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Performance Impacts of Strategic Consensus: The Role of Strategy Type and Market- Related Dynamism

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ABSTRACT

The authors examine the relationship between consensus on the type of SBU-level strategy among senior marketing and R&D-managers and organizational performance for a sample of 101 US and German SBUs in three industry sectors: consumer packaged goods, electrical equipment and components, and mechanical machinery. Findings indicate that consensus on the type of strategy increases the performance of the SBU in the case of a differentiation strategy while there are no performance impacts in the case of a low cost strategy. The strength of the relationship between consensus on a differentiation strategy and performance is negatively influenced by market-related dynamism.

There is significant research activity related to the question whether intraorganizational consensus on strategy enhances performance (e.g., Dess, 1987; Priem, 1990; West and Schwenk, 1996). Research in this stream has typically been referred to as the "consensus literature". A large part of this literature has looked at interpersonal consensus among members of a top management team. The general hypothesis behind these studies is that strategic consensus within the top management team will increase business performance. However, empirical results in this area have had mixed conclusions with some studies finding strong support for the proposition that strategic consensus increases performance and other studies finding the opposite effect or even no effect at all.

A first possible explanation for the mixed empirical evidence is that the type of strategy has not been considered in most studies. Achieving strategic consensus may be considered as an instrument of strategy implementation (Floyd and Woolridge, 1992). Porter (1985) emphasized that different types of strategy focusing on different competitive advantages require different implementation mechanisms. Therefore, it is reasonable to assume that consensus as an instrument of strategy implementation may be more important for one type of strategy than for another. The lack of empirical studies investigating consensus with a focus on different types of strategy constitutes an important research gap.

An additional explanation for contradictory empirical results is that moderating effects on the consensus-performance relationship have typically not been included in previous studies. Strategic consensus may be more important in some environments than in others. As an example, in his conceptual article, Priem (1990) argued that consensus may have higher performance implications in situations of low dynamism as compared to situations with high dynamism. Given the paramount importance of contingency factors in strategy research (Ginsberg and Venkatraman, 1985), the lack of studies investigating

moderator effects on the consensus-performance relationship constitutes another important research gap.

Our research aims at filling these two research gaps. More specifically, we consider performance implications of consensus for two types of competitive strategy at the SBU level. They include differentiation and cost leadership (Porter, 1980). Additionally, we explore whether market-related dynamism has a moderating impact on the consensus-performance relationship. Priem (1990) suggested this moderating effect but did not analyze it empirically.

Our research differs from most previous research in a third respect. Previous research in the consensus area has typically analyzed the role of consensus at the corporate level. Since especially in large and diversified companies, much of the strategy making takes place at the business unit level, we study the role of consensus among the senior management of a strategic business unit. This orientation of research is consistent with a lot of the strategy research which has been at the SBU rather than at the firm level.

We start with a review of literature on the consensus-performance relationship. Next, we present the objectives and hypotheses of our study. We then describe the research methodology and continue with a presentation of empirical results based on a cross-national data set. Finally, we discuss implications and directions for future research.

LITERATURE REVIEW

In reviewing prior literature, we first focus on the consensus research. More specifically, we consider different types of consensus and then review the literature with respect to performance implications of consensus. Afterwards we consider related research on group composition.

TABLE 1

Empirical Studies on Consensus

Author(s)	Subject of consensus	Object of consensus	Nature of unit of analysis	# of units of analysis	# of respondents per unit of analysis	Performance measures	Data collection	Methodology	Consideration of moderator effects	Findings
Bourgeois (1980)	Top Management Team (TMT)	consensus on goals and means	firm level	12	3-10 members of TMT	objective	on-site interviews	ANOVA	no	while both consensus on goals and on means increase performance, consensus on means has stronger performance implications; consensus on goals without consensus on means reduces performance
Bourgeois (1985)	TMT	consensus on perceived environmental uncertainty; consensus on goals	firm level	20	5	objective	questionnaires and secondary data	correlational analysis	no	congruence between perceived environmental uncertainty and volatility increases performance; diversity in environmental perceptions and diversity in goals within firms increase performance; consensus on perceived environmental uncertainty combined with goal consensus reduces performance
Bourgeois and Singh (1983)	TMT	"strategic discord" - disagreement on environment, goals, and strategies	firm level	no total sample size	4-10	--	on-site interviews and questionnaires	correlational analysis	no	infusions of slack reduce goal consensus and strategic discord; available slack reduces short-term goals conflict; increases in potential slack will promote consensus on longer-term mission orientations; slack resources provide the wherewithal and the opportunity for policy conflicts and the formation of coalitions necessary to achieve this goal consensus
Dess (1987)	TMT	consensus on objectives and methods	firm level	19	2-6	self-reported objective and subjective	on-site interviews and questionnaires	correlational analysis	no	consensus on objectives increases firm performance even when controlling for consensus on methods; consensus on methods increases firm performance even when controlling for consensus on objectives
DeWoot, Heyvaert, and Martou (1977/78)	no information provided	agreement on means for innovation activities	firm level	123	no information provided	objective	questionnaires followed up by "in-depth" studies, details not provided	no information provided	no	more efficient groups making decisions on questions of change are distinguished by: an important heterogeneity of orientation (research, marketing, production) among the group members, frequent disagreement in the solutions achieved and in the actions subsequent to the decisions taken (coordination), low concentration of influence among decision-makers, problem-centered way of solving conflicts, no irrelevant disagreement, no dependence on a superior, no easy compromises, no excessive use of power, greater difficulty in communicating and more disagreement among decision-makers but faster implementation
Grinyer and Norburn (1977/78)	2/3 chief executives or executive vice presidents; 1/3 senior managers reporting directly to a top executive	consensus on: objectives, role perception, degree of perceived formality of planning systems, and information monitoring.	firm level	21	4-5	objective	on-site interviews	correlational analysis	no	higher financial performance associated with use of more informal channels of communication, or information processes; number of all information processes used positively correlated with performance; agreement on desirable changes may not be high when a percentage of companies suggest a change in the status quo; no evidence to support common perception of objectives by executives with financial performance; when performance is good, there is little desire for change -

Author(s)	Subject of consensus	Object of consensus	Nature of unit of analysis	# of units of analysis	# of respondents per unit of analysis	Performance measures	Data collection	Methodology	Consideration of moderator effects	Findings
										managers in companies struggling to survive want to make changes
Hrebiniak and Snow (1982)	President, Chairman, CEO, or COO (13%); Executive or Senior Vice President (20%); Vice President (57%); General of Group Manager (8%); Division Manager (2%)	agreement on firm's strengths and weaknesses regarding environmental complexity.	firm level	88	2-3	objective	questionnaires	correlational analysis and multiple regression analysis	no	top management's agreement on firm's strengths and weaknesses increases performance; interaction among top managers and commitment to plans and objectives have positive implications for strategy implementation
Iaquinto and Fredrickson (1997)	TMT	agreement about the comprehensiveness of the strategic decision process	firm level	2 samples: 57, 38	at least 3	objective	data from three prior studies; mailed questionnaires	correlational analysis and multiple regression analysis	yes	TMT agreement about the comprehensiveness of the strategic decision process was positively related to organizational performance; this positive relationship was not moderated by the industry/environment interaction; determinants of agreement: organizational size was negatively related to agreement; firms in an unstable environment showed more agreement than firms in a stable environment; as past performance was not related to agreement, it was suggested that agreement increases performance and not the reverse
Schweiger, Sandberg, and Ragan (1986)	part-time night students in laboratory study	assumption listed and case recommendations generated under three conditions: dialectical inquiry, devil's advocate, and consensus.	firm level	30	4	evaluation of group performance by judges	laboratory study	comparisons of means of groups	no	both dialectical inquiry and devil's advocacy led to higher quality recommendations than consensus; dialectical inquiry more effective than devil's advocacy with respect to the quality of assumptions brought to the surface; satisfaction with their groups and acceptance of decisions higher in consensus groups than under dialectical inquiry and devil's advocacy approaches
Stagner (1969)	vice presidents	managerial cohesiveness - amount of agreement on responses to questionnaire items by executives.	firm level	109	2-4	objective	mailed questionnaire	correlational analysis	no	executive satisfaction with decision-making practices and profitability are positively correlated; support view of corporation as a coalition; factor analysis reveals three important dimensions of decision-making process: managerial cohesiveness, formal procedures in decision making, and centralization
Tjosvold and Field (1983)	undergraduate students in laboratory study	4 groups/experimental conditions of decision making: cooperative consensus, cooperative voting, competitive consensus, competitive voting.	firm level	22	4-5	subjective	laboratory study	comparisons of means of groups	no	same general understanding of the problem in all 4 groups; groups from the different conditions did not differ in the quality of their decisions; higher individual commitment to the groups' decisions in consensus groups; greater individual understanding of the problem in the cooperative condition; decisions made most rapidly in the cooperative consensus group
West and Schwenk (1996)	TMT	consensus on organizational goals and means	firm level	65	3-4	subjective	mail survey	regression analysis	no	significant findings of earlier studies could not be replicated
Whitney and Smith (1983)	student subjects assuming the role of either product manager or strategic planner in laboratory study	group cohesiveness - inferred from the number and strength of mutual positive attitudes among the members of a group	firm level	6	14-15	--	laboratory study	comparison of means	no	group discussions conducted under conditions designed to emphasize group cohesiveness resulted in an increase in the polarization between product managers and strategic planners; high cohesiveness within groups reduces the individual group member's receptivity of information and may lead to selective use of information

Types of consensus studied

When reviewing empirical studies on the consensus-performance relationship, two characteristics of consensus warrant special attention (see Table 1). First, the *subject of consensus* is important – that is, the question of consensus between whom is considered. Typically, the subject of consensus has been the CEO and the Top Management Team (TMT) who were the respondents in field studies. Some studies considered consensus in laboratory studies (Schweiger, Sandberg, and Ragan, 1986; Tjosvold and Field, 1983).

Second, the *object of consensus* is important – that is, the question of consensus about what is considered. Empirical studies on the consensus-performance relationship have usually focused on strategic issues at the firm level. Most authors have focused on one or several of the following objects of consensus: (1) consensus on *goals* which the organization is trying to achieve; (2) consensus on *means* or competitive methods which are used to implement these goals; and (3) consensus on *perceived environmental uncertainty*.

The subject and the object of consensus have also been referred to as scope and content of consensus (Woolridge and Floyd 1989). They largely determine the appropriate level of analysis. As researchers usually chose the TMT of the firm as their subject of consensus, they focused on firm level strategy as an object of consensus on which the TMT would be knowledgeable. This constitutes a limitation of previous research in two respects. First, consensus on strategic issues within the TMT on the firm strategy does not necessarily result in consensus on different SBU strategies that have to be developed in order to implement firm level strategies. These implementation decisions result in business unit strategies for the different business units of the firm. Second, it is important to mention that consensus plays a role at the SBU level as well. If, within each of the different business units of a firm, senior managers from different functional units do not agree on the strategy of the

business unit, there can be negative implications for the performance of the individual business units. As a result, the overall performance of the firm can be negatively affected. In this case, positive performance implications of consensus on firm level strategy in the top management team would be diminished or reversed by negative effects from disagreement at the business unit level.

However, in the literature on the consensus-performance relationship, none of the existing studies has analyzed consensus at the business unit level. This represents a significant research gap since, especially in large and highly diversified companies, much of the strategy making takes place at the business unit level. The importance of competitive strategy at the business unit level is illustrated by Porter (1987) who pointed out that "unless a corporate strategy places primary attention on nurturing the success of each unit, the strategy will fail, no matter how elegantly constructed. Successful corporate strategy must grow out of and reinforce competitive strategy" (p. 46). It is worth emphasizing that literature in other areas of strategy research has focused more on business unit strategy than the consensus research, typically building on the frameworks and strategy typologies of Porter (1980) and Miles and Snow (1978) respectively (e.g., Govindarajan, 1988; Hambrick, 1983; Miller and Friesen, 1986a, 1986b; Snow and Hrebiniak, 1980; White, 1986; Zajac and Shortell, 1989).

Performance implications of consensus

With respect to the performance implications of consensus, there have been equivocal results (see Table 1). Some studies find that consensus does lead to increased performance (Bourgeois, 1980; Dess, 1987), while others have found the opposite effect (Bourgeois, 1985; DeWoot, Heyvaert, and Martou, 1977/78) or no effects at all (West and Schwenk, 1996). There have been a number of ideas put forward of why there may be disagreement among these studies. Some authors claim that the conflicting findings result from differences in definition, operationalization, and research type (Dess and Origer, 1987). While some of the

conflicting findings may be explained by sample differences and methodological differences, these may not explain all conflicting findings (Priem, 1990).

Against this background, Dess and Priem (1995), Priem (1990), and West and Schwenk (1996) have suggested that contingency or moderating variables may affect the consensus-performance link. These moderating variables may model consensus as being desirable in some contexts, while in other contexts consensus may have no or even negative effects on performance. While environmental determinants of consensus have been conceptually (Dess and Origer, 1987) and empirically (Bourgeois and Singh, 1983) explored, there has been a lack of research into moderating variables which affect the consensus to performance link. This lack of research on moderators may be accounted for by the fact that most studies have focused on performance implications of different types of consensus rather than on contingency effects on the consensus-performance relationship. We are aware of only two empirical studies considering moderating effects which however failed to find any moderating effects on the consensus-performance relationship (Iaquinto and Fredrickson, 1997; West and Schwenk, 1996).

The theoretical orientation of previous consensus research has driven decisions on research design and limited the possibilities of studying moderating effects. There is a fundamental trade-off in the research design in consensus research between the total number of firms in the sample and the number of respondents within each firm. Typically, consistent with their theoretical orientation, previous researchers have focused on a larger number of respondents per firm and a limited number of firms. By having a greater number of informants within each firm, researchers can get more perspectives on the strategy but often this has led to relatively small sample sizes (see Table 1). This has limited the types of data analyses. Often, only descriptive and correlational analyses have been presented. In order to test for the effects of moderating variables, a larger sample size and more advanced

methodology such as moderated regression analysis (Schoonhoven, 1981; Sharma, Durand, and Gur-Arie, 1981) are needed.

In summary, given the importance of contingency factors in strategy research (Ginsberg and Venkatraman, 1985), the lack of empirical studies investigating moderating effects on the consensus-performance relationship provides a significant research opportunity.

Related research

Related research in organization studies has focused on team composition and demography with an interest in such aspects as how homogeneous or diverse groups may affect various outcomes. This research has studied a variety of groups such as top management teams (cf., Finkelstein and Hambrick, 1996), new product development teams (Ancona and Caldwell, 1992; Katz, 1982; Pelled, 1996), R&D lab groups (Tushman, 1979), and general work groups (Jehn, 1996). Since it has been shown that it is more difficult to achieve consensus in groups with diverse perspectives, the research on group composition and demography yields insight into our research. One of the important findings is that there is no optimal group structure, but rather there are moderators in the relationship between group composition and group outcomes. These findings provide support for our tenet that there may be moderators on the consensus-performance relationship.

One of the moderators of the group composition to performance relationship is the dynamism in the environment which has been conceptualized as a major source of uncertainty (Duncan 1972). For example, Gladstein (1984) studied the relationship between group composition structure and various outcome measures. She argued that environmental uncertainty was a moderator of this relationship. Others who have identified environmental uncertainty as an important moderator in the relationship between organization and performance include Galbraith (1977), Lawrence and Lorsch (1967), Thompson (1967), and Tushman (1979).

Empirical findings have indicated that a diversity of perspectives generally leads to better performance in dynamic environments but not in stable environments. For example, Jehn (1996) finds that task-related conflict positively affects group functioning for non-routine tasks, but has the opposite effect for routine tasks.

In summary, the research on group composition provides support for our contention that there are moderators in the relationship between organizational dimensions and performance and that environmental dynamism is one such moderator.

OBJECTIVES OF OUR STUDY

Summarizing our review of prior research, we identify the following limitations. First, empirical studies on the consensus-performance relationship have focused on strategic issues at the firm level thus neglecting the SBU level. Given that the diversified firm should be viewed as a portfolio of businesses with different strategic contexts rather than a mixture of similar businesses (Govindarajan, 1988), strategic consensus of business unit level executives deserves special attention by academicians and practitioners. Studies in other fields of strategy research have reflected the importance of business unit level strategic issues. These considerations result in the first objective of our study which is to investigate the strategic consensus-performance relationship at the SBU level.

Second, empirical research on the consensus-performance relationship has used fairly general concepts of strategy, typically not distinguishing between different types of strategy. However, consensus may be more important for one type of strategy than for a different type of strategy. It is reasonable to assume that contradictory findings in previous research are partly due to the lack of consideration of different strategy types. Thus, the second objective of our study is to investigate whether consensus has differential effects based on the type of strategy being pursued. More specifically, we will investigate the performance implications

of consensus among managers for a differentiation strategy and for a low cost strategy, respectively (Porter, 1980).

Third, prior research has not identified environmental impacts on the importance of strategic consensus for business performance. Given the paramount importance of the contingency concept in strategy research, this represents an additional research gap. Thus, the third objective of our study is to look at the potential moderating effects of a key environmental aspect, which is dynamism. This requires collecting data from a larger sample of firms than has typically been the case in empirical consensus studies (see Table 1). Additionally, we seek to increase generalizability of the findings by collecting data in three industry sectors in two countries, the United States and Germany.

HYPOTHESES

Our first hypothesis relates to differential performance implications of strategic consensus depending on the type of strategy (differentiation versus low cost). The implementation of a differentiation strategy requires the joint efforts of managers from different functions in order to create a unique position along dimensions which are widely valued by the customer (Porter, 1980). Ruekert and Walker (1987) found partial support for their hypothesis that business units following a prospector strategy which is closely related to Porter's differentiation strategy (Miller and Friesen, 1986a) would rely more heavily on avoidance, conciliatory and participative conflict resolution mechanisms. They also found that the level of conflict between marketing and R&D departments was greater under a prospector business strategy as compared to a defender strategy which is closely related to Porter's low cost strategy (Miller and Friesen, 1986a). Given this higher level of conflict in the case of a differentiation strategy, consensus becomes more important for strategy implementation. Without trying to achieve consensus, managers from different functions such as marketing and R&D cannot resolve their conflicts which has negative implications for

strategy implementation. On the other hand, if managers from different functions agree that the strategy of the business unit is a differentiation strategy and also agree on the approaches for achieving differentiation, cross-functional cooperation will be enhanced, thus facilitating strategy implementation and increasing performance. Therefore, consensus has positive performance implications in the case of a differentiation strategy.

In contrast, for implementing a cost leadership strategy, control mechanisms and instruments like budget control can be used in order to achieve low costs. These hierarchical control instruments make consensus less important in the case of a low cost strategy. Empirically, Miles and Snow (1978) found that business units following a defender strategy tended to emphasize strong financial controls and efficient production. The use of hierarchical control elements may reduce the importance of consensus in the case of a cost leadership strategy. Song and Dyer (1995) found that in defender firms, the level of cross-functional involvement in the planning stage was lower than in prospector firms. Furthermore, given the lower level of conflict between different functional departments in defender firms (Ruekert and Walker, 1987), achieving consensus becomes less important. Thus we hypothesize:

H₁: Performance implications of strategic consensus depend on the type of strategy. More specifically, consensus will have a positive effect on performance in the case of a differentiation strategy and no effect on performance in the case of a cost leadership strategy.

A second issue in our hypothesis development is the investigation of moderating effects of environmental variables on the consensus-performance relationship. We will argue that the level of environmental dynamism is a moderator on this relationship. Specifically, consensus would have a weaker effect on performance in a dynamic as compared to stable environments. As it takes time and managerial effort to build consensus, in highly dynamic environments achieving consensus may incur greater costs as compared to stable environments. Costs may include financial resources, slow reaction time, and loss of

competitive advantage (West and Schwenk, 1996). These greater costs may reduce the potential beneficial effect of consensus. Further, a diversity of opinions concerning future competitive moves will be more successful in unstable environments as the creative input of different managers is needed in order to cope with new situations (see also Murray 1989). Also, Schneider (1983) argued that organizational survival in turbulent environments may be aided by attracting, selecting and retaining demographically diverse managers who will later make important strategic decisions. Our reasoning is also consistent with the work by Priem (1990) who suggested a moderator role of dynamism in the consensus-performance relationship based on organizational theory reasoning as well as with Dess and Origer (1987), who hypothesized a non-contingent, inverse relationship between dynamism and consensus. Finally, our reasoning is also in accordance with research on group conflict which indicates that higher diversity among group members is beneficial for non-routine tasks (e.g., Gladstein, 1984). Thus we hypothesize:

H₂: The strength of the relationship between consensus on a differentiation strategy and performance is negatively influenced by the level of market-related dynamism.

METHOD

Sample and data collection

Data for the study were obtained from SBUs in three industry sectors in the United States and Germany: consumer packaged goods, electrical equipment and components, and mechanical machinery. Those industry groupings were defined by standard industry codes (SIC codes) to ensure equal industry membership in the US and German sub-samples. The consumer packaged goods sector consisted primarily of 20- (food products), 21- (tobacco), and 284- (soaps and toiletries). Electrical equipment and components consisted primarily of 357- (electrical machinery and peripherals), 36- (Electronics), and 38- (Instruments). Mechanical machinery consisted mainly of 35- with the exception of 357- which includes

computers and peripherals. In both countries the above SIC codes were used. The names of the SBUs included in our sample were derived from firm names obtained from Dun and Bradstreet in both the United States and Germany.

We defined a SBU as a relatively autonomous unit with the management having control of at least three of the following functions: marketing, sales, manufacturing, R&D, finance, and human resources. Given the orientation of our study, we decided to have a larger sample of business units rather than a large number of respondents per unit. We sought responses from two managers responsible for different functional groups within the same business unit. We decided to consistently use functional managers from the same areas across the entire sample rather than two randomly selected functional managers provided by the general manager of the SBU in order to reduce the amount of uncontrolled variance. More specifically, we sought responses from the managers in charge of marketing and R&D in the business unit. The choice of these two functions was prompted first by their strategic importance (Griffin and Hauser, 1996; Ruekert and Walker, 1987; Walker and Ruekert, 1987) and second by our observation in prior field research that other functions such as manufacturing, sales and finance are more frequently centralized across business units.

Data collection of our study was based on a previous survey among marketing managers in SBUs within the three industries mentioned above. Based on the respondents from the first survey we then sent out 505 surveys to R&D-managers we identified in the same SBU as the marketing manager. The second survey was sent within a four week time period after the receipt of the responses from the first survey. We received 101 usable responses (53 in the US and 48 in Germany), a response rate of 20%. As the total sample of our study, we combined the 101 R&D-managers and the corresponding 101 marketing managers of the same SBUs, resulting in a total sample size of 202 managers.

Measure development and assessment

Consensus. We measured two types of consensus: consensus on differentiation strategy and consensus on low cost strategy. Respondents were asked about the degree to which the SBU emphasized those two strategies. The specific items measuring the strategic emphasis were based on those used by Kim and Lim (1988) and Dess and Davis (1984). They are shown in the Appendix. For each strategy, we calculated the degree of consensus by computing the mean of the absolute value of the differences between marketing and R&D-managers' responses to individual items and then multiplying this value by (-1) so that consensus rather than dissensus yielded higher values calculated. This measurement of consensus is done in a similar way as in the studies of Dess (1987) and West and Schwenk (1996) who however used standard deviations instead of differences as they had more than two respondents.

Performance. We used a three-dimensional conceptualization of performance including adaptiveness, effectiveness, and efficiency (Ruekert, Walker, and Roering, 1985). Measure development was based on the following definition by Ruekert, Walker, and Roering, 1985: 15):

"Effectiveness involves the degree to which organizational goals are reached, efficiency considers the relationship between organizational outputs and the inputs required to reach those outputs, and adaptiveness reflects the ability of the organization to adapt to changes in its environment."

Specific items were adapted from Irving (1995). To provide an appropriate frame of reference, we asked respondents to rate the performance of their business unit in relation to that of competitors. For hypotheses testing we averaged the marketing and R&D-managers' assessment on these performance dimensions and used this average as the dependent variable in our study. A list of items is provided in the Appendix.

We decided to use perceptual measures of performance rather than objective financial performance measures for several reasons. First, financial performance measures such as ROI

or ROA are typically not available at the business unit level because a balance sheet is needed to compute them. Most multidivisional firms do not have balance sheets at the business unit level. Second, objective financial performance measures computed at the business unit level are usually highly firm specific. They may be influenced by, for example, internal transfer prices, the way business units cover headquarters' costs, or tax considerations. Therefore, cross-company (and especially cross-cultural) comparison is difficult. The third argument against objective financial performance measures is that respondents may be reluctant to give the figures. German managers, for example, emphasize privacy of information to a greater extent than managers in other cultures. Also, the proportion of small companies that are publicly traded is smaller in Germany than in the United States and secondary data on such companies are less readily available. Finally, perceptual performance measures have been shown to have a high correlation with objective financial performance measures, which supports their validity (e.g., Dess and Robinson, 1984; Hart and Banbury, 1994; Naman and Slevin, 1993; Venkatraman and Ramanujam, 1986, 1987).

Market-related Dynamism. The construct of market-related dynamism is conceptualized as the frequency of major market-related changes (Child, 1972; Duncan, 1972). The construct is based on the responses from the marketing managers, who were asked to assess the frequency of major changes in market-related aspects of the business environment from which their business unit derived its largest amount of sales. Aspects included sales strategies, pricing behavior, and sales promotion/advertising strategies, among others. The complete list of items is shown in the Appendix. We did not include this construct into the survey to R&D-managers since we felt that they would not be knowledgeable about items such as changes in sales strategies or changes in pricing behavior.

Measure Reliability and Validity. Measure reliability and validity were assessed using coefficient alpha (Cronbach, 1951) and confirmatory factor analyses (Bagozzi, Yi, and

Phillips, 1991) for the constructs measuring strategy, performance, and dynamism. As illustrated in the Appendix, for most of the measures the coefficient alphas exceeded or came close to the recommended standard of .7 that has been suggested by Nunnally (1978). Composite reliability is a measure based on confirmatory factor analysis and represents the shared variance among a set of observed variables measuring an underlying construct (Fornell and Larcker, 1981). In general, a composite reliability of at least .6 is considered desirable (Bagozzi and Yi, 1988: 82). As can be seen in the Appendix, this requirement was met for all the factors in our study.

RESULTS

Hypotheses testing

We utilize multiple regression analysis to test for the strength and direction of the relationships among consensus as the independent variable and the different performance measures as the dependent variables. We controlled for country (COUNTRY: 0 = USA, 1 = Germany), SBU size (SIZE: mean of standardized sales volume and standardized number of employees of the SBU) and industry (CONSUM: 0 = electrical equipment and components or mechanical machinery, 1 = consumer packaged goods; ELECTRON: 0 = consumer packaged goods or mechanical machinery, 1 = electrical equipment and components). The regression equations for the relationship between consensus on differentiation strategy (CONSDIFF) and consensus on low cost strategy (CONSCOST), respectively, and the performance dimensions adaptiveness (ADAPT), effectiveness (EFFECT), and efficiency (EFFIC) were as follows.

$$ADAPT = 4.69 + .17 CONSDIFF - .08 COUNTRY + .06 SIZE + .60 CONSUM - .04 ELECTRON \quad (R^2=.13)$$

(t=20.81) (t=1.57) (t=-.43) (t=.22) (t=2.49) (t=-.20)

$$EFFECT = 5.15 + .28 CONSDIFF + .06 COUNTRY + .23 SIZE + .50 CONSUM - .01 ELECTRON \quad (R^2=.14)$$

(t=21.45) (t=2.33) (t=.30) (t=.85) (t=1.94) (t=-.02)

$$EFFIC = 5.56 + .35 CONSDIFF - .76 COUNTRY + .66 SIZE + .31 CONSUM - .07 ELECTRON \quad (R^2=.15)$$

(t=16.55) (t=2.14) (t=-2.67) (t=1.73) (t=.87) (t=-.22)

$$ADAPT = 4.48 + .02 CONSCOST - .12 COUNTRY + .07 SIZE + .66 CONSUM - .04 ELECTRON$$

($R^2=.11$)
(t=18.57) (t=.16) (t=-.63) (t=.28) (t=2.74) (t=-.20)

$$EFFECT = 4.69 - .05 CONSCOST + .01 COUNTRY + .22 SIZE + .62 CONSUM - .01 ELECTRON$$

($R^2=.09$)
(t=17.96) (t=-.49) (t=.04) (t=.78) (t=2.38) (t=-.01)

$$EFFIC = 5.15 + .04 CONSCOST - .83 COUNTRY + .70 SIZE + .44 CONSUM - .07 ELECTRON$$

($R^2=.11$)
(t=14.16) (t=.28) (t=-2.89) (t=1.77) (t=1.20) (t=-.21)

H₁ is supported as consensus on differentiation strategy has a positive impact on all three performance dimensions. Two of these three effects are significant at the 5% level while consensus on differentiation's effect on adaptiveness is significant at the 10% level. Additionally, consensus on low cost strategy did not have any significant effects on performance.

H₂ was tested using moderated regression analysis (Schoonhoven, 1981; Sharma, Durand, and Gur-Arie, 1981). This involves including an interaction effect between the independent variable (consensus) and the hypothesized moderator (market-related dynamism). The following parameter estimates were obtained.

$$ADAPT = 4.77 + .66 CONSDIFF - .11 CONSDIFF \cdot MKTDYN + .01 COUNTRY + .15 SIZE + .45 CONSUM$$

(t=20.47) (t=2.30) (t=-1.83) (t=.02) (t=.59) (t=1.77)
- .14 ELECTRON ($R^2=.17$)
(t=-.69)

$$EFFECT = 5.25 + .78 CONSDIFF - .12 CONSDIFF \cdot MKTDYN + .13 COUNTRY + .31 SIZE + .34 CONSUM$$

(t=20.89) (t=2.52) (t=-1.77) (t=.63) (t=1.13) (t=1.24)
- .10 ELECTRON ($R^2=.17$)
(t=-.42)

$$EFFIC = 5.74 + .94 CONSDIFF - .13 CONSDIFF \cdot MKTDYN - .73 COUNTRY + .71 SIZE + .09 CONSUM$$

(t=16.44) (t=2.19) (t=-1.47) (t=-2.54) (t=1.87) (t=.24)
- .18 ELECTRON ($R^2=.18$)
(t=-.56)

As can be seen from these findings H₂ is also supported. All three regression parameter estimates associated with the interaction terms are negative with two of them (related to adaptiveness and effectiveness) being significant at the 5% level while the

moderator effect of market-related dynamism on the consensus - efficiency relationship is significant at the 10% level. It is also worth noting that controlling for the moderating effect of market-related dynamism on the consensus-performance relationship increases the significance of the main effect of consensus on differentiation on the three performance components. This can be seen by comparing the magnitude of parameter estimates and t-values in the moderated regression analyses with the values in the previously discussed unmoderated regression analyses.

On an overall basis, we find strong support for our theoretical reasoning. First, our findings show that the performance implications of strategic consensus clearly depend on the type of strategy. We find significant and consistent positive relationships between consensus on differentiation strategy and performance while there seem to be no performance impacts of consensus on low cost strategy. Our second hypothesis which stated that consensus on differentiation strategy has weaker performance impacts in situations of higher market-related dynamism is also confirmed.

DISCUSSION

Implications

Our research has extended knowledge in consensus research in essentially three respects. First, we were able to show that the importance of consensus for business performance depends on the type of strategy. More specifically, our research suggests that consensus is a success factor in the case of a differentiation strategy but not in the case of a low cost strategy. Second, we provided evidence for moderator effects on the consensus-performance relationship. We were able to show that the consensus-performance link is stronger in situations of low market-related dynamism. This finding is consistent with theoretical reasoning by Priem (1990) and West and Schwenk (1996). Third, our study represents a contribution to the under-researched area of strategic consensus at the business

unit level. It is also worth emphasizing that, to the best of our knowledge, our study is the first to examine the importance of consensus based on a cross-national data set.

Our research also provides additional insight on strategy implementation. Achieving strategic consensus among managers may be considered as an instrument of strategy implementation (Floyd and Woolridge, 1992). Our research shows that this particular instrument of strategy implementation is more important for some strategies than for other strategies. We were able to show that in order to successfully implement a differentiation strategy, a high degree of consensus is important. Previous research has identified links between the type of strategy being pursued and the adequacy of certain implementation approaches (e.g., Bourgeois and Brodwin, 1984; Miller, 1987; Skivington and Daft, 1991; Walker and Ruekert, 1987). Our research contributes to this field as we provide more detailed insight concerning the role of strategic consensus in strategy implementation.

On a general level, our study highlights the importance of studying moderating effects on performance implications in strategy research. While the contingency notion is generally accepted in strategy research (Ginsberg and Venkatraman, 1985), there are still areas where empirical analysis of contingency effects is underrepresented. One of these areas is consensus research.

From a managerial perspective, our findings provide insight into when managers should be concerned about achieving consensus. We claim that achieving consensus may take substantial time and investment of managerial efforts. Our findings indicate that this may not always be optimal to do and may not always lead to higher performance. Specifically, our findings indicate that managers should be most concerned about achieving consensus when pursuing a differentiation strategy. This is even more important in situations of stable environments. On the other hand, when pursuing a cost leadership strategy, managers should not invest too many resources into achieving consensus.

Directions for future research

Our work can be extended in several directions. In this paper we have studied consensus among two specific groups (marketing, R&D) and have focused on consensus concerning the strategic direction of the SBU. Future research on consensus at the SBU level could examine consensus regarding objects of consensus other than competitive strategy (such as strategy implementation) and could also test for the generalizability of the subjects of consensus (in our case marketing and R&D managers). For example, consensus of managers responsible for finance and operations may be more important in the case of a low cost strategy.

Our research has demonstrated the usefulness of including the contingency notion into consensus research. Given the paramount importance of contingency research in the strategy field (e.g. Ginsberg and Venkatraman, 1985), we feel that more research including moderator variables is needed in the consensus research stream. This research will typically be based on large-scale survey studies rather than extensive field interviews.

An additional direction for extending research on consensus is to synthesize research streams on subunit power (Enz, 1988; Hambrick, 1981; Hinings et al., 1974; Perrow, 1970; Salancik and Pfeffer, 1974) and consensus. For example, it might be hypothesized that in case of large power disparities across subunits the importance of strategic consensus is less critical than in case of a more equal power distribution. Dess and Priem (1995) hypothesize that consensus among top management team members with high power will have a greater effect on organizational outcomes than will consensus among members with low power. We think that this link of consensus to power is especially important for consensus at the SBU level.

APPENDIX

Scales, Items, Scale Means, Standard Deviations, Coefficient Alphas, and Composite Reliabilities for Measures

<i>Scale Name, Response Cue, and Individual Items</i>	<i>Scale Mean/ Standard Deviation (Marketing Managers)</i>	<i>Scale Mean/ Standard Deviation (R&D Managers)</i>
<p>Strategy (respondents scored on 7-point Likert scale with anchors 1 = not at all and 7 = a great deal)</p> <p>To what extent does your business unit emphasize the following activities?</p>		
<i>Differentiation strategy - DIFF</i>	5.01/1.06	4.66/1.07
<p><i>DIFF1:</i> Creating superior customer value through services accompanying the products.</p> <p><i>DIFF2:</i> Building up a premium product or brand image.</p> <p><i>DIFF3:</i> Obtaining high prices from the market.</p> <p><i>DIFF4:</i> Advertising.</p>		
<p>(marketing managers: coefficient alpha = .67; composite reliability = .71) (R&D-managers: coefficient alpha = .66; composite reliability = .71)</p>		
<i>Low Cost Strategy - COST</i>	5.26/1.14	5.18/1.40
<p><i>COST1:</i> Pursuing operating efficiencies.</p> <p><i>COST2:</i> Pursuing cost advantages in raw material procurement.</p> <p><i>COST3:</i> Pursuing economies of scale.</p>		
<p>(marketing managers: coefficient alpha = .79; composite reliability = .84) (R&D-managers: coefficient alpha = .72; composite reliability = .87)</p>		
<p>Business performance (respondents scored on 7-point Likert scale with anchors 1 = very poor and 7 = excellent)</p> <p>While answering the following questions, please relate to the situation in your business unit over the last three years. Relative to your competitors, how has your business unit performed with respect to:</p>		
<i>Adaptiveness - ADAPT</i>	4.68/.99	4.44/1.06
<p><i>ADAPT1:</i> adapting your marketing strategy adequately to changes in competitors' marketing strategies?</p> <p><i>ADAPT2:</i> adapting your products quickly to the changing needs of customers?</p> <p><i>ADAPT3:</i> reacting quickly to new market threats?</p>		
<p>(marketing managers: coefficient alpha = .66; composite reliability = .70) (R&D-managers: coefficient alpha = .73; composite reliability = .82)</p>		
<i>Effectiveness - EFFECT</i>	4.93/1.04	4.87/1.13
<p><i>EFFECT1:</i> achieving customer satisfaction?</p>		

EFFECT2: securing desired market share?

EFFECT3: attracting new customers?

(marketing managers: coefficient alpha = .70; composite reliability = .74)

(R&D-managers: coefficient alpha = .72; composite reliability = .76)

Efficiency - EFFIC

4.85/1.59

4.43/1.57

EFFIC1: earning profits.

Market-related dynamism - MKTDYN (scored on 7-point Likert scale with anchors 1 = very few changes and 7 = very frequent changes; scale based on responses from marketing managers of phase 1)

3.80/.90

-

Please indicate the frequency of major changes in the following aspects of the business environment that your business unit derives its largest amount of sales from.

MKTDYN1: Changes in sales strategies by your business unit and your competitors.

MKTDYN2: Changes in sales promotion/advertising strategies of your business unit and your competitors.

MKTDYN3: Changes in pricing behavior of your business unit and your competitors.

MKTDYN4: Changes in customer preferences in product features.

MKTDYN5: Changes in customer preferences in the price/performance relationship.

(marketing managers: coefficient alpha = .63; composite reliability = .65)

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