



Assessing the strategic fit between business strategies and business relationships in knowledge-intensive business services

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ABSTRACT

Drawing on the configuration theoretic approach, we posit that firms can improve both relationship performance and their overall firm performance through leveraging the structure of their business relationships, i.e. by accurately aligning their relationship structure with their specific business strategy. In the context of this research, we focus on the structural element of the relationship portfolio of a focal firm *vis-à-vis* its most important partners. We empirically test our argument within a sample of 254 knowledge-intensive business service firms and confirm the existence of an optimum relational configuration for each business strategy type. A fit as profile deviation analysis reveals that the more similar the configurations of relationship portfolio characteristics are to those of the top performing companies for their given business strategy type, the higher is both their relationship performance and their firm's performance. Several robustness tests lend additional support to this finding. Furthermore, we also conceptualize fit as covariation and find that relationship structure and business strategy co-vary, and that their coalignment significantly contributes to performance outcomes. We thus suggest that fit as covariation should be considered as a complementary approach to fit as profile deviation.

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1. Introduction

In the era of knowledge economies, developing and preserving successful business relationships has always been a vital concern to managers of knowledge-intensive business service (KIBS) firms (Miles, 2005). Muller and Zenker (2001, p. 1502) define KIBSs as firms “performing, mainly for other firms, services encompassing a high intellectual value-added.” Miozzo, Lehrer, DeFillippi, Grimshaw, and Ordanini (2010) refer to KIBSs as providing business services based on professional knowledge (such as management consultancy and legal services) and emerging technical knowledge (ICT, and research and development services). KIBS providers are fast-growing and complex in nature, needing to achieve competitive advantage not only by using traditional levers, e.g. improvement in quality and productivity, but especially through building successful and effective business relationships with their clients (Bettencourt, Ostrom, Brown, & Roundtree, 2002; Miles, 2005; Murray, Kotabe, & Westjohn, 2009). While research on service innovations in the KIBS sector reveals the importance of such embedded business relationships, the extant literature is mostly linked to the knowledge-based view of the firm, wherein the

ties between KIBS providers and their business partners are solely seen as a means for developing and transferring knowledge (Amara, Landry, & Doloreux, 2009; Muller & Zenker, 2001). In this research we look at KIBS providers' business relationships with their most important partners from the business marketing perspective and aim to tackle a more general question regarding the characteristics of these business relationships. We endeavor to find the optimum fit between strategy and the relational structure of the portfolio of business relationships that a focal KIBS provider has with its key partners.

Addressing this research issue matters: within the business marketing literature, a rich body of research has been developed that identifies different organizational and environmental factors contributing to the relational and overall performance of firms (Nath, Nachiappan, & Ramanathan, 2010; Palmatier, Dant, & Grewal, 2007; Penttinen & Palmer, 2007). However, this literature is limited in two interrelated ways: First, it provides no explanations about contextual issues, particularly of how firms with different business strategies adopt and implement different forms of business relationships, and how such interplay between context (business strategy) and organizational structure (business relationships) impacts on the performance of the firm. In addressing this gap, we use the notion of configuration theory, which posits that the strategic fit between strategy and structure determines business performance (Dess, Newport, & Rasheed, 1993). Configuration theory's key assumption is that each business strategy has a unique set of ideal organizational structures, and therefore, a better fit between the two yields higher performance

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(Hult, Ketchen, Cavusgil, & Calantone, 2006; Kabadayi, Eyuboglu, & Thomas, 2007).

In line with this fundamental assumption of configuration theory, we posit in this context that business strategies influence the relationships between a KIBS provider and the portfolio of its most important interaction partners. Such a business strategy, understood as selecting a specific strategy type, is about how a firm links to the outside environment, competes in its markets, and relates to other actors; therefore, it will affect the relational stance that a firm takes with its partners. Using different strategy types as a “situated perspective” is necessary to provide meaningful suggestions for management practice. This is because KIBS providers following different business strategy types may have different optimal relational stances, manifested in differing emphases on specific relational characteristics. Adopting the more typical contingency approach to understand contextual issues suffers from oversimplification in postulating that the optimal structure of an organization is contingent upon certain factors such as business strategy. Contrasted with this, adopting a configuration theory perspective allows researchers to examine complicated and interrelated relationships among many multidimensional constructs of interest (Meyer, Tsui, & Hinings, 1993; Miller, 1996).

We therefore draw on the configuration approach to understand the interplay between business strategy and the structure of business relationships within the KIBS sector, and to provide some explanation of how the portfolio of most important business relationships of KIBS providers is affected by the context of the chosen strategy type of the firm, as well as how it is related to performance outcomes. In doing so, we identify a set of relationship characteristics as well as select a typology of business strategies. We endeavor to delineate the fit between the characteristics of the portfolio of most important business relationships (which we represent through the constructs of trust, commitment, cooperative norms, communication, and relationship specific investment), and the type of business strategy of a focal firm (we use Miles and Snow's (1978) typology consisting of prospectors, analyzers, and defenders). We review the existing literature to identify and utilize the most appropriate approach (es) in conceptualizing and assessing business relationship-business strategy fit and its association with both relationship and overall performance.

This study reveals that successful KIBS providers use different patterns of business relationship structures based on the context of their business strategy. Empirically describing such context-based business relationship structures provides clear guidelines to managers in KIBS firms on how best to manage relationship characteristics in ways that enable the successful implementation of certain strategy types. While configuration theory has been used in the general management literature (Slater, Olson, & Hult, 2006; Venkatraman, 1990) and recently in marketing studies (Fang, Palmatier, & Grewal, 2011; Kabadayi et al., 2007; Slater, Hult, & Olson, 2010), this study is innovative in applying configuration theory to the business marketing context, specifically to understanding relationship portfolio characteristics and their interaction with different strategic intents. In addition, this study is the first that utilizes a comprehensive set of robustness analyzes to provide further confidence in our findings. These robustness tests are comprised of a non-ideal test, single firm test, weighted test, and covariation test. Next, we detail the theoretical basis of this study.

2. Theoretical background

This study aims to investigate the fit between business relationship characteristics of the portfolio of a firm's most important business relationships and business strategy, with the aim being to explain performance variances between KIBS firms. In doing so, we use configuration theory, which posits that the strategic fit between strategy and structure determines business performance. Therefore,

in the following sections, we first discuss configuration theory, and then move on to a discussion of the two major domains of configurations, i.e. strategy, which in this study is represented by strategic types, and structure, which is represented by business relationship characteristics of a focal firm's portfolio of their most important business relationships.

2.1. Configuration theory

Configuration theory is an approach commonly used to understand how a firm's organizational structure is related to its strategic intent (Hult et al., 2006; Kabadayi et al., 2007). It has its roots in the strategy literature and has been widely used in organization studies (for a comprehensive review of the pertinent literature see Short, Payne, & Ketchen, 2008). Miller (1996) argues that a configuration refers to a multidimensional constellation of the strategic and organizational characteristics of a business. This theory posits that for every given context, there exists an ideal set of organizational characteristics that fits better than others, resulting in higher performance (Vorhies & Morgan, 2003). These configurations are ideal and limited in number because they represent complex, multidimensional constellations of interrelated, complementary and mutually reinforcing attributes of strategy and structure that enable firms to achieve their strategic goals (Miller, 1996).

Configuration theory involves a holistic approach in which a social entity takes its meaning from the interaction between its elements as a whole and cannot be understood in isolation. A configuration in this sense is considered to have characteristics that are beyond the characteristics of its individual constituent elements, representing a Gestalt-ontology (Veliyath & Srinivasan, 1995). In this study we focus on the relationship between business relationship characteristics and certain business strategy types, which will be addressed in the following sections.

2.2. Business relationship characteristics

Previous business marketing and management studies have extensively addressed the importance of buyer–supplier relationships (e.g. Anderson & Narus, 1990; De Ruyter & Wetzels, 2000; Ganesan, 1994; Penttinen & Palmer, 2007). For instance, De Ruyter and Wetzels (2000) discussed the determinants of interorganizational exchange relationships. Palmatier et al. (2007) identified and examined the impact of a comprehensive set of key relationship characteristics that the main four theoretical perspectives (i.e. commitment–trust, dependence, transaction cost economics, and relational norms) use to explain the drivers of successful business relationships. Integrating these perspectives, and consistent with the resource-based view of a business exchange, they further developed a model of interfirm relationships that explains successful interorganizational relationship performance.

In this study, we use three criteria to choose a set of business relationship characteristics that together can represent the relationship structure of a focal firm's portfolio of most important business relationships. First, we only included characteristics that were generally accepted in seminal sources. Second, the chosen characteristics should form a set that integrates different perspectives from different theory groups, and third, they should also cover behavioral as well as attitudinal aspects of relationships in order to provide a broader overview of the relationship structure. In applying these criteria, we weigh parsimony and theoretical justification of constructs higher than the comprehensiveness of a list of constructs (Homburg, Workman, & Jensen, 2002). Consequently, the set of relationship characteristics as identified by Palmatier et al. (2007) as determinants of portfolio relationship structure is used in this study. This set of relationship characteristics consists of both attitudinal and behavioral aspects (Deshpandé & Farley, 2004; Gainer & Padanyi, 2005; Hult, Ketchen, & Slater, 2005), and has been widely used in previous seminal research on relationship and business

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