Generic Strategies and Performance - An Empirical Analysis for German listed Companies and possible effects for Co-determination

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Abstract

We investigate the relationship between firm strategy and company performance. We use two performance measures (EBIT and market capitalization) as our main dependent variables of interest to include both financial accounting and a capital market perspective. Our analysis demonstrates that there is a significant relationship between companies' strategic orientation and performance. We use a panel regression for German listed companies with a total of 27.008 firm-years. We find significant effects on differentiation strategies, cost leadership strategies, and internationalization for both EBIT and market capitalization. Moreover, we find empirical evidence for positive effects of diversification on EBIT, if we solely test this specific relationship. Additionally, we find positive effects of diversification on market capitalization when we tested in the singular as well as in the complete model. Finally, we find evidence that financial statements and capital markets do not always react in the same direction and therefore effects vary depending on the measure of company performance. We discuss our findings especially from the perspective of employees and the German Co-determination

Keywords: Generic Strategy, Porter, Performance, EBIT, Market Capitalization, co-determination
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