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REVENUES OR EXPENSES? CLARIFYING THE CONTRIBUTIONS OF CORE CAPABILITIES TO FIRM PERFORMANCE IN UNCERTAIN ENVIRONMENTS (INTERACTIVE PAPER)

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≈ INTERACTIVE PAPER ≈

**REVENUES OR EXPENSES? CLARIFYING THE
CONTRIBUTIONS OF CORE CAPABILITIES TO FIRM
PERFORMANCE IN UNCERTAIN ENVIRONMENTS**

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Principal Topic

For many companies, dealing with fast-paced, hypercompetitive, and highly uncertain environments often involves 'knee jerk' responses from management teams to curtail growth plans, cut expenses, and build financial reserves. While such strategies improve the likelihood of a firm's survival in the short-term, they may hold numerous longer term negative implications for a firm's competitiveness, performance, and survival. Performance improvement strategies generally involve increasing revenues or decreasing expenses. However, the combined contributions (i.e. the Strategic Agility) of both of these approaches to improving performance, and the implications of heterogeneity to their contribution, remain under theorized and insufficiently examined, particularly in highly uncertain environments. The objective of this article is to challenge the conventional wisdom (and presumed benefits) of common 'reactionary' strategies to uncertain environments by examining the viability of strategic agility (e.g., managing both revenues and expenses), as an alternative approach.

Method

We address these issues by theorizing and examining performance contributions of strategic agility under conditions of high environmental uncertainty using panel data from 1,110 U.S. Credit Unions. Data were provided by the Credit Union diversification project from the Filene Research Institute. We chose the period of time immediately before and after the 2008 financial crisis, and conducted hierarchical regression analysis to examine our hypotheses for the contributions of capabilities for managing revenues and expenses to the relative performance of credit unions from 2006 to 2009.

Results and Implications

We find that while both revenue and expense approaches contribute to performance, the combined contributions of strategic agility are significantly greater. Further, we also observe similar results for heterogeneous strategies, but surprisingly not to a substantial extent – perhaps suggesting a boundary condition for Resource-based Theories. This finding links closely to arguments for strategic agility. Stated simply, environmental recognition and the ability to act rapidly may be the most important dynamic capability that an institution holds in a time of crisis. Recognition is more important than denial; action is more important than inaction. Thus, credit unions that acted quickly to strategically cut costs early in the financial crisis performed better than those that did nothing. Likewise, credit unions that sought to increase revenues succeeded as well. Those that did both performed best. Meanwhile, those that failed to act fell backwards. We discuss the contributions of these findings and their implications for research and practice.

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