas

Strategic fit between the operations and the competitive strategies has been assumed to be crucial to a firm's effectiveness [7,15–17], only a few empirical studies have reported on this topic. Williams et al. [18], for example, attempt to examine the interrelationship between operations strategy and competitive strategy on performance. Smith and Reece [19] examined performance effects of the strategic fit implied in the functional strategy of service operations. However, their strategic fit concept is too narrowly constructed and does not effectively represent the holistic relationship among operations, competitive, and other relevant functional strategies.

Strategic fit-related studies in marketing tend to focus on understanding how the relationship between marketing and organizational performance is moderated by competitive strategy [20,21]. Like the research in the study of operations, studies in the marketing discipline do not pay much attention on the performance implications of a holistic fit among operations, marketing, and competitive strategies.

2.3. Conceptual framework of the strategic fit

The competitive and functional level strategies are related to each other in a top–down relationship [22,23]. Viewed from this top–down perspective, the functional level strategy appears to effectively support competitive strategy thereby contributing to performance. With the need to satisfy customers and to develop a winning strategy, operations and marketing as the primary functions should occupy a more important role than other functional areas [2]. Furthermore, to guarantee organizational success, these two functions should be strategically integrated [24,25].

In accordance with strategic hierarchy, the organization's competitive strategy is described first, followed by the operations strategy, and then the marketing strategy. Between the two typical typologies of competitive strategy of Miles and Snow [26] and Porter [27], for our study, we chose the former because previous banking strategy-related studies (e.g., [21,28]) have used this typology successfully. In addition, the chosen typology emphasizes the effective adaptation toward environmental changes (see, [29]). In this respect, the typology of Miles and Snow is a useful theoretical framework to analyze the capability of a bank to adapt to laws, regulations, and technical changes, which are critical to a banking firm's survival and prosperity (see for example, [30,31]).

Miles and Snow [26] classify business units into four strategic groups (Defenders, Prospectors, Analyzers, and Reactors) based upon a businesses' stance toward the choice of products and markets. It is assumed that the three strategic types; Defenders, Prospectors, and Analyzers are equally successful, but the Reactor type usually is a strategic failure. They believe that the efficacy of strategic implementation, a major determinant of a firm's economic performance, depends on the quality of the strategic fit between the business and functional strategies.

The operations strategy is implemented through the effective use of basic operations management trade-offs that support the organization's competitive strategy [32]. Various researchers (for example, [18,32–35]) choose different sets of strategic means as constituting operations strategy. In order to properly define strategic variables of an operations