CHAPTER 8
SUMMARY AND CONCLUSIONS

The present study utilizes the Resource Based Theory to establish the reasons for creation of competitive advantage in the Indian corporate sector. The first section of this study attempts to identify the resource investments that influence competitive advantage. This identification is performed, for the Indian corporate sector, in general, and then, specifically for the various business sectors. Further in this section, we identify the interactions among resources that influence competitive advantage. In the section that follows, we attempt to establish, the influence of industry features, viz., industry dynamism, concentration, growth and capital intensity, on the resource—competitive advantage relationship. The next section attempts to examine the impact of management and corporate governance mechanisms on competitive advantage. Lastly, the fourth section attempts to establish the relationship between management competence, corporate governance, resource investments and competitive advantage.

The specific objectives of the study are as follows:

1) To identify the resources that lead to competitive advantage in the Indian corporate sector. Specifically,
   a) To establish the resources that lead to competitive advantage for the Indian corporate sector, in general.
   b) To establish the interactions among the resources that lead to competitive advantage.
   c) To establish the resources that lead to competitive advantage in various business sectors.

2) To establish the impact of industry context on the relationship between investment in resources and competitive advantage of a firm.

3) To establish the effect of management competence and corporate governance on a firm’s competitive advantage.
4) To establish the relationship between management competence, corporate governance, resource investments and competitive advantage.

**METHODOLOGY**

To attain the objectives of the study, the data has been collected for seven years, ranging from financial year 2004-05 to 2010-11. The sample for the study comprises of the companies forming BSE 500 index as on 31st March, 2011.

The first section, which identifies the resource investments that lead to competitive advantage in the Indian corporate sector, is divided into two sub-sections. In the first sub-section, the resource investments that lead to competitive advantage are studied extensively taking the entire Indian corporate sector. Further, in this sub-section, the interactions among resources that lead to competitive advantage are also established. In the next sub-section, however, a more intensive approach is adopted and the analysis for identification of resource investments that lead to competitive advantage is performed for the 21 business sectors. In this sub-section, the balanced panel data-set of 320 companies and 15 business sectors, which comprises the final sample obtained after data-screening, is analyzed using the random effects generalized least squares regression analysis.

Further, the industry features are first established to ascertain the influence of the industry context on the resource—competitive advantage relationship. The industry feature *dynamism* is measured as the variability in annual industry sales. This is measured as the standard error of the regression slope coefficient of annual industry sales divided by the industry mean for the 5-year period (Stoel and Muhanna, 2009). The *industry concentration* is measured as the ratio of sales of the four largest firms in an industry (according to sales) to the total sales of the industry. Further, the *industry growth* is measured as the growth rate of sales in current year over previous year. The *industry capital intensity* is measured as the ratio of gross book value of assets in an industry to its total annual sales. The available sample is divided into industries with environment characterized as high dynamism and low dynamism, high concentration and low concentration, high growth and low growth and high capital density and low
capital density. To classify the firms into these categories, the industries are ranked for their dynamism, concentration, growth and capital intensity, and based on their median value are split into two sets as required. The data sets in this section comprise of 340 companies and are analyzed using the random effects generalized least squares regression analysis.

In the third section, the study takes into consideration the influence of the presence of dominant insider ownership to establish the effect of corporate governance on deployment of resources. The available sample is divided into two sets of firms: first set comprises of firms that have dominant insider ownership and the others that do not have dominant insider ownership. The basis for categorization adopted is that the firms with insiders owning greater than 50 percent of shareholding are the companies that have dominant insider ownership and firms with insiders owning less than 50 companies are categorized as not dominated by insiders. After the screening process, the final sample has 326 companies, with 2252 observations. Of the final sample, the firms that have dominant insider ownership are 1182 firm years, and that do not have dominant insider ownership are 1070 firm years.

The study, by means of independent sample t test, first establishes whether there exist significant differences among the two groups of firms (with dominant insider ownership and without dominant insider ownership) as far as their performance, corporate governance mechanisms and managerial competence are concerned. Further, the influence of the governance mechanisms and the managerial competence on the firm performance is determined for the entire sample and for the two groups of firms, by utilizing the fixed effects panel data regression analysis. The two-stage least squares statistical technique is used taking into consideration the endogeneity concerns often raised while analyzing the influence of corporate governance mechanisms on firm performance.

Lastly, structural equation modeling is used to establish the influence of management and corporate governance as the means of deployment of resource investment. To analyze this issue the data-set is the same as in the previous section; however, the values for all variables are taken as average of seven years.
SALIENT FINDINGS OF THE STUDY

The key findings that have emerged from the entire analysis and the related discussion are detailed as follows:

**Identifying the resources and establishing the interactions between the resources that influence competitive advantage**

**Identifying the resources and the interactions among them that lead to competitive advantage in Indian corporate sector**

Data analysis is carried out to identify the resources that lead to competitive advantage (operationalized through Tobin’s q) among Indian companies. It offers an interesting set of findings and provides a broad overview regarding the Indian scenario. The findings are:

Firstly, investment in Research and Development (R&D) is not found to have a consistent significant impact on a firm’s competitive advantage. The probable reason for the same may be that R&D investment is yet to translate itself into market returns. The investment in R&D is a recent phenomenon in case of Indian companies where some of the industries are still avoiding this investment as it takes a while for such investments to bear fruits. Table 9.1 depicts the number of companies in the sample under study investing in R&D. As can be seen a large number of companies are yet to invest in R&D.

Table 9.1: Number of companies investing in R&D

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of companies(^1)</th>
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<tbody>
<tr>
<td>2005</td>
<td>167</td>
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<tr>
<td>2006</td>
<td>169</td>
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<tr>
<td>2007</td>
<td>175</td>
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<td>2009</td>
<td>178</td>
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<tr>
<td>2010</td>
<td>182</td>
</tr>
<tr>
<td>2011</td>
<td>184</td>
</tr>
</tbody>
</table>

\(^1\)The number is out of the 320 companies that formed the balanced panel in the above analysis.
Summary and Conclusions

Investment in R&D, which is a means to understand an organization’s commitment to innovate, seems to be dismal in India.

The Investment in advertising is found to positively and significantly influence competitive advantage, as measured by Tobin’s q. Investment in advertising signifies the importance of building brand value for a firm (Stewart et al., 1984). The results seem to highlight that a company in India can attain competitive advantage by investing in advertising and thus building brand value of its products.

Investment in human capital is found to positively influence competitive advantage, though, the relation is found to be statistically insignificant in some of the models that were introduced for analysis. Nevertheless, it does highlight the important role development of human capital can play in leading a firm to competitive advantage.

Further, the analysis brings forth the finding that various complementarities among resources significantly influence competitive advantage. It is interesting to note that the resources which, individually, do not influence firm performance, do so, in interaction with other resources. We find that marketing efforts together with adequate and efficient human capital complement one another to yield a unique resource, which in itself, creates superior performance for the firm. The interactions among investment in R&D and advertising and R&D and human capital are found to have a significant impact on Tobin’s q.

The analysis utilizes the Resource Based Theory to unveil the resources that influence competitive advantage in the Indian corporate sector. Investment in resources does influence firm performance though not all resource investments significantly influence firm performance. The management may invest in the resources that help attain competitive advantage, as otherwise, it will render the scarce resources, futile. The interactions among resources yield unique configurations which become a resource in themselves leading to competitive advantage for the firm.

Identifying the resources that lead to competitive advantage in various business sectors in India

A sector-wise analysis is conducted for 15 business sectors to provide an in-depth understanding of the resources that can help companies create competitive advantage.
Summary and Conclusions

for themselves. The analysis reveals, in conformity with Amit and Schoemaker (1993) that for each business sector under consideration there is a unique set of resources that influence competitive advantage. The specific findings are:

Investment in R&D is seen to create competitive advantage for the companies in the cyclical consumer products, industrial and commercial services and mineral resources sectors. These tangible efforts to build innovative capabilities (Kor and Mahoney, 2005) seem to lead firms in these sectors to a position of advantage over their competitors. The conclusion can thus be reasonably drawn that, in case of these sectors, the firms that compete on the basis of innovativeness and technology breakthrough do better than their peers.

Further, an analysis of the data reveals that the investment in R&D has an inverse relationship with the firm performance, in some sectors, namely, chemicals, cyclical consumer services, industrial goods and personal and household products. The possible reason for the same may be that the investments in R&D are yet to yield revenues, and have been till now, just an outflow of funds without a matching inflow in the form of increased revenues.

The results obtained divulge a positive relationship between investment in advertising and competitive advantage for the sectors, namely, automobiles and auto parts, chemicals, food and beverages, personal and household products and utilities. It seems that, for these sectors, advertising as a means to influence the perceptions of the people external to a company is helping induce a protected strategic position for the firms that stabilize sales (Fombrun and Shanley, 1990). Also, the brand name and reputation that are built through advertising (Stewart et al., 1984) become a resource in themselves, creating competitive advantage for the company as these cannot be easily replicated (Russo and Fouts, 1997).

Investment in marketing builds a firm’s marketing capabilities. These marketing capabilities help a firm become increasingly sensitive towards the needs and wants of customers and commitment towards serving them right (Mosakowski, 1993). In the present study, investment in marketing is found to have a positive influence on the firm performance for the sectors, namely, cyclical consumer services, food and beverages,
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industrial goods, mineral resources and pharmaceutical and medical research. For these sectors, it seems likely that, the increasing investment in marketing lead to an acceleration of the market’s acceptance of new products, to enhanced customer retention/loyalty, to an improvement in the size and quality of customer bases, to price premiums and other desirable payoffs (Srivastava et al., 1997), which contributes towards a firm’s gaining competitive advantage over its competitors.

Further, it is found that the investments in human capital lead to competitive advantage in the sectors: banking and investment, cyclical consumer services, software and information technology. This finding re-affirms the importance of human capital in the service sector, as interestingly, all these three sectors are service sectors. Any investment in developing and training the human resources is likely to help a firm perform better than its competitors. The investment in employee welfare is seen to promote employee commitment and loyalty (Yang et al., 2010) which act as a resource which is seemingly hard to copy in the short run (Russo and Fouts, 1997).

The physical capital in a firm is found to influence competitive advantage in the cyclical consumer products, industrial and consumer services, mineral resources, personal and household products, pharmaceutical and medical research and technological equipment sectors. The probable reason may be that in these sectors higher investments in new equipment and technology are required for a firm to stay ahead of competition. Hence, it enables the firm to cater to the needs of the customers better. Contrarily, an absence or lack of physical capital can severely limit the range of services that a firm offers to its customers (Sirmon and Hitt, 2009).

As regards the company size, in the automobile and auto parts, banking and investment, cyclical consumer services, cyclical consumer products, industrial consumer services, mineral resources, personal and household products and software and information technology sectors, the company size has a positive relationship with firm performance. Certain economies that accrue to a firm, due to its increased market power and due to increased market size, can help it secure better performance than its peers. While, as far as, the age of the firm is concerned, increasing firm age is seen to have a positive relationship with firm performance in the automobile and auto parts,
banking and investment, food and beverages, industrial consumer services, industrial goods, pharmaceutical and medical research and technological equipment sectors. In case of these sectors, as the firm ages, the knowledge, networks, relationships it builds seem to contribute towards its outperforming its rivals.

Thus, the study reaffirms the view of the Resource Based Theorists that the resources that lead a firm to competitive advantage are industry specific. Identifying the key resources can help managers invest, develop and keep the resources that can secure competitive advantage for the firm.

**Impact of industry context on the relationship between investment in resources and competitive advantage of a firm**

Researchers in the field of strategic management have often raised a concern about the lack of research studying the impact of external environment on managing resources (Sirmon et al., 2007). Taking a step in this direction, the data analysis attempts to unveil the bearing of industry features on the investment in resources by the firms looking to attain competitive advantage. We analyze the influence of investment in resources on the competitive advantage in the context of industry features, namely, dynamism, concentration, growth and capital intensity. The findings based upon the data analysis are as follows:

For Firms that are in highly dynamic industries, the investment in R&D is found to have a positive influence on competitive advantage. The probable reason may be that the firms tend to control the increasing uncertainty in the environment by increasingly investing in R&D. Thus, a firm investing in building know-how and innovativeness through increasing inflows into R&D can better rise to the challenge posed by the environment than the firms which do not, whether the uncertainty is because of the changing demands of consumers, changing technology, technology or competition.

Further we find that the investment in advertising positively influences firm performance in the scenarios of both, low dynamism and high dynamism. However, the magnitude of impact is more than twice in case of firms operating in highly dynamic industries than in industries with low dynamism. The likely reason for the same can be that a firm’s investment in advertising helps it to build the brand value and reputation thereby helping it to meet the increasing competition.
Summary and Conclusions

The data analysis divulges that, in industries with high dynamism, the increasing size of a firm seems to become a hindrance. The agility required of a firm in a dynamic environment seems to be compromised by its growing size.

The results corresponding to the industry structure elements: concentration, growth and capital intensity are found to have mixed results. We find that the investment in R&D leads to competitive advantage in high growth industries, while it does not have any significant impact in low growth industries. In a high growth industry investment in R&D facilitates tapping the increasing number of opportunities that are provided by the environment. It helps the firm develop new markets and products, find new ways to compete (Haleblian and Finkelstein, 1993) thus, exploiting the environment potential to the fullest. Investment in R&D is found to have no significant influence on competitive advantage in the other industry environments under consideration.

A firm’s investment in advertising is seen to influence firm performance in all of the industry environments taken into consideration. However, the results are in conformity with the proposed hypotheses as we find the magnitude of relationship to be stronger for firms in low concentration industries than for firms in high concentration industries, stronger for firms in high growth industries than for firms in low growth industries, and stronger for firms in low capital intensive industries than for firms in high capital intensive industries. Thus, increasing investments in advertising by firms operating in industries marked by more instability (low concentration), greater opportunities (high growth) and higher flexibility (low capital intensity) provide a better fit with the environment than for firms operating in contrasting environments. Attaining greater visibility, brand value and reputation by increasing investments in advertising, seems to help firms operating in industries with low concentration, high growth and less capital intensity to a higher degree than for their counterparts in contrasting environments.

As far as the investment in marketing is concerned, we find that it positively influences firm performance in case of firms operating in concentrated industries. Though these are considered stable environments, with limited competitive variations
adopted by the firms, nevertheless, it seems that in such a scenario, a firm working

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towards accelerating market’s acceptance of its new products, enhancing customer
retention/loyalty, improving the size and quality of customer bases, price premiums and
other desirable payoffs (Srivastava et al., 1997), help themselves attain competitive

advantage.

Further, we find that in industries marked by high concentration, high growth
and high capital intensity the increased stocks of employee loyalty, built by increased
flows of firm’s investment in employee training and welfare, lead a firm to competitive
advantage. Keeping employees adept and retaining them contributes towards attaining
competitive advantage in the industries that are highly concentrated, characterized by
more stable environments. In high growth industries, it seems, having a stable and
trained employee base helps a firm to better exploit the abundant opportunities. Lastly,
in industries with high capital intensity, a proficient and steady workforce helps address
the key issues of cost and efficiency, thereby contributing towards securing better
performance for the firm.

Thus, the findings reveal that industry structure variables viz. concentration,
growth and capital intensity, and the industry dynamism can render a resource strategic
in one industry, while rendering it non-strategic in another. The characteristics of the
industry, thus, have a strong bearing on the kind of resources that help a firm secure
better performance. Thus, to gain better understanding, the resources that form internal
elements of a firm should be studied in the light of the external aspects of the firm.

Impact of management and corporate governance on competitive advantage

We attempt to investigate the corporate governance mechanisms in firms that differ as
regards their concentration of insider ownership. The data is analyzed to determine the
differences among these firms considering their performance and corporate governance
mechanisms. We seek to establish the corporate governance mechanisms that help the
CNDOs (Companies with No Dominant Ownership) to make up for the absence of
dominant insiders in an environment where owners’ interests are not effectively
protected. We also seek to establish the corporate governance mechanisms that impact
firm performance for firms having dominant insider ownership.
Summary and Conclusions

As regards the performance differences, we find that the CDOs (Companies with Dominant Ownership) significantly outperform the CNDOs. The finding seems to support the argument that, as the concentration of promoter ownership increases beyond the 50 percent mark, the personal incentives are increasingly tied to the performance of the firm. The ‘convergence of interest’ hypothesis comes into play, rather than the ‘entrenchment’ hypothesis. It seems the promoters are motivated to carry out their roles and contribute towards enhancing the performance of the firm, thereby eliminating the free rider problem associated with dispersed ownership.

Findings related to the impact of corporate governance mechanisms for the complete sample

The analysis for the entire sample depicts that all the corporate governance mechanisms are not found to impact the firm performance. However, it would not be unwarranted to say that the corporate governance mechanisms do contribute to firm performance in India.

The board activity, operationalized through board meetings, is seen to positively influence firm performance. However, Jackling and Johl (2009) working with an Indian sample had not found any significant relationship between board meetings and firm performance.

The board size is seen to significantly influence firm performance supporting Jackling and Johl’s (2009) finding, in the Indian context. The association seems to be in conformity with the resource dependence theory where the increasing board size signifies diverse expertise and the increasing number of meetings signifies avenues for the board to advice and counsel (Pfeffer and Salancik, 1978).

Board composition is found to have no significant impact on firm performance. The lack of relationship between board composition and firm performance has also been found by Hermalin and Weisbach (1991) and De Andres et al., (2005) in their respective studies.

While considering the ownership element, the increasing institutional ownership and promoter ownership have a positive impact on performance. It is probable that as
the stakes increase, the promoters efficiently monitor the firm, thus, playing a better role as insiders. The increasing institutional investor ownership has a positive impact on performance. It seems the active investors’ hypothesis (Agrawal and Mandelker, 1992) comes into play as the active monitoring by the institutional investors keeps a check on the shirking managers. As far as the blockholders are concerned, the number of non-promoter blockholders holding greater than 20 percent stake positively influence firm performance. It seems that the bargaining effect comes into play here. However, it is essential to note that the number of non-promoter blockholders is very small and their ownership level under consideration is high. The shareholder with such high ownership has a lot at stake, and his investments are largely tied to the future of the firm. The high stake also endows upon him the power to influence decisions of a firm. Thus, a blockholder holding 20 percent share holding seems to positively influence firm performance with an alignment between the firm interests and the power to influence strategic decisions.

As regards the management element of corporate governance, in India, a CEO’s presence on multiple boards is not seen to compromise his duties towards the firm in question. On the contrary, it seems likely that it helps him increasingly contribute towards the firm by bringing in more resources in the form of diverse knowledge and increased networks of customers and suppliers. Further, as regards duality, in the Indian scenario, its benefits seem to outweigh its associated costs. The unambiguous leadership that duality showers on the CEO, seems to be working for the betterment of the shareholders interests, contrary to the viewpoint of the agency theorists.

Findings related to the impact of corporate governance mechanisms for CDOs and CNDOs

While analyzing the impact of corporate governance mechanisms on performance for firms grouped according to the concentration of insider ownership, the results are found to differ between the two categories of companies (CDOs and CNDOs). As far as the element of board of directors is concerned, it is found that for CDOs the size of board has a significant influence on performance, while in case of CNDOs the number of meetings significantly impact performance. CNDOs, on an average, have a larger board
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than CDOs and it has been found that larger boards tend to meet more often. Vafeas (1999) provides with a probable reason and confers that the increased number of meetings acts as a substitute for high levels of inside ownership in disciplining the management. Hence, when insiders are not the majority owners, they do not have any incentive to monitor and protect shareholders’ interests. This function is then performed by increasing the supervision of the board, as it increases its activity by meeting more often.

On the other hand, for the CDOs, where insiders are majority owners, less supervision of the board is required, hence meetings do not have a significant impact. However, for the CDOs, increasing board size has a positive impact on performance. We find a possible explanation to this in the resource dependence theory as propounded by Pfeffer and Salancik (1978). The increasing number of members on board bring in resources, both strategic as well as relational (Essen et al., 2012) thus, substantiating the monitoring function performed by the insiders, thereby, making the firm more aligned with the environment (Boyd, 1990). It seems, in India, the increasing board size helps secure diverse mix of knowledge, skills and experience for the organization. It means that, for CDOs which have smaller boards, including more members on board, can help enhance their scope for securing better firm performance. However, the composition of the board is found to have no significant influence in either category of the firms.

Examining the ownership element, it is seen that, for the CDOs, the institutional and promoter ownership has a significant influence on performance, which is not found in the case of the CNDOs. For the CNDOs, the number of non-promoter blockholders holding greater than 20 percent shareholding significantly influence performance, which is the case with CDOs, as well. In case of CDOs, the number of promoter blockholders holding greater than 5 percent shareholding has a negative impact on firm performance. The disagreement effect seems to be the reason here. In such a scenario, it is difficult to reach a consensus on the key policies that suit the interests of all blockholders, and the increasing numbers of small blockholders confounds the firm’s interests. The same reason can be extended for the statistical significance of the non-promoter blockholders holding greater than 5 percent ownership in case of CNDOs.
The CDOs perform better when their CEO holds multiple directorships. It is worth mentioning that the board size also significantly contributes to performance for this group of firms. Board size and multiple directorships more or less signify the same attribute of environmental alignment. While the CEO, with his presence on multiple boards, brings to the firm resources through increased awareness about varied policies of other firms, together with increased networks, the same happens with the larger number of board members. It seems that securing additional resources helps the CDOs to better take care of shareholder interests as the increased insider ownership takes care of the agency problems. With regard to the CNDOs, increasing CEO tenure is seen to have a negative impact on firm performance. The possible reason may be that the increasing tenure of the CEO is associated with his increased commitment to the status-quo leading to the worsening of fit between the strategy and the environment (Miller, 1991). Further, in case of CNDOs, duality has a positive influence on performance. It seems that the unambiguous control (Finkelstein and D’aveni, 1994) that duality provides to the CEO, helps him make prompt decisions (Boyd, 1995) together with checking the interference of the board (Dahya and Travlos, 2000), thus, securing a better performance for the firm.

Thus, exploring the case of insider ownership by segregating firms on the basis of dominant insider ownership, the findings reaffirm that the firms with dominant insider ownership outperform the firms where insiders are not dominant. Further, we find that corporate governance mechanisms do impact performance in each of the categories of firms under study, though the mechanisms are found to be different.

**Relationship among managerial competence, corporate governance, resource investments and competitive advantage**

By means of a single model, we attempt to bring together a firm’s management, corporate governance, resource investments and competitive advantage which have been earlier dealt with separately. It is a step taken to revitalize the resource based theory by linking the management and governance mechanisms with resource investments and competitive advantage of a firm. The data analysis reveals a good fit for the model that we have introduced together with gathering support for a majority of the hypotheses. Specifically, by carrying out the data analysis it is found that:
The corporate governance mechanisms related to the board of directors are important antecedents of resource investment in a firm. With the exception of board composition, that is, the percentage of independent directors on board, the other board mechanisms: the number of meetings and the size of board, are found to have significant effects on resource investments. The number of meetings has a positive relationship with investments in human capital and physical and financial capital of a firm. It can be drawn that the meetings, which connote the frequency of the board’s sitting and thinking together, pondering, discussing and deliberating upon issues that affect strategic direction of a firm, do influence the strategic resource investment decisions of a firm.

Further, the effect of board size on investments in R&D, marketing and human capital is found to be positive. The mix of skill and experience as signified by the board size is positively associated with the level of resource investments of a firm. This pool of expertise and skill on board effects resource investments, thereby helping a firm align itself with its environment.

The effect of CEO characteristics on investment in R&D and marketing is found to be positive. The CEO, being the locus of strategy formulation and implementation, (Sirmon and Hitt, 1999) also influences the resource investment decisions. In consonance with the findings of Thomas et al. (1991) and Barker and Mueller (2002), we find that the CEO characteristics influence the R&D investments of a firm. It can also be inferred from the findings that the CEO plays an important role in guiding the innovation in an organization.

The data analysis reveals the number of blockholders as a significant antecedent to a firm’s investment in R&D. This result, in conformity with the finding of Berrone et al. (2005), seems to reaffirm the logic that blockholders, because of their sizeable holdings in a firm which limits their mobility, participate in the strategic decision making of a firm thereby supporting investment decisions which augment a firm’s attainment of competitive advantage.

Though the earlier studies report a positive relationship between institutional investors and a firm’s R&D investments (Baysinger et al., 1991; Berrone et al., 2005),
the same is not found to be in case of India. In the Indian context, it is found that the institutional investors have a positive effect on the investment in physical and financial capital of a firm. Institutional investors, due to their significant stakes in a firm, together with access to professional expertise and the power to advise and even exert pressure on the management to safeguard their interests in the firm, seem to be a driving force in directing the resource investment decisions related to the physical and financial resources.

As proposed, a positive relation is confirmed between investments in R&D and competitive advantage. The innovativeness, aided by increasing R&D investments, seems to be helping a firm exploit new opportunities, thus creating an advantage for the firm.

Further we find that the marketing investment by a firm is positively related to firm performance. It can be inferred from this finding that by means of investments in marketing, a firm advances its intelligence of consumer’s needs, services to its consumers thereby securing advantage for itself over the competitors.

CONCLUSIONS

As Amit and Schoemaker (1993) advocate that according to the Resource Based Theory, the reason a firm performs better than its competitors is that, it has in its possession valuable, rare and inimitable resources which are in conformity with the industry requirements together with the firm’s distinctive competence to make better use of these resources (Amit and Schoemaker, 1993). In consonance, we have tried by means of this study, using the resource based logic, to ascertain the resources that help a firm perform better, to establish the impact of the industry features on the resource—firm performance relationship and further to investigate the role of a firm’s governance mechanisms and managerial competence in effectively deploying the resources thereby creating competitive advantage for the firm. The specific conclusions of the study based on the findings and discussion are as follows:

1. The investments in resources do have an influence on performance of a firm. A firm aspiring to attain competitive advantage must invest in these key resources. However, the investment in resources such as research and development,
marketing, advertising, human capital and physical capital, that are found to influence firm performance, vary across the business sectors, that is, not all these resource investments matter equally in different types of industrial contexts.

2. The various complementarities among resources influence competitive advantage. It can be the case that a resource might not individually influence firm performance. Whereas in interaction with another resource, the resource provides an advantage to the firm. Thus, a unique configuration achieved due to interaction among certain resources, becomes a source of competitive advantage itself, helping a firm attain better performance.

3. The external environment together with the internal aspects of a firm has an important role to play in creating competitive advantage. The characteristics of the industry have a strong bearing on the kind of resources that will help a firm secure better performance. The industry structure variables, that is, concentration, growth and capital intensity, and the industry dynamism can render the resource—firm performance relationship as significant in one industry and can render it insignificant in another. Thus, to gain better understanding, the resources that form the internal elements of a firm should be studied in the light of the external aspects of the firm.

4. The management and the corporate governance mechanisms have a significant role to play in a firm’s progress towards higher performance. In both the categories of firms that we examine, that is, the firms with dominant insider ownership and the firms that do not have dominant ownership, the management and corporate governance mechanisms have an impact on performance. Though, the mechanisms that significantly influence performance are found to vary across the two categories of firms. We find that, for a firm that does not have dominant insider ownership, the governance mechanisms that work along the lines of agency theory help safeguard investors’ interests, ensuring superior firm performance. They act as a panacea for the ills posed by an environment that lacks effective investor protection. The study also finds that corporate
governance mechanisms substantiate the presence of dominant owners by providing the key resources for firms which have dominant inside owners.

5. The governance mechanisms, management and resource investments are important antecedents to a firm’s competitive advantage. Though the direct relationship between the governance and the management of a firm has been widely researched, however, over the years, the researchers have failed to reach a unanimous conclusion. We find that one of the ways the corporate governance mechanisms and management of a firm help a firm attain competitive advantage is through efficient deployment of its resource investments.

RECOMMENDATIONS OF THE STUDY

On the basis of the previous discussion, the study offers the following recommendations to the managers and public policy makers.

Recommendations for managers: The study extends the following recommendations to the managers with regard to resources in their companies:

1. Identification of resources should receive management’s adequate attention as it will help in differentiating the valuable from the non-valuable where the valuable ones can, thus, get the attention they deserve as the firm protects them from being imitated, bid away to the competitors or rendered valueless as a substitution by other assets (Dierickx and Cool, 1989). Further, the identification of key resources will help the management know whether the present bundle of resources is enough or additional resources need to be acquired or developed to gain an advantage (Barney, 2011). Thus, identification helps a manager to realize, that, despite difficulty, they should consider further leveraging such resources (Peteraf, 1993).

2. The managers developing their resource acquisition or development strategies should give adequate attention to the firm’s external environment. The level of uncertainty, change and competition prevailing in the environment can have a considerable bearing on the resources that work or do not work for an organization. The strategies framed with regard to the investments in acquisition
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or development of resources can be rendered a futile if the management fails to effectively gauge the present and the likely future industry scenario.

3. The managers of organizations that seek to diversify into different sectors, whether related or unrelated to their present area of operations, should be increasingly aware of the industry conditions into which they aspire to diversify. It is possible that the present set of resources, which may have proved significant in attaining competitive advantage may no longer yield a competitive edge in the changed scenario.

4. The managers need to be aware about the complementarities that exist among resources in their organization. A particular resource, by itself, may not seem to be aiding in an organization’s performance. However, this particular resource in interaction with another resource might prove to be a source of competitive advantage. Therefore, managers in process of making decisions whether to develop or not to develop, or to keep or discard a particular resource, must be conscious about the interactions among the resources in their organizations.

5. The management should support development of sound governance mechanisms in the organization. The governance mechanisms should not be considered as a burden on firm’s finances or as an interference with the management’s operations but as mechanisms that perform like an aide in attaining competitive advantage for the organization. In the Indian scenario, where the external regulatory mechanisms that govern companies are weak and ineffective, the organizations need to step up and build internal mechanisms to ensure protection of the shareholders’ interests. This is especially true for the Indian firms that lack insider dominance. Since, in these firms it is the internal governance mechanisms that work on the lines of agency theory which help offset the negatives of an absent insider dominance thereby safeguarding investors’ interests. Moreover, even firms with dominant insiders should build sound internal governance mechanisms as the study finds that corporate governance mechanisms substantiate the presence of dominant owners by providing the key resources, thereby fulfilling organization’s ambitions of attaining competitive advantage.
Efficient governance mechanisms in an organization help to keep the management in line with the organization’s objectives and thus help framing better strategies as far as resource investments and deployments are concerned. As Makadok (2003) argues that governance mechanisms help the management to know what the right thing to do is, while the management is responsible to do it right. Governance and management working hand in glove can help an organization realize its aspirations and attain advantage over its competitors.

**Recommendations for public policy makers:** The corporate governance regulations to be followed by Indian companies have largely been modeled in accordance with the mechanisms as prevalent in the western economies. Though some of the mechanisms seem to prove beneficial in the Indian scenario the differences in the contexts of a developed economy and an emerging economy seem to be playing a significant role in rendering the other corporate governance mechanisms inapplicable. The presence of dominant insider ownership and family management and control suggest to the policy makers to take these unique features into consideration while framing the corporate governance measures. Thus, we recommend that corporate governance mechanisms of the west should be complemented with adoption of certain measures that take into consideration the unique features of the Indian corporate sector, thereby improving the corporate governance in India.

Moreover, the present study finds the presence of dominant insider ownership in a firm causing it to perform better, the policy makers should keep this into view while framing policies regarding the ownership structures of the organizations.

**Recommendations for academicians:** To gain better perspective, the academicians, whether studying the Resource Based Theory or the corporate governance mechanisms, should, explore the inter-linkages among the two fields. Researchers in the past have recommended exploring the links between Resource Based Theory and corporate governance (Castanias and Helfat 2001; Lockett and Thompson, 2001). The present study working on these lines finds the corporate governance mechanisms as a significant antecedent to the resource investments in a firm and thereby to the competitive advantage of a firm. The academicians exploring the influence of corporate
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governance mechanisms on the firm performance should, thus, in addition to establishing the direct effects of these mechanisms on firm performance, also consider their linkages with the resources of the firm.

The above recommendations extended on the basis of the conclusions drawn from the present study would guide the managers in framing and implementing their resource acquisition and development strategies. It will guide the public policy makers to frame better policies to regulate the Indian corporate scenario and the academicians in better understanding of the Resource Based Theory and corporate governance mechanisms.

SCOPE FOR FUTURE RESEARCH

The research in the area of Resource Based Theory can be extended in the following areas:

Resources can be identified for firms to successfully carry out the grand strategies, that is, the growth, stability or retrenchment strategies (Hunger and Wheelen, 2011) in India. The researchers can identify the firms pursuing these strategies and then conduct a comprehensive study to establish the resources required to successfully carry out these strategies.

A study can be conducted to compare the resource investments that lead to competitive advantage in different economies. The comparison can be done between two or more emerging economies or between emerging economies and developed economies. The study can also be extended to compare the relative impact of management and corporate governance mechanisms on resource deployments and thereby on firm performance between economies.

A study can also be carried out to identify and compare the resources that lead to competitive advantage in large and small organizations in India.

A study can be carried out to establish the impact of industry features such as industry munificence and industry complexity, on the relationship between investment in resources and competitive advantage of a firm in the Indian context.
Summary and Conclusions

A research study establishing the linkages between Resource Based Theory and corporate governance can be conducted in the Indian context. The study can establish the differences in better governed firms and poorly governed firms in terms of their deployment of resources.