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Exploring the effect of strategic positioning on firm performance in the e-business context

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Abstract

This study investigates what strategic positions exist in the e-business context and how strategic positioning affects firm performance. The current study draws on the concept of fit between environmental factors and organizational factors. We collected survey data from both pure online and click-and-mortar companies and tested the model using 133 firm reports. Cluster analysis was performed to analyze survey data and to find groups of companies that pursue similar strategic positioning. The findings of the current study lend support to the hypothesis of distinctive grouping based on environmental factors and resources. The findings also support the hypothesis that strategic positioning influences firm performance. The major implication of this study is that innovative differentiation strategies together with technological resources strongly affect firm performance in the e-business context, a context where there is considerable turbulence in technological development.

Keywords: e-Business; Strategy; Strategic positioning; Cluster analysis

1. Introduction

The widespread use of Internet technologies for electronic business (e-business) enables creative rethinking of business models, processes, and organizational structures (Feeny, 2001), which in turn leads to increased demand for effective strategic positioning to ensure a firm's survival and sustainability (Lederer, Mirchandani, & Sims, 2001). Many studies have examined a variety of issues with regard to the relationship between strategy and e-business. Foci of these studies include the transformation of a firm to digital organization, the formulation of e-business strategy in dynamic environments, the effects of technologies on strategy formulation, the integration of channels between online and offline firms, and the effect of organizational and environmental factors in formulating online strategy (Evans & Wurster, 1999; Plant, 2000; Rangan & Adner, 2001; Rifkin & Kurtzman, 2002; Semler, 2000; Song & Zahedi, 2005). Previous research has also emphasized the importance of strategic positioning in establishing an e-business and has touted the potential to gain competitive advantage through the use of IT and e-business technology (Cortese, 1996; Hagel & Armstrong, 1997). Relatively little research has been done to empirically test the relationship between strategic positioning and firm performance, however. This lack of empirical examination prevents managers from making an informed choice as to which strategic position is the most suitable to their given situation and how the choice of strategic position will affect business performance.

Strategic management literature argues that the strategic position chosen by firms allows them to enjoy abnormal returns or help them survive turbulent environments (Spanos & Lioukas, 2001). The current study tests this argument and contributes to literature in two ways. First, this research investigates the issue of determining strategic position based on both environmental factors and resources of firms. Second, this study empirically tests the

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role of strategic positioning in explaining firm performance. By explaining the relationship between performance and strategic positioning, the current study can also provide insights into the combination of multiple strategies into a specific form. In sum, this study illustrates that the combination of an innovative differentiation strategy (IDS) with technological resources strongly affects firm performance in the dynamic and unstable e-business context.

This paper will proceed as follows. In Section 2, we will present the theoretical background for our study and develop our research model and hypotheses based on the previous literature. In Section 3, we will describe our methodology, data collection, measurement, and statistical analysis. We will then report and discuss our findings in Section 4, highlighting the implications for both research and practice. We conclude in Section 5 by noting the limitations of this study and potential areas for future research.

2. Theoretical background and research model

Porter (1979) described strategy as ''building defenses against the competitive forces or finding positions in the industry where the forces are weakest'' (p. 143). He also defined positioning as an action that allows a firm's capabilities to ''provide the best defense against competitive forces'' (Porter, 1979, p. 143). In this sense, strategic positioning can be referred to as a strategic action to find the best mixture of strategies to defend a firm against the competitive forces in the industry.

The competitive strategy view and the resource-based view are the two major perspectives on determinants of strategic position and firm performance (Spanos & Lioukas, 2001). The competitive strategy view, rooted in industrial organization literature, maintains an outside-in perspective where firm performance is determined primarily by environmental factors such as industry structure. In contrast, the more recent resource-based view argues that firm-specific resources and capabilities are the factors determining firm performance. In this section, we discuss the differences between the views, the role of environmental factors, and the influence of firm-specific resources in determining the strategic positioning of e-business companies.

2.1. An outside-in perspective: the competitive strategy view

Industrial organization literature emphasizes the role of industry structure as the primary determinant of firm performance so that the unit of analysis is inevitably the industry (Bain, 1968). Porter (1980, 1985, 1991) relaxes this condition, allowing firms to choose their strategic position to gain sustainable rents, although individual firms cannot change industry structure. This change in the assumption allows the firm to be the unit of the analysis. Thus, the outside-in perspective in this paper represents a view where firm performance is primarily determined by outside factors such as industry structure and firms can secure positions to exploit that structure (Fahy & Hooley, 2002).

From Porter's (1980, 1985) point of view, identifying the firm's competitive status in the industry is critical. The state of competition can be defined in terms of five forces: (1) current competitors, (2) threat of new entrants, (3) bargaining power of suppliers, (4) bargaining power of customers, and (5) threat of substitute products. Companies formulate their strategic position by finding the best defensive position against competitive forces, by swaying the balance of the forces to enhance the company's position, and by choosing a strategy for competitive balance prior to opponents' movement (Porter, 1979). In this view, the strategic positioning of a firm reflects the firm's ability to generate competitive advantage. Strategic positioning is thus the output of a complex understanding of market structure and conditions that determine the sustainability of firm performance (Spanos & Lioukas, 2001).

The competitive strategy view maintains that resources are the results obtained from the implementation of strategy and/or purchase from the environment (Porter, 1991). Consequently, resources cannot achieve an independent status in relation to firm performance. The importance of resources is understood only in conjunction with the capability of those resources to support the strategy pursued or the fitness of those resources for a particular industry structure (Spanos & Lioukas, 2001). When resources fail to support a strategy or enhance a company's fit for an industry, they are useless. This view is distinct from the resource-based view discussed in the next section.

2.2. An inside-out perspective: the resource-based view

While in the aforementioned competitive strategy view, industry structure determines sustainable firm performance, resource heterogeneity is the basis of firms' competitive advantage in resource-based theory (Barney, 1986; Pennings & Harianto, 1992; Whittington, 1987). A firm's resources—characterized as valuable, rare, difficult to imitate, and difficult to substitute—create distinct strategic advantages that the firm could exploit in order to improve its market position (Barney, 1992; Hitt, Bierman, Shimizu, & Kochhar, 2001). While this view acknowledges that outside factors affect firm performance, internal resources are the core factors determining firms' sustainable competitive advantage (Fahy & Hooley, 2002). This is the meaning of the ''inside-out perspective'' described in this study.

In information systems research, resource-based theory has been used in examining the role of IT resources as a competitive weapon (Mata, Fuerst, & Barney, 1995), the relationship between IT-related resources and firms' financial performance (Bharadwaj, 2000), and the successful adoption and use of IT in small and medium size firms (Caldeira & Ward, 2003). In exploring the strategic use of IT, it has been observed that ''strategic resource differences