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

A thesis presented in partial fulfilment of the requirements for the degree of Doctor of Philosophy in Strategic Management, at Massey University, Palmerston North.

Sondra Athene Monroe
2006
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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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Finally, I would like to thank Wayne Bowler for his support and understanding during my seemingly endless quest for knowledge and learning.
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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
Excellence in corporate strategy index
Firm size (potential confound variable)
Historical endowment (potential confound variable)
Null hypothesis
Internal governance attribute index
Quantity of internal governance decisions index
Corporate level commitment to the status quo (potential confound variable)
Organisational domain attribute index
Quantity of organisational domain decisions index
Excellence in organisational domain index
Resource governance attribute index
Quantity of resource governance decisions index
Excellence in resource governance index
Strategic intent attribute index
Quantity of strategic intent decisions index
Excellence in strategic intent index

Additional variables used in formulae

Alignment (strategic intent excellence variable)
Change in internal governance decision (internal governance quantity variable)
Change in strategic intent (strategic intent quantity variable)
Decrease in firm domain decision (organisational domain quantity variable)
Emotional connection (strategic intent excellence variable)
Firm domain decision (organisational domain quantity variable)
Futurity (strategic intent excellence variable)
Increase in firm domain decision (organisational domain quantity variable)
Consequences of internal governance (internal governance variable)
Joint venture decision (organisational domain quantity variable)
Resource allocation decision (resource governance quantity variable)
Resource governance decision (resource governance quantity variable)
Resource leverage (resource governance excellence variable)
Resource leverage mechanisms (resource governance excellence variable)
Revealing the new and creativity (strategic intent excellence variable)
Statement of strategic direction (strategic intent variable)
Stretch (strategic intent excellence variable)
Synergy (organisational domain excellence variable)

Statistical notations

One-way independent analysis of variance test
Analysis of variance test
Brunner, Detter and Munk heteroscedastic rank-based ANOVA test
Variance components analysis test
Kolmogorov-Smirnov test statistic
Degrees of freedom
Levene's test statistic
Games-Howell test
Kruskal-Wallis test statistic
Jonckheere-Terpstra test statistic
Jonckheere-Terpstra test
Kruskal-Wallis one-way analysis of variance by ranks test
M: Sample mean
Mdn: Sample median
MW: Mann-Whitney test
N: Sample size
$\eta^2$: 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
$\tau$: Kendall's tau statistic
T2: Tamhane's T2 test
T3: Dunnett's T3 test
U: Mann-Whitney test statistic
$v$: versus
$\omega$: 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
$\Lambda$: Wilks' lambda statistic
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