

# Intended Strategies and Firm Performance: The case of Japanese Manufacturers

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## **I. Introduction**

It was in the late 1970s when Henry Mintzberg first proposed that any organization's strategy is made up of the intended and the emergent. Though few empirical examinations of his work have been performed, his theories have been generally accepted by academics and practitioners alike. This study builds on the few empirical studies that have conducted by investigating the link between intended strategy and firm performance. In doing so, this study will look at order-of-entry strategies.

## **II. Theoretical Perspective**

It has been over three decades since Henry Mintzberg (1978) first argued that organizational strategy can be the result of both the intended and the emergent. His ground-breaking work spawned a number of other models that further examined the strategy formulation process (e.g. Bourgeois & Brodwin, 1984; Nonaka, 1988; Hart, 1992). Though critics exists (e.g. Ansoff, 1991) his concepts have generally been well-received among both academics and practitioners. As such, it is surprising that there have been relatively few empirical investigations of his model.

In one recent study of electrical utilities, Froelich and McLagan (2008) found empirical evidence to support Mintzberg's argument that not all intended strategies are realized. And two studies, Golden (1992) and Liedtka and

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Rosenblum (1996) showed that the corporate-SBU relationships and strategic conversations respectively are two of several possible factors that may facilitate or inhibit the implementation of an organization's intended strategy. But of greater importance to this study, Kald (2003) examined the Nordic paper and pulp industry and found that there is substantial congruence between an organization's intended strategy and its realized strategy. If that is the norm in other industries, then one can reasonably conclude that a firm's intended strategy has a real impact on an organization, including its performance.

This study argues that intended strategies have an impact on company performance because of its influence on decisions made. Support for such a claim comes from research done at both the individual and organizational level. For example, Ajzen (1991) argued that intentions shape people's behavior, including the decisions that people make. In fact, evidence suggests that intentions are a better predictor of behavior than traits and attitudes (Krueger, et al., 2000). Similarly, scholars have argued that intention plays a significant role in business behavior, such as the decision to become an entrepreneur (cf. Gelderen et al., 2008).

At the organizational level of analysis, Mintzberg argued that there was a direct connection between intended strategy and the decisions made within an organization, "we need a clearly defined intended strategy to do our job – to buy our machines, hire our workers, standardize our procedures (1978, p. 123)." And evidence for such a connection comes from Mintzberg's own studies (1978, 1985) and from several relatively recent studies, where researchers have found that growth in new ventures is in part dependent on the entrepreneurs' intentions to grow their organization (cf. Dutta & Thorngill, 2008).

While intended strategy should not be confused with the related concept of strategic intent (which is more like vision), research in that area is relevant. Hamel and Prahalad (1989) defined strategic intent as the planned direction to be pursued by the company. In other words, strategic intent can be seen as a company's passionate core (Bate, 2010) informing and shaping organizational decisions (Landrum, 2008). Going further, it is argued that through its influence

on decisions made, strategic intent has a significant impact on firm performance (Kopel & Loffler, 2008). For example, in a study of 354 small and medium-sized enterprises (SMEs) in the UK, researchers found that strategic intent directly influenced investment decisions, which in turn was link to firm growth (Morash, 2001). And in a case study of a medical technology company, Ice (2007) maintains that strategic intent played a central role in that firm's performance.

Finally, in a direct test of Mintzberg's model, Anderson and Nielsen (2009) found that among a sample of 180 firms there is a complementary link between intended and emergent strategies and firm performance. Therefore, while acknowledging that not all intentions are realized, it is quite probable that intended strategies have a significant impact on firm performance.

## **1. Using 'Order-of-Entry' to Test the Relationship Between Intended Strategy and Performance**

For more than a half century, researchers have investigated the performance implications of 'order of entry' (Frawley & Fahy, 2006). Most work has focused on the concept of first-mover advantage as applied to 'first-to-market' contexts (Patterson, 1993), with early studies seemingly confirming that first movers enjoy a lasting competitive advantage over later entrants (Frawley & Fahy, 2006). However, in their review of the literature, Frawley and Fahy (2006) pointed out that other studies have found evidence that contradicted the existence of first-mover advantages, or provided evidence of first-mover disadvantages or later-mover advantages. For example, Oliver (1999) argues that for economic and political reasons, it is becoming very difficult to create or maintain so-called first-mover advantages. Therefore, despite several decades of scrutiny, the link between order of entry and firm performance remains inconclusive or contradictory so further examinations seem warranted (Frawley & Fahey, 2006).

Prior work on order of entry generally focused on business units' entry into specific product markets (Patterson, 1993). However, if we follow more recent yet similar concepts, such as competitive churning (El Kahal, 2001), that speak to the strategic actions of a company as a whole, it might be possible to reshape

order-of-entry research while testing the impact of intended strategies on firm performance.

For example, though a company may have the intended strategy of being the first-mover in all of the markets in which it competes, we have already established that there is good reason to believe that their intended strategy is not always realized (Mintzberg, 1985). However, even if an intended strategy is not always realized, such as trying to be first to a specific market; that may not necessarily mean that their intended strategy is flawed. For instance, in the later part of the 20<sup>th</sup> century, one of GE's intended strategies was a directive from then CEO Jack Welch that all business units had to be #1 or #2 in their industry or market; or had a reasonable probability of becoming #1 or #2. Although that strategy was at least partially credited for GE success under Welch (Braukman, 2010), one cannot assume that GE managers always made the correct decision as to which business units to keep, buy or sell. In short, given that prior order-of-entry studies focused on individual events, it is possible that the inconsistencies in past empirical studies may simple be the observable artifacts of a bigger picture.

## **2. Pioneers, Leapfroggers & Low Cost Imitators**

Following other order-of-entry research (cf. A.A. Thompson, A.J. Strickland & J.E. Gamble, 2010), this study grouped companies into three categories. However, unlike most order-of-entry work, this study will examine relationships at the company level rather than specific markets. Therefore, terms such as first-mover or later entrant do not seem robust enough to capture the true nature of company's intended strategy. Therefore, it was necessary to use a different set of terms that better reflect the larger lens through which we are re-examining entry issues. More specifically, firms will be classified as being: pioneers, leapfroggers, or low cost imitators.

One criticism of past research on order-of-entry was the use of self-reporting to build a dataset. The problem wasn't necessarily due to a weaknesses inherent in the process, but that fact that databases built from the process

often had several firms who identified themselves as a first-mover (Frawley & Fahy, 2006). Even in some of the studies that utilized the PIMS dataset, more than half of the businesses were classified as first-movers (Buzzell & Gates, 1987). Unfortunately, by definition there should be only one first-mover for each market. This led critics to conclude that these datasets were only capable of determining early-mover advantage as opposed to first-mover advantage (Frawley & Fahy, 2006). Fortunately, such criticism can be largely mooted by defining pioneers as any company whose intended strategy is to be the first-mover in the industry or industries in which it competes, even if they don't always succeed in being the first-mover in each specific market. This is because having multiple pioneers per industry is not only acceptable it is probably expected.

Researchers have argued that some innovative firms can gain an advantage by purposely entering after learning from pioneers' successes and mistakes (Golder & Tellis, 1993). In fact, anecdotal evidence suggests that pioneers can frequently get overtaken by other innovative firms (Kopel & Loffler, 2008) whose intended strategy is to let others spend the resources needed to develop a market and entering later with a more innovative product (El Kahal, 2001). In this study, these types of companies will be called Leapfroggers.

Finally, in past studies of order-of-entry, several authors categorized certain firms in their sample as 'imitative competition' (Bond & Lean, 1977; Frawley & Fahy, 2006). At an industry level of analysis, we expect that there will also be companies whose intended strategy is to wait passively until the pioneers and leapfroggers have blazed a trail; entering markets later with low-cost generic products. These firms can be labeled low-cost imitators. However, due to the limitations of our sample (see section III) we could not test any hypotheses concerning low-cost imitators. Therefore, from this point forward we will focus on pioneers and leapfroggers.

### **3. Hypotheses**

Most order-of-entry work has focused on the concept of first-mover

advantage as applied to ‘first-to-market’ contexts (Patterson, 1993). In their review of the literature, Frawley and Fahy (2006) pointed out that several studies have found evidence that contradicted the existence of first-mover advantages, or provided evidence of first-mover disadvantages or later-mover advantages. However, many more studies seem to conclude that first movers enjoy a lasting competitive advantage over later entrants (Frawley & Fahy, 2006). For example, in a longitudinal study of the cigarette industry, Whitten (1979) found that first movers received significant and long-term sales advantages. While in study of prescription drug markets, Bond and Lean (1977) discovered that the first firm to offer and promote a new type of product received a substantial sales advantage. Contributors argued that first movers gain a competitive advantage over later entrants by acquiring cost advantages (Robinson & Fornell, 1985), barriers to entry advantages (Bain, 1956) or economies of scale advantages (Kerin et al., 1992), among other things. If we assume that these relationships are similar when using a higher level perspective, then companies which are pursuing a pioneering strategy should perform better than firms that do not.

Therefore, the above arguments lead to the following hypothesis:

**Hypothesis 1** Companies whose intended strategy is to pursue a pioneering strategy will perform better than those companies whose intended strategy is to pursue a leapfrogging strategy.

#### **4. Contingency Perspective**

Frawley and Fahy (2006) contend that past research on order-of-entry has had the tendency to investigate industries in which advantages to first movers are greater. They also suggested that order-of-entry research has over-emphasized the simple market entry order effect on firm performance. As such, frameworks incorporating a contingency perspective (Miles & Snow, 1998) might provide a more complete understanding of the significance of order-of-entry (Frawley & Fahy, 2006).

Given the above comments, investigating the link between intended strategy

and performance across different industries would certainly be appropriate. Unfortunately, the relatively small sample of firms that participated in this study did not make it possible to examine the moderating impact of industry characteristics. Instead, we investigated the impact of differing business climates on the link between intended strategy and firm performance. In particular, the past half-decade or so provides an opportunity to look at the relationship between intended strategy and performance in three distinct business climates: a bullish business climate, a distressed business climate and a cautious rebound.

### **III. Methodology**

#### **1. Sample**

We surveyed a random sample of 305 Japanese manufacturing companies listed on either the first or second section of the Tokyo stock exchange. Out of those 305, we received replies from 92 firms, with four firms stating that they did not wish to discuss their strategy and 9 firms returning a questionnaire that was not usable. This left 79 usable questionnaires, for a response rate of twenty-six percent. This was thought to be a relatively high response rate, especially given Japanese company's general reluctance to discuss strategic matters to outsiders. We attribute the relatively high response rate to persistence (multiple follow-ups), the simple one page format of the questionnaire, and providing each company with repeated assurances of anonymity. The responses came from a wide range of industries, including: consumer goods, foods, precision electronics, consumer electronics and computers.

Out of the 79 firms that provided a useable questionnaire, only two identified themselves as low-cost imitators. Therefore, further analysis of low-cost imitators was not possible. It should be noted that this result was not surprising. Our assumption had been that relatively high material and labor costs would make it difficult for many Japanese manufacturers to pursue a low-cost strategy.

Finally, we also excluded four companies that identified themselves as having changed their intended strategy during the timeframe examined in this

study. We did so in the belief that such changes would introduce an additional variable that could question the validity of the results. This now left us with 73 companies.

## **2. Timeframes**

This study examined the relationship between intended strategy and firm performance in three distinct time periods. The first time period ran 15 months from early January of 2005 to the beginning of April of 2006, when the Nikkei stock index rose from 11518 to 17563 or an average gain of 403 points per month. We labeled this time period: a bullish business climate. The second time period ran 16 months from early July of 2007 to the middle of October 2008, when the Nikkei stock index dropped from 18141 to 7649 or an average drop of 656 points per month. This time period was labeled: a distressed business climate. The third and final time period that we investigated ran 18 months from the middle of October 2008 to the middle of March 2010, when the Nikkei stock index rose 7649 to 10824 or an average gain of 176 points per month. We named this time period: a cautious rebound.

## **3. Measures**

**Intended Strategy:** Our one page questionnaire included brief definitions for pioneering, leapfrogging and low-cost imitating strategies. We then asked each company to pick the definition that best described their company's intended strategy [in terms of order of entry] in January 2005 and as of March, 2010. Since there are problems with using a single self-reported description, we had a research assistant to look over published company documents, such as letters to shareholders, for indications of that company's intended strategy. We did this on the assumption that a company's intended strategy could be deduced from such documents. That assumption seems to sound as prior studies have shown that a company's strategic intent (a related concept) can be deduced by collecting stories about the company either through oral history or the written word (Bate, 2010). Further, examining letters to shareholders has been found to be fairly



useful in determining a companies' strategy in general (Barry & Elmes, 1997; Fiol, 1995; Landrum, 2008) and its intended strategy in particular (Mintzberg, 1978). Out of the remaining 73 useable questionnaires, we could not reasonably confirm the intended strategy of 7 companies. This left us with 66 cases for our analysis. Comparing the characteristics of respondents to non-respondents did not identify significant differences in organizational size, age or performance.

**Dependent Variable:** The various measurements of performance are similar in the sense that they are all equally contentious (Lin, et al., 2005). We felt that stock prices were the best measure of performance for this study for several reasons. First, stock prices possess attributes such as objectivity and understandability, which are required of acceptable performance measures (Merchant & Bruns, 1986). Further, in a study of 241 firms, Lehn and Makhiva (1996) found that stock prices were highly correlated with economic value added (EVA) and market value added (MVA), arguing that all three were effective as "signals of strategic change and as metrics relevant to strategic development (1996)." Finally, since we wanted to examine the relevance of intended strategy across three distinct economic climates, stock prices (being tracked daily) was the measure of performance that would align most closely with the time periods in question (certainly more so than quarterly accounting-based measures, such as ROA).

The percentage change in stock price over the initial value in each period was computed by subtracting the initial value of each stock (the first day of each period) from the ending value of each stock (the last day of each period), and then dividing the computed value by the initial value of each stock. This would give us a raw figure of each stock's percentage change for each time period. To control for any industry effects we then calculated an industry average (percentage change in stock value) for each of the industries represented in our sample. We then calculated an adjusted number by simply subtracting the industry average performance from each company's performance figure.

**Controls:** Organizational performance is often constrained by a variety of factors, such as past performance, organizational age, and size (Hannan &

Freeman, 1977). Therefore, three control variables were included in the model: past performance (the prior period's relative change in stock price); age (years since founding), and; size (total sales prior to each time period in questioned).

#### **4. Results**

As indicated in the top row of table 1, correlation analysis reveals several relationships relevant to our hypotheses. First, there is a significant positive relationship between being a pioneer and firm performance during a bullish business climate. In addition, being a pioneer seems to have a slightly significant negative relationship with firm performance during a cautious rebound. There were no significant relationships found in the time period we labeled as distressed.

Among the control measures, there seems to be no significant relationships between age and size with firm performance. And as for prior performance, only performance during the distressed period had a significant and negative relationship with consequent performance. In other words, those companies that, relatively speaking, fell the furthest had a greater difficulty trying to rebound from the hole that they had fallen into.

In further tests of the relationship between intended strategy and firm performance, we utilized multiple regression analysis to introduce our control variables (see Table 2).

As in the correlation analysis, column 1 indicates that after controlling for age, size and past performance, there is a strong relation between intended strategy and firm performance. More specifically, it would seem that in a bullish business climate, pioneers performed significantly better than leapfroggers. In the second column, our results show no significant relationships. In other words, in a distressed business climate, and after controlling for size, age and past performance; pioneers and leapfroggers were equally adversely affected. Finally, in the third column, our results indicate that there is a significant relationship between intended strategy and firm performance, after controlling for age, size and past performance. In other words, in a cautious rebound, leapfroggers seem

to be the better performers.

It should be noted that in the third column both age and size were positively and significantly related to firm performance. It would seem that, on average, older firms did a better job of recovering from the distressed business climate than did newer firms, and larger firms did a better job of recovering than smaller firms. One possible explanation for the former is that older firms are more likely to have gone through a crisis in their past and ‘organizational learning and memory’ would allow them to make better decisions during and immediately after the latest crisis (Abecker & Decker, 1999; Dodgson, M. 1993). As for the latter, one interpretation is that large firms have more available resources to use in the recovery effort. A second interpretation is that larger firms inherently have more inertia (Hannan & Freeman, 1984), and this inertia inhibits organizations from making quick decisions, including those that are rash and ill-advised.

## **V. Discussion**

A review of prior literature led us to the hypothesis that companies with the intended strategy of pursuing a pioneering strategy will perform better than companies with the intended strategy of pursuing a leapfrogging strategy. However, our results only partially confirm our hypothesis. It seems that the intended strategy – performance link depends greatly on the business climate: intended pioneers doing better in bullish climates while intended leapfroggers do better in a cautions rebound.

As for the former result, El Kahal (2001) argues that a sustained proliferation of new products is the only way to sustain a pioneering strategy. In other words, the pioneer must continuously introduce new products in order to maintain any advantage that they generate. Therefore, pursuing a pioneer strategy seems to be most suited when technological development is rapid; and when economic growth and consumer acceptance of new products is just as fast (El Kahal, 2001). This is most likely to happen in a bullish business climate when people are willing and able to spend money on the latest gadget.

Further, in an economic climate characterized by the rapid pace of

technological progress, being a leapfrogger may inhibit competitiveness. This is partly because the fast pace of technological change leads leapfroggers to believe that they can capture market share by improving earlier versions of a product and adding new features. However, leapfroggers can become too reactive to what the pioneers are doing. In fact, it is possible that these companies can become so pre-occupied with the pioneers' moves that they can fail to formulate and/or execute their own innovations.

As for the latter result, a cautious rebound is often reflective of significant changes in consumer behavior. In the United States, for example, in the 'great recession' consumers have moved from the reckless pursuit of the 'latest gadget' to significantly more measured purchases based on needs and overall value divided by price (Wharton, 2009). This follows observations in other countries where a financial crisis has significantly impacted consumer behavior (McKenzie & Schargrodsky, 2005; McKenzie, 2006). Anecdotes from the popular press, and the authors' own observations, suggests that the Japanese consumers have also become much more conservative in their purchases

In times of slow consumer demand pursuing a pioneering strategy may be counter-productive. Since the market may be slow to accept new products, pioneers may be spinning their wheels in vain in trying to come up with innovations, as it is possible that many new products will fail to generate significant consumer interest. Once leapfroggers have reverse-engineered the product, prices and margins will decrease. Therefore, a pioneering company can not gain any advantages, or worse incur disadvantages, by trying to be first to market.

It is plausible to argue that leapfroggers have little in the way of initial R&D costs. The majority of such costs would probably involve the reverse-engineering process. While several months or years may be spent by pioneers developing a new product for the market, it is possible that leapfroggers spend considerably less time getting their product to market. Less time spent getting products to market could mean less money invested as the product is prepared for the market. This savings could be passed along to the consumer. Therefore,

leapfroggers could have an immediate cost advantage. Leapfroggers could also attempt to compete on differentiation. Initial products of the pioneering firms may have certain features that consumers do not like. Leapfroggers might be able to capitalize on this fact and produce products that are more suitable to the customer.

## **VI. Conclusion**

It would appear that intended strategy has a real impact on firm performance. However, the specific impact it has on firm performance is contingent on environmental factors, in the case of this study, the prevailing business climate. More specifically, our study found that companies with the intended strategy of pursuing a pioneering strategy perform better in bullish economies while companies with the intended strategy of pursuing a leapfrogging strategy do better in cautious rebounds.

One issue that this study was not able to test was the impact on firm performance for companies that are pursuing a low-cost imitator strategy. A much larger study over a longer time span would shed more light on this topic. In addition, further testing of these results using samples from multiple countries would help answer the external validity of these results. It could be true that the results found in this study only apply to Japanese based manufacturers.

Table 1. Mean, standard deviations, and correlations among all variables

Mean (StD)	2	3	4	5	6	7	8
1. Intended Strategy	.05	-.10	-.06	-.01	.37***	-.17	-.22*
2. Age 70 (16.6)		.21*	.21*	.01	.14	-.04	.20
3. Size 2004 9.02 (15.5)			.99***	.28**	-.11	.01	-.16
4. Size 2008 11.06 (17.9)				.31**	-.07	-.01	-.13
5. Perf 2004 .05 (.416)					.02	.13	-.05
6. Bull Perf .89 (1.41)						-.11	-.01
7. Crash Perf .65 (.18)							-.31***
8. Rebound Performance .60 (.42)							

Intended Strategy (1=Pioneers, 0=Leapfroggers)

N=66 for all relationships

Standard deviations in parentheses

\*\*\*p < 0.01; \*\*p < 0.05; \*p < 0.10

Table 2. Performance: Multiple regression analysis change in stock price as dependent variable

	I	II	III
Age	.013 (.010)	.000 (.001)	.006** (.003)
Size	-.001 (.010)	-.000 (.001)	.001* (.000)
Past performance	.196 (.416)	-.007 (.018)	-.802*** (.257)
Intended Strategy	1.014*** (.340)	-.054 (.051)	-.255** (.096)
Constant	-.511	-.592	-.138
R square	.166	.031	.248
F-value	3.042	.486	5.025

Intended Strategy (1=Pioneers, 0=Leapfroggers)

N = 66

Standard errors in parentheses

\*\*\*p < 0.01; \*\*p < 0.05; \*p < 0.10

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<Summary>

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This paper presents an investigation of the performance implications of an organization's intended strategy among a set of Japanese manufacturers. Applying a contingency perspective, this study found that firms whose intended strategy was of a Pioneer were significantly related to positive changes in stock price in a bullish business climate. However, in a cautious rebound, firms whose intended strategy was of a Leapfrogger were found to be the better performers. The implications of these results are also discussed.