This paper tests the conceptual model (seen to the right) of the relationships between the business environment, organizational competitive strategy, manufacturing strategy, and company performance. The authors measure the business environment in terms of environmental dynamism (e.g., rate at which products/services become obsolete, rate of innovation, rate of change in tastes and preferences). The organizational competitive strategies examined are differentiation (e.g., focus on new product development, innovative marketing techniques, etc.) and low price (focus on operating efficiency, decreased number of product features, etc.). The manufacturing strategies studied are the classic competitive priorities of low cost, quality, delivery, and flexibility. Performance is measured as a composite of market share and sales growth.

The data shows no evidence of a direct relationship between the business environment and manufacturing strategy (link 2 in the model); previous studies that did not consider competitive strategy found a direct relationship, which shows the importance of using a fully specified model. There also is not evidence of a direct relationship between competitive strategy and business performance (link 3); appropriate manufacturing strategy must be used. The authors confirm previous research that indicates that a differentiation strategy is more effective than a low price strategy in dynamic environments (link 1a). Successful differentiators pursue all four competitive priorities, but especially focus on quality (link 1b). As might be expected, successful firms using a low price competitive strategy focus on low cost as a manufacturing strategy (link 1b). Overall, there is a relatively strong link between quality (compared to the other competitive priorities) and business performance (link 1c).

The Center for Excellence in Manufacturing Management provided financial support for this research.