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A Contingency View of Porter's "Generic Strategies"

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According to Porter, cost leadership and product differentiation can be pursued simultaneously only under rare conditions: It is also unclear how these strategies can be implemented. In this article Porter's generic strategies are linked to external preconditions. This approach shows that the generic strategies are not mutually exclusive and that each strategy may be linked to a variety of strategic means. The implications that these results have for structuring organizations are discussed.

In 1980 (Hall, 1980; Porter, 1980), the notion of generic strategy swept through the business policy area. It was very appealing because it seemed to offer a solid theoretical framework for a discipline that often lacked theoretical foundations. As Hambrick (1983a, p. 688) commented, "Porter's typology of generic strategies seems especially useful, because (1) it builds on previous findings and (2) it is appropriately broad, but not vague." White (1986, p. 220) noted that Porter's generic approach to business strategy incorporated "a few critical dimensions yet has strong theoretical underpinnings."

As it stands, Porter's generic strategy concept does not satisfy this desire for a solid theoretical framework. In order to be useful, theory should guide empirical research. Yet, the empirical investigations spawned by the generic strategy concept (Dess & Davis, 1982, 1984; Hambrick, 1983a, 1983b; Miller & Friesen, 1986a, 1986b; Phillips, Chang, & Buzzell, 1983; White, 1986) are not comparable, and their results are contradictory. Here it is argued that the generic strategy concept can be clarified by linking each strategy to a set of environmental preconditions. Developing these preconditions also allows the key question (e.g., Miller & Friesen, 1986b) of the compatibility of generic strategies to be resolved and facilitates a discussion of the link between generic strategies and the strategic means (Dess & Davis, 1982, 1984) used to implement them.

A Contingency View of Generic Strategies

Contingency approaches to strategy are not new (e.g., Hofer, 1975); in fact, a contingency perspective is implicit in the adaptive view of strategy that currently dominates the literature (Miles & Snow, 1978). Its clearest manifestation in the strategy area is the structure-strategy-performance paradigm that was introduced by institutional economists (e.g., Bain, 1956; Caves, 1980; Porter, 1981; Rumelt, 1974). Applying a contingency approach to the generic strategy literature also is not new.

Especially in his discussion of fragmented industries, and what to do about them, Porter (1980) hinted that the efficacy of generic strategies may be contingent on industry structure. In his 1985 treatment, this link became explicit: "Cost advantage and differentiation in turn stem from industry structure" (Porter, 1985, p. 11). However, Porter stopped short of explaining this link.

Day (1984) also tied the efficacy of generic strategies to environmental factors, specifically to customer perceptions of product offerings. Hambrick (1983a, p. 702) too concluded that a contingency view of generic strategies may be appropriate: "It is simply not accurate to say that all generic strategies are equally viable within an industry . . . any broadly 'generic' strategy is really a composite of numerous variations, not all of which are equally suited to a given situation." Phillips, Chang, and Buzzell (1983, p. 42) concluded from their study that: "While our analysis has produced generalizable results showing that certain types of generic strategies do lead to success, the exact manner in which these strategies are translated into success varies dramatically by type of business."

Finally, Miller and Friesen (1986a, p. 39) also advocated a contingency view: "Although some industrial product and capital goods industries may exhibit relatively pure types, we do not feel convinced that this would be true for consumer durables industries." In addition, Miller and Friesen advanced reasons for their expectation that different strategic configurations would emerge in different industries, yet they too stopped short of presenting a theoretical framework to explain the predicted differences.

This article attempts to provide the theoretically based contingent approach to Porter's generic strategies that the authors cited above advocated. Beginning with the focus strategy, it is hypothesized that the viability of each generic strategy is dependent on the presence of certain external conditions, specifically on industry structures or customer characteristics and preferences.

Focused Versus Broad Strategies

Of Porter's three original generic strategies (product differentiation, cost leadership, and focus) the focus strategy seems to have caused the greatest confusion (e.g., Dess & Davis, 1982, 1984). Porter (1985) attempted to resolve this confusion by positing that the choice of a focused or broad strategy is independent of the choice of product differentiation or cost leadership. Thus, according to Porter, a firm could take either a focused or broad approach to either product differentiation or cost leadership. Yet even today many researchers confuse a focused strategy with a product differentiation strategy.

The problem is one of levels of analysis. Whether pursuing cost leadership or product differentiation, the strategist using a focused approach must first differentiate the product offering from offerings aimed at other segments of the same market, hence the confusion between a focused strategy and product differentiation. Southland's 7-11 stores, for example, exemplify product differentiation based on convenience, but this is only when they are compared with food retailers targeting other market segments (e.g., supermarkets). When they are compared with other firms competing in their own niche (i.e., other convenience stores), it becomes clear that 7-11 stores strive for cost leadership.

Given that both cost leadership and product differentiation have broad and focused variants, the obvious question is: Which variant should a firm choose? A conjoint analysis framework (Green & Srinivasan, 1978; Shocker & Srinivasan, 1974, 1979; Srinivasan & Shocker, 1973) can help to answer this question. This approach represents a product as a "point" in "attribute space" in which each dimension is a product attribute (including price) valued by customers. By using Linmap (Srinivasan & Shocker, 1973) and similar statistical techniques, firms can deduce surveyed customers' attributed weights that represent the importance of each attribute to each customer. But, conjoint analysis permits not only the derivation of attribute's weights for individual customers but also the derivation of individual customer's "ideal points." An *ideal point* is that combination of product attributes (including price and the trade-offs thus implied) which the customer prefers to all other points in the attribute space. Because the attribute space is common for all customers, it is possible to collapse numerous customers' ideal points into a single space. This feature is useful because it permits firms to

identify if the market can be segmented on the basis of customer needs.

If all customers' ideal points fall into roughly the same region, one product configuration should suit all customers. But, if ideal points form two or more clusters, the firm may be able to offer more than one product configuration successfully. Obviously, if all customers prefer a roughly similar product offering, a focus strategy is not viable. Thus, the viability of the focus strategy is tied directly to exogenous factors; in this case it is the heterogeneity of customer preferences.

However, even if multiple segments are identified, a focus strategy may not be viable. It may be that sufficient economies of scope exist so that a multisegment producer can outcompete a competitor that focuses on a single niche. Only if synergies between segments are low or negative will a focus strategy be viable.

In Figure 1 the conditions which determine whether a broad strategy that includes one or several product offerings will be more successful than a focused strategy that includes one or a few product offerings are summarized. It can be seen that although market heterogeneity is a necessary condition in order for a focus strategy to be viable, it is not a sufficient condition: Synergies across segments must be absent or negative before a focus strategy can be adopted.

Number of Product Offerings

Strategy	One	Several
Broad	Homogeneous market	Heterogeneous market with positive synergies between segments
Focused	Heterogeneous market with negative synergies between segments	Heterogeneous market with negative synergies between groups of segments and positive synergies within groups

Figure 1. **External factors supporting a focused strategy.**

Structural Preconditions for Cost Leadership

In a previous attempt to provide a contingency basis to the generic strategy concept, Day (1984) linked customer price sensitivity to the viability of a cost leadership strategy. This approach confuses the necessary and sufficient conditions that are needed in order for a cost leadership strategy to be successful. Price sensitivity is, at best, a necessary but not sufficient condition for cost leadership. Greater price sensitivity increases the advantage a cost leader has over other firms, but it is not sufficient to justify adopting a cost leadership strategy.

For example, in the gasoline retailing industry, customers are extremely sensitive to prices, but the optimal scale of operations is low relative to the size of the total market. In this situation, instead of a single cost leader emerging to enjoy supra-normal profits, many firms have similar cost structures. Yet, in order to maintain sales, these firms are forced to slash prices until profits virtually disappear.

There are external preconditions for a cost leadership strategy but customer price sensitivity is a minor consideration. A cost leadership strategy is viable only if cost structures vary across competitors within an industry in ways other than in direct ratio to output. Cost structures can deviate from a direct ratio due to variations in the quality of management across competitors, as a result of economies of scale, or as a result of economies independent of scale such as learning effects, or preferential access to inputs or distribution channels.

The first factor, competitors' incompetence, usually is not a strong foundation for a sustained cost leadership strategy because it is dependent on factors beyond management control. Each of the remaining factors provides a more substantial basis for a cost leadership strategy, but it is argued that each is determined by industry structure.

Perhaps economies that are independent of scale can provide the most durable basis for a cost leadership strategy. These can be grouped into three categories: access to raw materials, access to product or process technology, and access to distribution channels. But whether or not each of these economies can offer a firm foundation for cost leadership depends on external factors.

In the case of access to raw materials, this foundation depends on the supplier industry's characteristics. If the supplier industry enjoys considerable economies of scale and if entry barriers are high, the potential for high transaction costs (Williamson, 1981) exists, suggesting that cost advantages may be derived from backward integration. Alternatively, if there is high variability across suppliers in the basic (excluding transaction costs) cost of raw materials (as is the case in many extractive industries), cost advantages, again, can be gained if access to materials can be controlled. Thus, for example, a cornerstone for success in the oil business traditionally has been access to crude oil reserves that have the lowest extraction costs ("Why Things," 1982). Where upstream industries are characterized by low barriers to entry and where economies of scale are few, little opportunity exists to generate differential cost structures.

In order for a firm to achieve differential cost structures, independent of economies of scale in the production process itself, it must either produce defensible technological breakthroughs or pursue learning effects, or, preferably, both. Here again, how viable this will prove to be depends on the industry or, more specifically, on the industry's maturity.

Abernathy and Utterback (1978) argued that as an industry matures both the rate and character of innovation change. Initially, innovations come rapidly and tend to be radical in nature. Later, they are slower in coming and are more incremental in nature. Thus, predicating a cost leadership strategy on heavy research and development (R&D) spending may be sensible when an industry is new but may not pay off in more mature industries.

Being first with a new technology, even if this is formally protected by patents or copyrights, only provides the firm with a temporary cost advantage because imitation is inevitable. In order to sustain any cost advantage innovation may provide, the firm must buttress the initial advantage by capitalizing on learning effects. But, learning effects also depend on industry characteristics:

> Experience curve slopes vary widely from product to product. . . . In some industries the slope may be as steep as 60%; in others it may not occur at all. (Ghemawat, 1985, p. 144)
>
> Cost declines with experience seem to be most significant in businesses involving a high labor content performing intricate tasks and/or complex assembly operations (aircraft manufacture, shipbuilding). (Porter, 1980, p. 12)

If an industry is not characterized by a sufficiently "steep" learning or experience curve that will provide a significant cost advantage for those firms that are "lower" on the curve, a cost leadership strategy based on pursuit of learning effects will collapse. Here again, how viable the cost leadership strategy will be is tied to exogenous factors.

Finally, cost advantages independent of scale can be gained from preferential access to distribution channels, but this also will depend on industry structure. Forward integration can provide cost advantages by capturing the best locations for distribution, leaving the less desirable sites for the competitors.

Economies of scale provide the other major durable basis for a cost leadership strategy. Every industry is characterized by unique optimal scales of operations, which are determined by product and market characteristics and by production and marketing technologies.

For example, manufacturing a wide-body aircraft demands a greater scale of operations than manufacturing a light, recreational aircraft, in part, because a wide-body aircraft is technologically more sophisticated. Fast food restaurants can achieve a greater scale of operations than French restaurants because customers tend to prefer a standardized product from the former

and a distinctive product from the latter. Nuclear power generation demands a greater scale of operations than solar power generation because the processes involved in the former occur most efficiently at a much larger scale of operations than is the case for the latter.

If the optimal scale that these exogenous factors dictate is small relative to the size of the market, many firms can achieve the same optimal cost structure, and as a result, a fragmented, highly competitive industry will develop. Any firm that tries to gain a dominant market share in such an industry will experience diseconomies of scale and will suffer accordingly (Porter, 1980).

However, as the optimal scale of operations approaches one-half of the size of the market, only one competitor can enjoy operating at full capacity at the optimal scale of operations. In order to become the cost leader, a firm must build operations which approach that optimal scale. Of course, given that the optimal size relative to the market size is high when cost leadership is viable, any aspiring cost leader must achieve a dominant market share so that the cost benefits gained from its efficient scale operations are not nullified by overcapacity.

A cost leadership strategy based on economies of scale can only guarantee superior performance if only one firm can achieve it (Porter, 1985), and this can occur only when the optimal scale of operations exceeds one-half of the size of the market. But, the optimal scale of operations is determined by production, distribution, and product and market constraints. Similarly, although cost leadership also can depend on economies independent of scale such as experience or learning effects, preferential access to raw materials, or distribution channels, these, in turn, depend on industry structure.

Market-Based Preconditions for Product Differentiation

The price sensitivity which Day (1984) linked to cost leadership is really the inverse of perceived product differentiation, which Strategic Planning Associates link to the product differentiation strategy. This relationship between price sensitivity and differentiation can be clearly identified if the conjoint analysis framework, described above, is used. Attribute weights can be standardized so that they sum to one. If this is done, the inverse relationship between price and other attributes is clear; that is, the weight accorded the price attribute is one minus the sum of the weights attached to all other attributes. If those other weights are low, the customer will be extremely price sensitive and will care little about the level of the product on other attributes. This may encourage a cost leadership strategy, but only to the extent that it eliminates its generic alternative, the product differentiation strategy.

If customers do not value products that differ along nonprice dimensions, they will not value a differentiated product and will not pay more for it. Therefore, a product differentiation strategy is viable only if customers, when making purchase decisions, give weight to product attributes other than price. Just as they did in the focus strategy, customer characteristics will dictate the viability of a product differentiation strategy. But, just as they did in the focus strategy, customer characteristics alone cannot guarantee the success of a product differentiation strategy.

Customers' attachment of importance to product attributes other than price is a necessary condition for a product differentiation strategy's viability, but it is not a sufficient condition. In order for a product differentiation strategy to be viable, a firm must be able to build and sustain noticeable differences in its product offerings or in brand image, packaging, pre and post sales service, and financing arrangements. However, this can be done only under specific conditions.

Innovation can produce a product that is perceived by consumers to be intrinsically superior to competitors' offerings. But, both Abernathy and Utterback (1978) and Porter (1985) suggested that as an industry matures, competitors' product offerings tend to converge toward those product configurations most preferred by customers. Thus, the probability that expenditure on R&D will result in significant product innovations diminishes over the product/industry life cycle.

A differentiation strategy based on an intrinsically superior product depends on the firm's ability to maintain those intrinsic differences in the face of competitor imitation. As the industry matures, this task becomes increasingly difficult. Sony Corporation is encountering these problems because its traditional product differentiation strategy, based on product innovation, is running into trouble as the consumer electronics industry matures (Cieply, 1983; Armstrong 1987).

Because product innovation probably cannot ensure sustainable differentiation, other bases for product differentiation must be found. Two such bases have received much attention recently (e.g., Peters, 1987): quality and service.

Customers are not as interested in the claimed performance of a product as they are in its actual performance. When a new product life cycle begins, customers have no information about the relationship between claimed and actual performance. This is why emergent industries often are plagued by "fly-by-night" operators who offer substandard products or services (Porter, 1980). However, as an industry/market matures, customers become aware of each product offering's performance history, through their own past experience, word of mouth, consumer advocate or support groups, or the manufacturers themselves.

If *product quality* is defined as the ratio of actual performance to specified performance, then quality variation will have a greater impact on sales as the industry/market matures. The degree this impact has will depend on the cost to the customer of poor performance. If the cost is high, as is the case for earth-moving machinery, a viable differentiation strategy can be built on product quality and reliability (Porter, 1985).

The cost that a customer incurs in acquiring a product or service does not simply include the purchase price, but it also includes the inconvenience, uncertainty, and potential unpleasantness associated with the purchase process. If the actual cost of making a purchase is low relative to these other costs, a viable strategy exists for differentiation based on service. For example, Southland Corporation is able to charge 15 percent more than supermarkets for identical merchandise because it lowers customers' purchase "costs" through more convenient locations, handy parking, smaller stores, shorter checkout lines, and longer hours.

Differentiation based on quality, reliability, and service is more durable because usually it is more difficult to sustain. A single act of imitation can eliminate the advantage an innovative product design provides for a firm, but quality and service can be sustained only by ongoing, day-in, day-out attention throughout the organization.

Similar to that of the focused and cost leadership strategies, the viability of a product differentiation strategy depends on a number of exogenous factors (see Table 1). First, customers must perceive and value differences between product offerings. When a product class is new, the best way to achieve uniqueness may be to have an inherently superior product design. As the market matures, however, the ability to sustain that uniqueness diminishes, and because customers' product familiarity increases, differentiation based on quality, reliability, and service becomes preferable.

Can Cost Leadership and Product Differentiation Be Pursued Simultaneously?

The exogenous, industry/market-level conditions that are necessary for a firm to successfully pursue the focus, cost leadership, and product differentiation strategies are summarized in Table 1. Pointing out these external preconditions could be nothing more than an interesting academic exercise if it were not for some of the implications of this approach. Table 1 shows that the exogenous preconditions for a viable cost leadership strategy stem principally from industry's structural characteristics. The preconditions for product differentiation stem primarily from customer tastes. Because these two sets of exogenous factors are independent, the possibility of a firm pursuing cost leadership and product differentiation simultaneously is not precluded.

Table 1
Summary of Links Between External Factors and the Viability of Generic Strategies

A Focused Strategy will be viable only:	
	If customer's needs within the given product class are heterogeneous
and	If synergies between the value chains associated with the product offerings targeted at each indicated market segment are zero or negative.
A Cost Leadership Strategy will be viable only:	
	If high transaction costs or differentials in the cost of producing inputs exist, and these can be overcome through vertical integration or some other means of achieving preferential access
and/or	If the state of development of the process technologies employed in the value chain indicates that significant innovations can still be realized
and/or	If the process technologies employed in the value chain are sufficiently complex to permit significant cost improvements to be realized from learning effects
and/or	If the optimal scale for some significant part of the value chain exceeds one-half of the size of the market.
A Product Differentiation Strategy will be viable only:	
	If customers attach weight to product attributes other than price when making purchase decisions
and/or	If the state of development of product technologies indicates that significant product innovations can still be realized
and/or	If the process technologies employed in the value chain are sufficiently complex to permit significant quality or service differentials between competitors' product offerings to be maintained.

This is an important point. Most of the empirical studies on generic strategies show that firms that successfully pursue generic strategies outperform their competitors. Extending the logic, by combining both generic strategies successfully, a firm should be able to outcompete rivals that pursue only one strategy. Further, because Peters and Austin (1985, pp. 51–70) argued that there is "no such thing as a commodity," meaning that customers in any market will, if given the opportunity, base purchase decisions on attributes other than price, and because most industries seem to offer opportunities to exploit economies of scale or economies independent of scale at some point in their value chain (Porter, 1985), it would seem that combining both the product differentiation and cost leadership strategies should be feasible in many industries.

This reasoning contradicts Porter, who argued that firms can successfully pursue a combination of generic strategies only if competitors are "stuck in the middle," if the firm enjoys overwhelming economies of scale, or if it holds exclusive rights to a major technological innovation (Porter, 1985, pp. 19–20). If these conditions are not met, Porter warned, "a firm that engages in each generic strategy but fails to achieve any of them is 'stuck in the middle.' It possesses no competitive advantage. This position is usually a recipe for below average performance" (Porter, 1985, p. 16). On this point Porter's logic is inconsistent, and it has been contradicted by empirical findings.

Elsewhere, Porter noted "a cost leader must achieve *parity* or *proximity* in the bases of differentiation relative to its competitors to be an above average performer, even though it relies on cost leadership for its competitive advantage" (1985, p. 13). Similarly, he stated: "A differentiator cannot ignore its cost position, because its premium prices will be nullified by a markedly inferior cost position. A differentiator thus aims at cost *parity* or *proximity* relative to its competitors, by reducing cost in all areas that do not affect differentiation" (1985, p. 14). This implies that a cost leader that competes against a product differentiator must also be a product differentiator, and vice versa.

Empirical investigations also contradict Porter on this point. For example, Phillips, Chang, and Buzzell (1983) found that product quality (a basis for product differentiation), through a positive association with relative market share, was negatively related to relative direct costs (an indication of cost leadership). Providing further evidence of a link between product differentiation

and cost leadership, they also found that relative price was positively related to market share.

Extending further the link between one of the bases of differentiation and one of the bases of cost leadership (the learning curve), Fine (1983) found that costs declined more rapidly for firms that produced high quality products than for firms that produced low quality ones. Thus, cost savings due to experience can be gained more rapidly for quality products.

Because the exogenous preconditions for the cost leadership and product differentiation strategies are not mutually exclusive, the basis for Porter's warnings against combining strategies must be found elsewhere.

Generic Strategies and Organizational Configurations

Porter argued that:

> The three generic strategies differ in dimensions other than the functional differences noted above. Implementing them successfully requires different resources and skills. The generic strategies also imply differing organizational arrangements, control procedures, and incentive systems. . . . The generic strategies may also require different styles of leadership and can translate into very different corporate cultures and atmospheres. Different sorts of people will be attracted. (1980, pp. 40–41)

This statement can be responded to on two levels. First, according to research in the area of production (e.g., Hayes & Wheelwright, 1984; Schonberger, 1982), techniques such as Total Quality Control combined with Just-In-Time inventory control and purchasing procedures can provide both greater market responsiveness and higher product quality. Obviously, these benefits appeal to customers but they also reduce costs dramatically, thus eliminating much of the structural conflict between the production and marketing functions and between cost minimization strategies and price maximizing strategies.

According to a second approach based on the work of Lawrence and Lorsch (1967), although structural conflict between functional areas (and, by extrapolation, between generic strategies) may be inevitable because of different value orientations (Beyer, 1981), applying conflict resolution techniques may minimize the conflict to a point which permits the firm to pursue cost leadership and product differentiation strategies simultaneously. With this approach, the problem becomes one of differentiation and integration (Lawrence & Lorsch, 1967). Porter suggested that cost leadership and product differentiation imply distinctly different organizational configurations. According to Lawrence and Lorsch (1967), this statement could mean that the integration task, the management task in an enterprise for which both cost leadership and product differentiation are indicated, is more complicated.

By using the techniques described above, Toyota topped ratings of product reliability and customer satisfaction while simultaneously producing cars for $1500 less per unit than their U.S. rivals (Armstrong, 1987). In North America, the Kellogg Company has buttressed its impressive lead in the breakfast cereals industry by simultaneously leading in the introduction and development of new production techniques, new product introductions, and brand loyalty (Mitchell, 1987). If Porter's admonitions against pursuit of multiple generic strategies are taken seriously, other firms may be discouraged from emulating Toyota and Kellogg, and as a result, they may risk erosion of their competitive positions.

Generic Strategies and Strategic Means

Presented above is a contingency approach to generic strategies which suggests that the viability of each of Porter's strategies is tied to the presence of a number of environmental preconditions. Cost leadership can occur only if the potential exists to create cost savings in ways other than through cutting back production. How these cost savings can be achieved will depend on the structure of the firm's industry or on the structure of those firms that supply it or it supplies. If cost leadership is derived primarily from realizing economies of scale (e.g., many parts of the

chemical industry), making accurate production capacity decisions becomes a key strategic imperative. If production capacity is set too low, potential economies are not realized; if it is set too high, overcapacity will nullify economies due to scale. However, if cost economies come from overcoming high transaction costs, an entirely different set of strategic means, vertical integration for example, may be indicated.

Similarly, there are a variety of strategic means a firm can use for achieving product differentiation. When a new product class is created, the potential for producing unique product configurations is greatest, suggesting that high levels of spending on product R&D may be justifiable. As the product matures, potential returns diminish but the rewards for consistently producing quality products grow. Where significant costs may be associated with the purchase process itself, product differentiation through service may be a viable approach.

Conclusions

The generic strategy concept is of great interest to business policy researchers because it discriminates the strategies of high performing firms from those of less successful competitors. But, the concept is also a disappointment because it is confusing, does not explain specifically how any of the generic strategies should be implemented, and does a disservice to practicing managers by advocating limitation to a single generic strategy when no sound reason for such a limitation exists.

Here a contingency approach is suggested as a way to overcome these weaknesses. This approach demonstrates that there is no a priori reason why firms should limit themselves to a single generic strategy. It also shows that each generic strategy is associated with a whole cluster of strategic means. Choice among strategic means should be made by referring to the specific external context of the firm. In summary, external factors dictate a set of strategic means which may include components aimed at reducing costs, raising revenues through product differentiation, or both. How easily the indicated set of strategic means can be implemented will depend on whether an internal configuration of structures, systems, and culture can be devised which will support the set.

Contingency theories too easily fall into the trap of assuming that any set of external constraints has an internally consistent structural response. The work of Lawrence and Lorsch (1967) and Weick's (1969) work on loose coupling point to the difficulties of mounting a coherent organizational response to a contradictory set of external demands. The arguments above suggest that many optimal strategic responses imply just such internal contradictions. Yet, given the competitive importance of implementing such sets of strategic means, further research on innovative responses to contradictory external demands would seem to be a worthwhile research avenue.

In order for the central arguments of the article to be stated as clearly as possible, a somewhat deterministic approach was taken. There is an inherent risk in doing this because perhaps the most resilient criticism of contingency theories is that they are too deterministic. Because examples can be found, in any industry, of adopters and nonadopters of generic strategies is proof that managers enjoy considerable strategic freedom, and that their actions are not inextricably constrained by external factors.

Although it is true that managers do enjoy considerable strategic freedom, that freedom is directly related to the competitive intensity of the industry. In order for a firm to survive, it does not have to be "excellent"; usually it simply must be as good as or better than its competitors. If its competitors are strategically incompetent, the firm has considerable strategic flexibility. Now, however, globalization, the reduction in industry concentration accompanying this trend, and deregulation are raising the competitive intensity in many industries and reducing firms' strategic choices. Although competitive intensity may never reach the level at which strategic discretion is eliminated, managers are being forced to

become more attuned to environments' strategic implications. Therefore, it is important to build models linking external factors with appropriate internal responses. This article attempts to build such a model; however, given the range of strategies currently in use, there are other links to be discovered.

Another overlooked fact is the bilateral nature of a firm's relationship with its environment. For the sake of simplicity, it has been assumed that external factors are truly exogenous. Obviously they are not: Customers' perceptions of products, their own needs, and the technologies that determine what potential economies of scale and learning effects are present can be manipulated and altered by firms. However, because firms can alter external factors does not make these factors irrelevant. On the contrary, managers must understand the strategic implications of these external constraints if they are to alter them in beneficial ways.

A number of studies have tested aspects of the generic strategy hypotheses, and each set of conclusions has been different. Currently, there is no basis for reconciling these differences. This article hypothesizes a set of relationships between external factors, sets of strategic means, and structures for implementing those strategic means. Operationalizing these variables and assessing their relationships will be a major research undertaking, but one that is worthwhile because it should eliminate the confusion which exists and should produce valuable practical implications.

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