

## Strategic Intent, Growth mode thrust, flexibility and linkages with firm performance: Evidence from India

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### Abstract

*The paper reports findings from a cross-sectional study of 601 Indian firms wherein the impact of strategic intent, organic growth mode – thrust and flexibility on firm performance is evaluated. The study is relevant in view of the strategic posture adopted by firms in a very competitive scenario. A conceptual framework was outlined based on a thorough study of literature. Subsequently, ordinary Least Squares regression approach was used to analyze data pertaining to the year 2017 for Indian firms. Results indicate that growth mode flexibility and organic growth mode thrust have a significant positive impact on market performance of firms. Hence, evidence from the paper indicates that strategic actions of firms are interpreted by markets positively. The findings underline the importance of strategic intent, organizational resources deployed across firm expansion efforts, innovation, the marketing efforts of firms and their influence on market performance. The study is amongst the few that have used content analysis to understand the ‘strategic intent’ conveyed as part of voluntary disclosure in the annual reports of firms.*

**Key words:** *India, organic growth, strategic flexibility, voluntary disclosures, content analysis, firm performance.*

### Introduction

An overview of the business features in prominent magazines such as Bloomberg Businessweek, Time or online news sites such as the wsj.com (Wall Street Journal) point to the predominance of companies such as Google or Amazon approaching their strategic planning with corporate zeal and articulated intent. Hence, as goal oriented firms (e.g. Cyert and March, 1992), some firms have been found to be more aggressive than others. A review of business practices by Hamel and Prahalad (1989) found that firms which exhibited long term orientation to business goals ultimately overtook their counterparts within a short span of time. However, there are constant forces at play within the business environment and consistent patterns have been found in organizational decisions that propel firms towards greater heights (Mintzberg, 1979). Besides strategy researchers have focused on intent as directional clues (Schendel and Hofer, 1979; Chen and Yeh, 2011) and have observed influence of strategic intent on firm’s overall growth and performance.

An important aspect of strategic intent involves the firm performance. It is quite likely that firms that have a strong vision and are able to clearly articulate it, act on it and pursue it vigorously are more likely to be appreciated by the markets. Besides, such firms are likely to generate considerable accounting profits as well. However, the strategy literature has also focused on the resources and their deployment as one of the indicators of firms’ intent. Strategic actions, follow-through on stated mission statements and persistent efforts together lead to better firm performance viewed through the demanding eyes of stakeholders. In particular, we study whether the stated intent as evinced through disclosures in annual reports (Kumar and Boesso, 2007) has an influence on the market performance of firms.

Strategic intent is also buttressed by the firm’s actions manifested in the form of corporate aggressiveness (Fombrun and Ginsberg, 1990). Corporate aggressiveness, strategic aggression (Chen,

Lin and Michel, 2010), evolutionary approach to strategic thought (Dufour, et al., 2018) and strategic orientations (Venkatraman, 1989) support the organizational view of strategy as a means to drive firm growth and performance. Researchers have often looked at understanding firms' approach to growth through higher levels of leverage (debt), an increased focus on acquiring new customers through intense advertising and marketing, or an approach to newer products by way of investments in research and development. All these forms of deployment of capital and managerial efforts is also viewed by stakeholders in a positive way.

In close alignment with strategic intent, the variety and shifts in resource deployment as viewed by Nadkarni and Narayan (2007), the role of resource allocations and performance (Vanacker, Collewaert and Zahra, 2017; Seah and Hsieh, 2015) and strategic orientation (Aragón-Sánchez and Sánchez-Marín, 2005) have all indicated the subtle, yet powerful influence of firms' actions on performance. Whilst attempting to advance knowledge in this domain, it is imperative to understand how organizations fare in highly volatile and uncertain environments. Firms such as General Electric, Procter and Gamble, while being stable are facing stagnating growth, while firms such as Uber, Google and Amazon manifest strong growth. Do we infer that the type of industry alone can have a say in firms' growth? Hence, our paper seeks to understand the impact of resource deployment patterns on performance.

Leadership also has a role to play in directing the strategic actions of firms (Ireland and Hitt, 1999; Barrick, Thurgood, Smith and Courtright, 2015). In this context, boards and composition, processes and routines have significance in influencing the long term performance of organizations (Dalton, Daily, Ellstrand and Johnson, 1998); stronger boards have a higher impact on financial performance of firms (Tang, Crossan and Rowe, 2011). Corporate governance research has looked at relationship between disclosures and performance. For researchers and practitioners, board roles, processes and the disclosures voluntarily released by firms provide signals and cues to stakeholders. Investors pay careful attention to any additional information available in the annual reports of firms. Research has also attempted to quantify disclosures with a view to relating firms' market valuation and enhanced reporting information in formal organizational documents.

## **Conceptual Background and Literature Review**

Definitions of strategy, the strategy process and strategic intent have taken various dimensions over the years. While practitioners are confident about the discipline emerging from observed practices, academicians have always attempted to develop conceptual frameworks from their understanding of how organizations frame strategy and how they implement them. While the early historian and chronicler Alfred Chandler viewed strategy as a denominator in the performance metric of organizations (Chandler, 1962), other scholars viewed strategy as a rule-making guide (Ansoff, 1965; Schendel and Hofer, 1969). There were considerable differences in the way scholars framed perspectives on strategy. Strategy as a procedural approach was strongly supported by Farjoun (2002) who suggested the adaptation view be incorporated into established models such as the Structure-Conduct-Performance (S-C-P). This view visualizes strategy as a posture: posture consisting of two types – *position* and *scope*.

On the other hand, strategy was viewed as a process wherein chance factors, choice and causality played multi-dimensional roles. This perspective was put forth by De Rond and Thietart (2007) who observed that industry actions often deviated from any deterministic agendas. Strategy was consequently viewed as a choice process arising out of some planned and some incidental (or unplanned) events (Kaplan, 2008; Eden and Ackermann, 2013). Studies found a wide variety of influences in the strategy making process. In this context, resource allocation, resource deployment and optimal use of resources were areas that gained attention amongst those who favoured the action mind-set to developing an understanding of strategy.

Dynamic capabilities and resultant work therein (Teece, Pisano and Shuen, 1997; Ambrosini and Bowman, 2009) described strategy in the form of capabilities developed in organizations over a

longer time horizon. Following on, Adner and Helfat (2003) put forth a theory on ‘dynamic managerial capabilities’ emphasizing the significance of managerial guidance in orchestrating resources and competences. Lending strength, empirical research found reasonably strong support indicating the influence of managerial capabilities on firm performance (Kor and Leblebici, 2005; Ray, Barney and Muhanna, 2004). Dynamic capabilities thus brought in the aspect of environmental influence on strategic postures leading researchers into newer avenues. Subsequently, this also reinforced the S-C-P paradigm developed as a means to understand strategy. While these capabilities may be developed over a period of time, it is also significant to understand how these capabilities can be de-constructed and visualized as a series of actions performed by organizations. This led to the resource deployment view of strategy.

Resource deployment in its bare essence is about the utilization of assets within the organization. It varies by the type of industry. For industries that are labour intensive, resources primarily refer to manpower. This could be relevant for the software industry, garment industry and the business process outsourcing industry. For industries that are capital intensive such as power industry, resources could refer to the financial capital. Such industries are often characterized by the ability to raise large amount of funds, deployment of those funds over a long time horizon; such industries are also challenged by large gestation periods. However, a scholarly perspective sheds more light on how resource deployment influences the organizational performance. Firm resources refer to all assets, capabilities, organizational routines, attributes, know-how that is carefully orchestrated with a view to conceiving of and implementing strategies that further the organization’s goals (Daft, 1983). Barney (1991) posits that the asymmetry existent within the organization’s operating environment leads to inimitable competitive advantage. This competitive advantage can be viewed through the lens of the five forces framework (Porter, 1983); firms’ sustainable competitive advantage could arise due to idiosyncratic nature of certain organizational attributes (Madhok, 1996; Barney, 1991; Peteraf, 1993), it could also arise due to the embedded tacit knowledge, complexity and information asymmetry (Reed and DeFillipi, 1990). Therefore, while the roots of competitive advantage are many, resource endowments, their exploitation by firms and the inherent complexity in the way organizations navigate the myriad challenges of their business environments together lead to further research in this domain.

### **Development of Hypotheses**

Firms convey their long term goals in very subtle ways. Firms may also signal their strategic intent with war cries of “Encircle Caterpillar” (Hamel and Prahalad, 1989). Whilst preparing for long term leadership, firms may be willing to cede positions to their rivals in the near term as observed in the case of Honda, Japan which tested two wheelers extensively in the United States market before launching their celebrated passenger car, Honda City. From the point of view of chief executives and top management, it is important to signal intentions. This can be done in many ways. Research has observed that firms are often urged to enhance their reporting levels and intensity on intangibles such as good will, qualitative insights and strategic thinking (Burgman and Roos, 2007; Sriram, 2008). Consequently, firms undertake this through myriad forums such as Annual General Meetings (or AGMs in India), letters to shareholders, which is a voluntary part of the annual report. Firms may also release additional information to investors by way of conference calls after key organizational events such as mergers and acquisitions, new investments in greenfield ventures or any form of large scale investments. This information often relates to strategic plans of firms, conveying their long term vision. Articulation here may not be in concrete terms, however, the information often has a strong orientation to the future. Research has observed positive influence of voluntary disclosures on market performance of firms. Hence, our hypothesis is stated thus

H1: Strategic intent, expressed in the form of voluntary disclosures positively influences the firm performance

Organizations undertake different commitments to grow their businesses. Some adopt an organic growth strategy while others adopt inorganic means as well as hybrid forms. In short, firms

continue to invest by way of encouraging innovation, encouraging market expansion and also facilitating expansion through investments in fixed assets. Each of these investments can be interpreted differently. Firms that encourage innovation often do so by allocating larger portion of their reserves to research and development. Firms that strive to grow their market often spend more on advertising and promotions. Also, firms that are keen on expansion often take up larger capital expenditure projects. Moreover, it was observed that firms that had a strong growth orientation often took up risky bets by way of long term borrowings.

Fombrun and Ginsberg (1990) observed that such firms signal their intent to the investors and markets through these strategic gestures. Studies have observed positive influence of leverage on the firm performance (El-Sayed Ebaïd, 2009; Mehran, 1995). The reasoning is that firms which aspire to grow using debt are very keen on improving internal efficiencies. They are keen on ensuring effective utilization of resources. Even when capital structure was studied, it was found that long term borrowings was a favoured option among firms (Li, Meng, Wang and Zhou, 2008) which embarked on a long term growth strategy. Beard and Dess (1981) found mixed results when they studied the effect of capital structure on firm performance. Their study found that leverage had a negative effect on the market valuation of firms. On the whole, it has been observed that long term borrowing signals strategic intent of firms and investors read more meaning into such actions of firms.

Firms that aspire for consistently superior market advantage invest in research and development. These investments take several forms. Some firms develop in-house resources, deploy several experiments, tests and subsequently develop products and services. A few others outsource some parts of new product development initiatives to external agencies. Apple Inc. has been known to allocate upto five percent of its sales revenue on research and development. Literature has found differing perspectives on this front. Studies have compared the impact of marketing function against the investments in research and operations capabilities (Krasnikov and Jayachandran, 2008) and found that marketing capabilities had a stronger relationship with firm performance. The aforementioned study defined marketing capabilities as competencies gained through market sensing and customer linking (Day, 1994) mechanisms. This hinted at the effectiveness of reaching out to customers through various mediums of advertising as against investing in new products or services within the firm. In practice, organizations sustain their research efforts predominantly aimed at developing newer products or services; they are keen to adopt incremental as well as radical innovations (Dewar and Dutton, 1986) to refresh their product lines.

Firms signal their intent to develop new markets by advertising across different media. Day (1994) observed that market capabilities are developed over a period of time by firms through actions that help firms reach out to customers and by communication that helps customers understand the firm's products and services. Chauvin and Hirschey (1993) found clear linkages between advertising expenditure and firm performance. For organizations that consistently allocate a percentage of their sales revenues towards advertising expenditure, it is quite clear that the markets perceive the benefits of such forms of signalling. Accordingly, such firms are perceived to perform better from the standpoint of investors.

A combination of the debt-equity, the advertising intensity and the research and development intensity gives an index or indicator of the firm's organic growth mode thrust, following a similar approach adopted by (Fombrun and Ginsberg, 1990). The indicated thrust or aggression is perceived by the markets in a positive frame of light, hence leading to the second hypothesis:

H2: Organic growth mode thrust has a positive influence on the market performance of firms.

Firms operating in an uncertain business environment (DeSarbo, Benedetto, Song and Sinha, 2005) attempt to tackle the uncertainty by resorting to tangible and clear actions. In this regard, resource deployment comes to the fore (Mol and Wijnberg, 2011); firms take up an active stance to further the organization's goals. With this view, investments in research and development, taking up large capital

expenditure decisions are the prerogative of firms. Firms embrace an active approach; hence this provides the investors and stakeholders who are inherently part of the business, yet outside the firm with clear signals of intent. In turn, the perceived value of the firms is observed to rise.

At this stage, it is important to note that firms have to show consistency in their resource deployments. Some forms such as large capital expenditure decisions could have an impact on other key decisions such as methods of raising funds. However, any new projects, procurement of strategic assets or sophisticated machinery in the case of manufacturing firms is communicated to stakeholders through annual reports. Applying a similar line of thinking, investments with a view to launching new products and services often comes about through an active team engaged in research; an engaged team pursuing new opportunities for firms also interacts with other functions or departments within the organization. Consequently, such strategic actions are also signals of intent conveyed through formal and informal channels to the stakeholders of the firm. These are also expected to enhance the market capitalization of the firms. Hence, we can frame our hypothesis thus:

H3: Consistency of resource deployment directed at innovation and strategic growth significantly influences the market performance of firms

Research has viewed flexibility through the lens of several perspectives. Among the early researchers, Sanchez (1993) has touched upon the evolving role of strategy in uncertain product markets. Further, research has also explored the adaptability of firms with their suppliers, customers and other stakeholders (Volberda, 1996); the financial impact in specific construction industry projects (Ford, Lander and Voyer, 2002) and more recently in the context of firm's resource deployment within the organization (Nadkarni and Narayanan, 2007). The perspective of business model adaptability to the changing business environment has been further studied by Sharma, et al., (2016) who studied the phenomenon in the context of emerging markets.

Looking at linkages with our core theme of strategic intent and resource deployment, we find that Nadkarni and Narayanan (2007) have operationalized flexibility along three lines of resource deployment by firms: a) investments aimed at developing products and services, thereby leading to innovation development, b) expenditure on market development and consumer reach – by way of advertisements and c) long term investments by way of capital expenditure on projects or machinery. Adopting an analogous line of reasoning, we take up the shifts in resource deployment and intend to observe their linkage with firm performance. This leads us to the construct of growth mode flexibility, following Nadkarni and Narayanan (2007). Though the shifts in resource deployment may not be overtly signalled by firms, investors glean information from mandatory reports that are filed by firms on a quarterly basis. Therefore, the discussions set forth lead us to the next hypothesis,

H4: Growth mode flexibility has a positive relationship with the market performance of firms.

The conceptual figure outlining the development of the hypotheses is present in Figure 1.

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INSERT Figure 1 here

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## Data and Methods

While Hamel and Prahalad (1989) compared the long term future orientation of firms across Japan and the United States, corporate governance researchers studying the voluntary disclosures of firms were keen to understand the antecedents of such voluntary information sent out by firms along with

their annual reports. Also, we find that Boesso and Kumar (2007) identified the future orientation of firms by classifying every statement into ‘past’ and ‘future’ depending on whether the firm had spoken about the previous year’s performance or given indications about the future orientation.

Adapting the approach taken by Boesso and Kumar (2007), we look at the Chairperson’s speech to shareholders delivered during the Annual General Meeting every year and perform our study in this manner: Firstly, we count the number of statements that are present in these reports. Secondly, we read through each statement and count the number of statements that indicate the ‘future’ orientation of firms. For example, a statement taken from the speech, “over the next couple of years, your organization would spend more on research” is counted as a statement with strategic intent. However, a statement which outlines the previous year’s performance such as “your firm delivered a dividend of Rs. 10 per share at the end of the fiscal year” would not be counted. The strategic intent (STRAT\_INT) is captured as a ratio of number of statements with future orientation to the total number of statements.

Following Fombrun and Ginsberg (1990), we derive an indicator for Organic Growth Mode Thrust (OGMT) thus: 1) the debt to equity ratio is computed as the ratio of long term borrowings of the firm to the total value of outstanding equity shares. 2) the research and development intensity is computed as the ratio of the research and development expenditure to the total sales of the firm; and 3) the advertising intensity, likewise is computed as the ratio of the advertising and marketing expenditure to the total sales of the firm

We are keen to understand why firms sustain their investments in research or capital expenditure. Hence, we derive a variable consistency of resource deployment (CONSENSIS\_RDL) by identifying whether the firms have increased their research and development intensity, year-on-year over a five-year period. A similar logic is applied as we observe whether firms have increased their capital intensity, across a five-year period. However, here we do not test for a year-on-year increase in the capital expenditure intensity. If firms have increased only advertising intensity, we assign a value of 1 to the firm; if firms have increased both advertising intensity and capital expenditure intensity, we assign a value of 2 to the firm. If a firm has not increased its intensity on both these parameters, we assign a value of 0.

Growth Mode Flexibility (GMF), being analogous to strategic flexibility (Nadkarni and Narayanan, 2007) is computed through two variables, each representing two dimensions – 1) variety in resource deployment and 2) shifts in resource deployment. Advertising intensity, capital intensity and research and development intensity are computed year-wise from the year 2013 to 2017. Computation of the variable Variety in Resource Deployment ( $GMF_{VRD}$ ) is performed thus: year wise, for each head (advertising, capital intensity and research and development), the coefficient of variation is computed. This yields five indices for each head. Subsequently, we compute  $GMF_{VRD}$  as the sum of the coefficient of variation, in effect the addition of 15 terms. Computation of the variable, Shifts in Resource Deployment ( $GMF_{SRD}$ ) is performed thus: First, the resource allocation ratios are computed: ratio of advertising expenditure to the total expenditure on advertising + capital equipment + research and development; similarly ratios are computed for research and development expenditure and capital expenditure; this is performed separately for a block of two years, 2013-15 and year 2015-17. The variable  $GMF_{SRD}$  is computed as the absolute difference in the proportional allocation to the two 2-year time frames. Control variables taken up are the age and size of firms.

For performance of firms, the book value per share is taken. This forms the dependent variable in our research. We have used an Ordinary Least Squares Regression to identify the effect of the variables in our study on the performance of firms. Using data from PROWESS, the database managed by Centre for Monitoring the Indian Economy (CMIE), we started with a large sample; however, after filtering out firms that had zero research and development expenditure over a 6-year time frame and identifying those firms that did not have the price to book value ratio mentioned in the year 2017, we narrowed down our sample to 601 firms.

## Discussion of findings

The univariate statistics and the correlations table gives us first hand insights about the firms. We find that the average annual sales of the firms in our sample is Rs. 6075 Crores (US\$ 0.9 Billion), indicating a mix of mid-size and large firms in the Indian context. The firms in our sample were predominantly a mix of product and service oriented firms with a larger proportion of them serving business clients. The details are found in Table 1.

The correlations are found to be mostly insignificant as it can be seen from the values given in the table. A few significant correlations are also noted; it can be seen that Organic Growth Mode Thrust and size of the firms are correlated; similarly, Growth Mode Flexibility as it can be observed in the form of variety in resource deployment is significantly correlated to the size of firms.

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INSERT Table 1 here

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The regression results have been tabulated and presented in Table 2. We observe that two of the constructs (variables) in our study show significant influence on the performance of firms. Other variables are found to have weak coefficients and have no statistically significant influence on firm performance.

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INSERT Table 2 here

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The adjusted value of R-square indicates that 33% of the variation in the performance of firms is explained by the variables under study. While this may not be conclusive in any manner, it outlines that there are more unexplained factors that ultimately impact the performance of firms.

For strategic intent, though we were able to compute the metric for all firms, the overall results indicated that the strategic intent variable was insignificant, while its influence on firm performance was measured. Hence, we were unable to establish any statistical conclusions with respect to this variable.

## Conclusions and future directions

Firstly, we find that organic growth mode thrust has been found to have a significant influence on the performance of firms, thereby supporting Hypothesis 2. From an academic standpoint, this bears more introspection; in our research, we took up a convenient proxy whereby the sum of three ratios were taken to be interpreted as corporate aggressiveness. From a practitioner standpoint, we find that firms that have taken up higher debt, invested in advertising and marketing and oriented themselves to developing new products and services have been found to perform well as organizations. However, this did not have any significant impact on market performance, wherein the dependent variable was taken as price-to-book value (this was not part of the published results in this paper). An important takeaway is that markets and investors do not seem to have any strong views on this particular risky or aggressive orientation of firms.

Secondly, we notice that growth mode flexibility as measured by variety in resource deployment shows a weak influence on firm performance, thereby supporting Hypothesis 4 (on one of the sub-parameters). Academically, this implies that an ability to switch between resource deployments has a positive, yet marginally significant impact on firm performance. Industry experts however may have different perspectives. Practitioners may be more interested in questioning the motives behind transition across the three heads of capital expenditure, R and D and market development. For instance, in firms, the capital expenditure is often a way of signalling intent to their competitors; a similar logic applies to scenarios where firms spend heavily on marketing and advertising. Therefore, in the real world, top management teams may be more concerned about market based triggers with regard to resource deployment; moreover, deployment decisions may be due to investor pull as well. Hence, further research in this domain needs to include the industry experts' views and perspectives.

Future research in this domain may also take up impact of flexibility in information technologies on firm performance as observed by recent studies (Cheng, Wang, et al., 2017; Ajamieh, Benitez, Braojos and Gelhard, 2016); moreover organizational design and its impact on firm performance has been studied by Perez-Valls, et al, (2016). The study of resources, their deployment and flexibility to be factored into organization design has been emphasized by recent paper (Brinckmann, Villanueva and Singh, 2016), thereby bringing strategic management theory and blending it with managerial practice. With increasing levels of competition and firms employing strategic approaches to optimize their resource management, the field is ripe for further studies involving both research approaches and industry orientation.

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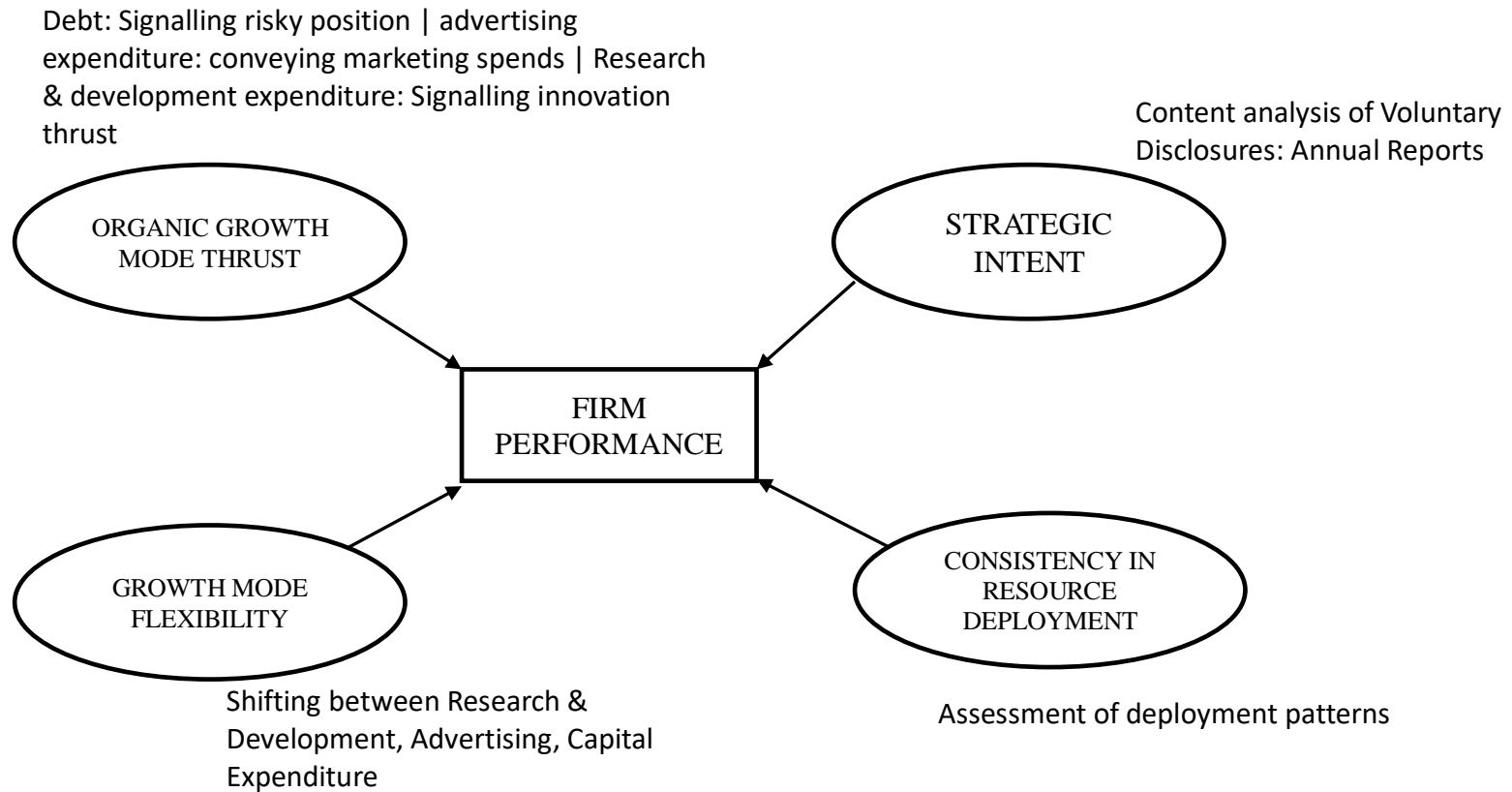


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### List of Figures and Tables

**Figure 1: Representation of the strategy-firm performance linkages**



**Table 1. Univariate statistics and Correlations**

	Mean	Std. Deviation	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
BOOKVALUE (1)	216.61	855.00	1.00	0.02	0.07	0.00	0.57	0.08	0.13	0.06
STRAT_INT (2)	0.28	0.22		1.00	0.08	-0.01	0.00	0.02	0.11	0.09
GMF_VRD (3)	7.82	5.53			1.00	0.00	-0.01	0.30	0.19	0.13
GMF_SRD (4)	1.87	6.69				1.00	-0.05	-0.01	-0.08	0.03
OGMT (5)	6.89	19.85					1.00	0.03	0.23	0.08
CON SIS_RDL (6)	1.35	0.63						1.00	0.24	0.08
SIZE (7)	9.31	1.73							1.00	0.20
AGE (8)	45.10	22.15								1.00

**Table 2. Regression Results. Dependent variable: book value per share.**

	Unstd. Coeff	Std. Error	Std. Coeff	p-value
(Constant)	4.03	165.52		0.98
STRAT_INT	0.19	0.27	0.07	0.87
GMF_VRD	9.98	5.49	0.06 *	0.07
GMF_SRD	3.38	4.29	0.03	0.43
OGMT	25.01	1.49	0.58 ***	0.00
CON SIS_RDL	70.42	48.45	0.05	0.15
SIZE	-17.37	18.04	-0.04	0.34
AGE	0.49	1.33	0.01	0.71
* p<0.1				
***p<0.01	R <sup>2</sup> = 33%	F-Value = 43.18***		