

# SMALL BUSINESSES AS CAPTIVE COMPANIES: BUSINESS STRATEGY AND FIRM PERFORMANCE AMONG U.S. AUTO SUPPLIERS

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## ABSTRACT

*Small business firms frequently are in the position of a "captive" company--a firm whose operations are undertaken for the benefit of some more powerful organization. This places unique demands on the planning and strategy activity. An empirical study of business strategy and firm performance in a sample of small auto supplier firms (N = 67) found significant differences in the business strategies of high-performing firms when compared to the business strategies of low-performing firms. The nature of these differences is presented, and implications for the formulation of effective business strategies in captive small businesses are discussed.*

## INTRODUCTION

It has been frequently noted in the strategic planning literature that differences exist between small and large businesses, and that these differences can affect the nature of the planning process and firm performance (Moyer, 1982; Stoner & Fry, 1987; Unni, 1981; Welsh & White, 1981). Among the issues that have been examined in previous research are differences in resource availability (Welsh & White, 1981), patterns of firm development (Robinson, Pearce, Vozikis, & Mescon, 1984), and relative differences in scope of operations and organization structure (VanHoorn, 1979).

One difference that might influence strategic planning and performance among small businesses can be found in the pattern of interorganizational relationships which exist between firms. Often firms exist in an interorganizational network in which there is interdependence between organizations (Pfeffer & Salancik, 1978; Thompson, 1967). Interdependence occurs when firms are mutually dependent on one another for resources or outcomes.

Small businesses do not often experience such interdependent relationships. The small size, lower capital base, and the lack of slack resources that characterize many small business firms may lead to relationships with a high degree of dependence (Moyer, 1982; VanHoorn, 1979). Small business firms often are dependent on larger organizations for critical resources or revenues.

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**Table 1**

*Sources of Bargaining Power*

*A supplier group is powerful if:*

1. It is dominated by a few companies and is more concentrated than the industry it sells to.
2. Its product is unique or at least differentiated, or if it has built up switching costs.
3. It is obliged to contend with other products for sale to the industry.
4. It poses a credible threat of integrating forward into the industry's business.
5. The industry is not an important customer of the supplier group.

*A buyer group is powerful if:*

1. It is concentrated or purchases in large volumes.
2. The products it purchases from the industry are standard or undifferentiated.
3. The products it purchases from the industry form a component of its product and represent a significant fraction of its costs.
4. It earns low profits, which create great incentive to lower its purchasing costs.
5. The industry's product is unimportant to the quality of the buyer's products or services.
6. The industry's product does not save the buyer money.
7. The buyers pose a credible threat of integrating backward to make the industry's product.

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In the extreme case small businesses become captive companies--firms which, though legally independent, are *de facto* controlled by another company and operate in such a way as to meet the needs of the controlling firm rather than an open market.

The purpose of this research is to examine the differences in strategy and performance among a group of captive small businesses in a particular industry setting. The study seeks to highlight the differences between high and low performing captive firms in order to identify those strategies that might be useful in enhancing firm performance in conditions of high firm dependence. By identifying these differences the study attempts to contribute to an understanding of the strategy process and to the development of effective strategies for captive companies.

### **SMALL BUSINESSES AS CAPTIVE COMPANIES**

As suggested by Michael Porter (1980, 1985), industry structure may lead to differences in the relative distribution of bargaining power among firms. In particular, several factors are thought to determine the relative power of buyers and suppliers. These are shown in Table 1.

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Issues of scale and scope are relevant to the determination of relative power. If buyers are few while suppliers are plentiful, if the volume buyers purchase relative to supplier output is high, if the costs of switching from one supplier to another are low, and if the buyer is a credible threat to integrate backward into the supplier's activities, then buyers have relatively high power compared with suppliers (Porter, 1980). In addition, if suppliers are not concentrated, if firm outputs are undifferentiated, if the volume of purchases from the buyer represents a significant segment of the supplier's total sales, and if the buyer's purchases from the supplier represent a small percentage of the buyer's total purchases, then suppliers have relatively low levels of bargaining power relative to buyers (Porter, 1985).

In some industries, many firms may function as suppliers of components or materials for a few larger, better-integrated firms. In such industries supplier firms that lack the scale and scope of the larger customer companies have low levels of bargaining power compared with buyer firms. Buyers are able to demand a low price, placing a restriction on the profits of suppliers. If the power of buyers becomes sufficiently great relative to suppliers, buyers can not only establish the price but also set terms and conditions for sale.

When examining issues of scale and scope, it is readily apparent that small supplier firms often lack the resources of larger organizations and are frequently dependent on larger firms to provide a substantial portion of the firm's sales (Clark, 1989). Confronted with such relations, small supplier firms are often dominated by large customers and must manage operations in a manner that is consistent with customer demands. Such suppliers are captive to the larger, more powerful customers.

The nature of industry structural relations between buyers and suppliers places a premium on suppliers' planning and strategy activities. Earning profits as a captive supplier requires firms to adopt strategies and management practices that are unique to this class of business organization. Captive companies, whose operations are often dictated by the powerful customer firms, face a limited set of strategy alternatives. Pricing, product development, and research and development activities are often mandated by the customer. Some customers may even specify strategies concerning financial structure (such as the amount of allowable debt) and human resources (such as requiring firms to provide training to employees in various skills).

### U.S. Auto Suppliers as Captive Companies

Suppliers to the U.S. auto industry are frequently in the position of a captive company. The customer firms are the so-called "Big Three" domestic original equipment manufacturers (OEMs—General Motors Corporation, Ford Motor Company, and Chrysler Corporation). The 1990 *Business Week* ranking of the 1000 largest U.S. companies, ranked these firms 6th, 16th, and 150th respectively in market value. The total sales for these companies for 1989 were 258 billion dollars, making this the largest sales revenue producing industry in the United States. By contrast, the firms that supply components and services to the OEMs tend to be smaller in terms of sales revenue. The nine largest auto parts suppliers in the *Business Week* survey yielded combined sales of 18.4 billion dollars, or a mere 7% of the total sales of the three OEMs ("The 1990 *Business Week* 1000" 1990).

Large auto parts suppliers are an exception. A recent survey of the industry (Motor Vehicle Manufacturers Association [MVMA], 1989) indicated that in 1988 there were 3,088 firms providing parts, accessories, and components to the automotive industry. The majority of these firms employ

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fewer than 500 employees, and many have fewer than 200 workers on the payroll (ELM International, 1988). These industry data indicate that auto suppliers are small compared with the OEM customers. Because of the small size and the fact that the number of potential customers is limited to the OEMs, many suppliers are in the position of captive firms.

In addition, the forecast for the U.S. auto industry (and suppliers in particular) is not optimistic. Evidence suggests that the industry is mature or will decline over the next three to five years (Carr, 1988; Heaney, 1988). This places a greater pressure on firms to control costs in order to maintain profit margins in the face of stagnant or declining sales and increased competition. A shakeout is predicted to occur among auto suppliers in the early 1990s, resulting in fewer firms in the supply base (Heaney, 1989). This increases the pressure on suppliers to develop strategies that will enable these firms to manage operations efficiently and effectively.

However, many auto suppliers are captive companies. Lacking the size and resources of the OEMs, supplier firms are increasingly forced to operate according to the demands of the OEMs. Each of the U.S. auto manufacturers has established programs for controlling supplier behaviors. These programs are codified (e.g., General Motors' Targets for Excellence [Targets for Excellence, 1987], Ford's Q-1 rating, and Chrysler's Pentastar programs) and specify in great detail the nature of the OEM-supplier relationship, while mandating many forms of supplier behavior. In addition, there are strict penalties for non-compliance, the most severe being removal of a firm from an OEM's list of approved suppliers, leading to a loss of sales revenue. Since many supplier firms are dependent on the OEMs for a majority of the firms' sales, loss of supplier status threatens the existence of such organizations. Hence auto suppliers are often captive companies.

Although the OEMs specify in great detail the required operations and behaviors of supplier firms, there are opportunities for suppliers to vary firm strategies and the management of operations. Though suppliers are captive, there may be aspects of firm behavior that are not controlled by the OEMs and are at the discretion of the supplier firm's management (Plumb, 1989). Where such latitude exists, alternative strategies may be developed to influence the nature of the OEM-supplier relationship and improve firm performance.

It seems plausible to suggest that performance differences among supplier firms may be due to variances in their strategies. What strategies are effective for these small businesses that are captive to large, powerful customer organizations? To examine this question, a research study was performed using a sample of small businesses in captive relationships within the automotive industry. The following section reports the results of this initial exploratory research effort.

## **STRATEGY AND PERFORMANCE DIFFERENCES AMONG U.S. AUTO SUPPLIERS**

### **Research Methodology**

*Survey.* The CEOs of 354 auto supplier firms were identified from the *ELM Guide to U.S. Automotive Sourcing* (ELM International, 1988). Each executive was contacted and asked to participate in a study of the auto supplier industry by filling out a survey on the firm's operations. The CEO was utilized as the key informant since the CEO frequently is in a position to evaluate firm strategies and operations (Huber & Power, 1985). The use of CEOs as key respondents has been noted often in strategy research (Hitt & Ireland, 1981; Robinson & Pearce, 1988).

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The survey contained a variety of questions concerning firm characteristics, planning activities, sales and financial data, industry assessment, and intended strategies. Several of the questions were adapted from the PIMS questionnaire (Buzzell & Gale, 1987), which is thought to yield reliable data (Anderson & Paine, 1975).

### Study Variables: Measures

*Identifying small-business captive companies.* To identify those supplier firms that were captive companies and were small businesses, two measurement criteria were employed. To identify small businesses, firm size, measured in terms of the number of employees, was used. Industry data indicated that firms with fewer than 500 employees were considered small supplier firms (ELM International, 1988). Thus, only those supplier firms with 500 or fewer employees were included in the study.

Recall that captive companies are those firms that are operated to meet the needs of the controlling firm. Thus, captive firms must maintain a relationship with customers in order to achieve desired goals. The degree to which a firm must maintain such a relationship is referred to as dependence (Frazier, 1983). Dependence is a function of firm sales (Frazier, Gill, & Kale, 1989) and was measured in this study by dividing a supplier firm's sales to OEMs by total firm sales:

$$\text{Dependence} = \frac{\text{Sales to OEMs}}{\text{Total Firm Sales}}$$

Captive companies were classified as those firms that are dependent on U. S. auto manufacturers for at least 60% of total firm sales.

*Measuring firm performance.* There has been some discussion of the appropriate measure of firm performance in the strategy literature. To overcome some of the limitations imposed by subjective estimates of firm performance or operations such as reporting bias or inflation (Dess & Robinson, 1984; Sapienza, Smith, & Gannon, 1988), it was determined to use objective performance measures from primary financial sources, as suggested by Venkatraman & Ramanujam (1986). For analytic purposes this research adopted a traditional approach to the measurement of firm performance. It is defined as financial performance and is measured in terms of the return a firm obtains on activities. Two types of activities were examined: (a) market-oriented and operating activities, and (b) the utilization of firm resources, primarily management of fixed and working capital.

The Return on Sales percentage (ROS) was employed as the measure of operating efficiency. ROS is calculated by dividing the firm's net profits after taxes by firm sales and is often referred to as the profit margin. Return on Investment (ROI) was used as the measure of the firm's efficiency in utilizing assets. ROI is calculated by dividing the after-tax profits of the firm by net fixed and working capital. Return on Sales focuses attention on cost control and pricing and is based solely upon the firm's income statement. Return on Investment, on the other hand, focuses on managing the business' assets so as to yield a good return and is based on both the firm's income statement and balance sheet (Hayden, 1986).

*Measuring strategy: business strategy variables.* Business strategies are those concerned with the ability of a firm to compete within a specific industry (Hofer & Schendel, 1978). Various measures have been developed to assess business strategies of firms. The measurement system

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**Table 2**

*Business-Level Strategic Variables*

Industry variables

1. Technological change: There have been major technological changes in the product offered by the business or its major competitors, or in the method of production in the last eight years. (TECCHG)
2. Relative compensation average: Wage salary levels relative to competitors. (RELWAG)
8. Total inventory/revenue average: Total inventory divided by net sales. (INVREV)
9. P&E newness average: Net book value of plant and equipment divided by gross book value of plant and equipment. (PENEW)

Product competition variables

3. Relative price: The average level of selling prices of the business' products and services relative to the average price of the three largest competitors. (RELPRC)
4. Product quality average: Percent of products superior to customers products from the customers' perspective minus percent of products inferior to customers products from the perspective of the customer. (PQLAVG)
10. Investment/revenue average: Average investment (book value) divided by net sales. (VSTREV)
11. Capacity utilization average: Percent capacity utilization. (CAPUTL)
12. Sales/employee average: Total sales divided by number of employees. (SLSEMP)

R&D variables

5. Relative R&D expense: Research and development expenses relative to three largest competitors. (RELEXP)
6. Product R&D/revenue average: Product and service R&D expenses divided by net sales. (PRDREV)
7. Process R&D average: Process R&D expenses divided by net sales. (PRCREV)
13. Sales force/revenue average: Sales force expense divided by net sales. (SFEREV)
14. Media advertising and sales promotion/revenue average: Expenditures for media advertising, catalogs, exhibits and displays, premiums, coupons, samples, and temporary price reductions for promotional purposes divided by net sales. (ADVREV)
15. Relative sales/promotion expenses: media advertising and sales force expenses relative to three largest competitors. (RELSLS)

*Note.* Abbreviations for these variables which are used in the research are in parentheses following each variable description.

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used in this study is based on the PIMS data base. The variables were developed from Hofer's classification system (1975) and have been used previously in research on business strategy (Anderson & Zeithaml, 1984). These variables and the associated measurements are given in Table 2.

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*Control variables: firm age and sales.* Characteristics of firms that are not explicitly considered in this study might have an effect on their business strategy. Two such variables that have been identified in previous studies are a firm's age and sales. If high performing firms are on average older than low performing firms, differences could be due to greater experience and learning within the industry rather than to differences in strategy. Similarly, differences might be due to firm sales in that firms with greater sales levels may have additional resources to utilize in operations, greater economies of scale, and more strategy options available. This would bias any comparisons of firms based upon performance differences.

Accordingly, a firm's age, measured by the number of years it has been in operation, and firm sales, measured by total sales volume, were included in the study as control variables. It was thought important that comparison groups of firms be similar in terms of these dimensions in order to eliminate potential bias in the results.

## Analysis and Results

*Sample.* Of the 354 executives contacted, surveys were returned by 162, a response rate of 45.8%. From these respondents, 89 firms were classified according to the measurement criteria as being small, captive suppliers. Some of these companies, however, did not provide complete financial performance data, perhaps out of concern for confidentiality. Eliminating these from consideration left a sample of 67 firms for analysis and comparison.

The 67 firms were divided into three groups for each of the two performance measures, based on the mean and standard deviation for ROS and ROI. Firms that were "High" performing firms were identified as being in the upper third of firms based upon the relevant performance measure; firms that were "Low" performing firms were those in the lower third of firms for the same measure. Firms in the middle group were excluded from the analysis. This method provided a greater contrast between the "High" and "Low" performing companies and prevented small differences in firm performance from influencing the results. This method of classifying comparison groups has been used previously in small business research (Orpen, 1985).

A series of t-tests were performed for the classification variables, the control variables, and the business strategy variables. The results of these t-tests are reported in Table 3 for the ROS performance measure and Table 4 for the ROI performance measure.

As indicated on the tables, differences between the comparison groups on the performance measures were significant ( $t(\text{ROS}) = -7.11, p < .001$ , and  $t(\text{ROI}) = -5.40, p < .001$ ). No differences were observed between the comparison groups for firm size or the control variables of age and total sales. The average firm size was fewer than 250 employees. According to the industry definition, the companies in the two comparison samples are small business captive suppliers.

**Table 3***Differences in Business Strategy - Return on Sales*

	High ROS (N = 24)		Low ROS (N = 25)		t	p (z-tailed)
	X	S.D.	X	S.D.		
ROS	.077	.048	-.005	.033	-5.14	<.001
FTE	241.50	140.70	228.24	120.24	-0.36	n.s.
TOT.SALES (\$mm)	25.91	19.99	20.56	14.56	-1.07	n.s.
AGE	33.42	20.14	41.12	19.84	1.35	n.s.
1. TECCHG	3.52	1.24	3.74	1.13	-0.65	n.s.
2. RELWAG	2.88	0.80	3.36	-1.19	1.67	<.10
3. RELPRC	3.33	0.70	3.24	0.88	-0.41	n.s.
4. PQLAVE	99.17	2.82	96.60	5.86	-1.94	<.05
5. RELEXP	2.63	1.21	3.24	1.30	1.72	<.10
6. PRDREV	1.89	2.00	1.87	2.66	-0.03	n.s.
7. PROREV	0.72	0.90	1.92	2.03	2.67	<.01
8. INVREV	5.40	4.82	6.34	4.57	-0.70	n.s.
9. PENEW	0.61	0.19	0.56	0.20	-0.86	n.s.
10. VSTREV	23.25	13.15	22.07	14.51	-0.28	n.s.
11. CAPUTL	74.38	17.21	64.56	16.14	-2.06	<.05
12. SLSEMP	104.63	36.90	91.33	37.83	-1.25	n.s.
13. SFEREV	3.24	2.17	3.28	1.61	-0.07	n.s.
14. ADVREV	0.47	0.62	0.35	0.66	-0.64	n.s.
15. RELSLS	2.54	1.06	3.12	1.17	1.81	<.10

Examining the results of the comparison of the business strategy variables in Table 3, which used Return on Sales as the performance measure, it can be observed that 6 of the 15 strategy measures indicated significant differences between the comparison groups. High performing firms perceived their wages and compensation rates, expenditures on research and development, and sales expenditures to be relatively lower than those of competitors ( $t = 1.67, 1.72,$  and  $1.81$  respectively,  $p < .05$ ). In addition, high performing firms perceived their products to be of higher quality relative to competitors ( $t = -1.97, p < .05$ ). When actual patterns of investment were examined, high performing firms had significantly lower expenditures in Process R & D than low performing firms ( $t = 2.67, p < .01$ ). Finally, high performing firms reported greater capacity utilization than low performers ( $t = -2.06, p < .05$ ). Six significant differences among the 15 measures of business strategy exceed the amount which would be expected by chance. Based on firms' Return on Sales, therefore, it is concluded that there are differences in business strategy between high and low performing small captive auto supplier firms.

**Table 4***Differences in Business Strategy - Return on Investment*

	High ROS (N = 22)		Low ROS (N = 20)		t	p (z-tailed)
	X	S.D.	X	S.D.		
ROS	.46	.37	-0.08	.25	-5.40	<.001
FTE	224.13	139.56	234.40	129.29	-0.25	n.s.
TOT.SALES (\$mm)	24.92	20.51	21.34	16.08	-0.63	n.s.
AGE	33.41	20.85	41.55	19.79	1.29	n.s.
1. TECCHG	3.43	1.15	3.85	1.04	-1.23	n.s.
2. RELWAG	3.14	0.71	3.15	1.23	0.04	n.s.
3. RELPRC	3.36	0.73	3.25	0.91	-0.45	n.s.
4. PQLAVG	98.25	4.94	98.00	4.34	-0.17	n.s.
5. RELEXP	2.90	1.22	3.10	1.37	-0.48	n.s.
6. PRDREV	1.98	1.96	1.88	2.79	-0.13	n.s.
7. PROREV	0.61	0.62	2.22	2.16	3.27	<.001
8. INVREV	4.31	3.49	6.81	4.82	1.91	<.05
9. PENEW	0.57	0.18	0.61	0.20	0.63	n.s.
10. VSTREV	19.40	12.61	26.33	16.25	1.55	<.10
11. CAPUTL	73.10	17.50	64.45	17.92	-1.56	<.10
12. SLSEMP	109.89	45.71	89.74	36.10	-1.57	<.10
13. SFEREV	3.51	2.15	3.22	1.57	-0.49	n.s.
14. ADVREV	0.43	0.57	0.38	0.73	-0.24	n.s.
15. RELSLS	2.62	0.92	3.15	1.23	1.57	<.10

Table 4 examined differences in business strategy, using Return on Investment as the performance criterion and the basis for creating comparison groups. As with Table 3, 6 of the 15 measures of business strategy indicated significant differences between the high and low performance comparison groups. High performing firms perceived their expenditures on sales activities to be relatively lower than competitors ( $t = 1.57, p < .10$ ). With respect to actual patterns of resource deployment, high performing firms had relatively lower expenditures on Process R & D ( $t = 3.27, p < .001$ ), Inventory ( $t = 1.91, p < .05$ ), and Investment in Fixed Capital/Plant and Equipment ( $t = 1.55, p < .10$ ) than did low performers. High performing firms also indicated greater sales per employee than did low performing firms ( $t = -1.57, p < .10$ ). Similar to the results in Table 3, high performing firms indicated greater utilization of capacity than low performing firms ( $t = -1.56, p < .10$ ). Since the number of significant differences exceeds that which would be expected by chance, based on firms' Return on Investment, it is concluded that there are significant differences in business strategies between high and low performing small captive auto suppliers.

## DISCUSSION

The purpose of this study was to examine differences in strategies between high and low performing captive small businesses. Since small businesses frequently are in a captive relationship with larger, more powerful organizations, the ability to develop plans and strategies that allow a

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small supplier to compete successfully might be an important aspect of firm operations. The results of this study indicate that captive firms can still exert a degree of strategic choice and can develop strategies which might lead to high performance relative to other firms within the industry.

How are captive suppliers able to differentiate the firm's strategies? This research suggests that one possible way is by concentrating on those areas over which the customer firm allows the captive supplier freedom of action. In the case of the auto industry, the OEMs' primary concern is with the price of parts and components (Plumb, 1989). The structure of the auto industry places limitations on the pricing strategies of captive suppliers since OEMs control placement of parts contracts. The large number of supplier firms, the low switching costs, the threat of OEMs to integrate backward into parts production, and other features of the industry structure limit suppliers' ability to set price. Suppliers are price takers who must accept the prices demanded by the powerful OEM customer. Thus, supplier firms are not able to differentiate from one another on this dimension of business strategy. Pricing strategy is captive to the demands of the OEMs.

Data from Tables 3 and 4 indicate that suppliers do not perceive differences in the relative prices of goods that are sold to the OEMs, supporting the contention that a captor customer can exert control over certain aspects of a captive firm's strategies. It might be suggested that those aspects of the captive firm's operations that are seen as crucial to the captor customer's activities are most likely to be subject to pressure and control by the captor customer. Few differences are likely to be observed among captive firms in those dimensions of business strategy that are subject to captor control.

Similarly, no differences could be observed between high and low performing supplier firms in several other dimensions of business strategy: the degree of technological change, expenditures on product research and development, the plant and equipment newness average, and expenditures on the sales force, advertising and promotion. Again, the nature of the industry might explain some of these findings. Technological change and product research are largely performed by the OEMs, who then submit product specifications to suppliers. Suppliers typically seek to manufacture to customer specifications rather than attempt basic product development. Thus, suppliers are "captive" to the product standards of the OEMs and cannot differentiate business strategies on this basis.

The small size of supplier firms and the limited number of customers also limit marketing efforts. Since the OEMs control pricing and generally seek the lowest possible price, supplier firms tend to compete on the basis of manufacture instead of marketing. Along with pricing strategy, promotion and sales efforts are also limited; suppliers are reluctant to invest funds in activities that do not offer a return to the company, particularly when customers are few. Instead, most small suppliers rely on manufacturer's representatives, who represent many supplier firms with the OEMs and perform the basic marketing, sales, and liaison activities. Hence, no differences are observed among captive auto supplier firms for these dimensions of business strategy.

Given the structure of the industry, the power of OEM customers relative to suppliers and the interorganizational relationships, it is not surprising that captive suppliers would exhibit homogeneity in business strategy. Of more interest are the observed differences in strategy since such differences might influence firm performance.

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An examination of Tables 3 and 4 reveals a pattern in the types of strategy differences among the measures of firm performance. Those measures of business strategy associated with performance differences in Return on Sales or profitability tend to be those associated with firms' positions relative to competitors. Of the six significant differences, four involve managerial assessments of the firm's relative competitive position: relative compensation, relative product quality, relative R & D investment, and relative sales expense. Profit performance seems to be associated with a supplier's position relative to firms within the industry.

Conversely, differences in business strategy associated with high Return on Investment tend to be those that involve supplier firms' actual resource deployment activities, particularly investment in fixed and working capital. Of the six significant differences between high and low performing supplier firms measured by ROI, three are objective measures based on actual firm activities: process R & D expenditures, inventory, and investment in plant and equipment. High ROI is also associated with efficiency, as evidenced by the significant difference in sales per employee and capacity utilization between high and low performing firms.

Three of the variables, Process R & D expense, Capacity Utilization, and Relative Sales and Promotional expenses, indicated similar results for both the ROS and ROI performance measures. The results for Process R & D are somewhat disturbing. In both cases high performing firms indicated lower expenditures on Process R & D. This seems a short-term planning orientation. Over time, decreased investment in R & D could lead to decreased operating efficiencies and increased costs. Conversely, the lower level of sales and promotional expenses and the greater capacity utilization reflect increased efficiencies. This is an issue which might warrant further attention by managers in auto supplier firms.

This difference in the pattern of results suggests that firm performance is a function of different types of strategies. Differences have been noted in previous research on performance measures, particularly between objective versus subjective measures (Dess & Robinson, 1984; Sapienza, Smith, & Gannon, 1988; Venkatraman & Ramanujam, 1986). Perhaps such differences are also present in measures of strategy, some of which rely on objective measures generally based on accounting numbers, such as investment in plant and equipment, inventory, or expenses. However, some of the measures in the PIMS questionnaire also utilize a subjective assessment of strategic position by CEOs such as wages relative to competitors, prices relative to competitors, and product quality average. Differences in objective versus subjective measures might influence assessment of strategy and performance.

As an example, Mintzberg (1988) has presented alternative perspectives on strategy. One perspective asserts that strategy is a position within a product-market; another perspective views strategy as pattern in a stream of firm decisions. The results of this study might indicate that the perspective used to measure strategy might influence the performance measure. If a firm pursues strategies that are intended to enable the firm to occupy a position in a product-market, performance might be more adequately measured with outcomes associated with effectiveness such as profitability or return on sales. Conversely, if the firm adopts strategies intended to maximize returns on capital, assets, or owner's equity, efficiency measures of performance such as ROI would be more appropriate strategy outcome measures. This is an issue which merits additional theoretical development and empirical testing.

The results of this study indicate that despite the captive status, auto supplier firms can and do differentiate from one another in the strategies these firms pursue. The demands of dominant OEM

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customers, while frequently limiting the strategic choices available to supplier firms, still seem to allow some latitude for suppliers to formulate alternative business strategies, and such differences in strategy appear to be capable of influencing comparative firm performance.

The results of this study are limited by the choice of industry and the firms in the sample. There is a need for replication using suppliers in other industries that are also subject to captive pressures. Different industries might exert influence on different aspects of firm strategies. For example, the OEM auto manufacturers are primarily concerned with price, and this was seen in the impact on supplier pricing strategies (no differences were observed among firms). In other industries price may be less of a consideration, and firms might seek to differentiate through pricing strategy.

For practitioners the data from this study yield some useful findings. Supplier firms must identify the desired performance goals for the company prior to developing strategies since different configurations of strategy variables yield different results in firm performance. If firms seek profitability, strategies should focus on positioning the company within the supplier base. Such strategies would be more oriented toward competitive elements in the firm's external environment. If firms seek return on capital or assets employed, the focus of strategy is on the internal resource deployment of the firm. Such strategies might be more oriented toward maximizing the efficiency of internal operations and firm expenditures.

Managers and CEOs of small businesses in captive relationships with larger, more powerful customers should be encouraged by these findings. This study indicates that there is opportunity for captive supplier firms through the proper use of strategy and planning to affect firm performance in a positive manner. Captive firms may be at the mercy of captors in many aspects of operations, but where there is some freedom of choice, such firms should take full advantage of the situation and seek to develop strategies and plans to maximize performance. The difference in such strategies could be the difference between high and low performance or between survival and failure. The challenges of operating a small business, particularly in a captive relationship, are many and difficult. Hopefully, the results of this research can assist managers in formulating and implementing strategies to increase performance and overcome some of the problems that confront captive companies.

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