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Strategic Market Behavior of Large Food Manufacturers and Distribution Firms

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Large multi-market firms play a central role in the global food manufacturing and distribution system. High levels of market concentration, product differentiation and barriers to entry (sunk costs) for many food manufacturing and distribution industries are well documented in many countries. Leading firms in such industries have a larger and more interdependent scope of action i.e., a strategic scope of action. Research on strategic market behavior analyzes how large corporations organize and position themselves in such markets to improve corporate performance. The field has two major components: business unit level strategy and corporate level strategy.

Strategic business unit (SBU) analysis examines how firms position themselves in particular markets. Safeway Stores, Inc., for example, after its 1986 leveraged buyout decided it would only remain in local food markets where it had the number one or two market share position (Morgenson). Another example is the cooperative Agropur deciding not to join the five other leading Quebec industrial milk cooperatives in a 1990 joint venture that had an explicit goal of rationalizing the number of manufacturing plants in the market. Agropur with its significant market share (greater than the five other

co-ops combined) and strong brands (e.g., Yoplait) decided to continue as a competitor to the joint venture.

More generally, strategy formulation at the business unit level, as Porter (1980, 1985 and 1989), Thomas and others exanalyzes own and competitor plain. strengths and weaknesses in several dimensions including cost conditions, supplier relationships, vertical coordination, market share and concentration, barriers to mobility and entry, R & D, demand conditions, product quality, advertising and brand loyalty. Strategy is chosen contingent upon these firm-level and market-level factors so as to achieve a superior "strategic fit" between the resources of the SBU and the opportunities and threats engendered in the task environment.

Corporate level strategy analysis, on the other hand, analyzes how changes in the portfolio of SBUs and changes in the organization of the corporate control structure affect corporate performance. Most large food corporations, for example, shuffled their business portfolios during the merger and leveraged buyout wave of the 1980's to focus upon related business activity at the expense of purely conglomerate portfolios. This reversed the previous trend toward conglomeration that was the common strategic approach of large firms during the 1960's and 1970's (Porter 1987).

The following sections of this paper discuss the measurement of corporate performance, business unit level strategy analysis, and corporate level strategy analysis. In each section we will explain conceptual approaches that have been developed in the fields of industrial organization economics and strategic management. Our basic purpose is to 1) identify the central tenets of these fields of inquiry, 2) explain a general theory that serves an organizing framework and establishes complimentary linkages for diverse approaches to empirical research in the food industries and 3) illustrate how research can contribute to public, as well as private, decision making in the food system.

Corporate Performance Measurement

Corporate performance is multidimen-Chakravarthy considers fourteen sional. measures that have been used in strategic management research, including profitability (ROI, ROS, return on book equity and changes/variability in returns), market position (market share, gain in share), growth (sales, assets, equity), market-tobook ratios and other financial measures. There are also a host of non-financial measures relating to employee development, social responsibility and the illdefined "sustainable competitive advantage." Consequently, it is difficult to develop a single numerical measure of performance. However, our purpose is not to develop a broad index of performance that might possibly include environmental impacts, job creation, support for public and community activities and social policies as

well as price and profit impacts. Empirical analysis of competitive strategy ultimately focuses on economic performance as measured by profitability and the related measure, stockholder wealth. Firms take strategic actions to create and sustain a competitive advantage which increases profitability and stockholder wealth.¹

Yet, narrowing the measure of performance to profitability and stock market valuation of owners' equity does not avoid measurement problems. Maximizing stockholder wealth by trading in capital markets is equivalent to maximizing profits in a multi-period model, only if capital markets are efficient (Copeland and Weston, p. 21). The evidence on capital market efficiency is less than overwhelming. Event studies of excess returns due to mergers do not provide strong evidence of efficiency (Jensen and Ruback). Also, studies of ex post profitability of acquiring firms indicate that the initial capital market forecasts of profitability are not usually achieved (Ravenscraft and Scherer). This holds for European markets as well (Jac-quemin). Consequently, the stock market tends to boom during merger and acquisi-tion waves and stagnate or decline in their aftermath.

Examining observed profit streams seems, therefore, to be a more reliable indicator of competitive advantage; however, this measure also has received criticism. The Fisher-McGowan critique maintains that observed profits are accounting profits not economic profits, and that there may be little correspondence between the two because of the treatment of depreciation of capital goods including the current expensing of long lasting expenditures such as advertising (Fisher and McGowan). This is not the place for a detailed explanation and evaluation of the Fisher McGowan critique.² The response by industrial organization economists and strategic analysts has taken one or more of the following themes:

- Cite Fisher-McGowan to dismiss analysis of observed profitability and to justify development of price analytic models that formally analyze cost and demand conditions to measure economic profits – i.e., whether price is above marginal cost.
- Reject Fisher-McGowan and continue analysis of observed profitability with controls for accounting shortcomings (Martin; Scherer and Ross; Long and Ravenscraft; Mueller; and Thomas).³
- Recognize that accountants need to develop new measures of profitability that correspond more to economic profitability (Porter 1992).

One finds three plausible reasons for most of the empirical work on competitive strategy falling into the second category. Any of the price analytic models that specify cost functions that include capital inputs do not avoid the Fisher-McGowan critique - i.e., depreciation of capital inputs generates accounting costs not "economic" costs (Cotterill 1993a, p. 8-19). However, models that measure demand elasticities to determine whether firms face downward sloping demand curves, and, thus, have power over price, avoid Fisher-McGowan. Second, corporate managers and investors rely upon accounting profits when making most decisions. Third, hypotheses that predict the impact of strategic actions upon profitability can be tested in a straightforward fashion.⁴

Profitability measures are useful in empirical work at both the SBU level and at the corporate level. In fact, much of the interesting work in corporate strategy analysis tests the hypotheses that profitability and shareholder wealth are enhanced/unchanged/ diminished when SBUs are combined into corporate portfolios (Jensen and Ruback; Jensen 1984; Porter 1987). Ravenscraft and Scherer have perhaps the most fully developed empirical analysis of this question.

Examples of corporate performance indicators in the food industries include the following:

- 1. The stock prices of food manufacturing firms in the Standard and Poors 500 Index increased 900 percent between 1980 and 1989 while the Index increased 300 percent.
- 2. The premium paid to General Foods stockholders when Philip Morris acquired the company in 1985 was 56 percent - i.e., the price paid for the tendered stock was 56 percent above the price of General Foods stock two months prior to the acquisition announcement. The premiums for 53 mergers, acquisitions or leveraged buyouts of U.S. food manufacturing firms between 1979 and 1986 averaged 49 percent and ranged from 1 percent to 139 percent (Cotterill and Pinkerton, p. 10).

 Table 1. Safeway Stores Inc. Profit Performance: 1985-1989.

(Percent of Sales)			
Pre LBO	Post LBO		<u>IO</u>
1985	1987	1988	1989
24.30	24.80	25.20	25.80
2.18	2.28	2.39	3.23
1.20	-c-	.20	.00
23.5	23.9	21.6	22.2
1.5	1.5	1.1	1.0
	(Perc. <u>Pre LBO</u> 1985 24.30 2.18 1.20 23.5 1.5	(Percent of Sales) Pre LBO 1985 1987 24.30 24.80 2.18 2.28 1.20 -c- 23.5 23.9 1.5 1.5	(Percent of Sales) Pre LBO Post LE 1985 1987 1988 24.30 24.80 25.20 2.18 2.28 2.39 1.20 -c- .20 23.5 23.9 21.6 1.5 1.5 1.1

a) Source: GAO Report 91-107, Leveraged Buyouts, p. 70.

- b) Source: Cotterill, 1993b.
- c) GAO.: "Not meaningful because of net loss."
 - 3. Safeway Stores, Inc. pre-LBO and post-LBO gross margins, earnings before interest and taxes (EBIT), and net profit margins are displayed in Table 1. The 1986 leveraged buyout by Safeway management and Kohlberg, Kravis and Roberts in response to a hostile takeover bid by the Haft family performance. affected clearly Gross profit margins and EBIT increased. Net profit margins decreased due to interest payments on debt. Available industry averages are also shown and illustrate that Safeway diverges from general industry conduct.

In conclusion, firms that enjoy persistent profits above the competitive or required rate of return are seen as having competitive advantage (Thomas; Mueller; Geroski and Masson). The question is what confers competitive advantage. Strategic business unit and corporate level strategy analysis endeavor to provide answers.

SBU Analysis

The essential question in the analysis of strategy at the level of the SBU is, "How do firms compete against each other in specific industries?" The analysis of corporate firm-to-firm strategy is rather useless; Kraft General Foods does not compete against Nestlé, but several of their strategic business units are rivals in The researcher first specific markets. defines SBUs at the level of four-digit SIC industries or possibly finer market delineations (five-digit or seven-digit census level, Neilsen or IRI product category levels). Then one seeks to identify and measure the joint consequences of strategies on SBU and, ultimately, on corporate, performance.

Some strategic marketing analysts have erroneously described the contribution of industrial organization theory to strategy analysis as being limited to counseling that firms should strive to attain monopolistic or fully collusive positions (e.g., Jacobson). This, and forms of price leadership that confer market power, are certainly However, other possible strategies. strategic configurations and market structures also can generate profits for firms. A firm can pursue a low-cost, commodity orientation; a market niche strategy (focus); or a large share differentiated product strategy. It may exploit a first mover advantage in a new product market. A firm may develop particular assets, including management skills, superior technology or new products through research and development, that generate profits not available to other firms. In summary, industrial organization analysis recognizes cost efficiency, as well as market power, and dynamic, as well as static, impacts on firm profitability. Recent work in the field includes internal firm organization, property rights, contract theory and legal liability.

A leading proponent of the new industrial organization theory, who made significant contributions to the game theoretic models of market conduct advanced in the 1990's, describes the contribution of strategy analysis to the field as follows:

In the traditional economics of industrial organization, exogenous market structure determines endogenous conduct, and the two jointly determine market performance. By contrast, in the New Industrial Organization analysis, not only is structure endogenous, but the causal relationships between structure, conduct and performance are different: through strategic commitments, conduct may affect structure, either because it has a lasting effect on cost or demand conditions or because it influences the belief, and hence the behavior, of rivals, in situations of imperfect information (Jacquemin, p.6).

With due respect for the mathematical rigor of game theory, business strategy scholars explained the key role of strategy first. Based upon extensive historical case studies, Chandler concluded that business strategy determined the structure of a firm and industry (1962). Thorelli also presented a similar analysis in his book, Strategy + Structure = Performance.

The new theorists, as typified by Jacquemin, have often asserted that industrial organization analysis prior to the game theoretic revolution only advanced models with exogenous structure determining performance - i.e., focused exclusively concentration-profit regression models. Even a quick scan of Scherer and Ross or Scherer (1980) documents that industrial organization research is broader. Economies of scale at the plant and multiplant level, mergers and acquisitions, advertising, limit pricing, price predation, excess capacity, vertical restraints and foreclosure and many other forms of conduct have long been recognized as deterof market structure. minants Conglomerate restructuring of markets market subsidization, through cross reciprocity and/or mutual forbearance strategies also affect market structure. The primary justification for these activities, as seen by the game theorists as well as industrial organization and business strategy analysts, is to create structural configurations that confer efficiency and/or market power to firms so that they can create and sustain profit levels above longrun competitive rates of return.⁵

Endogenicity, of market structure per se does not diminish the need to know the relationship, for example, between market share, a structural feature and profitability. The Demsetz hypothesis is that costs determine share and profits but that share is not related to profits. In fact, share may also be related to profits if larger share firms exercise market power.⁶ can For empirically oriented analysts the primary task remains the same: to analyze firms and particular industries by specifying models and testing hypotheses that explain strategic behavior. Such models often are considerably more complex than a 1970's-style concentration profit study that many agricultural economists equate with industrial organization.

Agribusiness researchers have responded positively to this approach to strategic management (for example, Dobson; Caswell; Cotterill 1992a). Unabashedly based on traditional IO concepts, Porter's Five Forces Model (1980) became ubiquitous in strategy research, outside and inside agricultural economics. However, this IObased model still neglects the uniqueness of the human, physical and financial assets of the firm as it chooses a strategy with simultaneously good "fit" to both its environment and its resources. Porter's subsequent model of the Value Chain in 1985 only partially addressed this deficiency.

Aggregation

As a first step in strategy analysis, one must identify the appropriate level of aggregation for a strategic analysis. Figure 1 shows the various levels of aggregation relevant to analysis of strategic choice and At the lowest level of performance. analysis are the individual firms labeled A through H, each of whose specific resources merit consideration in analyzing the relevant strategy set available to the firm (SBU). The firms may be part of a strategic group, whose interdependence of strategic choice is high and based upon congruent tactics (Banik). Other firms are in distinctly different strategic groups. based on common strategy, or are not members of identifiable groups. The sum of all strategic rivals represents the industry level of analysis, in which organization industrial and strategic management have traditionally examined rivalry and performance. Porter (1980) much industrial organization distilled research to its essence and presented

Figure 1. Levels of Aggregation in Strategic Market Behavior.



Note: The industry contains two strategic groups and two firms unaffiliated with any strategic group.

arguments for the strategic cogent relevance of buyers, suppliers, substitute products and potential entrants for "industry attractiveness." Aggregating these factors into the business environment surrounding the industry yields the task environment, given the addition of industry-specific government intervention⁷ (Bourgeois). Bourgeois defines the task environment as those organizations that directly affect goal attainment, i.e., profits. One additional level of aggregation exists beyond the task environment: the remote, or macro, environment. Particularly when doing longitudinal studies of industry strategy and performance, it is imperative to control for macroeconomic policy changes, consumer and technology trends and the sociopolitical other changes in spectrum.

What is the appropriate level of aggregation for analysis of strategic choice? Is it the SBU, the firm or the industry? How many factors from the task and remote environment should be incorporated into the model? It depends upon the research question. Management scholars may be interested in the development of a particular R&D strategy for a biotechnology product. The level of analysis that is most à propos may be within the firm and focus upon the interaction of the marketing and scientific staff (a firm organization and decision analysis). The study of product proliferation in a food industry may be most illuminating at the level of a strategic group of brandedproduct manufacturers within the industry. Concerning the level of aggregation, Castrogiovanni makes two important points for conceptual and empirical analysis:

It is logical, therefore, to assert that researchers should examine environment at the level most appropriate to a specific research issue. It is advisable, however, to examine other, usually adjacent, levels to add richness to research findings....Higher level environmental forces...are expected to have transitive influences on organizations through their impacts on lower level forces. Each level is more than just the composite of lower levels, however, since synergies occur among environmental elements acting in concert (Castrogiovanni, p. 547)

Castrogiovanni's first point about the value of examining strategic decisions at more than one level of analysis provides a unifying framework for strategic analysis. Agribusiness research on firm organization and decision making processes can complement industrial organization research on the structure of SBU's, firms and markets and their impacts upon strategy and performance. On this point the seminal surveys by Williamson and Caves provide the necessary bridge for the construction of a "big tent" school of strategic analysis. Cotterill (1987) relates these to the analysis of food firms including cooperatives as well as proprietary firms. Does the internal organization and decision process firm matter in strategy formulation? Clearly the answer is, Yes.

Castrogiovanni's second point is perhaps more immediate. If one chooses a single (appropriate or inappropriate) level of aggregation and imputes behavior to a lower level of aggregation, a problem of *over-abstraction* may exist. The classic example in industrial organization is industry level analysis that identifies profits above competitive market norms and attributes this to tacit collusion among firms. This ignores firm level strategic behavior - e.g., Demsetzian cost efficiencies or quality differentials. Cotterill and Iton develop a model that incorporates industry factors into firm (SBU) models to address this over-abstraction. They report that both firm (cost and quality) effects and industry effects (concentration) are significant determinants of profitability.

Toward a General Theory

An interesting development is occurring in the management literature. Scholars from the tradition of organizational behavior are in the process of codifying a new model of strategic management, the resource-based model of competitive advantage. The raison d'être of this model is that, at the level of the firm, the inimitability of resources, processes, information, knowledge and organizational culture creates a competitive advantage vis à vis rivals (cf. Barney; Hitt and Ireland; Conner). Barney goes so far as to show that the resource-based model and the IO-based models (i.e., Porter) can be distinguished in a simple dichotomy inherent in a concept used universally in undergraduate management classes: the SWOT analysis. A firm analyzes it internal Strengths and Weaknesses and the Opportunities and Threats in its external environment to find the correct strategic fit. Barney says essentially that IO-based strategy analyses consider the "OT" part of the strategy formulation process, at the exclusion of the firm-level "SW" analysis, which relies on the idiosyncratic attributes of firms within a strategic group or industry to create strategic advantage.

Conner and Mahoney do us the service of outlining the commonalities and differences between the resource-based model of firm behavior and industrial organization economics model of strategic behavior. It is impossible to paraphrase these two extensive surveys, save to say that the resource-based model includes a broad array of industrial organization models, including the Chicago (Stigler, Demsetz) the Harvard (Mason, Bain) and the Austrian (Schumpeter) contributions to the theory:

- 1. Persistent above-normal returns are possible (Bain-Mason).
- 2. Spectacular above-normal returns accrue to new ways of competing (Schumpeter).
- 3. Size and scope reflect production and distribution efficiencies (Chicago).

The significant features of this very general model are that factors are not necessarily mobile, innovation does not have to be the howling winds of creative destruction (a breeze of modest change can support supernormal profits), entry need not dissipate competitive advantage in the intermediate term, and the internal organization of the firm matters. In fact, this model of the firm diverges significantly from our typical neoclassical economic model (upon which IO is based) in that it specifically includes intangible assets, plastic production processes (no production function), imperfect imitability of all types of resources, and imperfect information as axiomatic assumptions.

How does this new model of strategy contribute to our study of strategic behavior in the food industries? It illuminates the problem of overabstraction; we must consider the idiosyncracies of the individual firms when there are so few in

a given market. Models of perfect competition, and the theories of decision making based upon them, are not appropriate to the highly concentrated markets of the modern food industries. We must augment analyses at the level of the strategic group, industry or task environment with analyses of firm resources. Additionally, this literature presents an interesting construct that is equally valid for industry and firm-level models: isolating mechanisms. Rumelt defines isolating mechanisms as "phenomena that limit the *ex post* equilibration of rents among individual firms" (pp. 567). These isolating mechanisms include such firmlevel factors as human capital (specialized knowledge), patents, incomplete information, corporate culture and other resources central to the resource-based model. But they also include economies of scale and scope, central to the Chicago response to traditional IO; Schumpeterian innovation ("first mover" advantages) and entry or mobility barriers essential to IO-based models of markets (Caves and Porter and strategic groups (McGee and Thomas). These mechanisms may even include certain regulatory interventions by government.

Thus, with a catholic approach to isolating mechanisms that are relevant at *any* of the levels of aggregation, we can approach the classification of strategic variables that sustain competitive advantage and, hence, profitability. However, it is necessary to develop clear understanding of the range of theories and behavioral constructs that exist in the relevant literatures.

Corporate Strategy Analysis

Large firms that operate several different business units face corporate level

choices that also affect the firm's profit performance. These can be divided into choices on portfolio strategies and agency problems. Prior to the late 1970's, U.S. merger policy discouraged related diversification on the theory that such acquirers were potential entrants and the elimination of potential competition was anti-competitive. Consequently, firms seeking growth opportunities often made purely unrelated conglomerate acquisitions. With the relaxation of the potential competition standard, during the 1980's large firms were able to, and did, shift their portfolios from conglomerate toward related business This was especially true in food units. manufacturing and distribution.

In the U.S., nearly all leading supermarket chains, except those that were tightly held or privately owned, moved to extremely leveraged financial positions via mergers and leveraged buyouts during the 1980's (Cotterill 1993b). At the time, this move was explained by theories of corporate control failure (Jensen 1986, Manne: Morris). According to these theories, food retailers were taken over and leveraged because existing management teams were not maximizing shareholder returns. Others argued the merger game was shortsighted and predicted the economic stagnation of the early 1990's as a consequence (Scherer 1988). Recent ex post analysis also supports less sanguine explanations (Porter 1992, Cotterill and Pinkerton).

Agency problems arise in large corporations because of the separation of ownership from control. Principals (stockholders) may not be able to secure their desired objective (stockholder wealth maximization) from their agents (managers). Henry Manne first suggested that this principal agent problem could be rectified by a market for corporate control. Unfettered merger acquisition and hostile takeover activity would eliminate managerial slack. If the threat of takeover doesn't alter a "bad" manager's performance, "good" management will buy the firm and make needed managerial changes.

Michael Jensen expanded this approach by arguing that large corporations should also be highly leveraged so managers have very little "free cash flow" to allocate for investment. According to Jensen, earnings should be paid out to bond- and stockholders who then reinvest them through capital markets. Investors make the long-run capital allocation decision by choosing among all investment opportunities in the market. Managers of a particular firm who retain earnings tend to invest only in projects that the firm can undertake.

The merger and leveraged buyout wave of the 1980's was fueled by the Jensen and Manne theories. Large food manufacturing firms, with substantial equity in brand capital, and large food distribution firms, with their ability to generate substantial cash flows, were at the forefront. As mentioned earlier, the assets on many of their companies were written up by 50 percent. They also were leveraged so that often more than 95 percent of assets were covered by long-term debt including junk bonds.

Compared to other sectors of the economy, very few large food firms that were leveraged during the 1980's have failed. One has to ask what strategies were used to cover their financial obligations. Research certainly is not complete; however, a few conclusions do seem substantiated. First, the leveraging of a company may have made credible business strategies that previously were ineffective. Safeway, for example, after its leveraged buyout, had to reduce labor costs or sell stores. Prior to the LBO, management demands for labor costs reductions were not credible, however, after the LBO, labor knew management had no choice. In fact, Safeway secured labor concessions; and, where they were not forthcoming, Safeway sold stores.

Leveraged companies also severely pared portfolios by selling unrelated businesses and businesses in which they did not have a strong competitive position. These businesses were often sold to horizontallyor vertically-related competitors that could realize efficiency and market power gains. For example, leveraged food manufacturers may have harvested brand capital by reducing advertising expenditures, raising brand prices and offering deals to price sensitive or powerful buyers to generate the maximum cash flow. Research is needed on this question. Recently the business press has written extensively about the destruction of brand loyalty by these practices and the need for branded product firms to reestablish traditional brand marketing patterns. Proctor and Gamble, for example, has stopped offering trade promotions, deals, or special price breaks and reestablished a stable brand price structure.

The consequences of the leveraging of large firms, however, do not seem to support the Manne and Jensen theories. Large firms may have been forced to pay out significant profit streams to investors, however, the same corporations have often been unable to borrow funds to expand investment. Banks that experienced their own speculative boom and crash also are gun-shy. Selling new stock issues to raise capital also is difficult for leveraged firms. The result has been economic stagnation. Alan Greenspan, Chairman of the Federal Reserve, recently stated:

Monetary policy can only peripherally alter the perceived needs of businesses and households to strengthen balance sheets....Part of the so-called credit crunch deep-seated problem reflects economic forces which government policy can only tangentially affect....If. as balance sheets become more comfortable. businesses and households decide to reduce their excess debt more slowly, cash flows will be diverted to purchases of goods and services (Greenhouse, p. D1).

During the height of the takeover boom, the Business Roundtable - the CEOs of the top 200 U.S. corporations maintained that capital markets were rewarding short-term profit maximization at the expense of long- term investment in productivity enhancing assets (Seigel). Recently the Harvard Business School and a business organization titled the Council on Competitiveness Task Force, headed by Michael Porter, released a major study that supports Business Roundtable's contention and calls for major reforms to the capital market and corporate control structures. The report argues that large corporations need "patient investors" who are willing to hold large blocks of stock and actively oversee managers to insure performance. It cites tightly held and privately owned U.S. corporations, precisely those that were able to withstand the Manne-Jensen assault of the 1980's, as prototype examples of corporations that will enable us to compete effectively with Japanese and European corporations (Porter 1992). With a wide range of conglomerate portfolios, private corporations, cooperatives and other corporate governance structures, the food industries offer an excellent laboratory for testing theories of corporate control.

Conclusions

This paper shows that the research addressing strategic behavior in the food industries has a diverse base in the literatures of traditional industrial organization economics, the new IO, firm theory based on organizational behavior concepts and corporate finance. Strategic management is the application of insights from these disciplinary fields to corporate performance issues. We argue in this paper for recognition of this "big tent" conceptual framework. The diverse competencies and methods of agricultural marketing researchers are complimentary. Extension oriented agribusiness researchers can develop useful advice for firms. Disciplinary researchers can expand underlying economic theory and test propositions in fields such as industrial organization, finance and organization theory. The resulting knowledge about issues such as market power, contestability, generic advertising, private label penetration, cooperative integration and globalization is needed to provide guidance to public policymakers and regulators, as well as firms. This work is not anti-business. It improves the performance of the system and thereby benefits many if not all businesses. If the development of theory and empirical testing of models is left to scholars in economics and business management, we will miss the opportunity to expand our usefulness in prescribing policy interventions and to contribute to theory and concept building based upon insights from the operations of the actual firms. The power of a carefully executed study of actual behavior – as opposed to an analytically sophisticated test of a theory that just uses "readily available" data to illustrate "the method" – should never be underestimated.

ENDNOTES

1. One may argue with the omission of market share or revenue growth as relevant performance measures. However, the concept of sustainable advantage implies profitability. An unprofitable market position is not sustainable, particularly at the corporate level strategy. Even industries such as brewing, in which market share games dominate, implicitly follow the logic that profits arise from market share.

2. See Cotterill, 1993a, p. 13-15, and citations therein.

3. Martin, for example, concludes that Fisher-McGowan is a "red herring" (Martin, p. 319).

4. See, for example, Buzzel and Gale and Cotterill (1993a).

5. See Cotterill and Haller for a study of supermarket entry strategies that incorporates games theoretic concepts as well as more traditional market structure concepts to test for entry barriers and contestability.

6. The endogenicity of structure has econometric implications for hypothesis testing. However, Schmalensee reasons that ordinary least squares may provide reasonably good estimates (stylized facts) of the impact of endogenous structure upon profits.

7. Porter omits government regulatory bodies with specific industry mandates, a particularly egregious omission for agribusiness industries (Westgren).

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