

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.

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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

strategy in the retail banking industrial setting, this paper specifically refers to research by Roth and Van der Velde [12,13,25].

To identify marketing strategic variables, the marketing strategy content is examined (which is understood as a set of strategic marketing techniques and tools necessary to achieve business objectives). In this regard, our study relied upon some key marketing strategy studies in the banking industry [21,28].

In summary, the strategic fit among the operations, the marketing, and the competitive strategies is essential to success. Therefore, establishing how functional area managerial choices interact with elements of competitive strategy becomes an interesting area of research. We now proceed with stating specific research hypotheses to examine the question of fit between competitive and functional level strategies.

3. Research hypotheses

3.1. Strategic fit between operations and marketing functions, and competitive strategy

A chosen competitive strategy itself does not have significant effects upon the performance, however, its linkage and interaction with the functional level strategies has significant performance effects [36]. In other words, the competitive strategy itself may not be critical but the quality of its strategic relationship with functional level strategies is critical to organizational performance. In this respect, the contribution of strategic activities associated with operations and marketing areas towards organizational performance is dependent on the degree of their fit with the competitive strategy. This leads us to propose Hypothesis 1 that determines the moderator effect of the competitive strategy:

Hypothesis 1a: The competitive strategy moderates the relationship between operations' strategic activities and organizational performance.

Hypothesis 1b: The competitive strategy moderates the relationship between marketing's strategic activities and organizational performance.

3.2. Interaction effects of operations and marketing strategic activities

Marketing effectiveness and operational efficiency are critical to the success of service firms. Unfortunately, these two factors may push in opposite directions, particularly in service management (see, [8]). Therefore, in order to win over customers and increase sales, an organization should achieve a balance between operational efficiency and marketing effectiveness through integration of operations and marketing activities.

Integrated management of these two functions may not be easily attainable because they require different managerial focus—operations has traditionally been cost- and

efficiency-oriented, while marketing has been customer- and market-oriented. The marketing function usually regards superiority of product offering to achieve increased sales. The operations function tends to emphasize the capabilities of service production and productivity as more important strategic decision variables [8]. However, as Roth and Van der Velde [13, p. 325] have emphasized, strategic linkage between operations and marketing strategies is a must for the success of service businesses. Thus, in order to explore how the strategic integration of operations and marketing affects the business performance, we posit our second research question in the form of a hypothesis:

Hypothesis 2a: There is significant interrelationship between operations and marketing strategic activities that impacts organizational performance.

For manufacturing operations, O'Leary-Kelly and Flores [38] state that the relationship between the integration of operations and marketing, and organizational performance, is moderated by competitive strategy. Similarly, in service organizations, the integration effects of operations and marketing may also be moderated by competitive strategy. Consequently, this study posits the Hypothesis 2b as follows:

Hypothesis 2b: The effect of the integration of operations and marketing strategic activities in a service organization is moderated by the competitive strategy.

3.3. Holistic strategic fit and organizational performance

Pair-wise analysis may not be an effective tool to examine the overall patterns of the strategic relationships among the operations, marketing, and competitive strategies because of the potential inconsistencies when results are aggregated [42]. Rather, the systems approach, which utilizes multivariate analysis, can be used to overcome the limitation of bi-variate analysis.

The systems approach defines the strategic fit as the degree of adherence to a specified profile, and utilizes pattern analysis to detect the performance impact(s) of the strategic fit (see, [39]). Pattern analysis has been accepted as an appropriate analytical tool consistent with the holistic perspective of strategic fit [40]. Particularly, the premise of pattern analysis is that more the organization deviates from an ideal profile, the lower will be the expected performance [41,42].

If the strategic efforts of the operations and marketing are co-aligned consistently to support the business unit strategy, then a high degree of strategic linkage can be attained. A high quality strategic fit is believed to reinforce competitiveness, which helps improve performance. Thus, it follows that when a higher level of the strategic fit among operations, marketing and competitive strategies is attained, higher business performance can be expected. To explore the performance implications of the strategic fit within a holistic perspective, Hypothesis 3 is posited as follows:

Hypothesis 3: The holistic co-alignment of operations, marketing and competitive strategies positively affects organizational performance.

4. Research methodology

4.1. Sampling and data collection

Banks were selected from the list of Top 1000 US Banks in the POLK World Bank Directory [43]. The sample consists of a total of 530 banks whose retail banking manager's name and title were available. The retail-banking manager of each bank was considered as the key informant in this survey. After constructing and pilot testing the questionnaires, a mail survey was implemented following the total design method (TDM) mail survey process [44]. Five hundred and thirty research packages were prepared for the key informants. After two attempts (initial mailing of the questionnaire, followed by telephone calls), we received usable responses from a total of 81 retail banks—a response rate of 15.6%. Even though this response rate is comparable with response rates cited by previous studies using retail banking populations (e.g., [25,45,46]) or using retail business populations (e.g., [47,48]), it is a relatively low response rate. In order to assess whether a non-bias response is present, as per the suggestions of Lambert and Harrington [16], we conducted a chi-square goodness-of-fit test through comparing the study sample with the total sample towards the size of retail banking units (RBU) and the title positions of their managers. Our analysis failed to reject the null hypothesis of equal distribution at the 0.10 level. This led us to conclude that the usable responses fairly represent large banks in the US banking sector without any bias.

4.2. Survey instrument development

4.2.1. Competitive strategy

Competitive strategy was operationalized using the self-typing paragraphs built upon the strategic typology of Miles and Snow [26]. Based on the self-typing measurement instruments used in previous banking industry strategic research [21,36], four paragraphs describing the characteristics of each strategic type were developed. Additionally, to avoid any response bias, strategic types were labeled as Type 1, Type 2, Type 3, and Type 4 rather than Prospector, Defender, Analyzer, and Reactor, respectively. This approach has been acknowledged as an appropriate method when conducting strategy research [49,50], and it has also been utilized in previous banking industry strategic research [21,36].

4.2.2. Operations and marketing strategy

The content of the operations strategy consists of the structural and infrastructural strategic choices [25,34,37,51]. The structural strategic factors are concerned with the brick and mortar decisions while the infrastructural strategic elements are related to the decisions affecting people and systems. In order to establish the operations strategy choice patterns in retail banks, in this study, we developed 16 strategic activity items that are composed of 9 structural and 7 infrastructure choices. In relation to the development of this

measurement instrument, previous retail banking industry research [12,13,25] and some service management works [9,52] were carefully examined. Roth and Van der Velde [12,25] were especially helpful when selecting the strategic activity items.

The marketing area usually deals with strategic issues of the identification of opportunities and threats in the dynamically changing markets and the provision of appropriate products to exploit the market opportunity in the context of the organizational environmental adaptation cycle, otherwise known as market–products problems (see, [26]). In order to analyze these market–product issues in strategic management, 12 marketing strategic activity items were selected from previous bank marketing studies (see, [21,28]).

All items are scored on a seven-point Likert scale, ranging from “lowest” to “highest.” Based on any published (or other available) information on their competitors, respondents were asked to report on their own banks' expenditures in retail operations and marketing relative to their closest competitors.

4.2.3. Psychometric evaluation of operations and marketing strategic variables

In an effort to enhance content validity, as mentioned earlier, we relied on several banking service operations and marketing-related research studies to select strategic activity items of operations and marketing. Unfortunately, those previous studies did not establish reliability of their measurement instruments. Hence, based on Churchill's [53] recommendations about validity and refinement, our study used exploratory analysis for the psychometric evaluation of the functional level measurement instrument.

In order to assess the reliability of the service operations and marketing measurement instruments, this paper utilizes the Cronbach reliability test. Four service operations strategic variables and three marketing strategic variables are extracted as shown in Tables 1 and 2.

These service operations and marketing strategic items are closely related to the (common) factor with high loading values, all of which are almost greater than 0.60. In addition, these extracted strategic variables have been shown to be reliable because the *alpha* coefficient of all items is over 0.60 (except the *capacity management* variable, Cronbach *alpha* = 0.55).

4.2.4. Business performance

Performance measurement is crucial as a criterion variable to which functional strategic variables and competitive strategy are anchored. Generally, business performance is quantified through three performance indicators—sales growth, profit growth, and profitability [54]. Specifically, this study measures the retail-banking-unit performance through four performance indicators; (1) net interest margin, (2) fee income, (3) return on asset (ROA), and (4) return on equity (ROE).

Table 1
Extraction of service operations strategic variables

Factors	Items	Loadings	Cronbach <i>alpha</i>
1. Encounter management	Educating & retaining employees	0.80	0.88
	Quality control	0.79	
	Customer education	0.75	
	Increased financial incentives	0.75	
	Establishing teamwork	0.71	
	Job-enlargement	0.64	
	Enhancing employee training	0.55	
2. Operational integration	Cooperation with software suppliers	0.82	0.69
	Information system management	0.71	
	Increased MIS staff size	0.70	
	Investment in home-banking technology	0.52	
3. Capacity management	Limited service branches	0.88	0.62
	Managing demand	0.62	
4. Facility management	Increasing in ATM investment	0.72	0.55
	Expansions of full service branches	0.70	
	Renovation of branches	0.54	

Table 2
Extraction of marketing strategic variables

Factors	Items	Loadings	Cronbach <i>alpha</i>
1. Market & product management	Customizing product/service	0.84	0.83
	New product development	0.81	
	Pricing analysis for products	0.77	
	Product improvement and R & D	0.69	
	Customer information system	0.64	
	Market research	0.51	
2. Service promotion	Direct mail advertising	0.89	0.74
	Mass media advertising	0.69	
	Sales promotion	0.63	
3. Service distribution	Point of sale technology	0.83	0.67
	Branch as sales center	0.67	
	Location convenience	0.56	

The business performance of a retail bank was measured by directly asking one of its executive managers to evaluate his or her bank's relative performance in comparison with the bank's closest competitor's performance. Bank managers were requested to indicate the level of achievement that their retail banks have obtained by circling the appropriate number on a seven-point Likert scale, ranging from "lowest" to "highest."

In order to assess the validity of the performance measures, we performed an exploratory factor analysis. As shown in Table 3, all four-measure items were grouped into one common factor. These items are closely related to the common factor with high factor loadings ranging from 0.62 to 0.89. Also, these question items are considered reliable because the Cronbach *alpha* has a high value of 0.78.

Table 3
Factor extraction of performance measures

Factor	Items	Loadings	Cronbach alpha
Business performance	Return on equity (ROE)	0.89	0.78
	Return on asset (ROA)	0.85	
	Fee income	0.70	
	Net interest margin	0.62	

4.3. Measurement model and analytical tools

The impact of the strategic fit on performance can be explored through two different approaches—the reductionistic approach and the holistic approach [39]. The reductionistic approach attempts to detect the strategic fitness by looking into each pair of strategic variables of two related strategies. This approach is implemented through utilizing the sub-group analysis and the moderated regression analysis (MRA). However, the holistic approach attempts to grasp the systemic nature of the interrelationships between the competitive strategy and functional level strategies such as the operations and marketing strategies (see, [40]). Hence, when the fit is conceptualized under a holistic perspective, it should be examined using pattern analysis [55].

4.3.1. Moderation perspectives of strategic fit and performance

The purpose of this study is to explore how the relationship between operations and marketing strategic variables and organizational performance is affected by a firm's competitive strategy. In the moderation fit model, operations and marketing strategic activities are regarded as predictor variables, the competitive strategy as the moderator variable, and organizational performance as the criterion variable. Others have used this moderation model successfully to study similar strategic relationships (see, [56,57]).

Moderator variables affect either the strength or the form of the relationship between predictor and criterion variables [58]. In order to identify the strength of the moderation, sub-group analysis can be used effectively [59]. There are three steps in the sub-group analysis. First, the correlations between operations strategic variables and the performance variable are calculated. Second, a chi-squared statistic is used to determine whether the correlation coefficients are significantly different across the three different strategic groups. Third, if significant differences exist across these strategic groups, then the relationship of strategic variables is regarded as the "strength" of the moderation strategic fit.

Gupta and Govindarajan [60] and Covin et al. [56], among others, have used MRA to test the form of the relationship between strategic variables. The criterion variable (Y —organizational performance), and predictor variable (X —operations strategy), and the hypothesized moderator

variable (Z —marketing strategy) are represented in three regression equations as follows:

$$(1) Y = a + b_1X, \quad (2) Y = a + b_1X + b_2Z, \\ (3) Y = a + b_1X + b_2Z + b_3XZ.$$

The strategic fit between operations and marketing strategic activities is identified if the interaction term (XZ) in Eq. (3) explains significant variations in organizational performance.

4.3.2. Holistic perspectives of strategic fit and performance

The holistic perspective of the strategic fit was examined using pattern analysis, which is a useful tool to evaluate deviations in multiple dimensions and to determine the relative importance of each dimension [40,41]. Pattern analysis is based upon the assumption that deviations from the ideal pattern of strategic functional variables are assumed to lead to lower performance. Following the recommendations of Venkatraman and Prescott [40], a calibration sample composed of top 10% of the RBU were selected (for each strategic group) based on their business performance. Additionally, the strategic pattern of resource deployment of retail banks in the calibration sample was identified as the ideal strategic profile.

The deviation is quantified with misfit measures. These measures are attained by calculating the degrees of differences between ideal strategic functional choice patterns (of the highest performing business units) and the strategic choice patterns (of the remaining business units) in a strategic group through the use of Euclidean distance metric (for further details see, [41])

$$\text{MISFIT} = \sum_{j=1}^N (b_j(X_{rj} - \bar{X}_{ij}))^2,$$

where X_{rj} is the score for the retail banking unit remaining in the study sample for the variable j ; \bar{X}_{ij} is the mean score of the ideal type RBU for the variable j , and b_j is the beta coefficient of regression equation for the variable j in the strategic type.

Next, pattern analysis was applied to examine how the strategic fit affects business unit performance by modifying Venkatraman and Prescott's model (see, [40]).

5. Analysis of research and implications

5.1. Moderated relationship between operations/marketing activities and performance

Hypotheses 1a and b postulate that the moderation effect can be tested with sub-group analysis, as suggested by many researchers such as Sharma et al. [59], Gupta and Govindarajan [60], Prescott [57], and Venkatraman [55]. The results of our sub-group analysis are presented in Table 4.

Table 4
Sub-group analysis results

	Strategic types			Chi-square statistic
	Correlation coefficients (<i>P</i> -value)			
	Defender	Prospector	Analyzer	
<i>Operations strategic var.</i>				
Encounter mgmt.	0.412(0.04)	0.680(0.00)	0.480(0.00)	21.33**
Facility mgmt.	-0.141(0.50)	0.395(0.06)	-0.028(0.88)	4.03
Capacity mgmt.	0.141(0.50)	0.570(0.00)	-0.048(0.80)	7.83*
Operational integration	0.282(0.17)	0.326(0.12)	0.635(0.00)	16.41**
<i>Marketing strategic var.</i>				
Promotion mgmt.	0.019(0.93)	0.291(0.17)	0.107(0.56)	2.18
Market-product mgmt.	0.356(0.08)	0.645(0.00)	0.588(0.00)	22.79**
Distribution mgmt.	-0.134(0.52)	0.560(0.00)	-0.071(0.70)	7.70*

** and * represent that the chi-square statistic are significant at $P < 0.01$ and $P < 0.05$, respectively.

In order to test the homogeneity of the correlation coefficient across the sub-strategic groups, the chi-square statistic was employed.¹ With the exception of facility and promotion activities, we found that there are significant differences in the degree of the correlation between the performance variable and the seven operations and marketing strategic activities across the three strategic groups. A significant difference in the correlation coefficient indicates that the performance effect of operations and marketing strategic activities is moderated by the competitive strategy. Recall, Hypotheses 1a and b state that the competitive strategy affects the association between (a) strategic operations activities and business performance, and (b) strategic marketing activities and business performance, hence these hypotheses are not rejected.

5.2. Interaction effect of operations and marketing on business performance

Hypothesis 2a was tested using MRA following the suggestions of such researchers as Gupta and Govindarajan [60], Prescott [57], and Covin et al. [56]. The result of the MRA, presented in Table 5, indicates that from among 12 interactions terms of operations and marketing activities, nine pairs are significantly associated with the business performance at 0.01 level. Consequently, we conclude that Hypothesis 2a is supported.

Sub-group analysis was carried out to assess Hypothesis 2b, which states that the competitive strategy moderates the performance effects of the functional integration. Results from Table 5 indicate that the interaction of operations and marketing activities has significantly different

effects on the performance across all three strategic groups. The prospector group has all of the 12 interaction pairs of operations and marketing displaying significant effects on organizational performance. For the analyzer group, six of the 12 interaction pairs have significant effects on organizational performance, while for the defender group, only two interaction pairs have significant performance effects. These findings imply that the interaction effects are moderated by the competitive strategy, and hence, Hypothesis 2b is supported.

5.3. Holistic strategic fit and organizational performance

In order to study the performance implications of the strategic fit under a holistic perspective, Hypothesis 3 which predicts that the strategic fit among operations, marketing, and competitive strategies is positively related to the retail banking unit performance is tested using pattern analysis. Following suggestions by Drazin and Van de Ven [41] who utilize the Euclidian distance metric, the lack of fit (LOF) measure is calculated. The LOF measure represents the degree of the strategic misalignment between operations and marketing activities and the competitive strategy. Additionally, the LOF is related to the performance variable through regression analysis. Results of the regression analysis indicate that the relationship between the LOF and the performance measure is consistently negative and significant across all of three strategic groups. Analysis found the values of the standardized beta are -0.375, -0.585, and -0.560 with *P*-values of 0.065, 0.003, and 0.001, respectively, for each strategic group. This indicates that there exists a significant and a consistent association between the LOF and the performance across three strategic groups. Thus, Hypothesis 3 is supported by the results from our statistical analysis.

¹ Arnold's [58] chi-square statistic has been used to test the homogeneity of the correlation coefficient across sub-strategic groups.

Table 5
The interaction effects of the strategic activities of operations and marketing

Strategy variables	Total sample Standardized beta	Defender		Prospector		Analyzer	
		Standardized beta	P-value	Standardized beta	P-value	Standardized beta	P-value
Encounter × promotion	0.38***	0.19	0.36	0.65***	0.00	0.39**	0.03
Encounter × market-product	0.51***	0.42**	0.04	0.74***	0.00	0.58***	0.00
Encounter × distribution	0.44***	0.17	0.41	0.73***	0.00	0.26	0.15
Capacity × promotion	0.14	-0.04	0.86	0.42**	0.04	0.01	0.99
Capacity × market-product	0.28**	0.07	0.76	0.58***	0.00	0.27	0.13
Capacity × distribution	0.22	-0.08	0.70	0.55***	0.01	-0.08	0.67
Facility × promotion	0.29***	0.19	0.36	0.62***	0.00	0.03	0.86
Facility × market-product	0.45***	0.27	0.20	0.75***	0.00	0.35**	0.05
Facility × distribution	0.34***	0.05	0.80	0.68***	0.00	-0.05	0.81
Integration × promotion	0.33***	0.19	0.36	0.47**	0.02	0.57***	0.00
Integration × market-product	0.41***	0.36*	0.08	0.57***	0.00	0.67***	0.00
Integration × distribution	0.39***	0.12	0.57	0.56***	0.01	0.47***	0.01

***, **, and * represents that standardized beta are significant at $P < 0.01$, $P < 0.05$ and $P < 0.10$, respectively.

5.4. Discussion and implications

In this study, we utilized the strategic fit concept to deal with strategic integration issues in the context of retail banking management. The performance effect of strategic integration between the competitive strategy, operations, and marketing activities was analyzed utilizing sub-group analysis and the MRA. Results of sub-group analysis show that the competitive strategy significantly affects the relationship of key activities of operations and marketing with business performance. This implies that competitive strategy indirectly affects business performance due to the changes in operations and marketing activities. Some managerial implications can be derived from the results obtained through this sub-group analysis.

The customer encounter management is regarded as critical for prospectors, but less important for defenders, and it is minimum for analyzers towards achievement of high performance. The encounter management (i.e., the moment of truth management) is closely related with flexibility and quality dimensions of the competency of retail banks [12]. Flexibility and quality can be success factors for the banks in the prospector group who try to lead the market change through transferring their target markets, and hence, enhance fee-based incomes. The fee-based income is increased when relationship banking is successfully implemented. In essence, relationship banking may not be successful if the customer encounter is not managed carefully and high quality service is not delivered to the customers in times of need.

Our study finds that top management of retail banks considers marketing and product management activities to be most important for prospectors, less important for analyzers, and least important for defenders. In an effort to win over competition, prospector banks introduce innovative products and services through quick response to the changing

markets. Hence, this group of banks needs to carefully monitor dynamic market trends, and swiftly incorporate such trends in the development of new concepts. This research also reveals that retail banks perceive investment in distribution management to have significant effect on the performance of prospectors, but a negative effect on the performance of analyzer and defender type banks.

Additionally, these results imply varied characteristics of each strategic group's competitive pattern. Defenders tend to improve their performance through minimizing their investments in operations and/or marketing activities, and by keeping their cost advantage. On the contrary, prospectors attempt to invest aggressively in operations and marketing to increase their market share and revenues through enhanced market effectiveness, while analyzers try to draw a balance between efficiency and market effectiveness as per the Miles and Snow's strategic theory postulates.

Findings from the MRA indicate that several interaction terms of operations and marketing activities have significant effects on organizational performance. Noticeable is the interactions of the facility management with marketing activities which provides us with some interesting managerial implications. These interactions represent a retail banks' effort to use operations to gain sales strength. The tough competitive environment requires that for a retail bank to be successful, it must be an account winner and not just an order taker. To be a successful account winner, a bank should be a true retail merchandiser through utilizing its branches and other channels for sales enhancement. Extended retail delivery facility enhances direct customer contact through providing better conveniences in one location to customers. This enables cross selling of various banking products to the customers at one place.

The results of sub-group analysis toward performance effects of the functional interactions show that the integration

of strategic decisions in operations and marketing areas has different effects on the organizational performance across all three strategic groups (i.e., prospectors, defenders, and analyzers). In the prospector group, integration of all pairs of operations and marketing strategic activities has significant effects upon organizational performance. One possible explanation is that new product development capability is crucial to the success of the prospector group banks that attempt to win competition through quick response to the dynamic markets. However, on the contrary, performance effects of the operations and marketing integration are somewhat weak for the defender group. For defenders, only the interaction of encounter management and market–product management pair has a significant performance effect. Thus, for the defender group, which is a low cost advantage seeker, priority should not be placed in focusing investment on the integration of strategic decisions in operations and marketing.

On the contrary, the integration of encounter management (a strategic operations activity) and market–product management (a strategic marketing activity) has significant effect on performance for all three strategic groups. This finding offers an important managerial implication; keeping close linkage between market requirements and the service package offerings is crucial to satisfying customers, and to win competition. Thus, effective integration of customer contact management, service quality management, researching customer needs and expectations, and rapid development of new products is regarded as a must for retail banks to stay competitive.

To complete the last phase of analysis, we looked into the association between the holistic strategic fit that spans among operations, marketing, and competitive strategies and organizational performance. The results of pattern analysis show that the LOF affects organizational performance negatively. We find these findings as a proof that the holistic co-alignment among operations, marketing, and competitive strategies is significantly important to organizational performance. Thus, if a retail bank wants to achieve high performance it should maintain high quality of strategic fit between all three strategies—operations, marketing, and competitive.

6. Concluding remarks

This study presented an empirical assessment of performance implications relative to strategic fit issues in the banking industry. Using data from US retail banks, our findings indicate that the strategic fit between (and among) operations, marketing, and competitive strategies is of greater importance to organizational performance as compared to the choice of a strategic type or operational practices. Through our research, we find that the strategic fit achieved in operations and marketing has a significant impact on organizational performance of banks. In particular, these findings indicate that the strategic fit is a crucial determinant of within-strategic group performance variation. That

is, within each strategic group, the higher the degree of strategic fit a retail bank attains, the higher will be the performance of the bank.

Through the exploration of the performance implications of strategic fit, this research contributes to a better understanding of within-strategic group performance variations. In particular, we fill a gap in the exploration of the within-strategic group performance variation, which has been suggested as an urgent research agenda in the field of strategic management [29,61]. Additionally, this research utilized Miles and Snow's strategic theory to study the strategic fit of operations activities with competitive and marketing strategies. Consequently, we contribute to the application of Miles and Snow's theory in strategic management of banking operations.

As mentioned earlier, the sampling method used in this paper utilizes the *Top 1000 US Banks*. This sampling frame appropriately represents the characteristics and pattern of large-sized retail banks' strategic management practices, but does not reveal the characteristics of relatively small-sized retail banks' strategic management. However, this sampling method has the advantage that it more effectively controls response bias that may arise from bank size rather than stratified random sampling (see, [25]).

Like any other study, our study has limitations. Due to the low response rate in our survey, care should be exercised in generalizing the results. In view of the recent mergers and acquisitions in the banking industry, it is possible that different competitive challenges might emerge leading to different strategic fit issues. Also, it should be noted that our research scope was limited to the retail banking industry. The strategic choice pattern and performance implications of the strategic fit may very well be different in other service industries. Of particular interest would be a replication of the present study for manufacturing industries. One must also take note of the fact that this research is based upon spontaneous collection of data, for example, respondents were not asked to provide their information for a specific time period. We hope that future research will extend findings from this paper to other service and/or manufacturing businesses.

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