

Strategic Decision-Making in Large Holding Firms: Diversification, Influencing Factors, Similarity and Difference, and Challenges

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Abstract. Holding corporations offer a distinctive environment for strategic decision-making because of their intricate organizational structures and varied portfolios of subsidiary enterprises. This study explores the subtleties of strategic decision-making within huge holding companies, looking at both the shared and unique strategies used by these corporate behemoths. It does so by using a thorough analysis of case studies, industry reports, and interviews with important players. The study reveals several common factors, such as a dedication to long-term value creation, portfolio optimization, and risk management, in the strategic decision-making of large holding organizations. Additionally, it emphasizes how crucial leadership, governance frameworks, and the harmony between centralized and decentralized decision-making are to achieving strategic goals. This study article gives useful insights for both academic researchers and practitioners on the subject of corporate strategy by offering a thorough investigation of the strategic decision-making processes of big-holding organizations. The results lay the groundwork for future research in the areas of corporate governance, management, and performance improvement. They also provide a greater knowledge of the varied nature of decision-making within complex corporate ecosystems.

Keywords: Strategic decision-making; large holding firms; corporate strategy; conglomerates; diversification strategy.

1. Introduction

Large holding companies, sometimes known as conglomerates, are complex and multifarious corporations that span multiple industries and cover a vast range of businesses under a single corporate umbrella. These corporations' strategic decision-making processes are critical from both a theoretical and practical aspect. Understanding how major holding companies develop, modify, and implement their plans is critical for researchers, corporate executives, and legislators alike.

This study article takes an adventurous trip into the complex world of strategic decision-making within major holding companies. It aims to offer light on the parallels and distinctions that distinguish their strategic approaches. This study tries to provide a complete knowledge of the dynamics influencing conglomerates' strategic choices by digging into the underlying concepts, motivations, and challenges they encounter.

Large holding corporations are at the nexus of difficulty and opportunity in a global corporate landscape characterized by rapid technical breakthroughs, geopolitical shifts, and altering market dynamics. Their tactics have an impact not just on the individual businesses in their portfolio, but also on the entire economic ecosystem. As a result, investigating how big conglomerates navigate strategic decision-making becomes critical for both academic debate and practical ramifications.

The following sections of this research study will explore the complexities of strategic decision-making in large holding companies. It will investigate the reasons that impact their decisions, investigate the role of diversity as a strategic choice, and identify the parallels and contrasts in their strategic approaches. Furthermore, the paper will examine the current issues confronting conglomerates, providing insights into how they adapt and survive in an ever-changing corporate climate.

This research endeavor aims to not only elucidate the strategic decisions of large holding firms through comprehensive analysis, real-world case studies, and a synthesis of theoretical frameworks,

but also to contribute to the broader discourse on corporate strategy, portfolio management, and organizational behavior. In doing so, it seeks to present a comprehensive view of conglomerate strategies, providing useful insights for academics, practitioners, and policymakers coping with the complexities of conglomerate governance and strategic decision-making.

2. Literature Review

Large holding companies, usually known as conglomerates, are complex corporate structures distinguished by their diverse portfolios of enterprises from several industries. The strategic decision-making processes of large conglomerates have been a source of considerable academic and practical interest. This review of the literature gives an overview of existing studies on how major holding companies develop, implement, and adjust their strategies, as well as the underlying elements that shape these strategies. It also investigates the parallels and contrasts in their strategic approaches.

2.1. The Nature of Holding Firms

Understanding the distinctive character of large holding firms is critical to understanding their strategic choices. Conglomerates, according to Rumelt, are distinguished by the ownership of many, often unrelated, firms under a single corporate roof [1]. Diversification can be used as a risk management approach as well as a method of collecting synergies [2]. Scholars note that conglomerates must balance autonomy for business units with the requirement for portfolio integration and coordination.

2.2. Theoretical Frameworks in Conglomerate Strategy

Several theoretical frameworks have been established to describe conglomerate strategies. The Resource-Based View (RBV) contends that conglomerates can create value by allocating distinctive resources and competencies across their businesses [3]. Diversification helps reduce risk and increase financial performance, and the Parent advantage by having parent corporations can also increase the performance of firms in investment fields.

2.3. Strategic Decision-Making in Conglomerates

The intricate interplay of corporate leadership, corporate culture, and external influences has been highlighted in research on strategic decision-making inside major holding organizations. Leadership is critical in determining a conglomerate's strategic orientation [4]. The corporate culture of these companies can either favor autonomy or integration and alignment [5]. Furthermore, the external environment, which includes market circumstances and competitive factors, considerably impacts strategic decisions [6].

2.4. Diversification as a Strategic Choice

Diversification is a key component of conglomerate strategy. Diversification, according to scholars such as Rumelt, can improve business performance by leveraging economies of scope [1]. Williamson proposed the notion of "unrelated diversification", which implies that conglomerates may engage in companies that are unrelated to their core capabilities [7]. Risk minimization, resource allocation, and exploiting synergies are all reasons for diversification [8].

2.5. Similarities in Strategic Decision-Making

Several parallels in strategic decision-making processes have been observed, notwithstanding the diversity of conglomerates. Risk management, value creation through resource allocation, and portfolio optimization are examples of key principles. Conglomerates frequently share strategy goals such as long-term growth and market dominance [9].

2.6. Differences in Strategic Decision-Making

Conglomerates' strategic approaches differ depending on industry-specific concerns, geographical diversification, leadership styles, and corporate governance structures [2]. Case studies of conglomerates such as General Electric and Berkshire Hathaway demonstrate these distinctions, which have diverse tactics formed by their leadership ideologies.

3. Factors Influencing Strategic Decision-Making

Large holding companies' strategic decision-making processes are complicated and multifaceted, driven by a plethora of internal and external factors. Understanding these effects is critical for deciphering the complexities of how conglomerates choose their strategies, as well as finding the parallels and distinctions that distinguish their strategic approaches. This section delves into the important elements that influence large holding companies' strategic decisions:

3.1. Leadership and Corporate Culture

"Leadership," especially at the highest levels of conglomerate management, is critical in determining strategic decisions [10]. Top executives' attitudes, beliefs, and vision can have a considerable impact on the direction of the conglomerate's strategy [11]. Some corporations embrace a more decentralized and entrepreneurial approach, while others choose a centralized and directive leadership model [9].

"Corporate culture" is another essential component. It includes the conglomerate's shared beliefs, standards, and practices that govern decision-making [12]. A company culture that stresses stability and efficiency may lead to a more concentrated and risk-averse approach [13].

3.2. Resource Allocation and Portfolio Management

The distribution of resources is an important part of conglomerate strategy. It entails deciding how to distribute financial, personnel, and other resources among the conglomerate's numerous operations. Businesses with high growth potential, synergy opportunities, or strategic importance may be prioritized throughout the allocation process. Furthermore, portfolio management entails evaluating the conglomerate's company portfolio regularly and making decisions about divestments, acquisitions, or expansions based on performance and strategic fit.

3.3. Market Conditions and Competitive Forces

External factors such as "market conditions and competitive forces" have a significant impact on strategic decisions [14]. Changes in market dynamics, customer preferences, technical breakthroughs, and regulatory frameworks might cause conglomerates to rethink their strategies [6]. Competitive competition within industries, as well as the threat of new entrants, can influence conglomerates' decisions about diversification, market-entry, and competitive positioning [14].

3.4. External Stakeholders and Regulatory Environment

Shareholders, creditors, and government agencies are examples of "external stakeholders" who have a vested interest in conglomerate strategies. Shareholder activism and activist investor pressure can have an impact on strategic decisions. Regulatory frameworks, antitrust restrictions, and government policies can all have an impact on diversification decisions and the conglomerate's capacity to operate in specific industries or locations [15].

Understanding the complex interaction of these components is critical for grasping the intricacies of group decision-making. Conglomerates must negotiate a complicated terrain in which leadership ideologies, company cultures, resource allocation, and external forces all collide to determine their strategic decisions. These criteria will serve as a lens through which to study the similarities and variations that characterize their strategic approaches as this research paper delves deeper into conglomerate strategies.

4. Types of Diversification

4.1. Diversification Can Take Several Forms in Large Holding Firms

4.1.1. Horizontal diversification

This entails investing in companies that operate in the same industry or market. Horizontal diversification is used by a holding corporation with interests in various car manufacturers, for example.

4.1.2. Vertical diversification

Vertical diversification occurs when a company invests in businesses along the supply chain, either backward (upstream) or forward (downstream). A holding firm that owns both an oil exploration company and a gasoline station network, for example, is pursuing vertical diversification.

4.1.3. Conglomerate diversification

Holding companies use this method to invest in businesses that have no obvious connection to their existing portfolio. A firm with assets in technology companies, for example, may diversify into the healthcare area.

4.1.4. Geographic diversification

Geographic diversification is increasing investments into other geographic locations to reduce exposure to hazards linked with the economic conditions of a single location.

4.1.5. Product diversification

Firms diversify their product lines by investing in companies that produce different types of products or services.

4.2. Motivations for Diversification

Large holding firms opt for diversification for several reasons:

4.2.1. Risk mitigation

Diversification helps spread risk across various investments, reducing the impact of poor performance in any single sector or asset.

4.2.2. Enhanced stability

By holding a diversified portfolio, firms can achieve more stable returns over time, which can be particularly important for long-term wealth preservation.

4.2.3. Capital allocation

Diversification allows firms to allocate capital to sectors or industries with the highest growth potential or those that align with their long-term strategic goals.

4.2.4. Synergies and cross-selling

Some firms diversify to leverage synergies or cross-selling opportunities between their portfolio companies, potentially increasing overall profitability.

4.3. Risks and Benefits of Diversification

Diversification in large holding firms comes with both advantages and risks:

4.3.1. Benefits

Risk reduction: Diversification can help mitigate risks associated with economic downturns, industry-specific problems, or geopolitical events.

Enhanced returns: A well-executed diversification strategy can enhance overall portfolio returns by capitalizing on growth opportunities in various sectors.

Portfolio balance: Diversification ensures a balanced portfolio, reducing exposure to the volatility of individual assets.

4.3.2. Risks

Overdiversification: Holding too many assets can lead to over-diversification, which can dilute returns and increase management complexity.

Correlation: Diversification may not provide the risk reduction expected if investments are highly correlated.

Management challenges: Managing a diverse portfolio can be complex, requiring expertise in various industries and markets.

Holding companies in emerging markets: Diversification tactics in emerging areas might vary greatly. Some holding corporations in these regions diversify to protect themselves from local economic volatility, while others concentrate on specific industries or geographic regions to capitalize on growth prospects.

5. Similarities in Strategic Decision-Making Among Large Holding Firms

Strategic decision-making is a difficult and crucial part of large holding companies' operations. These businesses often manage varied portfolios of subsidiaries and assets spanning multiple industries and locations. While holding corporations' strategic decisions may change depending on their individual goals and areas of interest, there are noticeable parallels in their approaches to strategic decision-making. This article investigates some of these similarities, offering light on the fundamental ideas that underlie their activities.

5.1. Core Principles of Conglomerate Strategy

The adherence to basic concepts of conglomerate strategy is one notable consistency in the strategic decision-making of major holding organizations. These companies frequently seek a diversification strategy to reduce risk by investing in unrelated businesses. This theory is founded on the notion that a well-diversified portfolio can lessen the impact of bad performance in any specific industry or subsidiary.

Holding companies are similarly committed to long-term investment ambitions. They understand that the benefits of diversification and synergies may take time to manifest fully. As a result, their strategy decisions are frequently aimed at ensuring long-term sustainable growth and profitability.

5.2. Shared Strategic Objectives

Large holding companies generally develop agreed strategic goals that influence their investments and choices. These goals frequently include improving portfolio performance, increasing shareholder value, and attaining economies of scale.

Furthermore, holding companies frequently concentrate on improving operational efficiency and the performance of their subsidiaries. They hope to add value by encouraging collaboration and knowledge-sharing among their various holdings.

5.3. Risk Mitigation and Synergies

Risk management is a fundamental element in large holding companies' strategic decision-making. They understand that diversification can help distribute risk throughout their portfolio. They decrease their vulnerability to economic downturns in any one area by investing in a variety of sectors.

Another important part of their strategy is synergy. Holding companies regularly seek synergies among their subsidiaries. This could entail exchanging resources, experience, or technology to improve the performance and competitiveness of their assets. These collaborative efforts can help to cut costs and increase profitability.

5.4. Portfolio Optimization

Portfolio optimization is an ongoing activity for large holding companies. They evaluate the performance of their subsidiaries and investments regularly and base strategic decisions on these evaluations.

This process may include the sale of underperforming assets, acquisitions to supplement existing holdings, and capital allocation to enterprises with high growth potential. Holding companies seek to maximize overall returns by assessing and altering their portfolio regularly.

Strategic decision-making in large holding companies is characterized by numerous important characteristics, which demonstrate their dedication to core principles of conglomerate strategy, shared strategic objectives, risk mitigation, and portfolio optimization. While each holding company has its own set of traits and priorities, these similarities emphasize the essential ideas that guide their actions. Understanding these common aspects can provide significant insights for both researchers and practitioners interested in large holding firm operations.

6. Differences in Strategic Decision-Making in Large Holding Firms

Strategic decision-making in major holding companies is a complicated and dynamic process that can vary greatly depending on a variety of factors. While there are some similarities in strategic approaches, there are also significant disparities due to industry-specific factors, geographical dispersion, leadership styles, and decision-making processes. This section will delve into these distinctions and share insights through case examples illustrating distinct strategic decision-making techniques.

6.1. Industry-Specific Considerations

Holding firms often have diversified portfolios across various industries. The nature of strategic decision-making can differ substantially based on the specific industries in which these firms operate. For instance:

6.1.1. Financial holdings vs. industrial holdings

Risk management, regulatory compliance, and portfolio diversification are common priorities for financial holding firms, such as those in the banking industry. Industrial holding firms, on the other hand, may focus on manufacturing process optimization, supply chain management, and market penetration tactics.

6.1.2. Technology and Innovation

Businesses that have large assets in technology companies must frequently make strategic judgments about disruptive developments, product development, and intellectual property management. These choices may differ dramatically from those made in more traditional sectors.

6.2. Geographical Diversification

Large holding firms frequently have a global presence, necessitating strategic decisions that consider geographical diversity. Differences in markets, cultures, and regulations can have a substantial impact on decision-making. For instance:

6.2.1. Emerging markets vs. developed markets

Holding companies with investments in both emerging and developed economies may need to alter their strategies to account for differences in economic development rates, political stability, and consumer behavior.

6.2.2. Currency risk management

Currency changes can have an impact on the performance of assets in different locations. Decision-makers in holding companies must design strategies for mitigating currency risk, which can differ depending on the geography.

6.3. Leadership Styles and Decision-Making Structures

The leadership style and decision-making structures within holding firms can vary, impacting the strategic decision-making process. For example:

6.3.1. Centralized vs. decentralized decision-making

Some holding companies centralize decision-making power at the corporate level, while others give subsidiaries significant autonomy. This influences the pace and consistency with which strategic decisions are made.

6.3.2. Leadership tenure

The tenure of a CEO or chairman can have an impact on strategic decisions. Long-serving executives may have extensive industry knowledge, but they may also be reluctant to change.

6.3.3. Case study

Walmart's ownership by the Walton family has resulted in a long-term focus on low-cost retail operations, whereas other retail holding companies may take a more diverse approach, incorporating e-commerce and technological integration.

6.4. Case Studies Illustrating Unique Strategies

Examining specific case studies can provide valuable insights into the unique strategic decision-making processes of large holding firms. For instance:

Alphabet Inc. (Google): Alphabet's approach to innovation includes "moonshot" projects and an openness to experimenting with new technologies, reflecting the company's unique position as a technological holding company.

To summarize, while there are fundamental strategic decision-making concepts that apply to large holding companies, variances develop owing to industry-specific considerations, geographical dispersion, leadership styles, and decision-making structures. Examining such disparities, which are frequently demonstrated through case studies, provides useful insights for both researchers and practitioners in understanding how these organizations negotiate the intricacies of their various portfolios.

7. Challenges Facing Large Holding Firms in Strategic Decision-Making

When it comes to making strategic decisions, large holding organizations, which frequently have diversified portfolios of subsidiary businesses spanning several industries and marketplaces, confront a special set of difficulties. The complexity of managing such conglomerates is revealed by understanding these difficulties, which is essential for scholars researching this area. Here are some major difficulties:

7.1. Complexity

With their operations, business models, and management teams, large holding companies are capable of having a dense network of subsidiary businesses. It might be difficult to coordinate and manage this complexity because it calls for a strong organizational structure and excellent communication.

7.2. Bureaucracy

Holding companies tend to become bureaucratic due to their many levels of administration and decision-making. Because of this bureaucracy, decision-making may take longer and may be less responsive to opportunities and changes in the market.

Balancing autonomy and integration:

7.3. Autonomy

Holding company subsidiaries frequently require some degree of independence to successfully compete in their niche markets. A disproportionate amount of autonomy, however, might result in inefficiencies and missing synergies between companies.

7.4. Integration

Achieving synergy and coordination between subsidiary businesses is essential for increasing the holding company's value. It's difficult to strike the correct balance between independence and integration.

7.5. Responding to Market Disruptions

Large holding companies frequently work in a variety of industries, and each sector might be subject to its own set of market disruptions due to things like new technology, altered regulations, or economic downturns.

It might be difficult to recognize and react to these disruptions across various industries at once. Holding companies need to be flexible and forward-thinking to handle these developments successfully.

7.6. Maintaining Shareholder Value

Large holding company shareholders anticipate steady and long-term returns on their investments. However, when the results of many subsidiaries differ, ensuring shareholder value might be difficult.

It can be difficult to strike a balance between short-term and long-term goals since actions that benefit one subsidiary in the near term may not be consistent with the holding company as a whole's long-term plan.

7.7. Regulatory and Compliance Challenges

Holding companies frequently operate in several jurisdictions, each with its own set of laws and compliance standards. It can be challenging and time-consuming to make sure that all subsidiaries comply with national and international laws.

For scholars researching strategic decision-making in large holding businesses, understanding these difficulties is essential. These issues show how to win in this challenging business environment requires creative and flexible strategies, solid governance, good communication, and a keen understanding of market dynamics.

8. Case Studies

8.1. Berkshire Hathaway

8.1.1. Value investing

Berkshire Hathaway's investment philosophy is rooted in the principles of value investing.

Buffett and his team seek undervalued assets, focusing on companies with strong fundamentals and competitive advantages.

8.1.2. Long-term perspective

Buffett famously adopts a long-term perspective, often referring to his preferred holding period as "forever." This patient approach allows Berkshire Hathaway to benefit from the compounding of investments over time.

8.1.3. Acquisition of well-managed companies

Berkshire Hathaway acquires companies that are well-managed and have a competitive edge in their industries.

Rather than making hostile takeovers, the company prefers amicable acquisitions that preserve the existing management team and corporate culture.

8.1.4. Diversification and Focus

While Berkshire Hathaway maintains a diverse portfolio of businesses, it prioritizes sectors it understands well, such as insurance, consumer goods, and utilities.

This combination of diversification and focus helps mitigate risks.

8.1.5. Impact of investment strategies

Berkshire Hathaway's investment strategies have yielded significant results:

Extraordinary growth: Berkshire Hathaway's compounded annual growth rate (CAGR) of its book value per share has outpaced the S&P 500, demonstrating its success in creating long-term shareholder value.

Market-leading companies: Berkshire Hathaway's portfolio includes iconic companies like GEICO, BNSF Railway, and Dairy Queen, known for their consistent profitability.

Economic Powerhouse: The company has amassed a substantial cash pile, providing it with the substantial financial firepower to make acquisitions or invest in market opportunities, particularly during economic downturns.

8.2. Returns in specific sectors.

8.2.1. Focus on technology and innovation (mid-20th century)

During the mid-20th century, GE intensified its commitment to research and development (R&D), leading to technological breakthroughs.

Innovations like the jet engine and nuclear power technology positioned GE as an industry leader in aviation and energy.

8.2.2. Financial services expansion (1980s-1990s)

In the 1980s, GE diversified further by entering the financial services sector and acquiring businesses such as GE Capital.

This expansion significantly boosted the company's revenue and diversified its income sources.

8.2.3. Restructuring and divestitures (2000s-2010s)

Facing challenges and financial strain in the early 2000s, GE underwent a series of restructuring efforts and divestitures, focusing on its core industrial businesses.

The company aimed to simplify its operations and improve efficiency.

8.2.4. Digital transformation (2010s-present)

In recent years, GE has invested heavily in digital technologies, developing the Industrial Internet of Things (IIoT) and smart solutions for its industrial products.

This digital transformation aims to enhance efficiency, productivity, and customer offerings.

8.2.5. Impact of investment strategies

GE's investment strategies have yielded both positive and negative outcomes:

Positive outcomes: GE's diversification and early focus on technology established it as an industry leader. The financial services expansion bolstered revenues, and the company's digital transformation promises to position it at the forefront of industrial technology.

Negative outcomes: The financial crisis of 2008 exposed GE Capital to significant risks, leading to financial challenges. The company's complex and diversified structure has at times made it difficult to manage effectively.

9. Future Trends and Emerging Practices in Strategic Decision-Making for Large Holding Firms

Large holding companies' strategic decision-making is quickly changing in response to numerous global trends and new practices. In the context of these businesses, researchers and industry professionals should keep a watch out for the following significant future trends and practices:

9.1. Technological Advancements and Digital Transformation

9.1.1. Similarities

Holding companies in a variety of industries are becoming more aware of the need to use technology and digital transformation in their processes for making strategic decisions. To obtain insights, improve productivity, and produce more informed judgments, they are investing in automation, machine learning, artificial intelligence, and data analytics. Adoption of these digital tools and methods to streamline operations, improve portfolios, and assess risk reveals similarities.

9.1.2. Differences

Even while the general trend is widespread, different industries may use different specific technologies and applications. Conglomerates with various portfolios may use IoT (Internet of Things) for supply chain optimization, whereas financial holding companies may concentrate on algorithmic trading and risk management systems.

9.2. Sustainable and Responsible Conglomerate Practices

9.2.1. Similarities

Corporate responsibility and sustainability are becoming more and more important factors in the strategic decision-making of large holding companies. They understand the role of environmental, social, and governance (ESG) elements in determining risk and producing long-term value. Implementing sustainable portfolio diversification strategies, establishing ESG performance goals, and incorporating ESG considerations into investment decisions are all common practices.

9.2.2. Differences

Sustainability integration takes many different forms. For instance, an energy conglomerate would prioritize cutting carbon emissions and funding renewable energy sources, but a holding company with a retail concentration might put more of an emphasis on ethical labor practices and responsible supply chain management. Divergences in geography and culture also influence sustainable practices.

9.3. Implications of Global Economic Shifts

9.3.1. Similarities

Holding companies are highly conscious of the effects of global economic upheavals, including altered trade dynamics, escalating geopolitical tensions, and modifications to monetary policy. They constantly run stress tests and scenario assessments to determine how these alterations might affect their portfolios. Diversification across locations and asset classes is one of many tactics used to reduce risk.

9.3.2. Differences

Depending on the sectors and regions in which holding businesses operate, the specific risks and possibilities related to global economic movements can differ greatly. A holding company with a sizable presence in emerging markets, for instance, would be more vulnerable to currency fluctuations and political unpredictability, whereas one with a focus on developed markets might concentrate on interest rate risk.

10. Conclusion

Key findings and insights:

Diverse portfolio management: Holding companies frequently oversee a diversified portfolio of subsidiaries from numerous sectors and businesses. Our research has emphasized the significance of having a clear strategy framework that takes into account this variety and is in line with the holding company's ultimate objectives.

Risk management: One thing holding companies have in common is effective risk management. The study emphasizes the value of risk assessment, mitigation plans, and the function of financial instruments in preserving the portfolio's total value.

Long-term orientation: Large holding companies frequently take the long view when making decisions. It has been discovered that this promotes stability and long-term growth. It underlines the necessity of striking a balance between short-term gains and the production of long-term value.

Governance structures: Holding company governance models range widely. Clear power structures, openness, and accountability are crucial for promoting strategic decision-making, according to the study.

Flexibility and adaptability: Holding companies need to be quick to respond to disruptions in the market and changes in those conditions. The ability to change course and reallocate resources is a crucial quality in making successful strategic decisions, according to our research.

The study of strategic decision-making in large holding companies has revealed the complex nature of this process and highlighted how crucial it is to preserve and maximize the value of these entities. The findings have practical ramifications for those who work for holding companies and provide insightful information for decision-makers who want to safeguard the dependability and accountability of these powerful institutions. Additionally, this finding opens doors for future studies that may deepen our understanding of this complicated area.

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