

Impact of Horizontal Retail Alliances versus Size on the Performance of Allied Retailers

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Abstract

Prior research has suggested that horizontal alliances created between retailers provide numerous benefits for their members that are resulted in higher retail performance. The paper investigates whether the size of the firm is a moderating variable and/or an alternative theory in studying the effect of alliance membership on the retailer's performance. Empirical study based on a small-scale survey was carried out among 99 small- and medium-sized retailers in Hungary. Not only the strength but also the form of the relationship between alliance membership, performance, and firm size has been investigated. Findings of the research support that size changes the form of the causal relationship between alliance and performance of the retailer. However, size contributes substantially to the variation of retail performance; alliance membership has a larger impact on sales and profit growth of retailers.

Key words

Retail alliance, firm size, moderator variable, alliance-performance relationship

1 Introduction

Horizontal alliances tend to gain more and more ground both in international and Hungarian retailing. In the year 2004 the first five places of the Hungarian grocery retailing top lists were occupied by strategic alliances. Independent domestic retailers, whose situation was deemed hopeless recently, come to discover the new opportunities offered by buying groups and voluntary chains. More and more retailers are joining horizontal alliances in the hope of market survival and improved competitiveness.

In this study, we focus on the role of firm size played in the alliance-performance relationship. The paper is organised in the following way. First, we review the relevant literature regarding performance consequences of alliances and size. Furthermore the impact of moderating variables, particularly size has been discussed identifying the possible forms of the causal relationship. After introducing the model and the hypotheses, the paper presents the results of the primary research based a small-scale survey. Finally, we summarize research findings and refer to the limitations of the study.

2 Literature Review

2.1 Horizontal Alliances in Retailing

In the European retail sector, Pan-European buying groups and marketing co-alliances gained ground in the nineties, most often through the mergers of national buying groups with huge retail chains. Recently, they have been expanding their activity into creating and distributing store brands while constantly increasing their purchasing power (Ferne 1992). Dawson and Shaw (1992) have defined retail strategic alliances as "co-operation between two or more retail companies whereby

each partner seeks to add to its competencies by combining the own resources with those of its partners". The effects of horizontal co-operation between retailers have been modelled by Leunissen et. al (1996) in clothing retailing. In their work, they have defined retail strategic alliances as "all activities in which a retailer forms relationship with one or more partners, for the specific purpose of engaging in some form of joint activities". Retail strategic alliances are often characterized by a horizontal co-operation. Horizontal alliances are lateral relationships between firms at the same level of the value-added chain i.e. between competitors (Hamel et. al 1989, Bucklin&Sengupta 1993, Dussauge&Garrette 1997, Cravens&Cravens 2000).

Retail alliances often emerge in form of buying groups, voluntary chains involving small- and medium-sized retailers and eventually wholesalers. Retail strategic alliances co-ordinate and support several activities (purchasing, marketing, market research, counselling, branding) by offering services to the allied retailers, which enables its members to build up long-term sustainable competitive advantages (Bailey et. al 1995).

Retail strategic alliances provide several advantages for their allied partners. Retailers are basically interested in achieving more favourable buying conditions through large volume purchasing. A general trend is that the initial benefits are essentially connected to economies of scale but the changes reveal a tendency towards satisfying local and different customer needs at a higher level and thus combining economies of scale and scope (Shaw et. al 1994).

Our research addresses the problem how size relates and interacts within the framework of alliance membership and performance of the retailer.

2.2 The effect of alliance on the performance

Performance effects are of crucial importance in the case of alliances. Number of studies has been stated that one of the main motives of creating a strategic alliance is to increase financial and economic performance (Gulati 2000, Weitz&Jap 2000). Therefore it follows that it is only worth giving up its autonomy to a certain extent for an otherwise independent retailer if it is able to achieve better corporate performance within the framework of a strategic alliance. However, the performance consequences of joining an alliance might be measured in several ways.

Tietz (1993) provided a systematic approach to assess the effect of co-operation on firm performance. He distinguished between two approaches: economic and behavioural measurement for evaluating co-operation members' performance. Economic approach uses a primarily one-dimensional economic criterion, because its goal criterion is profit (Anderson 1993, Luo 1996) or the difference of contributions and payoffs. Behavioural approach is based on an understanding of coalitions as social systems joined freely by partners. Each coalition partner is offered some incentives by the system, for which some contribution is expected in exchange. For example, Sheturaman et al. (1988) regard the success of the co-operation as the benefit of the partnership and the benefit of the partnership is measured by comparison levels. In empirical researches the success of a co-operation is often measured by the satisfaction with partners (Mohr&Spekman 1994).

2.3 The relationship between strategic alliance and size

SMEs are often characterised by tight resources, limited access to capital, and specialisation in niche markets, consequently, they face even more severe competition than larger firms. To compensate for their size, smaller firms are expected to use strategic alliances for sharing resources, knowledge, and risk between partnering firms. The alliance yields long-term co-operation to be able to achieve a better market position, increased competitiveness (Chung et. al 2006).

In SME networks, small firms co-operate with larger, medium-sized firms that lead to asymmetric power relationships between the partners. For that reason, firms of larger size might derive more benefit from the alliance compared to small firms (Wincent 2005).

Sometimes, size functions as a prerequisite for entering the retail alliance. Alliances prefer larger partners that enable a fast and efficient growth. Large number of small firms can be costly for the alliance because growth is associated with high level of coordination costs.

2.4 The effect of size on performance

Retailer's size has always been a relevant factor in analyzing retail performance (Amato&Amato 2004). The larger capacity a retailer has, the larger economies of scale it is able to achieve, consequently, increasing size leads to higher sales and profitability.

The influence of size on the performance has been assessed in various publications. Strategic group research has studied the effect of size on performance on several occasions. Porter (1985) attributes the strategic and competitive advantage to efficiency due to size. Porter (1998) argues that advantages accrue to both large and small firms but medium-sized firms are "stuck in the middle". Therefore he assumes and proves that the relationship between size and profit rate can be described by a cubic function¹. The hypothesis of Porter has been verified by other researchers as well (Amato&Amato 2004). In addition, Lewis and Thomas (1990) studying strategic groups in British grocery retailing came to the conclusion that strategic groups generated on the basis of size correlate to none of the performance variables involved (ROS, ROCE, PER).

2.5 Role of Moderating Variables

In order to be able explore the nature of size in alliance-performance relationship, we borrowed the concept of moderator variables used in contingency research. Large number of researchers (Arnold 1982, McArthur & Nystrom 1991, Howell et. al 1986, Prescott 1986) discussed the moderator role of environment within the framework of contingency theory.

A moderator variable systematically modifies either the form and/or the strength of a causal relationship (Sharma et. al 1981). Thus a variable z is a moderator if the relationship between two (and more) other variables (x, y) is a function of the level of z . However, moderators might operate in different ways.

	Related to Criterion and/or Predictor	Not Related to Criterion and Predictor
No Interaction with Predictor Variable	Intervening, Exogenous, Antecedent, Suppressor, Predictor	Moderator (Homologizer)
Interaction with Predictor Variable	Moderator (Quasi Moderator)	Moderator (Pure Moderator)

Source: Sharma et. al (1981), p. 292

Figure 1 Typology of Moderator Variable

Therefore a typology had been suggested (Figure 1) that helps to identify what the role of the moderator variable (Sharma et. al 1981) is in a causal relationship.

¹ However, the shape of the function depends on the distribution of firm size.

If the variable doesn't reveal direct relationship to the criterion and/or predictor variable and there is no interaction with the predictor, than the specification variable plays the role of a predictor or exogenous, antecedent or suppressor in the model. The intended moderator offers an alternative explanation for the variation of the criterion variable. In the case of no direct and interaction effect, the moderator variable homologizes the initial causal relationship, i.e. it has influence only on the strength of the relationship.

Interaction effects with predictor variable will change the form of the relationship. If the moderator variable shows significant main effect to the criterion and/or predictor variable and also interaction with the predictor, then our variable behaves as a quasi moderator. In the latter case, where the moderator has no direct relation to criterion and the predictor, we deal with a pure moderator variable.

Based on the type of the moderator, two methods - subgroup analysis and hierarchical regression analysis - have been suggested to measure the impact of moderator variable (Sharma et. al 1986).

The *classical subgroup analysis* splits the sample into subgroups on the basis of the moderator. Regression analysis was conducted within the groups to investigate the relationship between the predictor and criterion variables. The coefficient of determination (R^2) was used to justify the presence of moderator variable. However, the type of the moderator affects the size of predictive validity. Dealing with a homologizer, the R^2 varies because the error terms will be reduced in subgroups. Exogenous variables directly related to criterion variable cause also differences in the determination coefficient. For within-group variance of the criterion will vary across the groups whereas within-group variance of the predictor remains the same. In the case of pure or quasi moderators, subgroup analysis leads to different R^2 too if the firms across the subgroups are heterogeneous² regarding the form of the relationship.

Another way to control for the effect of moderator variable within subgroup analysis is to test the form of the relationship across subgroups. Still subgroup analysis is not able to identify whether it is dealt with quasi or pure moderator.

In contrast to subgroup analysis, the *hierarchical regression analysis* is an analytic approach that maintains the integrity of the sample and enables to identify and assess the impact of moderator variable. Hierarchical regression analysis is an improved tool of subgroup analysis because the number of groups equals the number of subjects in the sample. A linear regression equation system has to be tested for the main and interaction effects between predictor (x), moderator (z) and criterion variables (y) (McArthur&Nystrom 1991, p. 354).

$$y = a + b_1x$$

$$y = a + b_1x + b_2z$$

$$y = a + b_1x + b_2z + b_3xz$$

The analysis compares the determination coefficients of regression equations (R^2). If the equation including the predictor and the intended moderator reveal no difference in terms of R^2 compared to the equation containing the predictor, the intended moderator and their interaction, than the third variable doesn't moderate the relationship between predictor and criterion variables. In case of a pure moderator, equation including only the predictor should differ from the equation containing the predictor and moderator, furthermore from the equation of measuring the interaction effect too. If the determination coefficient of predictor-only regression is similar to the R^2 of predictor-moderator function but differs from the function containing the interaction effect, we deal with a quasi moderator variable.

² The between-groups heterogeneity is created by the categorization of anyway continuous moderator variable.

3 Conceptual framework

Firm size is often used as a moderator variable in strategy-performance relationships. Classification used in Figure 1 can be transferred to identify moderator effect of size. Vast majority of researches assume that firm size moderates the strength of the strategy-performance relationship. Thus size variable is supposed to behave as a homologizer revealing no direct connection to both strategy and performance.

However, basic strategy typologies such as Porterian generic strategies (Porter 1985) propose that firms of different size do not pursue the same strategy, which will lead to different business and financial performance too. So it stands to reason that size might change the form of the strategy-performance relation and it should be considered which way size works as a moderator.

We propose that joining an alliance might considerably contribute to retailer's performance. Of course, this relationship might be moderated by numerous factors (competitive environment, characteristics of the trade area ... etc) such as the size of the retailer.

Concerning the previous classification (Figure 1) size of the retailer might play different roles in the initial causal relationship that is illustrated in Figure 2.

- Size of the retailer could be related to the alliance and the performance variable or to both without interacting with alliance membership. For example, this happens if size is a prerequisite for entering the alliance therefore directly related to the alliance variable but it doesn't contribute significantly to the alliance-performance relationship (antecedent variable). Firm size can be directly connected to the performance variable as well. In retailing, increasing size usually leads to more efficient and profitable operation which refers to predictor variable giving an alternative explanation for the variation in retail performance.
- A *homologizer moderator* will be found if the size variable shows neither main effect with the predictor and/or the criterion variable nor interaction effect with the predictor. This rare occasion might occur if size doesn't influence the decision on co-operation with other retailers. Furthermore, both smaller and larger retailers might compete successfully in the same market. Unfortunately, this is not a valid option for every merchandise group. While fashion or electronics retailers might have an option for being a price leader or operating in a market niche, grocery retailers have to face fierce price competition. According to this, grocery retailers try to increase efficiency through creating economies of scale. One alternative source of economies of scale is joining an alliance which leads to a direct relationship with the alliance variables. Therefore, size is not expected to act as a homologizer in a grocery retail context.
- Size as a *pure moderator* interacts with the alliance variable but there is no main effect related to alliance membership and performance. The interaction between size and alliance membership (e.g. small retailers show higher willingness to co-operate with competitors compared to medium- or large-scale retail firms) could have an effect on the performance.
- Size as a *quasi moderator* might directly relate to alliance and/or performance and reveal interaction effect with the alliance membership variable too. Based on the literature review and previous research (Agárdi & Bauer 2007), it is very likely that size variables behave as a quasi moderator in the alliance-performance relationships.

Hypothesis 1: *Size of the retailer moderates both the strength and the form of the relationship between alliance membership and performance.*

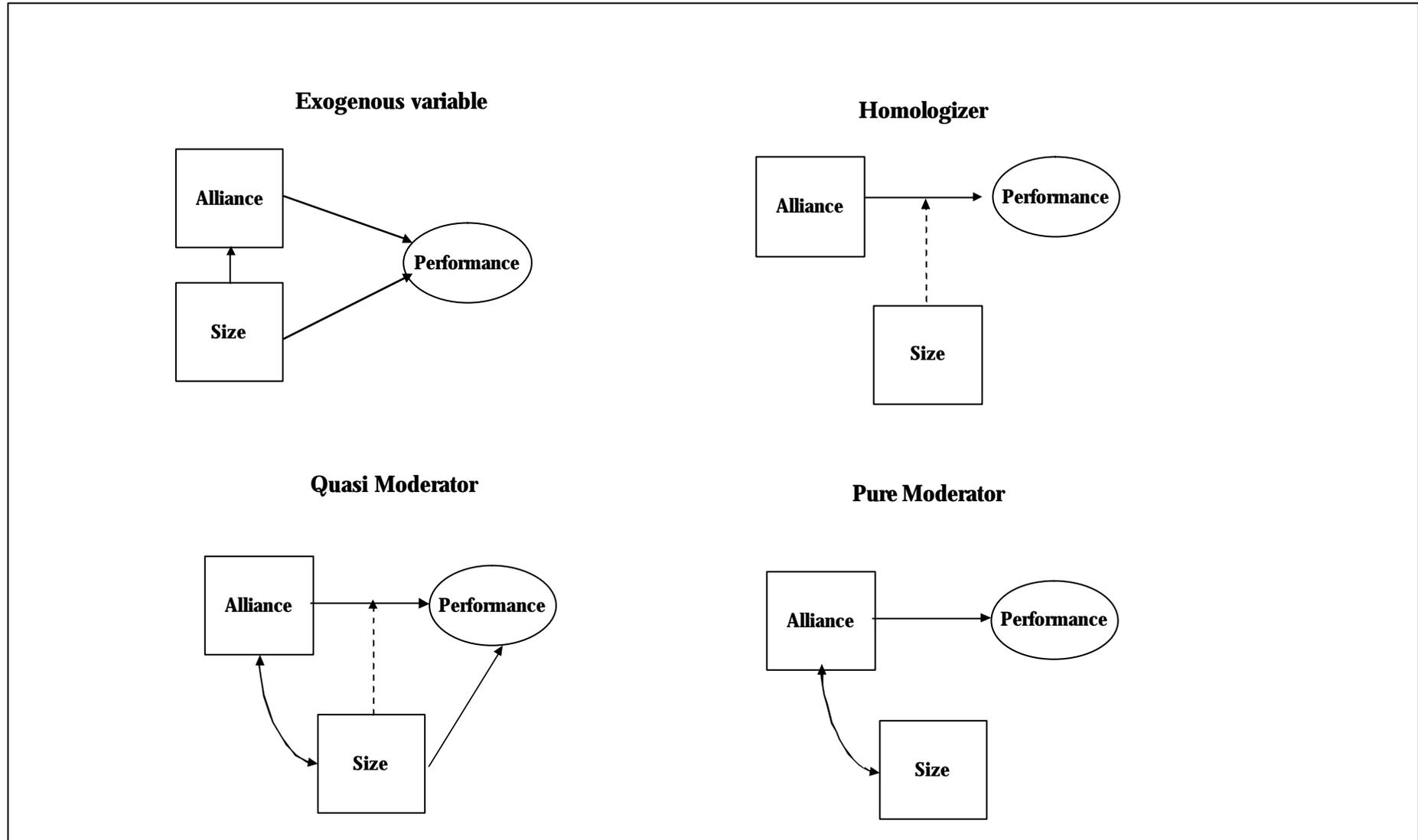


Figure 2 Graphical Illustration of Possible Moderating Effects of Size on the Alliance-Performance Relationship

4 Method

The research is based on a small-scale survey to analyse the role of the size as a moderator variable in studying the alliance-performance relationship. The population of respondents included managers and/or owners of small- and medium-sized grocery retailers taking part in some type of a horizontal cooperation (buying groups and/or voluntary chains) and own several stores (local and regional retail chains). Quota sampling was used to cover all the regions of Hungary. 99 respondents filled in the self-administered questionnaire in equal proportion of allied and independent retailers. Due to the small sample size, the sample does not represent the population of the domestic retailers but it is still suitable to explore the role of size concerning the alliance - performance relationship.

For quantifying the components of the causal model, *alliance membership* was assessed by a simple dummy variable (Leunissen et. al 2006) that reflects whether the retailer operates within an alliance or independently. *Size* was measured by number of full-time employees (Wincent 2005), total floor space, number of stores, average asset (Amato&Amato 2004). Based on previous analysis, we decided to use the aggregate floor space of stores owned by the retailer. Evaluating *the performance of the retailer* an absolute indicator (annual sales), and relative measures (sales and profit growth compared to the previous year) had been used.

According to the literature and the suggested nature of size as a moderator, hierarchical regression analysis was applied. Based on Arnold's work (1982), researchers (Prescott 1986, McArthur &Nystrom 1991) suggest a systematic procedure for identifying the nature of moderator variables.

- First, it has to be determined if a significant interaction exists between the hypothesized moderator and predictor variables, In case of significant interaction with the predictor, the main effect of size on performance should be tested.
- Secondly, if size is directly related to the performance of the retailer and it reveals interaction with alliance membership, we deal with a quasi moderator thus the size influences the form of the initial relationship between alliance membership and performance. In the opposite case where size does not relate to the performance of the retailer, size acts as a pure moderator.
- It is possible that size and alliance membership do not interact with each other but it reveals direct relations to performance and/or alliance membership. If there is relationship between the retailer size and the predictor and/or alliance membership, the analysis justifies size as an antecedent, exogenous, predictor variable and not as a moderator.
- Finally, lacking direct and interaction effect of size refer to a homologizer moderator that can be tested with subgroup analysis.

5 Results

Before analysing the results of hierarchical regression analysis, descriptive statistics (Table 1) and bivariate correlation coefficients (Table 2) of the components had been analyzed. Based on the descriptive statistics, there is a substantial variation in both criterion and predictor variables. Size measures reveal that the sample includes mainly small- and medium-sized retailers.

Table 1. Descriptive Statistics

Components of the Model		N	Mean	Std. Deviation
Alliance	Retailer's status (dummy)	99	0,5	0,5
Size	Total Floor space (m ²)	99	136,7	204,7
Performance	Annual Sales in 2003 (Thousand HUF)	99	91634,5	150818,6
	Profit rate in 2003 (%)	99	9,7	6,0
	Sales Growth (%) Compared to 2002	99	7,9	21,5
	Profit Growth (%) Compared to 2002	99	2,1	20,3

Examining zero-order correlations, it can be seen that the retailer's status (allied or non-allied), the size indicators, and performance measures are strongly interrelated. The only exception is the net profit rate that reveals no correlation to other variables. The possible cause of lacking correlation might be that profit rates are confidential information and most of the respondents gave only a vague proxy for this indicator. For that reason, the measure of profit rate is excluded from further analysis.

Table 2. Zero-order Correlations between the Components of the Model

	Retailer's status	Total Floor space (sqm)	Annual Sales in 2003 (Thousand HUF)	Profit rate in 2003 (%)	Sales Growth (%)	Profit Growth (%)
Retailer's status	1,000					
Total Floor space (m ²)	0,380*	1,000				
Annual Sales in 2003 (Thousand HUF)	0,421*	0,514*	1,000			
Profit rate in 2003 (%)	0,156	0,026	0,065	1,000		
Sales Growth (%)	0,465*	0,541*	0,393*	0,059	1,000	
Profit Growth (%)	0,468*	0,301*	0,291*	0,037	0,664*	1,000

n=99, *Correlation is significant at the 0.01 level (2-tailed).

For the hierarchical regression analysis, we used standardized variables controlling for the different magnitude of the ratio scales. Since we have different types of performance indicators (annual sales in 2003, sales and profit growth compared to previous year 2002) 3 distinct regression analyses were carried out.

Table 3. Hierarchical Regression Analysis of Firm Performance on Alliance Membership and Size

Annual Sales in 2003						
Variables	Cumulative			Change		
	<i>df</i>	R ²	F	<i>df</i>	R ²	Sig. F Change
Alliance	97	0,177	20,866	97	0,177	0,000
Alliance, Size	96	0,324	22,983	96	0,147	0,000
Alliance , Size, Alliance by size	95	0,324	15,174	95	0,000	0,881
Sales Growth						
Variables	Cumulative			Change		
	<i>df</i>	R ²	F	<i>df</i>	R ²	Sig. F Change
Alliance	97	0,216	26,798	97	0,216	0,000
Alliance, Size	96	0,371	28,342	96	0,155	0,000
Alliance , Size, Alliance by size	95	0,372	18,736	95	0,000	0,791
Profit Growth						
Variables	Cumulative			Change		
	<i>df</i>	R ²	F	<i>df</i>	R ²	Sig. F Change
Alliance	97	0,219	27,173	97	0,219	0,000
Alliance, Size	96	0,236	14,867	96	0,018	0,140
Alliance , Size, Alliance by size	95	0,237	9,841	95	0,001	0,786

The model summary of the hierarchical regression analyses (Table 3) reveals that the interaction effect between the size of retailer and alliance membership cannot be proved. The coefficients of determination for all the performance variables were nearly identical for the equation including the interaction effect to the equation containing predictor and moderator variables. Consequently, our main hypothesis that size is a quasi moderator cannot be verified based on the hierarchical regression analysis.

Comparing R^2 of the predictor-only equation to those of the linear function of size and alliance, we can see that size contributes substantially to the explaining power of the regression analysis. The coefficient of determination increases by nearly 15 % in the case of annual sales and sales growth if we include the size variable. In terms of profit growth, size accounts for only a small portion of the variation in the performance indicator.

Regarding the different performance variables, we conclude that relative performance indicator such as sales and profit growth can be explained by the alliance membership and size to somewhat greater extent.

Table 4. Estimated Standardized Regression Coefficients

	Beta	<i>t</i>	<i>p</i>
Annual Sales in 2003			
Alliance membership	0,421	4,988	0,000
Size	0,383	4,541	0,000
Alliance x Size	0,013	0,149	0,881
Sales Growth			
Alliance membership	0,465	5,721	0,000
Size	0,393	4,838	0,000
Alliance x Size	0,022	0,266	0,791
Profit Growth			
Alliance membership	0,468	5,222	0,000
Size	0,133	1,483	0,141
Alliance x Size	-0,024	-0,273	0,786

After analyzing the role of size in the alliance-performance relationship, it is worth to assess the individual effects of the predictor variables. The standardized regression coefficients reflect the impact of each variable on the retail performance.

As suggested in the literature (Gulati 2000, Weitz & Jap 2000), membership in alliances has a positive influence on the performance of the retailer. Being a member of a buying group or belonging to a voluntary chain means better financial outcome for the allied retailers. On the contrary, independent retailers have to face lower growth rates and smaller total sales figures as well.

Size as an independent variable has a significant positive effect on the annual sales and sales growth. It is not surprising that size has stronger relation to sales figures because turnover usually increases with capacity (number of outlets, floor and shelf space of the stores). The main effect of size on profit growth is not significant. Thus retailers with different size might experience similar growth in their profitability from one year to the other.

The interaction between size and alliance membership affects none of the performance variables that might be traced back to two explanations. First, the joint effect of belonging to a retail alliance and having smaller or larger retail capacity doesn't increase or decrease the performance of the retailer which is not a very plausible explanation. Secondly, the small sample size might be responsible for the insignificance of the interaction effect that is usually caused by high standard errors of the regression coefficients.

6 Conclusions

Size is a powerful variable in studying alliance-performance relationships. However, research concepts deal with size as a variable that merely affects the strength of a causal relationship. Based on the results of the hierarchical regression analysis, we could prove that size is directly related to both performance and strategy variables. The result of the analysis allows for the conclusion that retail size behaves as a predictor variable of performance. For that reason, size might be an alternative explanation for the differences in sales and growth figures between retailers.

Although we were able to show that size modifies the form of the alliance-performance relationship, the insignificance of interaction effect between size and alliance membership falsified our main assumption about the quasi moderator nature of size. Despite the high correlation coefficients of the initial data, results of the hierarchical regression analysis did not support the main hypothesis that might be caused by the small sample size. The findings give a proof that size cannot be treated as a homologizer moderator variable.

In addition to clarifying the role of size, conclusions can be drawn concerning the individual effect of alliance membership and size on retail performance. Being a member of an alliance seems to be rewarding in terms retail performance which could be an important motivation for independent retailers to join a buying group or other forms of retail co-operations.

Besides alliance membership, size has also significant impact on performance of retailers. Size relates positively to performance measures and sales figures, growth in sales increase with the retailer's size. However, profit growth seems to be not related to retail capacity which supports the idea that retailers of varying size might be equally profitable in grocery retailing.

The main limitation of our research is the insufficient sample size that could be responsible for not being able to prove the interaction between alliance membership and size i.e. the quasi moderator role of retail size. Further research should be conducted with larger samples that allow for better estimation of the model components and generalization of the findings. Future research should control for retailers of other merchandise groups (e.g. fashion of electronic products) because role of size in alliance-performance relationships might vary in different context.

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