HOW CORPORATE STRATEGY CONTRIBUTES TO FIRM PERFORMANCE: A CROSS-SECTIONAL STUDY OF RESOURCE GOVERNANCE DECISION MAKING IN US FIRMS.

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Corporate strategy has been a neglected topic in both theoretical and empirical discussions on superior firm performance. In addition to using competitive strategy to attain sustainable competitive advantage, firms should also focus on achieving a corporate level measure of performance, namely, persistent superior firm performance. The resource based theory paradigm suggests that factors which lead to superior firm performance are largely endogenous to the firm. Corporate strategy is one such factor. Empirical evidence has shown that corporate strategy matters. It has a small but significant influence on the variance of both business unit performance and firm performance. This research extends current knowledge by determining, firstly, if corporate strategy could be used to distinguish successful firms from nonsuccessful firms and, secondly, if so, how does corporate strategy actually influence firm performance. Fifteen Fortune 1000 US firms were categorised into three subpopulations based on persistent superior, average and inferior levels of performance. Eighteen indicators representing both excellence in corporate strategy and the incidence of corporate strategy were collected through the content analysis of Wall Street Journal articles from 1980 to 2004. Various inferential statistical techniques were conducted to provide a broad profile of findings.

The frequency of resource governance decisions was found to distinguish the persistent superior firm performance category from both the persistent average and inferior firm performance categories. The corporate level decision making skill perspective provides an explanation for this empirical evidence. Superior performing firms, through the use of superior corporate level decision making skills, are able to simplify resource governance decision making (e.g., decision making rules). This simplification results in superior resource governance decisions being made, *lowering* the incidence of resource governance decisions. This research extends resource based theory by providing empirical evidence of the importance of resource governance decisions in achieving persistent superior firm performance. This research also integrates the concept of superior corporate level decision making skills into existing resource based theory. The research has implications also for both theoretical and practitioner literatures as it redefines corporate strategy. It shows that corporate strategy matters to firm performance, and importantly, it shows why corporate strategy matters.

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LIST OF ABBREVIATIONS

Text abbreviations

BUP	Business unit performance
Compustat	Standard and Poor's Compustat Business-Segment Reports database
CRSP	Centre for Research in Security Prices of the University of Chicago
DJIA	DOW Jones Industrial Average
FTC	Federal Trade Commission database
H-form	Holding firm organisational structure
IO	Industrial organisation economics
M-form	Multidivisional firm organisational structure
PAFP	Persistent average firm performance
PIFP	Persistent inferior firm performance
PSFP	Persistent superior firm performance
RBT	Resource based theory
ROA	Return on assets
R&D	Research and development
SBU	Single business unit
SCA	Sustainable competitive advantage
SCP	Structure-conduct-performance paradigm
SIC	Standard Industrial Classification codes
SMP	Share market price
SPSS	Statistical Package for Social Science 13.0 for Windows
US	United States of America
U-form	Functional firm organisational structure
WSJ	Wall Street Journal

Sample firm abbreviations

Amerada	Amerada Hess Corporation
BNSF	Burlington Northern Santa Fe Corporation
CMS	CMS Energy Corporation
CSXC	CSX Corporation
Duke	Duke Energy Corporation
Emerson	Emerson Electric Company
FPL	FPL Group, Incorporated
GenCorp	GenCorp Incorporated
Masco	Masco Corporation
Northrop	Northrop Grumman Corporation
Raytheon	Raytheon Company
Southern	Southern Company
Sunoco	Sunoco Incorporated
Union	Union Pacific Corporation
Whirlpool	Whirlpool Corporation

Hypotheses and subhypotheses abbreviations

ε	Error
CS	Corporate strategy index
CSQ	Quantity of corporate strategy decisions index

CSX	Excellence in corporate strategy index
FS	Firm size (potential confound variable)
HE	Historical endowment (potential confound variable)
H_0	Null hypothesis
IG	Internal governance attribute index
IGQ	Quantity of internal governance decisions index
CLC	Corporate level commitment to the status quo (potential confound variable)
OD	Organisational domain attribute index
ODQ	Quantity of organisational domain decisions index
ODX	Excellence in organisational domain index
RG	Resource governance attribute index
RGQ	Quantity of resource governance decisions index
RGX	Excellence in resource governance index
SI	Strategic intent attribute index
SIQ	Quantity of strategic intent decisions index
SIX	Excellence in strategic intent index

Additional variables used in formulae

ASI	Alignment (strategic intent excellence variable)
CIG	Change in internal governance decision (internal governance quantity variable)
CSI	Change in strategic intent (strategic intent quantity variable)
DFD	Decrease in firm domain decision (organisational domain quantity variable)
EMC	Emotional connection (strategic intent excellence variable)
FDD	Firm domain decision (organisational domain quantity variable)
FUT	Futurity (strategic intent excellence variable)
IFD	Increase in firm domain decision (organisational domain quantity variable)
IGC	Consequences of internal governance (internal governance variable)
JV	Joint venture decision (organisational domain quantity variable)
RAL	Resource allocation decision (resource governance quantity variable)
RGD	Resource governance decision (resource governance quantity variable)
RL	Resource leverage (resource governance excellence variable)
RLM	Resource leverage mechanisms (resource governance excellence variable)
RNC	Revealing the new and creativity (strategic intent excellence variable)
SSD	Statement of strategic direction (strategic intent variable)
STR	Stretch (strategic intent excellence variable)
SYN	Synergy (organisational domain excellence variable)

Statistical notations

ANOVA1	One-way independent analysis of variance test
ANOVA	Analysis of variance test
BDM	Brunner, Detter and Munk heteroscedastic rank-based ANOVA test
COV	Variance components analysis test
D	Kolmogorov-Smirnov test statistic
df	Degrees of freedom
F	Levene's test statistic
GH	Games-Howell test
H	Kruskal-Wallis test statistic
J	Jonckheere-Terpstra test statistic
JT	Jonckheere-Terpstra test
KW	Kruskal-Wallis one-way analysis of variance by ranks test

M	Sample mean
Mdn	Sample median
MW	Mann-Whitney test
N	Sample size
η^2	KW effect size statistic
p	The probability value indicating the significance of a statistical test
r	Effect size statistic for JT, MW and planned contrasts
s	Sample standard deviation
SC	Siegel-Castellan critical difference test
Sig	Significance
τ	Kendall's tau statistic
T2	Tamhane's T2 test
T3	Dunnett's T3 test
U	Mann-Whitney test statistic
v	versus
ω	ANOVA1 effect size statistic
Welch's F	One-way independent analysis of variance test statistic for possible violation of the homogeneity of variance assumption
X^2	Chi-square statistic
Λ	Wilks' lambda statistic

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