Research team shows importance of investors on uniqueness of company strategies

March 16 2021

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Corporate strategies should be as unique as possible, in fact highly specific to each individual company. This enables companies to compete successfully in the long term. However, the capital market and others, including analysts, often react negatively to the idea of unique strategies. The reason is that deviating from typical industry standards makes them more complex to evaluate. This regularly discourages companies from focusing on unique strategies, even though they would be beneficial for the company in the long term. This contradiction is known as the "uniqueness paradox." A research team from the Universities of Göttingen and Groningen has investigated the influence of different types of investors on the extent of the paradox and thus on the choice of unique strategies. The results were published in *Strategic Management Journal.*

The researchers analyzed data from around 900 listed US companies over a period of twelve years. The focus was on US companies because of the larger number of companies listed on the stock exchange. The main findings: a company's investors have significant influence on the uniqueness of its chosen strategy; and "dedicated" investors (e.g. pension funds) exert increasing influence. Their actions are characterized by the fact that they take a long-term perspective and are prepared to take a close look at the company's strategies. They can help resolve the uniqueness paradox, as they can recognize the value of unique strategies for long-term corporate development.

"They are more likely to encourage management to implement these strategies," says co-author Professor Michael Wolff, who holds the Chair of Management and Controlling at the University of Göttingen. "This is especially true for industries where companies are more difficult for the capital market to assess because, for example, corporate profits vary widely."

The research team derives specific recommendations for action from the study. Firstly, the study shows companies the great importance of continuous and, above all, detailed strategy communication with investors. In particular, it is important to explain the reasons in a transparent and coherent manner for following a different course from the strategies of other companies in the same industry. Secondly, the study shows investors how important their function as owners is in actively engaging with corporate strategy in order to encourage management to operate in the long term. Thirdly, the study makes it clear that investors who have so far acted very passively should be made more accountable by institutions that regulate the capital market to engage more intensively with companies and their strategies.

More information: Jana Oehmichen et al, Standing out from the crowd: Dedicated institutional investors and strategy uniqueness, *Strategic Management Journal* (2021). DOI: 10.1002/smj.3269

Provided by University of Göttingen