STRATEGY AND CONTROL IN SUPPLIER-DISTRIBUTOR RELATIONSHIPS: AN AGENCY PERSPECTIVE

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This paper examines the influence of competitive strategy on the relationship between suppliers and their distribution networks. Drawing on agency theory, hypotheses are developed specifying the appropriate match between manufacturer strategies and systems of control within distribution channels. Cluster analysis is used to show distinct differences in channel management and structure for the three generic strategies of cost leadership, differentiation and focus. Results suggest that variation in control relationships may be explained by the demands posed by manufacturers' competitive strategies. This study therefore extends the applicability of Porter's typology to the specific structure of distribution channels and shows that agency theory can provide insights into the economic basis of interorganizational relationships.

INTRODUCTION

Since its introduction, Porter's (1980) typology of generic business strategies has received extensive theoretical and empirical attention. The majority of this research has been concerned with three basic issues: the link between generic strategies and levels of performance (e.g., Dess and Davis, 1984; Miller and Friesen, 1986a); the environmental conditions under which each generic strategy is successful (e.g., Hambrick, 1983a; Miller, 1988); and the organizational characteristics associated with each strategy (e.g., Miller, 1986; Porter, 1985; Segev, 1989; White, 1986). Within this last stream, studies have generally focused on the distinct configuration of internal structures,

systems and processes that develop to support strategy (Chandler, 1962; Lawrence and Lorsch, 1972; Schoonhoven, 1981). Researchers have been far less concerned, however, with the effects of strategy on a firm's relations with other organizations. This may be due to the fact that the topic of interorganizational relationships has so far achieved greater currency among organization theorists (cf. Balakrishnan and Koza, 1993; Barney and Ouchi, 1986; Powell, 1990) and sociologists (cf. Galaskiewicz, 1985; Granovetter, 1985) than among strategy scholars. It is also true that organization theorists have generally not considered strategy to be an important determinant in the formation of these relationships (Oliver, 1990). As unprecedented numbers of organizations enter into partnerships and alliances, however, for reasons of market or technology access (Ring and Van De Ven, 1994), it is clear that these arrangements represent increasingly

important dimensions of competitive strategy and organizational functioning (Powell, 1990; Ring and Van De Ven, 1994). Thus, the pressure to maintain congruence between strategy and internal structure is likely to require a similar fit between strategy and the structuring of external relationships.

In this study, we apply the notion of fit, a central tenet of organization and strategic management theory (Venkatraman and Camillus, 1984; Van De Ven and Drazin, 1985), to the question of how competitive strategies influence interorganizational relationships. Specifically, we use an agency perspective to explain the relationship between manufacturers and independent distributors of consumer audio products. We also draw on insights from transaction cost analysis to further develop our framework. The study rests on the premise that variation in manufacturer–distributor relationships may be explained by the control demands posed by manufacturers' competitive strategies. Thus, we extend research on generic strategies to explain the specific structure of distribution channels and, more generally, to the increasingly important question of interorganizational relationships.

THEORY DEVELOPMENT

The conceptual argument for this study rests primarily on the contributions of agency theory. While frameworks of power and control between partners (Frazier, 1983), resource dependency (Anderson and Narus, 1990; Skinner and Guiltinan, 1985; Pfeffer and Salancik, 1978), and transaction costs (Heide and John, 1988; Day and Klein, 1987; Williamson, 1975) have been advanced by marketers to explain the structure of distribution channels, an agency perspective has not been fully developed in this context. Manufacturer–distributor relationships embody the principal–agent model and meet Eisenhardt's (1989) requirements for a useful application of agency theory. The two parties are interdependent and cooperative, yet rationally may pursue different, even contradictory, goals.

The agency model offers several advantages as a theory base in this setting. First, like transaction cost analysis, agency theory incorporates realistic behavioral assumptions that are relevant to the manufacturer–distributor relationship. These

include the presence of bounded rationality, and the likelihood of opportunism and goal conflict (Aulakh and Gencturk, 1993). Furthermore, while transaction cost analysis has generally been concerned with when and why a business function is vertically integrated (Anderson and Oliver, 1987; Williamson, 1975), it is less useful for understanding relations between contractors who have already decided to remain independent. Agency theory is appropriate because it focuses on the economic motives operating within a relationship (i.e., risks and incentives), regardless of whether the relationship is regulated through hierarchy or market mechanisms (Eisenhardt, 1989). At the same time, transaction cost analysis provides important insights into the interactive nature of control in contractual relationships (Anderson and Gatignon, 1986). We therefore draw on specific aspects of transaction cost analysis as a secondary basis in the development of our arguments and research hypotheses.

Agency theory

Agency theory is concerned with the problems that arise when one party, the principal, delegates work to another party, the agent. Agency problems arise from the information asymmetry that results from this division of labor and from the conflicting goals and risk preferences of the two parties (Jensen and Meckling, 1976). Because the agent may not share the principal's goals, and because the agent is more familiar with the details of the task, he may have both motive and opportunity to behave in ways that maximize his own utility at the expense of the principal's. To safeguard his interests, the principal can either reduce the information asymmetry by investing in monitoring systems (e.g., hierarchy, audits), thereby constraining the agent's opportunity to 'shirk' (Fama, 1980; Fama and Jensen, 1983), or he can structure agent incentives such that the two parties' interests are aligned (Jensen and Meckling, 1976). Agency theory focuses on the relative costs of these two solutions.

Agency costs consist of (a) the investments in monitoring systems needed to reduce the principal's information deficit; and (b) the costs of transferring risk to the agent in the form of outcome-based incentives. Agency theory predicts, on the basis of an efficiency criterion, which of these two controls will form the basis of

the contract between principal and agent (Shavell, 1979). Where the cost of monitoring agent behaviors is high, the more efficient contract is outcome-based. However, because the agent is compensated solely on the basis of performance outcomes (which may be influenced by factors other than the agent's effort), the agent will demand a premium for bearing compensation risk. Thus, an outcome-based contract is efficient only if the cost of transferring risk (the risk premium) is less than the cost of monitoring. Where agent behaviors can be monitored at reasonable cost, a behavior-based contract is more efficient since it avoids the need to pay the agent a risk premium.

Theorists have found the agency perspective useful in understanding organizational relationships in which control is exercised under conditions of goal divergence and incomplete information. Studies utilizing the agency model have focused on corporate governance (Jensen and Meckling, 1976; Kosnik, 1987; Oviatt, 1988), executive compensation (Kerr and Kren, 1992), retail sales (Eisenhardt, 1988), budgeting systems (Demski and Feltham, 1978), acquisitions (Amihud and Lev, 1981), and, in general, the condition in which interdependent actors may engage in self-interested behavior (Walsh and Seward, 1990). The value of the theory lies in its specification of how risk is allocated among contracting parties, the trade-off between the costs of information and the costs of risk bearing, and the incentives operating in contractual relationships (Eisenhardt, 1989).

The case of manufacturers and distributors

In theory, a manufacturer has available a range of contracts through which to organize the distribution function, with each contract imposing its own particular trade-off in terms of control and resource commitment (Anderson and Gatignon, 1986). High control relationships tend to require high investment (e.g., vertically integrated, owned subsidiaries) whereas low investment tends to result in low manufacturer control (e.g., outsourced distribution). A wholly-owned distribution subsidiary, for example, provides high control but requires a significant commitment of tangible and intangible resources. It requires the manufacturer to make decisions in a related but different business, thereby exposing him to unfamiliar risks and uncertainties. Furthermore,

by integrating the distribution function, the manufacturer loses the flexibility to switch quickly and at low cost to another distribution arrangement. Thus, the manufacturers make trade-offs between the amount of control required in the distribution channel and the level of resource commitment and risk they are willing to bear.

Speaker manufacturers sell through independent distributors for the simple reason that it is prohibitively expensive and risky to establish proprietary distribution. Proprietary distribution requires the manufacturer to invest in physical assets (e.g., warehouses, retail stores), hire and train specialized personnel, and bear the full cost of product inventory. An additional and significant cost consists of investments in the administrative systems needed to monitor and control distribution activities. Whether computerized or managerial, monitoring systems can entail such significant investments that the manufacturer may choose to avoid these costs by outsourcing the distribution function rather than build the administrative structure needed to integrate and control it (Anderson and Oliver, 1987; Williamson, 1975).

The independent distributor, in turn, depends on the manufacturer to supply attractive products at competitive prices. Thus, both parties share the goal of maximizing sales of the manufacturer's product. In delegating the distribution task, however, the manufacturer runs the risk that the distributor will pursue this basic goal in ways that conflict with the manufacturer's broader interests. The distributor may: carry insufficient inventories of the manufacturer's product, carry and promote competing products, price above or below the preferred range, advertise and promote the product inappropriately, train sales personnel improperly, fail to provide adequate after-sale service, etc. In stylized agency terms, the manufacturer risks *moral hazard*, whereby the distributor fails to exert sufficient effort on the manufacturer's behalf, and/or *adverse selection*, whereby the distributor misrepresents his qualifications and resources in order to secure the distribution contract.

Agency theory predicts that the form of the principal–agent relationship (or contract) will depend on the relative costs of curbing agent opportunism, either through monitoring of agent behaviors or through structuring of incentives that pay off for outcomes desired by the principal.

Table 1, based on Eisenhardt (1989), lists the variables that affect the relative costs of each type of contract.

Thus, where outcome measures are unclear or where the manufacturer is willing to invest in monitoring systems, the manufacturer will offer a contract that attempts to directly control distributor behaviors. This type of contract is appropriate for well-established manufacturer–distributor relationships in which goal conflict is low. It is preferred by risk-averse distributors, especially where outcomes are unpredictable. This contract will stipulate specific behaviors required by the manufacturer and may impose restrictions on variables such as inventory levels, range of products stocked, approval of advertising and promotions, carrying of competing products, training of sales and service personnel, etc. In addition, the manufacturer is likely to exert centralized coordination and control of all distributors within a given market area as well as provide high levels of support in the form of financing, promotional materials, expedited delivery, etc.

Conversely, where outcome measures are clear and the manufacturer is unwilling to invest in monitoring, he will offer a contract that attempts to control the distributor by compensating based on measurable outcomes. This is appropriate for new manufacturer–distributor relationships or where goal conflict is high. Outcome-based contracts are preferred by risk-averse manufacturers, because they transfer risk to the distributor. Financing, promotional or logistical support, or coordination of distributors is likely to be mini-mal; manufacturers will maintain arm's length relationships with their distribution networks.

THE INFLUENCE OF STRATEGY

Porter's (1980) strategic typology identifies three successful generic strategies—cost leadership, differentiation, and focus—and provides a useful framework for examining the effects of strategy on manufacturer–distributor relationships. The generic strategies vary on underlying dimensions of production efficiency (the degree to which inputs per unit of output are low), product differentiation (the degree to which the product is perceived as unique), and scale/scope (the business's size and range of activities relative to its industry) (Hambrick, 1983b). Studies testing the validity of the typology have generally found that successful strategies within an industry corresponded to Porter's strategy types. High profitability tended to be associated with either broad market scope and product differentiation, broad market scope and low cost, or efficient asset management achieved by focusing on narrow market segments (Dess and Davis, 1984; Galbraith and Schendel, 1983; Hambrick, 1983a; Miller and Friesen, 1986a).

The following section operationally defines the strategic types and traces the structural demands each strategy places on the distribution relationship. We operationalized the manufacturer–distributor relationship in terms of three variables: (a) behavior- vs. outcome-based contract—the

Table 1. Variables affecting the efficiency of behavior-based vs. outcome-based distributor contracts

	Behavior-based contract is efficient when:	Outcome-based contract is efficient when:
Monitoring		
Monitoring ability	High	Low
Task observability	High	Low
Clarity of outcome measures	Low	High
Relationship		
Goal conflict	Low	High
Length of relationship	Long	Short
Risk		
Risk aversion	Agent	Principal
Outcome uncertainty	High	Low

extent to which the manufacturer attempts to monitor distributor behaviors; (b) channel management—the extent to which the manufacturer attempts to coordinate and support the sales efforts of distributors; and (c) distribution intensity—the number of distributors per market area. Figure 1 demonstrates the influence of strategy on channel management and structure.

Cost leadership

Firms following a strategy of cost leadership aim at efficient-scale production and focus on variables that contribute to relative low-cost positions (Davis and Schul, 1993). These include careful attention to operational detail, stability in product lines, substitution of capital for less efficient labor, and a strong emphasis on formal profit and budget controls (Miller, 1988). The goal is to achieve the industry's lowest cost structure through highly efficient operations, rigorous cost controls, and economies of scale based on high unit sales volumes (Porter, 1980). High volume allows the manufacturer to accept lower per-unit margins or, if scale-based savings are great enough, to earn equivalent margins despite lower prices (Miller, 1988). Because unit volume is the basis of the leader's cost advantage, the strategy requires mass-market products that sell on the basis of perceived value, aggressive pricing by

distributors, and avoidance of costly marketing programs (Miller and Friesen, 1986a).

Outcome-based contract

Given these objectives, the relationship between cost leaders and distributors is likely to approximate an outcome-based contract in which stipulated restrictions are few, monitoring of distributor behaviors is minimal, and compensation consists solely of the distributor's earned margin. The manufacturer makes no provision for product support payments, co-op advertising, promotional allowances, inventory financing or other forms of value transfer to the distributor. Similarly, the distributor avoids any investment in assests or programs specific to the manufacturer. Both parties maintain flexibility and avoid commitments that may impose switching costs in the event a more promising relationship emerges (Anderson and Gatignon, 1986).

An outcome-based contract transfers risk in that it treats the distributor as an arm's length customer; the manufacturer carries no obligation beyond the sale of the product to the distributor. This addresses the cost leader's agency problem by aligning the interests of the two parties. Since low price is the major product feature, the distributor loses volume by pricing high; it is therefore in his interest to price aggressively and to
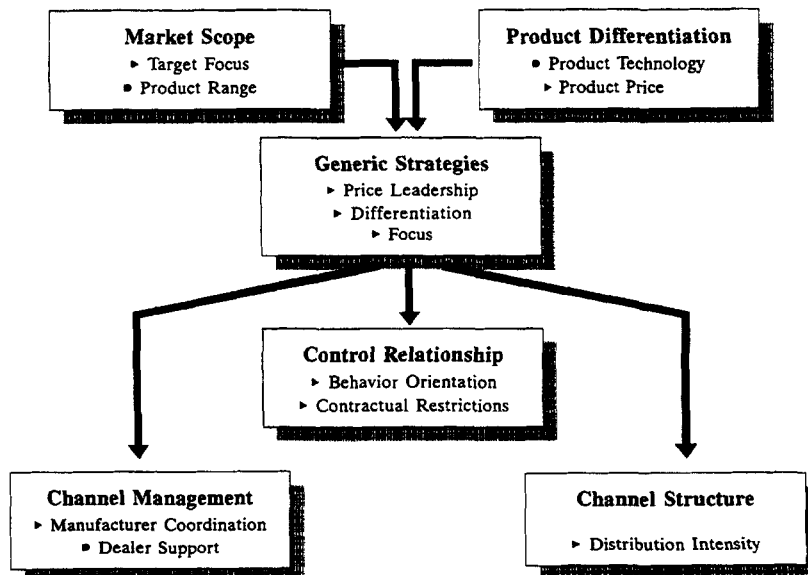

Figure 1.   Generic strategies and independent distribution channels

accept lower margins. The absence of inventory financing and other support payments exerts additional pressure on the distributor to compete on price in order to turn inventory as rapidly as possible. Thus, we argue that the outcome-based contract provides distributor incentives and penalties that support the cost leader's competitive strategy and avoids the need for investments in expensive monitoring mechanisms.

From an agency perspective, the distributor will bear the inherent risk of this arrangement (i.e., low margins, absence of support, nonexclusive market areas, etc.) only because (a) he believes product sales will justify the terms of the contract; and (b) the costs of entering and exiting the relationship are low. Therefore, the risk premium the cost leader must pay to engage the distributor in this relationship consists of the investments (particularly in efficient-scale production) necessary to develop and manufacture 'value' products; and minimal control over and commitment from distributors (Anderson and Gatignon, 1986). The distributor's incentive for entering the contract consists of access to these potential high-volume products.

Hypothesis 1a: Relations between cost leaders and distributors will approximate an outcome-based contract in which distributors are compensated solely on the basis of units sold, and monitoring of distributor behaviors is minimal.

Contractual restrictions reflect the degree to which the manufacturer attempts to constrain the distributor's autonomy with regard to product marketing decisions. Because enforcement requires investments in monitoring, cost leaders will avoid contracts with numerous restrictions and stipulated behaviors. Distributors will avoid them because they may require investments that are specific to a given manufacturer. Furthermore, products positioned as price leaders do not require extensive sales effort or value-added services from distributors. In fact, to the extent it results in lower distribution costs and prices, dealer shirking (i.e., failure to support the product) may work in favor of the cost leader's strategy. In keeping with the use of outcome-based contracts, therefore, we expect cost leaders to have low levels of contractually specified restrictions and stipulations.

Hypothesis 1b: Arrangements between cost leaders and distributors will be characterized by relatively few stipulated restrictions and expectations.

Channel management

Distribution channel management consists of two elements: the manufacturer's coordination of distributors within a given market area; and the manufacturer's support of distributor sales activities.

The level of effort exerted by the manufacturer in coordinating and supporting the channel is expected to be driven by the position of the product and the scope of targeted customers (Bucklin, 1973; Skinner and Guiltinan, 1985). For cost leaders, coordination and support efforts are likely to be low. The cost leader is dependent on the distributor for only a few basic functions (e.g., adequately stocking and displaying the brand, maintaining recommended pricing standards) (Stern and El-Ansary, 1992). While some selling expertise may be required, the essential message of low cost and high value is not one that requires extensive explanation. From the distributor's perspective, channel support and coordination are likely to come at some cost (Anderson and Gatignon, 1986; Anderson and Oliver, 1987). Coordination implies control and support implies obligations that may constrain exit or relations with other manufacturers.

Additionally, the target mass-market customer is driven by product value; retailer services are less important than price considerations. Should some customers be alienated by low service, they will have a number of outlets from which to choose. Negative word-of-mouth is likely to have greater impact on the distributor than on the manufacturer, given the heterogeneity of outlets selling the brand. We therefore expect cost leaders to minimize coordination and support efforts as expenses that decrease efficiency and undermine overall competitive strategy.

Hypothesis 1c: Cost leaders will engage in low levels of channel coordination.

Hypothesis 1d: Cost leaders will engage in low levels of distributor support.

Distribution intensity

Distribution intensity refers to the number of distributors used by a manufacturer within a market area. Low intensity implies few distributors (at the extreme, exclusive distribution through a single outlet); high intensity implies broad distribution through many outlets. Because cost leaders exert little channel coordination, their distributors within a trade area tend to carry redundant, even identical, product lines. Given undifferentiated lines, price-based competition rapidly develops in which distributors are forced to accept lower retail margins due to intense intrabrand rivalry (Winter, 1993). This reinforces the product's market position and the cost leader's overall competitive strategy. We argue, therefore, that manufacturers pursuing cost leadership will distribute intensively in order to foster intrabrand competition leading to lower retail prices. In transaction cost terms, the manufacturer uses nonrestrictive, nonexclusive contracts to create market forces that curb distributor opportunism. Thus, competitive pressure among distributors aligns the interests of manufacturer and distributor (i.e., both benefit from low price) (Anderson and Gatignon, 1986).

> *Hypothesis 1e: Cost leaders will utilize intensive distribution (i.e., a high number of distributors per market area).*

Differentiation

Firms pursuing a differentiation strategy aim to create a distinct value or image for a product or service. The strategy may be achieved through innovative technology or design, or by creating perceived value through advertising, prestige pricing, and market segmentation (Hambrick, 1983b; Miller, 1988). The goal for differentiated manufacturers is to earn premium prices and margins for unique product or service features (Porter, 1980). To justify higher prices, differentiators must educate buyers to the advantages of these unique qualities. It is important, therefore, that their distributors convey to the customer an image of quality and prestige that is congruent with overall product strategy. While sales volume is the goal, it cannot be achieved at the expense of the product's differentiated position.

Behavior-based contract

Given these objectives, the relationship between differentiators and distributors is likely to approximate a behavior-based contract in which numerous requirements are stipulated and distributor behaviors are carefully monitored. While distributor compensation consists primarily of earned margin, margins tend to be higher for differentiated products (Porter, 1980). In addition, the contract provides for such value transfers as inventory financing, promotional allowances, co-op advertising, product support payments, training, etc. The distributor's risk is therefore mitigated by high margins and value transfers. At the same time, the arrangement requires specific behaviors with respect to inventory levels, pricing, advertising and sales efforts, etc. In addition, the distributor must agree to the manufacturer's coordination and management of distribution efforts within the market area. Thus, the manufacturer bears some outcome risk (in the form of value transfers) but retains significant control of distribution. The distributor relinquishes some autonomy but receives value transfers and, thanks to manufacturer coordination of the market area, relief from intrabrand competition and resulting pressure on margins.

A behavior-based contract addresses the differentiator's agency problem by identifying the specific behaviors expected of the distributor. This requires the manufacturer to invest in monitoring systems (e.g., channel management staff) in order to ensure conformance and to prevent dealer shirking with regard to service and other value-added distributor activities. It is important to note that, while the distributor bears the outcome risk borne by any independent business, the manufacturer does not rely on risk transfer and goal alignment as the primary means of reducing moral hazard. Instead, the manufacturer monitors and subsidizes the distributor. Anderson classifies this as a medium–control relationship in which subsidies constitute investments in the relationship and entitle the manufacturer to a level of influence over distributor behaviors (Anderson and Gatignon, 1986). Without such subsidies and controls, distributors may be inclined to respond to competition by lowering price, and price competition is detrimental to differentiated brands (Winter, 1993). Margin pressure may lead distributors to shirk by reducing brand support, while

'freeriding' on the support provided by other distributors (Carlton and Perloff, 1990). Shirking, in turn, leads to overall erosion of distributor sales and service effort which is not in the long-term interest of the differentiated manufacturer. Thus, differentiators are likely to use behavioral monitoring to enforce contractual regulations and to prevent dealer shirking.

From the distributor's perspective, the more he engages in nondirect sales activities (i.e., knowledge- and service-based activities), the more he will require a behavior-based contract in which these value-added services can be evaluated and rewarded. In effect, these activities represent distributor investments in the manufacturer's brand and the control system must be capable crediting these investments to the distributor (Anderson and Oliver, 1987; Anderson and Schmittlein, 1994).

In agency terms, the distributor will submit to behavioral control and market coordination only if he believes the reduction of risk justifies the loss of autonomy. The manufacturer's costs are the costs of control and coordination, while the distributor's incentive consists of reduced competition, higher margins, and manufacturer support payments.

Hypothesis 2a: Relations between differentiators and distributors will approximate a behavior-based contract in which distributor behavior is carefully monitored, distributor margins are high, and compensation is augmented by support payments.

Hypothesis 2b: Arrangements between differentiators and distributors will be characterized by relatively numerous stipulated restrictions and requirements.

Channel management

For differentiated manufacturers, competitive advantage is based on product performance, associated services, and brand image. As a result, the distributor adds critical value to the product through the selling and customer-service functions. High-end products generally require greater levels of expertise on the part of distributor personnel as customers must clearly understand why the brand is worth a high price (Davidson, Sweeney, and Stampfl, 1988). Moreover, distributor service standards and policies (e.g., product

returns) can have a significant impact on the brand's image (Park, Jaworski, and McInnis, 1986). As a result, differentiators are likely to expend considerable effort in coordinating and controlling channel activities (Anderson, Lodish, and Weitz, 1987).

Manufacturer support refers to the assistance a manufacturer makes available to distributors in its channel system (e.g., promotional material, consumer hot-lines) (Gaski and Nevin, 1985). Research has shown that distributor's commitment to a brand is heightened by the manufacturer's willingness and ability to provide support (Bobrow, 1976; Hung and Nevin, 1974; Shipley, 1984; Sibley and Teas, 1979). A strong manufacturer support program reduces the distributor's cost and risk of carrying a brand and promotes satisfaction with the channel relationship. Differentiators use support to motivate distributors to present the competitive advantages of their more expensive products and convert consumers to their respective brands. Weak support imposes greater costs and risks on the distributor and signals the manufacturer's unwillingness to make significant investments in the channel (Rosenbloom, 1991). Loss of distributor commitment to the brand is especially threatening to differentiators, given the strategy's dependence on distributor selling and service activities. Therefore, we expect differentiators to engage in relatively high levels of support and coordination efforts in their management of distribution channels. These efforts help enforce distributor's contractual obligations as well as provide incentives for high service levels and commitment to the brand (Anderson and Gatignon, 1986).

Hypothesis 2c: Differentiators will engage in high levels of channel coordination.

Hypothesis 2d: Differentiators will engage in high levels of distributor support.

Distribution intensity

Cespedes (1988) has argued that high distribution intensity leads to the loss of manufacturer control over the flow of products in the channel and the product's presentation to customers. As the number of distributors in a channel system increases, so do opportunities for transshipment, varying

levels of maintenance and repair services, different stocking levels, different pricing strategies, and overlapping sales efforts (cf. Little, 1970). Manufacturers with high needs for control within their channels are therefore expected to maintain selective distribution in order to reduce the likelihood of such deviations. Furthermore, distributor motivation to support a brand is likely to be higher where the manufacturer provides a degree of territorial protection and restricts the level of intrabrand competition by limiting distribution intensity (Anderson, Lodish, and Weitz, 1987; Rosenbloom, 1991).

> *Hypothesis 2e: Differentiators will utilize moderately intensive distribution (i.e., fewer distributors per market area than cost leaders but more than focused competitors).*

Focus

Firms following a focus strategy attempt to serve a specific market segment more efficiently or effectively than competitors that compete more broadly (Dess and Davis, 1984; Porter, 1980). Market segments may be defined in terms of customers, products, or geography. Focused competitors develop expertise in serving the segment while simultaneously developing either a low-cost or differentiated capability (Miller, 1988). By focusing, this competitor intentionally limits the size of the potential market in order to establish a defensible, differentiated position.

The focused manufacturer requires a high level of distributor support in order to convince consumers of the value associated with its higher price and limited market exposure (Cady, 1982). This includes aggressively selling the product line, becoming knowledgeable about its features and service requirements, stocking full inventories, participating in promotions, and, in general, treating the product line as the distributor's primary brand. Should a distributor fail to adequately sell and service the market segment, the customer may abandon the brand altogether rather than move to another outlet.

Behavior-based contract

The relationship between focused manufacturers and distributors is likely to approximate a behavior-based contract; however, unlike the differentiator's behavior-based contract, stipulated restrictions are likely to be few, monitoring minimal, and support payments minimal or nonexistent. The focused competitor's limited scope and resources constrain its ability to mount an extensive monitoring apparatus. It is unlikely, therefore, that it will stipulate numerous restrictions and requirements since such a contract is beyond its ability to enforce. In addition, a restrictive contract is likely to lessen the attractiveness of the brand for distributors, a concern for smaller, focused manufacturers who must attract enough dealers to achieve effective distribution.

In the absence of contractual requirements, monitoring ability, and resources, focused manufacturers will utilize the one incentive they can offer: exclusive distribution (within a territory) and resulting high margins. Anderson and Gatignon (1986) describe this as a medium–control relationship in which an exclusive, nonrestrictive contract motivates cooperation by rewarding and protecting the distributor from competition. By decreasing intrabrand competition through quasi-monopolies, manufacturers allow distributors to realize higher profits. This provides an incentive to actively push these smaller brands and to provide necessary distributor services, thus supporting the focused manufacturer's highly differentiated strategy.

From an agency perspective, the focused competitor attempts to achieve through incentives what it cannot obtain through monitoring. The contract transfers risk in that the distributor must invest in the marketing of the product with little support from the manufacturer. However, the distributor's risk is mitigated by its exclusive sales territory; the distributor is likely to be the sole beneficiary of any investment it makes in the product. The manufacturer's risk premium consists of its dependence on a limited number of distributors.

> *Hypothesis 3a: Relations between focused manufacturers and distributors will approximate a behavior-based contract in which distributor behavior is not closely monitored, distributor margins are high, and compensation consists solely of earned margins.*

> *Hypothesis 3b: Arrangements between focused manufacturers and distributors will be*

characterized by relatively few stipulated restrictions and requirements.

Channel management

Due to financial constraints, focused competitors are not likely to engage in extensive support and coordination of distribution channels. Coordination efforts are expensive; they require information gathering and processing (through monitoring), as well as frequent communication to convince dealers to conform to guidelines. In addition, the small number of distributors per sales area reduces the need for coordination efforts. Resource constraints will also limit the focused manufacturer's ability to provide meaningful support to distributors. Intentionally restricted markets make it more difficult to spread the costs of support and coordination activities over large sales volumes. We therefore expect low levels of coordination and support in this strategic group.

> *Hypothesis 3c: Focused manufacturers will engage in few channel coordination efforts.*

> *Hypothesis 3d: Focused manufacturers will provide minimal levels of distributor support.*

Distribution intensity

Manufacturers following a focus strategy narrowly target segments of the total market (Porter, 1980, 1985). Given narrow product appeal, a relatively small number of retail outlets will be interested in carrying the product. Furthermore, focused manufacturers depend on semiexclusive sales territories as their one important incentive in inducing distributors to enter into the relationship. Thus, we expect focused manufacturers to exhibit the lowest level of distribution intensity.

> *Hypothesis 3e: Focused manufacturers will utilize low distribution intensity (i.e., semi-exclusive distribution within a market area).*

Table 2 provides a summary of the study's hypotheses.

METHODOLOGY

Sample

To test these hypotheses, data were collected within the stereo speaker segment of the consumer electronics industry. The speaker segment was chosen because (a) distribution of this product is handled predominantly by a network of independent retailers; (b) distribution intensity in the segment varies over a wide range; and (c) the segment is basically mature, providing a stable setting for analysis. The number of stereo speaker manufacturers selling in the U.S. market is not large. We therefore attempted to identify the complete population of domestic producers as listed in the catalog of the 1992 Consumer Electronics Show, the primary trade meeting for the industry. Missing manufacturers and brands were added by examining trade magazines, advertisements, and articles, as well as by talking to manufacturers and retail dealers.

Data collection

Within a 4-day period at the Consumer Electronics Show, managers from 40 manufacturing companies were interviewed to obtain the identity of individuals most familiar with marketing and distribution for each major brand in the speaker industry. In all cases, a verbal commitment was obtained to either respond to the survey or to endorse the study to qualified respondents. For firms not personally contacted at the show, marketing directors or vice-presidents for each brand were identified through telephone conversations or through the conference catalog. The final sample consisted of 219 brands of stereo speakers from 209 manufacturers. For manufacturers with multiple brands, only brands produced and marketed by independent divisions were treated as separate observations. For example, Harmon/Kardon produces four distinct brands (Harmon/Kardon, Pyle, EPI, and JBL).

A four-step approach was used to solicit responses. First, the identified expert for each brand was sent an initial letter introducing the study, its potential value, and the importance of his/her participation. Five days later, we sent a questionnaire with another cover letter and a prepaid return envelope. We next called managers who had not responded within the first 10 days in an attempt to solicit their participation. Finally,

Table 2. Summary of hypotheses

Constructs	Cost leader	Differentiators	Focus
Behavior orientation	Low	High	High
Contractual restrictions	Low	High	Low
Manufacturer coordination	Low	High	Low
Dealer support	Low	High	Low
Distribution intensity	High	Medium	Low

a second questionnaire was sent with another cover letter and return envelope. In all four steps, we assured participating firms of strict confidentiality.

Although the use of single respondents has been criticized, the specificity and factual nature of the responses solicited in this study justified the approach (Phillips, 1981). Questions focused on a narrow range of the firm's activities for a single brand. We therefore sought the individual manager most knowledgeable about the marketing and distribution strategy of the brand. In a majority of cases, personal interviews conducted at the Consumer Electronics Show and by telephone helped to identify such qualified respondents.

A total of 85 questionnaires were returned from 84 manufacturers, a response rate of 38.8 percent. Of the 85 brands, 58 were home speakers, 22 were automotive speakers, and five were specialty speakers.[1] The first wave yielded 68 questionnaires (80%); the second wave yielded 17. To assess possible response bias, we compared first and second wave responses on the major research constructs (Armstrong and Overton, 1976). A MANOVA analysis showed no significant differences between the two groups. Time and resource constraints prevented us from contacting nonrespondents to obtain comparison data.

Variables and measurements

Our review of the literature indicated a need to develop a number of new items and scales for

[1] The questionnaire developed for the study had three versions: one was for home speakers and the other two were tailored in format for automotive and speciality speakers, respectively. Aside from differences in wording to anchor to the type of speaker, the questionnaires were identical.

the specific domain of this study. We initially evaluated the content validity of individual scales by reviewing their wording and content in interviews with over 20 retail and manufacturing managers. We then conducted pretests to identify remaining problems with scales and data collection procedures.

Generic manufacturer strategies

Theorists have noted that Porter's (1980) strategic types vary on the two basic dimensions of market scope and product differentiation (Dess and Davis, 1984; Hambrick, 1983b; Miller, 1988). We operationalized market scope in terms of two variables. *Target focus* reflected the intended scope of the market for a product, from broad to narrow, and was measured by three items. The items centered on the number of potential customers, the spectrum of customers, and the degree to which a niche strategy was pursued. Coefficient alpha was 0.73 for the scale. (Scale reliabilities are shown in Table 3).

Product range represented the range of customer needs served by the product and was measured by an index rather than a scale (cf. Howell, 1987). Speaker products are designed to serve specific customer needs. A high number of product subcategories indicated a manufacturer's effort to serve a wide range of customer segments. Respondents were asked to indicate which of eight speaker categories were sold by their firms.

The second generic strategy dimension, differentiation, was also operationalized in terms of two variables. *Product technology* referred to the technological superiority of the product relative to its competition. Four items comprised the scale, centering on relative level of technology, design advantages, and performance of the brand from low-end to high-end. Coefficient alpha was 0.88

Table 3. Means, standard deviations, coefficient alphas, and intercorrelations of variables[a]

Variables	Means	S.D.	alpha	Correlations							
				1	2	3	4	5	6	7	8
1. Product technology	4.47	0.64	0.88								
2. Price	3.62	0.99	n/a	0.50							
3. Target focus	3.30	1.04	0.73	0.39	0.63						
4. Product range	2.61	2.03	n/a	0.05	−0.11	−0.20					
5. Behavior orientation	3.66	0.94	0.65	0.53	0.35	0.37	−0.08				
6. Contractual restrictions	0.24	0.28	n/a	0.27	−0.02	−0.07	0.36	0.28			
7. Manufacturer coordination	3.08	0.80	n/a	0.20	−0.15	−0.22	0.15	0.30	0.34		
8. Dealer support	2.12	1.01	n/a	−0.20	−0.25	−0.38	0.23	−0.29	−0.03	0.09	
9. Distribution intensity	2.26	1.06	0.78	−0.33	−0.41	−0.51	0.25	−0.57	−0.08	0.06	0.40

[a]Correlations greater than 0.21 are significant at $p < 0.05$.

for the scale. Finally, *product pricing*, i.e., the brand's pricing strategy relative to its competitors, was measured by a single item.

In developing the final scales for product technology and target focus, we followed the procedures outlined by Churchill (1991). First, we examined intercorrelations among the items for each scale. After removing uncorrelated items, we conducted exploratory factor analysis to determine the scales' unidimensionality and discriminant validity. One *target focus* item was removed on the basis of this analysis. Factor analysis with orthogonal rotation showed both factors with eigenvalues >2 and no crossloadings of measurement items (see Table 4).

Behavior control

This construct was operationalized in terms of two variables. *Behavior orientation* referred to the extent to which a manufacturer attempted to approximate a behavior-based contract with distributors. The three items comprising the scale focused on the level of effort by the manufacturer in monitoring distributors' conformance to specific behavioral standards. One of the items was reverse coded. Coefficient alpha for this scale was 0.65, exceeding the acceptable level of 0.60 (Churchill, 1979).

Contractual restrictions, the degree to which formal agreements restricted the distributor's freedom of choice, was measured with a six-item index. Manufacturers first indicated whether or not they had a formal agreement with distributors.

They then identified which distribution activities were addressed in the agreement.

Channel management

We used a six-item index to measure *manufacturer coordination effort*. Manufacturers were asked to indicate the extent to which they attempted to coordinate five distributor activities (e.g., implementation of sales promotions, dealer service standards, etc.). There was no *a priori* reason to expect that coordination of one activity would be correlated with coordination of another. Rather, higher scores on the index indicated greater effort to coordinate across the six activities. *Manufacturer support* referred to the assistance the manufacturer provided to distributors and was measured by a five-item index. Managers were first asked to indicate if each type of assistance was provided. If so, they rated the assistance on its relative importance in contributing to dealer satisfaction. Again, we had no *a priori* reason to expect the forms of dealer support to be correlated.

Distribution intensity

Distribution intensity referred to the number of distributors used by a manufacturer within a given trade area. Less intensive distribution indicated greater manufacturer selectivity in signing up retail dealers (Bagozzi, 1986; Hardy and Magrath, 1988). Three items were used to measure this construct. Two items related directly to the num-

Table 4. Exploratory factor analysis of strategy scales[a]

Measurement items	Product technology	Target focus
PT1 – High end brand positioning on speaker technology	0.90	
PT2 – Advertising emphasis on speaker design/technology	0.90	
PT3 – Advertising emphasis on speaker performance	0.83	
PT4 – Brand is known for its high performance	0.74	
TF1 – Speakers appeal to narrow spectrum of consumers		0.81
TF2 – Use of niche strategy for marketing brand		0.73
TF3 – Brand appeals to small number of potential customers		0.83
Eigenvalues[b]	2.91	2.10

[a]Varimax rotation, crossloadings < 0.40 are not shown.
[b]Cumulative variation explained by factors 72%.

ber of distributors used per trade area. The third asked about the firm's distribution pattern relative to competitors, ranging from exclusive to intensive. Coefficient alpha for the scale was 0.79.

Data analysis

Data were analyzed in two stages, following procedures used in other strategic taxonomy research (Galbraith and Schendel, 1983; Hambrick, 1983a, 1983b; Douglas and Rhee, 1989; Kotabe and Duhan, 1993). First, generic strategies were identified by subjecting underlying strategic variables to Ward's minimum-variance clustering procedure. Cluster analysis has been identified as more useful than other multivariate techniques in developing empirical taxonomies (Hambrick, 1984; Harrigan, 1985) and as an appropriate technique for classifying businesses by strategy (cf. Dess and Davis, 1984; Galbraith and Schendel, 1983; Hambrick, 1983b; Harrigan, 1985; Robinson and Pearce, 1988; Kotabe and Duhan, 1993). The major advantage of cluster analysis is its ability to treat strategy as a holistic construct (Davis and Schul, 1993). Of the hierarchical cluster routines, Ward's method has emerged as the best method for uncovering group structures in data sets (Punji and Stewart, 1983). Based on the standardized four strategy variables, Ward's method calculated the Euclidian distance measures and minimized the multivariate, within-groups sum of squares.

However, cluster procedures have drawbacks. They present problems in regard to the units of measurement variation, difficulties in determining the number of clusters to be formed, and the lack of appropriate ways to test their statistical significance (Frank and Green, 1968). We eliminated the problem of variation in units of measurement by standardizing all variables (mean = 0, S.D. = 1).

While there is no optimal procedure for selecting the appropriate number of clusters in a hierarchical cluster analysis (Hambrick, 1983b; Harrigan, 1985), Lehmann (1979) has suggested that, for survey-based data, the most reliable number of clusters will be between $n/30$ and $n/50$. Applied here, this heuristic suggests two or three clusters as a viable solution. We analyzed the increase in 'tightness' (mean-squared error) of clusters as the clustering moved from one solution to the next (Hambrick, 1984). The three-cluster solution was chosen because it provided the best trade-off between parsimony and detail.

Next, we used multiple discriminant analysis to assess the stability of the clusters. Finally, we used Duncan multiple range tests to check whether clusters differed significantly on their strategic variables, and analysis of variance procedures to detect differences across clusters on the dependent variables of behavioral control, channel management, and distribution intensity.

RESULTS

Generic strategy clusters

Table 5 reports the profiles of three generic strategies derived from cluster analysis of manufacturers on the four strategic variables. We validated

Table 5. Characteristics of three generic strategies derived from cluster analysis[a]

Variables	Generic strategies[b]			Duncan multiple range tests			ANOVA F-value
	Cluster 1 Focus	Cluster II Differentiator	Cluster III Cost leader	1–2	1–3	2–3	
Differentiation dimension							
Product technology	0.50***	0.32***	−1.20***	n.s.	***	***	138.61***
	(0.30)	(0.47)	(0.53)				
Price	0.47***	−0.29	−0.86***	***	***	**	21.81***
	(0.87)	(0.66)	(0.69)				
Market scope dimension							
Target focus	0.35***	−0.34*	−0.52***	***	***	n.s.	13.46***
	(0.69)	(0.46)	(0.81)				
Product range	−0.36***	1.71***	−0.19	***	n.s.	***	49.04***
	(0.63)	(0.61)	(0.73)				
Observations	47	12	22				

*$p < 0.10$; **$p < 0.05$; ***$p < 0.01$
[a]Means are reported; standard deviation in parentheses.
[b]Differences between total sample mean and mean in each cell tested using t-test. Sample means are standardized for the purpose of testing.

these results in two ways. First, multiple analysis of variance and Duncan multiple range tests were used to detect differences in the means of the strategic variables. Results show that the cluster means are significantly different from total sample means. Second, we examined the three-cluster solution via multiple discriminant analysis to assess cluster stability. Discriminant analysis resulted in accurate classification of over 98 percent of the manufacturers.

Support for Porter's generic strategies is based on the interpretation of the pattern of scores for each cluster. Three strategies appear evident. Cluster I consists of 47 brands; the score pattern suggests that they follow a focused strategy. The emphasis for this cluster is on a narrow product range and narrow market focus, while offering high-end, high-price specialty products. Firms in Cluster II can be interpreted as differentiators. It is the least populous cluster, consisting of 12 brands. The pattern of scores shows these brands pursuing a broad market focus with a wide range of products. They differentiate with high-end brand appeal at medium prices. Cluster III consists of 22 brands whose strategy appears to be cost leadership. These brands demonstrate low-end product position, low prices, limited product range, but broad market focus.

Multivariate analysis of variance was used to test the adequacy of the clustering results. The procedure tests for distinct groups by examining between-groups variability for each of the strategic variables separately (ANOVA), and for all of the strategic variables simultaneously (MANOVA). Results indicated distinct strategic groups. The Duncan multiple range tests also supported the categorization. The first cluster (focus strategy) was significantly different in terms of price level and target focus, the second cluster (differentiators) was significangly different in terms of product range, and the third cluster (price leaders) varied significantly on product technology. The predominance of the focused strategy was not surprising, given the large number of small and medium-sized firms producing differentiated products in this industry. In general, empirical results indicated multiple generic strategies largely consistent with Porter's (1980) typology.

Implications of generic strategies for distribution variables

Table 6 reports the distribution characteristics for the three generic strategies derived from cluster analysis. Multiple analysis of variance was used

Table 6. Post hoc comparison of standardized means for distribution variables[a]

Variables	Generic strategies[b]			Duncan multiple range tests			
	Cluster I Focus	Cluster II Differentiator	Cluster III Cost leader	1–2	1–3	2–3	ANOVA F-value
Control relationship							
Behaviour Focus	0.26**	0.08	−0.47***	n.s.	***	**	8.35***
	(0.57)	(0.71)	(0.89)				
Contractual Restrictions	−0.02	0.71**	−0.27**	***	n.s.	***	9.86***
	(0.64)	(0.82)	(0.42)				
Channel management							
Mft. Coordination	−0.02	0.46***	−0.09	**	n.s.	***	4.08**
	(0.54)	(0.55)	(0.60)				
Dealer Support	−0.13	0.38**	0.20*	***	**	n.s.	5.79***
	(0.52)	(0.42)	(0.58)				
Channel structure							
Distribution Intensity	−0.33***	0.52**	0.37**	***	***	n.s.	9.37***
	(0.62)	(0.98)	(0.89)				
Observations	47	12	22				

$*p < 0.10$; $**p < 0.05$; $***p < 0.01$.
[a]Means are reported; standard deviation in parentheses.
[b]Differences between total sample mean and mean in each cell tested using t-test. Sample means are standardized for the purpose of testing.

to detect whether the cells were distinctly different in the means of the distribution variables. The simultaneous analysis of between-groups variability for the standardized distribution variables indicated distinct differences between the three clusters. The individual hypotheses were analyzed by testing the between-groups variance of distribution variables individually (ANOVA). All but one hypothesis was supported. Differences in dependent variables across strategic clusters showed the expected tendencies and were significant at the $p < 0.05$ level. The Duncan multiple range tests supported this conclusion. The sole exception was manufacturer support; as expected, cost leaders' support for their distributors was lower than was differentiators' but the difference was not statistically significant. Results showed that the cluster means were significantly different from total sample means.

Behavioral control

Hypotheses 1a, 2a, and 3a state that cost leaders will have an outcome control orientation in their relationships with distributors, while differentiators and focused players will have a behavioral orientation. As expected, companies in the cost leadership cluster had the lowest behavioral orientation, focused players had the highest, with differentiators in between. The overall differences between clusters were highly significant ($F = 8.35$; $p < 0.001$). Behavioral orientations of the focused and differentiated groups were not significantly different; however, both were significantly different from the cost leaders ($p > 0.05$).

Based on Hypotheses 1b, 2b, and 3b, we expected differentiators to exhibit significantly higher levels of contractual restrictiveness than focused players or cost leaders. Again, overall differences between clusters were highly significant ($F = 9.68$; $p < 0.001$). As expected, companies following a differentiation strategy showed the highest levels of contract restrictions, while focused players and cost leaders showed significantly lower levels of contractual restrictions ($p > 0.05$).

Channel management

Based on Hypotheses 1c/d, 2c/d, and 3c/d, we expected differentiators to exhibit significantly higher levels of manufacturer coordination efforts and dealer support than focused players or cost leaders. Overall differences for both variables were significant (dealer support: $F = 5.79$; $p < 0.01$ / manufacturer coordination: $F = 4.08$; $p < 0.05$). As expected, companies following a differentiation strategy showed the highest levels on these variables, while focused players and cost leaders showed significantly lower levels of manufacturer coordination ($p > 0.05$). Unexpectedly though, cost leaders showed a medium level of manufacturer support, significantly higher than focused players but not different from differentiators.

Distribution intensity

Hypotheses 1e and 2e state that cost leaders and differentiators will utilize high and moderately high levels of distribution intensity respectively, while Hypothesis 3e reasons for focused players to use highly selective distribution. The overall differences between clusters were highly significant ($F = 9.37$; $p < 0.001$) and all three hypotheses were supported. Distribution intensity for cost leaders and differentiators was high and significantly different ($p < 0.05$) from that of focused players. Unexpectedly, differentiators showed a higher level of intensity than cost leaders; however, the difference was not statistically significant.

In general, the results of these analyses support the contention that manufacturer generic strategies strongly influenced the three distribution variables. Table 7 summarizes the results of the empirical tests.

DISCUSSION

Results from this study extend earlier research on the applicability of Porter's (1980) typology to a range of industries. As in Dess and Davis's (1984) work in coatings and Hambrick's (1983a) in capital goods, our analysis of the stereo speaker industry produced clusters that corresponded closely to the cost, differentiation, and focus strategies described in Porter's framework. Clusters were clearly distinguishable on the basis of degree of differentiation (relative technology and relative price) and market focus (broad vs. narrow range of products and customers).

More importantly, results indicated a clear association between strategy cluster and the specific characteristics of manufacturer–distributor relationships. As hypothesized, differentiators maintained a highly involved control relationship with their distributors based on close behavior monitoring. Support payments and coordination efforts were high, while distribution intensity was high though not significantly different from cost leaders. The focused group also maintained a behavioral control relationship but with low monitoring and few contractual stipulations. Support and coordination were low, while distribution intensity was the lowest of the three groups. Cost leaders maintained an arm's length control relationship based on financial outcomes with few behavioral stipulations. As expected, coordination efforts were low and distribution intensity was high. Surprisingly, however, cost leader support payments were lower than but not significantly different from those of differentiators. Lack of support for this hypothesis may have been due to the fact that the dominant distribution channels for these manufacturers were discount and mass-merchant chains. Such large-scale retailers now wield considerable market power and may have been able to force cost leaders to support marketing and promotional activities. Unexpectedly, distribution intensity of differentiators was not significantly different from that of cost leaders. Again, as mass merchants increase their market presence and power, differentiators may have felt the need to strengthen representation in these important channels, which inevitably increased their level of distribution intensity.

In general, these findings suggest that strategic choice (Child, 1972; Hambrick and Finkelstein, 1987) may provide a useful basis for understanding important aspects of manufacturer–distributor relationships. Theorists have long viewed strategy as a powerful determinant of variation in internal organization structure and process (Andrews, 1980; Lawrence and Lorsch, 1972; Miles and Snow, 1994), even in the face of environmental pressures for isomorphism (Oliver, 1990). In the study of determinants of external organizational relations, however, the role of strategy has gener-

Table 7. Summary of hypothesis results

Constructs	Cost leader			Differentiator			Focus		
	Predictions	Analysis	Support	Predictions	Analysis	Support	Predictions	Analysis	Support
Behavior orientation	Low	Low	Yes	High	<u>High</u>	Yes	High	<u>High</u>	Yes
Contractual restrictions	Low	<u>Low</u>	Yes	High	High	Yes	Low	<u>Low</u>	Yes
Manufacturer coordination	Low	<u>Low</u>	Yes	High	High	Yes	Low	<u>Low</u>	Yes
Dealer support	Low	<u>High</u>	No	High	<u>High</u>	Yes	Low	Low	Yes
Distribution intensity	High	<u>High</u>	Yes	Medium	<u>High</u>	No	Low	Low	Yes

Note: The underlined cells in each row are not significantly different in the empirical analysis of our sample.

ally received little attention. Oliver (1990), for example, identified such critical contingencies of interorganizational relationship (IOR) formation as efficiency, stability, and reciprocity but did not consider that an organization's dependence on these conditions is likely to vary as a function of strategy. The results of this study enhance our understanding of the determinants of IOR formation by focusing on the demands generated by organizations' strategic choices. Thus, the cost leader's concern for efficiency is reflected in its relationships with its distributors, as are the differentiator's need for stability and the focused competitor's need for reciprocity.

From a managerial perspective, participants in an IOR often hold complex and divergent expectations of the relationship (Borys and Jemison, 1989; Oliver, 1990). Viewing the IOR as an aspect of strategy implementation provides managers with a basis for evaluating the IOR's performance as well as for making adjustments in its structure or process. By evaluating the IOR against strategic criteria, participants may gain a clearer understanding of the costs and benefits of maintaining the relationship. As organizations rely increasingly on external relationships to enhance competitive positions, organizational performance will depend on managing IORs effectively and understanding the contributions of (perhaps multiple) IORs to the organization's overall position. The elusive strategy–performance linkage may also be clarified by greater focus on the role of IORs in achieving performance outcomes.

This study's results also suggest that agency theory can provide significant insight into the economic basis for interorganizational relationships. To date, theorists interested in IORs have made little use of agency constructs. This is surprising given agency theory's clear delineation of risks, incentives and costs among interdependent parties (Eisenhardt, 1989). Borys and Jemison (1989), for example, dismiss agency theory on the grounds that it treats organizations as politically homogeneous and therefore incapable of accounting for dissension among IOR decision makers. This criticism may miss the point, however, in that the theory's chief purpose is to identify areas of divergent interest and the means by which those interests are aligned. Its major strength is in its focus on why dissension between interdependent actors occurs and how it is resolved.

Of particular interest in this study was the manipulation of various incentives and penalties by manufacturers in their effort to gain the compliance of independent distributors. The use of intensive distribution by cost leaders and quasi-monopolies by focused competitors suggests that such manipulations may be more subtle than allowed for in current explanations of control in IORs. For example, while both differentiators and focused competitors emphasized behavioral control, their methods for achieving it contrasted sharply and provide an interesting variation on the established agency model. Whereas differentiators actively controlled distributor behavior through intensive monitoring, focused competitors influ-

enced behavior passively by structuring incentives. This differs from the stylized agency model in which the objective of control through incentives is generally held to be performance outcomes (i.e., 'outcome control'). Focused competitors in this sample, however, appeared to utilize incentives to induce specific behaviors, not generalized outcomes.

It is worth noting that, as competitors develop skills in managing their distribution channels, these important competencies are likely to influence strategic perceptions and choices. Theorists have observed how, once established, structure and process may influence subsequent organizational decisions or even constrain the options available to decision makers (Child, 1972; Porter, 1985). Thus, a differentiator's investments in channel management and monitoring systems, or a focused competitor's carefully nurtured relationships with its distributors, may come to be viewed as assets so critical as to lock these firms into particular administrative structures and competitive strategies. This suggests an iterative process in which strategic and structural choices sequentially influence each other.

This study suffers from two limitations. First, in order to achieve a clear test of the influence of generic strategies, we limited the sample to a single industry. While we have no *a priori* reason to think so, it is possible that characteristics of this industry limit its generalizability to other settings. For example, industries in which technology evolves more rapidly may exert greater pressures for reciprocal support between distributors and manufacturers or, conversely, may inhibit the development of close interorganizational ties. This suggests the need for replication in other industry settings or, preferably, in cross-industry samples.

Second, several observers have noted the evolutionary nature of IORs. Transaction costs, ease of communications, trust, and other factors vary with the frequency, variety, and history of exchanges between participants (Williamson, 1975). The static nature of the current study is clearly incapable of capturing such a dynamic process, thus suggesting the need for a longitudinal research framework.

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