The Roles of Firm Strategy and Intangible Organizational Elements as Determinants of Performance

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EXECUTIVE SUMMARY

This paper examines the roles of firm strategy and intangible organizational elements in determining performance. It does this by developing two orthogonal but additive models. The first is a model that includes two types of firm strategies as well as activities that firms undertake to address their competitive environments, and the impact of these on performance. Strategic activities include organizational responsiveness, product market and defensive strategies, and a cost focus. The second model is the role of intangible organizational elements and their impact on firm performance. Intangible organizational elements consist of organizational culture, competitor and customer orientations, information generation and interpretation, innovativeness, and reputation. Using representative models for each perspective, we find both models are significant determinants of firm performance. Using path analysis, we test the models on a sample of 163 small and medium sized entrepreneurial firms. We also test a third integrated model that combines the two partial models. The integrated model explains .320 of the variance compared to .230 and .288 of the two partial models. However, the bulk of the explained variance on performance, over 90%, in the integrated model is from intangible organizational elements, suggesting that unique, firm-specific resources are the major determinants of performance. The conclusion section discusses the implications of the research findings and directions for future research. The limitations of this research are also highlighted.

Keywords: Firm strategy, Intangible organizational elements, Determinants of performance